HOFTEX GROUP
TEXTILE TECHNOLOGIES

ANNUAL REPORT

2022

KEY FIGURES FOR THE HOFTEX GROUP

		2022	2021	2020	2019	2018
External sales	EUR million	**153.8**	137.9	139.3	171.1	174.1
Gross revenue	EUR million	**151.5**	138.5	138.9	166.8	173.6
Gross profit [1]	EUR million	**67.0**	71.8	74.7	83.0	86.4
Cash flows from operating activities	EUR million	**1.2**	6.2	19.8	19.2	18.4
Employees		**1,008**	1,037	1,053	1,136	1,197
Capital expenditure on tangible fixed assets	EUR million	**4.4**	9.3	8.0	14.6	11.7
Depreciation, amortisation and write-downs	EUR million	**10.9**	11.8	11.3	11.3	10.5
Current year result	EUR million	**-1.7**	3.7	3.1	2.7	8.0
Earnings per share	EUR	**-0.3**	0.7	0.6	0.5	1.5
Cash flows	EUR million	**7.6**	14.3	11.7	11.5	17.0
EBITDA	EUR million	**10.2**	16.4	15.5	15.4	20.8
Net senior debt to EBITDA ratio	x-fold	**1.4**	0.6	0.6	1.2	1.0
Dynamic debt-equity ratio [2]	years	**6.0**	2.9	3.6	4.5	3.4
Total assets	EUR million	**177.0**	168.3	176.7	182.8	194.3
of which tangible fixed assets	EUR million	**91.8**	97.2	98.6	102.7	98.1
balance-sheet equity	EUR million	**112.0**	113.5	107.6	107.8	105.8
economic equity [3]	EUR million	**112.0**	112.8	106.8	107.0	104.4
Equity ratio [4]	%	**63.3**	67.0	60.4	58.5	53.7

[1] Gross revenue less cost of materials
[2] Debt capital less cash and cash equivalents/cash flows
[3] Balance-sheet equity items less proposed dividend payment
[4] Based on economic equity

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SUPERVISORY BOARD REPORT

During the 2022 financial year, which was largely shaped by Russia's war of aggression against Ukraine, rising energy prices and inflation along with ongoing material and supply shortages, the HOFTEX GROUP AG Supervisory Board advised and supervised 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 (AktG), the Articles of Association and the Board's internal rules and procedures. With timely, 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 major projects. The Supervisory Board was also involved in the Group's investment, financial and personnel planning activities by way of regular reports, including reports 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 updates on the current situation and all key transactions.

During the year under review, the Supervisory Board met for four regular meetings, two of which were conducted via video conference and two of which were in-person meetings. No extraordinary meetings were convened. All members of the Supervisory Board participated in the discussions at each meeting. There was no reason for the personnel committee to meet during the period under review. The Supervisory Board did not form any other committees during the reporting year.

During its meeting on 28 March 2022, the Supervisory Board received information concerning the impact that the COVID-19 pandemic and Russia's military offensive against Ukraine would have on the company. Associated price increases for raw materials and energy will present the management team with major challenges going forward. Further items on the agenda included a detailed report by Tenowo's management on the current status of restoration work initiated to address damages caused by flooding during the 2021 financial year at Plant 1 at the nowovens location in Hof.

At the 16 May 2022 meeting, the Supervisory Board performed an in-depth review of the annual financial statements and audit reports as at 31 December 2021 for HOFTEX GROUP AG and the Group. The agenda for the Annual General Meeting was also approved, along with the various resolution proposals. Another agenda topic was the Management Board's regular reporting on current business development with a focus on the figures for the first quarter of 2022. Tenowo's management then informed the Supervisory Board of the progress made in connection with the "Fit4Future" efficiency programme at the Hof location.

The meeting on 26 September 2022 centred on current business performance as at August 2022 with an emphasis on the two divisions Tenowo and Neutex. The agenda also included an update from the Management Board on the status of the flood damage at the Hof nonwovens plant. The Supervisory Board also approved an investment in a photovoltaic system at the Reichenbach nonwovens plant.

In the final meeting of the reporting year on 16 December 2022, the Management Board presented the Group's current business performance as at October 2022, the projected results for 2022, the Group's business plan for 2023 and the investment budget for 2023 including the investment forecast for 2024 to 2026. 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 2023 financial year.

The Annual General Meeting appointed Munich-based Deloitte GmbH Wirtschaftsprüfungsgesellschaft as auditors of the single-entity and consolidated financial statements for the 2022 financial year. They audited the HOFTEX GROUP AG financial statements and the consolidated financial statements for the year ending 31 December 2022 as well as the Group Management Report, the accounting system and the accounting-related internal control system and issued an unqualified audit certificate. All audit reports were sent to the members of the Supervisory Board promptly after completion.

The company's auditors were present at the annual report meeting of the Supervisory Board on 15 May 2023, 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 2022, as well as the Group Management Report, the Management Board's proposal for the appropriation of net income 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 at 31 December 2022. 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 income.

The Management Board submitted to the Supervisory Board its report concerning the company's relations with its affiliated companies in the 2022 financial year 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 audit opinion:

"Having examined and assessed the report in accordance with professional standards, we confirm that
1. the facts set out in the report are accurate and
2. the consideration paid by the company for the transactions listed in the report was not inappropriately 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 auditor. The Supervisory Board concurred with the findings of the audit of the subordinate status report prepared by the auditor.

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 affiliated companies, 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 outcome of these discussions and its assessment of the subordinate status report, the Supervisory Board raised no objections to this declaration.

There were no changes in the composition of the Supervisory Board or Management Board in 2022.

The Supervisory Board thanks the members of the Management Board and all employees of the Group for their extraordinary commitment and our shareholders for placing their trust in us during the past financial year.

Hof, May 2023

The Supervisory Board of HOFTEX GROUP AG

Tom Steger
Chairman of the Supervisory Board

GROUP MANAGEMENT REPORT FOR THE 2022 FINANCIAL YEAR

1. Group fundamentals

1.1. Business model

HOFTEX GROUP AG, established in 1853 with its registered office in Hof (Bavaria), is the parent company of an international group of companies operating in the 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 clothing. HOFTEX develops and dyes both traditional yarns and threads and numerous specialised yarns that are tailored to meet the needs of its customers. The central location of its production and development facilities in Germany guarantees short lead times and on-schedule deliveries.

The NEUTEX division includes the business segments of weaving decorative fabrics, dyeing and finishing. 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 textile sun protection solutions to industrial customers for further processing.

The TENOWO division with locations in Europe, North America and China is a market leader in the development and manufacture of innovative technical textiles and nonwovens, demonstrating that the modern textile industry in Germany still has the potential to achieve success. TENOWO develops and manufactures products such as nonwovens for a variety of automotive applications along with nonwoven textiles for the construction industry, the cable industry, for medical applications and the clothing industry.

1.2. Group structure

The Hoftex Group is managed by strategic business units in the form of divisions in a decentralised structure. These are broken down by their specific manufacturing technologies and products into the HOFTEX (yarns), NEUTEX (home deco) and TENOWO (nonwovens) production 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 central functions for the Group's companies across multiple divisions. The operational divisions shoulder and steer 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 a review of 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 of 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 accounting/controlling.

As at 31 December 2022 the Hoftex Group comprised 10 domestic (prior year: 11) and 5 foreign (prior year: 5) subsidiaries. The following chart provides an overview of the divisions and their locations:

HOFTEX GROUP – divisions and locations

	TENOWO	NEUTEX	HOFTEX	OTHER
Locations	Hof (DE) Reichenbach (DE) Mittweida (DE) Lincolnton (USA) Huzhou (CN) Milan (IT) San Luis de Potosi (MX)	Münchberg (DE) Targu Mures (RO)	Hof (DE) Selbitz (DE)	Hof (DE)
Sales in EUR million	**133.1**	**11.2**	**7.1**	**2.4**
Employees ø 2022	**731**	**206**	**38**	**33**
Unit sales in millions	sqm **217.9**	sqm **2.8**	kg **1.2**	**-**

1.3. Objectives and strategy

We are a family-operated, medium-sized enterprise focused on long-term, sustainable success. Our corporate policy is designed to balance and safeguard economic performance and social responsibility. Our mission statement defines product quality, innovative textile solutions and reliability as the cornerstones of our company's success.

The various product and market structures require different market strategies. To expand our role as a supplier and partner to our customers worldwide, we aim to achieve international growth and establish a global footprint. We want to strengthen our positions in existing markets by supplying innovative products in the highest possible quality. We aim to extend our product portfolio by developing new lines of business. The strategic direction is developed individually in the context of strategic Group guidelines taking the diversified markets of the separate divisions into account.

Our TENOWO operating division positions itself as a global supplier and partner for innovative nonwoven applications. TENOWO pools its wide range of technology, global production footprint and long-standing expertise to offer its customers and partners a portfolio of products and services tailored to their unique needs, which translates into a decisive advantage over international competitors.

The NEUTEX division aims to grow its domestic and international market share in the decorative finished goods segment by developing digital sales channels.

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

We are committed to achieving maximum efficiency in the production of innovative products that meet the highest quality standards to ensure our customers succeed with the best possible products and services. This is why we align our processes with lean management principles and practice a culture shaped by a common understanding of quality. We see expanding our research and development activities and pooling the unique textile expertise within the Group as fundamental to our mission and to our success.

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

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 production processes help create greener, more sustainable products. As a result, customers of the Hoftex Group are secure in the knowledge that they have a trustworthy partner at their side, even across multi-year product cycles.

1.4. Control system

The financial KPIs for corporate management include sales, EBITDA and total capital expenditure. 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 and energy consumption. The Divisional Managing Directors provide the Management Board with detailed reports on the development of key indicators and performance in regular Advisory Board meetings. This information enables the Management Board to implement measures to counteract unsatisfactory developments in a timely manner.

1.5. Research and development

Our research and development work concentrates on innovative textile solutions and the continuous enhancement of methods and processes for more sustainable and efficient management and growth in new fields of application and markets. Partnerships with research facilities and institutes are just as important a factor in this as our joint development work with customers. We focus on supplying our customers with optimum products that meet high quality standards at competitive prices. Our application-oriented sales team defines specific customer requirements early on to ensure they are incorporated into development work on established and new products.

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 University, among others. We practically augment our development expertise and technological know-how in collaborative projects.

Using recycled or biodegradable raw materials is becoming increasingly important.

The TENOWO division processes recycled carbon fibres to create nonwovens, thus offering a sustainable solution strategy for further processing this high-performance material. The NEUTEX division focuses on design development, the use of new fibres and the development of additional product properties through various finishing processes. New products with natural fibres and recycled materials such as wool blends expand our own ECO line product portfolio. NEUTEX is part of the SEAQUAL initiative and processes yarn made from plastic waste into new products, which helps protect our oceans.

A significant portion of development work is dedicated to technology advancement and process optimisation. During the 2022 financial year as well, we continued to push ahead with projects that help deliver process improvements and increase raw material and resource efficiency, particularly energy savings projects and projects aimed at reducing waste and seconds. The TENOWO division is continuously expanding its technological expertise in nonwoven production, thereby gaining access to new markets.

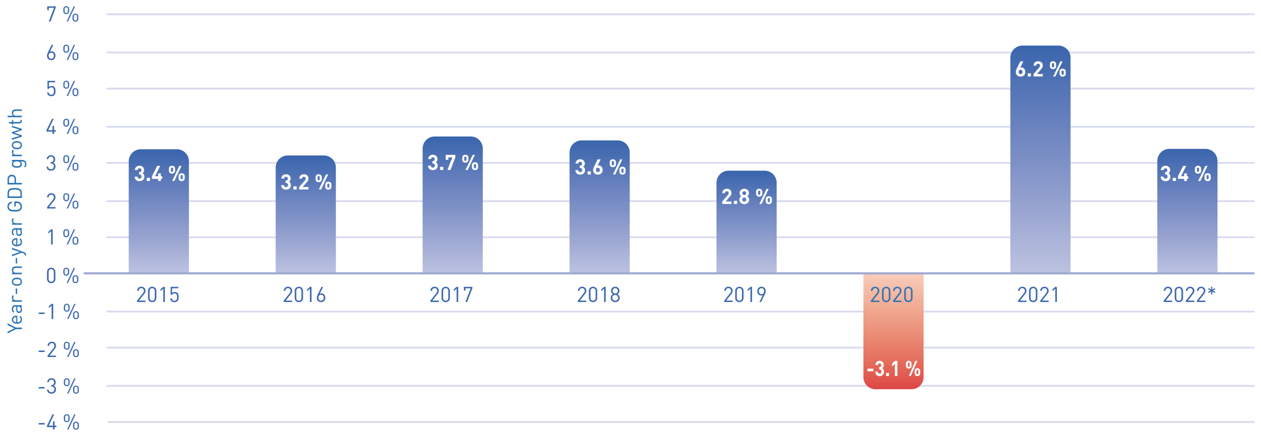
During the financial year just ended a total of EUR 1.2 million (prior year: EUR 1.4 million) was spent on research and development. A total of 25 staff (prior year: 27) are employed in this division. Research and development activities are performed exclusively at Hoftex Group subsidiaries.

2. Economic report

2.1. Macroeconomic conditions

According to the International Monetary Fund (IMF), the global economy performed much worse than expected last year. Geopolitical developments, including the Russia-Ukraine war in particular, were the main causes of the considerable decline in global growth from 6.2% during the previous year to 3.4% in the year under review. According to the German Federal Statistical Office (Press Release No. 022 dated 17 January 2023), rising energy, raw material and food prices accelerated inflation, which averaged 7.9% for the year in Germany. Key interest rate hikes initiated as a fiscal policy measure to curb inflation placed a further burden on economic activity.

Development in global gross domestic product (GDP) from 2015 to 2022 (year-on-year)



*) estimate

Source: Proprietary chart based on figures published by the IMF (WEO Jan. 2023)

The People's Republic of China, typically known as the engine of the global economy, maintained extensive COVID-19 restrictions until late 2022 – creating tremendous economic uncertainty and slowing down the global economy. According to the IMF, Chinese GDP only grew 3.0% (prior year: 8.4%) – which, apart from 2020, represents the lowest growth rate seen in the past 40 years. India's economy, on the other hand, grew by 6.8%, confirming the previous year's trend (8.7%). The Association of South-East Asian Nations (ASEAN) saw economic growth of 5.2%, offsetting below-average growth in the year prior (3.8%). Weak growth in China is also reflected in the low growth rate in emerging and developing countries of 3.9% in 2022, which remained well below the previous year's figure of 6.7%.

Economic output in industrialised countries rose by 2.7% in 2022, following growth of 5.4% in the year prior. The Eurozone recorded a 3.5% increase in GDP (prior year: 5.3%). The major European economies all showed positive growth rates. However, Germany's GDP growth of +1.9% (prior year: 2.6%) was lower than that of the UK (4.1%), France (2.6%), Italy (3.9%) or Spain (5.2%). With a growth rate of 2.0%, the US economy remained below the global average (prior year: 5.9%). Japan, the world's third-largest economy, recorded GDP growth of just 1.4% (prior year: 2.1%).

Supervisory Board Report | Group Management Report | Consolidated Financial Statements | Annexes

2.2. Sector-specific conditions

2022 sales figures in the textile and fashion industry were predominantly positive compared to the previous year. However, the industry was put under a massive financial burden by soaring material and energy costs due to the COVID-19 pandemic and Russia's war against Ukraine. Price pressure was also exacerbated by higher-than-average transport costs, high inflation, rising key interest rates and availability constraints. Consequently, nominal increases in sales were offset by extreme increases in costs, which had a negative impact on margins.

Export figures rose considerably in 2022 compared to the previous year and thus contributed significantly to the German textile and fashion industry's positive annual results. However, the armed conflict between Russia and Ukraine significantly slowed the pace of recovery during the post-COVID period and clouded prospects for growth during the course of the year. Expectations brightened somewhat towards the end of the year but the pre-crisis economic climate remains out of reach – a fact which is reflected, among other things, in more cautious recruiting strategies.

Total sales in the German textile and fashion sector (for companies with 50 employees or more) were EUR 17.3 billion in 2022. The market report published by the "textil+mode" trade association thus indicated an 11.7% increase in sales (2021: 5.5%).

Sales, employment and export trends
in the textile and fashion sector in 2022

Sales
+ 11.7 %

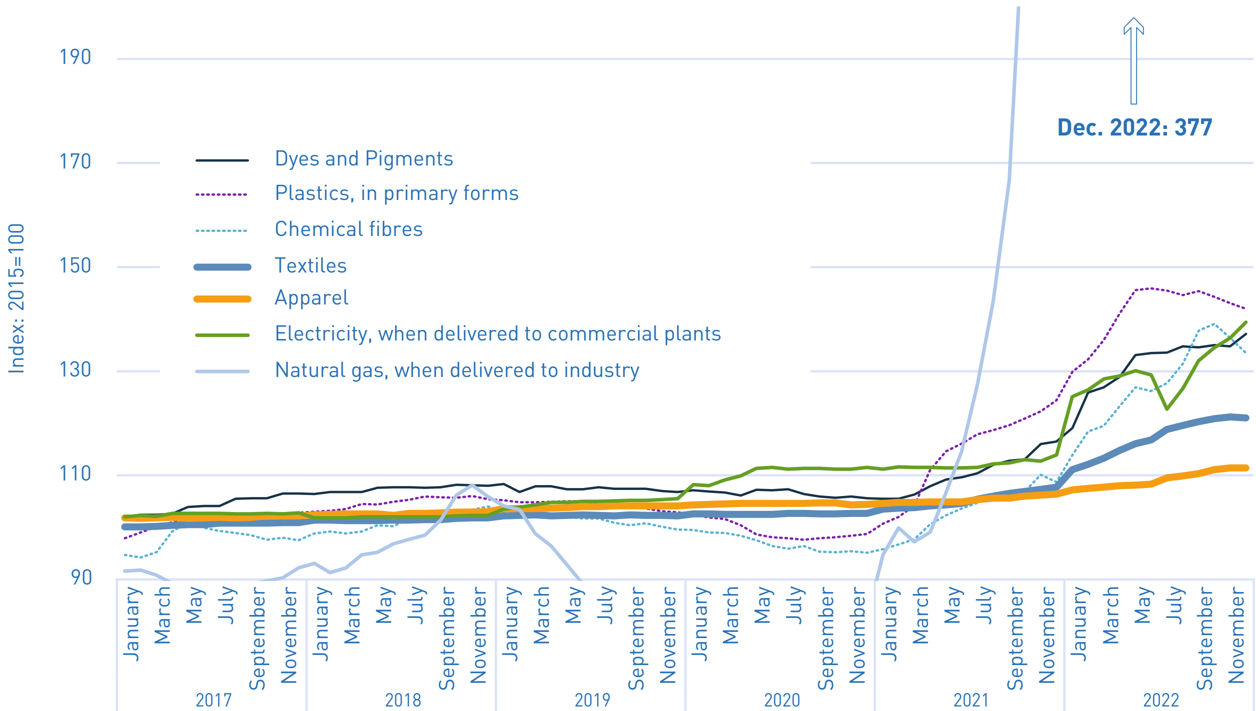
Employment
+ 0.2 %

Export
+ 7.4 %

Source: Industry association "textil+mode", February 2023 market report

Both the textile and clothing segments achieved nominal sales increases compared to the previous year: Sales in the textile segment rose by 7.7% and in the clothing segment by as much as 19.4%. However, the real sales development situation is a very different picture: Here, the adjusted increase in sales for clothing remains steady at 12.0%, while the textile segment faced a real decline of -6.0%. Reasons for this included high inflation coupled with energy cost increases and raw material shortages.

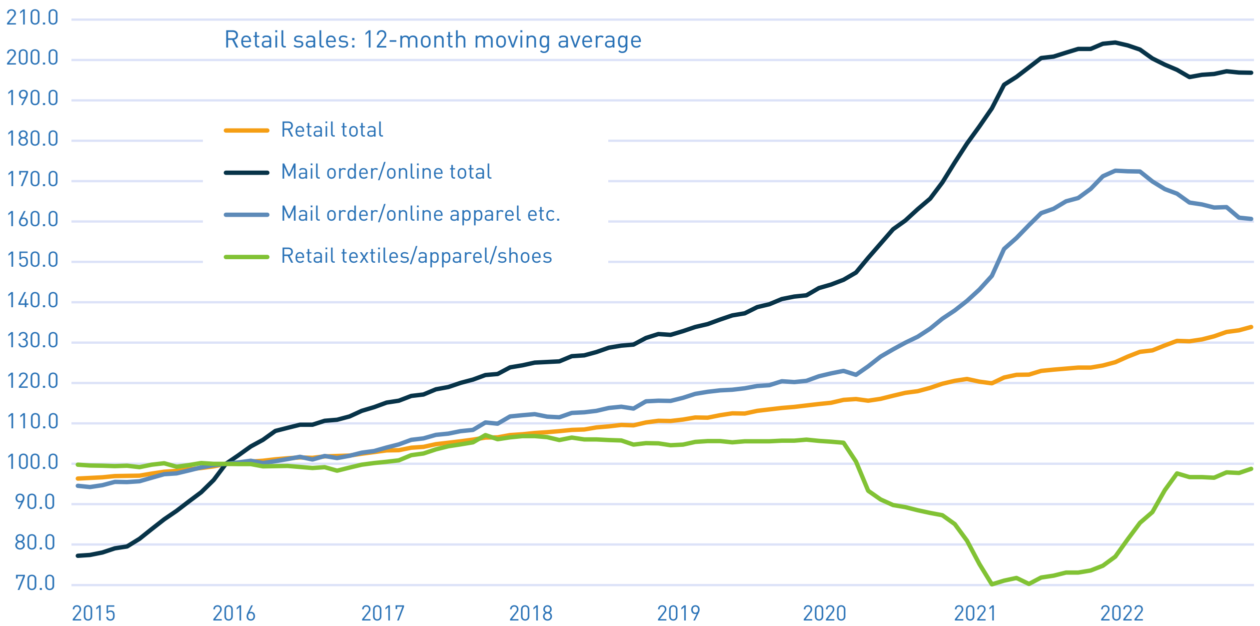
Price indices*: Textile/apparel unit sales prices and key procurement prices



Source: Industry association "textil+mode", February 2023 market report

* Producer prices for domestic sales

Retail sales trends | Index: 2015=100



Source: Industry association "textil+mode", February 2023 market report

Increases in sales were chiefly attributable to increased demand from abroad. Domestic sales saw an uptick of 3.2% and sales generated with other countries rose by as much as 11.4%. The growth percentage for foreign sales was higher in the Eurozone (12.0%) than in other countries (10.8%).

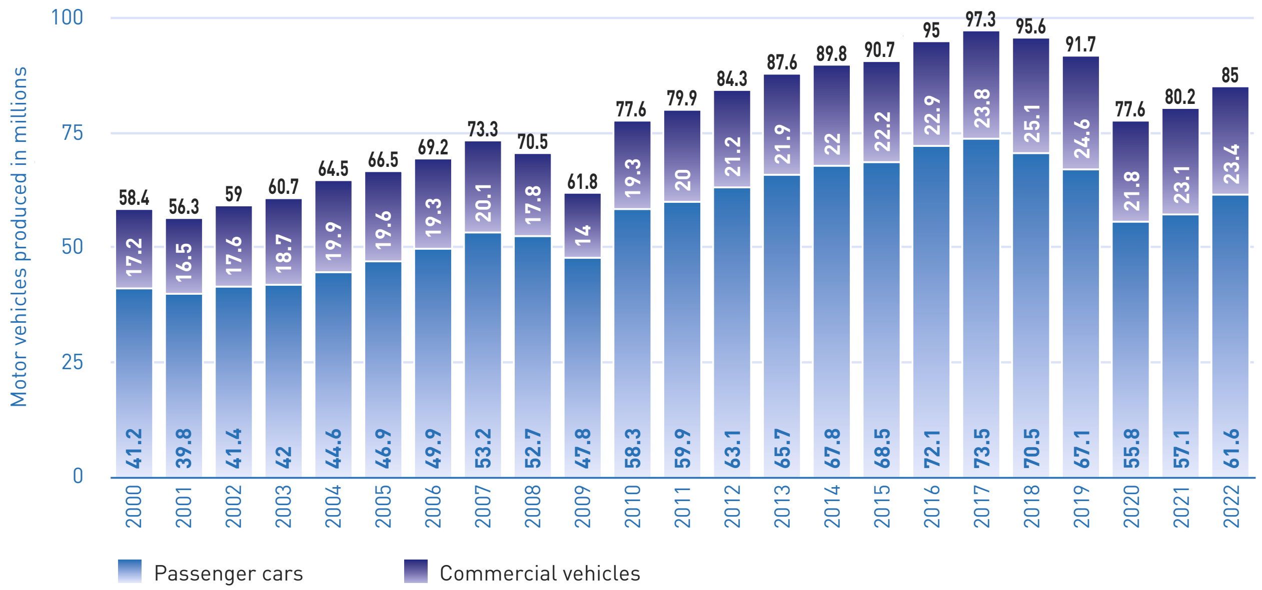
Export trade volumes also saw growth, with exports climbing by 7.4%. While the US and Turkey experienced the strongest growth, there were also more exports to Great Britain following the previous year's decline in shipments due to Brexit. China is among the countries with declining export volumes from Germany – this is largely due Europe's inability to offer competitive prices compared to East Asia. Unsurprisingly, Russia accounted for the biggest export decline due to the European Union's extensive sanctions packages.

The number of people working in the German textile and fashion industry was already in decline before the COVID-19 crisis. As we know, the pandemic only reinforced the trend (2020: -5.8%, 2021: -4.3%). Fortunately, it was possible to at least stabilise the current employment level in 2022 (+0.2%). The number of employees in the clothing segment (+0.5%) grew slightly more than in the textile segment (+0.1%).

According to Statista (https://de.statista.com/statistik/daten/studie/75210/umfrage/produktion-von-pkw-in-deutschland-seit-1990/), Germany was still producing significantly fewer passenger cars in 2022 (around 3.4 million) than before the pandemic (2019: 4.7 million), although the volume was slightly higher than in 2021 (3.1 million). In addition to ongoing supply-side problems caused by persistent supply shortages, which were further intensified by the Ukraine war, the global consumer climate continued to deteriorate during the course of the year. This also had a negative impact on the demand for passenger cars.

Development on the international commercial vehicle markets was mixed according to a communication from the German Association of the Automotive Industry (VDA). Unit sales of heavy commercial vehicles rose in Europe and the US compared to the previous year. However, there was a measurable decline in China compared to the prior year's figures (https://www.vda.de/de/presse/Pressemeldungen/2023/230202_PM_Internationale-schwere-Nutzfahrzeugm-rkte-2022-mit-uneinheit-licher-Entwicklung).

Number of motor vehicles produced worldwide from 2000 to 2022 (in millions)



Source: Statista 2023, Vehicle production worldwide to 2022

2.3. Group performance

Economic and geopolitical challenges had a significant impact on the Hoftex Group's business development in 2022.

Energy, material and logistics prices hit record levels and had a negative effect on the profitability of all divisions. In terms of demand, the economic slowdown paired with continuing supply bottlenecks made it impossible to achieve the planned sales volumes. Targeted price adjustments enabled us to at least partially compensate for cost increases. The 11.6% increase in sales to EUR 153.8 million (prior year: EUR 137.9 million) was generated via price increases. Rising costs led to a decline in earnings in all divisions. This trend was already apparent during the course of the financial year. Consequently, the Management Board adjusted the EBITDA forecast in the Group Interim Report as at 30 June 2022.

TENOWO Division

Sales in our core business division TENEWO increased by 15.3% compared to the previous year from EUR 115.4 million to EUR 133.1 million. The various regions and segments all developed differently.

While we were able to boost sales in our largest segment, automotive, sales volumes – particularly at the German locations – remained below the previous year's level. The war that erupted in Ukraine in 2022 had numerous direct and indirect impacts on the economy and a direct impact on our automotive customers' demand. Once again, there were disruptions in the supply chains, OEMs posted lower than expected production and sales figures and the entire industry adopted a more cautious approach in response to significant uncertainties. Added to this were material shortages for specific applications at TENOWO, which rendered us unable to fulfil a number of customer orders.

Consumer goods (now our second largest segment) and clothing were both able to increase sales and unit sales. The clothing segment benefited from the overall growth in the clothing industry and the increased demand for European suppliers. The consumer goods segment remains on a path to growth and is seeing stable development. Conversely, revenues stagnated in the healthcare segment. We lost a major customer, which made it impossible to achieve the planned growth for 2022. However, we were able to compensate for the lost sales volumes with important new business and further advance our strategic orientation towards a portfolio of products for customer-specific, special-purpose applications.

All the same, we were unable to expand our new product applications to the extent planned. Due to the difficult economic climate, our customers had to delay a number of strategic projects. These circumstances only allowed us to achieve part of our planned sales growth from new business.

Although economic growth has also slowed in the US and China, our international locations in Lincolnton/USA and Huzhou/CN have remained stable and recorded an increase in sales. Nevertheless, rising inflation in the US in particular had a negative impact on purchase prices for materials. Energy prices at the US location remained moderate compared to the situation in Europe, giving it an advantage over European suppliers.

The decline in demand among German and European customers in the automotive applications segment in particular meant that TENOWO's German production locations were not utilised to the desired extent for several months. Despite a partial reduction in capacity due to short-time work, this led to unfavourable cost structures and had an adverse effect on TENOWO's earnings. Capacity utilisation rates at the Hof location were good thanks to the increased demand for clothing and consumer goods. Nevertheless, the damage caused by flooding in one of the production facilities in 2021 continues to have an adverse effect on production processes and efficiencies, thus limiting profitability.

Overall, sales and production volumes were below budget and the previous year's figures. This, coupled with unexpected increases in material costs during the year, with limited opportunities to pass these increases on to customers, has significantly impacted earnings. As a result, we were unable to achieve our EBITDA targets.

NEUTEX Division

The NEUTEX division's sales during the 2022 financial year were EUR 11.2 million (prior year: EUR 13.0 million), causing the division to fall short of both the previous year's figure and the sales target. Challenging conditions continue to prevail in the market for German household textiles. In general, this industry is strongly influenced by the overall market situation. Following the COVID-19 pandemic with lockdowns and quarantine periods in 2020 and 2021, the sharp rise in inflation during the financial year just ended placed further strain on both the industry and NEUTEX. The COVID-19 pandemic had a powerful impact on sales structures. Companies with online sales benefited greatly in B2C business, while brick-and-mortar stores suffered along with many other enterprises. E-commerce lost part of its share in the market again as the pandemic began to subside in 2022. NEUTEX recorded corresponding sales declines in this customer segment, while the slump in brick-and-mortar sales continued. As the year progressed, rising prices in all areas of life curbed consumer spending, which in turn resulted in a decline in orders. Procurement price hikes increased price pressure on NEUTEX, further weakening its financial performance. As production capacities remain underutilised, the production locations in Germany and Romania have been adjusted to new, lower production volumes. NEUTEX moved ahead with the necessary staff reductions in a socially responsible manner by offering early retirement packages and individual severance agreements. Streamlining the product portfolio and decommissioning machines helped reduce operational complexities and optimise production.

Due to the difficult business development of the NEUTEX division and the restructuring measures implemented, its divisional result deteriorated significantly compared to the previous year.

HOFTEX Division

At EUR 7.1 million, sales in the HOFTEX division during the 2022 financial year were EUR 0.4 million lower than the previous year, while unit sales volumes remained constant. The business model of the Hoftex dyeworks encompasses both the full dyeing business and the contract business, in which customers supply their own yarns for dyeing. The ratio of full to contract business shifted during the 2022 financial year. The share of contract dyeing business increased, which led to a decline in sales despite steady output overall. The larger customer segment clothing developed positively, while the household textiles segment fell short of expectations. The Hoftex dyeworks was also affected by skyrocketing prices for raw materials, which resulted in higher dyeing costs and lower margins, as it was not possible to pass on costs to customers in full. The equipment and size of the dyeworks enables the division to respond flexibly to fluctuations in order intake, which proved advantageous once again during the 2022 financial year.

Despite the difficult procurement situation, the dyeworks was able to maintain its position and close the year with a positive EBITDA.

In the course of streamlining and simplifying the company's organisational structure and in order to reduce administrative expenses, the now inactive Hoftex GmbH was merged with HOFTEX GROUP AG effective 1 January 2022.

OTHER

Real estate company business went according to plan during the reporting year. Revenues from leasing the commercial properties Hof Moschendorf and Hof Fabrikzeile amounted to EUR 2.1 million, which was just slightly more than the preceding year's level (EUR 2.0 million). Investments in fire prevention and modernising the office building at the Hof location came to a partial halt and were further delayed due to a lack of service providers and material supply constraints.

2.4. Business performance

Results of operations

In the 2021 Management Report, we forecast a slight increase in sales and EBITDA for the 2022 financial year compared to the previous year (2021: sales of EUR 137.9 million; EBITDA of EUR 16.4 million). The Management Board issued an ad-hoc announcement on 21 July 2022 stating that it would no longer be able to achieve the expected EBITDA in the original forecast for the 2022 financial year. In 2022 the Management Board published the Group Interim Report, which projected EBITDA ranging between EUR 10.0 million and EUR 13.0 million.

			Change	
in EUR million	**2022**	**2021**	**abs.**	**in %**
Sales	153.8	137.9	15.9	11.5
Gross revenue	151.5	138.5	13.0	9.4
Gross profit	80.5	87.1	-6.6	-7.6
Cost of materials	-84.5	-66.7	-17.8	-26.7
Personnel expenses	-43.9	-43.1	-0.8	-1.9
Net loss/Net income	-1.7	3.7	-5.4	-145.9
EBITDA	10.2	16.4	-6.2	-37.8

The Group actually exceeded the consolidated sales forecast estimated to be between EUR 135.0 million and 150.0 million in the Interim Report dated 30 June 2022 and, with sales of EUR 153.8 million, posted an increase of 11.5% over the previous year's figure (EUR 137.9 million).

The positive development in sales resulted primarily from the largest business unit, TENOWO, which saw an increase in sales of EUR 115.4 million in the previous year by 15.3% to EUR 133.1 million in the 2022 financial year. In contrast, the NEUTEX and HOFTEX divisions fell short of the previous year's sales. The NEUTEX business unit generated sales of EUR 11.2 million during the reporting year (prior year: EUR 13.0 million), while the HOFTEX division generated EUR 7.1 million (prior year: EUR 7.5 million).

Most of the sales revenues were generated abroad. While export sales amounted to EUR 90.1 million in the previous year, this figure grew by EUR 18.1 million to EUR 108.2 million in the 2022 financial year. The Group export ratio was thus 70.3% (prior year: 65.3%). Countries in the European Union (excluding Germany) account for EUR 46.5 million of export sales (prior year: EUR 41.4 million).

In contrast, domestic sales of EUR 45.7 million in the 2022 financial year declined slightly compared to the previous year's value of EUR 47.8 million.

Changes in inventories of finished and unfinished goods were EUR -2.3 million (prior year: EUR 0.6 million). Despite inventory reductions, the gross revenue of EUR 138.5 posted during the previous year rose by EUR 13.0 million to EUR 151.5 million due to the uptick in sales. Dramatic price increases for materials, particularly raw materials, raised the cost of materials considerably to EUR 84.5 million (prior year: EUR 66.7 million). Consequently, the cost of materials ratio rose by 7.6 percentage points from 48.2% during the previous year to 55.8% in the year under review.

Other operating income of EUR 13.4 million was positively impacted by one-off effects as in the previous year (EUR 15.3 million). Of this amount, EUR 8.5 million (prior year: EUR 7.7 million) came from insurance compensation received for the flood damage at the TENOWO location in Hof in the preceding year. In the previous year, there was also a one-off effect of EUR 3.5 million from the sale of land and real estate not required for operations in Hof. Adjusted for this one-off effect, other operating income was EUR 4.9 million (prior year: EUR 4.1 million).

The gross profit margin – calculated as gross profit in relation to gross revenue – dropped to 53.1% in the year under review due to a rise in the cost of materials and a decline in other operating income (prior year: 62.9%). Taking into account the one-off effects within other operating income, the result is an adjusted gross profit margin of 47.5%, which is a decline compared to the previous year's margin of 54.8%.

Personnel expenses of EUR 43.9 million incurred in the reporting year were slightly higher (1.9%) than the previous year's figure of EUR 43.1 million. The personnel expense ratio dropped from 31.1% in the previous year to 29.0% in the year under review.

Compared to the year prior, other operating expenses dropped by -4.1% from EUR 26.7 million to EUR 25.6 million). Of this, the increase in selling expenses to EUR 6.1 million (prior year: EUR 5.1 million), due in particular to higher freight, travel and trade fair costs, as well as the increase in administrative expenses to EUR 6.8 million (prior year: EUR 5.9 million), mainly attributable to the rise in individual insurance premiums, were offset by lower operating costs of EUR 9.6 million (prior year: EUR 13.1 million). The decline in operating costs is predominantly the result of lower expenses incurred for repair and third-party cleaning services in the wake of the flood damage at the Hof nonwovens plant in 2021.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell from EUR 16.4 million in the previous year to EUR 10.2 million in the year under review in particular due to the significant increase in the cost of materials. The EBITDA margin dropped from 11.9% in the year prior to 6.7% in the 2022 financial year.

At EUR -1.2 million the interest result remained nearly constant (prior year: EUR -1.1 million). After taking into account taxes on income of EUR 0.1 million (prior year: EUR 0.3 million) as well as other taxes of EUR -0.9 million (prior year: EUR -0.8 million €), the consolidated net loss was EUR -1.7 million (prior year: consolidated earnings of EUR 3.7 million).

Financial position

With a consolidated net loss of EUR -1.7 million for the year, cash flows from operating activities were EUR 1.2 million during the reporting period (prior year: EUR 6.2 million). This decline is mainly due to the decrease in earnings and the increase in working capital.

In 2022 cash flows from investing activities of the Group were EUR -3.5 million (prior year: EUR -4.1 million). In the period under review, this figure was primarily influenced by capital expenditure on tangible fixed assets and, as in the previous year, by cash inflows from the sale of fixed assets not required for operations.

Cash flows from Group financing activities amounted to EUR 8.6 million during the financial year (prior year: EUR -16.3 million). These cash flows were influenced in particular by inflows from borrowing an additional EUR 15.0 million from funds available via a syndicated loan taken out in the previous year. This is offset by scheduled repayments of EUR 1.9 million on a partial amount of EUR 10.0 million drawn down in the previous year from the total syndicated loan volume of EUR 51.0 million and the repayment of further bonded loans (*Schuldscheindarlehen*) in the amount of EUR 2.5 million in December 2022. The liability of the bonded loans taken out at the end of 2016 totalling EUR 50.0 million with terms of three to seven years still amounted to EUR 10.0 million as at 31 December 2022. In 2022 there was also a dividend of EUR 0.7 million (prior year: EUR 0.8 million).

The combined effect of cash inflows and outflows from operating activities, investing activities and financing activities during the 2022 financial year resulted in an increase in cash funds to EUR 19.5 million (prior year: EUR 13.0 million) as at 31 December 2022.

To ensure the Group's long-term financial stability, HOFTEX GROUP AG concluded a Group-wide syndicated loan agreement in a total volume of EUR 51 million for the purpose of follow-up financing on 16 December 2021. The term of the loan is four years and can be extended by up to two years with the consent of the lenders and increased by a further EUR 10 million if required. As at 31 December 2022, EUR 23.1 million of this amount had been used. EUR 26.0 million are available from credit facilities that have not yet been utilised.

Net assets

The Hoftex Group's total assets increased to EUR 177.0 million as at 31 December 2022, and were thus EUR 8.7 million more than the previous year's figure of EUR 168.3 million.

On the asset side, intangible assets and tangible fixed assets decreased from EUR 98.2 million to EUR 92.3 million. During the reporting period a total of EUR 4.5 million (prior year: EUR 9.4 million) was invested in tangible fixed assets and intangible assets for expansion and IT projects. These investments were offset by depreciation, amortisation and write-downs of EUR 10.9 million (prior year: EUR 11.8 million).

In current assets, inventories rose from EUR 35.2 million to EUR 38.3 million. This increase is primarily attributable to rising costs on the procurement markets. In addition, receivables and other assets rose from EUR 20.1 million to EUR 25.0 million. The main reasons for this include the increase in trade receivables due to the rise in sales volume by EUR 4.7 million to EUR 21.2 million (prior year: EUR 16.5 million). At the end of the financial year on 31 December 2022, cash and cash equivalents rose by EUR 6.5 million to EUR 19.5 million (31 December 2021: EUR 13.0 million).

The Group's balance-sheet equity declined by EUR 1.5 million compared to the previous year to EUR 112.0 million as at 31 December 2022. This is due to the consolidated net loss for the year and exchange rate effects not affecting net income minus the dividend payment to shareholders. The equity ratio as at 31 December 2022 was 63.3% (prior year: 67.5 %) with comparatively higher total assets.

Provisions were EUR 15.3 million, falling below the previous year's level of EUR 16.6 million. With the exception of the obligations to be borne by the Group relief fund, the pension provisions are recognised at their full values based on an interest rate of 1.78% (prior year: 1.87%). The allocable values of reinsurance claims were deducted from this. Pension provisions dropped by a total of EUR 0.2 million. Among other provisions, provisions for taxes remained at the previous year's level, whereas other provisions decreased by EUR 1.1 million.

Liabilities increased by EUR 11.6 million compared to the end of 2021 to EUR 49.0 million at the end of the year under review (prior year: EUR 37.4 million). This was mainly due to an increase in liabilities to banks to EUR 33.3 million (prior year: EUR 22.9 million) as a result of further borrowing from the syndicated loan. The net bank debt of the Hoftex Group therefore grew to EUR 13.8 million as at 31 December 2022 (prior year: EUR 9.9 million).

Trade payables and liabilities on bills accepted and drawn rose by EUR 0.7 million. Other liabilities of EUR 7.9 million increased year-on-year by EUR 0.4 million (prior year: EUR 7.5 million).

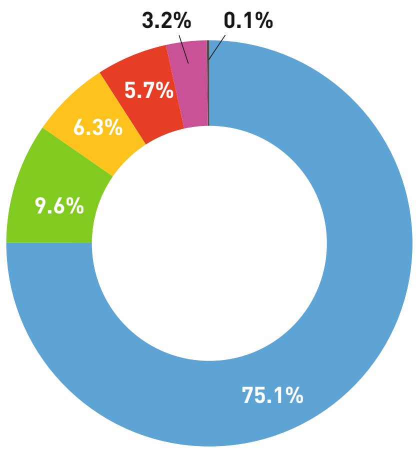
2.5. Employees

Companies in the Hoftex Group employed 1,008 people (including 31 apprentices) on average during the 2022 financial year. The number of employees is thus largely stable compared to the previous year (1,037 people on average, including apprentices).

As at the balance sheet date on 31 December 2022, the number of employees in the Group was 989, which is a 3.9% drop compared to the previous year (1,028). Once again, the TENOWO division employed the majority of the Group's regular workforce with 731 employees (prior year: 732).

The organisation was adjusted to a lower sales and production volume as part of the restructuring project in the NEUTEX division. The corresponding reduction in permanent staff was mainly achieved through natural attrition, thus allowing NEUTEX to reduce its headcount in a socially responsible manner. The headcount reduction in the NEUTEX division will be completed by the end of 2024.

Employees as at the reporting date of 31 December by country



Countries	2022 Number	2022 in %	2021 Number	2021 in %
Germany	743	75.1%	767	74.6%
USA	95	9.6%	100	9.7%
China	62	6.3%	52	5.1%
Romania	56	5.7%	77	7.5%
Italy	32	3.2%	31	3.0%
Mexico	1	0.1%	1	0.1%

The COVID-19 pandemic accelerated digitalisation in 2020 and 2021 and paved the way for a wide range of hybrid working concepts in the 2022 financial year. Despite ongoing, consistent implementation of our hygiene and protection concept, the Hoftex Group was unable to prevent high numbers of sick days during certain phases of the 2022 financial year. The Management Board and managers, particularly in the TENOWO manufacturing division, responded to temporary raw materials shortages and corresponding periods of underutilisation in the aftermath of the COVID-19 pandemic with short-time work.

3. Statement on Corporate Governance of HOFTEX GROUP AG pursuant to Section 289f(4) of the German Commercial Code for the 2022 fiscal year

Guidelines on promoting the participation of women in leadership positions pursuant to Sections 76(4), 111(5) AktG for HOFTEX GROUP AG as an individual entity

The Supervisory and Management Boards have defined target gender quotas pursuant to the "Law on Equal Participation of Women in Leadership Positions in the Private and Public Sector".

The Supervisory Board resolved to retain at least two women members until 31 December 2026. 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. This translates into a membership rate of 44%.

HOFTEX GROUP AG's two-person Management Board has included one woman, Ms Manuela Spörl, since 1 August 2020, meaning that the actual female representation quota is currently 50%. Nevertheless, the Supervisory Board decided at its meeting on 13 December 2021 to again set a quota of zero percent until the end of 2026. If a higher quota had been set for the two-person Management Board, this would have necessarily meant that a woman would always have to be appointed in the event of a vacancy. However, the Supervisory Board wishes to appoint the candidate it considers most suitable in each case, irrespective of gender, taking into account professional suitability and personal integrity. The Supervisory Board also believes there is currently no concrete need for action with respect to determining a fixed female representation quota.

HOFTEX GROUP AG's Management Board set the target for female representation at the first level of management below the Management Board to 25%. This target should be achieved by 31 December 2026. Women currently comprise 33% of the first level of management below the Management Board at HOFTEX GROUP AG. 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 constantly exposed to a wide range of risks associated with the entrepreneurial activities of the individual divisions and consequently also of the individual subsidiaries, which arise from 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. For that purpose, the Hoftex Group has an established risk management system.

The key relevant areas of risk and opportunity for the Hoftex Group are outlined in the following. Only the areas with notably relevant risks and opportunities are mentioned.

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

4.1. Macroeconomic and sector-specific risks and opportunities

The business environment of HOFTEX GROUP AG and its subsidiaries was strongly influenced in the 2022 financial year by the geopolitical event of Russia's war of aggression against Ukraine, by rising inflation rates, energy and commodity prices, and by disrupted global supply chains.

These significant individual risks can have a major impact on our assets, liabilities, financial position and financial performance.

In the year under review, the Hoftex Group was exposed to additional risks arising from the war against Ukraine. While the Hoftex Group does not have any production or development locations in Russia or Ukraine, the economy and financial markets were significantly impacted by these geopolitical tensions.

Negative developments in the global economy affect a number of businesses and may therefore have an impact on demand for our products. Reduced demand for individual products can result in unfavourable capacity utilisation rates and thus lower margins.

We mitigate risks arising from unsatisfactory sales of our products through our international locations and our ongoing efforts to diversify our product portfolio. The Hoftex Group cannot entirely avoid the effects of industry-specific economic fluctuations. For example, the automotive and household textiles industries are important for the Hoftex Group and will continue to influence our company's business performance in the future.

We address these risks by continuously adapting our sales and marketing strategy, entering new markets and acquiring new customers.

The spike in energy costs due to the war and the potential energy supply shortage increased the level of risk overall for the Hoftex Group during the 2022 financial year.

As an energy-intensive production company, we are dependent on an external supply of energy. This also exposes us to the financial risks caused by escalating energy prices – especially in the European market.

Restrictions in the gas supply could threaten to interrupt production. Production interruptions could cause a large number of disruptions to already established and optimised processes in the company and thus have a negative impact on our supply capabilities.

Our company-wide energy teams are always working on ways to optimise production while using less gas and focusing on the diversification of our energy sources to meet these challenges. We convene at regular intervals to discuss the implementation of all available measures to sensibly and effectively reduce energy consumption.

For example, in the future, we will cover part of our electricity requirements ourselves with projects aimed at installing a photovoltaic system. The investment in a photovoltaic system at the Reichenbach location, which was initiated in the 2022 financial year, will be implemented in 2023. We are also able to respond rapidly and limit potential damage to the greatest extent possible by creating Group-wide emergency plans in the event of an interruption in the gas supply.

It is impossible to predict today how the war between Russia and Ukraine will evolve over time or what impact it will ultimately have. Overall, we see an intensification of risks as a result of this armed conflict.

We face strong competition in the textile industry worldwide, with the greatest threat to sales coming from Asian competitors making inroads into the European market. A further increase in competitive pressure, driven by rising raw material prices on the one hand and growing price pressure from customers on the other, could have a significant impact on our assets, liabilities and financial position. As a countermeasure, we always strive for close, positive customer relationships and continuously analyse the markets that are relevant to us.

4.2. Operational opportunities and risks

As in the past two years, the macroeconomic situation in the 2022 reporting year was influenced by the effects of the COVID-19 pandemic. The government in China responded to renewed COVID-19 outbreaks with far-reaching and long-lasting lockdowns and production shutdowns. This only exacerbated the supply chain problem and thus the procurement and sales markets.

As a production company, the Hoftex Group is at risk due to its dependence on specific raw materials. Both the availability and the monetary expenses for the raw materials we purchase have a direct effect on the business operations and financial performance of the Group.

If the materials required for production are not available in the required quantities and quality, this could result in insufficient or deficient output, which in turn might make it more difficult for us to ensure a supply of goods and services to our customers in accordance with existing agreements.

In order to ensure timely availability of raw materials, we make every effort to conclude long-term contracts and work closely with our suppliers, which allows us to adopt a forward-looking approach to communicating our resource requirements. In an increasingly uncertain economic climate, we also strive to reduce our dependence on individual contractors by sourcing raw materials from various suppliers and consistently pursuing our multi-supplier strategy.

Moreover, the Hoftex Group hedges its risk of quality fluctuations by continually monitoring its suppliers.

In addition to a shortage of raw materials, procurement prices also pose risks for the Hoftex Group. Prices on the procurement market began to rise during the first half of the financial year. This trend continued throughout 2022 and created a number of challenges for the Group. The mix of European and Asian procurement helped reduce but not completely eliminate the financial risks associated with volatile raw material and freight costs.

Alongside procurement risks, we always have to anticipate continuous quality, safety and environmental risks in our production operations. We have suitable management systems, mandatory occupational and environmental safety training courses and corresponding insurance policies to counteract these risks. To ensure and further improve occupational safety at the locations, occupational safety officers support the plant managers in their work.

The work our employees perform is a decisive factor in our company's success. Due to natural attrition, vacant positions must be filled on a regular basis. In our view, the increasingly fierce competition in the labour market is unlikely to ease in the coming years and will make it difficult to recruit motivated and qualified personnel. In addition, the risk of employees leaving the company threatens an outflow of knowledge and a change in the personnel structure, which can lead to negative business development.

We respond to the needs of each of our employees by offering individually tailored training and development programmes to open up new career opportunities within our group of companies. We also view the rise in immigration as an opportunity to foster talent and promote long-term employee retention.

Digitalisation and new technologies in particular help us retain employees by offering them an interesting, modern and flexible working atmosphere and working methods and inspiring new candidates to apply for a job with us.

The Hoftex Group's system environment 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. We are exposed to greater IT security risk due to the threat of system failures and increased cyber-attacks on corporate systems in particular. Organisational and technical measures are continually reviewed and implemented if necessary. Investments in IT security and regular training and testing of employees are essential components of our risk prevention strategy. We were able to transfer additional risk by concluding a cyber security insurance policy during the 2022 financial year.

Phishing emails pose a major risk. In addition to the permanent testing and implementation of technical measures to protect against cyber-attacks, in the 2022 financial year we focused heavily on raising employee awareness through seminars and courses, email campaigns and training.

4.3. Financial opportunities and risks

Due to its global operations, the Hoftex Group is exposed to risks and opportunities related to currency exchange rate fluctuations. These primarily result from fluctuations in the US dollar (USD) and the Chinese Yuan (CNY), as well as 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 the Group may come about 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.

The Hoftex Group can be exposed to liquidity risks if customers do not meet their payment obligations. Active accounts receivable management and credit insurance help identify and counteract any risks that may arise. A rolling liquidity plan and a multi-year financing plan help the Hoftex Group to secure long-term credit lines and maintain an adequate level of cash and cash equivalents. This also helps safeguard the Group's solvency and financial flexibility. In December 2021, a syndicated loan agreement with a four-year term and an option to extend was concluded in line with our financial strategy. This will ensure medium-term follow-up financing and sufficient liquidity after the bonded loan expires in 2023. The syndicated loan is tied to compliance with certain covenants relating to the debt-equity ratio and the equity ratio. As a rule, failure to comply with covenants in conjunction with the syndicated loan can result in termination of any loans that have been granted. The resulting repayment obligation therefore poses a potential risk to the financial position of the company and the Group.

4.4. Legal and non-financial risks

Like other internationally operating companies, the Hoftex Group is exposed to a variety of legal and compliance risks. Risks can arise from potential legal disputes and compliance violations, as well as from non-compliance with regulatory requirements. In addition, we are subject to a broad range of public regulations worldwide that govern environmental protection, data protection and other legal guidelines. Non-compliance can lead to substantial fines, claims for damages and reputation loss. To avoid violations, we work with local or specialised legal experts and train our employees. To implement, coordinate and support all activities to avoid legal and regulatory risks, we have appointed various teams and officers, such as data protection officers and data protection coordinators, along with an information security team.

A compliance officer supports the Management Board's efforts to ensure compliance and ethical conduct on the part of all employees in the company. All employees receive regular awareness training on a wide range of compliance topics in both e-learning and in-person courses. These programmes are supplemented by internal principles and guidelines to prevent misconduct within the organisation.

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

Natural disasters such as floods or other events such as fire can lead to production stoppages, which can have a negative impact on our assets, liabilities, financial position or financial performance. These external risks, which cannot be influenced by the Hoftex Group, are addressed by concluding commensurate property and business interruption insurance policies. In addition, internal precautions and organisational measures are taken in the event of a loss. There is a dedicated company fire brigade at certain locations to ensure a rapid first response in the event of a disaster. Alongside existing measures to prevent and protect against flooding, additional actions were planned and implemented during the reporting year at the nonwovens location in Hof that was affected by flood damage in 2021, including the erection of barriers, for instance.

5. Forecasts and outlook

5.1. Outlook on macroeconomic conditions

The 03/2003 "Economic Policy Highlights" monthly report issued by the Federal Ministry for Economic Affairs and Climate Action of the Federal Republic of Germany (BMWK) projects slower economic growth in 2023 than in the 2022 reporting year. The rate of inflation is expected to decline slightly following the recent surge. However, in view of the current geopolitical crises, it is difficult to precisely assess economic development in 2023. Russia's invasion of Ukraine and the associated geopolitical changes marked a turning point for Europe. We can assume that the resulting energy supply shortages, which are fuelling inflation, will continue to have a strong impact on the European economy and on the German economy in particular, despite energy costs having fallen slightly since their peak in mid-2022.

China's surprising move to lift COVID restrictions late last year should give the global economy a much-needed boost and might ultimately restore the People's Republic to its former glory as the driving force behind the global economy.

The International Monetary Fund forecast global economic growth of 2.9% and global inflation of 6.6% in 2023. In the previous year, growth forecasts for 2023 were still above the 3% mark – these estimates were recently adjusted as key interest rate hikes initiated as a fiscal policy measure to curb inflation raise concerns about lower investments and consumer spending.

At the beginning of the year, the IMF's economic experts expected to see positive, but generally lower growth rates. The outlook for industrialised countries shows an increase in economic output of 1.2%. The calculated growth of German GDP is only 0.1% Similarly, growth expectations for the Eurozone as a whole are cautious at 0.7% (France: 0.7%, Italy: 0.6%, Spain: 1.1 %). Growth rates in the USA (1.4%), Japan (1.8%) and Canada (1.5%) are expected to be slightly above average compared to industrialised countries. Only the United Kingdom's economy is expected to shrink slightly by -0.6% – even Russia is anticipated to grow at a rate of 0.3% despite extensive Western sanctions.

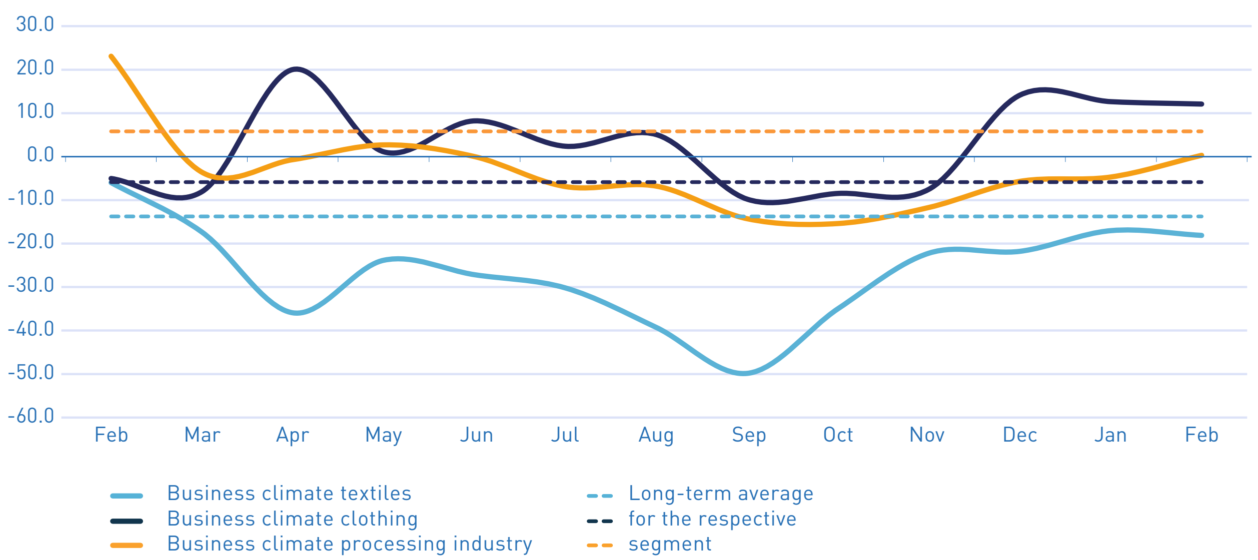
Emerging and developing countries are expected to see an average economic growth rate of 4.0%. At 5.2%, growth expectations for the Chinese economy are slightly better than those for the ASEAN countries at 4.3%. With a growth forecast of 6.1% for the Indian economy, and based on the previous year's high value (2021: 8.7%, 2022: 6.8%), it is reasonable to expect another boom year.

With a growth forecast of 1.2% each, the other two BRICS countries, Brazil and South Africa, are unable to keep pace with Asian countries.

5.2. Outlook on sector-specific conditions

The ifo Business Climate Index for textiles and clothing gradually deteriorated until late summer as a result of the Russian invasion of Ukraine, but has recently taken a more positive turn. Both segments were pessimistic in their assessment of the economic climate – though to differing degrees: Overall, the companies in the clothing industry have always been more optimistic than businesses in the textile industry. This is because the textile segment is more closely interlinked with other industrial sectors and its business forecasts are therefore generally similar to those of the industrial companies.

Surveys conducted by the Industry association "textil+mode" confirm that the industry's assessment of the situation at the beginning of 2023 is less positive compared to early 2022. Analogous to the ifo index, textil+mode's surveys indicate that the crisis – especially in the case of textiles – will not be overcome anytime soon. Companies are more likely to have a more pessimistic view of the situation overall compared to pre-crisis levels. The COVID-19 pandemic placed a tremendous burden on the entire textile and clothing industry – currently, there appears to be an interruption in or at least a slowing of the momentum in the economic recovery.



Source: ifo Business Climate Index for the textile and clothing segments from Feb 2022 to Feb 2023

Based on order backlogs and industry trends, it is generally possible to at least make short-term forecasts on future sales. According to the information provided by the "textil+mode" industry association, the order backlog in 2022 is significantly higher than in the previous year (2021) (textiles: 20.1%, clothing: 21.3%). On the other hand, year-on-year growth of new orders was only 4.6% on average in the textile sector, and 10.2% in the clothing sector. However, the dramatic increases in the previous year are indicative of catch-up effects in the wake of the COVID-19 crisis, and it is likely that some companies are still dealing with production and delivery backlogs.

At present, we can expect moderate growth with continued high inflation and rising interest rates. Making precise forecasts is difficult, however, and it remains to be seen how the current geopolitical crises will evolve over time.

5.3. Outlook – business performance

The Management Board's forecast for the 2023 financial year is not only subject to greater uncertainty than usual due to the many imponderables regarding future economic development, but also expressly assumes that risks from the armed conflict between Russia and Ukraine will not materialise to an extent that is significant for the Group's assets, liabilities, financial position and financial performance.

Influenced by geopolitical tensions, high inflation and the resulting impact on consumption and investment behaviour, we expect economic growth to stall, especially in Europe. Assuming that no further macroeconomic disruptions occur, we expect the situation to stabilise in the 2023 financial year, both on the raw material markets and on the sales markets that are relevant to our business. The spike in energy costs and the resulting increases in raw material costs will continue to weigh on the company. However, we intend to pass these costs on to the market to the greatest extent possible. The price increases in the 2022 financial year will have a full impact in 2023, which is why the Hoftex Group plans to induce sales growth by increasing prices.

In the TENOWO division, we expect robust sales growth for the largest market segment overall – automotive – despite stagnating sales volumes, particularly due to shifting the mix towards higher-quality, innovative products and applications. In spite of improved availability of semiconductors, we still anticipate sluggish sales volumes with regional variances. For North America and Europe, we project further declines in market demand due to continued inflation, consumer caution and the strategic focus of European OEMs on more profitable premium models. Conversely, we expect a significant market recovery for China.

The sales growth trajectory in the consumer segment will continue and it will also be boosted, among other things, by the increase in vertical integration. In contrast, in the clothing segment, we expect a slight decline in sales due to inflation-related restraint in consumer behaviour. The healthcare segment will return to growth thanks to its strategic realignment and focus on innovative products in attractive applications. We also expect positive growth and earnings effects from our new product applications thanks to a general and industry-wide trend towards sustainability.

Following adjustments to structural capacity carried out during the 2022 reporting year, we expect the NEUTEX division to stabilise at the new lower sales level. The household textiles market is still undergoing a major upheaval. For NEUTEX, the year 2023 will be crucial to successfully continue its transformation into a supplier of innovative, sustainable and custom-tailored home textiles and sun protection solutions and establish a strong foothold in the market.

A new sales team was set up in the HOFTEX division during the 2022 reporting year. Its objectives include the development of new markets to ensure consistent capacity utilisation. We anticipate a slight increase in sales compared to the previous year. This rise is expected to come from price and volume increases and changes in the product mix.

If the current assumptions regarding the 2023 financial year prove to be correct, the HOFTEX GROUP AG Management Board expects total sales ranging between EUR 160 million and EUR 180 million in its forecast for the 2023 financial year. The main catalysts for sales growth are expected to be price adjustments due to the sharp rise in material costs and rising personnel expenses due to inflation. In addition, various programmes and measures initiated in the 2022 financial year are expected to improve cost items, leading the Management Board to expect an increase in EBITDA somewhere between EUR 12.0 million and EUR 14.0 million.

For 2023, we are planning investments of around EUR 14 million, which will be higher than the figure for 2022. Investments will focus on the various TENOWO locations. Expansion projects are also planned in addition to replacement and relocation projects due to flooding damage at the Hof location.

The forecast contains forward-looking statements that are based on current assumptions, plans and forecasts by the management. Risks and uncertainties may result in both positive and negative deviations in actual business development compared to estimates made in the forecast.

Hof, 5 May 2023

HOFTEX GROUP AG

The Management Board

Klaus Steger   Manuela Spörl

CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2022 FINANCIAL YEAR

HOFTEX GROUP AG

Consolidated balance sheet as at 31 December 2022

Assets in EUR thousand	Notes	31 Dec. 2022	31 Dec. 2021
A. Non-current assets			
I. Intangible assets	6	416	1,062
II. Tangible fixed assets	6	91,827	97,152
III. Long-term financial assets	6	17	17
		92,260	**98,231**
B. Current assets			
I. Inventories	7	38,294	35,231
II. Receivables and other assets	8	24,987	20,144
III. Cash and cash equivalents	9	19,533	12,955
		82,814	**68,330**
C. Prepaid expenses		**740**	**668**
D. Deferred tax assets	10	**1,146**	**1,043**
Total assets		**176,960**	**168,272**

Equity and liabilities in EUR thousand	Notes	31 Dec. 2022	31 Dec. 2021
A. Equity			
I. Subscribed capital	11	13,920	13,920
II. Capital reserves	13	41,158	41,158
III. Retained earnings	14	57,754	56,754
IV. Change in equity from currency translation		-293	-1,150
V. Consolidated net loss (prior year: Consolidated net income)	15	-541	2,862
		111,998	**113,544**
B. Provisions	16	**15,294**	**16,605**
C. Liabilities	17	**48,984**	**37,439**
D. Deferred tax liabilities	10	**684**	**684**
Total equity and liabilities		**176,960**	**168,272**

HOFTEX GROUP AG

Consolidated Income Statement for the 2022 Financial Year

in EUR thousand	Notes	2022	2021
Sales	18	153,843	137,857
Increase or decrease in inventories of finished and unfinished goods		-2,314	637
Gross revenue		**151,529**	**138,494**
Other operating income	19	13,427	15,280
Cost of materials	20	-84,482	-66,686
Gross profit		**80,474**	**87,088**
Personnel expenses	21	-43,878	-43,144
Depreciation, amortisation and write-downs	6	-10,852	-11,843
Other operating expenses	22	-25,555	-26,737
Operating result		**189**	**5,364**
Net interest	23	-1,150	-1,118
Taxes on income	24	119	314
Earnings after taxes		**-842**	**4,560**
Other taxes	25	-854	-836
Consolidated net loss (prior year: Consolidated net income)		**-1,696**	**3,724**

HOFTEX GROUP AG

Consolidated statement of changes in equity as at 31 December 2022

in EUR thousand	Suscribed capital	Capital reserves	Retained earnings	Change in equity from currency translation	Consoli-dated net income/ loss	Total
Balance on 1 Jan. 2021	**13,920**	**41,158**	**55,254**	**-4,170**	**1,455**	**107,617**
Appropriation to retained earnings pursuant to Section 58(2) AktG			1,500		-1,500	0
2020 dividend payment					-817	-817
Foreign currency translation differences				3,020		3,020
Consolidated net income for 2021					3,724	3,724
Balance on 31 Dec. 2021	**13,920**	**41,158**	**56,754**	**-1,150**	**2,862**	**113,544**
Appropriation to retained earnings pursuant to Section 58(3) AktG			1,000		-1000	0
2021 dividend payment					-707	-707
Foreign currency translation differences				857		857
Consolidated net loss 2022					-1,696	-1,696
Balance on 31 Dec. 2022	**13,920**	**41,158**	**57,754**	**-293**	**-541**	**111,998**

HOFTEX GROUP AG

Consolidated Cash Flow Statement for the 2022 Financial Year

in EUR thousand	2022	2021
Consolidated net loss (prior year: Consolidated net income)	-1,696	3,724
+/- Depreciation, amortisation and write-downs of fixed assets/ reversals of write-downs of fixed assets	10,852	11,843
+/- Increase/decrease in provisions incl. pension provisions	-1,311	-976
+/- Other non-cash expenses and income	-206	-250
-/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investing or financing activities	-7,998	-7,315
+/- Increase/decrease in trade payables and other liabilities not attributable to investing or financing activities	1,262	1,933
-/+ Gain/loss on disposal of fixed assets	-633	-3,535
+/- Interest expense/interest income	1,004	901
+/- Income tax expense/income	-119	-314
+/- Income tax payments	45	195
Cash flows from operating activities	**1,200**	**6,206**
- Payments to acquire intangible assets	-73	-98
+ Proceeds from disposals of tangible fixed assets	953	5,291
- Payments to acquire tangible fixed assets	-4,417	-9,275
+ Interest received	61	0
Cash flows from investing activities	**-3,476**	**-4,082**
+ Cash proceeds from bank loans	15,072	10,041
- Cash repayments of bank loans	-4,625	-23,500
- Cash repayments of short-term loans to affiliated companies	-109	-1,196
+ Proceeds from grants/subsidies received	0	110
- Interest paid	-1,065	-900
- Dividends paid	-707	-817
Cash flows from financing activities	**8,566**	**-16,262**
Changes in cash and cash equivalents	**6,290**	**-14,138**
Effect on cash funds of exchange rate movements and remeasurement	288	479
Cash and cash equivalents as at 1 January	**12,955**	**26,614**
Cash and cash equivalents as at 31 December	**19,533**	**12,955**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2022 FINANCIAL YEAR

(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 of companies (in the following also referred to as the "Hoftex Group").

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 clothing industry. 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.

The company's shares have been traded on the m:access open market of the Munich Stock exchange since 29 June 2009. Since this time, HOFTEX GROUP AG has no longer been considered a "publicly listed" or "capital market-oriented" company as defined in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

The consolidated financial statements of HOFTEX GROUP AG for the financial year from 1 January to 31 December 2022 are prepared pursuant to the provisions of HGB and AktG prevailing on the reporting date.

Section 290 HGB governs the obligation to prepare consolidated annual financial statements. 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 at the reporting date of the parent company. The HOFTEX GROUP AG annual financial statements and the annual financial statements of all consolidated domestic subsidiaries for the 2022 financial 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 taking standardised Group guidelines into consideration.

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 2022 include 10 (prior year: 11) domestic and 5 (prior year: 5) foreign companies, in which HOFTEX GROUP AG directly or indirectly holds a majority of voting rights and over which it therefore exercises control. 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 German Accounting Standard (DRS Standard) no. 19.

The change in the scope of consolidation was the result of merging Hoftex GmbH into HOFTEX GROUP AG effective 1 January 2022.

The exemption set out in Section 313(3) sentence 4 HGB relating to information that is "immaterial for accurately presenting the Group's assets, liabilities, financial position and profit or loss in keeping with its actual circumstances" is exercised here.

In addition to the parent company, the companies in the HOFTEX GROUP AG's scope of consolidation in the year ending 31 December 2022 are as follows:

Company	Registered office	Share of capital in %	Currency	Equity thousand [6]	Result for the year in EUR thousand
Fully consolidated companies as defined in Section 290(2) no. 1 HGB					
Hoftex Färberei GmbH	Hof	[1] 100.00	EUR	800	(CPTA) [7]
Hoftex Färberei Betriebs GmbH	Hof	[2] 100.00	EUR	150	(CPTA) [7]
Tenowo GmbH	Hof	100.00	EUR	63,171	(CPTA) [7]
Tenowo Hof GmbH	Hof	[3] 100.00	EUR	150	(CPTA) [7]
Tenowo Reichenbach GmbH	Hof	[3] 100.00	EUR	150	(CPTA) [7]
Tenowo Mittweida GmbH	Hof	[3] 100.00	EUR	150	(CPTA) [7]
Tenowo Inc.	Lincolnton, USA	[3] 100.00	USD [8]	12,449	699
Tenowo Huzhou New Materials Co. Ltd.	Huzhou, China	[3] 100.00	CNY [9]	46,356	-799
Tenowo Italia S.r.l.	Milan, Italy	[3] 100.00	EUR	1,746	-162
Tenowo de Mexico S. de R.L. de C.V.	San Luis de Potosi, Mexico	[4] 100.00	MXN [10]	-13,857	-3,239
Neutex Home Deco GmbH	Münchberg	100.00	EUR	7,536	(CPTA) [7]
Neutex Betriebs GmbH	Münchberg	[5] 100.00	EUR	150	(CPTA) [7]
SC Textor S.A.	Targu Mures, Romania	[5] 100.00	RON [11]	17,562	-7
Feinspinnerei Hof GmbH	Hof	100.00	EUR	37	-2
Hoftex Immobilien I GmbH	Hof	100.00	EUR	19,204	(CPTA) [7]
Fully consolidated companies as defined in Section 290(2) no. 4 HGB					
Wohlfahrtseinrichtung der Vogtländischen Baumwollspinnerei AG e.V.	Hof	0.00	EUR	-	-

1) 100% of all shares held by HOFTEX GROUP AG.
2) 100% of all shares held by Hoftex Färberei GmbH.
3) 100% of all shares held by Tenowo GmbH.
4) 90% of all shares held by Tenowo GmbH; 10% by Tenowo Inc.
5) 100% of all shares held by Neutex Home Deco GmbH.
6) This figure is reported including the result for the year.
7) CPTA = Control and profit transfer agreement; the Company exercises its rights under the exemption clause pursuant to section 264(3) HGB.
8) Spot rate on the closing date 31 Dec. 2022: EUR 1 = USD 1.0666
9) Spot rate on the closing date 31 Dec. 2022: EUR 1 = CNY 7.3582
10) Spot rate on the closing date 31 Dec. 2022: EUR 1 = MXN 20.8560
11) Spot rate on the closing date 31 Dec. 2022: EUR 1 = RON 4.9495

(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 Introductory Act to the German Commercial Code (*Einführungs-gesetz zum Handelsgesetzbuch*, or 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 financial statements. Any excess of acquisition cost over the value of the equity is capitalised as goodwill.

Goodwill capitalised in the 2018 financial year will be amortised on a straight-line basis over an anticipated period of five years. The expected useful life is chiefly defined by short-term contracts with customers.

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

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

(4) Accounting policies

Intangible assets, provided they have been acquired for consideration, are recognised at cost and amortised on a straight-line basis over their estimated useful life. Intangible assets relate in particular to software and licences purchased from third parties. These are amortised on a straight-line basis over 5 years from the date of acquisition.

The option to capitalise internally generated intangible assets at cost in line with Section 248(2) HGB was not exercised.

Tangible fixed assets are recognised at cost less straight-line depreciation provided the assets are subject to wear and tear. The cost of tangible fixed assets produced in-house includes directly allocable expenses and a reasonable share of 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 scheduled amortised acquisition and production costs. Scheduled depreciation is carried out uniformly throughout the Group using the straight-line method over the useful life of the asset on the basis of tax depreciation tables (minimum rates) and empirical values.

Long-term financial assets – currently loans and other investments – are generally carried at cost or, in the event of a likely permanent value impairment, at the lower of cost and fair value at the balance sheet date. If the reasons for retaining the lower value no longer apply, the write-downs are reversed pursuant to Section 253(5) HGB.

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.

Lower replacement costs or realisable prices are recognised through write-downs on the lower market price or lower fair value at the balance sheet date. Reasonable and adequate write-downs are recognised to cover resale risk.

Receivables and other assets are generally recognised at their nominal value. Specific valuation allowances are made for receivables based on the likelihood of default. General valuation allowances are made for overall credit risk based on historical data.

Cash and cash equivalents are recognised at their nominal value.

Prepaid expenses relate to expenditures prior to the reporting date that pertain to a determinable period after this date; they are reversed on a straight-line basis over the specified period of time.

Taxes are deferred on the basis of the temporary concept. The annual financial statements of the consolidated companies 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 financial years and result in a tax charge. If the differences result in a tax saving in subsequent financial years, it is only recognised up a maximum of the deferred tax liabilities from other temporary differences. Existing tax loss carry-forwards are also recognised. 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 for domestic Group companies are calculated using a cumulative income tax rate of 29% (corporate tax rate 15%, plus solidarity surcharge of 5.5%, trade tax average 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 above-mentioned 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. These assets have been recognised at fair value since the 2009 financial year 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 actuarial fair values amounting to EUR 1,814 thousand provided by the insurance companies (prior year: EUR 2,214 thousand); the settlement amount of the offset obligations amounts to EUR 3,165 thousand (prior year: EUR 3,703 thousand). This results in a net post-employment benefit liability (provision) of EUR 1,351 thousand (prior year: EUR 1,489 thousand). In the interest income/expense item, expenses for the reversal of discounting on pension obligations are offset against the expected return on pension plan assets. Expenses for the reversal of discounting on all pension obligations amounting to EUR 147 thousand (prior year: EUR 230 thousand) are offset against the expected return on pension plan assets of EUR 8 thousand (prior year: EUR 13 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 at the balance sheet date. The present value is calculated using a 1.78% interest rate and a 2.0% rate of benefit increase p.a. 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 2022 resulting from exercising the option to choose between a seven and a ten prior year average discount rate is EUR 198 thousand (prior year: EUR 338 thousand). The corresponding amount for HOFTEX GROUP AG is EUR 166 thousand (prior year: EUR 275 thousand) and 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 benefits 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 20 December 2019), relief funds (*Unterstützungskassen*) must now also be included in the scope of 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 as at the balance sheet date is EUR 1,363 thousand (prior year: EUR 1,409 thousand). Post-retirement benefit obligations, valued as stipulated by Section 253(1) sentence 2 HGB, amount to EUR 2,488 thousand (prior year: EUR 2,572 thousand). The net liability of EUR 1,125 thousand (prior year: EUR 1,163 thousand) is not recognised in the consolidated annual financial statements pursuant to Article 28(1) EGHGB.

Provisions must be recognised for uncertain liabilities and impending losses from pending transactions. Provisions must also be set aside for deferred maintenance, which is to be completed within three months after the start of the subsequent financial year, and for guarantees 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 corresponding future price and cost increases. Provisions with a remaining term of more than one year were – with the exception of the above-mentioned pension provisions – 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 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*). No anticipatory hedging has taken place within the HOFTEX GROUP AG Group to date.

(5) Currency translation

Assets and liabilities denominated in foreign currency were translated using the average spot market rate at 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; otherwise, the historical cost principle, the conservatism principle and the realisation principle are observed.

The assets and liabilities of all companies within the Group are translated using the average spot market rate at the balance sheet date. 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 2022

in EUR thousand	Acquisition and production costs					
	Balance on 1/1/2022	**Currency translation**	**Additions**	**Reclassifi-cations**	**Disposals**	**Balance on 31/12/2022**
I. Intangible assets						
1. Purchased software and other rights	6,135	5	73	0	0	6,213
2. Goodwill	566	0	0	0	0	566
	6,701	**5**	**73**	**0**	**0**	**6,779**
II. Tangible fixed assets						
1. Land and buildings	125,696	496	190	0	263	126,119
2. Machines and equipment	199,839	1,811	735	-3,396	2,325	196,664
3. Other equipment, furniture and fittings	24,271	49	947	102	613	24,756
4. Prepayments and assets under construction	4,221	22	2,545	3,294	0	10,082
	354,027	**2,378**	**4,417**	**0**	**3,201**	**357,621**
III. Long-term financial assets						
1. Investments	16	0	0	0	0	16
2. Other loans	1	0	0	0	0	1
	17	**0**	**0**	**0**	**0**	**17**
	360,745	**2,383**	**4,490**	**0**	**3,201**	**364,417**

in EUR thousand	Cumulative depreciation amounts					Net carrying amounts	
	Balance on 1/1/2022	**Currency translation**	**Additions**	**Disposals**	**Balance on 31/12/2022**	**Balance on 31/12/2022**	**Balance on 31/12/2021**
I. Intangible assets							
1. Purchased software and other rights	5,262	5	606	0	5,873	340	873
2. Goodwill	377	0	113	0	490	76	189
	5,639	**5**	**719**	**0**	**6,363**	**416**	**1,062**
II. Tangible fixed assets							
1. Land and buildings	76,389	277	932	21	77,577	48,542	49,307
2. Machines and equipment	160,339	1,357	8,125	2,325	167,496	29,168	39,500
3. Other equipment, furniture and fittings	20,147	34	1,076	536	20,721	4,035	4,124
4. Prepayments and assets under construction	0	0	0	0	0	10,082	4,221
	256,875	**1,668**	**10,133**	**2,882**	**265,794**	**91,827**	**97,152**
III. Long-term financial assets							
1. Investments	0	0	0	0	0	16	16
2. Other loans	0	0	0	0	0	1	1
	0	**0**	**0**	**0**	**0**	**17**	**17**
	262,514	**1,673**	**10,852**	**2,882**	**272,157**	**92,260**	**98,231**

(7) Inventories

	31/12/2022	31/12/2021
Raw materials, consumables and supplies	22,925	17,637
Unfinished goods, services in progress	3,862	2,975
Finished goods and merchandise	11,507	14,619
	38,294	**35,231**

(8) Receivables and other assets

	31/12/2022	31/12/2021
Trade receivables	21,192	16,509
Receivables from affiliated companies	11	19
Other receivables and other assets	3,784	3,616
	24,987	**20,144**

Other assets include items with a term of over one year amounting to EUR 18 thousand (prior year: EUR 11 thousand). The remaining receivables items do not include any items with a term of more than one year (as in the previous year).

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. In addition, in the calculation of deferred tax assets, tax loss carry-forwards must be recognised in the amount of the net losses expected to accumulate over the following five years.

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 1,146 thousand in deferred tax assets was also reported for consolidation entries during the 2022 financial year. Recognised deferred tax liabilities of EUR 684 thousand are from a foreign subsidiary's annual financial statement and are quasi-permanent in nature.

The following table shows the development of deferred tax assets and liabilities during the 2022 financial year:

	2022	2021	Change
Deferred tax assets	1,146	1,043	103
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, representing a notional holding of EUR 2.56 per share, with each share carrying one vote.

(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 shareholders pursuant to Section 272(2) no. 4 HGB.

(14) Retained earnings

	2022	2021
Retained earnings on 1 Jan.	56,754	55,254
Appropriation by the Annual General Meeting pursuant to Section 58(3) AktG	1,000	0
Appropriation by the Management Board and Supervisory Board pursuant to Section 58(2) AktG	0	1,500
Retained earnings on 31 Dec.	**57,754**	**56,754**

(15) Appropriation of net profit

	2022	2021
Consolidated net retained profits on 1 Jan.	2,862	1,455
Appropriation to other retained earnings by the Annual General Meeting pursuant to Section 58(3) AktG	-1,000	0
Dividend payment	-707	-817
Consolidated net loss (prior year: Consolidated net income)	-1,696	3,724
Appropriation to other retained earnings by the Management Board and Supervisory Board pursuant to Section 58(2) AktG	0	-1,500
Consolidated net loss (prior year: Consolidated net income) 31 Jan.	**-541**	**2,862**

(16) Provisions

	31/12/2022	31/12/2021
Provisions for pensions and similar obligations	8,150	8,681
Excess of plan assets over pension liability	-451	-805
Disclosure of pension provisions	7,699	7,876
Tax accruals	234	221
Other provisions	7,361	8,508
	15,294	**16,605**

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

(17) Liabilities

	31/12/2022	31/12/2021
Liabilities to banks	33,305	22,858
Trade payables	7,452	6,923
Liabilities on bills accepted and drawn	365	189
Liabilities to affiliated companies	4,858	4,793
Other liabilities	3,004	2,676
of which taxes	(777)	(620)
of which social security	(167)	(127)
	48,984	**37,439**

Liabilities to affiliated companies include EUR 4,858 thousand (prior year: EUR 4,793 thousand) to companies of the ERWO affiliated group. Of that amount, EUR 2,295 thousand relates to temporary working capital loans granted by China-based Zhangjiagang Yangtse Spinning Co. (ZYS) to Tenowo Huzhou New Materials Co. Ltd., which bear interest at current rates. At EUR 179 thousand (prior year: EUR 2 thousand), liabilities to affiliated companies relate to delivery and service translations with EUR 2,384 thousand (prior year: EUR 2,333 thousand) with other liabilities.

Residual maturity	31/12/2022 to 1 year	31/12/2022 over 1 to 5 years	31/12/2022 more than 5 years	31/12/2021 to 1 year	31/12/2021 over 1 to 5 years	31/12/2021 more than 5 years
Liabilities to banks	12,680	20,625	0	4,674	18,184	0
Trade payables	7,452	0	0	6,923	0	0
Liabilities on bills accepted and drawn	365	0	0	189	0	0
Liabilities to affiliated companies	4,858	0	0	4,793	0	0
Other liabilities	3,004	0	0	2,676	0	0
of which taxes	(777)	(0)	(0)	(620)	(0)	(0)
of which social security	(167)	(0)	(0)	(127)	(0)	(0)
	28,359	**20,625**	**0**	**19,255**	**18,184**	**0**

As a Group, HOFTEX GROUP AG and its subsidiaries are jointly and severally liable for all debts to their lending banks. This means that each company is liable up to the full amount of total debt (Section 421 of the German Civil Code (*Bürgerliches Gesetzbuch,* or BGB). The credit limit is EUR 51,000 thousand. As at the reporting date EUR 23,125 thousand had been drawn down (prior year: EUR 10,000 thousand).

(18) Classification of sales

	2022	2021
By division		
Hoftex	7,137	7,495
Neutex	11,242	12,980
Tenowo	133,123	115,357
Other	2,341	2,025
	153,843	**137,857**
By region		
Germany	45,691	47,778
Other European Union	46,490	41,449
Rest of world	61,662	48,630
	153,843	**137,857**

(19) Other operating income

	2022	2021
Income from the reversal of provisions	1,632	1,057
Income from currency movements	1,296	416
Income from the disposal of fixed assets	651	3,579
Income from the recovery of receivables written off in prior periods and income from the reversal of valuation allowances for receivables	84	721
Other prior-period income	345	271
Other operating income	9,419	9,236
	13,427	**15,280**

Other operating income includes EUR 8,473 thousand (prior year: EUR 7,700 thousand) in insurance compensation for property damage and for loss of revenue as a result of an interruption in operations due to flood damage at the Hof nonwovens plant in 2021.

(20) Cost of materials

	2022	2021
Cost of raw materials, consumables and supplies, and of purchased goods	80,220	63,425
Cost of purchased services	4,262	3,261
	84,482	**66,686**

The cost of materials ratio based on gross revenue amounts to 55.8% (prior year: 48.2%).

(21) Personnel expenses

	2022	2021
Wages and salaries	35,825	35,955
Social security, post-employment and other employee benefit costs	8,053	7,189
of which for post-employment benefits	(425)	(207)
	43,878	**43,144**

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

	2022	2021
Factory floor employees	679	699
Salaried employees	298	303
	977	**1,002**

Beyond this, there were 31 apprentices on average (prior year: 35).

(22) Other operating expenses

	2022	2021
Addition to valuation allowances, derecognition of receivables	367	27
Expenses resulting from currency movements	397	347
Other prior-period expenses	1,083	530
Other general and administrative expenses	6,839	5,859
Operating costs	9,566	13,072
Selling expenses	6,070	5,065
Other operating expenses	1,233	1,837
	25,555	**26,737**

Other operating expenses include EUR 853 thousand (previous year: EUR 4,906 thousand) incurred as a result of the flood damage at the nonwovens location in Hof in 2021. These are mainly third-party cleaning and repair expenses.

(23) Net interest income

	2022	2021
Other interest and similar income	60	-1
of which negative interest rates on deposits	(0)	(-28)
of which from affiliated companies	(0)	(0)
Interest and similar expenses	-1,210	-1,117
of which to affiliated companies	(-108)	(-133)
of which from the reversal of discounting on pension obligations	(-139)	(-217)
	-1,150	**-1,118**

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. This is the net expense after offsetting income from investments in insurance claims. The assets invested there are used exclusively to settle pension obligations in the context of salary conversions and for an assumed individual commitment; they may not be accessed by other creditors. Pursuant to section 246(2) sentence 2 HGB, income from assets of EUR 8 thousand (prior year: EUR 13 thousand) was offset against expenses for the reversal of discounting of EUR 147 thousand (prior year: EUR 230 thousand).

(24) Taxes on income

Taxes on income include income from the change in deferred taxes in the amount of EUR 103 thousand (previous year: expenses of EUR 83 thousand). Prior-period income of EUR 38 thousand (prior year: EUR 355 thousand) is also included.

(25) Other taxes

Other taxes of EUR 580 thousand (prior year: EUR 607 thousand) generally refer to property taxes.

(26) Auditors' fees

Our Munich-based auditors Deloitte GmbH Wirtschaftsprüfungsgesellschaft charged fees totalling EUR 400 thousand (prior year: EUR 321 thousand) for the financial year.

The following table provides a breakdown of the fees:

	2022	2021
Auditing services	187	178
Other certification services	74	45
Tax consultancy services	139	98
	400	**321**

(27) Remuneration of the Supervisory Board and Management Board

The disclosure of the total remuneration of the Management Board in accordance with Section 314(1) no. 6 letter a) HGB is not required under the exemption provision of Section 314(3) in conjunction with Section 286(4) HGB.

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

Remuneration paid to former members of the Management Board and their survivors amounts to EUR 356 thousand (prior year: EUR 293 thousand). Provisions totalling EUR 3,199 thousand (prior year: EUR 3,226 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 shown include cash and cash equivalents available in the short term, as shown in asset item B. III. Cash flows from operating activities were determined using the indirect method.

(29) Contingent liabilities

	2022	2021
Guarantee obligations	**70**	**82**

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

(30) Other financial commitments

Other financial commitments include EUR 1,988 thousand (prior year: EUR 2,412 thousand) resulting from leasing contracts and purchase commitments.

(31) Derivative financial instruments

For the purpose of hedging against the interest rate risk on variable-interest long-term loans, the company entered into two interest swaps with an interest rate floor to minimise the risk of future interest rate increases. They are hedges (micro-hedges) for the recognised loans. The hedging transactions are congruent with the original financial transactions. Corresponding expenses and income are netted under the item of interest expense.

On 31 December 2022 the exclusively positive fair values of the Group's interest rate hedges were as follows:

Nominal amount	Maturity	Fair value	Interest
EUR million 8.1	16/12/2025	EUR thousand 343	0.68 %
EUR million 15.0	31/12/2026	EUR thousand 789	1.75 %

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

(32) Members of the Supervisory Board

Tom Steger
Chairman
Independent Lawyer
Nuremberg

Martin Steger
Deputy Chairman
Independent Real Estate Agent
Nuremberg

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

Renate Dempfle
Managing Director of PDV Inter-Media GmbH
Augsburg

Johanna Falasa*
Commercial Employee
Münchberg

Joseph Kronfli
Managing Director of Nürnberger Baugruppe Verwaltungsgesellschaft mbH
Hilden

Melanie Liebert
Independent Certified Public Accountant and Tax Adviser
Augsburg

Wolfgang Schmidt*
Retired (former Chairman of the Works Council Tenowo Hof and Reichenbach)
Hof

Carmen Teismann*
Laboratory Employee
Schwarzenbach/Saale

* elected by employees

(33) Members of the Management Board

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

Manuela Spörl
Chief Financial Officer
Hof

(34) Corporate group

HOFTEX GROUP AG, Hof, is the parent company of the Group and also a subsidiary of ERWO Holding AG, Schwaig near Nuremberg. Both companies prepare consolidated financial statements as the parent company of their respective groups that include each of their subsidiaries; HOFTEX GROUP AG did not avail of the exemption provisions outlined in Section 291 HGB. ERWO Holding AG prepares the consolidated financial statements for the largest group of companies and HOFTEX GROUP AG prepares the consolidated financial statements for the smallest group of companies. Both sets of consolidated financial statements are transmitted electronically to and entered in the company register by the entity responsible for keeping the company register.

(35) Group parent company's proposal for the appropriation of consolidated net income (loss)

We propose that the parent company's net losses of EUR 902,869.61 be carried forward to new account.

Hof, 5 May 2023

HOFTEX GROUP AG

The Management Board

Klaus Steger Manuela Spörl

Independent Auditor's Report

To HOFTEX GROUP AG, Hof/Saale

Audit opinions

We have audited the consolidated financial statements of HOFTEX GROUP AG, Hof/Saale, and its subsidiaries (the Group) – comprising the consolidated balance sheet as at 31 December 2022, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement for the financial year from 1 January to 31 December 2022 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group Management Report of HOFTEX GROUP AG, Hof/Saale, for the financial year from 1 January to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of the consolidated corporate governance statement for HOFTEX GROUP AG in Section 3 of the Group Management Report pursuant to Section 289f(4) HGB (Information on the female representation quota).

In our opinion, based on the audit findings,

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group in accordance with German Generally Accepted Accounting Principles (German GAAP) as at 31 December 2022 and of its financial performance for the financial year from 1 January to 31 December 2022, and
- the accompanying Group Management Report as a whole provides a true and fair view of the Group's position. In all material respects this Group Management Report is consistent with the consolidated financial statements, conforms to German statutory requirements and accurately conveys the opportunities and risks of future development. Our audit opinion on the Group Management Report does not extend to the content of the above-mentioned voluntary Statement on Corporate Governance included in the Group Management Report for HOFTEX GROUP AG pursuant to section 289f(4) HGB.

Pursuant to Section 322(3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group Management Report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the Group Management Report in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under these statutory provisions and guidelines are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial laws and professional codes of conduct, and we have performed our other German professional obligations in accordance with these requirements. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the Group Management Report.

Other information

The Management Board and Supervisory Board are responsible for all other information. The other information comprises:

- the Supervisory Board Report, which is not expected to be made available to us until after the date of this auditor's report,
- the consolidated corporate governance statement for HOFTEX GROUP AG in Section 3 of the Group Management Report pursuant to Section 289f(4) HGB (Information on the female representation quota).
- all other parts of the Annual Report, which are not expected to be made available to us until after the date of this auditor's report,
- but not the consolidated financial statements, not the audited content of the Group Management Report and not our auditor's report.

The Supervisory Board is responsible for the Supervisory Board Report. Otherwise, the Management Board is responsible for the other information.

Our audit opinions on the consolidated financial statements and on the Group Management Report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion.

In connection with our audit, our responsibility is to read the other information identified above and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited content of the Group Management Report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Management Board and the Supervisory Board for the consolidated financial statements and the Group Management Report

The Management Board is responsible for the preparation of consolidated financial statements that comply in all material respects with German commercial law and for ensuring that the consolidated financial statements, in compliance with German Generally Accepted Accounting Principles (German GAAP), give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the Management Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

When the consolidated annual financial statements are being prepared, the Management Board is responsible for making an accurate assessment of the Company's going concern status. It also has responsibility for disclosing, as applicable, matters related to its business activities as a going concern. In addition, the Management Board is responsible for financial reporting on a going concern basis of accounting insofar as this does not conflict with actual or legal circumstances.

Furthermore, the Management Board is responsible for the preparation of the Group Management Report which, as a whole, presents an accurate picture of the Group's position, is in all material respects consistent with the consolidated financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development. Moreover, the Management Board is responsible for taking precautions and measures (systems) which they deem necessary for the preparation of the Group Management Report in conformity with the applicable German statutory requirements and for providing sufficient evidence to support the statements made in the Group Management Report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the Group Management Report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the Group Management Report

Our objectives are to obtain reasonable assurance that the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and that the Group Management Report, as a whole, provides an accurate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and accurately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the Group Management Report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group Management Report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatements in the consolidated financial statements and the Group Management Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the Group Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.

- conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group Management Report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Generally Accepted Accounting Principles (German GAAP).
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the Group Management Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the Group Management Report with the consolidated financial statements, its conformity with German law and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the Management Board in the Group Management Report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those responsible for governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Munich, 5 May 2023

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Klaus Löffler	Maximilian Domberg
Auditor	Auditor

HOFTEX GROUP AG

Balance Sheet as at 31 December 2022

Assets in EUR thousand	31/12/2022	31/12/2021
Fixed assets		
Intangible assets	164	626
Tangible fixed assets	1,264	1,133
Long-term financial assets	91,483	104,223
	92,911	**105,982**
Current assets		
Receivables and other assets	65,041	61,595
Cash and cash equivalents	10,987	4,782
	76,028	**66,377**
Prepaid expenses	**445**	**472**
Total assets	**169,384**	**172,831**

Equity and liabilities in EUR thousand	31/12/2022	31/12/2021
Equity		
Subscribed capital	13,920	13,920
Capital reserves	41,158	41,158
Retained earnings	60,715	59,715
Net losses (prior year: Net retained profits)	-903	2,259
	114,890	**117,052**
Provisions	**6,525**	**6,724**
Liabilities		
Liabilities to banks	33,125	22,500
Trade payables	195	161
Liabilities to affiliated companies	14,557	25,922
Other liabilities	92	472
	47,969	**49,055**
Total equity and liabilities	**169,384**	**172,831**

HOFTEX GROUP AG

Income Statement for the 2022 Financial Year

in EUR thousand	2022	2021
Sales	3,992	4,180
Other operating income	563	39
Personnel expenses	-2,371	-2,581
Depreciation, amortisation and write-downs	-634	-819
Other operating expenses	-2,775	-2,296
Net investment income	-1,197	4,172
Net interest	1,142	1,005
Taxes on income	-10	15
Earnings after taxes	**-1,290**	**3,715**
Other taxes	-163	-89
Net loss (prior year: Net income)	**-1,453**	**3,626**
Retained profits brought forward	550	133
Appropriation to other retained earnings	0	-1,500
Net losses (prior year: Net retained profits)	**-903**	**2,259**

HOFTEX GROUP

TEXTILE TECHNOLOGIES

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