

HOFTEX GROUP

TEXTILE TECHNOLOGIES

HALF-YEARLY FINANCIAL STATEMENTS 30 JUNE 2015

HOFTEX GROUP AKTIENGESELLSCHAFT

for the period from 1 January 2015 to 30 June 2015

THE HOFTEX GROUP AT A GLANCE

With its headquarters in Hof, Germany and subsidiaries in Germany, the US, the Czech Republic, Romania and China as well as a joint venture in India, the Hoftex Group AG (ISIN: DE0006760002; WKN¹: 676000), is the financial holding company for the Hoftex Group, a group of SMEs operating in the textile industry. The Group's main activities are the production of nonwoven fabrics for technical applications and apparel, the production of raw and coloured yarns and the production of raw and coloured textiles, including decorative fabrics.

As of 29 June 2009, the shares of the parent company Hoftex Group AG have been listed on the open market of the Munich Stock Exchange (m:access). As a result, the Company is no longer considered to be a "capital market-orientated" or "publicly listed" company as defined in the HGB. The consolidated financial statements in this report have been prepared on the basis of the provisions of the HGB.

The Hoftex Group is divided into three production divisions and one general division. Each of the production divisions has a management company that performs all of its sales and administrative functions.

This set-up has given the Group a clear, streamlined structure.

| Nonwovens division | Yarns & Fabrics division | Home Decoration division | Hoftex Group General division |
|---------------------------|-------------------------------------|---------------------------------|--------------------------------------|
| Tenowo GmbH | Hoftex GmbH | Neutex Home Deco GmbH | Hoftex Group AG |
| Tenowo Hof GmbH | Hoftex CoreTech GmbH | Neutex Betriebs GmbH | Hoftex Immobilien I GmbH |
| Tenowo Reichenbach GmbH | Hoftex Max Süß GmbH | Textor S.A. | Hoftex Immobilien II GmbH & Co. KG |
| Tenowo Mittweida GmbH | Hoftex Färberei GmbH | | |
| Tenowo Inc. | Hoftex Färberei Betriebs GmbH | | |
| Tenowo Huzhou Ltd | Hoftex Liberec s.r.o. ^{*)} | | |
| Supreme Nonwoven Pvt. Ltd | Hoftex Spinnerei GmbH ^{*)} | | |
| | Hoftex Weberei GmbH ^{*)} | | |

^{*)} operations discontinued

In its role as a holding company, Hoftex Group AG performs all centralised administrative duties for its subsidiaries and coordinates and manages all Group activities. Hoftex Group AG is part of a consolidated tax group with the Group's main production companies on the basis of control and profit transfer agreements. The subsidiaries transfer their earnings to Hoftex Group AG, and the parent company offsets any losses generated by the subsidiaries. At the holding company level, the subsidiaries' results are pooled and added to Hoftex Group AG's own earnings to produce the net result of Hoftex Group AG. Where permissible by tax law, the result for the current year is offset against Hoftex Group AG's tax loss carry-forwards.

In the Yarns & Fabrics division, fiscal 2014 saw the closure of three production facilities: Hoftex Liberec s.r.o., Hoftex Spinnerei GmbH and Hoftex Weberei GmbH, due to several years of loss-making operations at these sites.

¹ German Securities Identification Number (*Wertpapierkennnummer*, or WKN)

KEY FIGURES OF THE HOFTEX GROUP

| | Half-yearly financial statements 1 January to 30 June 2015 | Half-yearly financial statements 1 January to 30 June 2014 |
|------------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
| | EUR thousand | EUR thousand |
| Sales | 89,674 | 99,384 |
| EBITDA ¹⁾ | 8,453 | 8,975 |
| EBIT ¹⁾ | 3,129 | 4,257 |
| Cash flow | 7,319 | 8,660 |
| Cash flows from operating activity | 6,968 | 6,301 |
| Consolidated result current period | 2,869 | 4,214 |
| Result per share (in EUR) | 0,527 | 0,774 |
| Economic equity ²⁾ | 102,887 | 97,730 |
| Equity ratio (based on economic equity) | 57.6% | 56.1% |
| Number of employees at the reporting date | 1,138 | 1,311 |

¹⁾ Excluding non-operating and prior-period income, excluding share price gains, excluding income from asset disposals, etc.

²⁾ Balance-sheet equity plus extraordinary items at 71% plus subordinated long-term shareholder funding

1. Group performance and key transactions in the first half of 2015

Last year's strong upswing in the German economy continued into early 2015. Estimates put real GDP for Q2 up by 0.4% over the previous quarter. During the winter of 2014/2015, GDP grew by roughly 0.5% each quarter. The key drivers for Q2 growth were exports due to the stabilising trends in the global economy after a weak start to the year and probably also due to the devaluation of the euro in previous periods. By contrast, the rise in imports we witnessed during prior quarters declined again in the second quarter. Even though domestic demand looks set to decrease slightly, we should bear in mind that conditions continue to favour an upturn in consumer spending, given the positive developments on the jobs market and significant real wage increases. We saw improvements in the jobs market in early 2015. Both employment and vacancies increased yet again, while unemployment fell. From today's point of view, the fundamentals point towards strong economic growth again in the second half of 2015, driven by both foreign and domestic demand. Continued recovery in the Eurozone is likely to benefit export business, but we cannot ignore the current risks for foreign demand that stem mainly from emerging markets. However, projections like these can only become reality if no serious disruptions occur. Upon completion of this report at the end of August, concerns were mounting about China's growth forecasts. Some fear that projected growth, already comparatively low at around 7%, could go even lower and that this development would inevitably have a negative impact on the German economy. Even though there is no evidence that fluctuations of this scale would have a direct effect, we are all aware of the psychological factors that often motivate what experts call "economic behaviour". On that basis, we cannot rule out the possibility that concerns about China's economic future could have an effect on the German economy in the short term.

During the first four months of 2015, trends in the textile industry echoed the positive macroeconomic developments. Textile industry sales for January to April rose year-on-year by 1.6%, while sales in the apparel industry

were up by 0.9% over the previous year. The industry suffered a setback starting in May, when overall textile industry sales fell by 4% over the same month in the previous year, while apparel sales for May rose year-on-year by 3.1%. The setbacks in the textile industry did not affect all segments equally. High-tech segments such as nonwovens; cordage, rope, twine and netting; and technical textiles reported growth, while May sales declined for all other segments – with some segments even reporting double-digit downturns. Taken together, sales for the first five months of 2015 were only 0.8% higher than those of the previous year.

Some recent figures from the Confederation of the German Textile and Fashion Industry's market report may give some insight into the current situation. Overall sales for the first half of 2015 rose by 0.8%, with growth in the textile industry at only 0.5% and growth for the apparel industry much higher at 1.7%. Top performers in the textile industry were nonwovens production with sales growth of 4.9%, while the cordage, rope, twine and netting segment reported a 5.1% increase in sales. The biggest loss-makers were, as in the previous year, spinning mills, reporting an -11.5% drop in sales. By contrast, sales for weaving mills were down by a moderate -0.2%.

The number of people employed in the textile industry rose by 1.2% and in the apparel industry by 0.5% as compared to the same period last year, which taken together amounts to 1.0% growth. The rise is probably due to the -3.2% decrease in the industry workforce last year, despite annual sales being up. It seems likely that the apparently contradictory developments in the first half of 2015 were compensating for last year's trends.

Foreign trade, as in most years, did not make a positive contribution to growth. While textile exports fell by EUR -37 million, textile imports rose by EUR 873 million, increasing the net import surplus by a total of EUR 910 million. This is the order volume lacking for the domestic textile industry, as additional imports covered this demand.

The Hoftex Group's figures are not directly comparable to those of the overall industry, mainly due to last autumn's closure of three production facilities in the Yarn & Fabrics division, which led to a sharp drop in sales for this division. By contrast, our largest division, **Nonwovens**, outperformed the figures on the nonwovens segment published by the confederation. According to the recent report, overall sales for nonwovens rose by just under 5%, while our Nonwovens division recorded a year-on-year increase in sales of 10% for the same period. The division's existing companies based in Germany and the US are working largely to full capacity. Our nonwovens facility in China is the only plant not yet working to capacity, as is to be expected for a facility that has just recently opened. That said, production start-up at the new facility and additional investments in capacity expansion at other existing facilities are largely responsible for the strong sales growth in this division.

The Group's investment in the Indian joint venture Supreme Nonwoven Pvt. Ltd. has performed quite well, despite the enormous economic and political challenges in India. Sales for the fiscal year ending March 2015 were up by 5.5% year-on-year (in local currency). Earnings growth stalled somewhat due to an increase in costs brought about by the devaluation of the Indian currency and due to operating income that fell short of forecasts. Net income for the fiscal year just ended rose slightly, with the return on sales up from 1.6% in the previous year to 2.23% in the fiscal year just ended. Our share in the net income for the year, which is recorded at equity in the consolidated annual financial statements, is not yet included in these half-year financial statements and will be taken into account once our auditors have verified the figures.

The **Nonwovens** division is the Group's most successful division. One of the key drivers for this division's performance has been our dynamic internationalisation strategy, with production facilities in Germany, North America and China as well as the joint venture in India. The new nonwovens production plant in China went online in the summer of last year. As we expected, the plant incurred EUR 0.9 million in start-up losses, which had already been accounted for in our forecasts. During the second quarter of 2014, construction began on an additional nonwovens facility in Reichenbach, the Reichenbach II project. Production in the new facility is expected to go online this autumn. As of January 2015, we have been training new staff for the facility, bringing the start-up expenses for this expansion project to EUR 0.8 million. The Nonwovens division reported net income for the year of EUR 4.9 million, down from EUR 6.1 million in the previous year. Less these start-up costs, income for H1 2015 amounts to EUR 1.7 million, a clear improvement in the results of our existing production facilities and companies the previous year.

In the **Yarns & Fabrics** division, the above-mentioned factory closures were the key drivers for the drop in sales from almost EUR 35 million in the previous half-year to only EUR 20 million in H1 2015. The remaining division companies increased their sales year-on-year by EUR 2.1 million to EUR 14.0 million. It was not, however, positive market trends that drove the uptick in sales, but rather the orders transferred to these companies after the plant closures. The -11.5% decline in sales for the entire spinning mills segment clearly shows that the closure of three facilities last year was unavoidable. Maintaining operations despite reduced capacity utilisation would have resulted in even greater losses for these facilities. The division reported a EUR -0.6 million loss for H1 2015. Based on the loss of EUR -1.6 million for the same period in the previous year, this corresponds to an improvement of EUR 1.0 million.

The **Neutex (Home Decoration)** division, our smallest division, is active in the weaving, dyeing and finishing of decorative fabrics and operates as a premium systems supplier selling creative decorative fabrics and drapes in bulk as well as ready-made household textiles and sun-protective textiles on a global scale. With sales at EUR 8.8 million (prior year: EUR 9.7 million), the division's result was significantly worse than the previous period with a loss of EUR -0.8 million for H1 2015 (prior year: EUR -0.1 million). The continuing underutilisation of the division's existing capacities had a disproportionate impact on performance. We are forecasting improved capacity utilisation over the medium term, which should help the division achieve a better result, although we cannot expect earnings to return to the levels we saw before the recent economic crisis.

Performance of the **Holding Company** and our **Property Management** companies is stable, as indicated by the division's key figures. That said, fluctuations in capital costs and on-charging of the same make it difficult to predict how the division's earnings will perform. This division's net loss for the year of rose from EUR -0.3 million to EUR -0.6 million, mainly due to the fact that the tax burden has returned to normal. Prior-year results did not reflect the EUR 0.3 million in expenses from the 2013 social compensation scheme, which were not recognised for tax purposes until 2014.

As evidenced in the **Consolidated Income Statement**, most of the improvements we have made in our cost structures over the past few years are still having an impact, even though the ratios comparing individual cost items to the overall operating income have decreased slightly due to the lower absolute operating income (basis effect). What is decisive, however, is that the cost of materials ratio is no longer burdened by bad prices and impairment losses, leading to an improvement of 3.5 percentage points, down from 54.3% to 50.8%. In 2011, the cost of materials ratio was significantly higher at 62.4%, due largely to the trends in raw materials prices and the much larger share of the Yarns & Fabrics division.

This naturally led to improvement in the gross margin, which rose to 49.2%. Our cost structures demonstrate the following: based on gross revenue in each case (excluding other income), the personnel expenses ratio amounted to 25.0%, down from 23.9% in the previous year; the depreciation ratio amounted to 6.2%, up from last year's figure of 4.9%; and the other operating expenses ratio (excluding other operating income) amounted to 12.5%, up from last year's figure of 11.1%. The fact that these ratios deteriorated is mainly due to the reduction in the basis figure "gross revenue".

Gross revenue dropped by 11.5%, leading to a decrease in the result from ordinary activities from EUR 4.6 million to EUR 3.6 million and a decrease in the consolidated net income for the year from EUR 4.2 million to EUR 2.9 million. The lower result stems mainly from the fall in division net income: down by EUR -1.2 million in the Nonwovens division due to start-up costs, down by EUR -0.7 million in the Neutex Home Decoration division and down by EUR -0.3 million in the general division. Yarns & Fabrics, while still loss making, reported an improvement of EUR 0.9 million.

During the first half of 2015, we were able to further reduce inventories. As compared with the 2014 annual financial statements, inventories were down by EUR 1.1 million. Receivables from customers generally develop in parallel with the underlying sales. As compared with figures from 31 December 2014, receivables increased by EUR 4.3 million (prior year: EUR 4.1 million). The year-on-year comparison with results from 30 June 2014, however, shows that receivables are actually down by EUR 2.6 million (prior year: EUR 1.0 million). Receivables tend to increase during the first half of the year, because of the major seasonal drop in sales that occurs toward the end of the year, with much higher sales to follow during the first half of the year.

Adjusted for neutral and non-operating income, **EBITDA** for the Hoftex Group amounted to EUR 8.5 million for the first 6 months of 2015, down EUR 0.5 million from the previous year's figure. At EUR 3.1 million, the adjusted **EBIT** is also lower than last year's figure by EUR 1.2 million.

2. Employees

The Group's headcount decreased significantly due to the closure of three production facilities, down from 1,311 on 30 June 2014 to 1,138 on 30 June 2015.

3. Investments

The Group invested a total of EUR 15.8 in tangible fixed assets as of 30 June 2015. The bulk of the capital expenditure, a total of EUR 15.2 million, went to the Nonwovens division. This division produces the highest return on investment in the Group and has hit its capacity limits several times over the past three years. The investments

targeted mainly the construction of the new Reichenbach II nonwovens facility, the expansion of the Mittweida plant and capacity optimisation (eliminating bottlenecks) in Hof and in the US-based subsidiary.

4. The Hoftex Group AG share

Hoftex Group AG's subscribed capital amounts to EUR 13,919,988.69 and is divided into 5,444,800 no-par value bearer shares, with each share carrying one vote. One share represents a notional share of EUR 2.56 (rounded) in the share capital. In addition to subscribed capital, the Company has capital reserves amounting to EUR 41,158 thousand and revenue reserves amounting to EUR 36,683 thousand. Hoftex Group AG reported net retained profits of EUR 3,079 thousand as of 30 June 2015, including the first-half result. The total balance sheet equity for Hoftex Group AG therefore amounts to EUR 94,840 thousand. As a result, each share has a notional value of EUR 17.42 (prior year: EUR 16.51). The share price fluctuated between EUR 8.75 and EUR 11.00 during the previous 12 months between July 2014 and June 2015.

For information only: at the time this report was completed in late August, the share price amounted to EUR 11.25.

The following chart shows the development of the market price of our shares over the last 14 months until the present report was completed.



5. Measures introduced to boost Group earnings

We completed the closure of the three facilities Hoftex Spinnerei GmbH, Hoftex Weberei GmbH and Hoftex Liberec in August and November 2014, respectively. The remaining inventory and equipment are currently being sold.

We have introduced various measures to boost sales for Neutex Home Deco GmbH. These include recruiting new staff for the sales team, escalating the company's internationalisation strategy and expanding the product range in line with newly acquired target markets. Optimising internal processes is another key factor in achieving our goals.

6. Report on events after the balance sheet date

With regard to electricity costs, we fully stand by our remarks from last year's report. The continuing rise in electricity costs presents concerns for the medium term, as it negatively impacts our ability to compete on the global markets. The introduction of a minimum wage could result in additional burdens for the Yarns & Fabrics division facili-

ties in the eastern German states, which could push the already weak earnings there into losses. The current trend in energy costs and wages could jeopardise the economic viability of these two remaining production sites.

There were no further events after the balance sheet date that could significantly impact the Hoftex Group's business performance.

Hof, August 2015

Hoftex Group AG

Klaus Steger
(Chairman of the Management Board)

Volker Adrion
(Member of the Management Board)

Consolidated balance sheet as of 30 June 2015

| Assets in EUR thousand | 30 June 2015 | 30 June 2014 |
|----------------------------------------------------|----------------|----------------|
| A. FIXED ASSETS | | |
| Intangible fixed assets | 236 | 297 |
| Tangible fixed assets | 94,509 | 81,806 |
| Long-term financial assets | 7,240 | 7,205 |
| | 101,985 | 89,308 |
| B. CURRENT ASSETS | | |
| Inventories | 41,164 | 49,618 |
| Receivables and other assets | 28,146 | 28,299 |
| Cash and cash equivalents | 4,837 | 4,721 |
| | 74,147 | 82,638 |
| C. PREPAID EXPENSES | 1,328 | 888 |
| D. DEFERRED TAX ASSETS | 1,309 | 1,267 |
| Total assets | 178,769 | 174,101 |
| | | |
| | 30 June 2015 | 30 June 2014 |
| Equity and liabilities in EUR thousand | | |
| A. Equity | | |
| I. Subscribed capital | 13,920 | 13,920 |
| II. Capital reserves | 41,158 | 41,158 |
| III. Revenue reserves | 33,722 | 30,547 |
| IV. Change in equity from currency translation | 2,102 | -3,459 |
| V. Consolidated net accumulated losses | -3,410 | -1,617 |
| | 87,492 | 80,549 |
| B. DEFERRED INVESTMENT GRANTS AND SUBSIDIES | 1,103 | 1,838 |
| C. SHAREHOLDER LOANS | 14,000 | 14,000 |
| D. PROVISIONS | 19,234 | 25,068 |
| E. LIABILITIES | 56,927 | 52,632 |
| F. DEFERRED TAX LIABILITIES | 13 | 14 |
| Total equity and liabilities | 178,769 | 174,101 |

Consolidated income statement

| in EUR thousand | 1 January 2015 to 30 June 2015 | 1 January 2014 to 30 June 2014 |
|---------------------------------------------|-----------------------------------|-----------------------------------|
| Sales | 89,674 | 99,384 |
| Change in inventories | -3,909 | -2,489 |
| Gross revenue | 85,765 | 96,895 |
| Other operating income | 2,599 | 1,590 |
| Cost of materials | 43,611 | 52,648 |
| Gross profit | 44,753 | 45,837 |
| Personnel expenses | 21,481 | 23,206 |
| Depreciation, amortisation and write-downs | 5,324 | 4,719 |
| Other operating expenses | 13,336 | 12,334 |
| Operating result | 4,612 | 5,578 |
| Investment income | 0 | 0 |
| Financial result | -1,051 | -1,001 |
| Result from ordinary activities | 3,561 | 4,577 |
| Taxes on income | 338 | 45 |
| Other taxes | 354 | 318 |
| Consolidated net income for the year | 2,869 | 4,214 |
| Result per share in EUR | 0.53 | 0.77 |
| No-par value shares outstanding | 5,444,800 | 5,444,800 |

Consolidated statement of changes in shareholder equity

| in EUR thousand | Subscribed capital | Capital reserves | Revenue reserves | Foreign currency translation differences | Consolidated net accumulated losses | Total |
|------------------------------------------|--------------------|------------------|------------------|------------------------------------------|-------------------------------------|--------|
| Balance as of 1 Jan 2014 | 13,920 | 41,158 | 30,547 | -3,561 | -5,831 | 76,233 |
| Foreign currency translation differences | | | | 102 | | 102 |
| Group result | | | | | 4,214 | 4,214 |
| Balance as of 30 June 2014 | 13,920 | 41,158 | 30,547 | -3,459 | -1,617 | 80,549 |
| Balance as of 1 Jan 2015 | 13,920 | 41,158 | 33,722 | -650 | -5,462 | 82,688 |
| 2014 dividend payment | | | | | 817 | 817 |
| Foreign currency translation differences | | | | 2,752 | | 2,752 |
| Group result | | | | | 2,869 | 2,869 |
| Balance as of 30 June 2015 | 13,920 | 41,158 | 33,722 | 2,102 | -3,410 | 87,492 |

Consolidated cash flow statement

| | 1 Jan 2015 to | 1 Jan 2014 to |
|------------------------------------------------------------------------------------------|----------------|----------------|
| in EUR thousand | 30 June 2015 | 30 June 2014 |
| Consolidated net income for the year | 2,869 | 4,214 |
| - Income from disposal of fixed assets | -408 | -8 |
| +Depreciation and amortisation on fixed assets | 5,325 | 4,719 |
| +/-Changes in deferred government grants | -367 | -367 |
| - Changes in pension provisions | | 0 |
| - Other non-cash income | -100 | 101 |
| Cash flows | 7,319 | 8,659 |
| +/- Changes in inventories | 1,087 | 1,632 |
| -/+ Changes in receivables, accruals, deferrals and other items | -5,207 | -4,431 |
| +/- Changes in liabilities and other provisions not attributable to financing activities | 3,769 | 441 |
| Cash flows from operating activities | 6,968 | 6,301 |
| Cash flows from investing activities | -13,928 | -13,458 |
| Cash flows from financing activities | -3,770 | 9,738 |
| Changes in cash and cash equivalents | -10,730 | 2,582 |
| Cash and cash equivalents as of 1 January | 15,566 | 2,140 |
| Cash and cash equivalents as of 30 June | 4,836 | 4,721 |

Hoftex Group AG

Fabrikzeile 21

D-95028 Hof/Saale

Germany

Tel. +49 (0)92 81 / 49-0

Fax +49 (0)92 81 / 49-216

vorstand@hoftexgroup.com

www.hoftexgroup.com