

# HOFTEX GROUP

TEXTILE TECHNOLOGIES

## Group Interim Report

H1 2016

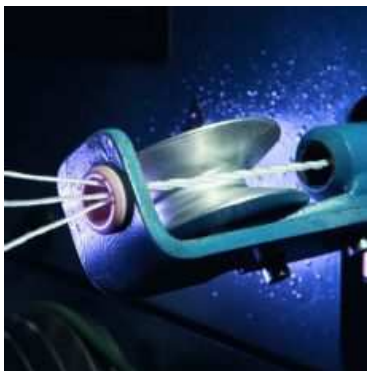
**HOFTEX**  
YARNS AND FABRICS



**TENOWO**  
NONWOVENS



**NEUTEX**  
HOME DECORATION



Half-yearly financial statements of Hoftex Group AG  
for the period from January 1 to June 30, 2016

## HIGHLIGHTS H1 2016

Group figures	H1 / 2016	H1 / 2015	Change	
<i>in EUR thousand</i>				
Sales	94.759	89.674	5.085	5,7%
EBITDA <sup>1)</sup>	10.951	8.453	2.498	29,6%
EBIT <sup>1)</sup>	4.787	3.129	1.658	53,0%
Cash flow	10.173	7.319	2854	39,0%
Cash flows from operating activity	7.553	6.968	585	8,4%
Consolidated result current period	4.493	2.869	1.624	56,6%
Result per share (in EUR)	0,83	0,53	0,30	56,6%
Economic equity <sup>2)</sup>	108.851	102.887	5.964	5,8%
Equity ratio <sup>3)</sup> (in %)	57,8%	57,6%	0,2%	0,3%
Number of employees at the reporting date	1.148	1.138	10	0,9%

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

<sup>2)</sup> Balance-sheet equity plus extraordinary items at 70% plus subordinated long-term shareholder funding.

<sup>3)</sup> The equity ratio calculates economic equity as a percentage of total assets.

## ABOUT HOFTEX GROUP AG

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 is an SME operating in the textile industry. The core elements of its portfolio are the development, production and sale of various nonwoven fabrics, yarns, textiles and decorative fabrics. These products can be used in a variety of applications, ranging from essential household items to clothing and textiles developed especially for industrial use.

The Hoftex Group's activities are divided into three production divisions. Each of these divisions has a management company that performs all of its sales and administrative functions:

HOFTEX division	TENOWO division	NEUTEX division
Hoftex GmbH	Tenowo GmbH	Neutex Home Deco GmbH
Hoftex CoreTech GmbH	Tenowo Hof GmbH	Neutex Betriebs GmbH
Hoftex Max Süß GmbH	Tenowo Reichenbach GmbH	SC Textor S.A.
Hoftex Färberei GmbH	Tenowo Mittweida GmbH	
Hoftex Färberei Betriebs GmbH	Tenowo Inc.	
Hoftex Liberec s.r.o. <sup>*)</sup>	Tenowo Huzhou	
	New Materials Co. Ltd.	
	Supreme Nonwoven	
	Industries Pvt. Ltd.	

<sup>\*)</sup> operations discontinued

In addition, the Hoftex Group has a general division, which operates as the holding company and performs all administrative duties relating to the Group's real estate portfolio (Hoftex Immobilien I GmbH and Hoftex Immobilien II GmbH & Co. KG).

## 1. The Hoftex Group share

Overall, the global stock exchanges did not perform well in the first six months of 2016. A rally during the spring served to offset some of the losses from the start of the year. At the end of the second quarter, European exchanges in particular experienced some turbulence after the UK's Brexit referendum.

The Dow Jones was up slightly at the end of H1 2016, while China's Hang Seng index finished the first six months slightly down. The Euro Stoxx 50 was down 10% relative to year-end 2015, as was Germany's leading index DAX.

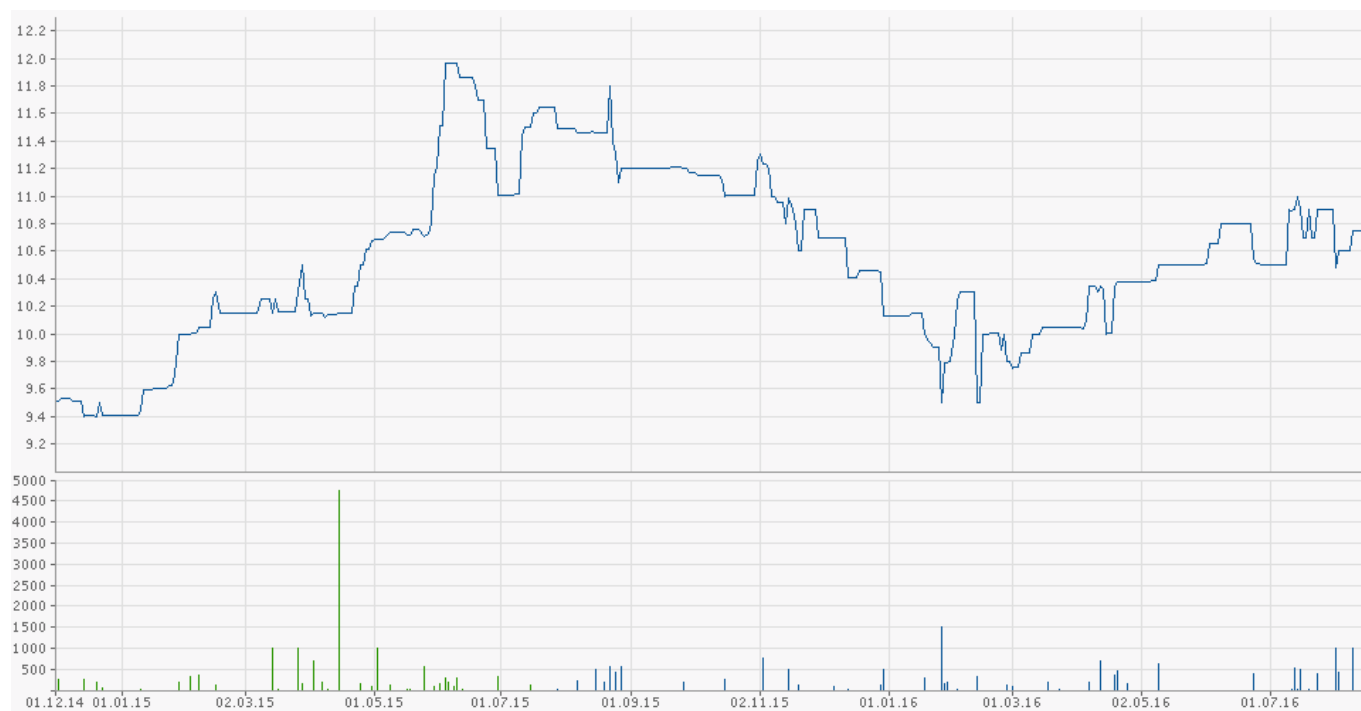
### Overview of the Hoftex Group share

Share type	No-par value shares, each with a proportional share of EUR 2.56 (rounded) in the share capital
Subscribed capital	€ 13,919,988.69
Number of no-par value shares	5,444,800
Listing	Munich Stock Exchange
Market segment	m:access
Stock exchange symbol	NBH
ISIN	DE0006760002
WKN <sup>1</sup>	676000

The Hoftex Group shares are traded on the m:access market segment of the Munich Stock Exchange. Since the move to the Open Market on June 29, 2009, the Group is no longer classified as a "publicly listed" company as defined in the German Securities Trading Act (*Wertpapierhandelsgesetz*, or WpHG) and shareholders are therefore no longer obliged to inform us when they exceed or fall below certain reporting thresholds. As a result, we can only provide information on the stake held by our principal shareholder, ERWO Holding AG, which currently owns 4,588,175 shares, or 84.26% of the voting rights.

<sup>1</sup> German Securities Identification Number (*Wertpapierkennnummer*, or WKN)

The following chart shows the performance of the Hoftex Group share from December 1, 2014 to August 15, 2016.



Source: [www.finanzen.net](http://www.finanzen.net)

Over the past six months, the shares of Hoftex Group AG rose from €10.13 on January 1, 2016 to €10.50 on June 30, 2016, reaching a low of €9.50 and a high of €10.90 during this period.

As roughly 84% of the Group's shares is held by our principal shareholder ERWO Holding AG, just 16% of shares can be in free float at any time. As a result, trading volume in these shares is low, as evidenced in the bottom section of the above chart. The low trading volume is likely the reason for the strong fluctuations and/or deviations in share price. It is difficult, if not virtually impossible, to explain these fluctuations and/or deviations.

Key figures for the Hoftex Group share	H1 / 2016	H1 / 2015	Change
Net result (€/share)	0.83	0.53	0.30 56.6%
Equity <sup>1)</sup> (€/share)	17.30	16.07	1.24 7.7%
Opening share price Jan. 1 (€/share)	10.13	9.41	0.72 7.7%
High (€/share)	10.90	11.96	-1.06 -8.9%
Low (€/share)	9.50	9.41	0.09 1.0%
Closing share price Jun. 30 (€/share)	10.50	11.00	-0.50 -4.5%
Market capitalization as of Jun. 30 (EUR thousand)	57,170	59,893	-2,722 -4.5%

<sup>1)</sup> based on consolidated equity

## 2. Group performance and key business events in H1 2016

### Macroeconomic trends

Growth in the global economy was moderate in early H1 2016. According to International Monetary Fund (IMF) figures, economic activity in most industrialized countries remained subdued. Performance varied across the emerging and developing economies. A slight recovery in the financial and raw materials markets had a positive impact on the so-called BRIC states. Europe slightly outperformed projections, while economic performance in the US fell short of forecasts.

We saw strong volatility on the financial markets following the Brexit vote at the end of June, although they fortunately stabilized relatively quickly thereafter. That said, the IMF is convinced that the political and economic risks associated with Brexit are likely to further destabilize an already unsteady global economy. The same can be said for the upheaval in Turkey, the threat of global terrorism and the US elections.

After positive trends at the start of the year, the German Institute for Economic Research (*Deutsches Institut für Wirtschaftsforschung*, or DIW) upgraded its forecast for German economic growth in 2016; the Berlin-based economists now expect GDP to grow by 1.7 percent in the current year and a further 1.4 percent in the 2017 fiscal year.

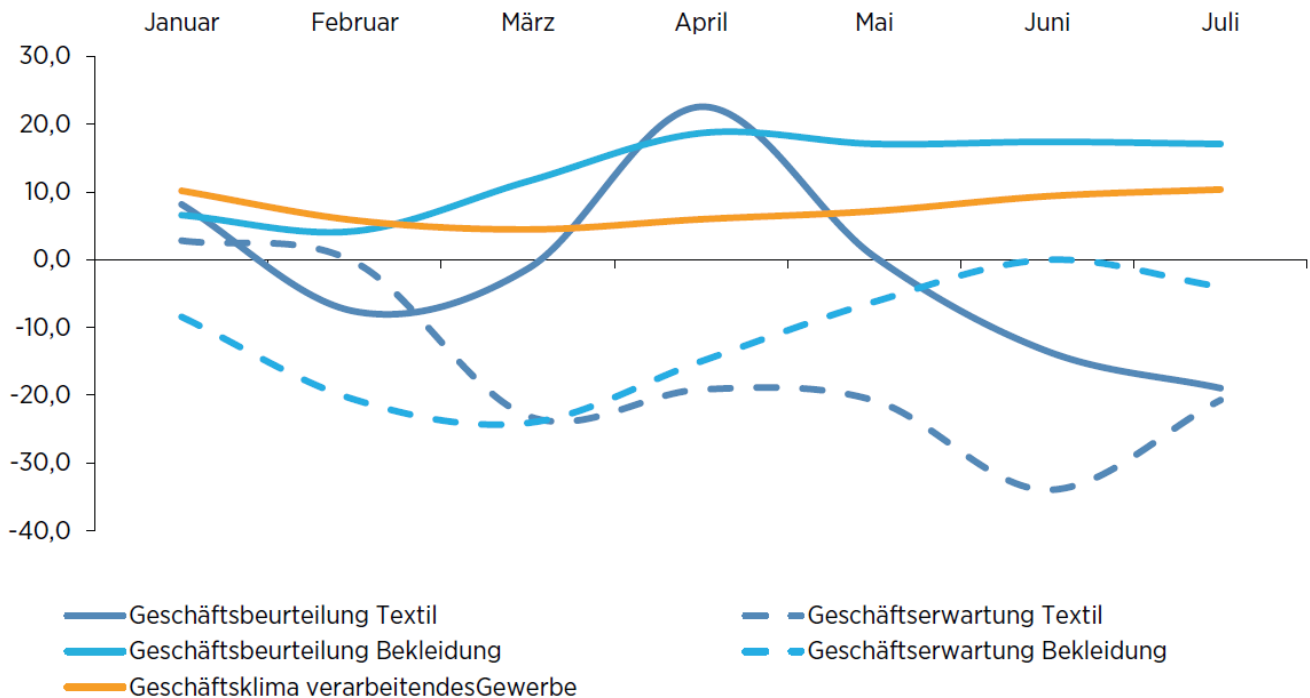
The upgrade comes as a result of the “surprisingly strong start to the new year”: industrial output outperformed expectations, employment continued to rise and wages increased significantly, leading to major gains in consumer spending. An increase in energy prices did, however, curb disposable income somewhat. The number of refugees who ended up coming to Germany was far below projected levels, which is likely to lessen the effects of any resulting macroeconomic stimulus in 2017.

The upward trend on the employment market is expected to continue. The Munich Institute for Economic Research (*Institut für Wirtschaftsforschung*, or ifo) expects the unemployment rate to fall from 6.4 percent in the previous year to 6.1 percent this year, with the total number of unemployed Germans decreasing from 2.8 to 2.7 million and staying at that level through fiscal 2017. According to its estimates, the ifo does not anticipate the inflation rate to exceed 0.5 percent this year, while it is likely to rise to 1.5 percent in 2017.

A UK exit from the European Union will not, according to the ifo, immediately cause a severe slump in the German economy, but it will stunt growth somewhat. In a worst-case scenario, economic performance in Germany could fall by three percent over the long term.

## Sector trends

The following chart outlines the ifo's business climate index for January to July 2016 as presented in the market report of the Confederation of the German Textile and Fashion Industry:



Base: Index 2010 = 100

January, February, March, April, May, June, July

Geschäftsbeurteilung Textil = business climate textiles

Geschäftserwartung Textil = forecast textiles

Geschäftsbeurteilung Bekleidung = business climate apparel

Geschäftserwartung Bekleidung = forecast apparel

Geschäftsbeurteilung verarbeitendes Gewerbe = business climate manufacturing

Generally speaking, textile companies see the business climate stagnating or even weakening somewhat. However, based on the high level of previous business climate projections, we don't see this as a cause for concern just yet. By contrast, we have seen slightly more positive climate assessments and forecasts in the apparel segment over the past few months, despite problematic economic data.

For the industry as a whole, the Confederation of the German Textile and Fashion Industry is also reporting a year-on-year uptick in sales of 1.8% from January to May. The textile segment is the main driver for the increase (+5.3%), while the apparel segment saw sales drop by -3.6% year on year.

Employment trends are as follows: the number of people employed in the German textile industry is rising, while it is falling in the apparel industry. Employment figures are increasing for the industry as a whole.

Order intake in the apparel segment was down for the January to May period as a whole (-3.5%), while the trend picked up from March to May (+3.5). The textile segment recorded a 1.9% increase in order intake for the first 5 months of the year.

## Performance of the Hoftex Group

There have been no material changes to the strategy, business activities or organizational structure of the Hoftex Group as presented in the 2015 Annual Report. While the restructuring of the Hoftex division was completed in 2014, residual inventory reductions generated sales amounting to just under EUR 6.0 million in 2015. There are no further sales from inventory reduction in 2016.

Thanks to positive trends in the operations of all divisions, the Hoftex Group reported organic growth in H1 2016 in contrast to H1 2015. H1 sales rose to EUR 94.8 million, up from EUR 89.7 million during the same period in 2015.

Earnings before interest and taxes (EBIT) for the first 6 months of the current year amounted to EUR 4.8 million (prior year: EUR 3.1 million), with higher sales figures and an improvement in material usage rates as the key drivers for the increase.

The **Hoftex** division generated sales of EUR 15.5 million in H1 2016. Although this represents a reduction on the prior-period sales of EUR 20.2 million, the 2015 sales figure included EUR 5.9 million in inventory reductions. The market environment remains complex. It is becoming increasingly difficult to find skilled workers. On the other hand, if employment costs increase too much, it could have a disproportionate impact on our competitiveness. Improvements in material usage and production brought the Group low-level earnings for the first half of 2016. The Company reported a slight loss in the comparable figure (i.e. without inventory reduction sales) in 2015.

The **Tenowo** division generated sales of EUR 69.6 million in H1 2016, up from the 2015 figure (EUR 58.1 million). Further increases are to be expected due to the expansion of our production capacity. These expansion projects are, however, proving to be challenging: not only in production roll-out, but also during the run-up phase and due to underutilization of the facilities. This applies in particular to the plants in Reichenbach (Germany) and China. Performance in the Hof and Mittweida plants is reliable, although it falls short of last year's results. The US-based facility, which has struggled with its results for quite some time, is performing very well this year in terms of both sales and results.

In the **Neutex** division, sales grew year-on-year from EUR 8.8 million to EUR 10.5 million in the first six months of 2016. The division's increased sales efforts, on the domestic front as well as on export markets, appear to be reaping rewards. After all of the hard work that went into the new collection, we are seeing a very positive response. This is crucial to set the stage for continued growth in the years to come. Operating results amounted to EUR 0.5 million, a significant increase of around EUR 1.3 million on the H1 2015 figure.

**Other income** decreased year-on-year from EUR 2.6 million to EUR 1.5 million. This income relates primarily to asset sales from the 2014 and 2015 restructuring projects and explains the drop in other income in 2016.

Although increased sales brought the **cost of materials** from EUR 43.6 million up to EUR 48.0 million, the cost of materials ratio (cost of materials as a percentage of gross revenue) fell from 50.8% to 49.4% - in part due to lower material costs, but also thanks to efficiency improvements in our production.

The Group reported a 5.4% year-on-year increase in **personnel expenses** after recruiting new staff for the expansion of Tenowo division facilities and effecting wage and salary adjustments. Our challenge is not only to use staff efficiently, but also to find qualified staff on today's employment market.

Thanks to investments over the past few years, e.g. in Reichenbach (Tenowo division), **depreciation and amortization** rose year-on-year by almost 16% to EUR 6.2 million for the first six months of 2016.

**Other operating expenses** were up on the prior-year figure (EUR 15.4 million vs. EUR 13.3 million) due to a variety of maintenance and construction projects. The Group undertook the measures in part due to statutory regulations, but also to improve workflows.

### 3. Financial position of the Hoftex Group

#### Cash flow from operating activities

Cash flow from operating activities increased year-on-year by EUR 0.6 million to EUR 7.6 million on the back of sales expansion in H1 2016. A EUR 3.7 million build-up in inventories suppressed cash flow from operating activities, while inventory reductions from the previous year had a positive impact of EUR 1.1 million. Cash flow from

operating activities will serve to 'finance' our loan repayments and investments in the second half of 2016 as well. For this reason, the Group will continue to focus on improving cash flow from operating activities.

#### **Cash flow from investing activities**

The Group succeeded in reducing cash flow from investing activities in H1 2015 from EUR -13.9 million to EUR -6.0 million. Investments in 2015 focused primarily on the Tenowo division. The same is true for H1 2016, although on a somewhat smaller scale: a total of EUR 5.0 million spread across facilities in Germany (Mittweida and Hof) and in the US. Smaller investments were made in the Hoftex and Neutex divisions. At the moment, the Group is converting the former spinning and weaving mills in Hof-Moschendorf to a logistics center. A large proportion of this space has already been rented out.

#### **Cash flow from financing activities**

Cash flow from financing activities fell year-on-year from EUR -3.8 million to EUR -2.2 million. The Group saw an inflow of funds totaling EUR 15.0 million in 2015 under the third loan agreement (Darlehen III). EUR 10.2 million of these funds were used for scheduled repayment of existing loans. These funds also went to interest payments, which helps to clarify the H1 2016 cash flow figures.

### **4. Net asset position of the Hoftex Group**

There were no major changes to the balance sheet structure as of June 30, 2016 as compared to June 30, 2015. The balance sheet total increased from EUR 178.8 million to EUR 188.3 million.

On the asset side of the balance sheet, the key item is cash and cash equivalents, which rose from EUR 4.8 million to EUR 11.3 million. Fixed assets were up slightly on the prior-year figure due to investments.

Thanks to positive business performance, the liabilities and equity side shows a stronger equity ratio (equity as a percentage of total liabilities and equity) than the previous year (50.0% vs. 48.9%). After completion of the investment project in Reichenbach, deferred government grants fell from EUR 1.1 million to EUR 0.5 million. At EUR 22.2 million, the provisions in June 2016 were higher than the prior-year figure (EUR 19.2 million), but lower than the same figure on the reporting date December 31, 2015 (EUR 19.2 million). Liabilities at EUR 57.4 million are up slightly on the previous year's figure (EUR 56.9 million) due to an expansion in business activities.

### **5. Personnel**

The number of people employed by the company rose from 1,138 on June 30, 2015 to 1,148 on June 30, 2016. The main driver for the increase is the business expansion in the Tenowo division.

That said, conditions on the employment market remain problematic. It is difficult to find specialist staff with the necessary training. The Hoftex Group has therefore turned its focus to stronger HR development and training efforts in an aim to secure the Group's future.

### **6. Report on events after the reporting date**

No events that significantly impact the Group's net assets, financial position and results of operations occurred between the end of the reporting period and the date of publication of this interim report.

### **7. Risk report**

The Hoftex Group's risk exposure has not changed significantly since the end of fiscal 2015. The Hoftex Group does not expect any significant effect from the Brexit vote to leave the EU. By the same token, the political ten-



sions in Turkey are not expected to impact business in the short term. The 2015 Annual Report contains a detailed description of the Hoftex Group's risk management system.

## 8. Forecasts and outlook

### Macroeconomic trends

The economic impact of the many (political) developments are difficult to predict. The uncertainty in the global economy before the Brexit vote continued to intensify after the UK referendum. According to economists, the Brexit decision has slowed European industrial economies in particular.

In July of this year, the International Monetary Fund (IMF) once again cut its forecasts for the global economy, projecting growth in the global economy to reach 3.1% and 3.4% for 2016 and 2017, respectively, a decrease of 0.1 percentage points from its April forecasts. Global economic output is expected to fall during the current year, primarily due to weaker growth in the UK and the US. The IMF expects adverse effects for virtually all industrial economies in 2017. By contrast, the forecasts for developing and emerging economies are basically unchanged. In Germany, gross domestic product is projected to grow at a rate of 1.6% in 2016, somewhat more than the IMF expected, and at a rate of 1.2% in 2017, significantly lower than originally forecast.

### Sector trends

According to a Deutsche Bank study, there is no real cause for optimism in 2016. The manufacturing sector is one of the biggest buyers of technical textiles, which – along with nonwovens – generally outperform the textile industry as a whole. 2016 growth projections for manufacturing are modest at best, making any (significant) increase in manufacturers' demand unlikely for the textile industry. Although consumer-oriented sectors (e.g. apparel or home and contract textiles) are likely to benefit from the positive trends in consumer spending, imports play a key role in this market segment. Export business could outperform domestic demand, but a moderate growth is all that can be expected here. Overall, production in the German textile industry will more or less stagnate in real terms. Deutsche Bank sees the strong drop in the sector's business climate indicators as further grounds for caution in 2016 forecasts.

### Performance of the Hoftex Group

In line with our forecasts, we expect sales to dip slightly in H2 2016 due to seasonal effects and H2 earnings to fall short of H1 levels as a result. Our relatively conservative estimates for the 2016 fiscal year therefore still apply:

- **Group sales** are expected to reach EUR 184 million based on current data, up EUR 8.6 million on the same period in 2015.
- **Net consolidated income for the year** will amount to roughly EUR 7.0 million, an increase of EUR 0.9 million versus 2015 earnings. That puts our net consolidated income in the top end of our original forecast.

The Group is forecasting sales of EUR 27.0 million for the **Hoftex** division. Although our original projections indicated a small loss for the year, a slight upward revision of our forecast now expects at least a breakeven result. The three remaining specialist production facilities are well-positioned to remain competitive on the market with their niche products.

For the **Tenowo** division, we expect to achieve our earnings forecast of EUR 136.0 million at least, despite the challenges we are facing on the markets and in the management of our investment projects. We do not plan to revise our earnings forecasts expressed in the 2015 Annual Report.

The **Neutex** division had a very good half-year. We expect to at least maintain our existing cushion, despite the knowledge that H2 is traditionally a more difficult period. We stand by our projected sales of EUR 20.0 million in this division as well. And although the original forecast indicated a slight loss for 2016, we are now projecting low-level earnings for this division instead.

We are optimistic about our **rental properties** in Hof-Moschendorf. After repurposing the existing building into a logistics center, we were able to rent out most of the space.

In conclusion, we are confident that we can achieve our goals despite the challenges ahead.

Hof, August 31, 2016

Hoftex Group AG

Klaus Steger  
(Chairman of the Management Board)

Jacques van den Burg  
(Member of the Management Board)

**HOFTEX GROUP AG**  
**Consolidated balance sheet as of June 30, 2016**

	June 30, 2016	June 30, 2015
<b>Assets in EUR thousands</b>		
<b>A. FIXED ASSETS</b>		
Intangible fixed assets	968	236
Tangible fixed assets	95.380	94.509
Long-term financial assets	7.268	7.240
	<b>103.616</b>	<b>101.985</b>
<b>B. CURRENT ASSETS</b>		
Inventories	41.334	41.164
Receivables and other assets	29.739	28.146
Cash and cash equivalents	11.328	4.837
	<b>82.401</b>	<b>74.147</b>
<b>C. PREPAID EXPENSES</b>		
	<b>915</b>	<b>1.328</b>
<b>D. DEFERRED TAX ASSETS</b>		
	<b>1.321</b>	<b>1.309</b>
<b>Total assets</b>	<b>188.253</b>	<b>178.769</b>
<b>Equity and liabilities in EUR thousand</b>		
<b>A. EQUITY</b>		
I. Subscribed capital	13.920	13.920
II. Capital reserves	41.158	41.158
III. Revenue reserves	38.754	33.722
IV. Change in equity from currency translation	1.054	2.102
V. Net accumulated losses	-669	-3.410
	<b>94.217</b>	<b>87.492</b>
<b>B. DEFERRED INVESTMENT GRANTS AND SUBSIDIES</b>		
	<b>498</b>	<b>1.103</b>
<b>C. SHAREHOLDER LOANS</b>		
	<b>14.000</b>	<b>14.000</b>
<b>D. PROVISIONS</b>		
	<b>22.155</b>	<b>19.234</b>
<b>E. LIABILITIES</b>		
	<b>57.371</b>	<b>56.927</b>
<b>F. DEFERRED TAX LIABILITIES</b>		
	<b>12</b>	<b>13</b>
<b>Total equity and liabilities</b>	<b>188.253</b>	<b>178.769</b>

## HOFTEX GROUP AG

### Consolidated income statement

in EUR thousand	Jan. 1, 2016 to June 30, 2016	Jan. 1, 2015 to June 30, 2015
Sales	94.759	89.674
Changes in inventory	2.413	-3.909
<b>Gross revenue</b>	<b>97.172</b>	<b>85.765</b>
Other operating income	1.485	2.599
Cost of materials	-47.991	-43.611
<b>Gross profit</b>	<b>50.666</b>	<b>44.753</b>
Personnel expenses	-22.640	-21.481
Depreciation, amortization and write-downs	-6.164	-5.324
Other operating expenses	-15.449	-13.336
<b>Operating result</b>	<b>6.413</b>	<b>4.612</b>
Net investment income	154	0
Net interest income	-1.527	-1.051
<b>Result from ordinary activities</b>	<b>5.040</b>	<b>3.561</b>
Taxes on income	78	-338
Other taxes	-625	-354
<b>Consolidated net income for the period</b>	<b>4.493</b>	<b>2.869</b>
Result per share in EUR	0,83	0,53
Number of no-par value shares in circulation	5.444.800	5.444.800

## HOFTEX GROUP AG

### Consolidated statement of changes in equity

in EUR thousand	Subscribed capital	Capital reserves	Revenue reserves	Change in equity from currency translation	Consolidated net accumulated losses	Total
Balance as of Jan.1, 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 Jun.30,2015	13.920	41.158	33.722	2.102	-3.410	87.492
Balance as of Jan.1, 2016	13.920	41.158	38.754	796	-5.162	89.466
Foreign currency translation differences				258		258
Group result					4.493	4.493
Balance as of Jun.30,2016	13.920	41.158	38.754	1.054	-669	94.217

## HOFTEX GROUP AG

### Consolidated cash flow statement

in EUR thousand	Jan. 1, 2016 to June 30, 2016	Jan. 1, 2015 to June 30, 2015
Consolidated net income for the year	4.493	2.869
-Loss on disposal of fixed assets	-117	-408
+Depreciation, amortization and write-downs of fixed assets	6.164	5.325
+/-Increase/decrease in deferred government grants	-367	-367
- Change in pension provisions	0	-100
<b>Cash flow</b>	<b>10.173</b>	<b>7.319</b>
+/- other non-cash income and expenses	-769	0
+/- Increase/decrease in inventories	-3.723	1.087
-/+ Increase/decrease in receivables, prepaid expenses and other items	-4.114	-5.207
+/- Increase/decrease in liabilities and other provisions not attributable to financing activities	5.986	3.769
<b>Cash-flows from operating activities</b>	<b>7.553</b>	<b>6.968</b>
<b>Cash flows from investing activities</b>	<b>-6.016</b>	<b>-13.928</b>
<b>Cash flows from financing activities</b>	<b>-2.189</b>	<b>-3.770</b>
<b>Changes in cash and cash equivalents</b>	<b>-652</b>	<b>-10.730</b>
Cash and cash equivalents at the beginning of the reporting period	11.980	15.566
Cash and cash equivalents at the end of the reporting period	11.328	4.836

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