Prospectus

dated May 7, 2021

for the public offering of

2,400,000 newly issued ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*)
from a capital increase against cash contributions resolved by an extraordinary general shareholders' meeting of the Company with exclusion of the subscription rights of the existing shareholders on May 5, 2021 (the "**New Shares**")

and

2,400,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*)
from the holdings of the Selling Shareholders (the "**Base Shares**") in a base deal

and

up to 1,000,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*)
from the holdings of the Selling Shareholders, subject to an exercise by the Selling Shareholders of an upsize option (the "**Upsize Shares**")

and

up to 870,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*)
from the holdings of the Selling Shareholders in connection with a possible over-allotment (the "**Over-Allotment Shares**")

and at the same time

for the admission to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of

up to 2,400,000 newly issued ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*)
from a capital increase against cash contributions resolved by an extraordinary general shareholders' meeting of the Company with exclusion of the subscription rights of the existing shareholders on May 5, 2021 and

8,000,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) (existing share capital)

– each such share with a notional interest of EUR 1.00 in the share capital and with full dividend rights from January 1, 2021 –

of

hGears AG
Schramberg, Germany

Price Range: EUR 23.00 – EUR 31.00
International Securities Identification Number (ISIN): DE000A3CMGN3
German Securities Code (*Wertpapierkennnummer, WKN*): A3CMGN
Trading Symbol: HGEA

Sole Global Coordinator and Joint Bookrunner

Hauck & Aufhäuser

Joint Bookrunner

ABN AMRO

Warning regarding the validity of the Prospectus

The validity of this Prospectus will expire on May 21, 2021. The obligation to supplement the Prospectus in the event of significant new factors, material mistakes or material inaccuracies does not apply when the Prospectus is no longer valid.

TABLE OF CONTENTS

PAGE

1. SUMMARY OF THIS PROSPECTUS

1.1 Introduction and warnings

This prospectus (the "**Prospectus**") relates to ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) of hGears AG, domiciled in Schramberg, Germany, legal entity identifier ("**LEI**") 529900AHQOSBXKH09981 (hereinafter the "**Issuer**" or the "**Company**" and together with its consolidated subsidiaries, the "**Group**" or "**hGears**") with the International Securities Identification Number (ISIN) DE000A3CMGN3.

The offerors are the Company and Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main, Germany, LEI 529900OOZP78CYPYF471 ("**Hauck & Aufhäuser**" or the "**Sole Global Coordinator**") and ABN AMRO Bank N.V., Amsterdam, The Netherlands, LEI BFXS5XCH7N0Y05NIXW11 ("**ABN AMRO**" and, together with Hauck & Aufhäuser, the "**Joint Bookrunners**" or the "**Underwriters**"). The persons applying for admission to trading on a regulated market are the Company and Hauck & Aufhäuser. The Company can be contacted at: Brambach 38, 78713 Schramberg, Germany, Tel.: +49 7422 566-0, www.hgears.com. Hauck & Aufhäuser can be contacted at: Kaiserstraße 24, 60311 Frankfurt am Main, Germany Tel.: +49 69 21 610, www.hauck-aufhaeuser.com. ABN AMRO can be contacted at Gustav Mahlerlaan 10 (1082 PP) Amsterdam, The Netherlands, mail_ecm_syndicate@nl.abnamro.com.

This Prospectus has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "**BaFin**"), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Germany, Tel.: +49 228 4108 0, www bafin de, on May 7, 2021. BaFin only approves this Prospectus as meeting the standards for completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC ("**Prospectus Regulation**").

This summary (the "**Summary**") should be read as an introduction to this Prospectus. Any decision to invest in the securities should be based on a consideration of the Prospectus as a whole by the investor. The investor could lose all or part of the invested capital. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the Summary including any translation thereof, but only where the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.

1.2 Key information on the issuer

1.2.1 Who is the issuer of the securities?

The issuer is hGears AG, a stock corporation (*Aktiengesellschaft*) incorporated in Germany with registered seat in Schramberg and operating under German law. The Company's LEI is 529900AHQOSBXKH09981.

hGears is a global manufacturer of high precision gears and components with a focus on products for e-drive focused end-markets. The Company believes that such end-markets, in particular the e-mobility sector, offer highly attractive growth prospects. hGears has its headquarters in Germany and operates globally with production facilities in its key regional markets of Europe and China. hGears develops, manufactures, and supplies precision components and sub-systems as well as complex full system solutions. Products include gears, sprockets, shafts, structural components, complete gearboxes and other components. As a hybrid company, i.e. a high precision part manufacturer producing single components as well as sub- and full systems, hGears has a diverse product offering across various end-industries (e.g. e-mobility, power and gardening tools). In the financial years ended December 31, 2018 and 2019, hGears implemented a strategic shift from lower-margin conventional drive application products, mostly consisting of components for traditional combustion drives, e.g. for motorcycles, towards higher-margin, combustion-free electrical drive applications for e-bikes and electric and hybrid vehicles. hGears' customer base includes a number of major suppliers and manufacturers, many of which it believes to be leaders in their respective end-industry.

hGears manufactures precision components both for manufacturers who develop systems for integration into end products ("**Tier 1 Suppliers**"), serving as a Tier 2 Supplier ("**Tier 2 Supplier**"), and for original equipment manufacturers ("**OEMs**"), serving as a Tier 1 Supplier. As a Tier 1 Supplier, hGears directly supplies its products to OEMs in the power and gardening tool industries. Additionally, hGears is a Tier 2 Supplier to Tier 1 Suppliers (e.g. for e-bikes and the Audi e-tron). In a number of cases hGears works together with its customers in a "co-development" process to design components and find technologically optimal solutions to satisfy the customer's specifications. Co-development can be particularly important for manufacturers of e-bikes and electric and hybrid vehicles as these applications tend also to be new for them.

hGears divides its business into three business areas: e-Mobility ("**e-Mobility**"), e-Tools ("**e-Tools**") and other automotive and industrial applications ("**Conventional**").

- e-Mobility focuses on products for e-bike drive systems and drive train units for electric and hybrid vehicles. It includes the co-development and manufacturing of components for electrical drive applications (e.g. drive shaft, crank shaft and toothed washer). Electrical drive systems for vehicles require high precision components which are capable of withstanding high torque, are light weight and reduce noise.

- e-Tools focuses on components utilized in the powering mechanism of battery driven (e-drive), cordless power and gardening tools. It includes the manufacturing of precision components that are used in the part of the gearbox that connects the electric motor to the actual tools (e.g. cutting tool, trimming tool).

- Conventional focuses on gear units for various applications, such as rolling shutters and systems for heating, ventilation and air conditioning ("**HVAC Systems**"), motorbikes and non-combustion part precision components for premium and luxury vehicles. It includes the production of various precision components for traditional automotive applications (e.g. drive, steering and brake systems and the body of the vehicle) as well as other industrial applications. Automotive and industrial applications are not part of hGears' primary strategic focus.

The principal raw materials used for manufacturing hGears' products are machined steel (e.g. blanks and bars of steel) and powder metal. In some cases, hGears sources manufactured component parts (e.g. gears and screws) that are incorporated into its sub- and full systems.

hGears consists of the Company and its three wholly-owned subsidiaries: Herzog GmbH ("**Herzog**"), mG miniGears S.p.A. (Italy) ("**mG miniGears**") and mG miniGears (Suzhou) Co. Ltd (China) ("**mG miniGears Suzhou**") (which is owned indirectly, through mG miniGears S.p.A.). Herzog was founded in 1958 and was acquired by the Company in 2011. The Company was founded in 2011 with the aim to acquire Herzog and to act as a holding company of hGears. mG miniGears S.p.A. was founded in 2008 and mG miniGears (Suzhou) Co. Ltd. was founded in 2003. mg miniGears S.p.A. acquired mG miniGears (Suzhou) Co. Ltd. in 2014 and was acquired by the Company in 2015.

As of the date of this Prospectus, the Company's major shareholders are Finatem III GmbH & Co. KG, Frankfurt am Main, Germany ("**Finatem**" or the "**Major Shareholder**"), with 90.00% of share capital and voting rights and thus a controlling interest in the Company, HPH Beteiligungs-UG (haftungsbeschränkt), Lauterbach, Germany ("**HPH**"), with 5.06% of share capital and voting rights and M-H Herzog Beteiligungs-UG (haftungsbeschränkt), Schramberg, Germany ("**M-H Herzog**", and together with Finatem and HPH the "**Selling Shareholders**"), with 4.94% of share capital and voting rights. The voting rights held by Finatem are attributed to Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main, Germany. The voting rights held by HPH are attributed to Mr. Hanspeter Herzog. The voting rights held by M-H Herzog are attributed to Mr. Markus Herzog.

As of the date of this Prospectus the members of the Company's Management Board are Mr. Pierluca Sartorello (CEO) and Mr. Daniel Basok (CFO).

The Company's statutory auditor is PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Friedrichstraße 14, 70174 Stuttgart, Germany ("**PwC**").

1.2.2 What is the key financial information regarding the issuer?

The following financial information is taken or derived from the audited consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**EU**") ("**IFRS**") as of and for the financial year ended December 31, 2020 (the "**Consolidated Financial Statements 2020**"), the audited consolidated financial statements of the Company prepared in accordance with IFRS as of and for the financial year ended December 31, 2019 (the

"**Consolidated Financial Statements 2019**") and the audited amended consolidated financial statements of the Company prepared in accordance with IFRS as of and for the financial year ended December 31, 2018 (the "**Consolidated Financial Statements 2018**" and together with the Consolidated Financial Statements 2020 and the Consolidated Financial Statements 2019, the "**Consolidated Financial Statements**"). The Consolidated Financial Statements were audited by PwC, who in each case issued an unqualified independent audit report (*uneingeschränkter Bestätigungsvermerk des unabhängigen Abschlussprüfers*) thereon.

1.2.2.1 Key financial information from the consolidated statements of profit or loss

In EUR thousand	**Financial year ended December 31,**		
	2020	**2019**	**2018**
		(audited)	
Revenues	126,260	121,838	126,205
Income before income taxes	5,879	(4,246)	(848)
Net result of the period	6,713	(4,736)	(2,088)

1.2.2.2 Key financial information from the consolidated statements of financial position

In EUR thousand	**December 31,**		
	2020	**2019**	**2018**
		(audited)	
Total assets	124,853	121,560	89,375
Total equity	25,551	19,140	19,357

1.2.2.3 Key financial information from the consolidated statements of cash flow

In EUR thousand	**Financial year ended December 31,**		
	2020	**2019**	**2018**
		(audited)	
Net cash provided by (used in) operating activities	17,269	12,517	2,243
Net cash provided by (used in) investing activities	(8,029)	(19,263)	(10,928)
Net cash provided by (used in) financing activities	(3,396)	16,670	7,785

1.2.2.4 Alternative performance measures

In EUR thousand, unless stated otherwise	**For the financial year ended December 31,**		
	2020	**2019**	**2018**
		(unaudited)	
EBITDA	19,344	10,766	8,781
Adjusted EBITDA	22,679	17,453	10,287
Free cash flow	9,694	(5,284)	(9,097)
Return on revenues (in %)	5.3	(3.9)	(1.7)

1.2.3 What are the key risks that are specific to the issuer?

- Negative macroeconomic developments could adversely affect the demand for hGears' products.
- hGears faces competition in its key product markets, especially for e-drive applications, which may further intensify in the future and lead to lower than expected sales.
- Disruptions in the supply chains of its key customers could have an adverse effect on hGears' business, even if hGears itself does not experience any shortages in its supply chain.
- hGears relies on a limited number of key customers and losing them or suffering unfavourable changes in contract terms and conditions could materially adversely affect its business, financial condition, results of operations, cash flows and prospects.
- hGears depends on its ability to adapt to changing technologies and new trends and to co-develop new products which may require significant investments which may not realize the envisaged benefits.
- Unexpected increases in the prices for steel and other supplies necessary to manufacture hGears' products could lead to price increases which cannot be passed on to its customers or otherwise offset through other cost saving measures.
- Operational disruptions or lengthy periods of production downtime may affect hGears' ability to deliver its products on time or at all.
- hGears may lose members of the Company's management team or other key personnel or may be unable to recruit or retain qualified personnel for key positions, including technical personnel. In such case, and in particular without the management team with its established personal network, hGears may not be able to successfully manage and expand its business.

- hGears may require additional capital which might not be available on economically acceptable terms, or at all.
- Non-compliance with existing laws and regulations, including environmental laws, or changes in any such laws and regulations could result in hGears incurring costs in order to take additional steps to ensure future compliance and potentially require product recalls.
- Receipt of raw materials and other inputs by hGears and deliveries of hGears' products to its customers could be delayed, hindered or made significantly more expensive by export or import controls or the imposition of custom duties or tariffs.
- hGears may become subject to product liability claims and other legal proceedings and claims regarding its products.
- The Major Shareholder will continue to hold a significant interest in the Company and its interests may conflict with those of the Company and other shareholders.

1.3 Key information on the securities

1.3.1 What are the main features of the securities?

The securities being offered to the public are (i) 2,400,000 shares from a capital increase against cash contributions resolved by an extraordinary general shareholders' meeting of the Company with exclusion of the subscription rights of the existing shareholders on May 5, 2021 (the "**New Shares**"), (ii) 2,400,000 existing shares from the holdings of the Selling Shareholders in a base deal (the "**Base Shares**"), (iii) up to 1,000,000 existing shares from the holdings of the Selling Shareholders subject to an exercise by the Selling Shareholders of an upsize option (the "**Upsize Option**") upon their decision, in consultation with the Sole Global Coordinator, based on market demand on the date of pricing (the "**Upsize Shares**" and together with the Base Shares the "**Sale Shares**") and (iv) up to 870,000 existing shares from the holdings of the Selling Shareholders in connection with a potential over-allotment (the "**Over-Allotment Shares**" and, together with the New Shares and the Sale Shares, the "**Offer Shares**").

The Selling Shareholders will provide Hauck & Aufhäuser and ABN AMRO with up to 870,000 Over-Allotment Shares, as part of the allocation of the Offer Shares (the "**Over-Allotment**"), in the form of a securities loan to cover the potential Over-Allotment with Hauck & Aufhäuser acting as stabilization manager (the "**Stabilization Manager**"). In connection with the potential Over-Allotment, the Selling Shareholders have granted the Stabilization Manager an option to acquire up to 870,000 additional Shares at the price of the Offer Shares in the Offering (the "**Offer Price**"), less agreed commissions (the "**Greenshoe Option**") from the holdings of the Selling Shareholders for the sole purpose of enabling the Stabilization Manager to perform its redelivery obligation under the securities loan. The Greenshoe Option may only be exercised during the stabilization period, i.e. the period which commences on the date the Shares commence trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and ends no later than 30 calendar days thereafter (the "**Stabilization Period**").

The securities being admitted to trading on the regulated market are (i) up to 2,400,000 New Shares, and (ii) 8,000,000 existing shares (the "**Existing Shares**", and together with the New Shares, the "**Shares**").

All Shares are ordinary bearer shares with no par value (*Inhaberaktien*). The currency of the Shares is euro. Each Share has a notional interest of EUR 1.00 in the share capital of the Company. The Shares are issued for an indefinite term. The ISIN of the Shares is DE000A3CMGN3. Each Share has full dividend rights from January 1, 2021. All Shares provide equal rights in the Company, including equal rights to dividends and liquidation proceeds and equal seniority in case of an insolvency. Each Share carries one vote at the general shareholders' meeting of the Company.

The Shares are freely transferable in accordance with the legal requirements for ordinary bearer shares. Except for the lock-up agreements entered into between the Selling Shareholders and the Sole Global Coordinator, which provide for certain restrictions on disposal during the period of 360 days following the first trading day of the Shares on the Frankfurt Stock Exchange, there are no prohibitions on disposals or restrictions with respect to the transferability of the Shares.

Shareholders' shares in the Company's distributable profits are determined in proportion to their interest in the Company's share capital. The Company currently does not intend to pay any dividends in the current financial year and not within the short to medium term and intends to continue to invest in the growth of its business.

1.3.2 Where will the securities be traded?

An application will be made for admission of the Shares to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard) (the "**Listing**").

1.3.3 What are the key risks that are specific to the securities?

There is no existing market for the Company's shares and the development of an active trading market may be limited. As a result, the market price and trading volume of the Company's shares could fluctuate considerably, which may result in substantial losses for investors.

1.4 Key information on the offer of securities to the public and the admission to trading on a regulated market

1.4.1 Under which conditions and timetable can I invest in this security?

1.4.1.1 General terms, conditions and expected timetable of the Offering

The offering consists of a public offering of the Offer Shares in the Federal Republic of Germany ("**Germany**") (the "**Public Offering**") and private placements in certain jurisdictions outside of Germany (the "**Private Placement**", and together with the Public Offering, the "**Offering**"). In the United States of America ("**United States**") the Offer Shares will only be offered and sold to qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A, or pursuant to another available exemption from, or in transactions not subject to, the registration requirements of the U.S. Securities Act of 1933 (as amended) (the "**Securities Act**"). Outside the United States, the Offer Shares will be offered and sold only in offshore transactions in compliance with Regulation S under the Securities Act ("**Regulation S**").

The price range within which offers to purchase may be submitted is EUR 23.00 to EUR 31.00 per Offer Share (the "**Price Range**").

The offer period during which investors may submit purchase offers for the Offer Shares will commence on May 10, 2021 and is expected to end on May 18, 2021 at 12:00 noon (Central European Summer Time, "**CEST**") for retail investors (natural persons with a depository account in Germany) and 2:00 p.m. (CEST) for institutional investors (the "**Offer Period**"). Multiple purchase orders are permitted.

The final number of the Offer Shares placed in the Offering and the offer price are expected to be published on or around May 18, 2021. If the placement volume proves insufficient to satisfy all orders placed at the offer price, the Underwriters reserve the right to reject orders, or to accept them only in part.

1.4.1.2 Admission to trading

The Company and Hauck & Aufhäuser intend to apply for the admission of Shares to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) on or about May 7, 2021. The decision on the admission is expected to be announced on or about May 20, 2021. Trading of the Shares is expected to commence on May 21, 2021.

1.4.1.3 Plan for distribution

No agreement exists between the Company, the Selling Shareholders and the Underwriters as to the allotment procedure. The allotment of the Offer Shares to retail and institutional investors will be decided by the Company after consultation with the Sole Global Coordinator. Allotments to institutional investors will be made on the basis of the quality of the individual institutional investors (including with respect to their expected holding and investment strategy and order size), as well as other important allotment criteria to be determined by the Company and the Sole Global Coordinator. Allotments to retail investors will be made in accordance with the "Principles for the Allotment of Share Issues to Private Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) issued on June 7, 2000 by the German Commission of Stock Exchange Experts (*Börsensachverständigenkommission*).

1.4.1.4 Dilution resulting from the offer

Immediate value-related dilution to purchasers of the Offer Shares	EUR 18.65* per Share or (69.1)%*
Immediate value-related accretion to existing shareholders	EUR 5.15* per Share or 160.9*%

* Based on the assumption that the Offer Price is at the mid-point of the Price Range.

Assuming placement of all New Shares and Base Shares and assuming that the existing shareholders do not acquire any New Shares in the Offering, the shares and voting rights of the existing shareholders will be reduced from 100% to 35.87% if the Upsize Option and the Greenshoe Option are fully exercised and 53.85% if the Upsize Option and the Greenshoe Option are not exercised.

1.4.1.5 Total expenses of the offer

The amount of the gross proceeds from the Offering to the Company and the Selling Shareholders as well as the overall costs related to the Offering, including the commissions of the Underwriters, depend on the offer price and the number of the Offer Shares that will be placed in the Offering. Assuming that (i) all New Shares and Base Shares are fully placed at an offer price of EUR 27.00, which is the mid-point of the Price Range and (ii) the Upsize Option and the option granted by the Selling Shareholders to the Underwriters to acquire up to 870,000 additional Shares at the offer price (the "**Greenshoe Option**") are fully exercised at an offer price of EUR 27.00, which is the mid-point of the Price Range, the Company estimates that the total costs of the Offering, including commissions payable to the Underwriters (including a possible discretionary incentive fee) and other costs attributable to the issuance of the New Shares, the placement of the Base Shares, the Upsize Shares and the Over-Allotment Shares as well as the Listing will amount to approximately EUR 10.4 million. Thereof, the Company will bear costs in the total amount of approximately EUR 3.5 million and the Selling Shareholders will bear costs in the total amount of approximately EUR 6.9 million. Assuming that all New Shares and Base Shares are fully placed at an offer price of EUR 27.00, which is the mid-point of the Price Range, and the Upsize Option and the Greenshoe Option are not exercised, the Company estimates that the total costs of the Offering, including commissions payable to the Underwriters (including a possible discretionary incentive fee) and other costs attributable to the issuance of the New Shares, the placement of the Base Shares as well as the Listing, will amount to approximately EUR 7.9 million. Thereof, the Company will bear costs in the total amount of approximately EUR 3.8 million and the Selling Shareholders will bear costs in the total amount of approximately EUR 4.1 million.

Neither the Company, nor the Selling Shareholders, nor the Underwriters will charge investors any expenses or taxes incurred in connection with the Offering. Investors will have to bear customary transaction and handling fees charged by their brokers, including the Underwriters, or other financial institutions through which they hold their securities.

1.4.2 Who is the offeror and the person asking for admission to trading?

The offerors are hGears AG, Schramberg, Germany, Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main, Germany and ABN AMRO Bank N.V., Amsterdam, The Netherlands. hGears AG and Hauck & Aufhäuser are stock corporations (*Aktiengesellschaft*) incorporated in Germany and operating under German law and ABN AMRO is a stock corporation incorporated in the Netherlands and operating under Dutch law. The persons asking for admission to trading on the regulated market are the Company and Hauck & Aufhäuser.

1.4.3 Why is this Prospectus being produced?

This Prospectus is produced for equity financing purposes of the Company and for purposes of the application for admission of the Shares to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) for which an approved prospectus is required. The Selling Shareholders intend to sell the Sale Shares to partially divest their stake in the Company and to ensure sufficient free float and trading liquidity in the Shares.

1.4.3.1 Use of proceeds

Assuming full placement of 2,400,000 New Shares at an offer price of EUR 27.00, which is the mid-point of the Price Range, the Company estimates that the net proceeds attributable to the Company will amount to approximately EUR 61.3 million. The Company intends to use the net proceeds from the Offering attributable to the Company in the order of priorities set forth as follows (i) in an amount of approximately EUR 35 million to finance investments in production equipment to increase production capacities with a focus on its e-Mobility business area, (ii) in an amount of approximately EUR 14 million for total repayment of all shareholder loans, (iii) in an amount of approximately EUR 10 million to expand its research and development activities and (iv) the remaining amount for general corporate purposes.

1.4.3.2 Underwriting agreement

The Offering is subject to an underwriting agreement (the "**Underwriting Agreement**") pursuant to which the Underwriters have agreed, subject to certain conditions, to underwrite and purchase the Offer Shares with a view to offering them to investors in the Offering. The Underwriting Agreement does not contain a firm underwriting commitment.

1.4.3.3 Conflicts of interest

There are no conflicting interests with respect to the Offering or the Listing.

2. GERMAN TRANSLATION OF THE SUMMARY / ZUSAMMENFASSUNG DIESES PROSPEKTS

2.1 Einleitung und Warnhinweise

Dieser Prospekt (der "**Prospekt**") bezieht sich auf die auf den Inhaber lautenden Stammaktien ohne Nennbetrag (*Inhaberaktien*) der hGears AG, mit Sitz in Schramberg, Deutschland, Rechtsträgerkennung ("**LEI**") 529900AHQOSBXKH09981 (im Nachfolgenden der "**Emittent**" oder die "**Gesellschaft**" und zusammen mit ihren konsolidierten Tochtergesellschaften der "**Konzern**" oder "**hGears**") mit der internationalen Wertpapier-Identifikationsnummer (ISIN) DE000A3CMGN3.

Die Anbieter sind die Gesellschaft und Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main, Deutschland, LEI 529900OOZP78CYPYF471 ("**Hauck & Aufhäuser**", der "**Sole Global Coordinator**" und ABN AMRO Bank N.V., Amsterdam, Niederlande, LEI BFXS5XCH7N0Y05NIXW11 ("**ABN AMRO**" und zusammen mit Hauck & Aufhäuser, die "**Joint Bookrunner**" oder die "**Konsortialbanken"**). Die Personen, die die Zulassung zum Handel an einem geregelten Markt beantragen, sind die Gesellschaft und Hauck & Aufhäuser. Die Gesellschaft kann unter der Adresse Brambach 38, 78713 Schramberg, Germany, Tel.: +49 7422 566-0, www.hgears.com, kontaktiert werden. Hauck & Aufhäuser kann unter der Adresse Kaiserstraße 24, 60311 Frankfurt am Main, Germany Tel.: +49 69 21 610, www.hauck-aufhaeuser.com, kontaktiert werden. ABN AMRO kann unter der Adresse Gustav Mahlerlaan 10 (1082 PP) Amsterdam, Niederlande, mail_ecm_syndicate@nl.abnamro.com, kontaktiert werden.

Dieser Prospekt wurde von der Bundesanstalt für Finanzdienstleistungsaufsicht ("**BaFin**"), Marie-Curie-Straße 24-28, 60439 Frankfurt am Main, Deutschland, Tel.: +49 228 4108-0, www bafin de, am 7. Mai 2021 gebilligt. Die BaFin billigt diesen Prospekt nur nach Maßgabe von Vollständigkeit, Verständlichkeit und Kohärenz nach den Anforderungen der Verordnung (EU) 2017/1129 des Europäischen Parlaments und Rates vom 14. Juni 2017 über den Prospekt, der beim öffentlichen Angebot von Wertpapieren oder bei deren Zulassung zum Handel an einem geregelten Markt zu veröffentlichen ist und zur Aufhebung der Richtlinie 2003/71/EG ("**Prospektverordnung**").

Diese Zusammenfassung (die "**Zusammenfassung**") sollte als Prospekteinleitung verstanden werden. Der Anleger sollte sich bei der Entscheidung, in die Wertpapiere zu investieren, auf den Prospekt als Ganzes stützen. Der Anleger könnte das gesamte angelegte Kapital oder einen Teil davon verlieren. Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in dem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger nach nationalem Recht die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben. Zivilrechtlich haften nur diejenigen Personen, die die Zusammenfassung samt etwaiger Übersetzungen vorgelegt und übermittelt haben, und dies auch nur für den Fall, dass die Zusammenfassung, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, irreführend, unrichtig oder widersprüchlich ist oder dass diese, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht die Basisinformationen vermittelt, die in Bezug auf Anlagen in die betreffenden Wertpapiere für die Anleger eine Entscheidungshilfe darstellen würden.

2.2 Basisinformationen über den Emittenten

2.2.1 Wer ist der Emittent der Wertpapiere?

Der Emittent ist hGears AG, eine Aktiengesellschaft, die in Deutschland gegründet wurde, ihren Sitz in Schramberg hat und deutschem Recht unterliegt. Die LEI der Gesellschaft lautet 529900AHQOSBXKH09981.

hGears ist ein globaler Hersteller von Hochpräzisionsteilen mit einem Fokus auf der Herstellung von Produkten für Absatzmärkte der E-Antriebstechnik (*e-drive*). Die Gesellschaft glaubt, dass solche Absatzmärkte, insbesondere die E-Mobilitätsbranche, überaus attraktive Wachstumsaussichten bieten. hGears hat ihren Hauptsitz in Deutschland und eine globale Präsenz mit Produktionsstätten in ihren Schlüsselmärkten, Europa und China. hGears entwickelt, produziert und liefert Präzisionsteile sowie Teilsysteme und vollständige Systemlösungen. hGears Produkte umfassen Getriebeteile, Zahnräder, Schäfte, Strukturkomponenten, komplette Getriebe und andere Komponenten. Als sog. Hybridunternehmen, d.h. ein Präzisionskomponentenhersteller, der sowohl Einzelkomponente als auch Teilsysteme und vollständige Systeme anbietet, verfügt hGears über ein vielfältiges Produktangebot, welches verschiedene relevante Absatzmärkte anspricht (z. B. E-Mobilität und Elektro- und Gartenwerkzeuge). In den zum 31. Dezember endenden Geschäftsjahren 2018 und 2019 vollzog hGears eine strategische Neuausrichtung, im Zuge dessen sie sich von herkömmlichen Getriebeanwendungen mit geringerer Gewinnspanne abgewendet hat, welche vorwiegend Komponenten für traditionelle Fahrzeuggetriebe (z.B. für Motorräder) umfasste, und sich verbrennungsfreien E-Antriebsanwendungen für E-Bikes und Elektro- und Hybridfahrzeuge mit höherer Gewinnspanne zugewendet hat. Zum Kundenstamm von hGears gehört eine Reihe der größten Zulieferer- und Herstellerunternehmen, darunter nach eigener Einschätzung viele Marktführer in ihren jeweiligen Absatzmärkten.

hGears stellt Präzisionskomponenten her für die Lieferung an Hersteller, welche Systeme zur Integrierung in Endprodukte entwickeln ("**Tier 1-Lieferant**") als Tier 2-Lieferant ("**Tier 2-Lieferant**") und für Originalhersteller ("**OEM**") als Tier 1-Lieferant. Für die Elektro- und Gartenwerkzeugindustrie liefert hGears ihre Produkte direkt an Originalhersteller als Tier 1-Lieferant. hGears ist zudem Tier 2-Lieferant, der an Tier 1-Lieferanten liefert (z.B. für E-Bikes und für den Audi e-tron). In vielen Fällen, arbeitet hGears im Rahmen einer "Mit-Entwicklungsphase" mit ihren Kunden zusammen, um Komponenten und Lösungen (mit-) zu entwickeln bzw. zu optimieren, die den kundenspezifischen Anforderungen entsprechen. Die (Mit-)Entwicklung von Produkten ist besonders wichtig für Hersteller von E-Bikes und Elektro- und Hybridfahrzeugen, welche häufig auch für sie neue Anwendungen darstellen.

Die Geschäftstätigkeit von hGears ist in drei Geschäftsbereiche unterteilt: E-Mobilität ("**e-Mobility**"), E-Werkzeuge ("**e-Tools**") und andere Automobil- und Industrieanwendungen ("**Conventional**").

- Der Fokus für e-Mobility liegt auf Produkten für E-Bike-Getriebesysteme und Antriebsstränge für Elektro- und Hybridfahrzeuge. Er umfasst die (Mit-)Entwicklung und Herstellung von Komponenten für E-Antriebsanwendungen (z.B. Antriebs- und Kurbelwellen und Zahnräder). E-Antriebe müssen aus Hochpräzisionskomponenten bestehen, welche hohen Drehmomenten standhalten, ein geringes Gewicht haben und geräuschlos sind.

- Der Fokus für e-Tools liegt auf Komponenten, welche im Antriebsmechanismus von batteriebetriebenen kabellosen Elektro- und Gartenwerkzeugen verwendet werden. Der Bereich umfasst die Herstellung von Präzisionskomponenten, die in dem Teil des Getriebes verwendet werden, der den Elektromotor mit dem Werkzeugteil (Schneider, Trimmer) verbindet.

- Der Fokus für Conventional liegt auf Getrieben für verschiedene Anwendungen, darunter Rolltore, Systeme für Heizung, Lüftung und Klimatechnik ("**HVAC-Systeme**"), Motorräder und nicht-motorenbezogene Präzisionsteile für Premium- und Luxusfahrzeuge. Der Bereich umfasst die Produktion verschiedener Präzisionsteile für herkömmliche Getriebeanwendungen (z.B. Antriebs-, Lenk- und Bremssysteme und die Karosserie des Fahrzeugs) sowie andere industrielle Anwendungen. Automobil- und industrieanwendungen gehören nicht zum primären strategischen Fokus von hGears.

Die wichtigsten Rohstoffe für die Herstellung von hGears Produkten sind bearbeiteter Stahl (z.B. Rohlinge und Stäbe) und Pulverstahl. Manchmal bezieht hGears auch gefertigte Einzelteile (z.B. Getriebe und Schrauben), um diese in Teilsysteme und vollständige Systeme einzubauen.

hGears besteht aus der Gesellschaft und ihren drei hundertprozentigen Tochtergesellschaften: Herzog GmbH ("**Herzog**"), mG miniGears S.p.A. (Italien) ("**mG miniGears**") and mG miniGears (Suzhou) Co. Ltd (China) ("**mG miniGears Suzhou**") (welche der Gesellschaft indirekt durch mG miniGears gehört). Herzog wurde 1958 gegründet und 2011 von der Gesellschaft erworben. Die Gesellschaft wurde 2011 zum Zwecke des Erwerbs von Herzog als Holdinggesellschaft von hGears gegründet. mG miniGears wurde 2008 und mG miniGears Suzhou 2003 gegründet. mG miniGears hat mG miniGears Suzhou in 2014 erworben und wurde 2015 durch die Gesellschaft erworben.

Zum Datum des Prospekts sind Finatem III GmbH & Co. KG, Frankfurt am Main, Deutschland ("**Finatem**" oder die "**Hauptaktionärin**") mit 90,00 % des Grundkapitals und der Stimmrechte und halten dadurch eine Mehrheitsbeteiligung an der Gesellschaft, HPH Beteiligungs-UG (haftungsbeschränkt), Lauterbach, Deutschland ("**HPH**") mit 5,06 % des Grundkapitals und der Stimmrechte und M-H Herzog Beteiligungs-UG (haftungsbeschränkt), Schramberg, Deutschland ("**M-H Herzog**" und zusammen mit Finatem und HPH die "**Verkaufende Aktionäre**"), mit 4,94 % des Grundkapitals und der Stimmrechte die Hauptaktionäre der Gesellschaft. Die Stimmrechte, die Finatem hält, werden der Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main, Deutschland zugerechnet. Die Stimmrechte, die HPH hält, werden Herrn Hanspeter Herzog zugerechnet. Die Stimmrechte, die M-H Herzog hält, werden Herrn Markus Herzog zugerechnet.

Die Mitglieder des Vorstands der Gesellschaft zum Datum des Prospekts sind Herr Pierluca Sartorello (Vorstandsvorsitzender) und Herr Daniel Basok (Finanzvorstand).

Der gesetzliche Abschlussprüfer der Gesellschaft ist PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Friedrichstraße 14, 70174 Stuttgart, Deutschland ("**PwC**").

2.2.2 Welches sind die wesentlichen Finanzinformationen über den Emittenten?

Die folgenden Finanzinformationen wurden dem geprüften Konzernabschluss der Gesellschaft für das zum 31. Dezember 2020 abgelaufene Geschäftsjahr, der nach Maßgabe der International Financial Reporting

Standards, wie sie in der Europäischen Union ("**EU**") anzuwenden sind ("**IFRS**"), erstellt wurde (der "**Konzernabschluss 2020**"), dem geprüften Konzernabschluss der Gesellschaft für das zum 31. Dezember 2019 abgelaufene Geschäftsjahr, der nach Maßgabe der IFRS erstellt wurde (der "**Konzernabschluss 2019**") sowie dem geprüften, angepassten Konzernabschluss der Gesellschaft für das zum 31. Dezember 2018 abgelaufene Geschäftsjahr, der nach Maßgabe der IFRS erstellt wurde (der "**Konzernabschluss 2018**" und zusammen mit dem Konzernabschluss 2020 und dem Konzernabschluss 2019 die "**Konzernabschlüsse** ") entnommen oder daraus abgeleitet. Die Konzernabschlüsse wurden von PwC geprüft und jeweils mit einem uneingeschränkten Bestätigungsvermerk des unabhängigen Abschlussprüfers versehen.

2.2.2.1 Ausgewählte Finanzinformationen aus der Konzern-Gewinn- und Verlustrechnung

	Geschäftsjahr zum 31. Dezember		
In TEUR	**2020**	**2019**	**2018**
		(geprüft)	
Umsatzerlöse	126.260	121.838	126.205
Ergebnis vor Ertragsteuern	5.879	(4.246)	(848)
Periodenergebnis	6.713	(4.736)	(2.088)

2.2.2.2 Ausgewählte Finanzinformationen aus der Konzernbilanz

	Zum 31. Dezember		
In TEUR	**2020**	**2019**	**2018**
		(geprüft)	
Summe Vermögenswerte	124.853	121.560	89.375
Eigenkapital insgesamt	25.551	19.140	19.357

2.2.2.3 Ausgewählte Finanzinformationen aus der Konzern-Kapitalflussrechnung

	Geschäftsjahr zum 31. Dezember		
In TEUR	**2020**	**2019**	**2018**
		(geprüft)	
Mittelzufluss / (Mittelabfluss) aus betrieblicher Tätigkeit	17.269	12.517	2.243
Mittelzufluss / (Mittelabfluss) aus Investitionstätigkeit	(8.029)	(19.263)	(10.928)
Mittelzufluss / (Mittelabfluss) aus Finanzierungstätigkeit	(3.396)	16.670	7.785

2.2.2.4 Alternative Leistungskennzahlen

	Geschäftsjahr zum 31. Dezember,		
In TEUR, soweit nicht anders dargestellt	**2020**	**2019**	**2018**
		(ungeprüft)	
EBITDA	19.344	10.766	8.781
Bereinigtes EBITDA	22.679	17.453	10.287
Freier Cashflow	9.694	(5.284)	(9.097)
Umsatz- und Ertragsrendite (in %)	5,3	(3,9)	(1,7)

2.2.3 Welches sind die zentralen Risiken, die für den Emittenten spezifisch sind?

- Negative makroökonomische Entwicklungen könnten sich nachteilig auf die Nachfrage für hGears Produkte auswirken.
- In den relevanten Absatzmärkten, insbesondere im Marktsegment für Anwendungen der E-Antriebstechnik (e-drive), sieht sich hGears Wettbewerb ausgesetzt, welcher sich in der Folgezeit intensivieren und niedrigere Verkaufszahlen als erwartet zur Folge haben könnte.
- Unterbrechungen in der Lieferkette der wichtigsten Kunden von hGears könnten negative Auswirkungen auf die Geschäfte von hGears haben, sogar wenn hGears selbst keinem Lieferengpass bei ihren Lieferanten unterliegt.
- hGears ist von einer begrenzten Anzahl von Großkunden abhängig und ein Verlust dieser oder eine ungünstige Veränderung dieser vertraglichen Geschäftsbedingungen könnte sich erheblich negativ auf die Geschäftstätigkeit und die Vermögens,- Finanz- und Ertragslage von hGears auswirken.
- hGears ist von ihrer Fähigkeit abhängig, sich an verändernde Technologien und neue Trends anzupassen und weiter neue Produkte (mit-) zu entwickeln, welche hohe Investitionen erfordern könnten, die möglicherweise nicht zu den erwarteten Ergebnissen führen.
- Ein unerwarteter Preisanstieg für Stahl und andere Materialien, die hGears für die Produktion ihrer Produkte benötigt, könnte zu Preissteigerungen führen, die sich nicht auf die Kunden von hGears abwälzen lassen oder anderweitig durch andere Kostenersparnisprogramme ausgeglichen werden können.

- Betriebsunterbrechungen oder langanhaltende Produktionsstopps könnten sich auf die Lieferfähigkeit von hGears auswirken. Diese könnte nicht mehr in der Lage sein, ihre Produkte (rechtzeitig) zu liefern.
- hGears könnte Mitglieder ihres Managementteams oder andere Schlüsselmitarbeiter verlieren oder nicht in der Lage sein, qualifiziertes Personal für Schlüsselpositionen, einschließlich technischem Personal, anzuwerben oder zu halten. In einem solchen Fall und, insbesondere ohne das Managementteam mit seinem etablierten persönlichen Netzwerk, könnte hGears nicht in der Lage sein, sein Geschäft erfolgreich zu führen und auszubauen.
- hGears könnte zusätzliches Kapital benötigen, das möglicherweise nicht zu wirtschaftlich akzeptablen Bedingungen oder überhaupt nicht verfügbar ist.
- Die Nichteinhaltung bestehender Gesetze und Vorschriften, einschließlich Umweltschutzgesetze, oder Änderungen solcher Gesetze und Vorschriften, könnten hGears dazu zwingen, Kosten für zusätzliche Schritte aufzuwenden, um die zukünftige Einhaltung sicherzustellen und möglicherweise Produktrückrufe erfordern.
- Der Bezug von Rohstoffen oder anderen Bauteilen durch hGears sowie die Lieferungen der Produkte von hGears könnten verspätet oder verzögert sein oder auf Grund von Exportkontrollen oder der Erhebung von Zöllen bedeutend teurer werden.
- hGears könnte Produkthaftungsansprüchen und anderen Ansprüchen und Verfahren in Bezug auf ihre Produkte ausgesetzt sein.
- Die Hauptaktionärin wird weiterhin eine große Beteiligung an der Gesellschaft halten und deren Interessen könnten in Konflikt mit jenen der Gesellschaft und anderer Aktionäre treten.

2.3 Basisinformationen über die Wertpapiere

2.3.1 Welches sind die wichtigsten Merkmale der Wertpapiere?

Öffentlich angeboten werden (i) 2.400.000 Aktien aus einer Kapitalerhöhung gegen Bareinlagen, beschlossen durch eine außerordentliche Hauptversammlung der Gesellschaft unter Ausschluss der Bezugsrechte der Altaktionäre am 5. Mai 2021 (die "**Neuen Aktien**"), (ii) 2.400.000 bestehende Aktien aus dem Bestand der Verkaufenden Aktionäre (die "**Basis Aktien**"), (iii) bis zu 1.000.000 bestehende Aktien aus dem Bestand der Verkaufenden Aktionäre vorbehaltlich einer Ausübung einer Upsize-Option (die "**Upsize-Option**") durch die Verkaufenden Aktionäre nach deren Entscheidung in Abstimmung mit dem Sole Global Coordinator auf der Grundlage der Marktnachfrage am Tag der Preisfestsetzung (die "**Upsize Aktien**" und zusammen mit den Basis Aktien die "**Verkaufsaktien**") und (iv) bis zu 870.000 Aktien aus dem Bestand der Verkaufenden Aktionäre in Verbindung mit einer möglichen Mehrzuteilung (die "**Mehrzuteilungsaktien**" und, zusammen mit den Neuen Aktien und den Verkaufsaktien, die "**Angebotsaktien**").

Die Verkaufenden Aktionäre stellen Hauck & Aufhäuser und ABN AMRO bis zu 870.000 Mehrzuteilungsaktien im Rahmen der Zuteilung der Angebotsaktien ("**Mehrzuteilung**") in Form eines Wertpapierdarlehens zur Deckung der möglichen Mehrzuteilung zur Verfügung, wobei Hauck & Aufhäuser als sogenanntem Stabilisierungsmanager ("**Stabilisierungsmanager**") agiert. Im Zusammenhang mit der möglichen Mehrzuteilung haben die Verkaufenden Aktionäre dem Stabilisierungsmanager eine Option zum Erwerb von zusätzlich bis zu 870.000 Aktien aus den von den Verkaufenden Aktionären gehaltenen Aktien zum Angebotspreis im Rahmen des Angebots ("**Angebotspreis**") abzüglich vereinbarter Provisionen ("**Greenshoe-Option**") eingeräumt, die allein dem Zweck der Erfüllung der Rücklieferungsverpflichtung aus dem Wertpapierdarlehen durch den Stabilisierungsmanager dient. Die Ausübung der Greenshoe-Option darf nur während des Stabilisierungszeitraums erfolgen, d.h. der Zeitraum ab Handelsbeginn am regulierten Markt der Frankfurter Wertpapierbörse, der spätestens am dreißigsten Kalendertag nach diesem Datum endet ("**Stabilisierungszeitraum**").

Zum Handel im Regulierten Markt zugelassen werden (i) bis zu 2.400.000 Neue Aktien und (ii) 8.000.000 Altaktien (die "**Altaktien**", und zusammen mit den Neuen Aktien, die "**Aktien**").

Alle Aktien sind auf den Inhaber lautende Stammaktien ohne Nennbetrag (*Inhaberaktien*). Die Währung der Aktien ist Euro. Jede Aktie hat einen anteiligen Betrag am Grundkapital der Gesellschaft von EUR 1,00. Die Aktien haben eine unbestimmte Laufzeit. Die ISIN der Aktien lautet DE000A3CMGN3. Jede Aktie hat volle Dividendenberechtigung ab 1. Januar 2021. Alle Aktien gewähren gleiche Rechte an der Gesellschaft, einschließlich gleicher Rechte auf Dividenden und Liquidationserlöse und gleichen Rang im Falle einer Insolvenz. Jede Aktie gewährt eine Stimme in der Hauptversammlung der Gesellschaft.

Die Aktien sind in Übereinstimmung mit den rechtlichen Voraussetzungen für auf den Inhaber lautende Stammaktien frei übertragbar. Außer der Lock-up-Vereinbarungen zwischen den Verkaufenden Aktionären und dem Sole Global Coordinator, die bestimmte Veräußerungsbestimmungen während des Zeitraums von 360 Tagen nach dem ersten Handelstag der Aktien an der Frankfurter Wertpapierbörse vorsehen, gibt es keine Verfügungsverbote oder Beschränkungen in Bezug auf die Übertragbarkeit der Aktien.

Die Anteile der Aktionäre am ausschüttungsfähigen Gewinn der Gesellschaft bestimmen sich nach dem Verhältnis ihrer Beteiligung am Grundkapital der Gesellschaft. Die Gesellschaft beabsichtigt derzeit keine Dividendenausschüttung im laufenden Geschäftsjahr, auch nicht kurz- bis mittelfristig, und beabsichtigt, weiterhin in das Wachstum ihres Geschäfts zu investieren.

2.3.2 Wo werden die Wertpapiere gehandelt?

Es wird ein Antrag auf die Zulassung der Aktien zum Handel im Regulierten Markt der Frankfurter Wertpapierbörse und, zeitgleich, auf die Zulassung zum Teilbereich des Regulierten Markts mit weiteren Zulassungsfolgepflichten (Prime Standard) vorgenommen (die "**Börsenzulassung**").

2.3.3 Welches sind die zentralen Risiken, die für die Wertpapiere spezifisch sind?

Es gibt bislang keinen Markt für den Handel der Aktien der Gesellschaft, wodurch die Entwicklung eines aktiven Handels eingeschränkt sein kann. Dies kann dazu führen, dass der Marktpreis und das Handelsvolumen der Aktien der Gesellschaft erheblich schwanken, was bei Investoren zu erheblichen Verlusten führen kann.

2.4 Wesentliche Informationen über das öffentliche Angebot von Wertpapieren und die Zulassung zum Handel an einem geregelten Markt

2.4.1 Zu welchen Konditionen und nach welchem Zeitplan kann ich in dieses Wertpapier investieren?

2.4.1.1 Allgemeine Bedingungen, Konditionen und voraussichtlicher Zeitplan des Angebots

Das Angebot besteht aus einem öffentlichen Angebot der Angebotsaktien in der Bundesrepublik Deutschland ("**Deutschland**") (das "**Öffentliche Angebot**") sowie Privatplatzierungen in bestimmten Rechtsordnungen außerhalb von Deutschland (die "**Privatplatzierung**", und zusammen mit dem Öffentlichen Angebot, das "**Angebot**"). In den Vereinigten Staaten von Amerika (die "**Vereinigten Staaten**") werden die Angebotsaktien nur qualifizierten institutionellen Anlegern ("**QIBs**") entsprechend und in Übereinstimmung mit sowie unter Berufung auf Rule 144A des U.S. Securities Act von 1933 (in der jeweils gültigen Fassung) (der "**Securities Act**") oder gemäß einer anderen anwendbaren Ausnahme von den Registrierungsanforderungen des Securities Acts bzw. in Transaktionen, die diesen Registrierungsanforderungen nicht unterfallen, angeboten und verkauft. Außerhalb der Vereinigten Staaten werden die Angebotsaktien nur im Rahmen von Offshore-Transaktionen in Übereinstimmung mit Regulation S des Securities Act ("**Regulation S**") angeboten und verkauft.

Die Preisspanne, innerhalb derer Kaufangebote abgegeben werden können, beträgt EUR 23,00 bis EUR 31,00 je Angebotsaktie (die "**Preisspanne**").

Der Angebotszeitraum, in dem Anleger Kaufangebote für die Angebotsaktien abgeben können, wird am 10. Mai 2021 beginnen und endet voraussichtlich am 18. Mai 2021 um 12:00 Uhr mittags (Mitteleuropäische Sommerzeit, "**MESZ**") für Privatanleger (natürliche Personen mit einem Depotkonto in Deutschland) und um 14:00 Uhr (MESZ) für institutionelle Anleger (der "**Angebotszeitraum**"). Mehrfache Kaufaufträge sind zulässig.

Die endgültige Anzahl der im Rahmen des Angebots platzierten Angebotsaktien sowie der Angebotspreis werden voraussichtlich am oder um den 18. Mai 2021 veröffentlicht. Wenn sich das Platzierungsvolumen als nicht ausreichend herausstellt, um allen zum Angebotspreis aufgegebenen Aufträgen nachzukommen, behalten sich die Konsortialbanken das Recht vor, Aufträge abzulehnen oder nur in Teilen anzunehmen.

2.4.1.2 Zulassung zum Handel

Die Gesellschaft und Hauck & Aufhäuser beabsichtigen, den Antrag für die Zulassung der Aktien zum Handel im Regulierter Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zum Teilbereich des Regulierten Markts mit weiteren Zulassungsfolgepflichten (Prime Standard) am oder um den 7. Mai 2021 zu stellen. Der Beschluss über die Zulassung wird voraussichtlich am oder um den 20. Mai 2021 ergehen. Der Handel mit den Aktien wird voraussichtlich am 21. Mai 2021 aufgenommen.

2.4.1.3 Planungen für den Vertrieb

Es besteht keine Vereinbarung zwischen der Gesellschaft, den Verkaufenden Aktionären, und den Konsortialbanken bezüglich des Zuteilungsverfahrens. Die Zuteilung der Angebotsaktien an Privatanleger und institutionelle Anleger wird durch die Gesellschaft nach Rücksprache mit dem Sole Global Coordinator beschlossen. Zuteilungen an institutionelle Anleger werden basierend auf der Qualität der einzelnen institutionellen Anleger (einschließlich ihrer erwarteten Halte- und Investitionsstrategie und der Auftragsgröße), sowie anderer wichtiger Zuteilungskriterien, die von der Gesellschaft und dem Sole Global

Coordinator festgelegt werden, vorgenommen. Zuteilungen an Privatanleger werden in Übereinstimmung mit den "Grundsätzen für die Zuteilung von Aktienemissionen an Privatanleger" der Börsensachverständigenkommission vom 7. Juni 2000 erfolgen.

2.4.1.4 Verwässerung durch das Angebot

Unmittelbare wertbezogene Verwässerung neuer Aktionäre	EUR 18,65* je Aktie oder (69,1) %*
Unmittelbarer wertbezogener Zuwachs bestehender Aktionäre	EUR 5,15* je Aktie oder 160,9 %*

* Unter der Annahme, dass der Angebotspreis der Mitte der Preisspanne entspricht.

Unter der Annahme einer vollständigen Platzierung aller Neuen Aktien und Basis Aktien und unter der Annahme, dass die bestehenden Aktionäre keine Neuen Aktien im Rahmen des Angebots erwerben, werden die Aktien und Stimmrechte der bestehenden Aktionäre von 100 % auf 35,87 % reduziert, wenn die Upsize-Option und die Mehrzuteilungsoption vollständig ausgeübt wird, bzw. auf 53,58 %, wenn die Upsize-Option und Mehrzuteilungsoption nicht ausgeübt wird.

2.4.1.5 Gesamtkosten des Angebots

Die Höhe des der Gesellschaft und den Verkaufenden Aktionären aus dem Angebot zufließenden Bruttoemissionserlöses sowie die mit dem Angebot verbundenen Gesamtkosten, einschließlich der Provisionen der Konsortialbanken, hängen vom Angebotspreis und der Anzahl der Angebotsaktien ab, die im Angebot platziert werden. Unter der Annahme (i) einer vollständigen Platzierung sämtlicher Neuen Aktien und Basis Aktien zu einem Angebotspreis von EUR 27,00, welcher der Mitte der Preisspanne entspricht, (ii) einer vollständigen Ausübung der Upsize-Option und der von den Verkaufenden Aktionäre der Konsortialbanken eingeräumten Option, bis zu 870.000 zusätzliche Aktien zum Angebotspreis zu erwerben (die "**Greenshoe-Option**") zu einem Angebotspreis von EUR 27,00, welches der Mitte der Preisspanne entspricht, schätzt die Gesellschaft die Gesamtkosten des Angebots, einschließlich der an die Konsortialbanken zu zahlenden Provisionen (einschließlich einer möglichen ermessensabhängigen Vergütung) und der anderen Kosten für die Ausgabe der Neuen Aktien, die Platzierung der Basis Aktien, der Upsize Aktien und der Mehrzuteilungsaktien und die Börsenzulassung, auf eine Höhe von etwa EUR 10,4 Mio. Davon wird die Gesellschaft die Kosten in Höhe von insgesamt etwa EUR 3,5 Mio. und die Verkaufenden Aktionäre die Kosten in Höhe von insgesamt etwa EUR 6,9 Mio. tragen. Unter der Annahme einer vollständigen Platzierung sämtlicher Neuen Aktien und Basis Aktien zu einem Angebotspreis von EUR 27,00, welcher der Mitte der Preisspanne entspricht, und der Annahme, dass die Upsize Option und die Greenshoe Option nicht ausgeübt werden, schätzt die Gesellschaft die Gesamtkosten des Angebots, einschließlich der an die Konsortialbanken zu zahlenden Provisionen (einschließlich einer möglichen ermessensabhängigen Vergütung) und der anderen Kosten für die Ausgabe der Neuen Aktien, die Platzierung der Basis Aktien und die Börsenzulassung, auf eine Höhe von etwa EUR 7,9 Mio. Davon wird die Gesellschaft die Kosten in Höhe von insgesamt etwa EUR 3,8 Mio. und die Verkaufenden Aktionäre die Kosten in Höhe von insgesamt etwa EUR 4,1 Mio. tragen.

Weder die Gesellschaft, noch die Verkaufenden Aktionäre, noch die Konsortialbanken werden den Anlegern Kosten oder Steuern in Verbindung mit dem Angebot in Rechnung stellen. Die Anleger müssen die üblichen Transaktions- und Bearbeitungsgebühren tragen, die von ihren Brokern, einschließlich der Konsortialbanken, oder anderen Finanzinstituten, über die sie ihre Wertpapiere halten, erhoben werden.

2.4.2 Wer ist der Anbieter und die die Zulassung zum Handel beantragende Person?

Die Anbieter sind die hGears AG, Schramberg, Deutschland, die Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main, Deutschland und ABN AMRO Bank N.V., Amsterdam, Niederlande. hGears AG und Hauck & Aufhäuser sind Aktiengesellschaften, die in Deutschland gegründet wurden und deutschem Recht unterliegen. ABN AMRO ist eine Aktiengesellschaft, die in den Niederlanden gegründet wurde und holländischem Recht unterliegt. Die Personen, die die Zulassung zum Handel an einem geregelten Markt beantragen sind die Gesellschaft und Hauck & Aufhäuser.

2.4.3 Weshalb wird dieser Prospekt erstellt?

Dieser Prospekt wird zur Eigenkapitalfinanzierung der Gesellschaft und für den Antrag auf Zulassung der Aktien zum Handel im Regulierten Markt der Frankfurter Wertpapierbörse erstellt, für den ein gebilligter Prospekt erforderlich ist. Die Verkaufenden Aktionäre beabsichtigen, die Verkaufsaktien zu verkaufen, um ihre Beteiligung an der Gesellschaft teilweise zu veräußern und um einen ausreichenden Streubesitz und eine ausreichende Handelsliquidität in den Aktien sicherzustellen.

2.4.3.1 Verwendung der Emissionserlöse

Unter der Annahme einer vollständigen Platzierung sämtlicher 2.400.000 Neuen Aktien zu einem Angebotspreis von EUR 27,00, welcher der Mitte der Preisspanne entspricht, schätzt die Gesellschaft den der Gesellschaft zurechenbaren Nettoemissionserlös aus dem Angebot auf etwa EUR 61,3 Mio. Die Gesellschaft beabsichtigt, den ihr aus dem Angebot zurechenbaren Nettoemissionserlös für die nachfolgenden Verwendungszwecke dargestellt nach Priorität zu verwenden (i) in Höhe von rund EUR 35 Millionen zur Finanzierung von Investitionen in Produktionsanlagen zur Ausweitung der Fertigungskapazitäten mit Schwerpunkt auf den Bereich e-Mobility, (ii) in Höhe von rund EUR 14 Millionen zur vollständigen Rückzahlung sämtlicher Gesellschafterdarlehen und (iii) in Höhe von rund EUR 10 Millionen für die Ausweitung der Forschungs- und Entwicklungstätigkeiten und (iv) den restlichen Erlös für allgemeine Betriebszwecke.

2.4.3.2 Übernahmevertrag

Das Angebot unterliegt einem Übernahmevertrag (der "**Übernahmevertrag**"), unter dem sich die Konsortialbank unter bestimmten Bedingungen verpflichtet hat, die Angebotsaktien zu übernehmen und zu erwerben, um diese Investoren im Rahmen des Angebots anzubieten. Der Übernahmevertrag enthält keine feste Übernahmeverpflichtung.

2.4.3.3 Interessenkonflikte

Es bestehen keine Interessenskonflikte im Zusammenhang mit dem Angebot oder der Börsenzulassung.

3. RISK FACTORS

*An investment in the shares of hGears AG (hereinafter the "**Issuer**" or the "**Company**" and, together with its consolidated subsidiaries, "**hGears**" or the "**Group**") is subject to risks. In addition to the other information contained in this prospectus (the "**Prospectus**"), investors should carefully consider the following risks when deciding whether to invest in the Company's shares.*

*According to article 16 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC, as amended (the "**Prospectus Regulation**"), the risk factors featured in a prospectus must be limited to risks which are specific to the issuer and/or to the securities and which are material for taking an informed investment decision. The following risk factors are categorized into subcategories based on their respective nature. In each category the two most material risk factors are mentioned first based on the Company's current assessment with respect to the probability of their occurrence and the expected magnitude of their negative impact.*

3.1 Market and Industry Risks

3.1.1 Negative macroeconomic developments could adversely affect the demand for hGears' products.

hGears manufactures precision turned parts, gears and engine parts with a particular focus on e-drive applications in its e-Mobility business area (e-bikes and electric and hybrid vehicles) and e-Tools business area (battery driven power and gardening tools) as well as for other automotive and industrial applications (together, the "**Relevant Principal Market Segments** "). Most of hGears' products are sold to customers in Europe and, in particular, in Germany. In the financial year 2020, 75.8% of hGears' sales of goods were generated from sales to customers in the European Union ("**EU**") area and 24.2% from sales to customers outside the EU area, particularly in the United States of America and China. Consequently, hGears may be particularly affected by any factor that reduces sales prices or transaction volumes or presents constraints in the supply chain in its Relevant Principal Market Segments.

As a global supplier of components and systems focused on e-drive applications in the Relevant Principal Market Segments, hGears is affected by changes in general global economic and political conditions which may adversely affect the industries and markets in which it sells its products. hGears' industries and markets are affected by general levels of industrial and manufacturing output, private and public expenditures and general investment levels in its Relevant Principal Market Segments, which could decline as a result of the onset of adverse economic conditions including economic recessions, periods of high inflation, fluctuations in interest and exchange rates and changes in fiscal and monetary policies of governments. Generally, during periods of adverse economic conditions, hGears' customers tend to reduce their production output and their investment levels and customers may delay payments for hGears' products, default on payments or reduce or even cancel orders for its products. As a result, the revenues hGears generates, as well as the overall demand for its products, could decline as a result of the onset of adverse economic conditions. In addition to a reduction in overall demand during periods of economic difficulties and the potential corresponding adverse effects on its business, an economic downturn or worsening economic conditions could result in disruptions in the supply of raw materials and other goods which hGears needs to manufacture its products. In particular, any unfavorable economic developments in its key markets in Europe, the United States of America or China (together the "**Key Geographic Markets**") could have a significant negative impact on hGears' business and operations.

In particular as a result of the effects of the ongoing COVID-19 pandemic the future development of the global economy and the development of the demand for hGears' products is difficult to predict. In addition, broader political and/or economic uncertainties (such as those caused by, among other factors, the uncertain economic prospects in China and other parts of the world, the possibility of increased barriers to trade or trade conflicts e.g. between the United States of America and China or with other countries or regions, and other factors, such as the fluctuation of raw material prices and currency fluctuations) and perceptions of stagnating or weakening economic conditions could cause the demand for hGears' products to decline.

Any of the above developments could result in a deterioration of the economic environment for hGears' products which could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.1.2 hGears faces competition in the Relevant Principal Market Segments, especially for e-drive applications, which may further intensify in the future and lead to lower than expected sales.

The market segments in which hGears operates are competitive and hGears faces significant competition from other companies in its markets based on several key criteria, which include:

- price,
- product technology and reliability,
- product quality and performance,
- reputation, and brand recognition.

hGears competes with other companies in order to enter into contracts with new customers and in order to sell its products to existing customers. hGears competes for sales to existing customers even in cases where it has entered into long-term framework agreements with the customers. The contractually-agreed order volume is typically non-binding, and contractually agreed sales prices are typically fixed for a period between one and five years. In addition, its customers typically have a minimum of two or more main suppliers.

The markets in which hGears operates, in particular the e-mobility sector, might become more competitive in the future. For example a shift of traditional automotive suppliers with available capacity towards e-mobility could increase competition, as could investments by hGears' customers to expand their manufacturing capacities in order to in-source products manufactured by hGears. Some of hGears' existing or new competitors may have comparatively greater name recognition, substantially greater financial and marketing resources, lower production costs or better access to raw materials. These competitors might increase their market presence through more aggressive pricing when selling competing products to hGears' customers or otherwise be able to offer lower prices. Such pricing competition may in turn force hGears to lower its selling prices. Moreover, any merger among hGears' competitors could enhance their product offerings, production capabilities and financial resources, which could strengthen their competitive position relative to hGears.

hGears' inability to compete successfully, or to distinguish itself adequately from its competitors, could lead to lower than expected sales and could adversely affect its business, net assets, financial condition, cash flow, and results of operations.

3.1.3 Disruptions in the supply chains of its key customers could have an adverse effect on hGears' business, even if hGears itself does not experience any shortages in its supply chain.

hGears' customer base is composed primarily of major suppliers of systems for integration into the end product ("**Tier 1 Suppliers**") or of original equipment manufacturers which manufacture and sell end products ("**OEMs**"). hGears has a concentrated customer base. Its top 10 customers accounted for 72.3% of its consolidated sales of goods in the financial year ended December 31, 2020. This concentration is typical for suppliers in hGears' end-industries, where a few global players dominate and relatively few suppliers possess the capabilities and capacities to meet customers' requirements; see also "*3.2.1 hGears relies on a limited number of key customers and losing them or suffering unfavourable changes in contract terms and conditions could materially adversely affect its business, financial condition, results of operations, cash flows and prospects.*". Disruptions in the supply chains of its key customers could have a direct impact on the demand for hGears' products. The supply chains of its customers can be affected by various factors. For example, other supply chain participants, or hGears' customers, may face financial difficulties, including bankruptcy or production disruptions due to labor issues, natural disasters or shortages of raw materials or other inputs, such as semiconductors. In addition, competing demands from other industries for products or materials used by hGears' customers may disrupt supply chains. If any of these events occur, it could force suppliers, including hGears, to temporarily shut down production at plants that are producing products for any of these key customers, even if hGears does not experience any shortages in its own supply chain.

The materialization of any of these risks could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.1.4 Conflicts, military action, terrorist attacks and political instability globally or in the countries where hGears sources its raw materials and inputs and manufactures and sells its products could materially adversely affect global demand for hGears' products.

Conflicts, military action and terrorist attacks have precipitated political and economic instability and turmoil in the economies of some countries in which hGears' products are used. Instability and turmoil, particularly in, or affecting hGears' Key Geographic Markets, may lead to plant disruptions at facilities in which hGears' products are used or from which its raw materials and inputs are supplied or an inability of its customers to use its products at their facilities. The uncertainty and economic disruption resulting from hostilities, military action and acts of terrorism may also impact global demand in the Relevant Market Segments, depending on the jurisdictions in which such conflicts, military action or terrorist attacks occur, which could adversely affect hGears' business. Accordingly, any conflict, military action or terrorist attack could materially adversely impact the operations of its customers and suppliers, which could, in turn, adversely affect hGears' business, could lead to a loss of markets in which its products can be used and could therefore adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2 Business Risks

3.2.1 hGears relies on a limited number of key customers and losing them or suffering unfavourable changes in contract terms and conditions could materially adversely affect its business, financial condition, results of operations, cash flows and prospects.

hGears has a concentrated customer base, which is typical for the industry in which it operates. Its top customer accounted for 32.3%, its top 5 customers accounted for 60.3% and its top 10 customers accounted for 72.3% of its consolidated sales of goods in the financial year ended December 31, 2020; see "*3.1.3 Disruptions in the supply chains of its key customers could have an adverse effect on hGears' business, even if hGears itself does not experience any shortages in its supply chain.*" Such customers are primarily well known Tier 1 Suppliers and OEMs.

While hGears has entered into long-term contracts with many key customers there is no guarantee that its relationship with those customers will continue or be extended. Even where long-term framework agreements are in place, there is usually no binding minimum order volume contractually agreed, and customers may not purchase the quantities of products that hGears expects. Moreover, the terms of the framework agreements may be amended. In certain circumstances they may be terminated entirely, e.g. for good cause, due to change of control, or if the customer's product requirements change due to circumstances beyond the customer's influence. If hGears is not able to maintain its existing relationships with such customers, or if some of these existing customers reduce their purchases of hGears' products and hGears is unable to establish new relationships with new customers, this will significantly affect its revenues and results of operations.

In addition, large companies such as Tier 1 Suppliers and OEMs typically have extensive purchasing departments which monitor the terms and conditions of contractual relationships with outside providers. If any of these purchasing departments believe that the terms and conditions of the agreements with hGears need to be revised, they could require hGears to renegotiate such agreements on terms and conditions unfavourable to it. hGears' existing relationships with its customers may also be subject to change as a result of changing customer priorities, external pressures or the deterioration of a customer's financial condition, any of which may alter the customer relationship, including by way of customers seeking to renegotiate previously agreed terms.

hGears' dependence on a small number of key customers may also require it to accept commercially unfavourable conditions in the future in order to maintain customer relationships. This dependence could expose hGears to the risk of substantial losses if one of its key customers terminates its contractual relationship, fails to renew the contractual relationship, or decreases the purchase volume under its contract with hGears. In addition, there is also a risk that hGears could suffer losses if any of its key customers were to consolidate with a competitor which sources its products from another supplier or produces such products in-house.

The materialization of any of the above risks could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2.2 hGears depends on its ability to adapt to changing technologies and new trends and to co-develop new products which may require significant investments which may not realize the envisaged benefits.

The markets in which hGears operates are subject to constant technological change. To remain competitive, hGears must adapt to evolving industry requirements. This process may involve:

- improving the efficiency of its existing products (e.g. improving single components in order to obtain higher torque resistance, less noise and lower weight),
- introducing new products,
- improving its manufacturing processes (e.g., combining technologies such as machined steel and powder metal), or
- shifting product focus.

In a number of cases, hGears works together with its customers in a "co-development" process to design components and find technologically optimal solutions to satisfy the customer's specifications. Product development or any material strategic repositioning may require significant investment. For example in the financial years ended December 31, 2018 and 2019, in order to implement a strategic shift towards electrical drive applications with a focus on the e-mobility market segment, hGears made investments in the amount EUR 12,560 thousand and EUR 20,390 thousand, respectively. There can be no guarantee that hGears will be able to anticipate or accommodate technological developments or industry trends on a timely basis, or that its investments in response to such developments and trends will achieve the desired results.

In addition, hGears' relies on third parties creating or expanding markets for their end products that utilize hGears' components or systems. If such end products are not developed, or if hGears is not successful in having its products included into these end products, or if the market for such end products does not develop or contracts, the market for hGears' products would be similarly affected. Furthermore, hGears may have to bear additional costs if the development of such third-party end products is delayed. For example, in the financial year ended December 31, 2019, hGears bore one-off ramp-up costs, including extra transportation costs, idle time of hired staff, layout costs to set up new machines and abnormal scraping costs, in the amount of EUR 4,238 thousand in connection with the postponement by its customer of the ramp-up of a new product in the e-Mobility business area.

The materialization of any of the above risks could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2.3 hGears may not achieve the expected benefits of the recent shift in its strategic focus to its e-Mobility business area.

hGears has recently implemented a strategic shift to focus on e-drive application products for the e-mobility sector (e-bikes and electric and hybrid vehicles) and has invested strongly in its production capabilities in this business area. hGears intends in the future to significantly invest further in production equipment or, potentially, acquire one or more businesses with the requisite production capabilities to further expand its production capacities, primarily in the e-mobility sector.

As a result of such strategic repositioning to focus on the e-Mobility business area, hGears' business and envisaged growth is strongly linked to the demand for e-bikes and electric and hybrid vehicles in the major regional markets in which its customers operate. The expected impact on its sales and operating results related to these investments may not materialize for a variety of reasons. These reasons include overall demand for e-bikes and electric and hybrid vehicles being lower than expected and competition from manufacturers of e-bikes and electric and hybrid vehicles that do not use hGears' products. In addition, hGears may not realize expected future sales or operating results and it may experience difficulties in meeting the production demands of new orders. If hGears does not succeed in successfully implementing its organic growth strategy, this development could have a material adverse impact on its market position and could result in its competitors winning an additional market share.

The materialization of any of these risks could have an adverse effect on hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2.4 Unexpected increases in the prices for steel and other supplies necessary to manufacture hGears' products could lead to price increases which cannot be passed on to its customers or otherwise offset through other cost saving measures.

hGears' most significant raw material cost is steel (including machined steel and powder metal). hGears sources its steel bars from a select number of global suppliers. There are only a few global suppliers of powder metal in the market. hGears sources its requirements from one large Swedish supplier.

hGears typically agrees steel prices with its suppliers annually based on expected volumes of product sales. However, if the volume of products sold exceeds what was expected hGears may be exposed to higher steel prices for the additional steel it needs to purchase. Contracts with hGears' customers in the e-Mobility business area and in the automotive business typically include price-adjustment clauses for movements in steel prices within a specified range. If the steel price moves beyond the range, then hGears and customer may agree a revised price. No such price adjustment clauses are typically included in contracts with customers in the e-Tools or Conventional business areas (except for automotive).

As the global economic climate changes, the Company expects that hGears' cost of steel and other raw materials and consumables will continue to be subject to fluctuatations as they have in the past. If hGears is not able to pass through price increases to its customers or adjust its selling prices accordingly, its financial performance and results of operations may be negatively affected.

3.2.5 Operational disruptions or lengthy periods of production downtime may affect hGears' ability to deliver its products on time or at all.

The success of hGears' business depends in part on its ability to manufacture and deliver its products to its customers on time. Operational disruptions or lengthy periods of production downtime can result from a variety of factors including: fires, accidents, pandemics, human error, natural disasters, environmental damage, floods, wars, terrorism, supply shortage, faulty equipment, severe weather or other disruptions of its production and/or delivery processes or within its or its customers' supply chains. Any of these factors could make it extremely costly to fulfil customer orders or meet deadlines, lead to significant unexpected capital expenditures for repair costs or replacement equipment or make it impossible for it to manufacture and deliver its products on time, all of which could potentially expose it to significantly higher costs and potential liability from its customers.

In connection with the COVID-19 pandemic hGears was forced to close its manufacturing sites in China, Italy and Germany for short periods of time in line with the respective governmental counter-measures in these countries. There remains a risk due to the ongoing pandemic that the governments in these countries may provide for further lock-downs affecting the production facilities of hGears.

The materialization of any of these risks could have an adverse effect on its business, net assets, financial condition, cash flow, and results of operations.

3.2.6 hGears may lose members of the Company's management team or other key personnel or may be unable to recruit or retain qualified personnel for key positions, including technical personnel. In such case, and in particular without the management team with its established personal network, hGears may not be able to successfully manage and expand its business.

The Company believes that hGears' success greatly depends on the performance of the members of the Company's management team, key personnel who are familiar with its key customers and experienced in the markets in which it operates and highly skilled technical personnel, in particular operators of computer numerical control ("**CNC**") machines. In particular, hGears depends upon the services and the established personal networks of its long-term chief executive officer and its chief financial officer to successfully manage and expand its business.

There can be no assurance that hGears' efforts to retain and motivate management and key employees or attract and retain other highly qualified technical personnel will be successful. Industry demand for highly qualified technical personnel, especially in the vicinity of the Company's headquarters and its German production site in Schramberg exceeds the number of personnel available, and the competition for attracting and retaining these employees is intense. In the past there have been instances where hGears faced difficulties recruiting qualified technical personnel for its production site in Germany. The loss of any members of the management team or key employees, or failure to attract new qualified employees, including qualified technical personnel, could impair hGears' growth, which targets an increase in staff of approximately 50% within the next three to five years, and may also make it difficult to maintain its business activities at current levels and therefore could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2.7 Strikes or other industrial action could disrupt hGears' operations.

A work stoppage or slowdown or other industrial action at any of hGears' production facilities, whether based on unrest or disagreements at a particular plant or as a result of strikes called by national unions with workers based at the plant could significantly disrupt its operations, and resulting production delays could result in hGears having to pay penalties to its customers for late delivery of its products. Labor unrest or strikes associated with its operations could also damage hGears' reputation with customers or in the market generally.

A part of hGears' workforce at its production site in Padova, Italy is unionized and subject to collective bargaining agreements and in the past there have been incidents of work stoppages at the Padova site.

No assurance can be given that hGears will be able to avoid strikes or other industrial action in the future or that collective bargaining agreements with unions or employees will be renewed or extended without disruption. If any strikes or other industrial action occur, such actions could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2.8 hGears is exposed to risks associated with the use of temporary staff.

hGears employs a number of temporary employees for certain activities in certain periods when it faces higher production demands, in particular in its production site in Padova, Italy. There can be no assurance that these temporary employees are as well trained, qualified or reliable as its permanent employees, which could result in a decline in service levels or an increase in product defect or occupational accident rates. There are also certain restrictions for temporary workers based on labor law, such as their working conditions in terms of equal treatment principles. If hGears does not comply with those restrictions, the temporary employees might be able to sue for permanent employment status meaning hGears would become liable for past for social contributions and other benefits and may also become subject to administrative fines.

If any such events occur, this could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2.9 hGears' risk management or compliance systems may not have been, or may not be, sufficient to adequately prevent or detect legal, tax and operational risks.

hGears' business is subject to various laws and regulations relating to, among other things, prevention of illegal employment, bribery and corruption and money laundering, as well as compliance with product liability, environmental, antitrust, data protection, consumer protection, minimum wage and tax laws and regulations. While hGears is not aware of any material breaches of applicable laws and regulations, it can neither guarantee that it has always been in full compliance with such laws and regulations in the past in the jurisdictions in which it operates, nor that it will be able to fully comply with them in the future. hGears is reliant on the compliance of its employees and the members of the Company's management board with applicable laws and compliance policies implemented by hGears and there can be no assurance that employees or members of hGears' management team, or third parties acting on hGears' behalf, have not engaged in or will not engage in criminal, unlawful or unethical behavior (including corruption). Existing risk management and internal compliance procedures and controls may not be sufficient to prevent or detect inadequate practices, fraud or violations of law by its management, its employees or third parties acting on its behalf. The laws and regulations in the areas and jurisdictions in which hGears currently operates or may operate in the future are evolving. Consequently, such laws and regulations may change and sometimes may conflict with each other, making it more difficult to observe and comply with them. Moreover, following the Offering and listing, the Company will, as a listed company, be subject to additional requirements which will require it to enhance its compliance procedures and controls. Revising or enhancing risk management and internal compliance procedures and controls to accommodate changed or additional laws and regulations may require the Company to incur significant cost and take significant management time, and there can be no assurance that the procedures and controls will adequately protect the Company from legal and operational risks.

In addition, effective internal controls are necessary for hGears to provide accurate and reliable financial reports. However, an internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Accordingly, there can be no assurance that all issues will be detected and hGears cannot be certain that it will be successful in maintaining adequate internal control over its financial reporting and financial processes. Furthermore, hGears will be required to comply with stringent obligations in connection with the planned admission of its shares to trading on the regulated market. As hGears continues to grow its business, its internal controls will need to become more complex, and it will require significantly more resources to ensure its internal controls remain effective. Additionally, the existence of any material weakness or significant deficiencies could require management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiencies and management may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner. If hGears' internal controls are insufficient to prevent errors in hGears' financial statements, it would be required it to restate its financial statements, causing it to fail to meet its reporting obligations and potentially causing shareholders to lose confidence in its reported financial information, all of which could have an adverse effect on the price of hGears' shares as well as its reputation, business, net assets, financial condition, cash flow, and results of operations. This could also cause the price of the Company's shares to fall, in which case investors could lose some or all of their investment.

Inadequate risk management or compliance measures may cause irregularities that could lead to among other things losses or delays in the development of hGears' business, or to official investigations or third-party claims against hGears, which in turn could have significant financial, reputational and other consequences. These consequences could include significant penalties, damage claims and sanctions, including sanctions imposed by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) in connection with potential breaches of post-listing obligations, as well as considerable damage to hGears' reputation. If hGears suffered any of these consequences, it could have an adverse effect on its business, net assets, financial condition, cash flow, and results of operations.

3.2.10 hGears' operations rely on the undisrupted operation and security of its infrastructure and information technology and it needs to comply with stringent data protection and cyber security laws.

hGears' business operations are dependent on reliable and efficient information technology ("**IT**") systems to ensure that its business runs seamlessly. The functioning of IT systems is of particular relevance to monitor its procurement, orders, product manufacturing, customer communication, staff management and the dissemination of information required by its managers for decision-making. hGears' financial, accounting, data processing, IT, communications or other systems and facilities could fail to operate properly or become disabled as a result of events that are wholly or partially beyond hGears' control, including unauthorized access and data loss (from within or outside the Group), computer viruses, malicious code, cyber-attacks and the interception or misuse of information transmitted or received by hGears.

If one or more of such events were to occur, it could result in the loss of hGears' or its customers' confidential or other information, or otherwise cause serious interruptions or malfunctions in hGears' business operations and risk management systems. It could also result in the loss of hGears' or its purchasers' confidential and other information. Unauthorized access by third parties or the misuse or unintended disclosure of data by employees or third parties may result in the disclosure of confidential business secrets, and may also violate customer contracts or privacy laws such as the EU General Data Protection Regulation ("**GDPR**") which entered into force on May 25, 2018, together with corresponding amendments to national regulations such as the Federal Data Protection Act (*Bundesdatenschutzgesetz*) or the German Trade Secrets Act (*Geschäftsgeheimnisschutzgesetz*). The occurrence of such events could therefore constitute administrative or criminal offences resulting in the issuance of cease and desist orders, may trigger public penalties, such as administrative fines and could also subject hGears to claims for damages. In addition, , it could cause considerable damage to hGears' reputation. and hGears could be required to expend significant additional resources to modify its protective measures or to investigate and remedy vulnerabilities or other exposures.

The occurrence of any of the foregoing events could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2.11 hGears could incur substantial losses from damage not covered by, or exceeding the coverage limits of, its insurance policies.

While hGears is insured against fire, natural disasters, operational interruptions and third-party liability, its insurance policies are subject to exclusions and limitations of liability both in amount and with respect to the insured events. As a result, hGears' production facilities or its employees may suffer physical damage resulting in losses which may not be covered by insurance, either fully or at all. In addition, there are certain types of losses, generally of a catastrophic nature or pandemic events, that may be uninsurable or are not economically insurable.

There can be no assurance that hGears' assessment that it is sufficiently insured against contingencies is accurate. In addition, there can be no assurance that hGears will be able to maintain its current level and scope of coverage or obtain replacement insurance on acceptable terms or at all. Should an uninsured loss or a loss in excess of insured limits occur, hGears may lose capital invested or revenues or incur substantial costs which will not be recouped. In addition, hGears could be liable to repair damage caused by uninsured risks or pay for uninsured environmental clean-ups. Even where hGears has obtained sufficient insurance coverage, its insurance providers could become insolvent, requiring hGears to bear any liabilities and losses. If hGears suffers a loss or incurs a liability against which it is uninsured or insufficiently insured, this could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.2.12 hGears is exposed to foreign currency exchange risks.

hGears' financial statements are prepared in euro but a material part of its business is carried out in currencies other than euro. Fluctuations in foreign currency exchange rates, in particular, the relative strength or weakness of the U.S. dollar, euro and renminbi can have a material impact on hGears performance and results of operations. The functional and presentation currency of the Company and its subsidiaries Herzog GmbH and mG miniGears S.p.A. is the euro. The functional currency of mG miniGears (Suzhou) Co., Ltd. is renminbi. Much of the Group's sales are denominated in euro, but a portion of hGears' revenues, including most of mG miniGears (Suzhou) Co., Ltd.'s revenues, is denominated in other currencies, primarily U.S. dollars. Further, most of mG miniGears (Suzhou) Co., Ltd.'s raw materials and consumables costs and its employee costs are in renminbi. As a result, fluctuations in foreign currency exchange rates, in particular, the relative strength or weakness of the U.S. dollar, euro and renminbi can have a material impact on hGears' performance and results of operations. A weakening of the U.S. dollar and/or renminbi against the euro could have a negative impact on hGears' results derived from sales made in U.S. dollars. Similarly, a strengthening of the U.S. dollar and/or renminbi against the euro could increase hGears' costs when expressed in euro. hGears hedges only a part of its foreign currency exposure against fluctuations. Fluctuations in foreign currency exchange rates could therefore result in losses and can thus have a negative impact on hGears' results of operations.

3.2.13 The Company is a holding company, whose liquidity depends on dividend payments made by its subsidiaries.

The Company is a holding company without any substantial business operations of its own. In addition to the cash the Company raises from debt and equity funding, its liquidity comes from dividend payments made by its operational subsidiaries. If these subsidiaries should fail to generate sufficient profits, or if these subsidiaries should generate losses, this could have material adverse effects on the Company's liquidity and its results of operation, and thus, in particular, on the ability of the Company to pay dividends. Any potential insolvency of a subsidiary could, furthermore, also trigger the insolvency of the Company. The realization of any of these risks could have an adverse effect on the Company's business, net assets, financial condition, cash flow, and results of operations.

3.2.14 hGears has discretion to determine the specific use of the net proceeds from the Offering and its application of the net proceeds from the Offering may not result in successful implementation of its growth strategy.

The Company intends to use the net proceeds from the Offering attributable to the Company to finance investments in production equipment to increase production capacities with a focus on its e-Mobility business area, strengthen its research and development capability and for general corporate purposes. However, the Company's management will have discretion in how hGears will spend the net proceeds within this framework, and may determine to spend the net proceeds from the Offering in ways with which investors may not agree or in ways that do not contribute to hGears' growth as successfully as alternative uses, or at all.

Investors will not have the opportunity, as part of their investment decision, to assess whether net proceeds are being used appropriately. Investors must rely on the judgment of the Company's management regarding the application of the net proceeds of the Offering. Any failure of hGears to apply the net proceeds of the Offering in ways that contribute to the success of its growth strategy or improve its results of operations, could adversely affect hGears' business, net assets, financial condition, cash flow and results of operations.

3.3 Financing Risks

3.3.1 hGears may be unable to maintain or obtain sufficient debt financing on acceptable terms, or at all.

hGears has historically financed and currently finances its operations in part from borrowings under its term and revolving facilities agreement with two European financing banks. Upon expiration of this agreement, there is a risk that hGears will be unable to secure sufficient further funding for its business operations. hGears may also seek additional debt financing in the future for general corporate purposes, to implement its growth strategy or for other purposes. However, it may be unable to obtain additional debt financing on acceptable terms or at all. If the Company raises additional funds by issuing debt, it may be subject to limitations on its operations and its ability to pay dividends due to restrictive covenants.

hGears also partly finances its operations through factoring arrangements with three international banks under which certain customer receivables can be offered to the factoring banks and sold without recourse. Upon expiration of these arrangements, hGears may face difficulties entering into new factoring arrangements on acceptable terms or at all, and it may be unable to factor receivables to the extent it currently does. hGears may also face additional difficulties in extending existing accounts payable or refinancing on favorable terms and it may also be forced to provide letters of credit to its subsidiaries.

If adequate financing is not available on acceptable terms, it may constrain hGears' ability to fund growth opportunities, successfully develop or enhance products or respond to competitive pressures, which could adversely affect its business, net assets, financial condition, cash flow, and results of operations.

3.3.2 hGears major facilities agreement contains restrictive covenants, including change of control provisions.

In September 2018, hGears entered into a term and revolving facilities agreement with two European financing banks in order to fund its investments to implement its strategic shift to focus on electrical drive applications for the e-mobility market segment. The facilities agreement was amended and restated on November 21, 2019, December 7, 2020 and April 28, 2021. The facilities agreement provides for term and revolving credit facilities in an aggregate amount of EUR 32,175,000 divided into various tranches, each with a variable interest rate linked to the EURIBOR. As security for the financing banks the Company pledged movable assets, trade receivables and certain bank accounts as well as its shares in its German and Italian subsidiaries. The facilities agreement contains a leverage covenant and a change of control provision that requires the consent of the financing banks, inter alia, if (i) the shareholding of Finatem in the Company falls below 30% or (ii) another person not connected to Finatem acquires a shareholding in the Company of more than 30%. In the event of a covenant breach the financing banks may request cancelation of the term loan facilities commitment and declare the outstanding loans together with interest accrued thereon due and payable within ten business days.

The occurrence of any one or more of the foregoing events could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.3.3 An increase in interest rates could increase hGears' costs for its debt financing arrangements.

Most of hGears' third-party debt carries a variable interest rate linked to the EURIBOR. As a result an increase in the EURIBOR would result in higher financing costs. Interest rates can fluctuate due to, among other things, inflationary pressures, disruption to financial markets and the availability of bank credit. hGears currently hedges only part of its interest rate exposure. Any rise in interest rates could thus have an adverse effect on hGears' business, net assets, financial condition, cash flow, and results of operations.

3.4 Regulatory Risks

3.4.1 Non-compliance with existing laws and regulations, including environmental laws, or changes in any such laws and regulations could result in hGears incurring costs in order to take additional steps to ensure future compliance and potentially require product recalls.

As a group operating in many jurisdictions, hGears is subject to international, European Union, national and local laws, regulations and ordinances. hGears must observe a large number of different regulatory requirements. These laws and regulations relate to, among other things, occupational health and safety, environmental matters (including air and water emissions and the management and disposal of certain materials, substances and waste), employment and product safety. For its production sites and operations, hGears is required to obtain and hold various permits. The laws and regulations that hGears is subject to change frequently, evolve constantly and may become more stringent. hGears may be required to incur significant costs and devote significant management time to adapting its production processes and operating policies to changes in applicable laws and regulations and there can be no assurance that its efforts will ensure it is in compliance. If hGears does not comply with existing, changed or new laws and regulations, it may be required to take remedial actions that could be costly and time consuming, and it may also be subject to fines, administrative penalties, claims for damages and, potentially, criminal charges. If it does not comply with applicable requirements regarding product safety, it could be forced to halt production and recall products it has already sold, which, among other adverse consequences, could severely adversely affect its reputation.

hGears' production sites in Germany, Italy and China have been used for industrial purposes for many years, leading to risks of environmental contamination which may result in remediation obligations, regardless of whether hGears is the legal owner of the site or is merely using it (i.e. an operator), and irrespective of whether hGears caused the contamination or acted with fault. Moreover, hGears could be held responsible for the remediation of areas adjacent to its sites if these areas were contaminated due to its activities or activities of previous users of the sites. In particular, Chinese authorities are increasingly monitoring compliance with environmental regulations. Violations of environmental laws and regulations may lead to significant sanctions including the shutdown of affected facilities and administrative fines and could also result in payment of damages to affected parties. In addition, any required remedial actions could be costly and cause interruptions to hGears' operations.

The occurrence of any of these risks could adversely affect hGears' business, net assets, financial condition, cash flow, and results of operations.

3.4.2 Receipt of raw materials and other inputs by hGears and deliveries of hGears' products to its customers could be delayed, hindered or made significantly more expensive by export or import controls or the imposition of custom duties or tariffs.

hGears' operating subsidiaries are in Schramberg (Germany), Padova (Italy) and Suzhou (China), but it also sells and delivers its products to various other countries outside of the European Union ("**EU**") and China, such as the United States of America, Mexico and Brazil. The export of hGears' products to customers, or the export of raw materials, machinery or other inputs by hGears' suppliers to hGears may be subject to limitations including the need for export licenses, specific export controls, embargoes (imposed by the relevant country where hGears is operating or countries where the customers or suppliers are based), trade restrictions or custom duties and tariffs. Exports of hGears' products could be delayed until these issues are properly addressed. Furthermore, the import of hGears' products by its customers in other countries, or of raw materials or other inputs from other countries, such as India and South Korea, by hGears may also be subject to limitations, including prior approval or license by the competent authorities, or delays.

In addition, there can be no assurance that (i) the export or import controls to which hGears or its customers or suppliers are subject will not be tightened or that custom duties or tariffs will not be significantly increased, (ii) new products developed by hGears will not be subject to similar or tighter controls or (iii) geopolitical factors will not make it more difficult, or impossible, for hGears, or its customers or suppliers to obtain export or import licenses or make it more difficult for hGears to execute previously signed contracts (e.g. because of new embargoes).

If hGears fails to manage these risks adequately, or if one of these risks materializes, it could have a material adverse effect on its business, net assets, financial condition, cash flow, and results of operations.

3.5 Legal and Tax Risks

3.5.1 hGears may become subject to product liability claims and other legal proceedings and claims regarding its products.

hGears may become subject to product liability lawsuits and other legal proceedings and claims alleging violations of due care, violation of warranty obligations, non-compliance of its products with customer specifications, errors in the use of its equipment due to incorrect instructions provided by hGears, product defects, violations of safety provisions and breaches of contract (including but not limited to delivery delays).

A successful lawsuit or claim could result in hGears having to pay substantial fines imposed by government or regulatory authorities or substantial damages to claimants, and in a worst-case scenario could lead to the need to recall products. In addition, the adverse publicity associated with a lawsuit or claim, even if unsuccessful, could result in the loss of market acceptance and reputation of hGears, the loss of revenue and the loss of customers. This risk could be heightened by the fact that many of hGears customers incorporate hGears' products into components that have a major impact on the overall safety, durability and performance of its customers' end product (or of an OEM's end-product where hGears' customer is a Tier 1 Supplier). The fact that hGears' products are incorporated into the products of its customers (or of an OEM) means there is also a risk that hGears could be subject to product liability or other claims and adverse publicity arising from issues with those other products, even if hGears' products are not at fault. hGears' insures the risks arising from product liability lawsuits, proceedings and other claims to the extent it considers economically reasonable, but the insurance coverage could prove insufficient in individual cases and would not protect from damage to hGears' reputation.

hGears manufactures its products pursuant to customers' specifications and performance and quality requirements. If hGears does not deliver its products in a timely manner, it is generally subject to contractual penalties. If hGears delivers products which are not compliant with contractual requirements with its customers, it is required to remedy any such issues, which may require it to incur additional costs. If hGears is unable to remedy such issues, its customers may have the right to rescind the contract and thus require hGears to take back the products against re-payment of the purchase price received by it and any related costs incurred by the customer in connection therewith or to instruct a third party at its expense, and against crediting of any tranches of the purchase price not already paid, either to identify and remedy such issues or to provide a substitute product. Furthermore, hGears customers could potentially bring claims for damages on the basis of culpa in contrahendo or breach of contract, even if the cause of the defect is remedied at a later point in time. In addition, failure to perform with respect to quality requirements could negatively affect the market acceptance of hGears brand and its market reputation.

The materialization of any of these risks could have a material adverse effect on hGears' business, net assets, financial condition, cash flow, and results of operations.

3.5.2 hGears is exposed to risks from ongoing and potential future litigation and other legal and regulatory actions and risks, and could incur significant liabilities and substantial legal fees.

hGears is, and may become, a party to legal disputes, administrative proceedings and government investigations. Such legal disputes, proceedings and investigations may, in particular, arise from its relationships with its contractual counterparties, end-customers, consumers and public authorities and could allege, among other things, breaches of contract, tort or the failure to comply with applicable laws and regulations. There may also be investigations by governmental authorities into circumstances of which hGears is not currently aware or which may arise in the future, including possible regulatory and environmental complaints, licensing challenges or criminal proceedings.

If hGears were to be found liable under any such claims, lawsuits or investigations it might be required to pay damages or fines and to take, or refrain from taking, certain actions and it could incur substantial costs and divert substantial amounts of management's time in dealing with them, even if they are unsuccessful, any of which could adversely affect its business, net assets, financial condition, cash flow, and results of operations.

3.5.3 hGears is subject to the tax laws and regulations of Germany, Italy and China. Its tax burden may increase as a consequence of current or future tax assessments or court proceedings in connection with changes in domestic or foreign tax laws and double taxation treaties or changes in the application or interpretation thereof.

hGears is subject to the tax laws and regulations of Germany, Italy and China. hGears' tax liability depends on various aspects of tax laws and regulations including German domestic tax laws and regulations and double taxation treaties concluded, in particular, between Germany and the countries in which its operating subsidiaries are located, i.e. Italy and China. Due to hGears' international business activities, hGears is constantly exposed to risks arising from the application of international tax concepts used for the purpose of allocating taxing rights between countries, for example the concept of permanent establishment as used, inter alia, in double taxation treaties. Amendments to tax laws and double taxation treaties may have a retroactive effect, and their application or interpretation by tax authorities or courts is subject to change and may not be anticipated by hGears. Furthermore, tax authorities occasionally limit court decisions to their specific facts by way of non-application decrees which results in additional uncertainties regarding the interpretation of tax law and regulations.

As a holding company, the Issuer's ability to distribute dividends depends largely on dividend payments made by its subsidiaries (see above "*3.2.13 The Company is a holding company, whose liquidity depends on dividend payments made by its subsidiaries.*"). Among other things, these intra-group distributions are subject to withholding taxes (*Kapitalertragssteuer* or *Quellensteuer*) potentially on multiple levels. No assurance can be given that the taxation of intra-group distributions may not negatively affect the Company's ability to pay dividends in the future (e.g. because of tax costs in connection with such dividend payments due to non-refundable withholding taxes, double taxation, etc.).

Thin capitalization and interest deduction limitation rules in various jurisdictions restrict the tax deductibility of interest expenses and the possibility of companies to carry forward non-deducted interest expenses to future assessment periods. As the interpretation of these rules is not entirely clear in many jurisdictions, it cannot be ruled out that the competent tax authorities will take a different view regarding the tax deductibility of interest expenses than the Company.

hGears is subject to regular tax audits in the jurisdictions in which it conducts its operations. As the result of an audit, hGears may incur additional tax payments as well as penalties and late payment charges resulting from the corresponding tax assessments.

The materialization of any of these risks could have a material adverse effect on its business, net assets, financial condition, cash flow, and results of operations.

3.6 Risks related to the Company's shares

3.6.1 The Major Shareholder will continue to hold a significant interest in the Company and its interests may conflict with those of the Company and other shareholders.

Upon completion of the Offering and listing Finatem III GmbH & Co. KG, Frankfurt am Main, Germany ("**Finatem**" or the "**Major Shareholder**") will hold more than 32.3% of the Company's issued shares (assuming a placement of all Offer Shares, including full exercise of the Upsize Option and the Greenshoe Option). Due to its significant shareholding in such a scenario, the Major Shareholder will also following the Offering be in a position to exert significant influence at the Company's shareholders' meetings, in particular as typically many of the free float shareholders will not attend the Company's shareholders' meetings. Certain measures and transactions requiring a simple majority of the votes present at the Company's shareholders' meeting, such as potential dividend payments or the election of supervisory board members may therefore be likely to be resolved by the Major Shareholder without the support, or with only limited support, of other shareholders. In addition, the Major Shareholder will be in a position to block resolutions tabled at meetings of the Company's shareholders, in particular those decisions which require a majority of at least three-fourths of the share capital represented at the vote, such as amendments to the Company's articles of association or certain capital measures.

In addition, the interests of the Major Shareholder may be different from, or conflict with, the Company's interests or the interests of the Company's other shareholders. There can be no assurance that the Major Shareholder will exercise its influence over the Company at any time in a way that serves the interests of the Company's other shareholders.

Conflicts between the interests of the Major Shareholder and those of the Company or its other shareholders may have an adverse effect on hGears' business, financial condition and results of operations. This could cause the price of the Company's shares to fall, in which case investors could lose some or all of their investment.

3.6.2 Future capital increases could lead to a substantial dilution of shareholders' interests in the Company and their voting rights and may adversely affect the market price of the Company's shares.

The Company may in the future seek to raise additional capital through the issuance of additional shares or debt securities with conversion rights (e.g., convertible bonds and option rights) or to implement future stock option or employee participation programs. An issuance of additional equity securities or securities with a right to convert into equity, such as convertible bonds or warrant bonds, or the exercise of a stock option or employee stock matching program could potentially affect the market price of the Company's.

If such offerings of equity or debt securities with conversion rights are made without granting subscription rights to the Company's existing shareholders, these offerings would dilute the economic and voting rights of the Company's existing shareholders. In addition, dilution may arise from the acquisition of, or investments in, companies in exchange, fully or in part, for newly issued shares of the Company, options granted to hGears' business partners as well as from the exercise of stock options by hGears' employees in the context of any future stock option programs or the issuance of shares to employees in the context of any future employee participation programs.

Because the timing and nature of any future offering would depend on market conditions at the time of the future offering, the Company cannot predict or estimate the amount, timing or nature of any future offering. Investors in the Company bear the risk that such future offerings could reduce the market price of the Company's shares, in which case investors could lose some or all of their investment, and/or dilute their shareholdings.

3.6.3 Holders of the Company's shares in certain jurisdictions, including the United States, may not be able to exercise their subscription rights or participate in future equity offerings.

Under German stock corporation law and under the Company's articles of association, unless there is an applicable exemption, a holder of the Company's shares generally has the right to subscribe and pay for a sufficient number of shares to maintain its relative ownership percentage prior to the issuance of any new shares to another person. U.S. holders of the Company's shares may not be able to exercise their pre-emptive rights unless a registration statement under the Securities Act is effective with respect to such rights and the related shares or an exemption from the registration requirements of the Securities Act is available. Similar restrictions exist in other jurisdictions. The Company does not intend to register any shares under the Securities Act or the laws of any other jurisdiction, and no assurance can be given that an exemption from registration requirements will be available to U.S. or other holders of the Company's shares or, if available, that the Company will use it. To the extent that U.S. or other holders of the Company's shares are not able to exercise their subscription rights, the subscription rights would lapse and their proportional interests in the Company would be diluted.

3.7 Risks related to the Offering

3.7.1 There is no existing market for the Company's shares and the development of an active trading market may be limited. As a result, the market price and

trading volume of the Company's shares could fluctuate considerably, which may result in substantial losses for investors.

Prior to the Offering and listing, there has been no public market for the Company's shares, and there is no certainty that an active trading market in the Company's shares will develop. The shares to be sold in the Offering represent 64.1% of the Company's share capital (assuming full exercise of the Upsize Option and the Greenshoe Option). Accordingly, the market in the Company's shares may be relatively illiquid or subject to fluctuation, and it may therefore be more difficult for potential investors in the Offering to sell any of the Company's shares that they buy. The Company cannot predict the extent to which investor interest will lead to an active trading market or how liquid that market might become. The lack of an active trading market in the Company's shares could affect an investor's ability to sell the Company's shares at a desired price, at a desired time and/or in a desired quantity.

Following the Offering and listing, the trading volume and price of the Company's shares may fluctuate significantly, in particular as there has been no public market for the Company's shares beforehand. Securities markets in general, particularly shares of newly listed issuers, have been volatile in the past. The offer price may not be indicative of prices that will prevail in the trading market and if the share price declines significantly, potential investors in the Offering may be unable to resell the Company's shares at or above their purchase price.

Some of the factors that could negatively affect the price of the Company's shares or result in fluctuations in the price or trading volume of the Company's shares include:

- changes in the Company's actual or projected results of operations or those of its competitors,
- changes in earnings projections or failure to meet investors' and analysts' earnings expectations,
- investors' evaluations of the success and effects of the strategy described in this Prospectus,
- the evaluation of the related risks, changes in general economic conditions, outbreaks of health epidemics, and changes in the Company's shareholder base and liquidity, and
- large purchases or sales of the Company's shares.

Additionally, general fluctuations in share prices, particularly of shares of companies in the e-mobility sector, could affect the price of the Company's shares, even where there may not necessarily be a reason for this in the Company's business or performance.

3.7.2 The Company will face additional administrative requirements, including the obligation to issue half-year and quarterly financial statements or notices and to adhere to applicable capital market laws, and will incur higher ongoing costs as a result of the Offering and listing.

After the listing, the Company will for the first time be subject to the legal requirements for German public companies listed on the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). These requirements include periodic financial reporting (including reporting required by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)), regular calls with securities and industry analysts and other required public disclosures of information. There can be no assurance that the Company's accounting, legal or other administrative functions will be capable of responding to these additional requirements without difficulties and inefficiencies or significant additional costs. Failure to comply with these requirements could expose the Company to delisting of its shares, fines, sanctions and other regulatory action and potentially civil litigation. This could also cause the price of the Company's shares to fall, in which case investors could lose some or all of their investment.

Furthermore, the preparation for, and convening of, General Meetings and the Company's regular communications with shareholders and potential investors will entail substantially greater expenses and risks. The members of the management team will need to devote time to these additional requirements that they could have otherwise devoted to other aspects of managing the Company's operations, and these additional requirements could also entail substantially increased time commitments and costs for the accounting and legal departments and other administrative functions.

3.7.3 If securities analysts do not publish research or reports about the Company, or if they downgrade the Company's shares or the Company's sector, the share price and trading volume could decline.

The trading market for the Company's shares will be influenced by, among other things, the research and reports that industry or securities analysts publish about the Company, its business, its markets, and its competitors. If any of the analysts who cover the Company issue an adverse opinion regarding its stock, the price of the Company's shares could decline. The Company's share price could also be adversely affected by reports about the Company's markets or its competitors, even if the reports do not directly address the Company. If one or more of these analysts cease coverage of the Company or fail to publish reports on it regularly, the Company could lose visibility in the financial markets, which in turn could cause its share price and/or trading volume to decline, in which case investors could lose some or all of their investment.

3.7.4 Future sales by shareholders of the Company, in particular the Major Shareholder, could depress the price of the Company's shares.

The Major Shareholder as well as the other Selling Shareholders are subject to lock-up agreements that preclude them from selling any shares for a period of 360 days from the date of the Underwriting Agreement. Following the expiration of those arrangements, there will be no contractual restriction on the sale of shares owned by the Major Shareholder or the other Selling Shareholders. If larger shareholders, in particular the Major Shareholder, were to sell substantial amounts of their shareholdings on the public exchange or if market participants were to become convinced that such sales might occur, this could have adverse effects on the market price of the Company's shares, in which case investors could lose some or all of their investment.

4. GENERAL INFORMATION

4.1 Responsibility for the content of this Prospectus

hGears AG, Brambach 38, 78713 Schramberg, Germany (hereinafter the "**Issuer**" or the "**Company**" and together with its consolidated subsidiaries, the "**Group**" or "**hGears**") together with Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main, Germany, ("**Hauck & Aufhäuser**", the "**Sole Global Coordinator**" and ABN AMRO Bank N.V., Amsterdam, The Netherlands, LEI BFXS5XCH7N0Y05NIXW11 ("**ABN AMRO**" and, together with Hauck & Aufhäuser, the "**Joint Bookrunners**" or the "**Underwriters**") assume responsibility for the contents of this Prospectus pursuant to section 8 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) in conjunction with Article 11 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of June 14, 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the "**Prospectus Regulation**") and hereby confirm that to the best of their knowledge, the information contained in this Prospectus is in accordance with the facts and that the Prospectus makes no omission likely to affect its import. Notwithstanding Article 23 Prospectus Regulation, neither the Company nor the Underwriters are required by law to update this Prospectus.

Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear costs of translating this Prospectus before the legal proceedings are initiated.

4.2 Subject matter of this Prospectus

This Prospectus relates to the offering of 6,670,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), each such share with a notional interest of EUR 1.00 in the share capital and with full dividend rights as of and from January 1, 2021 (the "**Offering**"):

- 2,400,000 newly issued ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from a capital increase against cash contributions resolved by an extraordinary general shareholders' meeting of the Company with exclusion of the subscription rights of the existing shareholders on May 5, 2021 (the "**New Shares**");
- 2,400,000 existing ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of Finatem III GmbH & Co. KG, Frankfurt am Main, Germany ("**Finatem**" or the "**Major Shareholder**"), HPH Beteiligungs-UG (haftungsbeschränkt), Lauterbach, Germany ("**HPH**") and M-H Herzog Beteiligungs-UG (haftungsbeschränkt), Schramberg, Germany ("**M-H Herzog**", and together with Finatem and HPH the "**Selling Shareholders**") in a base deal (the "**Base Shares**");
- up to 1,000,000 existing ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholders subject to an exercise of an upsize option (the "**Upsize Option**") upon their decision, in consultation with the Sole Global Coordinator, based on market demand on the date of pricing (the "**Upsize Shares**" and, together with the Base Shares, the "**Sale Shares**"); and
- up to 870,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholders in connection with a potential over-allotment (the "**Over-Allotment Shares**" and, together with the New Shares and the Sale Shares, the "**Offer Shares**"),

This Prospectus serves also for the purposes of the admission to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of:

- up to 2,400,000 New Shares; and

- 8,000,000 existing ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) (existing share capital) (the "**Existing Shares**" and together with the "**New Shares**", the "**Shares**" and each a "**Share**"),

each such Share with a notional interest of EUR 1.00 in the share capital and with full dividend rights as of and from January 1, 2021.

4.3 Approval of the Prospectus

This Prospectus has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "**BaFin**") as competent authority under the Prospectus Regulation, on May 7, 2021. BaFin only approves this Prospectus as meeting the standards for completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or of the quality of the Shares that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Shares.

4.4 Forward-looking statements

This Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as of the date of this Prospectus. These forward-looking statements are identified by the use of words such as "expects", "plans", "intends", "predicts" or "forecasts". This applies, in particular, to statements in this Prospectus containing information on future earnings capacity, plans and expectations regarding the Group's business, growth and profitability, and the general economic and legal conditions and other factors to which the Group is exposed.

The forward-looking statements contained in this Prospectus are based on the Company's current estimates and assessments. These forward-looking statements are based on assumptions and are subject to uncertainties and other factors, the occurrence or non-occurrence of which could cause actual circumstances – including with regard to the assets, business, financial condition and results of operations as well as profitability of the Company – to differ materially from or fail to meet the expectations expressed or implied in the forward-looking statements. Even if future results of the Company meet the expectations expressed herein, they may not be indicative of the results of any succeeding periods.

The forward-looking statements contained in this Prospectus speak only as of the date on which they were made. Investors are advised that neither the Company nor the Underwriters assume any obligation or intend to, except as required by law, publicly release any updates or revisions to these forward-looking statements to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or to adjust them in line with future events or developments.

4.5 Notes concerning currency and financial information

This Prospectus contains data denominated in the euro currency. Figures denominated in euros are designated with "**EUR**" preceding the amount. If figures are denominated in a currency other than the euro, express reference is made in the corresponding figure or figures utilizing the respective applicable currency abbreviation.

Some figures and percentages in this Prospectus have been rounded according to established commercial standards, whereby aggregate amounts (totals, sub-totals, differences or amounts in relation thereto) are calculated based on the underlying unrounded amounts. As a result, the aggregate amounts may not correspond in all cases to the corresponding rounded amounts contained in the text and tables. Moreover, in the tables, such rounded figures may under certain circumstances not add up precisely to the total figures which may also be included in the tables. The percentage changes that are stated in the text and the tables have been commercially rounded to a whole number unless stated otherwise. With respect to financial data set out in the Prospectus, a dash ("—") signifies that the relevant figure is not available, while a zero ("0") signifies that the relevant figure (i) is available but is or has been rounded to zero or (ii) is not applicable.

Where financial information contained in tables in this Prospectus is described as "audited", this means that it has been taken from the audited consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") for the financial year ended December 31, 2020 (the "**Consolidated Financial Statements 2020**"), the audited consolidated financial statements of the Company prepared in accordance with IFRS for the financial year ended December 31, 2019 (the "**Consolidated Financial Statements 2019**"), the audited amended consolidated financial statements of the Company prepared in accordance with IFRS for the financial year ended December 31, 2018 (the "**Consolidated Financial Statements 2018**" and together with the Consolidated Financial Statements 2020 and the Consolidated Financial Statements 2019, the "**Consolidated Financial Statements** ") or from the annual financial statements of the Company as of and for the financial year ended on December 31, 2020 prepared in accordance with the German generally accepted accounting principles of the German Commercial Code (*Handelsgesetzbuch*) (the "**Annual Financial Statements**"). Where the financial information in this Prospectus is described as "unaudited", this means that it was not taken from the Consolidated Financial Statements or the Annual Financial Statements but was either taken or derived from the Company's accounting records or internal management reporting systems or is based on calculations of these figures, or recomputed or derived from the abovementioned sources. All information on value increases and decreases (absolute and in percentage terms) and ratios has been calculated by the Company and is unaudited.

4.6 Alternative performance measures

This Prospectus contains certain financial measures such as EBITDA, adjusted EBITDA, return on revenues and free cash flow which are not defined in IFRS, German GAAP or any other generally accepted accounting principles. These measures are alternative performance measures ("**APMs**") as defined in the guidelines issued by the European Securities and Markets Authority ("**ESMA**") on October 5, 2015 on Alternative Performance Measures (the "**ESMA Guidelines**"). The APMs are used by the Company's management as financial measures to monitor the performance of the Company as well as to provide additional information to investors but are not measurements of the Group's performance or liquidity under IFRS, German GAAP or any other accepted accounting principles and should not be considered as alternatives to results for the period or any other performance measures derived in accordance with IFRS, German GAAP or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities. The Company believes that the presentation of the APMs included in this Prospectus complies with the ESMA Guidelines.

The Company believes that the APMs provide investors with additional information to measure the operating performance of the Company's business activities. The way in which the Company uses the APMs may vary from the use by other companies in the Company's industry, even where other companies use APMs with the same or similar names. The APMs used by the Company should not be considered as an alternative to net income (loss), revenue or any other performance measure derived in accordance with IFRS or to net cash provided by (used in) operating activities as measure of liquidity. The APMs have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the Company's results as reported under IFRS. They may exclude or include amounts that are included or excluded, as applicable, in the calculation of the most directly comparable IFRS measures. Their usefulness is therefore subject to limitations, which are described below.

The APMs should be considered in conjunction with the Consolidated Financial Statements and the respective notes thereto.

The definitions of the APMs used by the Company, information regarding their usefulness and, where appropriate, a reconciliation to their most directly comparable IFRS measures is provided below.

4.6.1 EBITDA and Adjusted EBITDA

The Company defines EBITDA as profit from operating activities before depreciation, amortization and impairment.

The Company discloses EBITDA as a supplemental APM as it believes this is a meaningful measure to indicate hGears' earnings and thus to evaluate the performance of hGears' business activities over time.

The following table shows the reconciliation of the Company's profit from operating activities to EBITDA for the periods indicated.

EBITDA

	For the financial year ended December 31,		
in EUR thousand	**2020**	**2019**	**2018**
	(audited, unless stated otherwise)		
Profit from operating activities	**8,793**	**466**	**1,370**
Depreciation, amortization and impairment	10,551	10,300	7,411
EBITDA (unaudited)	**19,344**	**10,766**	**8,781**

The Company has made certain adjustments to EBITDA for non-recurring one-off items (mainly related to one-off transaction costs, one-off personnel severance costs for the closing of a production department in its German production facility which produced lower margin components in the Conventional business area and one-off COVID adjustments).

The following table shows the reconciliation of the Company's EBITDA to Adjusted EBITDA for the periods indicated.

Adjusted EBITDA

	For the financial year ended December 31,		
in EUR thousand	**2020**	**2019**	**2018**
	(audited, unless stated otherwise)		
EBITDA (unaudited)	**19,344**	**10,766**	**8,781**
Personnel severance costs(1)	2,395	573	93
One-off advisory fees	384	823	843
One-off special project costs	(393)	5,364	763
Motorbike phase-out	-	(79)	(467)
COVID adjustments(2)	739	-	-
Other	210	6	274
Adjusted EBITDA	**22,679**	**17,453**	**10,287**

(1) This includes additional bonuses for employees and accruals for severance costs.
(2) This includes additional costs incurred due to the safety measures adopted, unavoidable 'fixed' costs during the lockdown period and personnel expenses for quarantine and illness leave.

4.6.2 Return on revenues

The Company defines return on revenues as the ratio of net result of the period to revenues. The Company discloses return on revenues as a supplemental APM as it believes this is a meaningful measure to indicate profitability and thus to evaluate the performance of hGears' business activities over time.

Return on revenues	For the financial year ended December 31,		
in EUR thousand, unless stated otherwise	**2020**	**2019**	**2018**
	(audited)		
Net result of the period	**6,713**	**(4,736)**	**(2,088)**
Revenues	126,260	121,838	126,205
Return on revenues	5.3%	(3.9%)	(1.7%)

4.6.3 Free cash flow

The Company defines free cash flow as a sum of net cash provided by (used in) operating activities and net cash provided by (used in) investing activities, minus receipts leasing contracts, which the Company considers as part of the payments for Right-of-Use assets in Property, plant and equipment and intangible assets, plus interest paid, and minus interest received. The Company discloses free cash flow as a supplemental APM as it believes this is a meaningful measure to indicate liquidity and thus to evaluate the performance of hGears' business activities over time.

	For the financial year ended December 31,		
in EUR thousand, unless stated otherwise	**2020**	**2019**	**2018**
	(audited, unless stated otherwise)		
Net cash provided by operating activities	**17,269**	**12,517**	**2,243**
Net cash used in investing activities	(8,029)	(19,263)	(10,928)
Receipts leasing contracts (unaudited)	(2,174)	(891)	(1,378)
Interest paid	2,633	2,356	969
Interest received	(6)	(3)	(3)
Free cash flow	**9,694**	**(5,284)**	**(9,097)**

4.7 Notes concerning sources of market data and information provided by third parties

This Prospectus contains information sourced from third parties, particularly in the form of sector and market data, calculations and statistics, which are derived from sector reports and studies, commercial publications, and publicly available information. The Company has accurately reproduced information sourced from third parties and, as far as it is aware and able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Investors should nevertheless treat this information with care. Market studies are frequently based on information and assumptions which are potentially neither exact nor appropriate, and their methodology is forward-looking and speculative by its nature. In addition, some of the sources of market data included in this Prospectus were prepared before or at the early stage of the pandemic spread of COVID-19, and have not been updated for the potential effects of this pandemic. The Company is not able to determine whether the third parties who have prepared such sources will revise their estimates and projections due to the potential impact of COVID-19 on future market developments. The Prospectus also contains Company estimates related to third-party market data which are based on published market data or figures derived from publicly accessible sources. Investors should take into account that the Company's estimates are based on such third-party market studies. Without affecting the assumption of responsibility for the content of this Prospectus by the Company and the Underwriters (see section "*4.1 Responsibility for the content of this Prospectus*"), the Company and the Underwriters have not verified the figures, market data and other information on which third parties have based their studies.

The following sources were used for the preparation of this Prospectus:

- Arizton Advisory & Intelligence, Chainsaw Market, Leaf Blower Market, Garden Tiller Market – Global Outlook & Forecast 2019-2024, 2019 ("**Arizton 2020**");
- Cycling Industries Europe, New European Cycling Industry Forecast Shows Huge Growth In Bike And E-Bike Sales, December 2020, hiips://cyclingindustries.com/news/details/new-european-cycling-industry-forecast-shows-huge-growth-in-bike-and-e-bike-sales ("**Cycling Industries Europe**");
- IHS Markit Inc., Light Vehicle Powertrain + Alternate Propulsion Forecast, July 27, 2020 ("**IHS 2020**");
- IHS Markit Inc., European Electric and Hybrid Propulsion System Forecast, March 2021 ("**IHS 2021**")

- MarketsandMarkets, E-Bike Market – Global Forecast to 2025 ("**Markets and Markets 2020**");
- QYResearch, Section Global Industrial & Construction Power Tools Market Insights, Forecast to 2026, 2020 ("**QYResearch 2020**").

4.8 Documents available for inspection

The documents listed below can be inspected for the duration of the validity of this Prospectus on the Company's website at www.hgears.com under the "Investor Relations" section:

- the articles of association (*Satzung*) of the Company;
- the audited consolidated financial statements of the Company prepared in accordance with IFRS as of and for the financial year ended December 31, 2020 (the Consolidated Financial Statements 2020 as defined under section "*4.5 Notes concerning currency and financial information*");
- the audited consolidated financial statements of the Company prepared in accordance with IFRS as of and for the financial year ended December 31, 2019 (the Consolidated Financial Statements 2019 as defined under section "*4.5 Notes concerning currency and financial information*");
- the audited amended consolidated financial statements of the Company prepared in accordance with IFRS as of and for the financial year ended December 31, 2018 (the Consolidated Financial Statements 2018 as defined under section "*4.5 Notes concerning currency and financial information*"); and
- the audited annual financial statements of the Company prepared in accordance with German GAAP as of and for the financial year ended December 31, 2020 (the Annual Financial Statements as defined under section "*4.5 Notes concerning currency and financial information*").

The Company's future financial reports and interim reports will be available at the Company's offices, Brambach 38, 78713 Schramberg, Germany and will be published on the Company's website at www.hgears.com under the "Investor Relations" section, as well as in the German Company Register (*Unternehmensregister*). Annual financial reports will also be published in the German Federal Gazette (*Bundesanzeiger*).

5. THE OFFERING

5.1 Subject matter of the Offering

The Offering consists of up to 6,670,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), each such share representing a notional interest of EUR 1.00 and with full dividend rights as of and from January 1, 2021, consisting of:

- 2,400,000 New Shares;
- 2,400,000 Base Shares;
- up to 1,000,000 Upsize Shares; and
- up to 870,000 Over-Allotment Shares.

The Selling Shareholders will provide Hauck & Aufhäuser and ABN AMRO with up to 870,000 Over-Allotment Shares, as part of the allocation of the Offer Shares (the "**Over-Allotment**"), in the form of a securities loan to cover the potential Over-Allotment, with Hauck & Aufhäuser acting as stabilization manager (the "**Stabilization Manager**"). In connection with the potential Over-Allotment, the Selling Shareholders have granted the Stabilization Manager an option to acquire up to 870,000 additional Shares at the price of the Offer Shares in the Offering (the "**Offer Price**"), less agreed commissions (the "**Greenshoe Option**") from the holdings of the Selling Shareholders for the sole purpose of enabling the Stabilization Manager to perform its redelivery obligation under the securities loan. The Greenshoe Option may only be exercised during the stabilization period, i.e. the period which commences on the date the Shares commence trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and ends no later than 30 calendar days thereafter (the "**Stabilization Period**").

The Offering consists of a public offering of the Offer Shares in the Federal Republic of Germany ("**Germany**") (the "**Public Offering**") and private placements in certain jurisdictions outside of Germany (the "**Private Placement**". In the United States of America ("**United States**") the Offer Shares will only be offered and sold to qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A, or pursuant to another available exemption from, or in transactions not subject to, the registration requirements of the U.S. Securities Act of 1933 (as amended) (the "**Securities Act**"). Outside the United States, the Offer Shares will be offered and sold only in offshore transactions in compliance with Regulation S under the Securities Act ("**Regulation S**").

Hauck & Aufhäuser is acting as the Sole Global Coordinator in the Offering. Hauck & Aufhäuser can be contacted at: Kaiserstraße 24, 60311 Frankfurt am Main, Germany Tel.: +49 69 21 610, www.hauck-aufhaeuser.com. Hauck & Aufhäuser's legal entity identifier (LEI) is 529900OOZP78CYPYF471. ABN AMRO is together with Hauck & Aufhäuser acting as a Joint Bookrunner in the Offering. ABN AMRO can be contacted at Gustav Mahlerlaan 10 (1082 PP) Amsterdam, The Netherlands, mail_ecm_syndicate@nl.abnamro.com. ABN AMRO's legal identifier (LEI) is BFXS5XCH7N0Y05NIXW11.

5.2 Price range, offer period and Offer Price

The price range within which offers to purchase may be submitted is EUR 23.00 to EUR 31.00 per Offer Share (the "**Price Range**").

The offer period during which investors may submit purchase offers for the Offer Shares will commence on May 10, 2021 and is expected to end on May 18, 2021 at 12:00 noon (Central European Summer Time, "**CEST**") for retail investors (natural persons with a depository account in Germany) and 2:00 p.m. (CEST) for institutional investors (the "**Offer Period**"). Multiple purchase orders are permitted.

After expiry of the Offer Period, on or around May 18, 2021, the final number of the Offer Shares placed in the Offering and the Offer Price will be determined by the Company and the Selling Shareholders after consultation with the Sole Global Coordinator using the order book prepared during the bookbuilding process. The Selling Shareholders will in their sole discretion and after consultation with the Sole Global Coordinator, determine if and to what extent they will exercise the

Upsize Option, taking into account the market demand and using the order book prepared during the bookbuilding process. The Offer Price will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book. Consideration will also be given as to whether the Offer Price and the number of Shares to be placed allows for the reasonable expectation that the share price will demonstrate steady performance in the secondary market given the demand for the Shares noted in the order book. Attention will be paid not only to the prices offered by investors and the number of investors wanting Shares at a particular price but also to the composition of the group of shareholders in the Company that would result at a given price (so-called investor mix) as well as expected investor behavior. For further information regarding allotment criteria see "*5.5 Allotment and allotment criteria*". Neither the Company, nor the Selling Shareholders, nor the Underwriters will charge investors any expenses or taxes incurred in connection with the Offering. Investors will have to bear customary transaction and handling fees charged by their brokers, including the Underwriters, or other financial institutions through which they hold their securities.

The final number of Offer Shares placed in the Offering and the Offer Price are expected to be published on or around May 18, 2021 by means of a public disclosure of inside information under Article 17 of the Regulation of the European Parliament and of the Council of April 16, 2014 on market abuse (repealing Directive 2003/6/EC on insider dealing and market manipulation) (the "**Market Abuse Regulation**") (the "**Ad hoc Announcement**") in various media distributed across the entire European Economic Area ("**EEA**") and on the Company's website (www.hgears.com under the "Investor Relations" section). If the placement volume proves insufficient to satisfy all orders placed at the Offer Price, the Underwriters reserve the right to reject orders, or to accept them only in part. Investors who have placed purchase offers with the Underwriters can obtain information from the Underwriters about the Offer Price and the number of the Offer Shares allotted to them, at the earliest, on the first bank working day following the determination of the Offer Price.

Trading in the Shares may commence before investors have received notice of the number of Offer Shares allotted to them. Book-entry delivery of the allotted Offer Shares against payment of the Offer Price is expected to occur on the first day of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

5.3 Expected timetable of the Offering

The expected timetable for the Offering is as follows, subject to extension or shortening:

May 7, 2021	Approval of this Prospectus by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "**BaFin**")
	Publication of the approved Prospectus on the Company's website (www.hGears.com) under the section "Investor Relations"
	Application for admission of the Shares to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)
May 10, 2021	Commencement of the Offer Period
May 18, 2021	End of the Offer Period (at 12 noon (CEST) for retail investors and 2 p.m. (CEST) for institutional investors
	Determination of the Offer Price and the final number of Offer Shares to be allocated, including the final number of New Shares

	Publication of the results of the Offering pursuant to Article 17 of the Market Abuse Regulation via Ad hoc Announcement in various media distributed across the entire EEA and on the Company's website (www.hgears.com) under the section "Investor Relations"
May 19, 2021	Registration of the capital increase regarding the New Shares in the commercial register of the Company
May 20, 2021	Announcement of the decision regarding the admission of the Existing Shares and the New Shares to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard)
May 21, 2021	First trading day
	Book-entry delivery of the Offer Shares against payment of the Offer Price (settlement and closing)

This Prospectus will be published on the Company's website at www.hgears.com under the section "Investor Relations".

5.4 Target market information

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares have been subject to a product approval process, which has determined that the Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom, including up to the total amount invested. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offer.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Offer Shares.

Each distributor is responsible for undertaking its own target market assessment in respect of the Offer Shares and determining appropriate distribution channels.

5.5 Allotment and allotment criteria

No agreement exists between the Company, the Selling Shareholders and the Underwriters as to the allotment procedure. The allotment of the Offer Shares to retail and institutional investors will be decided by the Company after consultation with the Sole Global Coordinator. Allotments to institutional investors will be made on the basis of the quality of the individual institutional investors (including with respect to their expected holding and investment strategy and order size), as well as other important allotment criteria to be determined by the Company and the Sole Global Coordinator. Allotments to retail investors will be made in accordance with the "Principles for the Allotment of Share Issues to Private Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) issued on 7 June 2000 by the German Commission of Stock Exchange Experts (*Börsensachverständigenkommission*).

5.6 Stock exchange admission

The entire share capital of the Company, including the New Shares, shall be admitted to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard). The Company expects to apply for the admission to trading on or about May 7, 2021. The decision on the admission is expected to be granted by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) on or about May 20, 2021. Trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is expected to commence on May 21, 2021.

5.7 Delivery and payment

Delivery of the Offer Shares against payment of the Offer Price and customary securities commissions is expected to take place on May 21, 2021. The Offer Shares will be made available to the shareholders as co-ownership interests (*Miteigentumsanteile*) in the respective global share certificate deposited with Clearstream Banking Aktiengesellschaft, Mergenthalerallee 61, 65760 Eschborn, Germany ("**Clearstream**").

5.8 Amendments to the terms of the Offering

The Company reserves the right, together with the Sole Global Coordinator, to reduce or increase the number of the Offer Shares or any portion thereof, not to allot Offer Shares at all, to reduce or increase the upper and lower limits of the Price Range and/or to extend or shorten the Offer Period. To the extent that the terms of the Offering are changed, such change will be published through electronic media, on the Company's website (www.hgears.com under the section "Investor Relations") and, if required by the Prospectus Regulation and/or the Market Abuse Regulation, as an Ad hoc Announcement and/or as a supplement to this Prospectus, as the case may be. Investors who have submitted purchase orders will not, however, be informed individually. Changes to the number of the Offer Shares or the Price Range or extension or shortening of the Offer Period will not invalidate purchase orders already submitted. If a supplement to this Prospectus is published, under the Prospectus Regulation, investors who have already agreed to purchase or subscribe for the Offer Shares before the supplement is published shall have the right, exercisable within two working days after the publication of the supplement, to withdraw their acceptances, provided that the significant new factor, material mistake or material inaccuracy that make a supplement necessary arose or was noted before the closing of the Offer Period or the delivery of the Offer Shares, whichever occurs first.

5.9 Underwriting

5.9.1 Subject of and arrangements on underwriting

On May 6, 2021, the Company, the Selling Shareholders, and the Underwriters entered into an Underwriting Agreement with respect to the offer and sale of the Offer Shares (the "**Underwriting Agreement**").

In the Underwriting Agreement, the Underwriters agreed, subject to certain conditions, to offer the Offer Shares to investors in the Offering and to underwrite and purchase the Offer Shares to the extent the Offer Shares have been placed in the Offering. In this regard, the Underwriters agreed to subscribe for up to 2,400,000 New Shares at the lowest issue price per New Shares, being EUR 1.00 per New Share, on May 18, 2021, and to remit to the Company the difference between the Offer Price per New Share placed with investors and the lowest issue price, being EUR 1.00 per New Share placed with investors minus commissions and costs, at the time the New Shares are delivered to investors, which is expected to be May 21, 2021. The Underwriters further agreed to acquire up to 2,400,000 Base Shares and up to 1,000,000 Upsize Shares from the holdings of the Selling Shareholders as well as up to 870,000 Over-Allotment Shares from the holdings of the Selling Shareholders with regard to a potential over-allotment and sale of such shares as part of the Offering. The Underwriters agreed to remit the purchase price of any sold Base Shares, any sold Upsize Shares (if and to the extent the Upsize Option is exercised) and, if and to the extent the Greenshoe Option is exercised, the purchase price of any sold Over-Allotment Shares minus commissions and costs to the Selling Shareholders, following delivery of the Offer Shares to investors. The Underwriting Agreement does not contain a firm underwriting commitment.

Under the terms of the Underwriting Agreement and subject to certain conditions and only after execution of a pricing and volume agreement, each Underwriter will be obliged to acquire such number of Offer Shares as will be specified in the pricing agreement, but in any event only up to the maximum number of the Offer Shares set forth below opposite such Underwriter's name:

Underwriter	**Maximum number of Offer Shares underwritten**	**Percentage of Offer Shares underwritten**
Hauck & Aufhäuser	5,336,000	80
ABN AMRO	1,334,000	20
Total	6,670,000	100

The obligations of the Underwriters are subject to various conditions, including, among other things, (i) the conclusion of an agreement as to the final volume of the Offering and the Offer Price, (ii) the absence of a material adverse change as defined in the Underwriting Agreement (e.g., a material change to the Company's share capital or the long-term debt or a material adverse change or any development involving a prospective material adverse change, in or affecting the condition, business, prospects, management, financial position, shareholders' equity or results of operations of the Company, or a not only temporary suspension or material limitation in trading in securities generally on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the London Stock Exchange or the New York Stock Exchange), which, in any such case described in (ii), in the reasonable judgment of the Sole Global Coordinator would make it impractical or inadvisable to proceed with the Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in the Prospectus, (iii) receipt of customary certificates, legal opinions and letters, and (iv) the making of necessary filings and the receipt of necessary approvals in connection with the Offering.

5.9.2 Commissions

The Underwriters will offer the Offer Shares at the Offer Price. In return, they will receive a management commission, a placement commission and a success fee, all calculated as a percentage of the gross proceeds from the sale of the Offer Shares. The total amount of such fees to be paid by the Company amounts to 3.75% of the gross proceeds from the placement of the New Shares. In addition, the Company may, in its sole discretion, decide to pay the Underwriters a discretionary fee of up to 0.75% of the gross proceeds from the placement of the New Shares. The total amount of such fees to be paid by the Selling Shareholders amounts to up to 4.50% of the gross proceeds from the placement of the Sale Shares and Greenshoe Shares and depends upon the gross proceeds from the Offering. In addition, the Selling Shareholders may, in their sole discretion, decide to pay the Underwriters a discretionary fee of up to 0.75% of the gross proceeds from the placement of the Sale Shares and Greenshoe Shares.

Assuming placement of 2,400,000 New Shares at the mid-point of the Price Range and payment of the discretionary fee in full, the Joint Bookrunners would receive commissions in an aggregate amount of approximately EUR 2.9 million in connection with the Offering. Assuming that in addition to the placement of 2,400,000 New Shares, 2,400,000 Base Shares are placed at the mid-point of the Price Range and the discretionary fee is paid in full, the Joint Bookrunners would receive commissions in an aggregate amount of approximately EUR 6.2 million in connection with the Offering. Assuming that in addition to the placement of 2,400,000 New Shares and 2,400,000 Base Shares, 1,000,000 Upsize Shares are placed at the mid-point of the Price Range and the discretionary fee is paid in full, the Joint Bookrunners would receive commissions in an aggregate amount of approximately EUR 7.5 million in connection with the Offering. Assuming that in addition to the placement of 2,400,000 New Shares, 2,400,000 Base Shares and 1,000,000 Upsize Shares, 870,000 Over-Allotment Shares are placed at the mid-point of the Price Range and the discretionary fee is paid in full, the Joint Bookrunners would receive commissions in an aggregate amount of EUR 8.7 million in connection with the Offering.

The management commission, the placement commission, the success fee and the discretionary fee, if any, payable to the Underwriters may be withheld from the proceeds from the sale of the Offer Shares. The Company and the Selling Shareholders will decide whether to grant the discretionary fee, if any, by the date of the settlement and closing of the Offering.

The Company and the Selling Shareholders have each also agreed to reimburse the Underwriters for certain costs and expenses, including legal fees of their advisers. Commissions and the reimbursement of costs and expenses by the Company and the Selling Shareholders represent a major part of the costs of the Company and the Selling Shareholders in connection with the Offering. See also "*7 Reasons for the Offering, use of issue proceeds and total issue costs*".

5.9.3 Termination and Indemnification

The Underwriting Agreement provides that the Underwriters may, under certain circumstances, terminate the Underwriting Agreement, including after the Offer Shares have been allotted and listed, up to delivery and settlement. Reasons for termination include, in particular the occurrence of:

(a) a material adverse change or any development involving a prospective material adverse change in or affecting, the condition, financial (including the Company's shareholders' equity), operational, legal or otherwise, or in the results of operations, management or business affairs of the Company or the Group;

(b) a material adverse change in the financial markets in the United States, the United Kingdom, or the European Economic Area ("**EEA**") following any outbreak of hostilities or escalation thereof, any act of terrorism or war or other calamity or crisis, or any change or development involving a prospective change in national or international political, financial or economic conditions, exchange rates or exchange controls;

(c) trading in any securities of the Company having been suspended or limited (other than for technical reasons) by the Frankfurt Stock Exchange on any exchange or over the counter market, or if trading generally on the New York Stock Exchange, Frankfurt Stock Exchange or the London Stock Exchange having been suspended or limited, or minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of such exchanges or by such system or by order of any governmental authority in the United States, the United Kingdom or an EEA member state, or a material disruption having occurred in commercial banking or securities settlement or clearance services in the United States, the United Kingdom or the EEA;

(d) a banking moratorium having been declared by the United States, United Kingdom, German, the Netherlands or New York authorities; or

(e) an adverse change or a prospective adverse change in German, the Netherlands, United States or United Kingdom taxation materially affecting the Shares or the transfer thereof or exchange controls having been imposed by Germany, the Netherlands, the United States or the United Kingdom.

If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allotments already made to investors will be invalidated and investors will have no claim for delivery. Claims with respect to fees already paid and costs incurred by an investor in connection with the Offering will be governed solely by the legal relationship between the investor and the financial intermediary to which the investor submitted its purchase order. Investors who engage in short-selling bear the risk of being unable to satisfy their delivery obligations.

Under the Underwriting Agreement, the Company agreed to indemnify the Underwriters from certain liability risks arising in connection with the Offering.

5.10 Selling restrictions

The distribution of the Prospectus and the sale of the Offer Shares are restricted by law in certain jurisdictions. Pursuant to the Underwriting Agreement, no action has been or will be taken by the Company, the Selling Shareholders or the Underwriters that will permit a public offering of the Offer Shares anywhere other than Germany or the possession or distribution of this Prospectus in any other jurisdiction in which action for that purpose may be required by applicable law or regulation.

Accordingly, neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession the Prospectus comes are required to inform themselves about or observe any such restrictions, including those set forth below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

5.10.1 European Economic Area

In relation to each EEA member state, no offer to the public of any shares may be made in that EEA member state (other than the offer in Germany contemplated herein once the Prospectus has been approved by BaFin and published in accordance with the Prospectus Regulation), except that an offer to the public in that EEA member state of any of the shares may be made at any time under the following exemptions under Prospectus Regulation:

(a) to qualified investors (as defined in Article 2(e) of the Prospectus Regulation);

(b) to fewer than 150 natural or legal persons per member state (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the Sole Global Coordinator for any such offer;

(c) in any circumstances falling within Article 1 (3) or 1(4) of the Prospectus Regulation, or

(d) in any circumstances falling within Article 3(2) of the Prospectus Regulation if the respective member state decided to exempt such offers from the obligation to publish a prospectus.

For purposes of this section, the expression an "offer of securities to the public" in relation to any Offer Shares in any member state means a communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for those shares.

5.10.2 United Kingdom

In the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**") this Prospectus is directed only at persons who are (a) "qualified investors" as defined in Article 2 of the UK Prospectus Regulation (Regulation (EU) 2017/1129 which forms part of the law of England and Wales by virtue of the European Union (Withdrawal) Act 2018) and either (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (ii) persons who are high net worth entities falling within Articles 49(2)(a) to (d) of the Order, or (b) other persons to whom it may otherwise lawfully be communicated (all such persons under (a) and (b) together being referred to as "**Relevant Persons**"). Any person who is not a Relevant Person must not act or rely on this Prospectus or any of its contents. Any investment or investment activity to which this Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

5.10.3 United States

The Company does not intend to register either the Offering or any portion of the Offering in the United States, or to conduct a public offering of Shares in the United States. The Offer Shares have not been and will not be registered pursuant to the provisions of the Securities Act or under the securities laws of any state of the United States. The Offer Shares may not be offered, sold or delivered, directly or indirectly, within or into the United States except pursuant to an exemption from, or in transactions not subject to, the registration and reporting requirements of the U.S. securities laws and in compliance with all other applicable provisions of US law. The Offer Shares may only be sold in or into the United States to persons who are QIBs as defined in, and in reliance on, Rule 144A, or pursuant to another available exemption from, or transactions not subject to, the registration requirements of the Securities Act, and outside of the United States in accordance with Rule 903 of Regulation S and in compliance with other US legal requirements, and no (i) "direct selling efforts" as defined in Regulation S or (ii) "general advertising" or "general solicitation", each as defined in Regulation D under the Securities Act in relation to the Offer Shares may take place. Any offer or sale of Offer Shares in reliance on Rule 144A will be made by broker dealers who are registered as such under the Securities Act. Terms used above shall have the meanings ascribed to them by Regulation S and Rule 144A under the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offer Shares within the United States by any dealer, whether or not participating in the Offering, may violate the registration requirements of the Securities Act, if such offer or sale does not comply with Rule 144A or another exemption from registration requirements under the Securities Act.

5.11 Stabilization, Over-Allotment and Greenshoe Option

In connection with the placement of the Offer Shares Hauck & Aufhäuser will act as the Stabilization Manager and may, as Stabilization Manager acting in accordance with legal requirements (Article 5, para. 4 and 5 of the Market Abuse Regulation in conjunction with Articles 5 through 8 of the Commission Delegated Regulation (EU) 2016/1052 of March 8, 2016), make over-allotments and undertake measures aimed at supporting the stock exchange or market price of the Shares in order to offset any sales pressure that may exist (stabilization measures).

The Stabilization Manager is under no obligation to take any stabilization measures. Therefore, no assurance can be provided that any stabilization measures will be taken. If stabilization measures are taken, they may be terminated at any time without prior notice. Such measures may be taken as of the date on which the Shares start trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard) and must be completed no later than 30 calendar days after such date.

Stabilization measures may result in the stock exchange or market price of the Shares being higher than would have been the case in the absence of such measures. In addition, such measures may result in a stock exchange or market price at a level that is not sustainable.

In connection with the possible stabilization measures, investors may be allocated up to 870,000 Over-Allotment Shares. For the purpose of a possible Over-Allotment, the Underwriters will be provided with up to 870,000 Over-Allotment Shares from the holdings of the Selling Shareholders in the form of a securities loan (*Wertpapierleihe*); the total number of the Over-Allotment Shares will not exceed 15% of the sum of the New Shares and the Sale Shares actually placed with investors. In connection with a possible Over-Allotment, the Selling Shareholders have granted the Stabilization Manager the Greenshoe Option (i.e. an option to acquire up to 870,000 additional Shares at the Offer Price, less agreed commissions) for the sole purpose of enabling the Stabilization Manager to perform its redelivery obligation under the securities loan. The Greenshoe Option may only be exercised during the Stabilization Period and will terminate 30 calendar days after commencement of stock exchange trading of the Shares on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

The Stabilization Manager is entitled to exercise the Greenshoe Option to the extent Over-Allotment Shares were allocated to investors in the Offering. The number of Over-Allotment Shares acquired under the Greenshoe Option is to be reduced by any Shares held by the Stabilization Manager on the date when the Greenshoe Option is exercised, if such Shares were acquired by the Stabilization Manager in the context of stabilization measures.

Public announcements regarding stabilization measures will be made (i) prior to the start of the Offering, (ii) by the end of the seventh daily market session following the date any stabilization measures were taken, and (iii) within one week after the end of the Stabilization Period.

Within one week after the end of the Stabilization Period, the Stabilization Manager will ensure adequate public disclosure as to whether or not stabilization measures were taken, the date on which such stabilization measures started and finished, the date on which the last stabilization measure was taken, and the price range within which such stabilization was effected (for each date on which a stabilization measure was taken) and the trading venues on which stabilization measures were carried out.

The exercise of the Greenshoe Option will be disclosed to the public promptly, together with all appropriate details, including the date of such exercise and the number and type of the Over-Allotment Shares involved, in accordance with Article 8 (f) of the Commission Delegated Regulation (EU) 2016/1052 of March 8, 2016.

5.12 Lock-up agreements

5.12.1 Company's lock-up

The Company has agreed with the Underwriters that it will not, either directly or indirectly, during a period of six months following the first day of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and for the consecutive period of further six months it will not without the prior written consent of the Sole Global Coordinator (which consent shall not be unreasonably withheld or delayed):

- announce or implement an increase of the share capital of the Company out of authorized capital;
- announce, implement or otherwise effect an issuance of securities with conversion rights in or option rights on shares of the Company;
- propose, or initiate any of its shareholders to propose, to its shareholders' meeting to resolve upon an increase of the Company's share capital or the issuance of securities with conversion rights in or option rights on shares of the Company; or
- announce, enter into a transaction or perform any action economically similar to those described above.

This excludes the offer, issuance and sale of the New Shares and the issuance or sale, as applicable, of shares or other securities issued under management or employee participation programs or stock option plans to members of the management or employees of the Company.

5.12.2 Lock-up agreement with the Selling Shareholders

Each of the Selling Shareholders has agreed with the Underwriters that it will not, either directly or indirectly, during a period of six months following the first day of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and for the consecutive period of a further six months it will not without the prior written consent of the Sole Global Coordinator (which consent shall not be unreasonably withheld or delayed):

- offer, pledge, allot, market, distribute, sell, contract to sell, transfer or otherwise dispose of any shares or other securities of the Company held by it or any of its affiliates, if any, as of such time;
- grant, issue or sell any option or conversion rights on any such securities;
- purchase any option to sell, grant any option, right or warrant to purchase, transfer to another person or otherwise dispose of, directly or indirectly (including, but not limited to, the issuance or sale of any securities exchangeable into Shares), any such securities;

- propose or vote in favor of a proposed increase of the share capital of the Company (including the implementation or renewal of an authorized capital (*genehmigtes Kapital*) or conditional capital (*bedingtes Kapital*));
- propose or vote in favor of a proposed issuance (or authorization of the management board to effect such issuance) of financial instruments constituting or including options or warrants convertible into or entitling to receive delivery of shares in the Company; or
- announce, enter into a transaction or perform any action economically similar to those described above, in particular enter into any swap or other agreement that transfers to another, in whole or in part, the economic risk of ownership of restricted securities, whether any such transaction is to be settled by delivery of shares in the Company, in cash or otherwise.

This excludes (i) the offer and sale of the Sale Shares and the Over-Allotment Shares, as applicable, and (ii) the sale of any restricted securities by means of an *over-the-counter* (OTC-) transaction at any time to any of its affiliates, *provided that* such affiliate has agreed in advance in a written undertaking to the Underwriters to be bound by this undertaking for the remaining time of the restricted period, or (iii) the sale of any restricted securities within the framework of a public takeover bid pertaining to all Shares pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*).

5.12.3 Lock-up agreement with members of the Management Board

In addition, each of the members of the Management Board has agreed with the Underwriters that he will not, either directly or indirectly, during a period of twelve months following the first day of trading of the Shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*):

- offer, pledge, allot, market, distribute, sell, contract to sell, transfer or otherwise dispose of any shares or other securities of the Company held by him or any of his affiliates as of such time;
- grant, issue or sell any option or conversion rights on any such securities;
- purchase any option to sell, grant any option, right or warrant to purchase, transfer to another person or otherwise dispose of, directly or indirectly (including, but not limited to, the issuance or sale of any securities exchangeable into shares of the Company), any such securities;
- propose or vote in favor of a proposed increase of the share capital of the Company (including the implementation or renewal of an authorized capital (*genehmigtes Kapital*) or conditional capital (*bedingtes Kapital*)), unless approved by the Underwriters;
- propose or vote in favor of a proposed issuance (or authorization of the management board to effect such issuance) of financial instruments constituting or including options or warrants convertible into or entitling to receive delivery of shares in the Company, unless approved by the Underwriters; or
- announce, enter into a transaction or perform any action economically similar to those described above, in particular enter into any swap or other agreement that transfers to another, in whole or in part, the economic risk of ownership of restricted securities, whether any such transaction is to be settled by delivery of shares in the Company, in cash or otherwise.

These restrictions exclude the issuance or sale, as applicable, of stock options or securities issued under management or employee stock option plans to members of the management or employees of the Company. In addition this excludes the sale of any restricted securities (i) by means of an *over-the-counter* (OTC-) transaction at any time to any of its affiliates, *provided that* such affiliate has agreed in advance in a written undertaking to the Underwriters to be bound by this undertaking for the remaining time of the restricted period, or (ii) within the framework of a public takeover bid pertaining to all Shares pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*).

6. INFORMATION ABOUT THE SHARES

6.1 Voting rights, dividend rights, subscription rights, rights in the event of liquidation

The Offer Shares which are the subject of this Prospectus carry the same rights as all other Shares and confer no additional rights or benefits. All Shares, including the New Shares, are governed by the German Stock Corporation Act (*Aktiengesetz*).

Each New Share carries one vote at the Company's general shareholders' meeting. All Shares have equal rights. There are no restrictions on voting rights, and all of the Company's shareholders have the same voting rights.

The New Shares carry full dividend rights as of and from January 1, 2021. After depositing the global certificate which represents the New Shares at Clearstream, Clearstream will automatically credit future dividends accruing to the New Shares to the relevant custodian banks. German custodian banks are correspondingly obligated to their customers. Shareholders whose shares are held in safe custody at foreign custodian banks should inform themselves of procedures which apply at these custodian banks.

According to German corporate law, all shareholders are in principle entitled to subscription rights to shares which are newly issued as part of a capital increase (excluding new shares from contingent capital) and to subscription rights relating to convertible bonds, warrant-linked bonds, profit participation rights, and participating bonds in the ratio of their shareholding in the Company's share capital.

In case of the liquidation of the Company, any assets remaining after the settlement of liabilities are distributed among shareholders proportionately to the notional interest in the share capital attributable to their Shares.

6.2 Form and representation of the Shares

All of the Existing Shares have been, and the New Shares will be, issued as ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*). The Company's (i) current issued share capital of EUR 8,000,000.00 and the (ii) New Shares will each be represented by one separate global share certificate (*Globalurkunde*) without dividend coupons, which will be deposited with Clearstream.

Pursuant to section 5.2 of the Company's articles of association, shareholders are not entitled to request the issuance of individual share certificates for their respective shareholdings. The Company may issue share certificates that represent one share (individual certificates) or several shares (global certificates). The shareholder's right to the issue of dividend coupons and renewal coupons is also excluded.

All Existing Shares are fully paid in.

6.3 ISIN/WKN/Trading symbol

The securities codes for the Existing Shares and the New Shares are as follows:

International Securities Identification Number (ISIN)	DE000A3CMGN3
German Securities Code (WKN)	A3CMGN
Trading symbol	HGEA

6.4 Transferability of the Shares

The Shares may be freely transferred pursuant to legal regulations applicable to bearer shares. Except for the restrictions set forth in section "*5 The Offering - 5.12 Lock-up agreements*", the Shares are not subject to any restrictions on sale or transfer.

6.5 Issue date, admission to trading and listing

The issue date of the New Shares, i.e., the date for depositing the global certificate for the New Shares at Clearstream, is expected to be May 20, 2021. The Shares are expected to be admitted to trading on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) on May 20, 2021. No issuance takes place with respect to 8,000,000 Existing Shares; such shares will only be admitted to trading.

6.6 Paying agent

The paying agent is Bankhaus Gebr. Martin AG, Schlossplatz 7, 73033 Göppingen, Germany.

6.7 Designated Sponsor

Hauck & Aufhäuser Privatbankiers AG, Frankfurt am Main, Germany, has agreed to assume the function of the designated sponsor (the "**Designated Sponsor**") for the Shares trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) for a period of at least two years from the day of admission to trading and is entitled to designate an appropriately admitted third party to perform its functions. Pursuant to the designated sponsor agreement expected to be entered into between Hauck & Aufhäuser and the Company, the Designated Sponsor will, among other things, place limited buy and sell orders for the Company's shares in the electronic trading system of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during regular trading hours against customary remuneration. This is intended to achieve greater liquidity in the market for the Company's shares. Among other things, the Designated Sponsor shall be available at all times during trading hours and, upon receipt of a request for a quote, shall promptly supply quotes and enter into transactions on such basis. In addition, the Designated Sponsor shall provide quotes throughout the auction. The Designated Sponsor shall receive a customary fee from the Company for its services.

6.8 Tax warning

The tax legislation of an investor's country of residence and of Germany as the Company's country of incorporation may have an impact on the income received from the Shares. Investors should therefore consult their own tax advisors regarding the tax implications of acquiring, holding or transferring the Shares. Only qualified tax advisors are in a position to adequately consider the particular tax situation of individual investors.

7. REASONS FOR THE OFFERING, USE OF ISSUE PROCEEDS AND TOTAL ISSUE COSTS

7.1 Reasons for the Offering

The Company intends to (i) sell the New Shares and (ii) list the Shares on the regulated market segment (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) to gain better access to capital markets and to finance further growth and development of its business.

The Selling Shareholders intend to sell the Base Shares and potentially also the Upsize Shares to partially divest their respective stakes in the Company and to ensure sufficient free float and trading liquidity in the Shares. Furthermore, the Selling Shareholders intend to provide part of their Shares as a securities loan to the Stabilization Manager to facilitate stabilization measures. To the extent that the Greenshoe Option is exercised, the Selling Shareholders will further partially divest their shareholding in the Company.

7.2 Issue costs and use of issue proceeds

The Company will receive the proceeds resulting from the sale of the New Shares (after deduction of the commissions and other costs of the Underwriters to be borne by the Company). The Company will not receive any proceeds from the sale of the Base Shares, the Upsize Shares (if and to the extent the Upsize Option is exercised) or the Over-Allotment Shares (if and to the extent the Greenshoe Option is exercised).

The amount of the net proceeds from the Offering receivable by the Company and the Selling Shareholders as well as the overall costs related to the Offering, including the commissions of the Underwriters depend on the Offer Price and the number of the Offer Shares that will be placed in the Offering.

Assuming that all New Shares and Base Shares are fully placed and the Upsize Option and the Greenshoe Option are fully exercised at an Offer Price of EUR 23.00 (low-end of the Price Range), EUR 27.00 (mid-point of the Price Range) and EUR 31.00 (high-end of the Price Range), the Company estimates that the total costs of the Offering will amount to approximately EUR 8.4 million, EUR 10.4 million and EUR 11.7 million, respectively. Assuming that all New Shares and Base Shares are fully placed at an Offer Price of EUR 23.00 (low-end of the Price Range), EUR 27.00 (mid-point of the Price Range) and EUR 31.00 (high-end of the Price Range), and the Upsize Option and the Greenshoe Option are not exercised, the Company estimates that the total costs of the Offering will amount to approximately EUR 6.6 million, EUR 7.9 million and EUR 8.8 million, respectively. The Selling Shareholders and the Company have entered into an agreement regarding their cooperation relating to the preparation of the Offering. As required by law, the Selling Shareholders agreed that they will reimburse the Company for all external costs incurred in connection with the preparation and the execution of the Offering (except for costs relating to certain corporate measures such as the capital increase in relation to the Offering) on a pro rata basis calculated in accordance with the ratio of the gross proceeds from the sale of the Sale Shares placed in the Offering to the gross proceeds from the sale of the Offer Shares placed in the Offering.

Assuming full placement of 2,400,000 New Shares at an Offer Price of EUR 23.00 (low-end of the Price Range), EUR 27.00 (mid-point of the Price Range) and EUR 31.00 (high-end of the Price Range), the total gross proceeds to the Company from the Offering will amount to EUR 55.2 million, EUR 64.8 million and EUR 74.4 million, respectively. The Company will bear costs related to the placement of the New Shares as well as the listing of its entire share capital. Based on the aforementioned assumptions and assuming that all Sale Shares are fully placed, the Company estimates that the commissions payable to the Underwriters and attributable to the Company (including a possible discretionary incentive fee) together with the other costs attributable to the issuance of the New Shares as well as the listing of the entire share capital will amount to approximately EUR 3.1 million, EUR 3.5 million and EUR 4.0 million, respectively. Accordingly, assuming an Offer Price at the low-end, mid-point and high-end of the Price Range, the net proceeds from the Offering to the Company (after deducting the commissions of the Underwriters and other costs attributable to the Company) will amount to approximately EUR 52.1 million, EUR 61.3 million and EUR 70.4 million, respectively.

The Selling Shareholders will receive the proceeds from the sale of the Base Shares and the Upsize Shares (if and to the extent the Upsize Option is exercised) after deduction of the commissions and other costs to be borne by the Selling Shareholders with respect to the Base Shares and the Upsize Shares. Furthermore, the Selling Shareholders will receive the proceeds from the sale of the Over-Allotment Shares (if and to the extent the Greenshoe Option is exercised) after deduction of the commissions and other costs to be borne by the Selling Shareholders with respect to the Over-Allotment Shares. Assuming that all 2,400,000 Base Shares are fully placed at an Offer Price of EUR 23.00 (low-end of the Price Range), EUR 27.00 (mid-point of the Price Range) and EUR 31.00 (high-end of the Price Range) and the Upsize Option and the Greenshoe Option are not exercised, the total gross proceeds to the Selling Shareholders from the Offering will be EUR 55.2 million, EUR 64.8 million and EUR 74.4 million, respectively. Assuming that all 2,400,000 Base Shares are fully placed and the Upsize Option and the Greenshoe Option are exercised in full at an Offer Price of EUR 23.00 (low-end of the Price Range), EUR 27.00 (mid-point of the Price Range) and EUR 31.00 (high-end of the Price Range), the total gross proceeds to the Selling Shareholders from the Offering will be EUR 98.2 million, EUR 115.3 million and EUR 132.4 million, respectively.

The Selling Shareholders will bear costs related to the placement of the Base Shares, the Upsize Shares (if and to the extent the Upsize Option is exercised) and the Over-Allotment Shares (if and to the extent the Greenshoe Option is exercised). Assuming that all 2,400,000 Base Shares are fully placed at an Offer Price of EUR 23.00 (low-end of the Price Range), EUR 27.00 (mid-point of the Price Range) and EUR 31.00 (high-end of the Price Range) and the Upsize Option and the Greenshoe Option are not exercised, the Company estimates that the commissions payable to the Underwriters and attributable to the Selling Shareholders (including a possible discretionary incentive fee) together with the Selling Shareholders' share in the other costs attributable to the Selling Shareholders will amount to approximately EUR 3.2 million, EUR 4.1 million and EUR 4.8 million, respectively. Accordingly, the net proceeds from the Offering to the Selling Shareholders (after deducting the commissions of the Underwriters and other costs attributable to the Selling Shareholders) will amount to approximately EUR 52.0 million, EUR 60.7 million and EUR 69.6 million, respectively. Assuming that all 2,400,000 Base Shares are fully placed and the Upsize Option and the Greenshoe Option are exercised in full at an Offer Price of EUR 23.00 (low-end of the Price Range), EUR 27.00 (mid-point of the Price Range) and EUR 31.00 (high-end of the Price Range), the Company estimates that the commissions payable to the Underwriters and attributable to the Selling Shareholders (including a possible discretionary incentive fee) together with the Selling Shareholders' share in the other costs attributable to the Selling Shareholders will amount to approximately EUR 5.3 million, EUR 6.9 million and EUR 7.7 million, respectively. Accordingly, the net proceeds from the Offering to the Selling Shareholders (after deducting the commissions of the Underwriters and other costs attributable to the Selling Shareholders) will amount to approximately EUR 92.9 million, EUR 108.4 million and EUR 124.6 million, respectively.

The Company intends to use the net proceeds from the Offering attributable to the Company in the order of priorities set forth as follows:

- in an amount of approximately EUR 35 million to support growth in the e-Mobility business area by investing in extension of production capacities, including investments in new machines and equipment, and executing strategic acquisitions of businesses that have relevant production capacity,
- in an amount of approximately EUR 14 million for total repayment of all shareholder loans,
- in an amount of approximately EUR 10 million to expand its research and development activities and
- the remaining amount for general corporate purposes.

7.3 Interests of persons involved in the Offering

The Underwriters have entered into a contractual relationship with the Company and the Selling Shareholders in connection with the Offering and the admission of the Shares to trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (see section "*5 The Offering - 5.9 Underwriting*"). The Underwriters act for the Company on the Offering and coordinates the structuring and execution of the Offering. In addition, the Underwriters have been appointed to act as designated sponsor for the Company's shares. Upon successful completion of the Offering, the Underwriters will receive a commission, which is dependent on the size of the Offering and the Offer Price. As a result of these contractual relationships, the Underwriters have a financial interest in the success of the Offering.

Furthermore, in connection with the Offering, the Underwriters and any of their respective affiliates, acting as an investor for their own account, may acquire Shares in the Offering and in that capacity may retain, purchase or sell for their own account such Shares or related investments and may offer or sell such Shares or other investments otherwise than in connection with the Offering. In addition, the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which the Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Shares. The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so or as disclosed in this Prospectus.

The Underwriters or their affiliates have, and may from time to time in the future continue to have, business relations with the Company or any company of the Group (including lending activities) or may perform services for the Company or any company of the Group in the ordinary course of business.

Since the Company will receive the net proceeds from the Offering of the New Shares and these will strengthen the equity capital basis of the Company, all direct and indirect shareholders with an interest in the Company, in particular the existing shareholders of the Company, have an interest in the implementation of the capital increase to which this Offering relates.

The Selling Shareholders will receive the net proceeds from the sale of the Base Shares, the Upsize Shares (if and to the extent the Upsize Option is exercised) and the net proceeds resulting from the exercise of the Greenshoe Option (if and to the extent the Greenshoe Option is exercised). In addition, a portion of the net proceeds from the sale of the New Shares will be used by the Company to repay in full the shareholder loans granted by the Selling Shareholders in an amount of approximately EUR 14 million. Therefore, the Selling Shareholders have a financial interest in the successful completion of the Offering at the best possible terms, which may not be in line with financial interests of prospective investors.

None of the aforementioned interests in the Offering constitute a conflict of interest or a potential conflict of interest. Consequently, there are no conflicts of interest with respect to the Offering.

8. DIVIDEND RIGHTS AND DIVIDEND POLICY

8.1 Dividend rights

Shareholders' shares in the Company's distributable profits are determined in proportion to their interest in the Company's share capital.

For a German Stock Corporation (*Aktiengesellschaft*), the distribution of dividends for a given financial year and the amount thereof are generally determined by a process in which the management board of the Company (the "**Management Board**") and the supervisory board of the Company (the "**Supervisory Board**") submit a proposal for the distribution of dividends to the annual general shareholders' meeting, which must generally be held within the first eight months of the subsequent financial year. As a consequence of the COVID-19 pandemic, the German legislator however adopted a legislative act on March 27, 2020 providing for several temporary exemptions from certain statutory rules for the year 2020 which were extended into 2021 by the Act on the Further Reduction of the Procedure for the Relief of Remaining Debt (*Gesetz zur weiteren Verkürzung des Restschuldbefreiungsverfahrens*) dated December 22, 2020 (*Gesetz zur Abmilderung der Folgen der COVID-19 Pandemie im Zivil-, Insolvenz- und Strafverfahrensrecht* (the "**COVID-19 Mitigation Act**")). Under the COVID-19 Mitigation Act, the annual general shareholders' meeting of a German stock corporation (*Aktiengesellschaft*) may be held within the whole financial year of the relevant entity, but in any case by the end of 2021, based on a decision of the management board in conjunction with the supervisory board's approval. The general shareholders' meeting adopts a resolution on such distribution with simple majority of the votes cast without being bound by the proposal of the Management Board and the Supervisory Board.

Under German law, dividends may only be paid from the distributable profit (*Bilanzgewinn*) as reported in the Company's annual financial statements prepared in accordance with the accounting principles set out in the German Commercial Code (*Handelsgesetzbuch*). The annual financial statements of the Company are approved by the Supervisory Board unless the Supervisory Board refers the approval to the general shareholders' meeting. When calculating the distributable profit, the profit or loss for the financial year (*Jahresüberschuss/-fehlbetrag*) must be adjusted for profits or losses carried forward (*Gewinn-/Verlustvorträge*) from previous financial years as well as for withdrawals from and transfers to reserves. Certain reserves are required to be set by law and must be deducted when calculating the distributable profit. When passing a resolution concerning the application of the distributable profit, the annual general shareholders' meeting may allocate further amounts to the revenue reserves, or carry them forward as profit. With regard to profit sharing, there are no restrictions or special procedures for securities owners abroad. Pursuant to section 19.2 of the Company's articles of association and subject to applicable statutory law, the general shareholders' meeting may resolve to pay dividends in kind (*Sachdividende*) in accordance with section 58, para. 5 of the German Stock Corporation Act (*Aktiengesetz*) in form of tangible assets which can be traded on a market within the meaning of section 3, para. 2 of the German Stock Corporation Act (*Aktiengesetz*). If the Supervisory Board approves the Company's financial statements, it may, pursuant to section 58, para. 2 of the German Stock Corporation Act (*Aktiengesetz*), transfer up to 50% of the profit for the financial year remaining after deducting any transfers to statutory reserves and any losses carried forward to non-statutory reserves.

The COVID-19 Mitigation Act provides in deviation from general rules that the Management Board may, with the consent of the Supervisory Board, decide to pay an interim dividend from the retained profits to shareholders. The relevant provisions under the COVID-19 Mitigation Act currently apply only to general shareholders' meetings held in and interim dividends paid out until the end of 2021.

Dividends resolved by the annual general shareholders' meeting are due three business days after the date of the relevant annual general shareholders' meeting, unless otherwise provided in the dividend resolution or in the Company's articles of association, in compliance with the rules of the respective clearing system. Details on dividend payments and the respective paying agents nominated by the Company will be published in the Federal Gazette (*Bundesanzeiger*) after each annual general shareholders' meeting.

Shareholders' claims to the payment of the dividend become statute-barred after three years, whereby the limitation period does not start until the conclusion of the year in which the eligible person becomes aware of the circumstances justifying the dividend claim, or would have become aware thereof if it had not been for gross negligence. Dividends for which the payment claim has become statute-barred remain with the Company.

Since the Company conducts its principal operations through its subsidiaries, its ability to pay future dividends will partly depend on the transfer of distributable profits from its subsidiaries. The determination of each subsidiary's ability to pay dividends is made in accordance with applicable law and will depend on the respective subsidiary's earnings, its economic and financial position, and other factors. These particularly include its liquidity requirements, its future prospects, market trends, and fiscal, statutory and other general framework conditions. The profit available for distribution is calculated according to the Company's annual financial statements prepared in accordance with the accounting principles set out in the German Commercial Code (*Handelsgesetzbuch*).

8.2 Dividend policy and dividends per share

The Company was originally incorporated as a limited liability company (*Gesellschaft mit beschränkter Haftung*) and was converted into a stock corporation (*Aktiengesellschaft*) on April 27, 2021. The Company has not paid any dividends or made any other distributions in the financial years ended December 31, 2020, 2019 and 2018 and in the period up to and including the date of this Prospectus.

The Company currently does not intend to pay any dividends in the current financial year and not within the short to medium term and intends to continue to invest in the growth of its business. The ability and intention of the Company to pay dividends in the future and the amount of possible dividend payments will depend on the Company's financial position, results of operations, capital requirements, investment alternatives, the existence of distributable profit (*Bilanzgewinn*) as reported in the Company's annual financial statements prepared in accordance with the accounting principles set out in the German Commercial Code (*Handelsgesetzbuch*), available liquidity, market developments, and other factors that the Management Board and the Supervisory Board may deem relevant. It is currently not possible to make any statement on the amount of the future net income or distributable profits (*Bilanzgewinn*) or whether any such future net income or distributable profits (*Bilanzgewinn*) will be generated at all. Any proposals by the Management Board and the Supervisory Board regarding dividend payments will be subject to the approval of the general shareholders' meeting which may revise the Company's dividend policy from time to time.

9. DILUTION

Following the implementation of the Offering, the existing shareholders of the Company will no longer participate in the Company's share capital to the same extent as previously.

As part of the capital increase in relation to the Offering, the existing share capital of the Company will be increased from EUR 8,000,000 by up to EUR 2,400,000 to up to EUR 10,400,000.

The net asset value of the Company under IFRS, i.e., the total assets less non-current and current liabilities, ("**Net Asset Value**"), amounted to EUR 25.6 million as at December 31, 2020 based on the Consolidated Financial Statements 2020, corresponding to EUR 3.20 per Share based on 8,000,000 outstanding Shares prior to the Offering. Accordingly, the Net Asset Value per Share under IFRS as at December 31, 2020 was EUR 23.80 lower than an Offer Price of EUR 27.00, which is the mid-point of the Price Range.

Assuming full placement of 2,400,000 New Shares at an Offer Price of EUR 27.00 which is the mid-point of the Price Range, the total gross proceeds to the Company from the Offering will amount to EUR 64.8 million. The Company will bear costs related to the placement of the New Shares as well as the listing of its entire share capital. Based on the aforementioned assumptions and assuming that all Sale Shares are fully placed, the Company estimates that the commissions payable to the Underwriters and attributable to the Company (including a possible discretionary incentive fee) together with the other costs attributable to the issuance of the New Shares as well as the listing of the entire share capital will amount to approximately EUR 3.5 million. Accordingly, the net proceeds from the Offering to the Company (after deducting the commissions of the Underwriters and other costs attributable to the Company) will amount to approximately EUR 61.3 million.

Had the Company received the resulting amount of the net proceeds from the sale of the New Shares (assuming full placement of the New Shares at the mid-point of the Price Range) by December 31, 2020, the Net Asset Value as of December 31, 2020, would have been approximately EUR 86.9 million, which corresponds to approximately EUR 8.35 per Share based on the number of outstanding Shares after full implementation of the capital increase. Assuming placement of all the New Shares at the mid-point of the Price Range, this would represent an immediate accretion to the existing shareholders of the Company of EUR 5.15 or 160.9%, per Share and an immediate dilution of EUR 18.65 or (69.1)% per Share to purchasers of the Offer Shares.

Each of the New Shares will have the same voting rights as the Company's Existing Shares.

Prior to the Offering, the existing shareholders of the Company held 8,000,000 outstanding shares and thus 100% of the voting rights. Assuming placement of all New Shares and Base Shares and assuming that the existing shareholders do not acquire any New Shares in the Offering, the existing shareholders will hold 35.87% of the Shares and of the voting rights in the Company upon completion of the Offering if the Upsize Option and the Greenshoe Option are fully exercised and 53.85% of the Shares and of the voting rights in the Company upon completion of the Offering if the Upsize Option and the Greenshoe Option are not exercised.

10. CAPITALIZATION AND INDEBTEDNESS

The tables below set forth the Group's capitalization and net financial indebtedness as of March 31, 2021. The following information should be read in conjunction with chapter "*11 Management's discussion and analysis of the net assets, financial position and results of operations*" and the Consolidated Financial Statements, including the notes thereto, contained in the "Financial Information" section of this Prospectus.

10.1 Statement of capitalization

	As of March 31, 2021 **(unaudited)(1)** **in EUR thousand**
Total current debt (including current portion of non-current debt)(2)	**50,756**
thereof guaranteed	-
thereof secured(3)	18,092
thereof unguaranteed/unsecured	32,664
Total non-current debt (excluding current portion of non-current debt)(4)	**51,198**
thereof guaranteed	-
thereof secured(3)	21,264
thereof unguaranteed/unsecured	29,934
Shareholders' equity(5)	**28,464**
Share capital(6)	63
Legal reserve(7)	20,848
Other reserves(8)	7,554
Total(9)	**130,418**

(1) The numbers are derived from the accounting records (unaudited) of the Company.

(2) Total current debt corresponds to the total current liabilities, which consist of lease liabilities, borrowings, provisions, other current financial liabilities, trade and other payables and current tax liabilities.

(3) This item corresponds to the portion of current debt which is secured by property, plant and equipment, trade receivables, bank accounts and shares in a subsidiary.

(4) Total non-current debt corresponds to the non-current liabilities, which consist of lease liabilities, borrowings, shareholder loans, deferred tax liabilities, provisions, employee benefit obligations and other non-current liabilities.

(5) This item corresponds to the total of Share capital, Legal reserve and Other reserves.

(6) Share capital as of March 31, 2021.

(7) This item corresponds to capital reserve and other reserves as of March 31, 2021 as presented in the Company's consolidated statement of financial position.

(8) This item corresponds to OCI, retained earnings and net result of the period as of March 31, 2021 as presented in the Company's consolidated statement of financial position.

(9) Comprises the total of the total current debt, total non-current debt and shareholders' equity.

On April 8, 2021 the Company resolved to increase its share capital from EUR 62,500 to EUR 8,000,000 pursuant to a capital increase from capital reserves which was registered in the commercial register of the Company on April 19, 2021.

The Company will repay a tranche of EUR 8 million under its Facilities Agreement to the financing banks by May 16, 2021 to reduce its outstanding loan under its Facilities Agreement to EUR 32,175,000.

The Company intends to use a portion of the net proceeds from the sale of the New Shares to repay in full the shareholder loans granted by the Selling Shareholders in an amount of approximately EUR 14 million.

10.2 Statement of indebtedness

	As of March 31, 2021
	(unaudited)[(1)] **in EUR thousand**
A. Cash[(2)]	26,040
B. Cash equivalents	-
C. Other current financial assets	142
D. Liquidity (A + B + C)	**26,182**
E. Current financial debt (including debt instruments, but excluding current portion of non-current financial debt)[(3)]	10,131
F. Current portion of non-current financial debt[(4)]	11,162
G. Current financial indebtedness (E + F)	**21,293**
H. Net current financial indebtedness (G - D)	**(4,889)**
I. Non-current financial debt (excluding current portion and debt instruments)[(5)]	48,760
J. Debt instruments	-
K. Non-current trade and other payables	-
L. Non-current financial indebtedness (I + J + K)	**48,760**
M. Total financial indebtedness (H + L)	**43,871**

(1) The numbers are derived from the accounting records (unaudited) of the Company.
(2) Corresponds to cash on hand and cash at banks as presented under cash and cash equivalents in the Company's consolidated statement of financial position.
(3) Current financial debt includes the short term loan from banks as recognized in other current financial liabilities as presented in the Company's consolidated statement of financial position.
(4) Corresponds to current portion of non-current borrowings and lease liabilities as presented in the Company's consolidated statement of financial position.
(5) Corresponds to borrowings and shareholder loans, as well as non-current lease liabilities as presented in the Company's consolidated statement of financial position.

As of March 31, 2021, the financial debt as presented in the statement of indebtedness includes lease liabilities of EUR 15,751 thousand, of which EUR 2,750 thousand are current and EUR 13,001 thousand are non-current.

10.3 Indirect and Contingent Indebtedness

The Company’s indirect and contingent indebtedness as of March 31, 2021 amounted to EUR 2,591 thousand. These indirect and contingent obligations relate to employee benefit obligations in the amount of EUR 1,414 thousand as presented in the Company’s consolidated statement of financial position, to other provisions in the amount of EUR 989 thousand which relates mainly to environmental, warranty and other risk provisions as presented in the Company’s consolidated statement of financial position and to other financial liabilities under leasing agreements in the amount of EUR 188 thousand.

10.4 Statement concerning working capital

In the Company's opinion, the working capital of the Group, excluding the net proceeds from the Offering attributable to the Company, is sufficient to meet the Group's present requirements over at least the next twelve months following the date of this Prospectus.

11. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

*The financial information contained in the following section is taken or derived from the Consolidated Financial Statements and the Annual Financial Statements or is derived from the Company's accounting records. The Consolidated Financial Statements have been prepared in accordance with IFRS. The Annual Financial Statements have been prepared in accordance with the German generally accepted accounting principles of the German Commercial Code (Handelsgesetzbuch) ("**German GAAP**"). The Consolidated Financial Statements and the Annual Financial Statements were audited by PwC, who issued unqualified independent auditor's reports (uneingeschränkte Bestätigungsvermerke des unabhängigen Abschlussprüfers) thereon. The Consolidated Financial Statements and the Annual Financial Statements are reproduced in this Prospectus beginning on page F-1.*

Investors should read the following discussion and analysis of financial condition and results of operations in conjunction with the Consolidated Financial Statements and the Annual Financial Statements as well as the notes to those financial statements. Some of the statements contained below include forward-looking statements. Because such statements involve inherent uncertainties, actual results may differ materially from the results expressed in or implied by such forward-looking statements. Investors can find a discussion of such uncertainties elsewhere in this Prospectus including, in section "4 General information - 4.4 Forward-looking statements" and section "3 Risk factors".

11.1 Overview

hGears is a global manufacturer of high precision gears and components with a focus on products for e-drive focused end-markets. The Company believes that such end-markets, in particular the e-mobility sector, offer highly attractive growth prospects. hGears has its headquarters in Germany and operates globally with production facilities in its key regional markets of Europe and China. hGears develops, manufactures, and supplies precision components and sub-systems as well as complex full system solutions. Products include gears, sprockets, shafts, structural components, complete gearboxes and other components. As a hybrid company, i.e. a high precision part manufacturer producing single components as well as sub- and full systems, hGears has a diverse product offering across various end-industries (e.g. e-mobility, power and gardening tools). In the financial years ended December 31, 2018 and 2019, hGears implemented a strategic shift from lower-margin conventional drive application products, mostly consisting of components for traditional combustion drives, e.g. for motorcycles, towards higher-margin, combustion-free electrical drive applications for e-bikes and electric and hybrid vehicles. hGears' customer base includes a number of major suppliers and manufacturers, many of which it believes to be leaders in their respective end-industry.

hGears manufactures precision components both for manufacturers who develop systems for integration into end products ("**Tier 1 Suppliers**"), serving as a Tier 2 Supplier ("**Tier 2 Supplier**"), and for original equipment manufacturers ("**OEMs**"), serving as a Tier 1 Supplier. As a Tier 1 Supplier, hGears directly supplies its products to OEMs in the power and gardening tool industries. Additionally, hGears is a Tier 2 Supplier to Tier 1 Suppliers (e.g. for e-bikes and the Audi e-tron). In a number of cases hGears works together with its customers in a "co-development" process to design components and find technologically optimal solutions to satisfy the customer's specifications. Co-development can be particularly important for manufacturers of e-bikes and electric and hybrid vehicles as these applications tend also to be new for them.

hGears divides its business into three business areas: e-Mobility ("**e-Mobility**"), e-Tools ("**e-Tools**") and other automotive and industrial applications ("**Conventional**").

- e-Mobility focuses on products for e-bike drive systems and drive train units for electric and hybrid vehicles. It includes the co-development and manufacturing of components for electrical drive applications (e.g. drive shaft, crank shaft and toothed washer). Electrical drive systems for vehicles require high precision components which are capable of withstanding high torque, are light weight and reduce noise.

- e-Tools focuses on components utilized in the powering mechanism of battery driven (e-drive), cordless power and gardening tools. It includes the manufacturing of precision components that are used in the part of the gearbox that connects the electric motor to the actual tools (e.g. cutting tool, trimming tool).

- Conventional focuses on gear units for various applications, such as rolling shutters and systems for heating, ventilation, and air conditioning ("**HVAC Systems**"), motorbikes and non-combustion part precision components for premium and luxury vehicles. It includes the production of various precision components for traditional automotive applications (e.g. drive, steering and brake systems and the body of the vehicle) as well as other industrial applications. Automotive and industrial applications are not part of hGears' primary strategic focus.

11.2 Preparation of financial information and factors affecting comparability and results

11.2.1 Basis of consolidation

The Consolidated Financial Statements include the results of the Company and its direct and indirect subsidiaries: Herzog GmbH, Schramberg, Germany, mG miniGears S.p.A., Padova, Italy, and mG miniGears (Suzhou) Co. Ltd., Suzhou, China.

11.2.2 Factors affecting comparability

The Company applied the standard IFRS 16 Leases ("**IFRS 16**") for the first time in the financial year commencing January 1, 2019. The comparative figures for the financial year ended December 31, 2018 have not been subsequently changed in accordance with the permitted transition regulations of IFRS 16. The reclassifications and adjustments arising from IFRS 16 were recognized in the opening balance sheet on January 1, 2019. The Consolidated Financial Statements 2018 do not reflect the changes from the application of IFRS 16 and are therefore not directly comparable with the Consolidated Financial Statements 2019. The application of IFRS 16 resulted in the following effects for hGears as of December 31, 2019:

- Right-of-use assets from leases of land and buildings, plant and machinery and other assets amounting to EUR 19,210 thousand as of December 31, 2019 were recognized under non-current assets as property, plant and equipment; and

- Total current and non-current lease liabilities increased by EUR 11,122 thousand from EUR 6,338 thousand as of December 31, 2018 to EUR 17,460 thousand as of December 31, 2019.

11.3 Significant factors affecting the results of operations

The Company believes that the development of hGears' business, net assets, financial condition, cash flow, and results of operations during the periods presented in this Prospectus has been primarily affected by the following factors and will likely continue to be affected by these factors in the foreseeable future.

11.3.1 Market conditions

hGears manufactures precision turned parts, gears and engine parts for customers in various industries, with a particular focus on its e-Mobility (e-bikes and electric and hybrid vehicles) and e-Tools (e-drive power and gardening tools) business areas. Therefore, hGears' results of operations depend on the economic conditions in these market segments in the respective countries in which hGears sells its products. In the Company's opinion, global demand for products in the e-Mobility business area has been increasing and will continue to increase due to increased environmental awareness and regulation, governmental incentives and changes in transportation options and usage. Furthermore, the Company expects that the demand for products in the e-Tools business area will also increase driven, on the one hand, by ongoing industrialization and rising construction activities and the need to increase efficiency and reduce manual workload in the construction and manufacturing industries and, on the other hand, a rising demand for landscaping services and government initiatives to increase green spaces in urban areas (see also "*12.1.2 Global trends and developments affecting hGears' business*").

11.3.2 Shift in business focus towards e-Mobility

In the financial years ended December 31, 2018 and 2019, hGears implemented a strategic shift in its business focus. Previously, the Company’s focus was on low-margin conventional drive application products, mostly consisting of components for traditional combustion drives, e.g. for motorbikes. As a result of this shift, hGears has moved its focus towards higher-margin combustion-free e-drive application products for e-bikes and electric and hybrid vehicles. The decision to implement this strategic shift was driven by increasing demand for high-precision components in the e-Mobility business area. This increase in demand was caused by strong growth in the market for e-bikes and electric and hybrid vehicles. Factors driving this growth include rising environmental awareness and urbanization creating demand for alternative transportation methods to reduce traffic and pollution in cities, combined with the expected decline in demand for high-precision components for traditional combustion vehicles due to decreasing underlying production. These trends have been exacerbated by the COVID-19 pandemic and governmental incentives for e-bikes and electric and hybrid vehicles. (see "*12.1.2 Global trends and developments affecting* "). Furthermore, sales of e-Mobility products typically generate higher margins than sales of products for traditional combustion drives. As part of this strategic shift, payments for property, plant and equipment and intangible assets in the amount of EUR 10,928 thousand and EUR 19,263 thousand were made in the financial years ended December 31, 2018 and 2019, respectively, in order to increase automation of manufacturing facilities, improve infrastructure and increase production capacities to support and accelerate the transition. The shift in business focus has significantly reduced manufacturing complexity by substantially phasing-out the Group's previous motorbike business area, which comprised more than 750 individual components and required external assembly of some parts. In contrast, the e-bikes business area currently comprises substantially fewer components, all of which are produced by hGears. The shift to rapidly growing higher-margin products in its e-Mobility business area has already had a positive impact on the Group's results of operations and the Company believes this trend will continue.

11.3.3 Importance of key customers

hGears' relationships with key customers and their level of business with hGears have had and will have a significant impact on hGears financial performance and results of operations. A significant portion of hGears' revenues comes from a small number of key customers, with its top customer accounting for 32.3%, its top 5 customers accounting for 60.3% and its top 10 customers accounting for 72.3% of its consolidated sales of goods in the financial year ended December 31, 2020. Strong customer relationships have contributed significantly to the growth of hGears' business during the periods under review and facilitated the shift towards e-Mobility applications. In particular, the Company believes that its strong existing relationship of over 30 years with an OEM in the area of power tools contributed to its selection to supply this customer, as a Tier 1 Supplier with e-bike drive systems. The Company believes that its strong relationships with key customers, in particular its top customer, will continue to positively affect its revenue growth in the future.

hGears has entered into long-term framework agreements with its key customers in the e-Mobility business area. In the e-Tools and Conventional business areas, hGears typically concludes either framework agreements with an indefinite term, multi-year agreements or one year agreements that automatically roll over after the end of the initial term. Where long-term framework agreements are in place, there is usually no binding minimum order volume contractually agreed and customers may not purchase the quantities of products that hGears expects. Moreover, the terms of the framework agreements may be amended and in certain circumstances they may be terminated entirely, e.g. for good cause, due to a change of control, or if the customer's product requirements change due to circumstances beyond the customer's influence. However, no framework agreements were terminated by customers in the past.

11.3.4 Seasonality

hGears' revenue in the e-Mobility business area is normally subject to seasonal fluctuations due to the fact that the e-bike business is characterized by seasonal demand patterns, with typically greater demand for hGears' products in the first and fourth quarters of the year and lower demand in the second and third quarters.

hGears did not experience seasonal fluctuations in the e-Mobility business area in the financial year ended December 31, 2020 due to consistently high demand for e-bikes, and consequently, hGears' products, as a result of changes in transportation options and usage caused by the COVID-19 pandemic. The Company expects that this trend will continue in the current financial year.

However, the Company expects that once the effects of the COVID-19 pandemic no longer have an impact, the seasonal demand for its products in the e-Mobility business area may again contribute to certain seasonal fluctuations of hGears' quarterly results within the financial year.

11.3.5 Selling prices and competitive pressures

Selling prices of hGears' products are usually agreed in the contracts with its customers for each year of the duration of the contract in the e-Mobility business area and for one year in the e-Tools and Conventional business areas. Selling prices of hGears' products fluctuate as a result of many factors, including demand, prices of raw materials and consumables and pricing strategies of hGears' competitors. In the e-mobility and automotive contracts, hGears is typically expected to generate production efficiencies over the life of the agreement, and therefore the agreed selling prices normally reduce over time. Increased competition in the markets in which hGears operates may adversely affect its selling prices, margins and overall profitability. hGears faces significant competition from other companies in its markets based on several key criteria, which include, among others, price, product technology and reliability, product quality and performance, reputation, and brand recognition. The markets in which hGears operates, in particular the e-mobility market, might become more competitive in the future, in particular due to new market entrants and developments in technology, for example as a result of the shift of traditional automotive suppliers towards e-mobility. Such new entrants may benefit from lower production costs and may be able to offer lower prices which may in turn force hGears to lower its selling prices. The Company expects that growth in the relatively young e-mobility market may further increase such competitive developments. Moreover, any consolidation among hGears' competitors could enhance their product offerings and financial resources, which could strengthen their competitive position relative to hGears.

11.3.6 Product development costs

The markets in which hGears operates are subject to constant technological change and to remain competitive, hGears must adapt to evolving industry requirements. This process may involve improving its existing products (e.g. improve single components in order to obtain higher torque resistance, less noise and/or lower weight), introducing new products according to customers' demand and/or improving its manufacturing processes, which can require significant capital investment. In the financial years ended December 31, 2018 and 2019, hGears made investments in the amount of EUR 11,645 thousand and EUR 19,876 thousand, respectively, primarily in the automation of manufacturing facilities, infrastructure and increase of production capacities (referred to as additions to property, plant and equipment) in order to implement a strategic shift towards e-drive application products for e-bikes and electric and hybrid vehicles. The Company believes that this strategic shift and efficiency increases as a result of the investments made will have a positive effect on its profitability.

Because of the specialised nature of its products, hGears typically works together with its customers in a "co-development" process to adapt the product and the related manufacturing process to suit the customers' design and incurs related investment and development costs. The cost of tools or patterns which are unique for a specific customer are typically reimbursed by such customer. However, other non-recurring, capitalized costs may only be recouped once production starts and the customer purchases sufficient quantities of the product. The contract with the customer may not require the customer to purchase sufficient quantities to cover those costs and usually does not provide for any other compensation mechanism. Furthermore, hGears may have to bear additional costs if the development of its customer's (or, if different, the end-user's) products is delayed. For example, in the financial years ended December 31, 2018 and 2019, hGears incurred non-recurring costs in connection with the delayed implementation of a new product for an automotive customer. Moreover, in the financial year ended December 31, 2019, hGears bore one-off ramp-up costs including, among other things, extra transportation costs, idle time of hired staff, layout costs to set up new machines and costs resulting from the excessive scrap rate of steel, in the amount of EUR 4,238 thousand in connection with the postponement of the ramp-up of a new product in the e-bike business area by a customer.

11.3.7 Raw materials and consumables used

Raw materials and consumables, which principally comprise raw materials, in particular steel, supplies, energy costs for production, tools and outsourced manufacturing costs, account for a significant portion of hGears' costs. In the financial years ended December 31, 2020, 2019 and 2018, raw materials and consumables used represented 42.6%, 43.3% and 44.2% of revenues, respectively.

hGears' most significant raw material cost is steel. For the financial year ended December 31, 2020, 64.3% of hGears' raw materials and consumables used were attributable to raw material purchases, which mainly consisted of machined steel or powder metal (financial year ended December 31, 2019: 61.9%, financial year ended December 31, 2018: 64.5%). hGears typically agrees steel prices with its suppliers annually based on expected volumes of product sales. However, if the volume of products sold exceeds expectations hGears may be exposed to higher steel prices for the additional steel it needs to purchase.

In some cases, a customer may itself be a significant purchaser of steel and therefore able to negotiate a better price that hGears can benefit from. Contracts with hGears' customers in the e-Mobility business area and in the automotive business typically include price-adjustment clauses for movements in steel prices within a specified range. If the steel price moves beyond the range, then hGears and the customer may agree on a revised price. No such price-adjustment clauses are typically included in contracts with customers in the e-Tools or Conventional business areas (except for automotive), but since prices in respect of such contracts are typically renegotiated every year, hGears is better able to adjust the selling prices for the relevant products in line with the movements in steel prices.

When hGears becomes exposed to steel price increases it may mitigate its exposure by changing a supplier or consolidating the purchase volume with one supplier to generate cost benefits. As the global economic climate changes, the Company expects that hGears' cost of steel and other raw materials and consumables will continue to fluctuate as they have in the past. If hGears is not able to adjust its selling prices accordingly, its financial performance and results of operations may be negatively affected.

11.3.8 Personnel expenses

Personnel expenses comprise wages and salaries, social security contributions and temporary workers and account for a significant portion of hGears' expenses. During the financial years ended December 31, 2020, 2019 and 2018, hGears' personnel expenses represented 31.0%, 33.9% and 31.5% of hGears total revenues respectively.

The Company believes that hGears' success greatly depends on the performance of the members of the Company's management team, key personnel who are familiar with its key customers and experienced in the markets in which it operates and highly skilled technical personnel, in particular operators of computer numerical control ("**CNC**") machines. The expenses associated with recruiting and retaining personnel have had and could continue to have an impact on hGears' performance and results of operations and there can be no assurance that hGears' efforts to attract, retain and motivate appropriate personnel will be successful. In particular, industry demand for highly skilled technical personnel, especially in Germany, exceeds the number of personnel available, and the competition for attracting and retaining these employees is intense. However, going forward, the Company sees an opportunity to overturn a traditionally challenging labor market, especially in

Germany, by profiting from the current situation in the automotive market, which is laying-off high numbers of expert managers and qualified workers, and by increasing automation.

11.3.9 Foreign currency exchange rates

The functional and presentation currency of the Company and its subsidiaries Herzog GmbH and mG miniGears S.p.A. is the euro. The functional currency of mG miniGears (Suzhou) Co., Ltd. is Chinese yuan also referred to renminbi ("**CNY**" or "**RMB**"). Much of the Group's sales are denominated in euro, but a portion of hGears' revenues, including most of mG miniGears (Suzhou) Co., Ltd.'s revenues, is denominated in other currencies, primarily U.S. dollars. Further, most of mG miniGears (Suzhou) Co., Ltd.'s raw materials and consumables and employee costs are in RMB. As a result, fluctuations in foreign currency exchange rates, in particular, the relative strength or weakness of the U.S. dollar, euro and RMB can have a material impact on hGears performance and results of operations. A weakening of the U.S. dollar and/or RMB against the euro could have a negative impact on hGears' results derived from sales made in U.S. dollars and/or RMB. Alternatively, a strengthening of the U.S. dollar and/or RMB against the euro could have a positive impact. Similarly, a weakening of the U.S. dollar and/or RMB against the euro could reduce hGears' costs when expressed in euro, while a strengthening of the U.S. dollar and/or RMB against the euro could increase costs when expressed in euro.

Foreign currency transactions are translated into the presentation currency using the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into the presentation currency using the exchange rates prevailing at the balance sheet date and foreign exchange gains and losses resulting from those translations are recognized in the consolidated statement of profit or loss as other operating income or other operating expenses, respectively.

11.4 Results of operations

11.4.1 Overview

The following table shows selected information from hGears' consolidated statements of profit or loss for the financial years ended December 31, 2020, 2019, and 2018.

	For the financial year ended December 31,		
	2020	**2019**	**2018**
		(audited)	
in EUR thousand			
Revenues	126,260	121,838	126,205
Other capitalized own work	80	132	172
Changes in inventories	(319)	(2,891)	(5,094)
Total output	**126,021**	**119,079**	**121,283**
Other operating income	1,772	1,557	2,417
Raw materials and consumables used	(53,765)	(52,727)	(55,802)
Personnel expenses	(39,205)	(41,305)	(39,713)
Depreciation, amortization and impairment	(10,551)	(10,300)	(7,411)
Other operating expenses	(15,479)	(15,838)	(19,404)
Profit / loss from operating activities	**8,793**	**466**	**1,370**
Finance income	6	4	3
Finance expenses	(2,920)	(4,716)	(2,221)
Financial result	**(2,914)**	**(4,712)**	**(2,218)**
Income before income taxes	**5,879**	**(4,246)**	**(848)**
Income and deferred taxes	834	(490)	(1,240)
Net result of the period	**6,713**	**(4,736)**	**(2,088)**
Result attribution to:			
Shareholders	**6,713**	**(4,736)**	**(2,088)**

11.4.2 Comparison of the results of operations for the financial years ended on December 31, 2020, 2019, and 2018

11.4.2.1 Revenues

The following table sets out hGears' revenues by revenue stream for the periods presented:

in EUR thousand	For the financial year ended December 31,		
	2020	**2019**	**2018**
		(audited)	
Sales of goods	125,498	121,088	125,401
Other	762	750	804
Total revenues	**126,260**	**121,838**	**126,205**

Commencing with the financial year ended December 31, 2020, hGears reports its sales of goods by three business areas, e-Mobility (e-bikes and electric and hybrid vehicles), e-Tools (e-drive power and gardening tools) and Conventional (automotive, motorbike and industrial applications). For purposes of comparison, hGears has presented its sales of goods for the financial years ended December 31, 2019 and December 31, 2018 on the same basis.

The following table sets out hGears' total sales of goods by business area for the periods indicated:

in EUR thousand	For the financial year ended December 31,		
	2020	**2019**	**2018**
		(audited)	
e-Mobility	45,885	28,802	14,541
e-Tools	39,379	41,233	52,367
Conventional	40,234	51,054	58,493
Total sales of goods	**125,498**	**121,088**	**125,401**

The following table sets out hGears' sales of goods by region for the periods indicated:

in EUR thousand	For the financial year ended December 31,		
	2020	**2019**	**2018**(1)
	(audited unless otherwise indicated)		
EU area	95,085	91,248	91,729
USA	8,430	9,817	12,443
China	8,327	7,372	7,614
Rest of world	13,656	12,651	13,615
Total sales of goods	**125,498**	**121,088**	**125,401**

(1) Unaudited with the exception of line item Total sales of goods.

The Group decided starting from the financial year ended December 31, 2020 to provide the geographical breakdown in its key regions instead of an individual country breakdown. The EU area includes sales in Germany in a total amount of EUR 35,247 thousand (2019: EUR 42,631 thousand; 2018: EUR 41,598 thousand) and Hungary in a total amount of EUR 40,638 thousand (2019: EUR 22,341 thousand; 2018: EUR 12,987 thousand). Apart from Germany and Hungary, sales in the EU area are highly fragmented and sales of goods in any individual country do not exceed 10% of total sales of goods.

2020 vs. 2019

Revenues increased from EUR 121,838 thousand in the financial year ended on December 31, 2019, by EUR 4,422 thousand (or 3.6%) to EUR 126,260 thousand in the financial year ended on December

31, 2020. The increase was attributable to a significant increase in sales in the e-Mobility business area, in particular in the sale of components for e-bikes, which more than offset declines in sales in the e-Tools and Conventional (automotive, motorbike and industrial applications) business areas. Revenues in the e-Tools business area decreased primarily due to a shift of production capacities from e-Tools to e-Mobility due to the strong demand in particular for components for e-bikes. Revenues in the Conventional business area declined mainly due to the phasing out of certain parts relating to the premium and luxury vehicle business and the motorbike business as part of the strategic shift to electronic drive applications.

2019 vs. 2018

Revenues decreased from EUR 126,205 thousand in the financial year ended on December 31, 2018, by EUR 4,367 thousand (or 3.5%) to EUR 121,838 thousand in the financial year ended on December 31, 2019. The decrease was mainly attributable to the decrease of sales in the e-Tools and Conventional (automotive, motorbike and industrial applications) business areas, which was partly offset by the increase in sales in the e-Mobility business area.

Revenues in the e-Mobility business area increased as a result of a ramp-up of new products for e-bikes and electric and hybrid vehicles. Revenues in the e-Tools business area decreased due to a decline in sales of power tools and gardening tools. Sales of power tools declined primarily due to pricing pressures in the Chinese market leading to lower customer demand, which was amplified by an ongoing shift in manufacturing of power tools from the German manufacturing facility in Schramberg to the Chinese subsidiary in Suzhou. In addition, hGears has selectively exited unprofitable and complex products to improve profitability. Sales of gardening tools declined as a result of pricing pressure in the Chinese market leading to lower demand by the major customer of the Chinese subsidiary. Sales in the automotive, motorbike and industrial applications (Conventional) business area declined mainly as a result of the deemphasis on the motorbike business as part of the strategic shift towards non-combustion electronic drive applications, which was partly offset by an increase in sales of products for luxury and premium vehicles.

11.4.2.2 Changes in inventories

2020 vs. 2019

Changes in inventories changed from EUR (2,891) thousand in the financial year ended on December 31, 2019 by EUR (2,572) thousand (or (89.0%)) to EUR (319) thousand in the financial year ended on December 31, 2020. The change was mainly attributable to measures taken to focus on active working-capital management, such as reduction of finished products and work in progress.

2019 vs. 2018

Changes in inventories changed from EUR (5,094) thousand in the financial year ended on December 31, 2018 by EUR (2,203) thousand (or (43.2%)) to EUR (2,891) thousand in the financial year ended on December 31, 2019. The change was mainly attributable to the deemphasis on the motorbike business, which is characterized by a high amount of individual parts and high inventory levels.

11.4.2.3 Other operating income

Other operating income comprises income from the disposal of non-current assets, reversal of write-downs on receivables, reversal of previous year accrual, income for damages from supplier, recharge to employees of car fees, refund from insurance, income from prior years, income from energy company, foreign currency exchange gains and other.

2020 vs. 2019

Other operating income increased from EUR 1,557 thousand in the financial year ended on December 31, 2019 by EUR 215 thousand (or 13.8%) to EUR 1,772 thousand in the financial year ended on December 31, 2020. The increase was mainly attributable to an increase in foreign currency exchange gains primarily as a result of favorable movements in the exchange rate of U.S. dollar to euro.

2019 vs. 2018

Other operating income decreased from EUR 2,417 thousand in the financial year ended on December 31, 2018 by EUR 860 thousand (or 35.6%) to EUR 1,557 thousand in the financial year ended on December 31, 2019. The decrease was mainly attributable to a decrease in foreign currency exchange gains due to unfavorable movements in the exchange rate of U.S. dollar to euro and a decrease in income from the disposal of non-current assets due to a one-time positive effect in the financial year ended December 31, 2018 resulting from the disposal of assets in the Schramberg manufacturing facility in order to make place for equipment necessary for the ramp-up of a new e-bike product. The decrease in foreign currency exchange gains and income from disposal of non-current assets was partly offset by an increase in income from energy company, which resulted from reimbursement of costs charged in previous years due to reclassification of the Padova plant to a different customer category.

11.4.2.4 Raw materials and consumables used

Raw materials and consumables used comprise raw materials, trade goods, supplies, energy costs for production, tools, inbound freight, discounts and outsourced manufacturing costs, which are mainly incurred in the German manufacturing facility on external processing and subcontracting for activities such as heat treatment, bearing, forging and casting.

2020 vs. 2019

Raw materials and consumables used increased from EUR (52,727) thousand in the financial year ended on December 31, 2019 by EUR 1,038 thousand (or 2.0%) to EUR (53,765) thousand in the financial year ended on December 31, 2020. The increase was mainly attributable to the increase of total output. The cost of materials ratio, defined as the ratio of the raw materials and consumables to total revenues, decreased from 43.3% in the financial year ended on December 31, 2019 to 42.6% in the financial year ended December 31, 2020.

2019 vs. 2018

Raw materials and consumables used decreased from EUR (55,802) thousand in the financial year ended on December 31, 2018 by EUR 3,075 thousand (or 5.5%) to EUR (52,727) thousand in the financial year ended on December 31, 2019. The decrease was mainly attributable to a lower total amount of produced parts, in particular due to the deemphasis on the motorbike business. The cost of materials ratio, defined as the ratio of the raw materials and consumables to total revenues, decreased from 44.2% in the financial year ended on December 31, 2018 to 43.3% in the financial year ended December 31, 2019.

11.4.2.5 Personnel expenses

Personnel expenses comprise wages and salaries, social security contributions and temporary workers.

2020 vs. 2019

Personnel expenses decreased from EUR (41,305) thousand in the financial year ended on December 31, 2019 by EUR 2,100 thousand (or 5.1%) to EUR (39,205) thousand in the financial year period ended on December 31, 2020. The decrease was mainly attributable to a decrease in the number of employees which decreased by 19 full time equivalents compared to the financial year ended on December 31, 2019, and due to the use of claims for the reimbursement of social-security contributions for short-time-work which are recognized as a reduction of personnel expenses, according to IAS 20.

2019 vs. 2018

Personnel expenses increased from EUR (39,713) thousand in the financial year ended on December 31, 2018 by EUR 1,592 thousand (or 4.0%) to EUR (41,305) thousand in the financial year ended on December 31, 2019. The increase was mainly attributable to idle time of workers due to delays in ramp-ups of new products (see "*11.3.6 Product development costs*") and higher overtime costs.

11.4.2.6 Depreciation, amortization and impairment

2020 vs. 2019

Depreciation, amortization and impairment remained largely stable and amounted to EUR (10,300) thousand in the financial year ended on December 31, 2019 and EUR (10,551) thousand in the financial year ended on December 31, 2020.

2019 vs. 2018

Depreciation, amortization and impairment increased from EUR (7,411) thousand in the financial year ended on December 31, 2018 by EUR 2,889 thousand (or 39.0%) to EUR (10,300) thousand in the financial year ended on December 31, 2019. The increase was mainly attributable to the impact of the first-time adoption of IFRS 16 and investments made in the financial years ended on December 31, 2018 and 2019.

11.4.2.7 Other operating expenses

Other operating expenses primarily comprise training/clothing/various employees' costs, maintenance costs, outbound freight, operating lease expenses, advisory and other fees, foreign currency exchange losses and other operating expenses

2020 vs. 2019

Other operating expenses decreased slightly from EUR (15,838) thousand in the financial year ended on December 31, 2019 by EUR 359 thousand (or 2.3%) to EUR (15,479) thousand in the financial year ended on December 31, 2020. Noteworthy developments within the period under review was an increase in foreign exchange losses due to unfavorable movements in the exchange rate of U.S. dollar to euro which was almost entirely offset by a decrease in advisory and other fees.

2019 vs. 2018

Other operating expenses decreased from EUR (19,404) thousand in the financial year ended on December 31, 2018 by EUR 3,566 thousand (or 18.4%) to EUR (15,838) thousand in the financial year ended on December 31, 2019. The decrease was mainly attributable to a decrease in operating lease expenses due to impact of the first-time adoption of IFRS 16, lower foreign currency exchange losses due to movements in the exchange rate of the U.S. dollar to the euro and a decrease in outbound freight expenses due to a change in the classification of packaging materials from outbound freight to raw materials following the SAP implementation in the Italian subsidiary, which were partly offset by an increase in other operating expenses which was primarily related to increased accrued ramp-up costs, including extra transportation costs and line-stop costs.

11.4.2.8 Profit / loss from operating activities

2020 vs. 2019

Profit from operating activities increased from EUR 466 thousand in the financial year ended on December 31, 2019 by EUR 8,327 thousand (or 1,786.9%) to EUR 8,793 thousand in the financial year ended on December 31, 2020 primarily as a result of an increase in revenues and lower personnel expenses.

2019 vs. 2018

Profit from operating activities decreased from EUR 1,370 thousand in the financial year ended on December 31, 2018 by EUR 904 thousand (or 66.0%) to EUR 466 thousand in the financial year ended on December 31, 2019 as a result of the decrease in revenues described in section 11.4.2.1 above.

11.4.2.9 Finance expenses

Finance expenses comprise interest expenses on lease liabilities, shareholder loans, bank loans and overdrafts and other interest expenses and similar expenses.

2020 vs. 2019

Finance expenses decreased from EUR (4,716) thousand in the financial year ended on December 31, 2019 by EUR 1,796 thousand (or 38.1%) to EUR (2,920) thousand in the financial year ended on December 31, 2020. The decrease was mainly attributable to the adjustment of amortized costs due to changes in estimated cash flows for the Group's bank loans and the early repayment portion of the of a bank facility, which was partially offset by an increase in interest on factoring due to higher levels of receivables being factored.

2019 vs. 2018

Finance expenses increased from EUR (2,221) thousand in the financial year ended on December 31, 2018 by EUR 2,495 thousand (or 112.3%) to EUR (4,716) thousand in the financial year ended on December 31, 2019. The increase was attributable to the increase in other interest expenses and similar expenses due to the release of amortized cost related to the Facilities Agreement, the increase in interest expenses on bank loans due to an increase in outstanding bank debt, primarily for the financing of the new product ramp-up in the e-bike area, and amendment of the interest rates under the Facilities Agreement (see "*13.13.1 Facilities Agreement between the Company, Hamburg Commercial Bank AG and Skandinaviska Enskilda Banken AB (publ)*", and the increase in interest expense on lease liabilities due to the adoption of IFRS 16.

11.4.2.10 Income before income taxes

2020 vs. 2019

Income before income taxes increased from EUR (4,246) thousand in the financial year ended on December 31, 2019 by EUR 10,125 thousand (or 238.5%) to EUR 5,879 thousand in the financial year ended on December 31, 2020 as a result of the increase of profit from operating activities described in section 11.4.2.8 as well as the lower finance expenses.

2019 vs. 2018

Income before income taxes decreased from EUR (848) thousand in the financial year ended on December 31, 2018 by EUR 3,398 thousand (or 400.7%) to EUR (4,246) thousand in the financial year ended on December 31, 2019 as a result of the decrease of profit from operating activities described in section 11.4.2.8 and the increase in finance expenses described in section 11.4.2.9 above.

11.4.2.11 Income and deferred taxes

Income and deferred taxes include corporation tax, trade tax, solidarity surcharge, other income taxes paid outside Germany as well as deferred taxes.

2020 vs. 2019

Income and deferred taxes decreased from EUR (490) thousand in the financial year ended on December 31, 2019 by EUR 1,324 thousand (or 270.2%) to EUR 834 thousand in the financial year ended on December 31, 2020. The decrease was mainly attributable to an increase of deferred income taxes primarily from tax losses carried forward which was partly offset by an increase in current income taxes.

2019 vs. 2018

Income and deferred taxes decreased from EUR (1,240) thousand in the financial year ended on December 31, 2018 by EUR 750 thousand (or 60.5%) to EUR (490) thousand in the financial year ended on December 31, 2019. The decrease was mainly attributable to the decrease in the current income taxes due to lower taxable income outside Germany.

The effective tax rate for the financial years ended December 31, 2020, 2019, and 2018 was 14.2%, (11.5)% and (144.2)%, respectively.

11.4.2.12 Net result of the period

2020 vs. 2019

Net result of the period increased from EUR (4,736) thousand in the financial year ended on December 31, 2019 by EUR 11,449 thousand (or 241.7%) to EUR 6,713 thousand in the financial year ended on December 31, 2020 as a result of the factors mentioned above.

2019 vs. 2018

Net result of the period decreased from EUR (2,088) thousand in the financial year ended on December 31, 2018 by EUR 2,648 thousand (or 126.8%) to EUR (4,736) thousand in the financial year ended on December 31, 2019 as a result of the factors mentioned above.

11.5 Assets, equity and liabilities

11.5.1 Overview

The following table shows selected information from the consolidated statements of financial position of the Company as of December 31, 2020, 2019, and 2018.

	As of December 31,		
	2020	2019	2018
in EUR thousand		(audited)	
Property, plant and equipment	66,198	66,617	43,568
Intangible assets	1,541	2,070	2,532
Other non-current assets	125	116	122
Deferred tax assets	3,925	1,791	2,100(*)
Total non-current assets	**71,789**	**70,594**	**48,322**
Inventories	14,555	16,331	16,372
Trade receivables	11,647	13,108	12,717
Other receivables	738	1,317	1,258
Other current assets	2,487	2,322	1,752
Other current financial assets	203	185	1,186
Cash and cash equivalents	23,434	17,703	7,768
Total current assets	**53,064**	**50,966**	**41,053**
Total assets	**124,853**	**121,560**	**89,375**
Share capital	63	63	50
Capital reserve	20,448	20,448	15,460
Other reserves	400	400	400
OCI	716	1,018	1,055
Retained earnings	(2,789)	1,947	4,480
Net result of the period	6,713	(4,736)	(2,088)
Total equity	**25,551**	**19,140**	**19,357**
Lease liabilities	13,440	14,555	4,969
Borrowings	20,999	28,136	16,147
Shareholder loans	14,341	13,660	13,061
Deferred tax liabilities	284	228	549(*)
Provisions	319	319	319
Employee benefit obligations	1,503	1,560	1,585
Other non-current liabilities	428	338	315
Total non-current liabilities	**51,314**	**58,796**	**36,945**
Lease liabilities	2,772	2,905	1,369
Borrowings	18,273	10,975	7,227
Provisions	689	288	361
Other current financial liabilities	64	129	219
Trade and other payables	25,396	29,231	23,573
Current tax liabilities	794	96	324
Total current liabilities	**47,988**	**43,624**	**33,073**
Total liabilities	**99,302**	**102,420**	**70,018**
Total equity and liabilities	**124,853**	**121,560**	**89,375**

(*) Prior year adjustment: Offsetting of deferred taxes. This number is taken from the Consolidated Financial Statements 2019 .

11.5.2 Comparison of the figures reported in the consolidated statements of financial position as of December 31, 2020, 2019, and 2018

11.5.2.1 Non-current assets

Non-current assets consist of property, plant and equipment, intangible assets, other non-current receivables, and deferred tax assets.

December 31, 2020 vs. December 31, 2019

Total non-current assets increased from EUR 70,594 thousand as of December 31, 2019 by EUR 1,195 thousand (or 1.7%) to EUR 71,789 thousand as of December 31, 2020. The increase was primarily due to the increase in deferred tax assets attributable to tax losses carried forward.

December 31, 2019 vs. December 31, 2018

Total non-current assets increased from EUR 48,322 thousand as of December 31, 2018 by EUR 22,272 thousand (or 46.1%) to EUR 70,594 thousand as of December 31, 2019. The increase was primarily due to the increase in property, plant and equipment, which resulted from investments made in the ramp-up of new products in the e-Mobility business area and adjustments made as a result of the first-time application of IFRS 16.

11.5.2.2 Current assets

Current assets consist of inventories, trade receivables, other receivables, other current assets, other current financial assets and cash and cash equivalents.

December 31, 2020 vs. December 31, 2019

Total current assets increased from EUR 50,966 thousand as of December 31, 2019 by EUR 2,098 thousand (or 4.1%) to EUR 53,064 thousand as of December 31, 2020. The increase was primarily due to the increase in cash and cash equivalents due to increased cash from operating activities which was partly offset by the effect of increased cash used in investment and financing activities. The increase was partially offset by decreases in inventories and trade receivables.

December 31, 2019 vs. December 31, 2018

Total current assets increased from EUR 41,053 thousand as of December 31, 2018 by EUR 9,913 thousand (or 24.1%) to EUR 50,966 thousand as of December 31, 2019. The increase was primarily due to the increase in cash and cash equivalents due to the capital increase implemented pursuant to the resolution of shareholders dated October 31, 2019 and increased cash from operating activities, which was partly offset by the effect of increased cash used in investment activities.

11.5.2.3 Equity

Equity consists of share capital, capital reserve, other reserves, OCI reserves, retained earnings and net result of the period. OCI reserves include currency translation reserve, changes in fair value of derivative contracts and changes in employee plan reserve related to employee termination indemnities of defined benefit plans.

December 31, 2020 vs. December 31, 2019

Total equity increased from EUR 19,140 thousand as of December 31, 2019 by EUR 6,411 thousand (or 33.5%) to EUR 25,551 thousand as of December 31, 2020. The increase was primarily due to the increase in the net result of the period.

December 31, 2019 vs. December 31, 2018

Total equity remained almost unchanged at EUR 19,140 thousand as of December 31, 2019 compared to EUR 19,357 thousand as of December 31, 2018. An increase in the capital reserve due to the capital increase implemented pursuant to the resolution of shareholders dated October 31, 2019 was offset by a decrease in retained earnings due to losses in 2018 and one off-costs resulting from the delay in the ramp-up of new products in connection with the e-Mobility business area and higher financing costs.

11.5.2.4 Non-current liabilities

Non-current liabilities comprise lease liabilities, borrowings, shareholder loans, deferred tax liabilities, provisions, employee benefit obligations and other non-current liabilities.

December 31, 2020 vs. December 31, 2019

Total non-current liabilities decreased from EUR 58,796 thousand as of December 31, 2019 by EUR 7,482 thousand (or 12.7%) to EUR 51,314 thousand as of December 31, 2020. The decrease was mainly due to the reclassification of the short term portion of long term borrowings to current liabilities, the repayment of leasing liabilities and the early repayment of a portion of the bank facility.

December 31, 2019 vs. December 31, 2018

Total non-current liabilities increased from EUR 36,945 thousand as of December 31, 2018 by EUR 21,851 thousand (or 59.1%) to EUR 58,796 thousand as of December 31, 2019. The increase was primarily due to the increase in lease liabilities as a result of recognition of lease liabilities pursuant to the first time application of IFRS 16 as well as the increase in borrowings due to the financing of investments made in the ramp-up of the new product in the e-bike area.

11.5.2.5 Current liabilities

Current liabilities consist of lease liabilities, borrowings, provisions, other current financial liabilities, trade and other payables and current tax liabilities.

December 31, 2020 vs. December 31, 2019

Total current liabilities increased from EUR 43,624 thousand as of December 31, 2019 by EUR 4,364 thousand (or 10.0%) to EUR 47,988 thousand as of December 31, 2020. The increase was mainly due to reclassification of the short term portion of long term borrowings to current liabilities according to repayment plans.

December 31, 2019 vs. December 31, 2018

Total current liabilities increased from EUR 33,073 thousand as of December 31, 2018 by EUR 10,551 thousand (or 31.9%) to EUR 43,624 thousand as of December 31, 2019. The increase was primarily due to the increase in borrowings resulting from increased liquidity demands in order to secure liquidity for payment of payables related to investments which were due at the beginning of the financial year 2020 and the increase in trade and other payables as a result of open investment invoices.

11.6 Liquidity and financial resources

11.6.1 Overview

hGears' primary sources of liquidity are net cash provided by operating activities as well as loans and borrowings from financial institutions and shareholders. Short-term liquidity needs are financed through existing cash balances, a revolving credit facility (see "*13.13.1 Facilities Agreement between the Company, Hamburg Commercial Bank AG and Skandinaviska Enskilda Banken AB (publ)*") and factoring of receivables. The proceeds from the Offering are expected to be an important source of liquidity in the medium term as the Company intends to use such proceeds to finance its growth strategy with a particular focus on expanding its production capacities in the e-Mobility business area.

Based on cash pooling agreements concluded by the Company with Herzog GmbH and mG miniGears S.p.A. on June 30, 2016 and November 30, 2016, respectively, cash balances of Herzog GmbH and mG miniGears S.p.A. are transferred to the Company at the end of each day, except for a minimum cash balance which must be held by mG miniGears S.p.A. Excess cash generated by mG miniGears

(Suzhou) Co. Ltd. is transferred to the Company as dividends on a regular basis. hGears holds its cash in bank accounts with reputable financial institutions. It does not invest in government bonds or other securities.

11.6.2 Cash flows

The following table shows selected information from hGears' consolidated statements of cash flow for the financial years ended December 31, 2020, 2019, and 2018.

	For the financial year ended December 31,		
	2020	**2019**	**2018**
		(audited)	
in EUR thousand			
Profit / loss from operating activities	**8,793**	**466**	**1,370**
Depreciation, amortization and impairment	10,551	10,300	7,411
Other non-cash items	303	(799)	(1,601)
Income tax proceeds /payment	(590)	(1,256)	(1,041)
Provisions and other items	344	(98)	(117)
Interest paid	(2,633)	(2,356)	(969)
Interest received	6	3	3
Change in inventories	1,720	59	5,340
Change in receivables	1,358	(362)	(2,353)
Change in liabilities	(3,925)	4,755	(4,691)
Change in other assets	631	893	(1,596)
Change in other liabilities	711	912	487
Net cash provided by (used in) operating activities	**17,269**	**12,517**	**2,243**
Payments for property, plant and equipment and intangible assets	(8,029)	(19,263)	(10,928)
Net cash provided by (used in) investing activities	**(8,029)**	**(19,263)**	**(10,928)**
Proceeds from borrowings	16,338	15,169	39,602
Repayment of borrowings	(16,398)	(500)	(30,246)
Repayments of leasing contracts	(3,336)	(2,999)	(1,571)
Capital increase	-	5,000	-
Net cash provided by (used in) financing activities	**(3,396)**	**16,670**	**7,785**
Net cash increase (decrease) in cash and cash equivalents	**5,844**	**9,924**	**(900)**
Cash and cash equivalents at the beginning of the period	17,703	7,768	8,742
Effects of exchange rate changes on cash and cash equivalents	(113)	11	(74)
Cash and cash equivalents at the end of the period	**23,434**	**17,703**	**7,768**

11.6.3 Comparison of the figures reported in the consolidated statements of cash flows for the financial years ended on December 31, 2020, 2019, and 2018

11.6.3.1 Net cash provided by operating activities

2020 vs. 2019

Net cash provided by operating activities of EUR 12,517 thousand in the financial year ended December 31, 2019 increased to EUR 17,269 thousand in the financial year ended December 31, 2020. This increase was principally due to the increase in profit from operating activities which was partially offset by a reduction in change in liabilities.

2019 vs. 2018

Net cash provided by operating activities increased from EUR 2,243 thousand in the financial year ended December 31, 2018 to EUR 12,517 thousand in the financial year ended December 31, 2019. This was principally due to increases in change in liabilities and trade payables related to investment invoices not yet due, the increase in depreciation, amortization and impairment and a smaller change in receivables, offset in part by a reduction in change in inventories and the increase in paid interest on bank loans and overdrafts.

11.6.3.2 Net cash provided by (used in) investing activities

2020 vs. 2019

Net cash used in investing activities decreased from EUR (19,263) thousand in the financial year ended December 31, 2019 to EUR (8,029) thousand in the financial year ended December 31, 2020. This decrease was due to lower investments made in the financial year ended December 31, 2020, mainly in automation and to complete investments of the previous financial years.

2019 vs. 2018

Net cash used in investing activities increased from EUR (10,928) thousand in the financial year ended December 31, 2018 to EUR (19,263) thousand in the financial year ended December 31, 2019 due to the costs related to the expansion of production capacity in the Schramberg and Padova manufacturing facilities for e-bike and e-axle production as part of a strategic shift towards combustion-free e-drive applications.

11.6.3.3 Net cash provided by (used in) financing activities

2020 vs. 2019

There was net cash used in financing activities of EUR (3,396) thousand in the financial year ended December 31, 2020, a decrease by EUR 8,885 thousand compared to EUR 16,670 thousand of net cash provided by financing activities in the financial year ended December 31, 2019. This change was primarily due to higher contractual repayments of borrowings and leasing liabilities and also the early repayment of one loan facility, as well as a capital increase undertaken in the year ended December 31, 2019 that was not repeated in the year ended December 31, 2020.

2019 vs. 2018

Net cash provided by financing activities increased from EUR 7,785 thousand in the financial year ended December 31, 2018 to EUR 16,670 thousand in the financial year ended December 31, 2019. Although borrowings for expansion of production capacity in the Schramberg and Padova manufacturing facilities for e-bike and e-axle production were lower, there were significantly lower repayments of borrowings and also cash inflow from a capital increase.

11.6.4 Investments

Investments comprise additions to property, plant and equipment and additions to intangible assets and developed as follows for the periods indicated:

	As of December 31,		
	2020	**2019**	**2018**
In EUR thousand		**(audited)**	
Land and buildings	303	366	-
Plants and machinery	5,737	14,651	1,976
Tools and dies	927	1,578	957
Other assets	840	1,506	577
Fixed assets under construction and down-payments	2,236	1,775	8,136
Total additions to property, plant and equipment	**10,043**	**19,876**	**11,645**
Software and licenses	193	273	489
Brands and trademarks	-	-	-
Intangible assets under construction and down-payments	18	241	426
Other	8	-	-
Total additions to goodwill and intangible assets	**219**	**514**	**915**

The main source of funding for hGears' historic and ongoing investments has been, and is, cash generated from operating activities and, to the extent required, borrowings from shareholders and banks. hGears also intends to use a portion of the proceeds of the Offering for investments. In the financial years ended December 31, 2018, 2019 and 2020 capital expenditures were mainly driven by expansion of production capacity in the Schramberg and Padova manufacturing facilities for e-bike and e-axle production as part of a strategic shift towards combustion-free electric drive applications and implementation of new projects.

11.6.4.1 Investments in the financial year ended December 31, 2020

In the financial year ended December 31, 2020, hGears incurred capital expenditures (referred to in the financial statements as additions to property, plant and equipment and additions to intangible assets) in the amount of EUR 10,262 thousand. Capital expenditures for property, plant and equipment amounted to EUR 10,043 thousand and primarily related to investments in the automation of production lines for e-Mobility products in the Schramberg and Padova manufacturing facilities . Capital expenditures for intangible assets amounted to EUR 219 thousand. hGears funded the capital expenditures from cash from operating activities.

11.6.4.2 Investments in the financial year ended December 31, 2019

In the financial year ended December 31, 2019, hGears incurred capital expenditures in the amount of EUR 20,390 thousand. Capital expenditures for property, plant and equipment amounted to EUR 19,876 thousand and primarily related to expansion of production capacity in Schramberg and Padova manufacturing facilities for e-bike and e-axle production as part of a strategic shift towards combustion-free e-drive applications. Capital expenditures for intangible assets amounted to EUR 514 thousand and primarily related to the implementation of SAP enterprise resource planning software in the Italian subsidiary. Capital expenditures were funded from cash from operating activities, bank borrowings and a capital increase.

11.6.4.3 Investments in the financial year ended December 31, 2018

In the financial year ended December 31, 2018, hGears incurred capital expenditures in the amount of EUR 12,560 thousand. Capital expenditures for property, plant and equipment amounted to EUR 11,645 thousand and primarily related to the implementation of new projects in the e-Mobility business area. Capital expenditures for intangible assets amounted to EUR 915 thousand and primarily related to the downpayments for SAP enterprise resource planning software in the Italian subsidiary. Capital expenditures were funded from cash from operating activities and bank borrowings.

11.6.4.4 Ongoing and future investments

Between December 31, 2020 and the date of this Prospectus, hGears incurred capital expenditures in the amount of EUR 1,542 thousand, primarily comprising investments in production capacity and machinery in the Schramberg manufacturing facility. hGears financed these capital expenditures from cash from operating activities.

As of the date of this Prospectus, hGears had entered into commitments for ongoing capital expenditures in an aggregate amount of approximately EUR 6,459 thousand which will be primarily invested in Germany and Italy. The Company plans to finance these ongoing capital expenditures from cash from operating activities. The Company has not made any further resolutions for any future investments as of the date of this Prospectus.

11.6.5 Financial liabilities

The table sets out the carrying amount of hGears' financial liabilities as of December 31, 2020, 2019, and 2018.

	As of December 31,		
	2020	2019	2018
In EUR thousand	(audited)		
Trade payables	16,197	20,612	15,808
Other payables	9,627	8,957	8,080
Derivatives – cash outflow (settlement)	29	48	62
Borrowings	39,272	39,192	23,531
Shareholder loans	14,341	13,660	13,061
Lease liabilities	16,212	17,460	6,338
Total	**95,678**	**99,929**	**66,880**

Borrowings relate to the Facilities Agreement concluded with Hamburg Commercial Bank AG and Skandinaviska Enskilda Banken AB secured by share pledges over the shares in Herzog GmbH and in mG miniGears S.p.A., security transfer of certain specified movable assets, account pledge agreements over bank accounts and global security assignment of trade, insurance and intercompany receivables (see "*13.13.1 Facilities Agreement between the Company, Hamburg Commercial Bank AG and Skandinaviska Enskilda Banken AB (publ)*").

Shareholder loans relate to loans extended to the Company by its shareholders. These loans have fixed interest rates of 4.5% and 8% p.a.

11.6.6 Contingent liabilities and other financial obligations

As of December 31, 2020, December 31, 2019, and December 31, 2018, hGears had no contingent liabilities.

As of December 31, 2020, hGears' contractual obligations related to short-term leases and leases of low-value assets amounted to a liability of EUR 145 thousand (December 31, 2019: EUR 235 thousand). As of December 31, 2018, hGears' financial obligations related to operating leases amounted to EUR 16,692 thousand.

11.6.7 Factoring arrangements

The Company's subsidiaries, mG miniGears (Suzhou) Co. Ltd., mG miniGears S.p.A. and Herzog GmbH, have entered into factoring agreements with, respectively, Citibank N.A., Banca Ifis S.p.A. and Banco Santander S.A. under which certain customer receivables can be offered to the factoring banks and sold without recourse.

11.6.8 Off-balance sheet arrangements

hGears has no off-balance sheet arrangements.

11.7 Qualitative and quantitative disclosure on market risks

In addition to general financial market risks, hGears has exposure to the following risks arising from financial instruments:

- Foreign exchange risk;
- Interest rate risk;
- Credit risk; and
- Liquidity risk.

11.7.1 Risk management framework

The Company's Management Board has overall responsibility for the establishment and oversight of hGears' risk management framework. hGears risk management policies are established to identify and analyze the risks hGears faces, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and hGears activities.

11.7.2 Market Risks

hGears is, and upon completion of the Offering will be, exposed to various financial market risks as part of its business activity. The Company has developed guidelines for risk management processes and for the use of financial instruments including a clear separation of tasks with respect to financial activities, invoicing, financial reporting and associated controlling. The Company actively monitors these risks using a risk management system.

The following sections discuss hGears significant exposure to market risk. The following discussions do not address other risks that hGears faces in the normal course of business, including country risk and legal risk.

11.7.2.1 Commodity price risk

Commodity price risk arises from the fact that steel, hGears' most significant raw material, is subject to fluctuating market prices. The Group monitors and manages this risk by analysing its planned purchases of steel based on expected volumes of product sales and, where feasible, setting selling prices based on prices agreed with its steel suppliers. Where appropriate, hGears also takes advantage of customers' purchasing power. In addition, contracts with hGears' customers in the e-Mobility business area and in the automotive business, where selling prices are set for the life of the contract at the time the contract is entered into, typically include price-adjustment clauses and the selling price of hGears' products may be adjusted if the increase or decrease in steel prices exceeds a specified range. No such price-adjustment clauses are typically included in contracts with customers in the e-Tool or Conventional business areas (except for automotive), but since selling prices in respect of such contracts are typically renegotiated every year, hGears is better able to adjust the selling prices for the relevant products in line with the movements in steel prices. Moreover, when hGears becomes exposed to steel price increases it may mitigate its exposure by changing a supplier or consolidating the purchase volume with one supplier to generate cost benefits. hGears does not hedge against commodity price risk.

11.7.2.2 Foreign exchange risk

Foreign exchange risk is the risk of changes in foreign exchange rates. hGears is primarily exposed to changes in RMB/euro and RMB/U.S. dollar exchange rates as well as to changes in U.S. dollar/euro exchange rates.

The Company believes that suitable processes have been established for management and monitoring of foreign exchange risk. These include ongoing monitoring of the expected risks and the hedging level based on the Group's commercial budget.

To mitigate the foreign exchange risk, hGears enters into foreign exchange forward contracts to partially hedge the planned net sales in U.S. dollars and in euro of the Chinese and Italian subsidiaries on the basis of the Group's approved commercial budget. As of December 31, 2020, hGears had outstanding foreign exchange forward contracts in the amount of EUR 13,627 thousand. (December 31, 2019: EUR 10,938 thousand, December 31, 2018: EUR 12,308 thousand). The derivative contracts are concluded exclusively with independently highly rated financial institutions. For further information regarding hGears' foreign exchange forward contracts, see notes 6.2.1.1 and 7.3 to the Consolidated Financial Statements 2020.

11.7.2.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument could fluctuate as a result of changes in market interest rates.

hGears' main interest rate risk arises from borrowings with variable interest rates. As of December 31, 2020, total borrowings with variable interest rates amounted to EUR 40,175 thousand and the interest rates ranged from 3.5% + 6 month EURIBOR to 4.0% + 6 month EURIBOR. In addition, hGears is exposed to interest risk due to its investments of available cash in bank deposits. Changes in market interest rates influence the cost and the performance of various forms of financing and utilization, thus impacting on the level of charges and finance income of the Group.

To mitigate the interest rate risk hGears enters into floating-to-fixed interest rate swaps. As of December 31, 2020, total borrowings with variable interest rates in the amount of EUR 8,000 thousand were hedged which corresponds to 19.9% of the amount outstanding as of that date. The duration of the interest rate hedging instruments is until December 31, 2021. For further information regarding hGears' interest rate risk, see notes 6.2.1.2 and 7.3 to the Consolidated Financial Statements 2020.

11.7.2.4 Credit Risk

Credit risk is the risk of financial loss to hGears if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and thus causes a loss to hGears. hGears is primarily exposed to credit risk from trade receivables and cash and cash equivalents held with banks.

The Company considers the management of its credit risk to be critical in order to achieve its goals for sustainable growth of its business in accordance with its risk management guidelines. The Company believes that suitable processes have been established for management and monitoring of credit risk. These include ongoing monitoring of the expected risks and the level of default.

Trade receivables

As of December 31, 2020, December 31, 2019, and December 31, 2018, gross carrying amounts of trade receivables amounted to EUR 11,873 thousand, EUR 13,255 thousand, and EUR 12,901 thousand, respectively.

To mitigate the credit risk, the Company's subsidiary Herzog GmbH maintains trade credit insurance with Euler Hermes. The nominal value of trade receivables covered by the insurance amounted to EUR 1,194 thousand as of December 31, 2020. Furthermore, the Company's subsidiaries, mG miniGears (Suzhou) Co. Ltd., mG miniGears S.p.A. and Herzog GmbH have entered into factoring agreements with, respectively, Citibank N.A., Banca Ifis S.p.A. and Banco Santander S.A. under which certain customer receivables can be offered to the factoring banks and sold without recourse. In the financial year ended December 31, 2020, trade receivables of EUR 3,528 thousand were sold. In the financial years ended December 31, 2019 and December 31, 2018 only mG miniGears (Suzhou) Co. Ltd. and mG miniGears S.p.A. had factoring agreements in place and the trade receivables sold amounted to EUR 3,017 thousand and EUR 2,144 thousand, respectively.

Cash and cash equivalents

hGears held cash and cash equivalents of EUR 23,434 thousand as of December 31, 2020 (December 31, 2019: EUR 17,703 thousand; December 31, 2018: EUR 7,768 thousand). Cash and cash equivalents are held mostly with German banks and to lesser extent with Italian and Chinese banks.

The Company considers its cash and cash equivalents to have low credit risk based on the external credit ratings of the counterparties. hGears recognized no impairment allowance as the amounts are considered not material.

11.7.2.5 Liquidity risk

Liquidity risk is the risk that hGears will encounter difficulties in meeting the obligations associated with its financial liabilities. hGears monitors its short-term liquidity by weekly rolling forecasts and its long-term liquidity by quarterly rolling forecasts and financial reports and ensures its solvency by holding sufficient liquidity reserves and credit lines.

11.8 Key accounting and valuation principles involving estimates or judgements

Key accounting and valuation principles applied in the preparation of the Consolidated Financial Statements are disclosed in the notes to the respective financial statements.

The preparation of hGears' financial statements requires management to make judgements, estimates and assumptions that to a certain extent affect the reported amounts of assets and liabilities, income and expenses and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The recognition and measurement of the significant items and risks listed below depend on the underlying estimates and assumptions:

- The assessment of the recoverability of intangible assets,
- The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group;
- The expected cash inflow from trade receivables;
- The valuation of inventories;
- The accounting and measurement of lease agreements;
- The accounting and measurement of shareholder loans;
- The accounting and measurement of management compensation programs;
- The accounting and measurement of pension provisions and other provisions;
- The accounting for deferred taxes.

In the process of applying hGears' accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the Consolidated Financial Statements:

The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group is subject to estimates made by management.

For trade receivables, credit default risks may arise to the extent that customers are unable to meet their payment obligations, resulting in losses to the Group. The calculation of the required loss allowances takes, among others, into account such things as the solvency of customers, existing securities as well as experience based on historical default rates. The actual payment defaults by customers may differ from expected payment defaults due to several influencing factors.

Inventories are valued at the lower value of acquisition and manufacturing cost and net realizable value. Net realizable value is determined by subtracting the costs incurred up to completion from the expected sales price of the end product. If assumptions regarding future sales prices or end product market potentials are not appropriate, this may lead to a further need for depreciating inventories.

When accounting for other provisions, management must make assumptions regarding the probability of certain business transactions resulting in impending losses for the Group. Estimates regarding the amount and timing of possible economic outflows form the basis for the measurement of provisions. If the actual amounts and the timing differ from estimates made, this may affect the result of the Group.

Management judgment is required for the calculation of deferred taxes. Deferred tax assets on tax loss carry forwards may only be recognized to the extent that it is probable that sufficient taxable profit will be available in the future. Management analyses various factors to assess the probability of the future utilization of deferred tax assets based on reasonable scenarios taken from the Group's tax planning process.

11.9 Additional information from the Annual Financial Statements

The Annual Financial Statements have been prepared in accordance with German GAAP, which may differ from IFRS in material respects.

In the financial year ended December 31, 2020, the Company's revenues amounted to EUR 218 thousand compared to EUR 904 thousand in the financial year ended December 31, 2019.

The Company's annual deficit for the period amounted to EUR (246) thousand in the financial year ended December 31, 2020 compared to the loss of EUR (2,262) thousand in the financial year ended December 31, 2019.

As of December 31, 2020, total assets of the Company amounted to EUR 48,107 thousand (2019: EUR 49,703 thousand), its total provisions and liabilities amounted to EUR 34,941 thousand (2019: EUR 36,291 thousand), and its equity amounted to EUR 13,166 thousand (2019: EUR 13,412 thousand).

12. MARKET AND COMPETITORS

12.1 Market

12.1.1 Market overview

hGear's produces precision components that are incorporated into products, primarily drive systems, in various end-industries. hGears' primary strategic focus is on e-mobility, which comprises e-bikes and electric and hybrid vehicles. In addition, hGears' products are used in e-drive applications for power and gardening tools such as demolition hammers, drills, jig saws and angle grinders (power tools) and lawn mowers, leaf blowers, tillers, chainsaws, trimmers and brush cutters (gardening tools). Within the automotive segment, hGears supplies components for e.g. drive systems, steering, brake system and the body of the vehicle. Applications for hGears' industrial components include heating elements, rolling shutters and swinging doors.

hGears' core sales region, Europe, is one of the fastest growing and largest regions for precision components with a market value of EUR 1.1 billion corresponding to a share of 27.3% of the total global precision components market in the financial year ended December 31, 2020 (source: Arizton 2020; IHS 2020; Markets and Markets 2020; QYResearch 2020). European sales volumes of electric and hybrid vehicles are expected to grow strongly at a compound annual growth rate ("**CAGR**") of ca. 43% p.a. between 2018 and 2025 (source: IHS 2021). E-axles of electric and hybrid vehicles include high precision components, thereby increasing demand. The market for e-bikes with mid-drive motors and pedal assist (so called pedelec with the motor in the center of the bike, between the pedals), which are particularly prevalent in Europe and require high precision components, is expected to grow strongely at a CAGR of ca. 22% p.a. between 2019 and 2025 (source: Cycling Industries Europe). In addition, the number of hub based e-bikes with internal hub gears is increasing which widens the scope of applications for high precision components in e-bikes.

In Europe, 3.7 million e-bikes were sold in 2019 and, the market grew at an estimated rate of 23% in 2020 (source: Cycling Industries Europe), corresponding to an estimated number of e-bike sales of 4.6 million. (source: Cycling Industries Europe). Based on hGears' own calculations, approximately 2 million of the e-bikes sold in Europe in 2020 included hGears' components. According to its calculations relating to hGears' share in the total component content per e-bike it estimates its market share for e-bike drive components sold in Europe in 2020 amounted to approximately 18%, and the value of its components in each e-bike gearbox (noting that not all e-bikes have gearboxes) was €20.

12.1.2 Global trends and developments affecting hGears' business

The development of hGears' business generally depends upon the prevailing macroeconomic environment in its core geographic markets. As the future growth strategy of hGears is strongly focused on the development of the e-Mobility business area (i.e. e-bikes and electric and hybrid vehicles) as well as the e-Tools business area (i.e. power and gardening tools), the following market developments and trends may also have a strong effect on the further development of hGears.

12.1.2.1 Environmental awareness and contribution to healthier lifestyles

Global efforts to fight climate change are driving demand for green mobility and fostering the development of electric and hybrid vehicles as well as e-bikes. Alternative means of transport, such as e-bikes, are becoming increasingly popular due to consumers' desire to take steps to fight climate change and reduce their carbon footprints. E-bikes are also seen as contributing to healthier lifestyles and are attractive both to older riders and others who may not previously have considered cycling, as they allow travelling longer distances with less effort than traditional bicycles, and to younger riders due to the perceived "fun factor". Rising interest in e-bikes increases the demand for the high precision components used in their construction.

Rising consumer awareness of climate change is also creating an increase in demand for electric and hybrid vehicles. Demand for combustion vehicles is expected to decline particularly in developed countries as there is a substitution effect with electric and hybrid vehicles that are strongly associated with sustainability and this effect is likely to increase as electric and hybrid vehicle technology develops in order to enhance range and performance. In addition, continued development and expansion of electric charging infrastructure should make driving electric or hybrid vehicles more attractive and have a positive effect on demand. As demand for electric and hybrid vehicles increases, so too does demand for e-axles that incorporate high precision components.

12.1.2.2 Increasing environmental regulations on CO_2 emissions reduction

European regulations for the reduction of emissions set mandatory emission targets for manufacturers, incentivize production of electric and hybrid vehicles, and introduce CO_2 emissions performance standards. In some countries, such as Sweden, governmental subsidies and other incentives contribute to increased sales of electric and hybrid vehicles and/or e-bikes. E-bikes are viewed as a mode of transport which reduces CO_2 emissions and pollution in cities.

12.1.2.3 Population growth and urbanization

Increasing urbanization and concerns about traffic congestion are leading consumers to seek alternative transportation methods, such as e-bikes, which offer both transportation without too much physical exertion and enable them to avoid and, in the long-term, help reduce traffic. The Company expects that the relative growth of the older population in urbanized areas will also accelerate demand for e-bikes.

Ongoing industrialization and rising construction activities, particularly in emerging economies such as India, China and Brazil due to commercialization and infrastructural development are contributing to a rising demand for e-drive power tools. Cordless capability and reduced weight, which increases comfort and convenience for the user are key drivers for professionally used e-drive power tools. In addition, high labor costs increase demand for efficient power tools as activities can be carried out faster, thereby reducing manual workload and probability of errors.

12.1.2.4 Initiatives to promote green spaces in urban areas

Government initiatives to increase the construction of greener public spaces in urban areas contribute to growth in the gardening tool market. The popularity of landscaping services to provide aesthetic commercial lawns and gardens as well as decorative parks is rising. Rising housing construction activities and growing urbanization, including a trend towards urban gardens, greener public spaces and a shift towards more sustainable cities, further contributes to demand for gardening tools. In addition, a rising demand for landscaping services due to adverse weather conditions, e.g. droughts and floods, drives growth of the gardening tools market across regions.

12.1.2.5 New shared mobility models

The rise of shared mobility concepts developed for urban ride hailing (including delivery concepts) is expected to lead to a decrease in individual demand for vehicles, but higher demand for vehicles from shared mobility companies. Consistent with the general trend toward increased use of electric and hybrid vehicles, shared mobility concepts are expected to increasingly use electric or hybrid vehicles. Further, bike sharing concepts are evolving, which increase flexibility for e-bike users as they can be rented on the go.

12.1.2.6 COVID-19

As consumers are looking for more recreational activities and become more fitness-conscious, e-bikes are seen as a good choice as they allow users to ride longer distances and make cycling more accessible to people who may not find a traditional bicycle suitable. This particularly applies when consumers look for sports that allow social distancing and as an alternative to gyms, which have been closed during the COVID-19 pandemic. In addition, COVID-19 has supported a further rise in demand for bikes and e-bikes in particular, as people refrain from using public transport due to travel restrictions and health concerns.

12.2 Competitors

hGears divides its competitors into three categories, component suppliers, hybrid companies and system suppliers.

Component suppliers tend to focus on smaller standard parts with less research and development complexity and mainly execute manufacturing orders based on drawings provided by the customer ("built to print"). This group is highly fragmented and localized. As an example, hGears competes with component suppliers in China, such as Zhejiang Fore Intelligent Technology, Zhejiang Shuanghuan Driveline and Junxing Electromechanical International.

Hybrid companies are high precision part manufacturers producing components and sub- and full systems. hGears belongs to this group, and competitors include IMS Gear (Germany), Miba (Austria), PMG (Germany), Koessler (Germany), Yangzhou Seashine New Materials (China), Portie (Taiwan), SHW (Germany), Stackpole International (Canada), CVT-Capellmann (Germany), Berger (Germany), IMS Gear (Germany), Miba (Austria), PMG (Germany), Koepfer (Germany), AMES (Spain), Grieshaber (Germany) and Framo Morat (Germany). hGears competes with other hybrid companies on both a regional and a local level.

System suppliers are companies that focus on assembly of complete parts, such as gearboxes and full systems for drives and transmissions. hGears' main competitors in this group are GKN (UK) and Sumitomo Electric (Japan), both of which operate globally. The Company believes that it has a strong competitive position attributable to its range of production processes and products.

13. BUSINESS

13.1 Overview

hGears is a global manufacturer of high precision gears and components with a focus on products for e-drive focused end-markets. The Company believes that such end-markets, in particular the e-mobility sector, offer highly attractive growth prospects. hGears has its headquarters in Germany and operates globally with production facilities in its key regional markets of Europe and China. hGears develops, manufactures, and supplies precision components and sub-systems as well as complex full system solutions. Products include gears, sprockets, shafts, structural components, complete gearboxes and other components. As a hybrid company, i.e. a high precision part manufacturer producing single components as well as sub- and full systems, hGears has a diverse product offering across various end-industries (e.g. e-mobility, power and gardening tools). In the financial years ended December 31, 2018 and 2019, hGears implemented a strategic shift from lower-margin conventional drive application products, mostly consisting of components for traditional combustion drives, e.g. for motorcycles, towards higher-margin, combustion-free electrical drive applications for e-bikes and electric and hybrid vehicles. hGears' customer base includes a number of major suppliers and manufacturers, many of which it believes to be leaders in their respective end-industry.

hGears manufactures precision components both for manufacturers who develop systems for integration into end products ("**Tier 1 Suppliers**"), serving as a Tier 2 Supplier ("**Tier 2 Supplier**"), and for original equipment manufacturers ("**OEMs**"), serving as a Tier 1 Supplier. As a Tier 1 Supplier, hGears directly supplies its products to OEMs in the power and gardening tool industries. Additionally, hGears is a Tier 2 Supplier to Tier 1 Suppliers (e.g. for e-bikes and the Audi e-tron). In a number of cases, hGears works together with its customers in a "co-development" process to design components and find technologically optimal solutions to satisfy the customer's specifications. Co-development can be particularly important for manufacturers of e-bikes and electric and hybrid vehicles as these applications tend also to be new for them.

hGears divides its business into three business areas: e-Mobility ("**e-Mobility**"), e-Tools ("**e-Tools**") and other automotive and industrial applications ("**Conventional**").

- e-Mobility focuses on products for e-bike drive systems and drive train units for electric and hybrid vehicles. It includes the co-development and manufacturing of components for electrical drive applications (e.g. drive shaft, crank shaft and toothed washer). Electrical drive systems for vehicles require high precision components which are capable of withstanding high torque, are light weight and reduce noise.

- e-Tools focuses on components utilized in the powering mechanism of battery driven (e-drive), cordless power and gardening tools. It includes the manufacturing of precision components that are used in the part of the gearbox that connects the electric motor to the actual tools (e.g. cutting tool, trimming tool).

- Conventional focuses on gear units for various applications, such as rolling shutters and for heating, ventilation, and air conditioning ("**HVAC Systems**"), motorbikes and non-combustion part precision components for premium and luxury vehicles. It includes the production of various precision components for traditional automotive applications (e.g. drive, steering and brake systems and the body of the vehicle) as well as other industrial applications. Automotive and industrial applications are not part of hGears' primary strategic focus.

The principal raw materials used for manufacturing hGears' products are machined steel (e.g. blanks and bars of steel) and powder metal. In some cases, hGears sources manufactured component parts (e.g. gears and screws) that are incorporated into its sub- and full systems.

hGears consists of the Company and its three wholly-owned subsidiaries: Herzog GmbH ("**Herzog**"), mG miniGears S.p.A. (Italy) ("**mG miniGears**") and mG miniGears (Suzhou) Co. Ltd (China) ("**mG miniGears Suzhou**") (which is owned indirectly, through mG miniGears). Herzog was founded in 1958 and was acquired by the Company in 2011. mG miniGears was founded in 2008 and mG miniGears Suzhou was founded in 2003. mg miniGears acquired mG miniGears Suzhou in 2014 and was acquired by the Company in 2015.

hGears AG is the strategic management and financial holding company of the Group. It performs the central management function and coordinates shared services of the Group such as financing and treasury, accounting and controlling, information technology, business development, human resources, procurement, strategic and public relations, among others. hGears has three production and manufacturing facilities located in Schramberg, Germany, Padova, Italy and Suzhou, China. As of December 31, 2020, hGears had a total of 862 employees (full-time equivalents) (as of December 31, 2019: 903; 2018: 877).

In the financial year ended December 31, 2020, hGears generated consolidated revenues of EUR 126 million (2019: EUR 122 million; 2018: EUR 126 million).

13.2 Competitive Strengths

hGears believes that the following competitive strengths will allow it to execute its business strategy and will set hGears apart from its competitors in the future:

13.2.1 Well established position as a supplier of mission-critical high precision gears and components for the e-mobility sector which is expected to grow significantly in the future

A strong focus on higher margin e-mobility technologies differentiates hGears from competitors mostly focusing on lower margin, high volume segments (e.g. automotive). Following an active strategic phase-out of its high volume and lower margin motorbike business during the financial years ended December 31, 2018 and 2019, hGears initiated a ramp-up of its more profitable and future-oriented e-Mobility business area, including e-bikes and e-axles for electric and hybrid vehicles in the financial year ended December 31, 2019. The e-mobility sector is expected to grow significantly in the future (see section *"12.1.1 Market overview*"). Sales volumes of electric and hybrid vehicles in Europe are expected to grow strongly at a compound annual growth rate ("**CAGR**") of ca. 43% p.a. between 2018 and 2025 (source: IHS 2021). European sales volumes of e-bikes are expected to grow at a CAGR of 22% between 2019 and 2025 (source: Cycling Industries Europe). In addition, mid-drive motors (i.e. motor in the center of the bike, between the pedals), which are particularly prevalent in Europe, use newer technologies and require additional production technology know-how. hGears believes that having already shifted its strategic focus to e-mobility gives it a competitive advantage in Europe, one of its core regions.

In the emerging e-mobility industry, precision components are of vital importance for the development and optimization of electrical drive applications, which require high torque (high load transmission), light weight (as battery accounts for additional weight) and low noise (e-drives are expected to be quiet). This provides market potential for hGears with its focus on high-quality precision components. In 2015 hGears won its largest customer for the production of drive components for e-bikes, a Tier 1 Supplier and the market leader in this industry sector in Europe. By capitalizing on this customer relationship hGears was able to become one of the market leading suppliers of high precision gears and components for e-bikes in Europe with a market share of 18% for e-bike drive components sold in Europe in 2020 based on its own estimates and industry reports (source: Cycling Industries Europe). hGears has successfully leveraged this leading relationship and the strong market perception of being an early mover in the e-mobility industry and supplier of the market leader to diversify its e-bike customer portfolio via additional anchor projects in e-Mobility. Based on strong credentials and experience in automotive and motorbike applications, as well as customer recommendations, hGears was able to win additional large customers, e.g. for the production of components for the Audi e-tron.

13.2.2 Proven track record of operational profitability combined with highly attractive growth prospects

hGears has a proven historic track record of operational profitability with EBITDA of EUR 8,781 thousand in the financial year ended December 31, 2018, EBITDA of EUR 10,766 thousand in financial year ended December 31, 2019 and EBITDA of EUR 19,344 thousand in the financial year ended December 31, 2020. hGears' strategic repositioning towards e-mobility has successfully set the basis for strong sales growth and increasing margins while maintaining continuous operational profitability. The lower number of required parts for e-mobility applications is beneficial for hGears as it reduces production complexity. This, combined with medium to large batch sizes allows for series production with lower machine downtimes. Future growth and margin development is expected to be driven by the continuing shift towards high growth e-bikes and electric and hybrid vehicles as well as efficiency increases as a result of completed operational efficiency measures and past investments. The strategic repositioning towards e-mobility and phase-out of the motorbike segment contributed positively to profitability as the motorbike business involved more manufacturing complexity and was therefore less profitable.

hGears' planned sales growth is in line with its past strategic repositioning to focus on e-mobility, which offers a strong basis for future growth in line with positive underlying market developments. As a result of expected strong positive market trends, the Company aims to double its consolidated revenues within the next five years compared to 2020 whilst remaining profitable. hGears' envisioned sales growth is backed by a strong order book with a high share of future sales already agreed through 2025, including, as of March 31, 2021, all estimated sales for 2021, 87.1% of estimated sales for 2022, 70.8% of estimated sales for 2023, 59.3% of estimated sales for 2024 and 47.9% of estimated sales for 2025.

13.2.3 Attractive quality product offering with strong co-development capabilities

hGears' product offering is spread across several sectors and a variety of industries. With production capabilities ranging from individual components (e.g. drive shafts, crank shafts and toothed washers) to combinations of such components (e.g. e-bike gear kits) to full systems (e.g. e-axles), hGears has a varied and flexible product offering for the growing e-mobility market. The current trend in the power and gardening tools industries is towards cordless, electrically powered tools, which can provide instant maximum torque. The tools therefore need high quality, precision gears that can resist the higher torque generated. As a high precision component manufacturer with production capabilities in both machined steel and sinter (powder) metal, hGears is able to flexibly adjust production technologies depending on the requirements. Powder metal production is especially well suited for producing light weight components, which are particularly important for e-mobility applications (e.g. to increase the comfort of e-bikes and the range of electric and hybrid vehicles, helping to compensate for heavy batteries) but both technologies are crucial in e-mobility applications (including both e-bikes and electric and hybrid vehicles). hGears is distinctive for having strong capabilities in both.

Premium suppliers of high-quality precision components, such as hGears, generally do not differentiate themselves through price, but rather with services and technological capabilities in the production process. Co-development capabilities, i.e. the ability to collaborate with customers during the development process in order to ensure optimized product performance for new applications, are particularly important for manufacturers of e-bikes and electric and hybrid vehicles as these segments tend also to be new for them and they thus look for a strong partner in this regard. Manufacturers active in these markets typically source system solutions directly from suppliers and often have very specific product requirements, making players such as hGears an integral part in the development process. Co-development of precision product applications can save substantial manufacturing process time and costs and further strengthens customer relationships.

13.2.4 Diverse and well-known customer base with long-standing customer relationships

hGears benefits from long, stable and sustainable relationships with its customers having served many of its key customers for over 15 years which is also reflected in high customer satisfaction levels.

Most of hGears customers are well-known large industry players, in particular OEMs and Tier 1 Suppliers. A strong interdependency between suppliers and customers is typical within the end-industries for hGears’ products, where a few global players typically dominate. Customers are also dependent on a limited number of suppliers, since only a few possess the required capabilities and capacities to meet clients' needs and many product applications are developed in close cooperation.

13.2.5 Strong platform in its key markets from which it can leverage further growth

With production and manufacturing sites located in Padova, Italy and Schramberg, Germany hGears has a strong footprint in Europe, one of its core regions. The focus in Schramberg is on e-bikes. Padova focuses on electric and hybrid vehicles and premium and luxury vehicles. With these two production and manufacturing sites, hGears has a stong platform for serving the emerging high growth e-mobility industry which is driven, in particular, by demand in Europe and depends on high-quality precision components and strong co-development competency. Growth in markets for e-mobility solutions increases demand for high precision components for use in e.g. e-axles, which require high precision components.

The focus of hGears' production and manufacturing facility in Suzhou is on e-drive power and gardening tools. In 2018, in an effort to drive full utilization and automation of production sites, the Suzhou production and manufacturing facility was relocated, helping to optimize processes and increase hGears' ability to serve customers globally. Asia-Pacific is the largest market for power tools (source: QYResearch 2020) whereas the largest market for gardening tools is North America (source: Arizton 2020). hGears also serves the North American market from the Suzhou site.

13.2.6 Experienced senior management team and highly skilled employees with strong customer relationships providing for cross-selling opportunities

hGears has a highly experienced senior management team, with established personal networks, that has been able to win important new customers and leverage existing customer relationships in new business areas. Past successes in hGears' traditional markets have helped management to strengthen hGears' position in the emerging e-mobility and electrical drive markets. Regular interactions between sales teams across sites increase efficiency in sales processes and allow hGears to capitalize on cross-selling opportunities.

The long-standing experience from other segments (such as power tools and gardening tools) gives hGears the strong technological capabilities to produce high precision components that allow for less backlash and thereby less noise, which is crucial for electric vehicles. In this regard, hGears benefits from its highly skilled operators of computer numerical control machines ("**CNC**") used for milling steel.

13.3 Strategy

hGears intends to become one of the leading manufacturers and retailers of high precision components on the global market. In order to achieve this, hGears has adopted a strategy designed to capitalize on its competitive strengths. The key elements of hGears' strategy are as follows:

13.3.1 Strong profitable growth through focus on e-mobility applications

hGears is focused on the ongoing profitable expansion of business activities and increasing its market share in e-mobility applications. E-mobility is the core pillar of hGears' growth strategy due to the expected strong market dynamics in this area. At the heart of hGears' growth strategy is the expansion of its customer base by gaining new customers and by expanding the scope of products it offers to existing customers. Sales growth in the e-Mobility business area is expected to be driven, in particular, by existing and new products for a key customer for e-bikes and also by gaining additional e-bike customers including some for which hGears is already producing prototypes and one for which hGears has previously produced components as a part of its Conventional business. For electric and hybrid vehicles, hGears plans on growth with its key strategic customer and additional European and non-European, for instance Chinese OEMs to its customer base, either directly or via their respective Tier 1 Suppliers.

hGears also aims at achieving growth through the expansion of the solutions it offers to e-Mobility customers. hGears is currently in advanced discussions with a customer to provide complete e-axle system design and assembly for a new hybrid SUV based on an assembly contract with start of production planned for 2022. An additional potential future application for hGears' gears and shafts is in "brake by wire" systems of electric vehicles (i.e. systems that use motors and gears to apply brake pressure instead of traditional hydraulics) which are expected to become more common in electric vehicles in the future and for which hGears is already in discussions with certain customers.

13.3.2 Increase e-Mobility production capacity

hGears intends to increase its production capacity for products in its e-Mobility business area by purchasing new machinery (e.g. CNC machines) and equipment and/or executing strategic acquisitions of businesses that have relevant production capacity. In addition, hGears plans to expand its highly skilled technical staff, in particular operators of CNC machines. Based on the expected demand for its products in the future and its envisaged expansion plans hGears aims to to double its consolidated revenues within the next five years and expects to remain profitable.

As part of this strategy, hGears may also consider expanding its production technology to cover additional production processes (e.g. additive manufacturing and flow forming). Flow forming enables the one-piece construction of otherwise individually assembled components and saves money in material, inventory, tooling and assembly. Flow forming would complement and further strengthen hGears technology portfolio. Additive manufacturing is a transformative approach to industrial production that enables the creation of lighter, stronger parts and systems which would further strengthen the technological advantage that hGears currently holds in combining machined steel and powder metal technologies.

13.3.3 Continued leadership through Research and Development

hGears considers itself to be a quality leader in its business areas due to its strong research and development ("**R&D**") capabilities coupled with a strong co-development competency and the ability to meet demanding customer requirements. In this context hGears benefits from its strong production technology know-how in e-drive applications. With expertise in both machined steel and sinter (powder) metal production technologies, hGears intends to play a part in the ongoing development of electric and hybrid vehicles. In the financial year ended December 31, 2020 hGears had approximately 40 full-time employees involved in R&D and engineering through its advance and process engineering or application engineering departments. These engineers work closely with hGears' customers as part of hGears' co-development competency. hGears plans to further increase its investments in R&D so as to capitalize on its production technology know-how in e-drive applications, with the goal of increasing range and performance of e-drive applications while reducing prices. As part of this investment, hGears has hired a new head of production technology R&D who will be primarily responsible for the formal and structured process of establishing further patents to protect hGears' intellectual property (see section "*13.10.1 Research and Development*"). Current R&D activities are focussed on the development of additional production processes (e.g. additive manufacturing and flow forming) (see section "*13.3.2 Increase e-Mobility production capacity*").

In addition, hGears intends to continue to enhance its co-development capabilities as it believes they are a key differentiator for winning projects in newer markets, such as e-mobility (see section "*13.2.3 Attractive quality product offering with strong co-development* capabilities"). Through co-development, hGears is able to tailor its offering to its customers' needs and further strengthen business relationships by playing a crucial and integral part in its customers' development process. Through strong customer orientation and further development in the area of e-mobility, hGears hopes to maintain its leading position in meeting demanding requirements for precision components that are capable of withstanding high torque, are light weight and reduce noise.

13.4 Business areas and products

hGears develops, manufactures and sells precision components and sub-systems as well as complex full system solutions across various end-industries including e-mobility, e-drive power and gardening tools and traditional automotive. Products include gears (e.g. bevel gears, helical spur gears, powertrain gearbox gears), sprockets (e.g. camshaft sprockets, sprocket wheels), shafts (e.g. drive shafts, crank shafts, armature shafts), structural components, complete gearboxes and other components (e.g. timing pulleys). As a hybrid company, i.e. a high precision part manufacturer producing single gear components as well as sub- and full systems, hGears has a diverse product offering. As part of an active strategic phase-out of its motorbike business in 2018 and 2019, hGears initiated a ramp-up of its new e-Mobility business area, focused on producing products for e-bikes and electric and hybrid vehicles.

Precision components are produced either by mechanical machine processing (using machined steel) or sintering (using powder steel). Single components are the output of the manufacturing process, i.e. machine processing or sintering, with product examples including single gears, shafts and other structural components. Single components are sold both to OEMs and to Tier 1 Suppliers (e.g. Bosch for Cannondale e-bikes). In some cases, single components are assembled to create sub-systems, which require further processing before final assembly into full systems and end products. One product example is a bevel gear set for power tools. Sub-systems are sold to both Tier 1 Suppliers and OEMs. Full systems are the final output of the assembly process and ready for final installation (e.g. gearboxes for the automotive industry) and are typically sourced by OEMs. The following provides an overview of the products of hGears' business areas across relevant end-industry applications.

13.4.1 e-Mobility

e-mobility applications of hGears products include e-bikes as well as electric and hybrid vehicles.

13.4.1.1 E-bikes

In 2015 hGears won its largest customer for e-bike drive systems. hGears has a strong existing relationship of over 30 years with this customer in the area of power tools, which it believes contributed to its selection for the e-bike drive systems. The contracts with this key customer encompass framework agreements for the supply of steel gear wheels, drive shafts, crank shafts and toothed washers (see section "*13.13.3 E-bikes*"). The product focus for hGears' e-bikes precision components is on e-bikes with mid-drive motors and pedal assist (so called pedelec with the motor in the center of the bike, between the pedals). Product examples include shafts (e.g. drive, crank and armature shafts), gears (e.g. powertrain gearbox gears, helical spur gears) and gears kits for front-and mid-drive systems. Production of relevant components for mid-drive e-bike drive systems is almost entirely outsourced by OEMs. hGears supplies its products directly to Tier 1 Suppliers in the e-bike industry. Components for e-bike drives are produced using machined steel in the Schramberg production and manufacturing facilities for sale in Europe. The production process involves high levels of automation, as compared to the processes in hGears' other business areas, including the use of CNC machines.

13.4.1.2 Electric and Hybrid Vehicles

hGears' develops components for the front- and rear-end drives (e-axles) used in electric vehicles and also in hybrid vehicles (i.e. electric vehicles with an additional combustion engine). Product examples include shafts (e.g. sun shafts), gears (e.g. sun gears, sun wheels, sprocket wheels, carriers), sprockets (e.g. camshaft sprockets) and other components (e.g. timing pulleys). hGears currently supplies solutions for electric and hybrid vehicles directly to major Tier 1 Suppliers. hGears' products for electric and hybrid vehicles are primarily produced using machined steel in the Padova facility. As with e-bikes, the production process involves high levels of automation. The primary sales region for these products is Europe.

13.4.2 e-Tools

hGears' components offered to the e-drive power and gardening tools market are typically utilized between the powering and tooling section to transfer energy. Such components are becoming increasingly important as tool manufacturers shift their focus to battery driven, cordless tools. Primary sales regions for components used in e-Tool production are Europe, China and North America.

hGears supplies directly to OEMs in the power tools industry. One example of a power tool application is the cordless power drill, for which a number of hGears' components are utilized in the e-drive mechanism to power the drill. Other end applications include demolition hammers, jig saws and angle grinders. Product examples include shafts (e.g. armature shafts), gears (e.g. eccentric wheels, bevel gear sets), tool holders and complete gearboxes (e.g. for drills). hGears products for power tools are produced in Schramberg and Suzhou using machined steel and powder metal and include single components as well as sub- and full systems.

hGears primarily supplies its gardening customers with gear heads, gear boxes and other tool components, most of which are developed by hGears. hGears both manufactures and assembles products (i.e. combination of complete components and mechanisms) to supply OEMs. hGears' components are typically used in the part of the gearbox that connect the electric motor to the actual tools. Product examples include gears (e.g. eccentric gear), drill gear boxes (for e.g. gear heads) and other structural components. hGears products for gardening are produced in Padova and Suzhou using machined steel and powder metal.

13.4.3 Conventional

hGears also supplies components for certain automotive and industrial applications, as well as certain legacy motorbike applications. Production takes place in Schramberg, Padova and Suzhou using machined steel and powder metal and products include both single components and sub- and full systems. These applications are not hGears' primary strategic focus.

13.4.3.1 Automotive

For automotive, hGears supplies precision components for e.g. drive systems, steering, brake systems and the body of the vehicle (for e.g. doors). Product examples include gears (e.g. oil pump setting rings, clutch hubs, sprocket wheels, planetary gears and sun gears for use in SUV torque vectoring systems), sprockets (e.g. camshaft sprockets, sprockets for transmission) and complete gearboxes. For premium and luxury vehicles, hGears supplies a variety of non-combustion part precision components both in machined steel and powder metal for e.g. the driveline (e.g. sprocket gears for oil pump, cam phasers used for variable valves), front and rear drive axles, steering, brake system (gears for planetary reduction), engine pumps and the body of the car e.g. doors. For suspension systems, hGears produces gears for the planetary rotation system (suspension stabilization system). For motorbikes, hGears produces full systems and clutches and cardan shaft bevel sets for the rear wheel. hGears supplies directly to Tier 1 Suppliers in the automotive industry.

13.4.3.2 Industrial

Applications for hGears' industrial components include heating elements, rolling shutters and swinging doors. Products include single gear components and complete assembled gear units for e.g. rolling shutters and HVAC Systems.

13.5 Property, Plant and Equipment

hGears has three sites for production and manufacturing facilities located in Schramberg, Germany, Padova, Italy and Suzhou, China.

13.5.1 Overview

The following table provides an overview of the real property owned or leased by hGears as of December 31, 2020:

Location	**Leased / owned**	**Use**	**Used by**
Geißhaldenstraße 49, building 76, Schramberg (Germany)	Leased	production and storage	Herzog GmbH
Brambach 37, Schramberg (Germany)	Leased	storage	Herzog GmbH
Brambach 38, Schramberg (Germany)	Leased	office space	Herzog GmbH
Brambach 39, Schramberg (Germany)	Leased	production and storage	Herzog GmbH

Location	Leased / owned	Use	Used by
Brambach 40, Schramberg (Germany)	Leased	Production and office space	Herzog GmbH
Brambach, Schramberg (Germany)	Leased	production	Herzog GmbH
Via Lussemburgo No. 21/23, 25/27 and Via Grecia No. 11 (Italy)	Leased	production, storage and office space	mG miniGears S.p.A.
Warehouse Located in Padua, Via Andorra No. 18 (Italy)	Leased	storage	mG miniGears S.p.A.
No. 9, Yangpu Road, SIP, Jiangsu, PRC (China)	Leased	production, storage and office space	mG miniGears (Suzhou) Co. Ltd.

13.5.2 Schramberg, Germany

The Schramberg site was established in 1958 and has an area of approximately 17,100 sqm (for more details see section "*13.13.2 Real Estate Leasing Agreement with PUDU Grundstücksvermietungsgesellschaft mbH & Co. KG and Purchase Option*"). Approximately 320 hGears' employees work at the Schramberg site. The facilities in Schramberg include hGears' competence center for e-bikes and the site also produces components for power tools. Production technology at the Schramberg site is machined steel. hGears leases the property of the Schramberg site. The Schramberg Lease terminates in September 2023.

13.5.3 Padova, Italy

The Padova site was established in 1976 and has an area of approximately 21,000 sqm. The Padova site includes hGears' competence center for e-axles (for use in electric and hybrid vehicles) and automotive components (premium and luxury vehicles) and the ability to provide finishing operations for sintered parts. Approximately 310 hGears' employees work at the Padova site. Production technologies at the Padova site are machined steel and powder metal and assembly technologies. hGears leases the property of the Padova site. The lease terminates on May 31, 2029.

13.5.4 Suzhou, China

The Suzhou site was established in 2003 and has an area of approximately 17,000 sqm. The Suzhou site includes hGears' competence center for e-Tool applications. Approximately 200 hGears' employees work at the Suzhou site. Production technologies at the Suzhou site are machined steel and powder metal and assembly technologies. hGears leases the property of the Suzhou site. The lease terminates on April 17, 2027.

The Company intends within the next three to five years to focus on growth opportunities at its existing production facilities. In the long-term the Company may consider establishing additional production sites. In particular, the Company sees significant potential in the North American market.

13.5.5 Environmental, Social and Governance and Health and Safety Matters

hGears seeks to comply with all relevant environmental laws and regulations, and it has suffered no prosecutions or fines for environmental practices since January 1, 2018.

hGears believes that it maintains adequate procedures to monitor and assess its environmental impact and obligations. hGears aims to comply with the latest most relevant local and international environmental and social standards (i.e. environmental standard ISO 14001 and the energy standard ISO 500001) as well as with relevant local health and safety laws, standards and regulations (e.g. ISO 45001). All of hGears' sites are certified under ISO 14001 and 9001 and IATF 16949, and ISO

45001 and 50001 certifications have been obtained for one site each with plans to extend to all sites. hGears has a recycling policy including initiatives for the reuse of packaging from suppliers and recycles raw materials such as scrap metal and oil lubricant. In addition, hGears is committed to increasingly meeting environmental, social and governance ("**ESG**") standards and expectations regarding environmental concerns (e.g., climate change and sustainability), social concerns (e.g., diversity and human rights), and corporate governance concerns (e.g., employee relations when making business and investment decisions). In this regard, hGears has agreed to a plan for reducing its greenhouse gas ("**GHG**") emissions. In the financial year ended December 31, 2020 hGears achieved a 10% reduction in GHG levels at its Padova site compared to the financial year ended December 31, 2019 (measured as total kg of CO2) which in turn had decreased 10% compared to GHG levels in the financial year ended December 31, 2018. hGears' CO2 emission reduction plan for its Padova site has attracted government subsidies in the form of tax reductions from the Ministry of Finance.

13.6 Sales and business operations

hGears' customers select suppliers by testing their technical feasibility in an offer phase. Typically, the number of potential suppliers per component is limited to two or three players given the need for manufacturers to possess very specific production and technical capabilities. Higher product complexity and degree of customization tend to shift the purchasing decision towards the engineering (as opposed to the purchasing) department of OEMs and Tier 1 Suppliers and extend the time frame of the selection process, e.g. in the automotive industry qualification processes can take up to 5 years. Sales orders from customers trigger a development engineering and production process based on customer specifications (e.g. tooling the machines), which is often done together with the customer in a "co-development" process. During the co-development process, hGears' in-house engineers assist customers in designing the components and finding technologically optimal solutions to satisfy the customer's specifications. In every plant, a key account manager serving multiple accounts oversees the co-development process.

Following design review and production planning, hGears runs an initial pre-series production of small batches with production configuration to ensure that larger production volumes are feasible. In a feasibility study, hGears assists customers in verifying the feasibility of the co-designed concept and optimizing the production process to find the most cost-efficient solution. A final prototype is then tested by a customer before approval for production. After a prototype has been approved, manufacturing for series production begins using the materials (i.e. machined or powder steel) and the product specifications and technologies agreed upon with the customer. Where relevant, manufacturing is followed by an in-house assembly of components into sub- and/or full systems by hGears. Assembly is particularly relevant when delivering directly to OEMs (e.g. of power tools).

Existing and potential customers typically contact hGears with requests for quotations, although hGears will also reach out to existing or potential customers it knows are developing projects that it may want to be involved in. hGears also typically attends two to three trade shows each year. Large sales orders or sales orders from new customers are negotiated on a Group level under the control of the Group Head of Business Development. Smaller sales orders are handled by the head of business development of the relevant business area or key account managers located at each production facility.

Most of hGears' sales are made on a free carrier (FCA) basis, with delivery taking place at hGears' production site.

13.7 Customers

Although over 110 customers have existing contracts with hGears, its customer base is concentrated, with its top 10 customers accounting for 72.3% of its consolidated sales of goods in the financial year ended December 31, 2020. Concentration is rather typical for suppliers in the end-industries hGears supplies, where a few global players dominate and there are only a few suppliers who possess the required capabilities and capacities to meet customers' requirements. hGears' customer base is balanced between Tier 1 Suppliers, e.g. ZF, Schaeffler and Bosch, and OEMs, e.g. Hilti, Stihl, Black & Decker and Husqvarna. Tier 1 Suppliers accounted for 64% and OEMs for 36% of consolidated sales of goods in the financial year ended December 31, 2020. The customer's underlying supply volume need generally determines whether hGears is contracted as its customer's only supplier (single sourcing, e.g. in power tools) or together with other suppliers (dual sourcing, e.g. for e-bikes and combustion vehicles).

Many of hGears' customers are focused on future-oriented e-drive applications, in particular drive systems for e-mobility solutions (e-bikes and electric and hybrid vehicles). Customers for hGears' e-bike drive system components include Bosch, Podkriznik (Sachs) and Pinion. Furthermore, hGears components are used in Oli electrical drive applications that are produced to be used in Bianchi e-bikes. In 2020, hGears won TQ as an additional customer for e-bike drive system components. For electric and hybrid vehicles hGears supplies a major Tier 1 Supplier, producing components for the Audi e-tron. For e-Tool customers, hGears provides components for the e-drive mechanism between the powering and tooling section, which is necessary to power cordless power tools. Customers include Festool and Makita. Customers for Conventional include Mahle, Hanon Systems, Tremec, Pierburg and Polaris.

13.8 Suppliers

As a manufacturer of high-quality precision components, hGears' core raw material is steel. Steel comes in two forms depending on production technology, i.e. machined steel or powder metal. Purchasing takes place in close coordination with customers and involves pre-defined product specifications. In some cases, suppliers are prescribed to hGears by customers as part of the sales process. hGears sources its steel from local specialists or global market leaders depending on the material needed. Blanks used for machining and bars of steel are typically sourced from two suppliers as are other component parts used in hGears' production (e.g. gears, screws and hydraulic components). For powder metals (steel, as well as nickel, copper and molybdenum), hGears sources materials from a single provider.

13.9 Employees

As of the date of this Prospectus, hGears employed approximately 843 employees (full-time equivalents) of which 314 were employed in Germany, 289 were employed in Italy and 240 were employed in China. Of these employees, 760 were employed as factory workers and 83 were employed as administration employees and managers. Typically, approximately 10% of hGears' workforce is employed on a temporary basis to facilitate an optimal work balance at each plant.

The following table provides an overview of the average number of hGears' employees in the financial years ended December 31, 2020, 2019 and 2018 by production site. These figures are presented on an average basis during the period indicated. Further, the figures presented do not include trainees, and employees with temporarily suspended employment contracts.

	Year ended December, 31		
	2020	**2019**	**2018**
Schramberg, Germany	328	328	333
Padova, Italy	321	331	298
Suzhou, China	215	224	258
Total	**864**	**883**	**889**

In the financial year ended December 31, 2020, 779 were employed as factory workers and 83 were employed as administration employees and managers. In the financial year ended December 31, 2019, 820 were employed as factory workers and 83 were employed as administration employees and managers and in the financial year ended December 31, 2018, 672 were employed as factory workers and 205 were employed as administration employees and managers.

In line with its growth strategy, hGears intends to continue to invest in its team. In areas where growth without additional staff is not possible, hGears expects to systematically expand its workforce in order to successfully and sustainably achieve its growth targets. hGears expects that the principal focus of future staff growth will be to increase high-skilled technical personnel, in particular operators of CNC machines. In order to achieve its medium term growth targets (see section "*20.2 Outlook*"), hGears is targeting an approximately 50% increase in staff over the next three to five years.

13.10 Research and Development, Intellectual Property and Information Technology

13.10.1 Research and Development

hGears conducts research and development activities with a focus on innovation for e-mobility solutions, product and process enhancements and quality and cost improvements. hGears believes that its research and development experience and expertise are key differentiating factors and competitive strengths (see section "*13.2.3 Attractive quality product offering with strong co-development* capabilities"). Current R&D activities are focused on the development of additional production processes (e.g. additive manufacturing and flow forming) and the expansion of its patent portfolio with a focus on its e-Mobility business. hGears plans to increase its investments in R&D, including by using a portion of the proceeds of the sale of New Shares, so as to capitalize on its production technology know-how in e-drive applications, with the goal of increasing range and performance of e-drive applications while reducing prices. As part of this investment, hGears has hired a new head of production technology R&D who will be primarily responsible for the formal and structured process of establishing further patents to protect hGears' intellectual property. Going forward, hGears targets using 3% of its annual sales of goods for investments in R&D.

13.10.2 Intellectual Property

hGears currently owns registered word and figurative trademarks. These trademarks relate, in particular, to hGears' company logo as well as the company logos of hGears' group companies, i.e. mG miniGears. As of November 11, 2020 hGears has a registered patent in Italy for a "method and machine tool for the realization of gears and toothed components with external and internal grooved toothing profile". hGears is currently waiting for a decision on an application to extend the patent to cover the European Union, which is expected in the course of 2021. hGears aims to obtain further patents in the future, mainly on key e-Mobility products, and has initiated further projects in that regard.

13.10.3 Information Technology

hGears has an integrated IT infrastructure centrally organized and managed in Schramberg under a Group Head of IT, with local sub-systems in Padova and Suzhou, which are connected to the overall group infrastructure. hGears' IT systems are used for both production and financial reporting. hGears' enterprise resource planning (needs assessment, demand planning, production planning, production processing, order processing) and manufacturing execution systems (feedback, quantity notifications) are interconnected. hGears' IT system is crucial for the production process as it is used to manage the units of the individual machines at each production facility. In 2019, hGears implemented Systems Applications and Products in Data Processing (SAP) in Padova. SAP is also used in Schramberg. hGears' SAP system is operated internally and hosted by an external hosting provider in a data center. In Suzhou, Infor software is used for enterprise resource planning and is not integrated into the Group infrastructure.

13.11 Insurance

hGears has insurance coverage through well-known providers. hGears is insured against fire, natural disasters and operational interruptions. Further, hGears has taken out various third party liability insurance and D&O insurance policies.

hGears decides together with its insurance broker on its insurance portfolio taking into account the costs for the insurance coverage and potential risks to business operations. hGears believes that its insurance coverage is adequate both as to the scope and quantum of risks for the business hGears conducts. hGears has not had any material claims, nor has it suffered any material losses following any uninsured claim, in the last three years.

13.12 Litigation

hGears has been and is, in the course of its ordinary business activities, involved in legal disputes both as plaintiff and as a defendant. hGears is currently not and during a period covering at least the twelve months prior to the date of this Prospectus was not subject to any governmental, legal, or arbitration proceedings (including any such proceedings which are pending or threatened of which hGears is aware) which may have, or have had in the recent past, significant effects on the financial position or the profitability of the Company and/or hGears.

13.13 Material Agreements

13.13.1 Facilities Agreement between the Company, Hamburg Commercial Bank AG and Skandinaviska Enskilda Banken AB (publ)

On September 21, 2018, the Company, Herzog, mG miniGears, Hamburg Commercial Bank AG ("**HCOB**") and Skandinaviska Enskilda Banken AB (publ) ("**SEB**") entered into a term and revolving facilities agreement, as amended and restated on November 21, 2019, December 7, 2020 and April 28, 2021 (the "**Facilities Agreement**") with a term until May 31, 2023. The Facilities Agreement provides for term and revolving credit facilities in an aggregate amount of EUR 32,175,000 divided into three tranches, each with a variable interest rate linked to the EURIBOR. Borrowings under the Facilities Agreement are secured by share pledges over the shares in Herzog and in mG miniGears, security transfer of certain specified movable assets, account pledge agreements over bank accounts and global security assignment of trade, insurance and intercompany receivables.

The Facilities Agreement contains a leverage covenant and a change of control provision that requires the consent of HCOB and SEB, inter alia, if (i) the shareholding of Finatem in the Company falls below 30% or (ii) another person not connected to Finatem acquires a shareholding in the Company of more than 30%. A change of control will not occur as a result of the Offering. In the event of a change of control event or a breach of the leverage covenant HCOB and SEB may request cancelation of the term loan facilities commitment and declare the outstanding loans together with interest accrued thereon due and payable within ten business days.

On August 26, 2019, the Company entered into a side letter in relation to the Facilities Agreement with mG miniGears Suzhou to grant mG miniGears Suzhou guarantees for an amount up to EUR 2,000,000 (or its equivalent) during the term of the Facilities Agreement or other date upon notification to HCOB and SEB.

13.13.2 Real Estate Leasing Agreement with PUDU Grundstücksvermietungsgesellschaft mbH & Co. KG and Purchase Option

On September 14, 2001, the legal predecessor of Herzog entered into a real estate leasing agreement with PUDU Grundstücks Vermietungsgesellschaft mbH & Co. KG ("**PUDU**") related to production, storage and administration buildings located at Brambach 36 and 38 in Schramberg, Germany (the "**Schramberg Lease**"). The Schramberg Lease covers land consisting of approximately 14,901 sqm for Brambach 38 and 1,860 sqm for Brambach 36 and includes the Group's production, storage and office space. The total annual payments under the Schramberg Lease amount to EUR 227,788.20 plus ancillary and tax costs and an annual administrative contribution of EUR 12,782.28. The Schramberg Lease covers two areas of land and has a fixed term of 22 years, starting on October 1, 2001 for one area and starting on April 1, 2007 for the other. The term of the Schramberg Lease continues through September 2023.

The Schramberg Lease was initially part of a sale and lease back agreement between PUDU and the legal predecessor of Herzog, which was granted an option to re-purchase the land and a right to transfer the purchase option to a third party. In the context of the sale of Herzog to the Company, Herzog became the beneficiary of the option to purchase the land. According to the Schramberg Lease, Herzog is entitled to purchase the land on September 30, 2023 for a purchase price of EUR 2,301,132.00 provided the Schramberg Lease is not prematurely terminated and Herzog duly fulfills its obligations.

13.13.3 E-bikes

Herzog and a major Tier 1 Supplier of e-bike drive components have executed framework agreements for the supply of steel gear wheels, drive shafts, crank shafts and toothed washers for e-bike drive units. Currently, these three components are supplied based on three multi-annual contracts (the "**e-bike Agreements**"). In addition a prevailing framework agreement and an addendum both dated November 24, 2016 apply. The e-bike Agreements contain expected quantities that Herzog is obligated to supply plus an agreed capacity reserve for peak requirements but the expected quantities are not binding for the Tier 1 Supplier.

Products are delivered based on the Tier 1 Supplier's purchase orders and delivery plans which Herzog may only object to if the Tier 1 Supplier's previous non-binding expected quantities are exceeded by more than 33% for three consecutive months. Costs of the Tier 1 Supplier or its customers incurred due to delays for which Herzog is responsible are to be borne by Herzog in an amount of up to EUR 1 million per calendar year. The Tier 1 Supplier has the right to terminate the contract in case of a change of control at Herzog (which will not occur as a result of the Offer). This right to terminate expires within 30 days after Herzog informs the Tier 1 Supplier in writing of the change of control event.

13.13.4 Profit and loss transfer agreement with Herzog GmbH

On November 16, 2016, the Company and Herzog GmbH entered into a profit and loss transfer agreement which took economic effect as of January 1, 2017. On the same day, the shareholder's meetings of Herzog and the Company respectively approved this profit and loss transfer agreement which was registered in the competent commercial register for Herzog on December 1, 2016. In the event that Herzog generates a net loss in its annual financial statements in accordance with the German Commercial Code (*Handelsgesetzbuch* - HGB), such loss will have to be covered by the Company. In the financial year ended December 31, 2019, under the profit and loss transfer agreement the Company covered losses of Herzog amounting to EUR 3.5 million.

14. GENERAL INFORMATION ABOUT THE ISSUER

14.1 Company name, corporate seat, foundation, financial year and history of the Company

The Company's legal name is hGears AG. The Company and the Group operate under a commercial name "hGears".

The Company is registered in the commercial register of the local court (*Amtsgericht*) of Stuttgart, Germany, under the registration number HRB 778870. The Company's legal entity identifier (LEI) is 529900AHQOSBXKH09981.

The Company was originally incorporated as a limited liability company (*Gesellschaft mit beschränkter Haftung*) pursuant to the memorandum of association (*Gesellschaftsvertrag*) dated March 24, 2010 under the legal name FEG Clinet 2010 GmbH with its registered office in Frankfurt am Main and registered in the commercial register of the local court (*Amtsgericht*) of Frankfurt am Main, Germany, under the registration number HRB 88172 on May 25, 2010. By a resolution passed by the shareholders' meeting on April 1, 2011, the legal name was changed to Herzog Beteiligungs GmbH and the registered office was moved to Schramberg, Germany. The change of legal name and registered office was registered in the commercial register of the local court (*Amtsgericht*) of Stuttgart on May 20, 2011. By a resolution passed by the shareholders' meeting on December 10, 2015 the legal name was changed to hGears Holding GmbH. The change of legal name was registered in the commercial register on December 10, 2015.

By way of a transformation resolution passed by the shareholders' meeting on April 8, 2021 pursuant to section 190 et. seq. in conjunction with section 226 et seq. and 238 et seq. of the German Corporate Transformation Act (*Umwandlungsgesetz* – "**UmwG**"), the Company changed its legal form from a limited liability company (*Gesellschaft mit beschränkter Haftung*) to a stock corporation (*Aktiengesellschaft*) under German law and its legal name to hGears AG. The change in legal form and legal name was registered in the commercial register of the local court (*Amtsgericht*) of Stuttgart, Germany, under the new registration number HRB 778870 on April 27, 2021.

The Company's registered office and business address is Brambach 38, 78713 Schramberg, Germany. The Company's telephone number is +49 7422 566-0, the Company's website is www.hgears.com. The information on the Company's website is neither part of, nor incorporated by reference into this Prospectus.

The Company is a German stock corporation (*Aktiengesellschaft*) incorporated in Germany and operating under German law.

The Company's financial year begins on January 1 and ends on December 31. The Company has been established for an indefinite period of time. The Company may be dissolved through a resolution of the general shareholders' meeting.

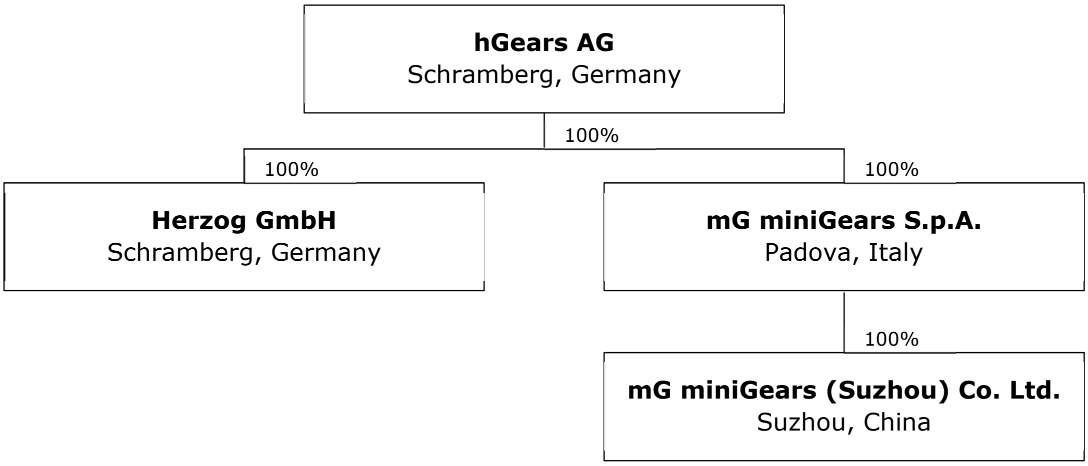
14.2 Corporate purpose

Pursuant to section 2 of the Company's articles of association, the corporate purpose of the Company is the management of a group of companies (the hGears Group) operating in the following business areas: (i) Development, production, processing and distribution of high-precision components, in particular made of steel or powder steel and plastic as individual components, subsystems or complete system solutions in the fields of e-drive technology, electrical power and gardening tools, automotive and industrial applications; and (ii) Services within the distribution chain of high-precision components, as well as the provision of services to companies in which the company holds a direct or indirect interest, unless such services are subject to approval under public law.

14.3 Group structure

The Company is the parent company of the Group. As the parent company of the Group, the Company performs certain group management functions, such as finance and treasury, accounting and controlling, information technology, business development, human resources, procurement, strategic planning and public relations.

The following chart shows the structure of the Group as of the date of this Prospectus:



14.4 Subsidiaries

The following table provides an overview of the Company's subsidiaries. All shares in these subsidiaries have been fully paid in.

		As of the date of this Prospectus	
Name, registered office, country of incorporation	**Field of activity**	**Proportion of share capital held directly or indirectly by the Company**	**Issued capital**
Herzog GmbH, Schramberg, Germany	Manufacture and distribution of products made of metal and plastic, in particular the manufacture and distribution of gearing and transmission parts, as well as the making of the necessary investments in plant and equipment and all other related transactions.	100%	EUR 4,400,000
mG miniGears S.p.A., Padova, Italy	Design, production and marketing of motion transmission parts, machines, equipment and tools. Mechanical processing and heat treatment of metal parts.	100%	EUR 2,000,000
mG miniGears (Suzhou) Co. Ltd., Suzhou, China	Design and manufacture of key equipment for gardening tools and equipment and related mechanical parts; sales of self-produced products and provision of after-sales services.	100%	RMB 49,487,000

14.5 Statutory auditors

The Company's statutory auditor is PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Friedrichstraße 14, 70174 Stuttgart, Germany ("**PwC**"). PwC is a member of the German Chamber of Public Accountants corporation under public law (*Wirtschaftsprüferkammer Körperschaft des öffentlichen Rechts*), Berlin, Germany.

PwC audited the German language versions of the Consolidated Financial Statements and the Annual Financial Statements in accordance with section 317 of the German Commercial Code (Handelsgesetzbuch) and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland e.V.*), and issued unqualified independent auditor's reports (*uneingeschränkte Bestätigungsvermerke des unabhängigen Abschlussprüfers*) translations of which are contained in this Prospectus. The respective auditor's reports of PwC on the consolidated financial statements refer to the audited consolidated financial statements (the "**Audited Consolidated Financial Statements**") and the respective group management report of hGears Holding GmbH as a whole. The group management report of hGears Holding GmbH is neither included nor incorporated by reference in this Prospectus.

The Consolidated Financial Statements 2018 had been amended by means of a supplementary audit. The amendments related to the presentation of the opportunities and risks in the group management report which was amended in connection with the supplementary audit as follows: "*4.Financing risk: Management has signed an agreement with the financing banks, adjusting the key financial ratios specified in the syndicated loan agreement. Within the context of this agreement, the stakeholders resolved to increase the company's equity by EUR 5 million. Because of these measures, Management has amended its original risk assessment. Management thus considers the funding of the company to be safeguarded. " …" II.Due to the measures described in section 4 of the financial business risks, we regard the risks for hGears Holding GmbH in the financial year 2019 as being unchanged from the previous year. As the talks between the main shareholder and the financing banks in November 2019 were successful, we presently do not see any risks endangering the ability of hGears Holding GmbH to continue as a going concern or significantly impairing its net assets, financial position and results of operations."*

14.6 Announcements

According to section 3 of the Company's articles of association, Company announcements are published in the German Federal Gazette (*Bundesanzeiger*). Information to shareholders may also be transmitted via electronic media.

Announcements relating to the Shares will also be published in the German Federal Gazette (*Bundesanzeiger*). Notices required under applicable laws governing stock exchange transactions will be published in the Federal Gazette (*Bundesanzeiger*) and, if required by mandatory legal provisions, by media distributed across the entire EEA.

Notices relating to the approval of this Prospectus or any supplements thereto will be published in the manner stipulated for the Prospectus in compliance with the provisions of the Prospectus Regulation, i.e. by way of publication on the Company's website: www.hgears.com under the section "Investor Relations".

15. REGULATORY FRAMEWORK

hGears' business operations are subject to various laws, rules and regulations. The failure to comply with any of these laws may subject hGears to civil liability, administrative orders, fines or, potentially, criminal sanctions.

The following provides a brief overview of certain selected regulatory provisions (with a focus on Germany and the EU) applicable to hGears' business operations. In addition, hGears has to comply with Chinese and certain non-EU regulations due to its production sites and/or customer markets in such jurisdictions.

15.1 Regulations regarding products and end-uses of products

15.1.1 Product safety

hGears is subject to Directive 2001/95/EC of the European Parliament and of the Council of December 3, 2001 on general product safety, as amended ("**Product Safety Directive**"), which applies to products that are not covered by specific sector legislation (e.g., machinery) and also complements the provisions of sector legislation which do not cover certain matters, for instance, in relation to the obligations of producers. The Directive, which was transposed into German law by the Product Safety Law (*Produktsicherheitsgesetz*) and into Italian law by the Legislative Decree of 6 September 2005, no. 206, provides a general definition of a safe product, i.e., a product which, under normal or reasonably foreseeable conditions of use, does not present any risk or only the minimum level of risk possible considering the product's use. Products which are placed on the market and/or used as components in products placed on the market are required to comply with this definition. If there are no specific national rules, the safety of a product is assessed in accordance with European standards, community technical specifications, codes of good practice and state of the art products and the expectations of consumers. In addition to the basic requirement to place only safe products in the market, producers must inform consumers of the risks associated with the products they supply. They must also take appropriate measures to prevent such risks and be able to trace dangerous products.

EU legislation and technical standards on specific products include Directive 2006/42/EC of the European Parliament and of the Council of May 17, 2006, on machinery as amended ("**Machinery Directive**"). Compliance with the requirements of the Machinery Directive enables free movement within the EU of machinery that is placed into use in the EU market for the first time. Since machines usually contain electrical components or functions, Directive 2014/35/EU of the European Parliament and of the Council of February 26, 2014 on the harmonisation of the laws of the Member States relating to the making available on the market of electrical equipment designed for use within certain voltage limits ("**Low Voltage Directive**") and Directive 2014/30/EU of the European Parliament and of the Council of February 26, 2014 on the harmonisation of the laws of the Member States relating to electromagnetic compatibility ("**EMC Directive**") may also be applicable. All of these Directives establish mandatory health and safety requirements for the product and production process (occupational health and safety). Detailed technical specifications for fulfilling these requirements are given in voluntary European harmonized standards. If a manufacturer applies the specifications of such a harmonized standard, it is presumed the product conforms to the essential health and safety requirements. The manufacturer then issues a declaration of conformity and affixes the CE mark on their products. By CE marking, the manufacturer (self-)declares that its products comply with all applicable EU Directives. These Directives require transposition in national laws of the EU member states, but may apply directly in case the transposition does not occur by the set date. Both the regulatory requirements and the harmonized standards are subject to revision and improvement so that manufacturers have to continuously check and adapt their products, processes and documentation. The abovementioned directives have been transposed into German law by specific ordinances (*Produktsicherheitsverordnungen*).

hGears' operations and products in China are subject to the People's Republic of China ("**PRC**") Standardization Law, which was promulgated on December 29, 1988 and became effective on April 1, 1989, and amended on November 4, 2017 with effect from January 1, 2018, and the PRC Product Quality Law which was promulgated on February 22, 1993 and became effective on September 1, 1993, and amended on July 8, 2000 with effect from September 1, 2000, and further amended on August 27, 2009 and December 29, 2018. According to the Standardization Law, hGears' products are required to meet national standards, industry standards and local standards of safety requirements. The Product Quality Law is applicable to the production and sale of products within China. According to the Product Quality Law, mG miniGears Suzhou is required to establish an internal quality management system and implement rules on quality specification, product liability and corresponding evaluation methods.

15.1.2 Product liability

Council Directive 85/374/EEC of July 25, 1985 on the approximation of the laws, regulations and administrative provisions of the Member States concerning liability for defective products, as amended ("**Product Liability Directive**"), applies to all movable objects (with the exception of primary agricultural products and game) whether or not incorporated into another movable object (such as a car) or into an immovable object. The Product Liability Directive establishes the principle of objective liability, i.e., liability without fault of the producer, in cases of damage caused by a defective product. "Producer" means the manufacturer of a finished product, the producer of any raw material or the manufacturer of a component part or any person who, by putting their name, trade mark or other distinguishing feature on the product, presents themselves as the product's producer. Where the producer of the product cannot be identified, each supplier of the product is treated as its producer unless they inform the injured person of the identity of the producer or of the person who supplied them with the product. "Defectiveness" means lack of the safety which a person is entitled to expect given, among other things, the presentation of the product and the use to which it could reasonably be put. The Product Liability Directive applies to damage caused by death or by personal injuries and damage to an item of property, other than the defective product itself, by a product intended for private use or consumption, with a minimum threshold of EUR 500. The Product Liability Directive does not stipulate any financial ceiling on the producer's liability and allows the member states to derogate from the principle of unlimited liability only if the limit established under national law is sufficiently high to guarantee adequate protection of the consumer. For example, in Germany, the Product Liability Act (*Produkthaftungsgesetz*) stipulates a limit of EUR 85 million. In addition, the Product Liability Directive does not prevent the legal systems of the member states from granting additional or more far-reaching rights to injured parties based on grounds of contractual or non-contractual liability.

Under the PRC Product Quality Law, where a defective product produced by miniGears Suzhou causes personal injury and damage to properties, miniGears Suzhou shall indemnify the losses and damage caused.

15.1.3 Regulations on safety and technical standards for automotive products

Regulatory requirements and technical standards regarding automotive products and road safety (for example, on emissions from vehicles including noise emissions, carbon dioxide emissions) do not apply directly to hGears or its products, but do apply to its customers in the automotive industry. In order to be competitive, hGears must assist its customers in meeting the regulatory requirements and technical standards by continuously adapting its products. The relevant regulations include, among others, Regulation (EC) No 661/2009/EC of July 13, 2009, as amended, establishing requirements for the type-approval of motor vehicles including systems, components and separate technical units with regard to safety, and Regulation (EU) 2018/858 of May 30, 2018 on the approval and market surveillance of motor vehicles and their trailers, and of systems, components and separate technical units intended for such vehicles ("**Approval Regulation**"). The Approval Regulation provides for a European approval system. By granting a European approval, the granting governmental authority of the member state certifies that a model, entire system (e.g. a breaking system) or an individual component conforms to the relevant regulations and technical requirements. Furthermore, the Approval Regulation contains several measures to ensure continued compliance of vehicles with applicable regulations (e.g., market surveillance to complement approval requirements, recall and safeguard procedures).

15.2 Regulations regarding e-mobility

The e-mobility sector benefits from EU regulation aimed at encouraging the purchase of electrified vehicles. Directive 2014/94/EU of the European Parliament and of the Council of October 22, 2014 on the deployment of alternative fuels infrastructure, as amended, sets out minimum requirements for the development of alternative fuels infrastructure, including recharging points for electric vehicles and refuelling points for natural gas and hydrogen as well as common technical specifications for such recharging and refuelling points.

Also on a national level, many governments globally are taking steps to create an e-mobility friendly regulatory environment, including providing subsidies, tax benefits and other regulatory advantages for purchasers of electric vehicles. For example, in Germany, Europe's largest automobile market, the Act on E-Mobility (*Elektromobilitätsgesetz*), introduced in 2015, allows municipalities to create preferential parking options and apply reduced parking rates for electric and hybrid vehicles. It also creates new traffic signs and introduces special number plates indicating the vehicle's electric engine and thus its eligibility for a special set of privileges. Moreover, the German government implemented a number of tax exemptions to promote the use of electric and hybrid vehicles. The Federal Law on Tax Incentives for Electric Mobility in Road Transport (*Gesetz zur steuerlichen Förderung von Elektromobilität im Straßenverkehr*) entered into force on November 17, 2016. It extends the vehicle tax exemption for electric vehicles registered for the first time, retroactively from January 1, 2016 onwards, from currently five to ten years. The tax exemption is also extended to approved conversions of fossil-fuel vehicles to electric vehicles. Also exemptions for income tax are contemplated for employees with respect to the advantages arising from the use of recharging facilities for electric vehicles and hybrid electric vehicles supplied by the employer. On the basis of the German Government Program on Electric Mobility of 2011, incentives for the purchase of new electric vehicles were set including a buyer's premium financed by the Federal Government and the manufacturers.

15.3 Export control regulations

National export control regulations, for example regulations included in the German Foreign Trade Law (*Außenwirtschaftsgesetz*) and Foreign Trade Ordinance (*Außenwirtschaftsverordnung*) or the PRC Foreign Trade Law, PRC Customs Law or Measures of the Customs of the People's Republic of China for the Supervision and Administration of Processing Trade Goods issued by the General Administration of Customs, may require notifications of or permits for exports and imports, and may also limit or prohibit the export of products if specific countries, entities or individuals are the destination or recipient of such exports. On the EU-level, such restrictions are set out in specific regulations on sanctioned countries or individuals.

15.4 Regulations regarding the production processes

15.4.1 REACH Regulation

REACH is the Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals, as amended. Its main objectives include improving the protection of human health and the environment from the risks that can be posed by chemicals and ensuring the free circulation of substances in the internal market of the EU. REACH establishes three procedures consisting of the registration, evaluation and authorization of chemical substances and mixtures. To a limited extent hGears uses chemical substances and chemical mixtures as part of the its production processes. As a consequence, hGears is subject to REACH as a downstream user.

As a rule, REACH applies to all chemical substances. In principle, all manufacturers and importers of chemicals in the EU must identify and manage risks linked to the substance they manufacture and market. For substances produced or imported in quantities of one ton or more per year per company, manufacturers and importers need to demonstrate that they have appropriately done so by means of a registration dossier, which shall be submitted to the European Chemicals Agency ("**ECHA**"). The ECHA reviews the dossier for compliance with REACH and evaluates testing proposals to ensure that the assessment of the chemical substances will not result in unnecessary testing, especially on animals. Where appropriate, authorities may also select substances for a broader substance evaluation to further investigate substances of concern.

Manufacturers and importers must provide their downstream users with the risk information they need to be able to use the substances safely. This is done via a classification and labelling system and safety data sheets as needed. Depending on the circumstances (i.e. the individual substances used, inclusion of substance in end product) a downstream user can have the following obligations: make uses known to the registrants (i.e. suppliers); identify and apply the appropriate measures described in the safety data sheets; contact suppliers with new information on the hazard of the substance or mixture or if the risk management measures are not appropriate.

REACH also provides for an authorization system aiming to ensure that substances of very high concern are adequately controlled and progressively substituted by safer substances or technologies or only used where there is an overall benefit to society from using the substance. These substances are prioritized and gradually included in Annex XIV to REACH. Once they are included, companies have to submit applications to the ECHA on authorization for continued use of these substances which are otherwise prohibited. In addition, EU authorities can impose restrictions on manufacturing, use or sale of substances which cause an unacceptable risk to human health or the environment.

15.4.2 PRC Law on Safety Production

The PRC Law on Safety Production requires manufacturers to maintain workplace safety conditions in their production facilities pursuant to relevant laws, administrative regulations, national standards and industry standards. Failure to meet such requirements may subject the manufacturer to suspension or prohibition of production and business operation. In addition, manufacturers are required to train their employees for production safety and design and manufacture, install, use, inspect and maintain their equipment to meet the applicable national or industrial standards. The Regulation on Safety Management of Hazardous Chemicals applies to the safety management in connection with the production, storage, use, operation and transportation of hazardous chemicals. The regulation further requires the entity holding hazardous chemicals to meet the safety conditions required by laws, administrative regulations, national standards, and industrial standards, establish and improve safety management rules and production safety accountability systems, and provide its employees with safety education, legal education, and job-related technical training. The employees shall accept the education and training, and may begin working only after completing the relevant assessment. Where it requires employees to have certain qualification to assume a post, an enterprise shall only designate employees having such qualification to assume the post.

15.4.3 Water use and waste water treatment

hGears is subject to EU regulations on water use and protection (implemented by the applicable national laws) as during the course of the production processes water is used and disposed of. Directive 2000/60/EC of the European Parliament and of the Council of October 23, 2000 establishing a framework for Community action in the field of water policy, as amended ("**Water Framework Directive**") includes a comprehensive approach to water protection. Groundwater is protected by both the Water Framework Directive and Directive 2006/118/EC of the European Parliament and of the Council of December 12, 2006 on the protection of groundwater against pollution and deterioration, as amended ("**Groundwater Subsidiary Directive**"), which lays down detailed quality criteria for the assessment of the groundwater's chemical status, including standards set at the EU level and requirements for threshold values to be set at the member state level. The Groundwater Subsidiary Directive requires member states to establish measures to prevent the input of hazardous substances into the groundwater and limit the introduction of other pollutants.

Discharge of waste water and its treatment is regulated by Council Directive 91/271/EEC of May 21, 1991 concerning urban waste water treatment, as amended. This directive addresses the collection, treatment and discharge of urban waste water and the treatment and the discharge of waste water from certain industrial sectors. Its aim is to protect the environment from any adverse effects caused by the discharge of such waters.

15.4.4 Waste management

Waste resulting from hGears production processes in the EU is subject to Directive 2008/98/EC of the European Parliament and of the Council of November 19, 2008, as amended ("**Waste Framework Directive**"), which redefined the rules applicable to the treatment of waste within the European Union, especially concerning the disposal of waste resulting from production processes. The Waste Framework Directive applies to all objects or substances discarded by the user or which the user plans or is required to discard.

15.4.5 Soil and groundwater contamination

Under German law, the current owner, the operator and under certain circumstances, the former owner of a site are jointly and severally liable for existing, threatened or suspected soil and groundwater contamination. In exceptional cases, piercing of the corporate veil is possible, i.e. the parent company may be held liable if the owning or operating company belonging to the same affiliated group was intentionally undercapitalized in order to avoid liability under the soil protection laws. The relevant authority may impose punitive measures and costs on any one of the potentially liable parties regardless of possible agreements on liability under civil law among the parties. Such measures may consist of investigations, containment or clean-up actions. The liable party may have civil claims for contribution or compensation against other polluters.

15.4.6 PRC environmental laws

Certain PRC environmental laws and regulations are applicable to the Group's production processes in China, including without limitation, the PRC Environmental Protection Law, the Administrative Regulations on Environmental Protection for Construction Projects, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Pollution from Environmental Noise, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste, the Measures for Management of Pollutant Discharge Permit, the Regulations on the Administration of Pollutant Discharge Permits and the PRC Environmental Impact Assessment Law.

According to the PRC environmental laws and regulations, all business operations that may cause environmental pollution and other public hazards are required to establish reliable mechanisms for environmental protection and take effective measures to prevent and control pollution to the environment in the form of gaseous pollution, waste water, solid waste, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities. Further, they must obtain a pollutant discharge permit before pollutants are discharged, and follow the requirements specified in the permit.

PRC environmental laws and regulations may also apply in case of construction relating to the Group's operations in China. In China, all construction projects (such as building a workshop, an office building, etc. or reconstructing the original constructions) shall complete the relevant environmental impact assessment procedure before the commencement of construction. Unless the impact on environment is minimal, construction projects shall obtain the approval of PRC local environmental authorities before the construction.

15.4.7 Occupational health and safety

hGears is subject to EU regulations on occupational health and safety, in particular Council Directive 89/391/EEC of June 12, 1989 on the introduction of measures to encourage improvements in the safety and health of workers at work, as amended and Council Directive 91/383/EEC of June 25, 1991 supplementing the measures to encourage improvements in the safety and health at work of workers with a fixed-duration employment relationship or a temporary employment relationship, as amended, which require employers to provide for their employees' safety. The applicable occupational safety regulatory regime also includes various other EU directives. These directives were transposed into German law by the German Act on Occupational Protection (*Arbeitsschutzgesetz*) and in the German Act on Occupational Safety (*Arbeitssicherheitsgesetz*), which require employers to provide for their employee's safety. These general obligations are substantiated in several ordinances under the respective laws, which are further detailed in technical guidelines. The applicable occupational safety regulatory regime also includes the German Ordinance on Facility Safety (*Betriebssicherheitsverordnung*), the German Ordinance on Requirements for Workplaces (*Arbeitsstättenverordnung*) and a number of technical guidelines enacted under these ordinances. In Italy, the Legislative Decree of 9 April 2008, no. 81 (Italian Consolidated Act on Safety and Health at the Workplaces) sets out requirements aimed at improving health and safety conditions at the workplaces. It provides for inter alia adequate training for managers and workers, health checks, planning and implementation of measures aimed at ensuring safety at workplace, replacement of potentially dangerous objects, risk assessments, emergency measures, adequate maintenance of installations and equipment).

In China, hGears is subject to various laws regulating labor matters. The Labor Law of the PRC, promulgated on 5 July 1994 and effective on 1 January 1995, amended on August 27, 2009 and December 29, 2018, requires enterprises and institutions to establish and perfect their system of work place safety and sanitation and strictly abide by state rules and standards on work place safety. Labor safety and sanitation facilities shall comply with statutory standards. Enterprises and institutions shall provide employees with a safe work place and sanitation conditions which are in compliance with relevant laws and regulations of labour protection. The Labour Contract Law of the PRC, which was promulgated on 29 June 2007 and came into effect on 1 January 2008 and amended on December 28, 2012, and the Implementing Regulations of the Labor Contract Law of the PRC, promulgated on 18 September 2008, primarily regulate employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. The amended Labor Contract Law which became effective on July 1, 2013 imposes more stringent requirements on labor dispatch and more stringent penalties on unlawful labor dispatch practices. According to the amendments, the number of contract workers hired by an employer may not exceed a certain percentage of the total number of employees and the contract workers can only engage in temporary, auxiliary or substitutive work. The amended Labor Contract Law also requires contract workers doing the same work as full-time employees receive the same compensation. In the event that an employer has caused a dispatched worker to suffer damages, the labor dispatch entity and the employer shall jointly and severally bear compensation liability to such worker. Further, according to the Interim Provisions on Labor Dispatch promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, the number of dispatched workers hired by an employer shall not exceed 10% of the total number of its employees (including both directly hired employees and contract workers).

15.5 Regulations relating to dividend distribution, foreign exchange and foreign investment

15.5.1 Dividend distribution

The Company Law of the PRC provides that a company shall contribute 10% of the profits into its statutory surplus reserve before distribution of its after-tax profits of the current year. A company may discontinue such contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Where the balance of the statutory surplus reserve of a company is insufficient to make up its losses in the previous year, the company shall make up such losses by using its profits of the current year before making contribution to the statutory surplus. A company may make further contribution to the surplus reserve by using its after-tax profits in accordance with the relevant resolutions of the shareholder(s).

The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up and the requisite contribution to the statutory surplus reserve has been made.

15.5.2 Foreign currency exchange

Pursuant to the PRC Foreign Currency Administrative Rules promulgated in 1996 and as subsequently amended and supplemented, all foreign exchange business activities carried out in China and cross-border foreign exchange payments shall be administered and processed by the State Administration of Foreign Exchange (SAFE), its local counterparts and in certain cases, local banks who will act as the agent of the SAFE to perform certain verification and processing of foreign exchange transactions.

The PRC Foreign Investment Law prescribes that foreign investors' investment, profits, capital gains, assets disposal income, intellectual property license fees, or compensation obtained according to law, liquidation income, etc within the territory of China may be remitted in or out of China in Renminbi or foreign exchange according to law. SAFE will issue further implementing rules in support of this and implement, administer and supervise relevant systems and procedures.

15.5.3 Approval of foreign invested projects

The PRC government maintains a negative list for foreign investment ("**Negative List**") which designates investments in particular industry sectors as either prohibited or restricted. The Negative List is periodically updated by PRC authorities and the current effective negative list is the Special Management Measures for the Market Entry of Foreign Investment (2020 Edition) which came into effect on July 23, 2020.

Foreign investment is not permitted in industry sectors designated as prohibited. Any foreign investment in the restricted industry sectors is only permitted where it meets the specific investment conditions and requirements (such as that the investment must be made through a joint venture with a domestic joint venture partner and that the foreign ownership cannot exceed a certain percentage, etc). Industry sectors which are not mentioned in the negative list are by implication permitted.

The State Administration for Market Regulation will verify whether a foreign invested project in the restricted sector meets the relevant investment conditions and requirements for foreign investment. Generally speaking, such investors will require regulatory approval from the competent PRC government authority as well as any required sector specific approval.

According to the PRC Foreign Investment Law, foreign invested projects in permitted industry sectors shall enjoy equal treatment compared to domestic investment projects. Generally speaking, they do not require formal approval and will enjoy a lighter regulatory registration process.

16. INFORMATION ON THE COMPANY'S CAPITAL

16.1 Share capital and shares

As of the date of this Prospectus, the share capital of the Company amounts to EUR 8,000,000.00. It is divided into 8,000,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), each with a notional interest in the share capital of EUR 1.00. Except for the restrictions described in section "*5 The Offering - 5.12 Lock-up agreements*" and "*5 The Offering - 5.10 Selling restrictions*", there are no restrictions on the transferability of the Shares. The share capital of the Company has been fully paid in.

Each Share carries one vote at the Company's general shareholders' meeting. The Company's existing shareholders do not have any different voting rights. There are no restrictions on voting rights and the Shares carry full dividend entitlement.

In case of the liquidation of the Company, any assets remaining after the settlement of liabilities are distributed among shareholders proportionately to the notional interest in the share capital attributable to their shares.

Pursuant to section 5.2 of the Company's articles of association, shareholders are not entitled to request the issuance of individual share certificates for their respective shareholdings. The Company may issue share certificates that represent one share (individual certificates) or several shares (global certificates). The shareholder's right to the issue of dividend coupons and renewal coupons is also excluded.

The Company's Existing Shares will be represented by one global share certificate without dividend coupons, which will be held with Clearstream. An additional global share certificate without dividend coupons will be issued for the New Shares and will likewise be deposited with Clearstream.

As of the date of this Prospectus, the Company does not hold any treasury shares.

16.2 Development of the share capital over the past three years

The Company was initially incorporated as a limited liability company (*Gesellschaft mit beschränkter Haftung*) with an initial share capital of EUR 25,000.00. By the resolution of shareholders dated December 23, 2014 the share capital was increased to EUR 50,000.00. The increase of the share capital was registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Stuttgart, Germany, on January 29, 2015. By the resolution of shareholders dated October 31, 2019 the share capital was increased to EUR 62,500.00, which is also the amount presented in the consolidated statement of financial position as of December 31, 2019. The increase of the share capital was registered in the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Stuttgart, Germany, on December 12, 2019.

Prior to the change of the legal form, on April 8, 2021, the Company's shareholders' meeting resolved to increase the Company's share capital from Company's reserves by EUR 7,937,500.00 from EUR 62,500.00 as of December 31, 2020 to EUR 8,000,000.00. The resolution was registered in the commercial register of the local court (*Amtsgericht*) of Stuttgart, Germany, on April 19, 2021.

16.3 Capital increase in relation to the New Shares

On May 5, 2021, in connection with the Offering, the extraordinary general shareholders' meeting of the Company resolved to increase the registered share capital of the Company against cash contributions and under exclusion of the subscription rights of the existing shareholders of the Company from EUR 8,000,000.00 by up to EUR 2,400,000 to up to EUR 10,400,000 through the issuance of up to 2,400,000 new ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) in the Company (the New Shares, as defined under section "*4* General information - *4.2 Subject matter of this Prospectus*") each with a notional interest of EUR 1.00 in the share capital. The New Shares are to be offered in the Offering that is the subject matter of this Prospectus. On or around May 18, 2021, the Management Board of the Company, with the consent of the Supervisory Board, will resolve on the final number of New Shares to be issued. The implementation of this capital increase is expected to be registered in the commercial register of the Company on or around May 19, 2021.

16.4 Authorized capital

The Company's Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital of the Company on one or several occasions in the period until March 31, 2026, by in aggregate up to EUR 4,000,000.00 by issuing in aggregate up to 4,000,000 new, no-par value bearer shares against contributions in cash and/or in kind (Authorized Capital 2021).

Shareholders are generally entitled to statutory subscription rights when the Company issues additional Shares. However, the Management Board is authorized, with the consent of the Supervisory Board, to exclude the shareholders' subscription rights in whole or in part in the following instances:

(a) for fractional amounts;

(b) in the event of capital increases against cash contributions in accordance with section 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*), if the issue price of the new shares is not substantially lower than the market price of the shares of the same kind already listed on the stock market and the shares issued on the basis of this authorization to exclude subscription rights in aggregate do not exceed 10% of the share capital, either at the time it comes into effect or at the time it is exercised. The upper limit of 10% of the share capital shall include Shares which have been issued or sold during the term of this authorization based on another authorization in accordance with section 186, para. 4, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) with an exclusion of subscription rights. Further, this limit includes shares which have been issued and/or may still be issued to satisfy bonds with conversion or option rights and/or to fulfil conversion or option obligations under convertible bonds or bonds with warrants, provided that the bonds have been issued under an exclusion of subscription rights by analogous application of section 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*);

(c) to the extent necessary to grant holders or creditors of bonds with option or conversion rights or obligations which are issued by the Company or its consolidated subsidiaries, subscription rights to new shares to the extent to which they would be entitled following the exercise of option or conversion rights, or satisfaction of option or conversion obligations;

(d) in the case of capital increases against contributions in kind, to grant new shares in particular, but not limited to, for the purpose of directly or indirectly acquiring companies, parts thereof or participations in companies or intellectual property such as patents, trademarks or licenses, which are granted to such intellectual property rights, or other product rights or other assets, including receivables, bonds, conversion rights and other financial instruments; and

(e) to the extent necessary to issue shares to employees of the Company or its affiliated companies within the meaning of section 15 of the German Stock Corporation Act (*Aktiengesetz*) (employee shares). To the extent permitted by law, the employee shares may also be issued in such a way that the contribution to be made is covered by the portion of the annual net income that the Management Board and the Supervisory Board may allocate to other reserves in accordance with section 58, para. 2 of the German Stock Corporation Act (*Aktiengesetz*). Furthermore, the new shares may be subscribed for by a credit institution against cash contribution so that the Company can repurchase such shares in order to issue them to employees of the Company or employees of its affiliated companies within the meaning of section 15 of the German Stock Corporation Act (*Aktiengesetz*).

The Management Board is authorized to determine further rights attaching to the shares and the terms and conditions of the capital increase and its implementation, subject to the consent of the Supervisory Board. The new shares can also be acquired by a single credit institution or several credit institutions or companies within the meaning of section 186, para. 5, sentence 1 of the German Stock Corporation Act (*Aktiengesetz*) as determined by the Management Board, with the obligation to offer them to shareholders for purchase (indirect subscription rights).

16.5 Contingent capital

16.5.1 Contingent Capital 2021/I

On May 5, 2021, the extraordinary general shareholders' meeting of the Company resolved on the creation of contingent capital. The resolution is expected to be registered in the commercial register of the Company in the course of May 2021.

According to the resolution, the share capital is conditionally increased by up to EUR 3,261,600.00 by issuing up to 3,261,600 new, ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) with dividend rights from the beginning of the financial year in which they are issued (Contingent Capital 2021/I). The contingent capital increase is to be implemented only to the extent that:

(a) the holders of convertible bonds and/or warrant-linked bonds and/or profit participation rights with conversion rights or subscription, which are issued by the Company or its consolidated subsidiaries until May 4, 2026 on the basis of the authorising resolution of the general shareholders' meeting dated May 5, 2021, utilise their conversions or subscription rights and the Company decides to satisfy the conversion or subscription rights from the Contingent Capital 2021/I, or

(b) the holders of convertible bonds and/or warrant-linked bonds and/or profit participation rights with conversion or subscription rights, which are issued by the Company or its consolidated subsidiaries until May 4, 2026 on the basis of the authorising resolution of the general shareholders' meeting dated May 5, 2021, satisfy their conversion obligation and the Company decides to satisfy the conversion or subscription rights from the Contingent Capital 2021/I.

Any share issuance from contingent capital must be made in accordance with the further details set forth in the resolution of the general shareholders' meeting dated May 5, 2021, which provides certain specific parameters for convertible bonds and/or warrant-linked bonds and/or profit participation rights with conversion rights or subscription, in particular market standard parameters with respect to the conversion price.

16.5.2 Contingent Capital 2021/II

An extraordinary general shareholders' meeting of the Company held on May 5, 2021 resolved on the creation of contingent capital and amendment of the Company's articles of association in a new section 4.4 Under the new section 4.4 of the Company's articles of association, the share capital of the Company is conditionally increased by up to EUR 738,400.00 by issuing up to 738,400 new ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) (Contingent Capital 2021/II).

The sole purpose of the Contingent Capital 2021/II is to grant new shares in order to fulfill subscription rights in connection with the stock option program 2021 (*Aktienoptionsprogramm 2021*) as resolved by the Company's extraordinary general shareholders' meeting of May 5, 2021 as further described in section "*17.2.2 Remuneration of the members of the Management Board*". The shares are to be issued at the option price in accordance with the aforementioned resolution. The capital increase from Contingent Capital 2021/II will only be carried out to the extent that subscription rights are duly exercised by the participants unless other forms of fulfillment of the subscription rights are used. The new shares participate in the profit from the beginning of the latest financial year, for which, at the time they are issued, no resolution of the Company's general shareholders' meeting on the distribution of dividends (*Gewinnverwendungsbeschluss*) has been adopted. The Supervisory Board is authorized to amend the wording of the Company's articles of association in accordance with the respective utilization of the Contingent Capital 2021/II. The resolution regarding Contingent Capital 2021/II becomes effective with its registration in the commercial register of the Company.

The Contingent Capital 2021/II serves to fund the Company's shares issuable under the long-term incentive stock option program established in 2021 ("**SOP 2021**"), which was resolved by the extraordinary general shareholders' meeting (*außerordentliche Hauptversammlung*) of the Company held on May 5, 2021. Participants in the SOP 2021 include the members of the Management Board of the Company and selected executives of the Company and its affiliated companies within the meaning of sections 15 et seqq. of the German Stock Corporation Act (*Aktiengesetz*) ("**Participants**").

The issuance of stock options will be effected by the conclusion of a written subscription agreement between the Company and the Participants and the stock options will be issued to the Participants over three years in three annual tranches (Tranche 2021, Tranche 2022 and Tranche 2023). In each year, the Supervisory Board will approve the issuance of stock options to members of the Management Board and the Management Board will approve the issuance of stock options to other Participants.

Each stock option entitles the Participant to acquire one no-par value bearer share in the Company with a pro-rata amount in the share capital of the Company of EUR 1.00 per share at a price corresponding to the arithmetic mean of the closing prices of the shares of the Company in Xetra trading on the Frankfurt Stock Exchange on the five trading days following the day of admission to trading ("**Exercise Price**") and subject to the satisfaction of certain performance targets and the lapse of a four-year waiting period ("**Waiting Period**") commencing on the date of granting of the stock option.

The performance targets allowing the exercise of stock options are based on the arithmetic mean of the closing prices of the shares of the Company in Xetra trading on the Frankfurt Stock Exchange on the last 20 trading days prior to 31 December of the year of the issuance of the relevant tranche and require that amount to exceed the Exercise Price by 15% (Tranche 2021), 30% (Tranche 2022) and 50% (Tranche 2023). After the expiry of the relevant Waiting Period, all stock options, for which the performance targets have been met by the Participant, may only be exercised within 24 months. The stock options may be exercised within three-week periods after the publication of the annual financial statements, a half year report or a quarterly financial report. Any restrictions under generally applicable legal provisions, in particular the MAR, are to be observed.

Under the SOP 2021, the Supervisory Board is entitled until May 4, 2026 to grant the members of the Management Board a maximum number of 509,600 stock options and selected executives of the Company and its affiliated companies within the meaning of sections 15 et seqq. of the German Stock Corporation Act (*Aktiengesetz*) a maximum number of 228,800 stock options in total.

16.6 Authorization to issue convertible bonds, warrant-linked bonds and profit-participation rights

The extraordinary general shareholders' meeting of the Company of May 5, 2021 authorized the Management Board, subject to the approval of the Supervisory Board, to issue convertible and/or warrant-linked bonds or profit participation rights and has created contingent capital for this in the amount of up to EUR 3,261,600.00 (Contingent Capital 2021/I) (see section "*16.5.1 Contingent Capital 2021/I"*) by means of the following resolution:

"a) Volume

The Management Board is authorized, with the approval of the Supervisory Board, until May 4, 2026 to issue convertible and/or warrant-linked bonds or profit participation rights with or without conversion or subscription rights (together the "**Bonds**") on one or more occasions with a total nominal amount of up to EUR 120,000,000.00. The holders of the abovementioned Bonds can be granted conversion or subscription rights in respect of up to 3,261,600 new, ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) in the Company with a notional interest in the share capital of a total of up to EUR 3,261,600.00. The conversion and subscription rights may be satisfied from a contingent capital to be resolved at this general shareholders' meeting or at future general shareholders' meetings, from existing or future authorized capital and/or from a cash capital increase and/or from existing shares and/or may provide for a cash settlement instead of delivery of the shares.

b) Consideration

The Bonds may be issued against consideration in cash or in kind as long as the value of the consideration in kind reaches the issue price. Moreover, the Bonds may be denominated in the legal currency of an member country of the Organization for Economic Co-operation and Development (OECD) instead of euro taking into consideration the permissible maximal total nominal amount.

c) Term

The term of the Bonds or the period until the first possibility of termination on part of the Company may not exceed 20 years.

d) Issuance by group companies

The Bonds may also be issued by a group company within the meaning of section 18 of the German Stock Corporation Act (*Aktiengesetz*) in which the Company holds, directly or indirectly, at least 75%; in this event, the Management Board is authorized, with the approval of the Supervisory Board, to assume the guarantee for the Bonds on behalf of the Company for the respective convertible bonds and/or warrant-linked bonds and/or profit participation rights and to grant the holders of such warrant-linked bonds and/or convertible bonds and/or profit participation rights option or conversion rights in respect of the shares of the Company.

e) Subscription right

In case of the issuance of Bonds, the shareholders have a statutory subscription right unless the subscription right is excluded in accordance with the following rules. If Bonds are issued by a group company as described under d) above, the Company is obliged to ensure that the shareholders are granted statutory subscription rights unless the subscription right is excluded in accordance with the following rules. The Bonds may also be offered to an intermediary with the obligation to offer them to shareholders for subscription.

f) Exclusion of subscription rights

In case of the issuance of Bonds, the shareholders have a statutory subscription right unless the subscription right is excluded in accordance with the following rules.

The Management Board is authorized, with the approval of the Supervisory Board, to exclude the shareholders' subscription rights:

(i) to exclude fractional amounts from the subscription rights;

(ii) in order to offer convertible bonds and/or warrant-linked bonds and/or profit participation rights with conversion or subscription right to individual investors for subscription provided that, under corresponding application of section 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) the shares issued based on such Bonds do not exceed 10% of the share capital existing on the date the authorization became effective and on the date the authorization is exercised and the issue price of the Bonds is not materially lower than the theoretical market value of the Bonds, calculated using recognized financial mathematical methods. Shares are also to be added to the aforementioned limit of 10% of the share capital which are issued or sold pursuant to a respective authorization under exclusion of subscription rights in a direct or corresponding application of section 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) if such aggregation is required by law;

(iii) in order to offer profit participation rights without conversion or subscription right to individual investors for subscription provided that the issue price is not materially lower than the theoretical market value of the profit participation rights, calculated using recognized financial mathematical methods and provided that those profit participation rights have characteristics similar to those of debt instruments, i.e. they do not create any membership rights, do not grant conversion or subscription rights on shares of the Company, do not grant participation in the liquidation proceeds and if the level of interest payable is not calculated on the basis of the amount of the net income for the year, the distributable profit or the dividend;

(iv) insofar as this is necessary to grant the holders of conversion rights and subscription rights to shares of the Company, which have been granted by the Company or its group companies, subscription rights for Bonds issued pursuant to this authorization in the scope to which they would be entitled after the exercise of their conversion or subscription right or after satisfaction of any conversion obligation (dilution protection), or

(v) insofar as the Bonds are issued against contributions in kind, in particular for the purpose of acquiring companies, divisions of companies, equity interests in companies, intellectual property rights, e.g. patents trademarks or licenses granted to such rights, or other product rights or other assets, including bonds, convertible bonds and other financial instruments, provided that the exclusion of subscription rights is in the overriding interest of the Company.

g) Subscription price, dilution protection

A conversion or subscription ratio shall be determined for convertible bonds and/or warrant-linked bonds and/or profit participation rights. The conversion ratio is calculated by dividing the nominal amount of a partial bond by the conversion price set for one share. The conversion ratio may also be calculated by dividing the issue price of a partial bond, if such price is below the nominal amount, by the conversion price set for one share. These rules apply respectively to a subscription ratio. The respective conversion, option or subscription price to be set must be equivalent to at least 80% of the average stock exchange price of the Company's shares in the opening session of the Xetra® trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (or any successor system determined by Deutsche Börse AG) during the last 10 trading days prior to the resolution of the Management Board, with the consent of the Supervisory Board, on the issuance of the Bonds, or, if no Xetra® trading in the Company's shares takes place, of a stock exchange on which during those 10 trading days the highest number of the Company's shares in total was traded.

In the case of convertible bonds or option rights, the conversion or option price may, notwithstanding section 9 para. 1 of the German Stock Corporation Act (*Aktiengesetz*), be reduced on the basis of an anti-dilution clause in accordance with the terms and conditions if the Company increases the share capital during the conversion or option period with subscription rights of its shareholders or if the Company issues further bonds or grants or guarantees other option rights and the holders of convertible bonds or option rights are not granted a subscription right to the extent to which they would be entitled after exercising the conversion or option rights. The reduction of the option or conversion price may also be fulfilled in accordance with the more detailed provisions of the Bonds by a cash payment upon exercise of the option or conversion right. The terms and conditions may also provide for a value-preserving adjustment of the conversion or option price or other measures that may lead to a dilution of the value of the conversion or option rights (e.g. also in case of payment of a dividend). In addition, the Company may grant the payment of an appropriate compensation in the event of an early exercise of the conversion or option right. In any case, the proportionate amount of the share capital of the shares to be subscribed per partial bond may not exceed the nominal amount of the respective partial bond.

h) Other terms and conditions of the Bonds

The Management Board is authorized, with the consent of the Supervisory Board, to stipulate the further details of the issue and the features of the Bonds, in particular their term, issue and exercise periods as well as termination rights, the issue price of the Bonds, the interest rate, denomination and adjustment of the subscription price and creation of a conversion obligation."

16.7 Authorization to acquire and sell treasury shares

By means of the following resolution of the extraordinary general shareholders' meeting of the Company dated May 5, 2021, the Company is authorized to acquire treasury shares:

"a) The Company is authorized to acquire shares of the Company corresponding to 10% of the Company's share capital existing at the date of the general shareholders' meeting on May 5, 2021.

The acquired shares may not, together with other treasury shares, which the Company has already acquired and still holds or which are attributed to the Company pursuant to section 71a et seq. of the German Stock Corporation Act (*Aktiengesetz*), exceed at any time 10% of the Company's share capital.

b) The authorization becomes effective upon conclusion of the general shareholders' meeting on which it has been resolved and will be valid until May 4, 2026.

c) Acquisition may take place, at the Management Board's option and within the limits prescribed by the principles of the stock corporation law without affecting the principle of equal treatment (section 53a of the German Stock Corporation Act (*Aktiengesetz*)) through the stock exchange or outside of the stock exchange, in the latter case in particular by means of a public purchase offer, also under exclusion of tender rights of the shareholders. In case of a public purchase offer, the Company may either determine a price or a price range for the acquisition.

(i) If the shares are acquired through the stock exchange, the purchase price per share to be paid (excluding incidental costs of purchase) may not exceed or fall short by more than 5% of the average of the prices in the opening session of the Xetra® trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (or any successor system determined by Deutsche Börse AG) during the last 10 trading days prior to the acquisition, or, if no trading in the Company's shares in Xetra® takes place of a stock exchange on which during these 10 trading days the highest number of the Company's shares in total was traded ("**relevant price**").

(ii) If the shares are acquired outside of the stock exchange, the purchase price per share to be paid (excluding incidental costs of purchase) may not exceed or fall short by more than 10% of the relevant price of a share in the Company.

(iii) The relevant price in case of a public purchase offer is an average of the relevant prices on the last 10 trading days prior to the public announcement of the purchase offer. The purchase offer may specify further terms and conditions. In the event that following the publication of a formal offer the stock exchange price of the Company's shares has deviated from the relevant price and such deviation was not insignificant, the offer may be adjusted. In the case of an adjustment, the relevant amount is determined based on the average relevant prices on the last 10 trading days prior to publication of the adjustment.

(iv) If the shares are acquired outside of the stock exchange by other means the relevant price amounts to the average of the relevant prices on the last 10 trading days prior to the conclusion of an agreement relating to the acquisition.

(v) If in the case of a public purchase offer the subscription exceeds the volume of the offer, offers will be accepted according to quotas. In such a case, a preferential acceptance of small quantities of up to 100 shares tendered per shareholder as well as rounding in accordance with standard commercial practice may be provided for, partially excluding a possible right of the shareholders to tender their shares.

d) The Management Board is authorized, with the approval of the Supervisory Board, to resell the treasury shares acquired pursuant to this or previous authorization in accordance with section 71, para. 1, no. 8 of the German Stock Corporation Act (*Aktiengesetz*) for other purposes than trading in treasury shares in compliance with the principle of equal treatment (section 53a of the German Stock Corporation Act (*Aktiengesetz*)).

(i) The sale of the acquired treasury shares may be made via a stock exchange. The subscription right of the shareholders is excluded in this case.

(ii) In addition, the sale may also be made in a manner other than via a stock exchange, in particular for the purpose of satisfying conversion or option rights granted by the Company or one of its group companies, as well as against consideration in kind, for example, for the acquisition of companies, participations or industrial property rights.

A sale outside of a stock exchange is also in particular permissible if a maximum of shares not exceeding 10% of the share capital are sold both calculated on the effective date of this authorization and the time the authorization is exercised and the acquired treasury shares are sold at a price that does not fall below by more than 5% (excluding incidental costs of purchase) of the relevant price of the Company's shares of the same type at the time of the sale.

The amount of 10% of the share capital in accordance with the previous sentence shall also take into account an amount which corresponds to the shares which have been issued or sold by virtue of another corresponding authorization under exclusion of subscription rights, in direct or corresponding application of section 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) by the time of the respective exercise of this authorization, insofar as such an imputation is required by law. In such a case the relevant value is the average of the relevant prices on the last ten trading days prior to the sale of the shares in the opening auction in XETRA® trading (or a successor system).

The subscription right of the shareholders is excluded in all cases of this lit. d).

e) The Management Board is also authorized, with the approval of the Supervisory Board, to offer treasury shares to shareholders on the basis of an offer addressed to all shareholders in compliance with the principle of equal treatment (section 53a of the German Stock Corporation Act (*Aktiengesetz*)). In this case, the Management Board may exclude the subscription right for fractional amounts.

f) The Management Board is further authorized, with the approval of the Supervisory Board, to redeem the treasury shares without the need for any additional resolution by the general shareholders' meeting. The redemption of the treasury shares results in a capital reduction. In deviation from this, the Management Board may resolve, with the consent of the Supervisory Board, that redemption takes place in such a way that the share capital remains unchanged and instead the notional interest of the remaining shares in the share capital increases pursuant to section 8, para. 3 of the German Stock Corporation Act (*Aktiengesetz*) (simplified redemption process pursuant to section 237, para. 3, no. 3 of the German Stock Corporation Act (*Aktiengesetz*)). In this case, the Management Board is authorized to adjust the number of shares set out in the articles of association.

g) The Management Board is authorized, with the approval of the Supervisory Board, to utilize the treasury shares acquired on the basis of this authorization or on the basis of an authorization which was issued at an earlier time as follows:

They may be granted to service stock options issued under the SOP 2021. With regard to performance targets, acquisition and exercise periods, the waiting period for first-time exercise and other conditions, the conditions of the SOP 2021 shall apply. To the extent that stock options of the Management Board are to be serviced, the Supervisory Board is authorized to make corresponding use of the acquired treasury shares. The subscription rights of shareholders are excluded.

h) The authorizations under lit. a) to g) may be used in whole or in part, once or several times, individually or jointly by the Company, but also by its group companies or by third parties for its or their account."

Furthermore, by means of the resolution of the extraordinary general shareholders' meeting of the Company dated May 5, 2021, the Company was authorized to acquire treasury shares using derivatives:

"a) In addition to the authorization to purchase treasury shares pursuant to section 71, para. 1, no. 8 of the German Stock Corporation Act (*Aktiengesetz*) to be resolved under agenda item 3, the acquisition of shares pursuant to the authorization to be resolved under agenda item 3 may be carried out, in addition to the ways described therein, also by using certain derivatives. With the approval of the Management Board, subject to the consent of the Supervisory Board, options may be sold which oblige the Company to purchase its own shares upon exercise of the option ("**Put Options**"), options may be acquired and exercised that give the Company the right to acquire treasury shares upon exercise of the option ("**Call Options**"), forward purchase agreements may be concluded on treasury shares in which there are more than two trading days between the conclusion of the purchase agreement and the delivery of the acquired shares ("**Forward Purchases**") and treasury shares may be acquired by using a combination of these derivatives (hereafter all the aforementioned arrangements are referred to as "**Equity Derivatives**").

All share acquisitions using Equity Derivatives in the exercise of this authorization are restricted to shares accounting for no more than 5% of the share capital existing at the time of the resolution of the general shareholders' meeting regarding this authorization. The term of an Equity Derivative may not exceed 18 months in each case and must be selected in such a way that the acquisition of treasury shares in the exercise of the Equity Derivative may not take place after May 4, 2026.

b) The purchase price per share ("**Exercise Price**") to be paid upon exercise of the Put Options or on the maturity of the Forward Purchase may not exceed or fall below the average of the stock exchange prices (closing auction prices) for the shares of the Company in XETRA® trading or a successor system on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) on the last 10 trading days prior to the conclusion of the relevant derivative transaction or, if the shares are not admitted to trading on the Frankfurt Stock Exchange, the stock exchange in which the highest number of the shares of the Company were traded in these 10 trading days by more than 5%, each without incidental costs of purchase, but taking into account the option premium received or paid.

c) The Call Options may only be exercised if the purchase price to be paid does not exceed or fall below the average of the share prices (closing auction prices for the Company's shares in XETRA® trading or a successor system on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) on the last 10 trading days prior to the conclusion of the relevant derivatives transaction by more than 5%.

d) The terms of the Equity Derivatives must ensure that the Equity Derivatives are only serviced by shares acquired on the stock exchange in compliance with the principle of equal treatment.

e) If own shares are acquired using Equity Derivatives in compliance with the above provisions, a right of the shareholders to conclude such derivative transactions with the Company is excluded in analogous application of section 186, para. 3, sentence 4 of the German Stock Corporation Act (*Aktiengesetz*). There is also no right of shareholders to conclude derivative transactions if, when acquiring treasury shares using Equity Derivatives, a preferential offer is made for the conclusion of derivative transactions in relation to small numbers of shares.

Shareholders have the right to tender their shares only to the extent that the Company is obligated to accept the shares from the derivative transactions. Any further rights of tender are excluded.

f) The rules set out in agenda item 4 apply to the sale and redemption of shares acquired using equity derivatives."

16.8 General provisions on changes in the share capital

According to section 182, para. 1 of the German Stock Corporation Act (*Aktiengesetz*), the share capital of a German stock corporation (*Aktiengesellschaft*) may be increased through a resolution of the general shareholders' meeting which is passed with a majority of at least three-fourths of the share capital represented when the resolution is passed, to the extent that the articles of association of a German stock corporation (*Aktiengesellschaft*) do not determine other majority requirements.

In accordance with section 202, para. 2 and 3 of the German Stock Corporation Act (*Aktiengesetz*) the general shareholders' meeting may also resolve on the creation of authorized capital. The creation of authorized capital requires a resolution passed with a majority of at least three-fourths of the share capital represented authorizing the Management Board, with the consent of the Supervisory Board, to issue shares up to a certain amount within a period of no more than five years following registration of the amendment to the articles of association. The aggregate nominal amount of authorized capital may not exceed half of the share capital existing at the time when the authorization is issued (i.e. at the time the authorized capital is registered in the commercial register).

Pursuant to section 193, para. 1 of the German Stock Corporation Act (*Aktiengesetz*), the general shareholders' meeting may also resolve on creating contingent capital for purposes of issuing shares

(i) to holders of convertible bonds or other securities granting rights to subscribe for shares; (ii) as consideration in the context of a merger with another company; or (iii) for the purpose of offering them to managers and employees. In each case, a resolution passed with a majority of at least three-fourths of the share capital represented at the adoption of the resolution is required. The nominal amount of the contingent capital may not exceed 10% of the share capital which exists at the time when the resolution is passed if the contingent capital is created for the purpose of issuing shares to managers and employees, and in all other cases it may not exceed half of the existing share capital.

The general shareholders' meeting may also resolve on a share capital decrease. Such resolution requires a majority of at least three-fourths of the share capital represented at the passing of the resolution, pursuant to section 222, para. 1 of the German Stock Corporation Act (*Aktiengesetz*).

16.9 General provisions on subscription rights

Pursuant to section 186 of the German Stock Corporation Act (*Aktiengesetz*), shareholders are generally entitled to subscription rights to the new shares to be issued in a capital increase (excluding new shares to be issued from contingent capital) and to subscription rights relating to convertible bonds, warrant-linked bonds, profit participation rights or participating bonds. Subscription rights are freely transferable and may be traded on German stock exchanges during a specified period prior to the expiration of the subscription period. However, shareholders do not have a right to request admission to trading for subscription rights. The general shareholders' meeting may exclude subscription rights with a majority of the votes cast and a simultaneous majority of at least three-fourths of the share capital represented at the adoption of the resolution. Furthermore, according to section 186, para. 4 of the German Stock Corporation Act (*Aktiengesetz*), the exclusion of shareholders' subscription rights also requires a proper notice and a written report from the Management Board that justifies and demonstrates that the Company's interest in excluding subscription rights outweighs the interest of the shareholders being granted such subscription rights. The exclusion of subscription rights is, in particular, allowed if the share capital is increased against cash contributions, the amount of the capital increase does not exceed 10% of the existing share capital and at the same time the issue price of the new shares is not substantially lower than the stock exchange price.

Subscription rights serve the purpose of maintaining the shareholders' existing percentage share in the share capital and preserving their voting power ("**Dilution Protection**"). Where shareholders' subscription rights are excluded, the limit set out in section 255, para. 2 of the German Stock Corporation Act (*Aktiengesetz*) must be complied with at all times, i.e., the fixed issue price of the new shares may not be "inappropriately low". The new shares may only be offered at a price which fully compensates for the loss of the holding in the net asset value of the Company of the shareholder which has been excluded from subscription rights. In this context, the issue price for the new shares must always be based on the real value of the Company.

In the case of a contingent capital increase, general shareholders' subscription rights are excluded by law. For the purposes of shareholder protection, the nominal amount of the contingent capital may not exceed half of the share capital, irrespective of the application purpose. If the contingent capital serves to grant subscription rights to a particular group of addressees, the nominal amount may not exceed 10% of the share capital.

16.10 General provisions on the use of profits and dividend payments

Shareholders' share in the Company's profits is determined according to their respective interests in the Company's share capital.

According to German law, dividends may only be distributed from the distributable profit (*Bilanzgewinn*) of the Company as reported in the Company's annual financial statements prepared in accordance with the accounting principles of the German Commercial Code (*Handelsgesetzbuch*). When calculating the distributable profit, the profit or loss for the financial year (*Jahresüberschuss/-fehlbetrag*) must be adjusted for profits or losses carried forward (*Gewinn-/Verlustvorträge*) from previous financial years as well as for withdrawals from and transfers to reserves. Certain reserves are required to be set by law and must be deducted when calculating the distributable profits.

The resolution concerning the distribution of a dividend as well as its level and timing for a financial year is the responsibility of the annual general shareholders' meeting which decides on the Management Board's and Supervisory Board's proposal concerning the profit allocation. When passing a resolution concerning the allocation of the distributable profit, the annual general shareholders' meeting may allocate further amounts to the profit reserves or carry them forward as profit. Dividends resolved by the annual general shareholders' meeting are due three business days after the date of the relevant general shareholders' meeting, unless otherwise provided in the dividend resolution or in the Company's articles of association, in compliance with the rules of the respective clearing system. Once Shares of the Company are deposited with Clearstream, dividends will be paid for the benefit of the shareholders to the custodian banks via Clearstream.

16.11 General provisions on the liquidation of the Company

Apart from liquidation following insolvency proceedings, the Company may only be liquidated by a resolution of the general shareholders' meeting to dissolve the Company followed by a liquidation procedure. The resolution of the general shareholders' meeting requires a majority of at least three-fourths of the share capital represented at the passing of the resolution (section 262, para. 1, no 2 of the German Stock Corporation Act (*Aktiengesetz*)). Pursuant to section 271 of the German Stock Corporation Act (*Aktiengesetz*), in the event of the Company's liquidation, the assets remaining after all liabilities of the Company have been satisfied are divided among the shareholders in proportion to their interest in the Company's share capital. Certain restrictions provided by the German Stock Corporation Act (*Aktiengesetz*), in particular restrictions for the benefit of creditors, must be observed.

16.12 Takeover offer

After the Shares become admitted to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard), the Company will become subject to the provisions of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*). Under the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), any shareholder whose portion of voting rights reaches or exceeds 30% of the voting rights of the Company must publish this fact, including the percentage of his share of the voting rights, without undue delay and no later than seven calendar days after this event by announcing it on the internet and by means of an electronic information distribution system for financial information and must subsequently submit a mandatory takeover offer directed at all holders of the shares of the Company unless an exemption from this obligation has been granted. The German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) contains a number of provisions which are supposed to ensure that the shareholding is attributed to the person who actually controls the voting rights relating to the shares. If the notification about reaching or exceeding the 30% threshold or the submission of the public mandatory offer does not occur, during the time until such submission occurs, the shareholder is precluded from exercising any rights relating to these shares (including the voting rights and the right to receive dividends) and must pay interest to the other shareholders. Furthermore, a fine can be imposed. Shareholders who already hold at least 30% of the voting rights in the Company or to whom at least 30% of the voting rights in the Company are attributed prior to the admission of the shares to trading on the regulated market are exempt from these requirements.

16.13 Squeeze-out of minority shareholders

16.13.1 Squeeze-out under the German Stock Corporation Act (*Aktiengesetz*)

Pursuant to the provisions of sections 327a et seq. of the German Stock Corporation Act (*Aktiengesetz*) regarding the so-called "squeeze-out" process, the general shareholders' meeting of the Company may resolve, at the request of a shareholder holding at least 95% of the share capital ("**Principal Shareholder**"), on the transfer of the shares of the remaining minority shareholders to the Principal Shareholder in exchange for an appropriate cash compensation. The amount of the cash compensation to be granted to the minority shareholders must take into account the circumstances of the Company at the time the resolution is adopted by the general shareholders' meeting. The amount of the compensation is determined by the full enterprise value which is normally determined using the capitalized earnings method (*Ertragswertverfahren*) or, after admission of the Shares to trading on the regulated market (*Regulierter Markt*), by the volume weighted average stock exchange price of the Shares during the three months prior to the announcement of the envisaged squeeze-out. Minority shareholders are entitled to file for a valuation proceeding (*Spruchverfahren*), wherein the court will review the fairness (*Angemessenheit*) of the cash payment.

16.13.2 Squeeze-out under the German Transformation Act (*Umwandlungsgesetz*)

Pursuant to section 62, para. 5 sentence 1 of the German Transformation Act (*Umwandlungsgesetz*), a shareholder holding at least 90% of the Company's share capital may require the Company's general shareholders' meeting to resolve to transfer the shares of the minority shareholders to such majority shareholder against a payment of an adequate cash compensation, provided that (i) the majority shareholder is a German stock corporation, partnership limited by shares (*Kommanditgesellschaft auf Aktien*) or European stock corporation (Societas Europaea, SE) having its seat in Germany, and (ii) the squeeze-out is performed to facilitate a merger under the German Transformation Act (*Umwandlungsgesetz*) between the majority shareholder and the Company. The general shareholders' meeting held to approve the squeeze-out must take place within three months of the conclusion of the merger agreement. The squeeze-out procedure, including the right of the minority shareholders to review the appropriateness of the cash compensation, is essentially identical to that under the German Stock Corporation Act (*Aktiengesetz*) described above.

16.13.3 Integration (*Eingliederung*)

Pursuant to the provisions of section 319 et seq. of the German Stock Corporation Act (*Aktiengesetz*) regarding the so-called integration process (*Eingliederung*), the general shareholders' meeting of the Company may pass a resolution on its integration into another company if the prospective parent company holds at least 95% of the shares in the Company. The existing shareholders of the Company are entitled to an adequate compensation which must as a general rule be granted in the form of shares in the parent company. The amount of the compensation must be determined using the so-called merger value ratio (*Verschmelzungswertrelation*) between the two companies, i.e., the exchange ratio which would be considered reasonable in the event of merging the two companies. In contrast to the rules governing squeeze-outs, integration is only possible if the future parent company is a stock corporation (*Aktiengesellschaft*) domiciled in Germany.

16.13.4 Squeeze-out under the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*)

Pursuant to the provisions of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), a bidder holding at least 95% of the voting share capital in a target company (within the meaning of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*)) following a public takeover offer or a mandatory offer, may, within three months after expiration of the acceptance period for the offer, file a motion with the district court (*Landgericht*) of Frankfurt am Main for the transfer of the remaining voting shares in exchange for the grant of reasonable compensation by means of a court order. A resolution of the general shareholders' meeting is not necessary. The type of compensation must correspond to the consideration offered in the takeover offer or the mandatory offer and, if that consideration was not cash, cash compensation must be offered as an alternative. The consideration offered in connection with the takeover offer or the mandatory offer is deemed to be reasonable if the bidder has acquired shares equal to at least 90% of the share capital affected by the offer. In addition, shareholders who have not accepted the offer have a sell-out right, i.e. they may accept the offer up to three months after the expiration of the acceptance period (section 39c of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), provided that the bidder is entitled to petition for the transfer of the outstanding voting shares in accordance with section 39a of German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*). The provisions for a squeeze out under stock corporation law cease to apply once an offeror has petitioned for a squeeze out under takeover law, and only apply again when these proceedings have been definitively completed.

16.14 Notification and reporting requirements for shareholdings

After the Shares become admitted to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market (Prime Standard), the Company will become subject to the provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*) on notification requirements with respect to holdings in shares and certain instruments.

Section 33 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) provides that any shareholder who, through acquisition, sale or otherwise, reaches, exceeds or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights in a listed company whose country of origin is Germany must notify the respective issuer and BaFin without undue delay (*unverzüglich*), but no later than within four trading days after the event, of having reached, exceeded or fallen below the respective threshold and must also disclose the amount of its current share of the voting rights. The prescribed time limit commences at the time when the shareholder required to give the notification has actual knowledge or should have had knowledge under the circumstances that its share of voting rights reached, exceeded or fell below the stated thresholds. It is assumed that the shareholder required to give the notification has gained knowledge about the shareholding two trading days after reaching, exceeding or falling below the aforementioned thresholds. If the shareholder's percentage of voting rights has reached, exceeded or fallen below the thresholds due to a change of the total number of voting rights in the company, the notification period begins at the point when the shareholder required to give the notification learns that the threshold is triggered, but no later than the publication of the change of the total number of voting rights by the issuer. The German Securities Trading Act (*Wertpapierhandelsgesetz*) defines "holding" as the existence of an unconditional claim related to a transfer of shares without an undue delay or a respective obligation. Section 34 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) contains various rules which are supposed to ensure that the shareholding is attributed to the person who actually controls the voting rights relating to the shares. For example, shares held by a third person will be attributed to another person if that other person exercises control over the person holding the shares. This also applies to shares which are held by a third person on behalf of another person or a person controlled by such other person as well as voting rights which the person can exercise free of instructions as a proxy.

Corresponding disclosure obligations towards the issuer and BaFin apply to reaching, exceeding, or falling below the thresholds mentioned above, except for the threshold of 3%, when the relevant shareholder directly or indirectly holds instruments (i) which either, on maturity, give their holder an unconditional right to acquire already issued shares carrying voting rights in the issuer or the discretion as to the right to acquire such shares in the issuer or (ii) which are referenced to already issued shares of the issuer carrying voting rights and have similar economic effect to the instruments mentioned under (i), irrespective of whether or not they confer a right to a physical settlement (section 38 of the German Securities Trading Act (*Wertpapierhandelsgesetz*)). In particular such instruments comprise transferable securities, options, futures, swaps, forward rate agreements and contracts for differences. The number of voting rights relevant for the notification requirement is generally calculated by reference to the full nominal amount of shares underlying the instrument, except where the instrument provides exclusively for a cash settlement.

Moreover, pursuant to section 39 of the German Securities Trading Act (*Wertpapierhandelsgesetz*), the notification obligation applies if the sum of the voting rights in one issuer, which are to be taken into account pursuant to section 33, para. 1, sentence 1 or para. 2 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) with respect to holdings of shares and section 38, para. 1, sentence 1 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) with respect to holdings of instruments, reaches, exceeds or falls below the thresholds mentioned above, except for the threshold of 3%.

The notification may be made either in German or English and shall be submitted through BaFin's Reporting and Publishing Platform (*MVP-Portal*). As a domestic issuer within the meaning of the German Securities Trading Act (*Wertpapierhandelsgesetz*), the Company must publish this notification without undue delay, but no later than three trading days after receipt of the notification in various media distributed across the entire EEA in accordance with section 16 in conjunction with section 3a of the German Securities Trading Reporting Ordinance (*Wertpapierhandelsanzeigeverordnung*, *WpAV*) and submit the publication to BaFin. The issuer must also transmit the notification to the company register (*Unternehmensregister*) maintained electronically by the German Federal Ministry of Justice within the meaning of section 8b of the German Commercial Code (*Handelsgesetzbuch*) for storage without undue delay, but not prior to the publication.

In case of non-compliance with the disclosure obligation, for example failing to file a notice or providing false information, the shareholder is precluded from exercising the rights relating to those shares (including voting rights and the right to receive dividends) for the duration of the failure in accordance with the provisions of section 44 of the German Securities Trading Act (*Wertpapierhandelsgesetz*). If the disclosure requirements are violated in a willful or grossly negligent manner, any rights relating to the shares will be suspended for a six-month period. Furthermore, a fine can be imposed in the case of non-compliance with the disclosure requirements, and BaFin will publish its measures and sanctions taken on its website.

Moreover, pursuant to section 43 of the German Securities Trading Act (*Wertpapierhandelsgesetz*), a shareholder reaching or exceeding 10% or more of the voting rights relating to shares of an issuer must inform the issuer of the objective being pursued through the acquisition of voting rights and the sources of the funds used for the purchase, in each case within 20 trading days from such shareholder acquiring the relevant percentage of the shares. In particular, the shareholder must disclose whether it intends to (i) pursue any strategic objectives with respect to the company (as opposed to profits from trading in the shares), (ii) acquire further voting rights within the following twelve months, (iii) exert any influence or control over the company's management or supervisory board and (iv) make any significant changes to the company's capital structure, especially with respect to debt-to-equity ratio and dividend policy. The Company's articles of association have not made use of the option to release shareholders from this disclosure obligation. If the above objectives change, such change needs to be disclosed to the issuer within 20 trading days of such change.

16.15 Managers' transactions

Once the Company applies for an admission of its shares to trading on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (Prime Standard), it will become subject to the provisions of the Market Abuse Regulation on disclosure of transactions by persons discharging managerial responsibilities within the Company (the "**Managers**") and persons closely associated with them. According to the rules set out in the Market Abuse Regulation, the Managers are obliged to notify the Company and BaFin within three working days regarding any of their transactions in Shares or financial instruments linked to them, particularly derivatives. This obligation also applies to persons closely associated with a Manager. The Company is obliged to promptly, and in no event later than three business days after the transaction, publish the information received in accordance with the foregoing and to simultaneously notify BaFin of the publication. Notification is not required if the sum of all transactions involving a Manager or persons closely associated with him or her is less than EUR 20,000 in a given calendar year.

A Manager is any member of the Company's administrative, management or supervisory body or another senior executive who has regular access to inside information relating directly or indirectly to the Company and power to take managerial decisions affecting the future developments and business prospects of the Company. Persons closely associated with the Manager are (i) spouses and partners considered to be equivalent to a spouse in accordance with national law, (ii) dependent children, in accordance with national law, (iii) other relatives who have shared the same household as the Manager for at least one year on the date of the transaction concerned and (iv) legal persons, trusts or partnerships, the managerial responsibilities of which are discharged by the Manager or any of the aforementioned parties, which are directly or indirectly controlled by a Manager or such a party, which are set up for the benefit of a Manager or such a party or whose economic interests are substantially equivalent to those of a Manager or such a party. Non-compliance with the notification requirements may result in a fine.

Furthermore, the Market Abuse Regulation imposes a closed period of 30 calendar days prior to the announcement of interim financial statements or annual financial statements which the Company is obliged to publish, during which a Manager shall not conduct any transactions in Shares or financial instruments linked to them, particularly derivatives, or act on behalf of a third party in relation to such transactions.

16.16 Short selling regulation (ban on naked short selling)

Pursuant to Regulation (EU) no. 236/2012 of the European Parliament and of the Council of March 14, 2012 on short selling and certain aspects of credit default swaps (the "**Short Selling Regulation**"), the European Commission's delegated regulation for the purposes of detailing the Short Selling Regulation, and the German EU Short Selling Implementation Act (*EU-Leerverkaufs-Ausführungsgesetz*) of November 15, 2012, the short-selling of the Shares is only permitted under certain conditions. In addition, under the provisions of the Short Selling Regulation, significant net-short selling positions in the Shares must be reported to BaFin and published if they exceed a specific percentage. The reporting and publication process is detailed in the German Regulation on Net-Short Positions (*Netto-Leerverkaufspositionsverordnung*) of December 17, 2012. The net short-selling positions are calculated by offsetting the short positions of a natural person or legal entity in the Shares with its long positions in such shares. The details are regulated in the Short Selling Regulation and the other regulations the European Commission has enacted on short-selling. In certain situations described in the Short Selling Regulation, BaFin may restrict short-selling and comparable transactions.

17. INFORMATION ON THE GOVERNING BODIES OF THE COMPANY

17.1 Overview

The Company's governing bodies are the Management Board, the Supervisory Board, and the general shareholders' meeting. As a German stock corporation (*Aktiengesellschaft*) the Company has a two-tier management and control system, consisting of the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*). The responsibilities and powers of these government bodies are determined by the German Stock Corporation Act (*Aktiengesetz*), the articles of association and the internal rules of procedure of both the Supervisory Board and the Management Board.

The general shareholders' meeting elects the members of the Supervisory Board, which in turn appoints the members of the Management Board. The Supervisory Board is entitled to remove any member of the Management Board under certain circumstances. Simultaneous membership of the Supervisory Board and the Management Board is not permitted under the German Stock Corporation Act (*Aktiengesetz*). However, in exceptional circumstances and for an interim period, a member of the Supervisory Board may take a vacant seat on the Management Board. During this period, such individual may not perform any duties pertaining to his or her position on the Supervisory Board. In addition, the duration of such stand-in arrangements may not exceed one year.

The Management Board is responsible for managing the Company in accordance with applicable law, the articles of association and its rules of procedure. The Management Board represents the Company in dealings with third parties. As set out in the German Stock Corporation Act (*Aktiengesetz*), the Supervisory Board advises and oversees the Management Board's administration of the Company, but is itself generally not authorized to manage or represent the Company. The Supervisory Board may amend the articles of association if such amendments are purely semantic.

The articles of association may designate types of transactions that may only be conducted by the Management Board with the prior approval of the Supervisory Board. In addition, the Supervisory Board may itself determine that certain types of transactions are subject to its prior approval. Matters subject to the prior approval of the Supervisory Board pursuant to the articles of association or the rules of procedure of the Management Board currently include, among others:

(a) Determination or amendment of the basic business policy of the Company and its direct and indirect subsidiaries and measures that have a significant impact on the strategic orientation of the Company and its subsidiaries;

(b) Determination or amendment of the financial and investment plan for the forthcoming financial year; measures which deviate from the approved financial and investment plan by more than 10% to the detriment of the Company or the taking up or granting or repayment of loans which are not provided for in the approved financial and investment plan, with the exception, however, of the credit transactions separately regulated in lit. (h);

(c) Disposal or relocation of the Company or any part thereof or any action resulting in a material change in the internal organisation of the Company and its subsidiaries;

(d) Acquisition of other companies or interests in companies and their disposal or termination; establishment and winding up of subsidiaries, establishment and termination of branches, commencement of new and discontinuance of existing businesses;

(e) Conclusion, amendment or termination of inter-company agreements within the meaning of sections 291, 292 of the German Stock Corporation Act (*Aktiengesetz*);

(f) Conclusion, amendment or termination of rental or lease agreements for land and buildings with an annual charge of more than EUR 250,000.00 p.a. as well as the acquisition, sale or encumbrance of land, rights equivalent to land and rights to land;

(g) Granting of security to third parties, in particular the assumption of sureties and guarantees, insofar as the aforementioned measures exceed a total amount of EUR 500,000.00 p.a., with the exception, however, of customary reservations of title in favour of suppliers;

(h) Taking out and repaying bank loans and credits with a fixed term, agreeing credit lines for overdrafts and/or bills of exchange as well as amendments to such credit agreements and granting credits outside the normal course of business;

(i) Granting and revoking of individual or joint special representation power (*Prokura*); conclusion or termination of employment contracts with employees who receive an annual basic salary of at least EUR 120,000.00;

(j) Exercise of shareholder rights in affiliated companies;

(k) Granting of pension commitments;

(l) Conclusion, amendment or termination of contracts between the Company on the one hand and its shareholders or persons (including companies) related to the shareholders within the meaning of section 15 of the German Fiscal Code (*Abgabenordnung*) on the other hand;

(m) Material transactions between the Company on the one hand and a person related to a member of the Management Board or related companies on the other hand; and

(n) Other legal transactions and legal acts that go beyond normal business transactions.

Each member of the Management Board and the Supervisory Board owes a duty of loyalty, duty of legality and duty of care to the Company. In discharging these duties, each member of these bodies must consider a broad spectrum of interests, particularly those of the Company and its shareholders, employees and creditors. In addition, the Management Board must also take into consideration the shareholders' rights to equal treatment and equal access to information. If members of the Management Board or Supervisory Board breach their duties, they may be jointly and severally liable with the other members of the Management Board or the Supervisory Board to the Company for any damages the Company has incurred.

Under German law, shareholders generally do not have right to directly assert claims against members of the Management Board or Supervisory Board if they believe that such members have violated their duties to the Company (i.e., only the Company has the right to enforce such claims against the members of the Management Board or Supervisory Board). With respect to claims against members of the Management Board, the Company is represented by the Supervisory Board, and with respect to claims against members of the Supervisory Board, the Company is represented by the Management Board. In accordance with a decision of the German Federal Supreme Court (*Bundesgerichtshof*), the Supervisory Board is generally required to assert claims against members of the Management Board if it is likely that such claims can be pursued and enforced successfully, unless significant interests of the Company conflict with the pursuit of such claims and outweigh the interests of the Company asserting such claims against members of the Management Board.

If either the Supervisory Board or the Management Board decides not to pursue claims of the Company against members of the other respective governing body for violations of their duties, such claims must nevertheless be asserted if the general shareholders' meeting adopts a resolution to this effect with a simple majority of the votes validly cast. The shareholders' meeting may also appoint a special representative (*besonderer Vertreter*) to assert such claims. Shareholders whose aggregate shareholdings amount to 10% of the Company's share capital or a pro rata share of EUR 1 million in the Company's share capital may also motion for the competent court to appoint such a special representative. If there are facts that justify the suspicion that the Company was harmed by dishonesty or a gross violation of laws or the articles of association, shareholders whose aggregate shareholdings amount to 1% of the Company's share capital or a pro rata share of EUR 100,000.00 of the Company's share capital may under certain conditions assert claims of the Company against members of the Management Board or Supervisory Board in their own names. However, such claims become inadmissible once the Company itself files a suit to assert such claims.

In addition, the Company's general shareholders' meeting may appoint special auditors (*Sonderprüfer*) to audit transactions, particularly management transactions, with a simple majority of the votes validly cast. If the general shareholders' meeting rejects a motion to appoint special auditors, the competent court shall appoint such special auditors upon a motion by shareholders whose aggregate shareholdings amount to 1% of the Company's share capital or a pro rata share of EUR 100,000.00 of the Company's share capital, if there are facts that justify the suspicion that the relevant occurrence involved acts of dishonesty or gross violations of the law or the articles of association. If the general shareholders' meeting has resolved to appoint special auditors, the competent court shall appoint different special auditors upon a motion by shareholders whose aggregate shareholdings amount to 1% of the Company's share capital or a pro rata share of EUR 100,000.00 of the Company's share capital, if such appointment appears necessary due to reasons concerning the original special auditors.

Shareholders and shareholder associations may solicit via the shareholders' forum of the German Federal Gazette (*Bundesanzeiger*), which is also accessible via the website of the German Company Register (*Unternehmensregister*), other shareholders to file a motion, jointly or by proxy, for the appointment of special auditors, for the appointment of a special representative, the convention of a shareholders' meeting, or the exercise of voting rights in a general shareholders' meeting.

Under German law, neither individual shareholders nor other persons may use their influence on the Company to cause a member of the Management Board or the Supervisory Board to act in a manner that would be detrimental to the Company. Any person who uses his or her influence on the Company to cause a member of the Management Board or the Supervisory Board, an authorized representative (*Prokurist*) or an authorized agent (*Handlungsbevollmächtigter*) to act to the detriment of the Company or its shareholders may be liable to compensate the Company and the affected shareholders for the resulting losses. Moreover, in this context, the members of the Management Board and the Supervisory Board are jointly and severally liable in addition to the person using his or her influence if such members acted in breach of their duty of care towards the Company.

17.2 Management Board

Pursuant to section 6.1 of the Company's articles of association, the Management Board (*Vorstand*) consists of one or more members. The Supervisory Board determines the exact number of the members of the Management Board. The Supervisory Board may appoint members of the Management Board for a maximum term of five years. Reappointments are permissible. Pursuant to section 84, para. 2 of the German Stock Corporation Act (*Aktiengesetz*), the Supervisory Board may appoint any member of the Management Board as chairperson of the Management Board and any other member as deputy chairperson.

The Supervisory Board represents the Company in and out of court vis-á-vis the members of the Management Board. The Supervisory Board is responsible for the appointment of members of the Management Board, the conclusion of their service agreements and the revocation of appointments as well as for changes to and termination of their service contracts.

The Supervisory Board may revoke appointment of a member of the Management Board prior to the expiration of the relevant member's term for an important reason (*aus wichtigem Grund*), such as a gross breach of fiduciary duties, inability to properly manage the Company or if the Company's general shareholders' meeting has passed a vote of no-confidence with respect to such a member, unless the vote of no-confidence was clearly passed for arbitrary reasons.

If the Management Board consists of more than one member, it has a quorum if at least two members participate in the vote. Resolutions of the Management Board may also be adopted outside of meetings through votes cast in writing, by telefax, by email or any other customary (including electronic) means of communication as well as by combining a meeting with adopting resolutions outside of meetings. Resolutions are adopted with the simple majority of the votes of the members present or represented, unless other majorities are required by mandatory law. In case of a tie, the Chairman has a casting vote.

The Company is represented vis-á-vis third parties and in court proceedings by two members of the Management Board or a member of the Management Board jointly with an authorized representative (*Prokurist*), if the Management Board consists of several members. If only a single member of the Management Board is appointed or if the Supervisory Board has authorized a single member of the Management Board to represent the Company alone, such member may solely represent the Company vis-á-vis third parties and in court proceedings.

On April 8, 2021, the Supervisory Board adopted the rules of procedure of the Management Board which contain additional provisions regarding, among other things, the composition of the

Management Board, the duties of its members, the overall responsibility of the Management Board, the allocation of responsibilities for particular functions and the Management Board's internal organization.

17.2.1 Members of the Management Board

As of the date of this Prospectus, the Company's Management Board consists of the following members:

Name	**Born**	**Member since/from**	**Appointed until**	**Responsibilities**
Pierluca Sartorello	1956	April 8, 2021	April 7, 2024	Chief Executive Officer
Daniel Basok	1982	April 8, 2021	April 7, 2024	Chief Financial Officer

Pierluca Sartorello: Mr. Sartorello was born in 1956. He completed his studies in international economics at the University of Padova and an Executive MBA at CUOA Business School in Vicenza, Italy. In 2009, Mr. Sartorello joined the Carraro Group, where he worked as strategic marketing director (2009-2011), director of the Power Tool & Gardening business unit and general manager of miniGears Suzhou (China) (2011-2013) and managing director of miniGears SpA (2013-2014). Since 2015 Mr Sartorello has been acting as managing director (*Geschäftsführer*) of hGears Holding GmbH and, following its transformation into a German stock corporation (*Aktiengesellschaft*), as the Chief Executive Officer.

During the past five years, Mr. Sartorello was a member of the following administrative, management or supervisory bodies or a member in comparable German or foreign supervisory bodies or a partner in the following companies outside the Group:

Existing mandates:

None

Discontinued mandates:

None

Mr. Sartorello may be contacted at the Company's business address.

Daniel Basok: Mr. Basok was born in 1982. Following his studies in Economics and Accounting at the University of Haifa, Israel, Mr. Basok obtained his professional qualifications as a certified public accountant from the Ministry of Justice in Jerusalem, Israel. Mr. Basok started his professional career in 2007 at Schwartz, Lerner, Duvshani & Co., Israel, where he worked as senior assurance manager. From 2010 to 2012, Mr. Basok worked as the finance director at Zohar Dalia Cooperative Agricultural Association Ltd., Israel. In 2013, Mr. Basok moved to Germany, where he worked as a corporate accountant at NDT Global GmbH & Co. KG. In September 2016, Mr. Basok joined hGears as Head of Accounting and later as Group Finance Director at Herzog GmbH. In June 2020, Mr. Basok became Chief Financial Officer of hGears Holding GmbH.

During the past five years, Mr. Basok was a member of the following administrative, management or supervisory bodies or a member in comparable German or foreign supervisory bodies or a partner in the following companies outside the Group:

Existing mandates:

None

Discontinued mandates:

None

Mr. Basok may be contacted at the Company's business address.

17.2.2 Remuneration of the members of the Management Board

Each member of the Management Board has entered into a service agreement with the Company governed by German law and based on substantially similar terms. The service agreement between Mr. Sartorello and the Company was entered into on May 6, 2021 and expires on April 7, 2024. The service agreement between Mr. Basok and the Company was entered into on May 6, 2021 and expires on April 7, 2024. Each service agreement is automatically extended by the period of time for which the Management Board member's term as a member of the Management Board is extended by resolution of the Supervisory Board. The Chairman of the Supervisory Board (*Vorsitzender des Aufsichtsrats*) will inform the respective member of the Management Board on the extension of the term of office at the latest nine months prior to the end of the appointment.

Under the service agreements, each member of the Management Board receives an annual fixed remuneration. Mr. Sartorello receives an annual fixed gross remuneration in the amount of EUR 400,000.00, and Mr. Basok receives an annual fixed gross remuneration in the amount of EUR 250,000.00. The annual fixed gross remuneration is in each case paid out in twelve monthly instalments. In addition to their respective fixed remuneration, the members of the Management Board are entitled to a variable remuneration composed of a short-term incentive payment ("**STI**") if certain financial and non-financial performance targets (budgeted consolidated revenue under International Financial Reporting Standards (IFRS), budgeted consolidated adjusted EBITDA under IFRS and ESG-Target) approved by the Supervisory Board for the respective financial year are met. The payable amount under the STI varies depends on the achievement of the performance targets and is capped– in the case of Mr. Sartorello at a maximum gross amount of EUR 450,000.00 per annum for 2021 and EUR 650,000.00 per annum for 2022 and 2023 and in the case of Mr. Basok at a maximum gross amount of EUR 140,000.00 per annum although the Supervisory Board has the discretion to increase the payable amount under the STI by up to 5% for Mr. Sartorello and up to 10% for Mr. Basok.

The members of the Management Board further participate in the SOP 2021 (see section "*16.5.2 Contingent Capital 2021/II")*.

The Supervisory Board may also resolve on an additional discretionary bonus payment to a member of the Management Board for special services to the Company and if the Company achieves a special economic success.

In addition to fixed and variable remuneration, each member of the Management Board receives reimbursement of out-of-pocket expenses, including travel expenses, necessarily incurred in the interests of the Company. The Company provides members of the Management Board with an appropriate company car, which can also be used for private purposes. Furthermore, the Company pays the members of the Management Board half of the cost of health and long-term care insurance, up to a maximum of the statutory maximum employer's contribution.

Mr. Basok further receives for a term of three years an allowance of a maximum amount of EUR 1,500.00 per month for the rent of a secondary residence at the seat of the Company. In addition, Mr. Basok will receive a one-off special payment of EUR 750,000 if the shares of the Company are admitted to trading on the regulated market of the Frankfurt Stock Exchange (Prime Standard), subject to the commitment by Mr. Basok to acquire Shares in the Offering covering a significant part of his after tax proceeds from this one-off special payment (an investment amount of 28% of the pre-tax proceeds from this payment).

Mr. Sartorello will receive a one-off special payment of EUR 200,000 if his appointment as Management Board Member continues without interruption until April 7, 2024.

All members of the Management Board are covered by an accident insurance and a directors and officers ("**D&O**") insurance (see also "*17.2.3 D&O Insurance*").

In case of an early termination of the Management Board membership, the payments to the members of the Management Board, including fringe benefits shall not exceed the amount of two yearly total remunerations (fixed and variable) and may not be higher than the amount of the total remuneration (fixed and variable) for the remaining time of the service agreement.

Prior to the conversion of the Company into a German stock corporation (*Aktiengesellschaft*), the Company was originally incorporated as a limited liability company (*Gesellschaft mit beschränkter Haftung*) and managed by its managing directors, Mr. Pierluca Sartorello, Mr. Patrick Philip Heimpold (until June 2019), and Mr. Daniel Basok (from June 2020). In the financial years ended December 31, 2020, 2019 and 2018, the total compensation of the managing directors (salaries and other short-term employee benefits) amounted to EUR 749 thousand, EUR 476 thousand and EUR 732 thousand, respectively. The unpaid liabilities and severance payments to the managing directors in the financial years ended December 31, 2020, 2019 and 2018, amounted to EUR 479 thousand, EUR 110 thousand and EUR 208 thousand, respectively.

17.2.3 D&O Insurance

The members of the Management Board are covered by D&O insurance policies with reasonable coverage and a deductible for the members of the Management Board in line with the respective provisions of the German Stock Corporation Act (*Aktiengesetz*) of 10% of the damage but not exceeding 150% of the fixed annual remuneration. The D&O insurance policies cover financial losses arising from a breach of duty on the part of the members of the Management Board in the course of their duties.

17.2.4 Pension payments

The members of the Management Board do not receive any pension payments or retirement benefits in their capacity as members of the Management Board. Therefore, there are no provisions for pension payments for the members of the Management Board.

17.2.5 Shares and options held by members of the Management Board

17.2.5.1 Shares held by members of the Management Board

The members of the Management Board do not directly hold any Shares as of the date of this Prospectus.

Based on the terms of a trust agreement entered into by Finatem and Mr. Pierluca Sartorello on March 27, 2014 Finatem holds certain Shares on trust for Mr. Sartorello. In connection with the Offering it has been agreed that Mr. Sartorello will receive from Finatem a payment which is dependent on the Offer Price and which is subject to the commitment by Mr. Sartorello to acquire Shares in the Offering covering a significant part of his after tax proceeds from this payment (an investment amount of 26% of the pre-tax proceeds from this payment). Assuming that all Offered Shares are placed in the Offering and the Offer Price is at the mid-point of the Price Range Mr. Sartorello is entitled to receive from Finatem a payment equivalent to the gross proceeds from the placement of 194,444 Shares. In addition, Finatem will transfer to Mr. Sartorello 81,148 Shares after six months following the admission to trading of the Shares on the Frankfurt Stock Exchange. These Shares will be subject to the lock up agreement; see section "*5.12.3 Lock-up agreement with members of the Management Board*"

The members of the Management Board have committed to the Company to purchase Shares in the Offering. The number of Shares to be purchased in the Offering depends on the Offer Price. Based on the assumption that the Offer Price will be at the mid-point of the Price Range Mr. Sartorello has committed to acquire 50,556 Shares in the Offering and Mr. Basok has committed to acquire 7,800

Shares in the Offering. The members of the Management Board have entered into market standard lock-up agreements with respect to such Shares acquired in connection with the Offering; see section "*5.12.3 Lock-up agreement with members of the Management Board*"

17.2.5.2 Options held by members of the Management Board

The members of the Management Board do not hold any options as of the date of this Prospectus which would give them the right to acquire the Shares.

The members of the Management Board are eligible to receive stock options in connection with the SOP 2021 (see section "*16.5.2 Contingent Capital 2021/II*").

17.2.6 Potential conflicts of interest of the Management Board members

There are no conflicts of interest or potential conflicts of interest of the members of the Management Board as regards the Company on the one side and their private interests, membership in governing bodies of companies, or other obligations on the other side.

17.3 Supervisory Board

17.3.1 Overview

In accordance with sections 95 and 96 of the German Stock Corporation Act (*Aktiengesetz*) and section 8.1 of the Company's articles of association, the Supervisory Board consists of five members. All of the members of the Supervisory Board are appointed by the Company's general shareholders' meeting and represent the shareholders. Pursuant to section 100, para. 5 of the German Stock Corporation Act (*Aktiengesetz*), the members of the Supervisory Board as a whole should be familiar with the industry in which the Company conducts its business.

Members of the Supervisory Board are elected for a period terminating at the end of the general shareholders' meeting that resolves on the formal approval (*Entlastung*) of the Supervisory Board members' acts for the fourth financial year following the commencement of their term of office, unless a different term is specified at the time of their election. The financial year in which the term of office begins shall be included in this calculation. For members of the Supervisory Board who leave office before the end of their term, a successor shall be elected for the remaining term of the member who has left office, unless the shareholders' meeting specifies a shorter term for such successor. The same applies if a successor has to be elected due to a challenge of the election. Reappointments of members of the Supervisory Board are permissible.

For members of the Supervisory Board who are to be elected by the general shareholders' meeting, the general shareholders' meeting may, at the time of their election, appoint substitute members who shall replace shareholder members of the Supervisory Board leaving office before the end of their term or whose election has been successfully contested in the order to be determined at the time at which such substitute members are appointed. The term of office of such substitute member shall terminate at the end of the general shareholders' meeting in which a successor is elected in accordance with the aforementioned procedure and at the latest at the end of the term of office of the leaving member. If the substitute member whose term of office has terminated due to the election of a successor was appointed as a substitute member for several members of the Supervisory Board, his or her position as substitute member shall revive.

The Supervisory Board elects from among its members a chairman and a deputy chairman. The election shall take place following the general shareholders' meeting that has elected the new members of the Supervisory Board and no special invitation is necessary for this meeting. The term of office of the chairman and his or her deputy corresponds to their term of office as members of the Supervisory Board, unless a shorter period is determined at the time of their election.

Each member of the Supervisory Board and each substitute member may resign from office even without good cause with four weeks written notice issued to the chairman of the Supervisory Board or the chairman of the Management Board. The chairman of the Supervisory Board, or in case of a resignation of the chairman, his or her deputy, can consent to a shortening or to a waiver of this period. In addition, members of the Supervisory Board which have been elected by the general shareholders' meeting may be removed by resolution of the general shareholders' meeting adopted with a three-quarter majority of the votes cast.

Supervisory Board meetings should be held once each calendar quarter and must be held twice each calendar half-year. Additional meetings shall be convened if necessary. The chairman of the Supervisory Board shall convene the meetings of the Supervisory Board by giving at least fourteen days' notice not including the day on which the invitation is sent and the day of the meeting itself. Notice of meetings may be given in writing, by telefax, by email, or any other customary means of communication. In urgent cases the chairman may shorten this period and may call the meeting orally or by telephone.

The articles of association provide that resolutions of the Supervisory Board shall generally be passed in meetings. Members of the Supervisory Board, who are connected to the meetings via telephone or video conference are considered present at the meeting. In such cases resolutions may also be passed by way of the telephone or video conference.

At the order of the chairman of the Supervisory Board, resolutions may also be adopted outside of meetings in writing, by telefax, by email, by phone, by video conference or any other comparable means of communication, whereby the aforementioned forms may also be combined. Minutes are prepared for the resolutions, which are signed by the Chairman of the Supervisory Board. Copies of the minutes shall be forwarded to each member of the Supervisory Board without undue delay. Objections to the form of voting determined by the chairman are not permitted.

Absent members of the Supervisory Board or members who do not participate in, or are not connected to, the telephone or video conference can participate in the passing of resolutions by submitting their votes in writing through another Supervisory Board member.

The articles of association and the rules of procedure of the Supervisory Board provide that the Supervisory Board has a quorum of at least three of its members taking part in the voting. For the purpose of determining the quorum, members who are present at the meeting, who are connected to the meeting via telephone or via video conference, who are present at the meeting but abstain from voting as well as absent members who cast their vote in any other way permitted by the articles of association or the rules of procedure of the Supervisory Board are considered to take part in the voting.

Unless otherwise provided by mandatory law or the articles of association, resolutions of the Supervisory Board are passed with a simple majority of the votes cast. Based on the articles of association in the case of elections, a simple majority shall suffice. Generally, the chairman of the Supervisory Board determines the manner of voting. Where a member of the Supervisory Board so requests, a secret vote shall be held.

The Supervisory Board shall adopt rules of procedure for the Supervisory Board in accordance with applicable laws and the articles of association. The Supervisory Board can set up committees in accordance with the law. The Supervisory Board shall determine the composition, competences and procedures of such committees, if any. To the extent permitted by law or by the articles of association, the Supervisory Board may delegate any of its duties, decision-making powers and rights to its chairman, to one of its members or to committees established among its members. The current version of the Supervisory Board's rules of procedure was adopted by resolution of the Supervisory Board on April 8, 2021.

17.3.2 Members of the Supervisory Board

The current members of the Supervisory Board of the Company are:

Name	**Born**	**Member since**	**Appointed until**	**Principal occupation**
Prof. Volker Michael Stauch	1952	April 8, 2021 (chairman)	2026	Freelance consultant
Christophe Hemmerle	1960	April 8, 2021 (deputy chairman)	2026	Managing Partner at Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main
Daniel Michael Kartje	1974	April 8,2021	2026	Investment Director and Partner of Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main
Christoph Mathias Seidler	1963	April 8, 2021	2026	Entrepreneur
Dr. Gabriele Fontane	1965	April 8, 2021	2026	Lawyer and Partner of law firm Oppenhoff

Prof. Volker Michael Stauch: Mr. Stauch was born in 1952. He studied engineering at Karlsruhe University (1973-1978). In 1978, Mr. Stauch started his professional career at Mercedes Benz AG, Stuttgart, Germany, were he worked in various positions until 2010, most recently as Divisional Director Production Powertrain Mercedes Car Group, Stuttgart-Untertürkheim Plant (2006-2010). Since 2011, Mr. Stauch has been working as a freelance consultant, lecturing professor at Karlsruhe Institute of Technology, chairman of various charity organizations and has been holding management and supervisory board mandates in various companies.

During the past five years, Mr. Stauch was a member of the following administrative, management or supervisory bodies or a member in comparable German or foreign supervisory bodies or a partner in the following companies outside the Group:

Existing mandates:

- 4L GmbH, Gerlingen, Germany: Managing Director
- WASTA GmbH, Stuttgart, Germany: Managing Director
- Storopack Hans Reichenecker GmbH, Metzingen, Germany: Member of the Supervisory Board
- Josef Blässinger GmbH + Co. KG, Stuttgart, Germany: Member of the Advisory Board
- GFT Holding GmbH, Gotha, Germany: Chairman of the Advisory Board
- mG Minigears s.p.a. (Italian subsidiary of the Company): Chairman of the Supervisory Board

Discontinued mandates:

- anlico GmbH, Beilstein, Germany: Member of the Advisory Board (2015-2019)

- Industrial Anchor Holding AG, Zug, Switzerland: Member of the Administrative Board (2018-2019)

- Mungo Befestigungstechnik AG, Olten, Switzerland: Deputy Chairman of the Administrative Board (2018-2020)

- WST Präzisionstechnik GmbH, Löffingen, Germany: Chairman of the Advisory Board (2012-2016)

Christophe Hemmerle: Mr. Hemmerle was born in 1960. He studied law at the Robert Schumann University in Strasbourg, France (Master in Law, 1978-1982) and the University of Freiburg, Freiburg, Germany (comparative law studies, 1982-1984) and political sciences at the Robert Schumann University of Strasbourg (1982-1984). In 1986, Mr. Hemmerle completed a Master of International Trade studies at Institut Européen d'Études Commerciales Supérieures de Strasbourg, Strasbourg, France. Mr. Hemmerle started his professional career in 1986 and worked from 1986 to 1987 at JPG Consultants, a financial consultancy firm based in Paris, France. In 1987 he joined Société Générale Group in the German corporate finance department in Frankfurt (1987-1989), followed by the French M&A department in Paris (1989-1990). From 1990 to 1994 he held various senior positions at Société Générale Group his last one being Head of the German speaking M&A operations. In 1994, Mr. Hemmerle moved to Halder Beteiligungsberatung, where he worked as investment principal (1996-1998) and Managing Director (1999). In 2000, Mr. Hemmerle founded Finatem Beteiligungsgesellschaft and has been acting as a Managing Partner since then. Mr. Hemmerle was also a member of the Conseil de Surveillance of Financière FVS S.A.S. based in Méré, France from 2005 to 2021.

During the past five years, Mr. Hemmerle was a member of the following administrative, management or supervisory bodies or a member in comparable German or foreign supervisory bodies or a partner in the following companies outside the Group:

Existing mandates:

- Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main, Germany: Managing Partner

- FEG Palmer GmbH, Mülheim-Ruhr, Germany: Member of the Advisory Board

- Kavalieris GmbH, Neuenhaus, Germany: Member of the Advisory Board

- mG Minigears s.p.a. (Italian subsidiary of the Company): Member of the Supervisory Board

Discontinued mandates:

- Bärbel-Drexel GmbH, Baar-Schwaben, Germany: Member of the Advisory Board (2004-2017)

- Techno-Physik Engineering GmbH, Essen, Germany: Member of the Advisory Board (2010-2017)

- WST Präzisionstechnik GmbH, Löffingen, Germany: Member of the Advisory Board (2012-2016)

- Datawerks Holding GmbH, Seligenstadt, Germany: Member of the Advisory Board (2016-2018)

- Financière FVS S.A.S., Méré, France: Member of the Advisory Board (2006 - 2021)

Daniel Michael Kartje: Mr. Kartje was born in 1974. He studied economics at Ruhr University in Bochum (1994-1997) and business administration at Leipzig Graduate School of Management (*Handelshochschule Leipzig*) and the University of Illinois at Urbana-Champaign (1997-1999). From 1999 to 2001, Mr. Kartje worked as consultant in the Valuation & Strategy department of

PricewaterhouseCoopers Deutsche Revision AG in Düsseldorf, Germany, and from 2001 to 2003 as senior consultant in the Mergers & Acquisitions department of PricewaterhouseCoopers Corporate Finance Beratung GmbH in Frankfurt am Main, Germany. Since 2003, Mr. Kartje has been working with Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main, Germany as an Investment Manager and became Investment Director and Partner in 2009.

During the past five years, Mr. Kartje was a member of the following administrative, management or supervisory bodies or a member in comparable German or foreign supervisory bodies or a partner in the following companies outside the Group:

Existing mandates:

- CODAK GmbH, Kronberg, Germany: Managing Director
- FEG Palmer GmbH, Mülheim an der Ruhr, Germany: Member of the Advisory Board
- mG Minigears s.p.a. (Italian subsidiary of the Company): Member of the Supervisory Board

Discontinued mandates:

- WST Präzisionstechnik GmbH, Löffingen, Germany: Member of the Advisory Board (2012-2016)

Christoph Mathias Seidler: Mr. Seidler was born in 1963. Following his apprenticeship as certified merchant (Diplom Kaufmann) at Fuhrmeister & Co., Hamburg, Germany (1982-1984), he completed Business Studies (Diplom Betriebswirt) at the University of Applied Sciences (Fachhochschule) Münster, Germany (1986-1990) and European Business Studies at Humberside University, Kingston upon Hull, United Kingdom. Mr. Seidler started his professional career at Beiersdorf AG, Hamburg, Germany, where he worked from 1990 to 1995. From 1995 to 2000, Mr. Seidler worked at Herlitz AG, Berlin, Germany, first as Project Manager, as Head of Category Consulting and finally as Managing Director of Susy Card GmbH. From 2001 to 2013, Mr. Seidler served as the CEO of Derby Cycle AG, Cloppenburg, Germany. He coordinated the IPO of Derby Cycle AG in May 2011 and following the takeover of Derby Cycle AG by PON Holdings B.V., Almere, The Netherlands in September 2011 became a member of the board of the PON Bicycle Group. From 2015 to 2017, Mr. Seidler was an advisor to the owner of the Hero Group, Ludhiana, India and board member of its subsidiary Avocet Sports Ltd., Manchester, United Kingdom. In 2005, Mr. Seidler established A/M/S GmbH, Cloppenburg, Germany, where he is also the managing director. Since 2014, Mr. Seidler has been a member of the Industrial Advisory Committee of Finatem.

During the past five years, Mr. Seidler was a member of the following administrative, management or supervisory bodies or a member in comparable German or foreign supervisory bodies or a partner in the following companies outside the Group:

Existing mandates:

- A/M/S GmbH, Cloppenburg, Germany: Managing Director
- A/M/S Neue Energie GmbH, Cloppenburg, Germany: Managing Director
- Solarpark Erdmannsdorf GmbH & Co. KG, Oldenburg, Germany: Managing Director
- Solarpark Walsleben GmbH & Co. KG, Oldenburg, Germany: Managing Director
- Gruppe 3 Immobilien Verwaltungs GmbH, Hamburg, Germany: Managing Director
- A/M/S Biogas GmbH, Cloppenburg, Germany: Managing Director
- MAJA GmbH & Co. KG, Hamburg, Germany: Managing Director

- CYCYC sports GmbH, Hamburg, Germany: Managing Director
- Kavalieris GmbH, Neuenhaus, Germany: Chairman of the Advisory Board
- Enviolo Inc., Austin, USA/Amsterdam, The Netherlands: Member of the Supervisory Board

Discontinued mandates:

- Avocet Sports Ltd., Manchester, United Kingdom: Board member (2015-2017)
- Lichtbasis Holding GmbH, Würzburg, Germany: Member of the Advisory Board (2014-2021)

Dr. Gabriele Fontane: Gabriele Fontane was born in 1965. She studied law at Goethe University at Frankfurt am Main (1984 – 1989) and at the Centre Universitaire of Luxembourg (1988/89). She passed the first state exam in 1990 and the second state exam in 1993 and was admitted to practice as a lawyer in Germany in January 1994. Ms. Fontane completed her doctorate thesis at the Eberhard-Karls University in Tübingen, in 2001. After an internship followed by a position as an associate at the law firm Curtis Mallet-Prevost Colt & Mosle, New York (1993-1994) Ms. Fontane worked as an associate at Thümmel, Schütze & Partner, where she became an equity partner in 1998. In 2009 Ms. Fontane founded Otto Mittag Fontane, a law office specialized in advising on M&A, private equity and banking transactions. Since 2018 Ms. Fontane has been an equity partner at the law firm Oppenhoff. From 2001 through 2006 Ms. Fontane was a member of the supervisory board of the Essanelle Hair Group AG and from 2010 through 2013 a member of the board of directors of Audley Investments I and Audley Investments II, two fund vehicles managed by Audley Capital, London.

During the past five years, Ms. Fontane was a member of the following administrative, management or supervisory bodies or a member in comparable German or foreign supervisory bodies or a partner in the following companies outside the Group:

Existing mandates:

- Oppenhoff & Partner Rechtsanwälte Steuerberater mbB: Partner

Discontinued mandates:

- Otto Mittag Fontane Partnergesellschaft mbH: Partner (2009-2018)

The members of the Supervisory Board may be contacted at the Company's business address.

17.3.3 Committees of the Supervisory Board

Under the articles of association, the Supervisory Board can create committees in accordance with applicable laws. Due to its size, the Supervisory Board has not established any committees.

17.3.4 Remuneration and other benefits of the members of the Supervisory Board

Section 13 of the articles of association governs the remuneration of the members of the Supervisory Board. Each member of the Supervisory Board shall receive a fixed base compensation for each financial year in the amount of EUR 30,000. For the chairman of the Supervisory Board the fixed base compensation for each financial year amounts to EUR 40,000, while for the deputy chairman such fixed base compensation amounts to EUR 35,000. Members of the Supervisory Board who hold their office in the Supervisory Board or who hold the office of the chairman or deputy chairman of the Supervisory Board only during a part of the financial year shall receive a corresponding portion of the compensation.

In addition, the members of the Supervisory Board receive reimbursement of their reasonable out-of-pocket expenses incurred for the performance of their duties as Supervisory Board members as well as the value added tax on their compensation and out-of-pocket expenses. Furthermore, the members of the Supervisory Board are covered by the Group's D&O insurance in line with market practice, the premium of which shall be paid by the Company.

In addition to their Supervisory Board positions in the Company, Mr. Hemmerle, Mr. Kartje and Mr. Stauch also act as members of the supervisory board of the Company's Italian subsidiary mG Minigears s.p.a. for which Mr. Hemmerle receives a compensation of EUR 20,000, Mr. Kartje receives a compensation of EUR 15,000 and Mr. Stauch receives a compensation of EUR 30,000.

There are no service agreements between members of the Supervisory Board and the Company that would grant benefits should their service agreements be discontinued.

17.3.5 Pension payments

Members of the Supervisory Board do not receive any pension payments or retirement benefits. Therefore, there are no provisions for pension payments to the members of the Supervisory Board.

17.3.6 Shares and options held by the members of the Supervisory Board

17.3.6.1 Shares held by the members of the Supervisory Board

The members of the Supervisory Board do not directly hold any Shares as of the date of this Prospectus.

Based on the terms of a trust agreement entered into by Finatem and WASTA GmbH, an investment vehicle controlled by Mr. Volker Stauch, on March 25, 2015 Finatem holds certain Shares on trust for WASTA GmbH. In connection with the Offering it has been agreed that WASTA GmbH will receive from Finatem a payment which is dependent on the Offer Price. Assuming that all Offered Shares are placed in the Offering and the Offer Price is at the mid-point of the Price Range WASTA GmbH is entitled to a payment of EUR 1,199,610. In addition, Finatem will transfer to WASTA GmbH 37,874 Shares after six months following the admission to trading of the Shares on the Frankfurt Stock Exchange.

Certain members of the Supervisory Board have informed the Company that they intend to subscribe for or acquire Shares as part of the Offering, in the case of Mr. Hemmerle for up to an amount of EUR 200,000, in the case of Mr. Kartje for up to an amount of EUR 100,000, in the case of Ms. Fontane for up to an amount of EUR 100,000 and in the case of Mr. Seidler for up to an amount of EUR 300,000.

17.3.6.2 Options held by the members of the Supervisory Board

The members of the Supervisory Board do not hold any options which would give them the right to acquire the Shares.

17.3.7 Potential conflicts of interest of the members of the Supervisory Board

Mr. Hemmerle is Managing Partner and shareholder of Finatem Fonds Management Verwaltungs GmbH, which ultimately controls the Company's principal shareholder, Finatem III GmbH & Co. KG. Mr. Kartje is a shareholder of Finatem Fonds Management Verwaltungs GmbH. The interests of Mr. Hemmerle and Mr. Kartje as representatives of the principal shareholder of the Company could conflict with the interests of the other shareholders or the Company and conflicts of interest could be resolved to the detriment of the Company.

Except as disclosed above, there are no conflicts of interest or potential conflicts of interest of the members of the Supervisory Board as regards the Company on the one side and their private interests, membership in governing bodies of companies, or other obligations on the other side.

17.4 Certain information on the members of the Management Board and the Supervisory Board

None of the members of the Management Board and none of the members of the Supervisory Board has been convicted in relation to fraudulent offenses over the last five years.

In their capacity as representatives of Finatem Fonds Management Verwaltungs GmbH, Mr. Hemmerle Mr. Kartje and Mr. Stauch were members of the Advisory Board of Oberndörfer Beteiligungs GmbH, which filed for insolvency in 2019. Except as disclosed above, neither any member of the Management Board nor any of the other members of the Supervisory Board has been associated in his capacity as a member of an administrative, management or supervisory board, as a partner with unlimited liability, founder or senior manager with any bankruptcies, receiverships or liquidations over the last five years. No public incriminations and/or sanctions have been brought against any of the members of the Management Board or any of the members of the Supervisory Board by statutory or regulatory authorities (including designated professional bodies) in the last five years nor have these individuals ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

There are no family relationships between the members of the Management Board and the Supervisory Board, either among themselves or in relation to the members of the respective other body.

17.5 General shareholders' meeting (*Hauptversammlung*)

17.5.1 General rules on shareholders' meetings

Pursuant to section 175 of the German Stock Corporation Act (*Aktiengesetz*), the annual general shareholders' meeting of the Company is held within the first eight months of each financial year. Subject to any existing legal rights of the Supervisory Board and a minority of the shareholders to convene, the annual general shareholders' meeting shall be convened by the Management Board. For temporary measures under the COVID-19 Mitigation Act, see *"17.5.2 Virtual Shareholders' Meetings"*.

Pursuant to section 14.1 of the Company's articles of association, the general shareholders' meeting is held at the Company's corporate seat or in another German city with at least 100,000 inhabitants. Notice of the general shareholders' meeting must be published in the German Federal Gazette (*Bundesanzeiger*) at least 30 days before the latest day on which the shareholders must register with the Company. When calculating the notice period the day on which the invitation is sent and the day of the receipt of the registration are disregarded.

A general shareholders' meeting may also be convened by the Supervisory Board. In addition, shareholders whose aggregate shareholdings amount to at least 5% of the Company's share capital may request that a general shareholders' meeting be held. Shareholders or shareholder associations may solicit other shareholders to submit such request, jointly or by proxy, in the shareholders' forum of the German Federal Gazette (*Bundesanzeiger*), which is accessible via the website of the German Company Register (*Unternehmensregister*). If, following a request submitted by shareholders whose aggregate shareholdings amount to at least 5% of the Company's share capital, a shareholders' meeting of the Company is not held in a timely manner, the competent local court (*Amtsgericht*) may authorize the shareholders who have requested such meeting or their representatives to convene a general shareholders' meeting of the Company.

Pursuant to section 15.1 of the Company's articles of association, shareholders who wish to attend the general shareholders' meeting and exercise their right to vote must register with the Company and provide evidence of their shareholding. The registration must reach the Company at the address stated in the invitation at least six days prior to the day of the general shareholders' meeting. The day of the receipt of the registration and the day of the shareholders' meeting are not counted when calculating this period. The registration must be submitted in text form (*Textform*) in accordance with section 126b of the German Civil Code (*Bürgerliches Gesetzbuch*) in German or English. The evidence of shareholdings shall be submitted in the form of special proof of ownership of shares prepared by a depository institution in text form (*Textform*) in accordance with section 126b of the German Civil Code (*Bürgerliches Gesetzbuch*) in German or English. Such evidence shall refer to the start of the 21st day prior to the general shareholders' meeting (record date) and be received by the Company at the address specified in the convening notice of the shareholders' meeting at least six days prior to the meeting, unless a shorter period of time was set forth in the convening notice for the general shareholders' meeting. When calculating such period, the day of the receipt of the notice shall be disregarded.

Pursuant to section 17.1 of the articles of association, each share entitles the shareholder to one vote at the general shareholders' meeting. The voting right may be exercised by a proxy. The granting of the proxy, its revocation and the evidence of authority to be provided to the Company shall be submitted in text form (*Textform*) in accordance with section 126b of the German Civil Code (*Bürgerliches Gesetzbuch*), unless the convening notice for the general shareholders' meeting provides for a less strict form.

Neither German stock corporation law nor the Company's articles of association provide for a minimum participation level for the ability of the general shareholders' meeting to pass resolutions. Pursuant to section 133 of the German Stock Corporation Act (*Aktiengesetz*) resolutions at the general shareholders' meeting are passed with a simple majority of the votes cast unless a higher majority or further requirements are provided for by law or by the articles of association.

According to the German Stock Corporation Act (*Aktiengesetz*), resolutions of fundamental significance generally require a majority of at least three-fourths of the share capital represented at the vote in addition to the majority of votes cast. These resolutions include in particular:

- changes to the business purpose of the Company,
- amendments to the articles of association,
- capital increases involving the restriction or exclusion of shareholders' subscription rights,
- capital reductions,
- creation of authorized capital (*genehmigtes Kapital*) or conditional capital (*bedingtes Kapital*),
- liquidation, re-organization or merger of the Company,
- transfer of the Company's entire assets, and
- consent to inter-company agreements (*Unternehmensverträge*) within the meaning of section 291 et seq. of the German Stock Corporation Act (*Aktiengesetz*).

Pursuant to section 17.3 of the Company's articles of association, resolutions at the general shareholders' meeting are passed with a simple majority of votes cast, and, to the extent that the capital majority is required, with a simple majority of the share capital represented, unless mandatory statutory provisions require otherwise. Thus, amendments to the Company's articles of association and a capital increase without involving the restriction or exclusion of shareholders' subscription rights can be resolved on by simple majority of votes cast and the simple majority of the share capital represented at the Company's general shareholders' meeting.

Neither German law nor the Company's articles of association restrict the right of non-resident or foreign shareholders to hold shares or to exercise any voting rights attached to these shares.

17.5.2 Virtual Shareholders' Meetings

Pursuant to the COVID-19 Mitigation Act, the Management Board may decide, with the approval of the Supervisory Board, to hold shareholders' meetings on or before December 31, 2021 as virtual shareholders' meetings without physical attendance of the shareholders or their representatives, provided that the following requirements are fulfilled:

- the entire shareholders' meeting is broadcast via audio and video transmission;
- shareholders may exercise their voting rights via electronic communication (absentee voting or electronic participation) and by authorizing proxy representatives;

- shareholders are granted the opportunity to ask questions via electronic communication; and
- shareholders who have exercised their voting rights are offered the opportunity to object to resolutions of the shareholders' meeting without the requirement to attend in person at the shareholders' meeting.

Under the COVID 19 Mitigation Act, the Management Board, with the consent of the Supervisory Board, may shorten certain periods in connection with the convocation of, registration for and providing evidence of shareholding for, shareholders' meetings held on or before December 31, 2021. In particular, the shareholders' meeting may be convened as late as on the 21st day prior to the day of the meeting.

17.6 Corporate Governance

In accordance with sections 95 and 96 of the German Stock Corporation Act (*Aktiengesetz*) and section 8.1 of the Company's articles of association, the Supervisory Board consists of five members. All of the members of the Supervisory Board are appointed by the Company's general shareholders' meeting and represent the shareholders. Pursuant to section 100, para. 5 of the German Stock Corporation Act (*Aktiengesetz*), the members of the Supervisory Board as a whole should be familiar with the industry in which the Company conducts its business.

Members of the Supervisory Board are elected for a period terminating at the end of the general shareholders' meeting that resolves on the formal approval (*Entlastung*) of the Supervisory Board members' acts for the fourth financial year following the commencement of their term of office, unless a different term is specified at the time of their election. The financial year in which the term of office begins shall be included in this calculation. For members of the Supervisory Board who leave office before the end of their term, a successor shall be elected for the remaining term of the member who has left office, unless the shareholders' meeting specifies a shorter term for such successor. The same applies if a successor has to be elected due to a challenge of the election. Reappointments of members of the Supervisory Board are permissible.

The German Corporate Governance Code, as amended in the version dated December 16, 2019 (the "**Code**"), contains recommendations and suggestions for the management and supervision of German listed companies based on internationally and nationally acknowledged standards for good and responsible corporate governance relating to shareholders and shareholders' meetings, management and supervisory boards, transparency, accounting and the auditing of financial statements. While the recommendations or suggestions of the Code are not mandatory, section 161 of the German Stock Corporation Act (*Aktiengesetz*) requires the management and supervisory boards of a listed stock corporation to disclose each year which recommendations were and will be followed and which recommendations were not or will not be followed. This disclosure must be made permanently accessible to shareholders on the Company's website. However, deviations from the suggestions contained in the Code do not need to be disclosed.

Prior to the listing of the Company's shares on the regulated market (*Regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company is under no obligation to issue a declaration regarding the compliance with the Code. Accordingly, the Company's Management Board and the Supervisory Board have not yet made a declaration pursuant to section 161 of the German Stock Corporation Act (*Aktiengesetz*).

The Company supports the objectives of the Code to foster a responsible and transparent corporate management style and control directed toward achieving a sustained increase in shareholder value. As of the date of this Prospectus, the Company complies with all recommendations of the Code, with the following exceptions:

- According to recommendation A.1 of the Code, when making appointments to the executive positions, the Management Board shall consider diversity. Until now, the Management Board has not explicitly considered diversity when making appointments to the executive positions. The Management Board, however, intends to take diversity into consideration in the future.
- According to recommendation B.1 of the Code, when appointing Management Board members, the Supervisory Board shall take diversity into account. Until now, the Supervisory Board has

not explicitly taken into account diversity when appointing members of the Management Board. However, the Supervisory Board intends to take diversity into consideration when appointing the members of the Management Board in the future.

- According to recommendation D.2 of the Code, the Supervisory Board shall, depending on the specific circumstances of the enterprise and the number of its members, form committees with relevant specialist expertise. In particular, pursuant to recommendation D.3 of the Code, the Supervisory Board shall form an audit committee which, provided no other committee or the plenary meeting of the Supervisory Board has been entrusted with this work, addresses in particular the review of the accounting, the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system, the internal audit system as well as the audit of the financial statements and compliance. Pursuant to recommendation D.4 of the Code, the chairman of the audit committee shall have specific knowledge and experience in applying accounting principles and internal control procedures, be familiar with audits and shall be independent. The Chairman of the Supervisory Board shall not chair the audit committee. In addition, pursuant to recommendation D.5 of the Code, the Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives which names suitable candidates to the Supervisory Board for its proposals to the shareholders' meeting. The Supervisory Board has not formed any committees, given that the Supervisory Board is comprised of just five members and the members believe it can therefore efficiently fulfil its functions without the help of any committees. In addition, according to recommendation D.11 of the Code, the audit committee shall conduct an assessment of the quality of the audit on a regular basis. Given that the Supervisory Board is comprised of just five members, the members believe that the formation of committees, in particular an audit committee, is neither necessary nor meaningful and would only unnecessarily complicate the work of the Supervisory Board. The members believe that the recommendation to form committees is therefore of no relevance to the Company. The assessment of the quality of the audit is carried out by the entire Supervisory Board.

- The Code in its section G. makes reference to the existence of a remuneration system within the meaning of section 87a of the German Stock Corporation Act in the version applicable as of January 1, 2020. The Supervisory Board has not yet resolved on the formal remuneration system in accordance with section 87a of the German Stock Corporation Act and therefore the corresponding recommendations of section G of the Code have not yet been followed. In accordance with the transitional provision of section 26j of the Introductory Law to the German Stock Corporation Act (*EGAktG*), the Supervisory Board will resolve on the remuneration system by the end of the first ordinary general shareholders' meeting. The Supervisory Board intends to comply with recommendation G.1 when resolving on the remuneration system. The remuneration of the Management Board members set forth in the currently applicable service agreements complies with recommendations set forth in section G. of the Code, except for recommendation G.3.

- According to recommendation G.3 of the Code, in order to assess whether the specific total remuneration of Management Board members is in line with usual levels compared to other enterprises, the Supervisory Board shall determine an appropriate peer group of other third-party entities, and shall disclose the composition of that group. The peer-group comparison shall be applied with caution, in order to prevent an automatic upward trend. The Supervisory Board has not determined an appropriate peer group as it is of the opinion that, taking into account the business model and the size of the Company, there are currently no comparable companies who could serve as peers for the purposes of the assessment of management remuneration. However, the Supervisory Board considers the individual compensation of the members of the Management Board to be more than appropriate, particularly in view of the level of management remuneration in other listed companies.

18. MAJOR SHAREHOLDERS

18.1 Shareholder structure

The following table presents an overview of the Company's shareholder structure before and after completion of the Offering assuming full exercise and no exercise of the Upsize Option and the Greenshoe Option, in each case assuming that all New Shares and Base Shares are sold in the Offering (and that none of the existing shareholders of the Company has been allotted Offer Shares) and the capital increase in relation to the Offering is implemented accordingly), based on the information provided to the Company by the existing shareholders:

	Before the Offering		**Following the completion of the Offering, and placement of all New Shares and Base Shares**			
			Assuming full exercise of the Upsize Option and the Greenshoe Option		**Assuming no exercise of the Upsize Option and the Greenshoe Option**	
Name of the shareholder	**Shares**	**%**	**Shares**	**%**	**Shares**	**%**
Finatem III GmbH & Co. KG, Frankfurt am Main, Germany(1)	7,200,000	90.0	3,357,000	32.28	5,040,000	48.46
HPH Beteiligungs-UG (haftungsbeschränkt), Lauterbach, Germany(2)	404,864	5.06	188,768	1.82	283,405	2.73
M-H Herzog Beteiligungs-UG (haftungsbeschränkt), Schramberg, Germany(3)	395,136	4.94	184,232	1.77	276,595	2.66
Free float/others(4)(5)	0	0	6,670,000	64.13	4,800,000	46.15
Total	**8,000,000.00**	**100**	**10,400,000**	**100**	**10,400,000**	**100**

(1) The voting rights from Shares held by Finatem III GmbH & Co. KG ("**Finatem**") are attributed to its personally liable partner, Finatem III Management GmbH & Co. KG, Frankfurt am Main, Germany, and to Finatem Fonds Management Verwaltungs GmbH, Frankfurt am Main, Germany. See also footnote 5 with regard to envisaged Share transfers by Finatem to other persons after a period of six months following the admission to trading of the Shares on the Frankfurt Stock Exchange.

(2) The voting rights from Shares held by HPH Beteiligungs-UG (haftungsbeschränkt) are attributed to Mr. Hanspeter Herzog.

(3) The voting rights from Shares held by M-H Herzog Beteiligungs-UG (haftungsbeschränkt) are attributed to Mr. Markus Herzog.

(4) The members of the Management Board have committed to the Company to purchase Shares in the Offering. The number of Shares to be purchased in the Offering depends on the Offer Price. Based on the assumption that the Offer Price will be at the mid-point of the Price Range Mr. Pierluca Sartorello has committed to acquire 50,556 Shares in the Offering and Mr. Daniel Basok has committed to acquire 7,800 Shares in the Offering. In addition, certain members of the Supervisory Board have informed the Company that they intend to subscribe for or acquire Shares as part of the Offering: in the case of Mr. Hemmerle for up to an amount of EUR 200,000, in the case of Mr. Kartje for up to an amount of EUR 100,000, in the case of Ms. Fontane for up to an amount of EUR 100,000 and in the case of Mr. Seidler for up to an amount of EUR 300,000.

(5) Based on the terms of an agreement entered into by Finatem and Mr. Pierluca Sartorello it has been agreed that Finatem will transfer 81,148 Shares held on trust for Pierluca Sartorello after a period of six months following the admission to trading of the Shares on the Frankfurt Stock Exchange. Based on the terms of an agreement entered into between Finatem and WASTA GmbH, an investment vehicle controlled by Mr. Volker Stauch, it has been agreed

that Finatem will transfer 37,874 Shares held on trust for WASTA GmbH after a period of six months following the admission to trading of the Shares on the Frankfurt Stock Exchange.

18.2 Controlling interest

As of the date of this Prospectus, Finatem holds 90.00% of Shares and voting rights in the Company and is therefore considered to hold a controlling interest in the Company. The voting rights of Finatem do not differ in any respect from the voting rights attached to any other Shares, including the New Shares. The limits imposed under German law, in particular the German Stock Corporation Act (*Aktiengesetz*), on the ability of a controlling shareholder to unduly exercise any control, have been observed by Finatem and the Company. There are no special provisions in the Company's articles of association to ensure that such control is not abused.

As a result of the Offering the shareholding of Finatem will be signicantly reduced to a shareholding of 32.3% assuming a placement of all Offer Shares, including full exercise of the Upsize Option and the Greenshoe Option.

19. TRANSACTIONS AND LEGAL RELATIONSHIPS WITH RELATED PARTIES

The following describes the material transactions and legal relationships that existed between the Company on the one hand and related parties (as defined in IAS 24) on the other hand in the financial years ended December 31, 2020, 2019, and 2018, and in the current financial year up to the date of the Prospectus.

According to IAS 24, related parties of the Company are entities or persons related to the Company, including:

- companies that are controlled by the Company, in which the Company has an interest that gives it a significant influence, or over which it has joint control;
- companies that are associated with the Company within the meaning of IAS 28, and that are not consolidated by Company, as well as joint ventures in which the Company participates;
- principal shareholders whose shares give them control, joint control or a significant influence over the Company, as well as all companies and businesses over which these shareholders can exert a controlling influence and/or in which they hold more than 50% of the voting rights; and
- members of the Management Board and the Supervisory Board of the Company (or their close family members), as well as entities controlled or significantly influenced by members of the Management Board or the Supervisory Board (or their close family members), or in which those persons directly or indirectly hold significant voting power.

19.1 Business relationships with members of the Management Board and the Supervisory Board and their close family members

In the financial years ended December 31, 2018 and 2019, the Company's CEO, Mr. Sartorello, received from the Company unsecured, interest-free loans in the amount of EUR 216 thousand and EUR 30 thousand, respectively, to pay the personal income tax liabilities in Germany. The repayment of the loans is tied to the refund of Italian payroll tax to Mr. Sartorello.

19.2 Business relationships with the Selling Shareholders

19.2.1 Shareholder loan agreements

19.2.1.1 Shareholder loan agreements with Finatem

In the course of the acquisition of Herzog GmbH, Finatem and the Company entered into a shareholder loan agreement dated April 7, 2011. The loan bears interest at a rate of 8% p.a., payable at the termination of the loan. The loan can be terminated by the Company at any time with a ten-day notice period.

By an agreement dated April 27, 2016 the Company assumed all liabilities of mG miniGears S.p.A. to Finatem under two loan agreements dated April 30, 2014 by way of transfer of contract (*Vertragsübernahme*). The loans bear interest at a rate of 4.5% p.a. payable at the termination of the loans.

In the financial year ended December 31, 2020, hGears' accrued interest, included in finance expenses in its consolidated statement of profit and loss in relation to the abovementioned loans of EUR 622 thousand (financial year ended December 31, 2019: EUR 548 thousand; financial year ended December 31, 2018: EUR 537 thousand). The total amount of the loans outstanding, including accrued interest, amounted to EUR 13,163 thousand as of December 31, 2020 (December 31, 2019: EUR 12,540 thousand; December 31, 2018: EUR 11,992 thousand).

The Company intends to repay the shareholder loans from the proceeds of the sale of the New Shares.

19.2.1.2 Shareholder loan agreements with M-H Herzog and HPH

M-H Herzog and HPH as lenders and the Company as the borrower are parties to shareholder loan agreements dated April 19, 2011 that were granted to the Company upon the Company's acquisition of Herzog GmbH by deferring a portion of the purchase price. The loans bear interest at a rate of 8% p.a., payable at the termination of the loans. The loan can be terminated by the Company at any time with a ten-day notice period.

In the financial year ended December 31, 2020, hGears' accrued interest in relation to the abovementioned loans of EUR 60 thousand (financial year ended December 31, 2019: EUR 50 thousand; financial year ended December 31, 2018: EUR 50 thousand). The total amount of the loans outstanding, including accrued interest, amounted to EUR 1,179 thousand as of December 31, 2020 (December 31, 2019: EUR 1,119 thousand; December 31, 2018: EUR 1,070 thousand).

The Company intends to repay the shareholder loans from the proceeds of the Offering.

19.2.2 Trust Agreements between Finatem and selected persons in connection with the Offering

In connection with its investment in the Company Finatem had entered into trust agreements with certain parties.

Based on the terms of a trust agreement entered into by Finatem and Mr. Pierluca Sartorello on March 27, 2014 Finatem holds certain Shares on trust for Mr. Sartorello. In connection with the Offering it has been agreed that Mr. Sartorello will receive from Finatem a payment which is dependent on the Offer Price. Assuming that all Offered Shares are placed in the Offering and the Offer Price is at the mid-point of the Price Range Mr. Sartorello is entitled to receive from Finatem a payment equivalent to the gross proceeds from the placement of 194,444 Shares, subject to the commitment by Mr. Sartorello to acquire Shares in the Offering covering the major part of his after tax proceeds from this payment. In addition, Finatem will transfer to Mr. Sartorello 81,148 Shares after six months following the admission to trading of the Shares on the Frankfurt Stock Exchange.

Based on the terms of a trust agreement entered into by Finatem and WASTA GmbH, an investment vehicle controlled by Mr. Volker Stauch, on March 25, 2015 Finatem holds certain Shares on trust for WASTA GmbH. In connection with the Offering it has been agreed that WASTA GmbH will receive from Finatem a payment which is dependent on the Offer Price. Assuming that all Offered Shares are placed in the Offering and the Offer Price is at the mid-point of the Price Range WASTA GmbH is entitled to a payment of EUR 1,199,610. In addition, Finatem will transfer to WASTA GmbH 37,874 Shares after six months following the admission to trading of the Shares on the Frankfurt Stock Exchange.

19.2.3 Rental agreements

Herzog Vermögensverwaltungs GmbH, an entity held by Mr. Hanspeter Herzog and Mr. Markus Herzog, rents to Herzog GmbH the production site, warehouse, office space and outdoor space in Schramberg. Furthermore, Herzog GmbH rents a further warehouse building in Schramberg from Mr. Markus Herzog. In the financial year ended December 31, 2020 the rental payments amounted to EUR 442 thousand (financial year ended December 31, 2019: EUR 439 thousand; financial year ended December 31, 2018: EUR 441 thousand).

19.2.4 Employment agreements

Mr. Markus Herzog worked as a division head (*Abteilungsleiter*) of Herzog GmbH from November 2, 2011 until March 31, 2021. In the financial year ended December 31, 2020, hGears made payments of EUR 141 thousand to Mr. Markus Herzog (financial year ended December 31, 2019: EUR 141 thousand; financial year ended December 31, 2018: EUR 141 thousand).

19.2.5 Cost-sharing and indemnity agreement

On May 6, 2021, the Selling Shareholders and the Company entered into an agreement regarding their cooperation relating to the preparation of the Offering. As required by law, the Selling Shareholders agreed that they will reimburse the Company for all external costs incurred in connection with the preparation and the execution of the Offering (except for costs relating to certain corporate measures such as the capital increase in relation to the Offering) on a pro rata basis calculated in accordance with the ratio of (i) the gross proceeds from the sale of the Base Shares, the Upsize Shares (if and to the extent the Upsize Option is exercised) and the Over-Allotment Shares (after exercise of the Greenshoe Option) placed in the Offering to (ii) the sum of the gross proceeds from the sale of the Offer Shares placed in the Offering. The costs for which the Selling Shareholders will reimburse the Company include legal, auditor and other advisors' fees as well as expenses, for which the Company has agreed to reimburse the Underwriters. The obligations of the Selling Shareholders to reimburse the Company remain unaffected if the Offering is postponed or terminated. As required by law, the Selling Shareholders also agreed to indemnify the Company from any potential liability in connection with the Offering on a pro rata basis in accordance with the aforementioned ratio.

20. RECENT DEVELOPMENTS AND OUTLOOK

20.1 Recent developments

In the period after December 31, 2020, hGears focused on the preparations for this Offering, as well as on its further business operations.

Noteworthy developments in connection with hGears' corporate reorganization since December 31, 2020 included the increase of the Company's share capital from EUR 62,500.00 to EUR 8,000,000.00 and the conversion of the legal form of the Company from a limited liability company (*Gesellschaft mit beschränkter Haftung*) into a stock corporation (*Aktiengesellschaft*) which was registered in the commercial register of the local court (*Amtsgericht*) of Stuttgart, Germany, on April 27, 2021.

Noteworthy developments in connection with hGears' business operations since December 31, 2020 include the further expansion of its customer base with a particular focus on the e-Mobility business area. For e-bikes the Company is in active discussions with six potential new customers. Four of these potential customers are currently in the prototyping phase and the Company expects to sign contracts with two of such customers in 2021. In addition, the Company is also in active discussions for an e-bike project for one of its major existing customers in its Conventional business area. For electric and hybrid vehicles the Company is in active discussions with potential new customers which are suppliers to two leading German OEMs as well as for two other OEMs through Tier 1 suppliers.

In the first quarter of 2021 hGears generated revenues of EUR 36,555 thousand (compared to EUR 32,751 thousand in the first quarter of 2020), gross profit (defined as total output minus raw materials and consumables used) of EUR 21,571 thousand (compared to EUR 18,676 thousand in the first quarter of 2020), EBITDA of EUR 6,533 thousand (compared to EUR 5,093 thousand in the first quarter of 2020), Adjusted EBITDA of EUR 7,254 thousand (compared to EUR 5,395 thousand in the first quarter of 2020) and a net result of the period of EUR 2,447 thousand (compared to EUR 1,488 thousand in the first quarter of 2020).

The Company will repay a tranche of EUR 8 million under its Facilities Agreement to the financing banks by May 16, 2021 to reduce its outstanding loan under its Facilities Agreement to EUR 32,175,000.

Apart from this, there have been neither significant changes to hGears' financial performance nor to hGears' financial position between December 31, 2020 and the date of this Prospectus.

20.2 Outlook

Based on the existing order situation and the new product ramp-ups that have been implemented, hGears expects a strong single digit growth in revenues for the financial year ending December 31, 2021 compared to the financial year ended December 31, 2020. hGears expects the portion of revenues in its e-Mobility business area to further increase in 2021 with continued double digit growth. hGears expects a single digit growth for revenues in its e-Tools business area and for revenues in its Conventional business area to remain flat in 2021. hGears additionally expects customers in its Conventional business area to continue to rotate into the e-Mobility business area in the medium term due to a strategic shift to combustion-free electronic drive applications.

The Company expects also to maintain a profitability level for the coming financial years as a result of the continued change of business mix to mission critical components and e-mobility, and due to the investments and cost improvement measures initiated in the prior years. The Company also expects that the envisaged increase in revenues will have a positive impact on other key performance indicators, such as EBITDA, Adjusted EBITDA, return on revenues and free cash flow.

As set out below, the Company has established certain financial and operating targets which are based on a number of assumptions which the Company believes are appropriate, but which may turn out to be incorrect or different than expected. These targets are forward-looking statements and hGears' ability to achieve them will depend on a number of factors, many of which are outside of its control, including significant business, economic and competitive uncertainties and contingencies and risks, including those described in section "*3 Risk factors*" As a result, hGears' actual results will potentially vary from the targets and those variations may be material. Except as specifically set out below, the Company has not defined these targets by reference to specific periods and the terms "short term" or "medium term" and the financial targets are not intended to refer to any particular financial year; see section "*4.4 Forward-looking statements*".

In the medium term, defined by hGears as three to five years, hGears is targeting strong growth in sales of goods in the e-Mobility business area amounting to approximately EUR 150 million from EUR 45.9 million in 2020. In addition, hGears is targeting strong medium-term growth of its total revenues to EUR 250 million from EUR 126.3 million in 2020 in the medium term as a result of its growth strategy. In line with these growth targets, hGears is targeting revenues in the e-Mobility business area accounting for approximately 60% of total revenues in the medium term. In addition, hGears is targeting sales for electric and hybrid vehicles accounting for one third of revenues in the e-Mobility business area in the medium term. The Company is targeting an approximately 50% increase in staff in the medium term in order to achieve this targeted growth.

21. DEFINITIONS

22. FINANCIAL INFORMATION

TABLE OF CONTENTS

PAGE

22.1 Audited consolidated financial statements of hGears Holding GmbH as of and for the financial year ended December 31, 2020 (prepared in accordance with IFRS) and independent auditor's report thereon

(The following English-language consolidated financial statements of hGears Holding GmbH as of and for the financial year ended December 31, 2020 are translations of the respective German-language consolidated financial statements of hGears Holding GmbH.)

22.1.1 Consolidated Statement of Profit or Loss

of hGears Holding GmbH, Schramberg for the period January 1, to December 31,

in kEUR	Note	2020	2019
Revenues	3.1	126,260	121,838
Other capitalized own work	3.2	80	132
Changes in inventories	3.2	(319)	(2,891)
Total output		**126,021**	**119,079**
Other operating income	3.3	1,772	1,557
Raw materials and consumables used	3.4	(53,765)	(52,727)
Personnel expenses	3.5	(39,205)	(41,305)
Depreciation, amortization and impairment	3.6	(10,551)	(10,300)
Other operating expenses	3.7	(15,479)	(15,838)
Profit / loss from operating activities		**8,793**	**466**
Finance income		6	4
Finance expenses		(2,920)	(4,716)
Financial result	**3.8**	**(2,914)**	**(4,712)**
Income before income taxes		**5,879**	**(4,246)**
Income and deferred taxes	3.9	834	(490)
Net result of the period		**6,713**	**(4,736)**
Result attribution to Shareholders		**6,713**	**(4,736)**
Basic/diluted earnings per share (Euro)	**3.11**	**107.44**	**(90.92)**

The accompanying notes are an integral part of these consolidated financial statements.

22.1.2 Consolidated Statement of Comprehensive Income

of hGears Holding GmbH, Schramberg for the period January 1, to December 31,

in kEUR	**2020**	**2019**
Net result of the period	**6,713**	**(4,736)**
Other comprehensive income:		
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment benefit obligations	(14)	(63)
Tax effect	3	15
Other comprehensive income that may be reclassified subsequently to profit or loss		
Gains/(Losses) on cash flow hedges	(15)	28
Tax effect	3	(7)
Currency translation adjustment	(280)	(10)
Total other comprehensive income	**(303)**	**(37)**
Total comprehensive income	**6,410**	**(4,773)**

The accompanying notes are an integral part of these consolidated financial statements.

22.1.3 Consolidated Statement of Financial Position

of hGears Holding GmbH, Schramberg

in kEUR	Note	December 31, 2020	December 31, 2019
Property, plant and equipment	4.1	66,198	66,617
Intangible assets	4.2	1,541	2,070
Other non-current assets	4.5	125	116
Deferred tax assets	3.9	3,925	1,791
Total non-current assets		**71,789**	**70,594**
Inventories	4.3	14,555	16,331
Trade receivables	4.4	11,647	13,108
Other receivables	4.5	738	1,317
Other current assets	4.5	2,487	2,322
Other current financial assets	4.5	203	185
Cash and cash equivalents	4.6	23,434	17,703
Total current assets		**53,064**	**50,966**
Total assets		**124,853**	**121,560**

in kEUR	Note	December 31, 2020	December 31, 2019
Share capital		63	63
Capital reserve		20,448	20,448
Other reserves		400	400
OCI		716	1,018
Retained earnings		(2,789)	1,947
Net result of the period		6,713	(4,736)
Total Equity	**4.15**	**25,551**	**19,140**
Lease liabilities	4.7	13,440	14,555
Borrowings	4.8	20,999	28,136
Shareholder loans	4.9	14,341	13,660
Deferred tax liabilities	3.9	284	228
Provisions	4.10	319	319
Employee benefit obligations	4.11	1,503	1,560
Other non-current liabilities	4.13	428	338
Total non-current liabilities		**51,314**	**58,796**
Lease liabilities	4.7	2,772	2,905
Borrowings	4.8	18,273	10,975
Provisions	4.10	689	288
Other current financial liabilities	4.13	64	129
Trade and other payables	4.12	25,396	29,231
Current tax liabilities	4.14	794	96
Total current liabilities		**47,988**	**43,624**
Total liabilities		**99,302**	**102,420**
Total equity and liabilities		**124,853**	**121,560**

The accompanying notes are an integral part of these consolidated financial statements.

22.1.4 Consolidated Statement of Changes in Equity

of hGears Holding GmbH, Schramberg for the years ended December 31,

				OCI				
in kEUR	**Share capital**	**Capital reserve**	**Other reserves**	**Currency translation**	**Cash Flow Hedge Reserve**	**Employee plan**	**Retained earnings**	**Total equity**
Balance at January 1, 2019	**50**	**15,460**	**400**	**1,117**	**1**	**(62)**	**1,838**	**18,803**
Allocation previous year result	-	-	-	(109)	-	-	109	**0**
Capital increase	13	4,988	-	-	-	-	-	**5,001**
Result for the period	-	-	-	-	-	-	(4.736)	**(4.736)**
Other comprehensive income	-	-	-	99	21	(48)	-	**72**
Balance at December 31, 2019	**63**	**20,448**	**400**	**1,107**	**22**	**(110)**	**(2,789)**	**19,140**
Balance at January 1, 2020	**63**	**20,448**	**400**	**1,107**	**22**	**(110)**	**(2,789)**	**19,140**
Result for the period	-	-	-	-	-	-	6,713	**6,713**
Other comprehensive income	-	-	-	(280)	(12)	(11)	-	**(303)**
Balance at December 31, 2020	**63**	**20,448**	**400**	**827**	**10**	**(121)**	**3,924**	**25,551**

The accompanying notes are an integral part of these consolidated financial statements.

22.1.5 Consolidated Statement of Cash Flow

of hGears Holding GmbH, Schramberg for the years ended December 31,

in kEUR	2020	2019
Profit / loss from operating activities	**8,793**	**466**
Depreciation, amortization and impairment	10,551	10,300
Other non-cash items	303	(799)
Income tax proceeds/payments	(590)	(1,256)
Provisions and other items	344	(98)
Interest paid	(2,633)	(2,356)
Interest received	6	3
Change in inventories	1,720	59
Change in receivables	1,358	(362)
Change in liabilities	(3,925)	4,755
Change in other assets	631	893
Change in other liabilities	711	912
Net cash provided by (used in) operating activities	**17,269**	**12,517**
Cash flows provided by (used in) investing activities		
Payments for Property, plant and equipment and intangible assets	(8,029)	(19,263)
Net cash provided by (used in) investing activities	**(8,029)**	**(19,263)**
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	16,338	15,169
Repayments of borrowings	(16,398)	(500)
Repayments lease agreements	(3,336)	(2,999)
Capital increase	-	5,000
Net cash provided by (used in) financing activities	**(3,396)**	**16,670**
Net cash increase (decrease) in cash and cash equivalents	**5,844**	**9,924**
Cash and cash equivalents at the beginning of the period	17,703	7,768
Effects of exchange rate changes on cash and cash equivalents	(113)	11
Cash and cash equivalents at the end of the period	**23,434**	**17,703**

The accompanying notes are an integral part of these consolidated financial statements.

22.1.6 Notes to the consolidated financial statements

1 General Information

hGears Holding GmbH (former Herzog Beteiligungs GmbH) (HRB 737541) was incorporated in 2011 and is domiciled in Schramberg, Germany.

The address of its registered office is Brambach 38, 78713 Schramberg.

These consolidated financial statements consisting of the financial statements of hGears Holding GmbH, its subsidiaries: Herzog GmbH (herewith: "Herzog"); mG miniGears S.p.A (herewith: "mG Italy"), and its second-tier subsidiary mG miniGears (Suzhou) Co., Ltd. (herewith: "mG China") were prepared using uniform group accounting policies.

hGears Holding GmbH and its subsidiaries and second-tier subsidiary ("hGears Group", "Group") manufacture, distribute and sell precision turned parts, drive components, gear kits as well as complex system solutions. For this, the Group combines traditional steel machining with powder metal technologies.

The consolidated financial statements are available at www.bundesanzeiger.de.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below and were applied consistently to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of hGears-Group as of December 31, 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as adopted by the European Union and § 315e of the German Commercial Code "HGB", were released by the Board of Management for issue by the Advisory Board on March 19, 2021.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The consolidated financial statements are presented in Euros (EUR). Individual items in the consolidated financial statements and the notes to the consolidated financial statements are presented in Euro thousands (kEUR) in accordance with commercial rounding practices. The financial year corresponds to the calendar year. The functional currency of the Company as well as of its subsidiaries is Euro, except for its second-tier subsidiary mG China, for which the functional currency is Renminbi (RMB).

Items that are classified "current" have a maturity within 12 months. All items with maturity over 12 months are classified as "non-current".

The consolidated financial statements have been prepared under the historical cost convention except for financial assets and liabilities measured at fair value through profit and loss. The consolidated statement of profit or loss is prepared based on the "Total cost method". The consolidated financial statements have been prepared on a going concern basis.

These consolidated financial statements cover the financial year from January 1, 2020 to December 31, 2020 (comparative annual period: January 1, 2019 to December 31, 2019).

The following explanatory notes are an integral part of the consolidated financial statements which further comprise the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flow.

In March 2020, the World Health Organization classified the COVID-19 outbreak as a global pandemic. Even if the pandemic is significantly impacting the world economy mainly for travel restrictions and other government measures, in 2020 hGears Group has not suffered from any significant decrease in sales, nor any significant deterioration in its financial position or other adverse effects. For additional information see note 3.10.

At the time the consolidated financial statements were prepared, the underlying assumptions and estimates were still subject to the uncertainties of the effects of the COVID-19 pandemic. All significant risks in connection with COVID-19 known at the time the consolidated financial statements were prepared and affecting the assets and liabilities recognized as of December 31, 2020 were taken into account.

There were no significant changes in estimates or impairment requirements due to COVID-19. The COVID-19 pandemic remains a dynamically evolving situation that could have a negative impact on the business of hGears Group and it is constantly monitored by management.

IFRSs issued, endorsed by the EU and applied for the first time in the reporting period

Standards applicable as of January 1, 2020	Adopted by the European Union	Early adoption	Impact on hGears Group
Amendments to IFRS 3 – definition of a business	not yet endorsed	Permitted	none
Amendments to IAS 1 and IAS 8 on the definition of material	endorsed	Permitted	none
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform	endorsed	Permitted	none
Amendments to the Conceptual Framework for Financial Reporting	endorsed	Permitted	none
Amendment to IFRS 16 – Leases: Covid-19-Related Rent Concessions	endorsed	Permitted	yes

The Group did not opt for early adoption of new standards, interpretations or amendments that have been issued but have not entered into force yet.

Amendment to IFRS 16 – Leases: Covid-19-Related Rent Concessions (issued on May 28, 2020)

On 28 May 2020, the IASB (International Accounting Standards Board) published an amendment to IFRS 16 governing the accounting treatment by lessees of changes, if any, granted by lessors to instalments relating to operating lease contracts. The amendment introduces a practical expedient that simplifies the accounting treatment of such concessions when they are a direct consequence of the Covid-19 pandemic, exempting the lessee from assessing whether they entail a lease modification, and instead allowing it to account for them as a variable lease payment in the period in which the concession is granted.

The impact for the Group is kEUR 44.

2.2 Basis of Consolidation

The consolidated financial statements for the Group include the accounts and results of hGears Holding GmbH (“hGears”) as well as its subsidiaries and second-tier subsidiary (herewith: subsidiaries). Subsidiaries are all entities with regard to which hGears has the power to govern the financial and operating policies, generally by means of hGears having more than half of the voting rights (‘control’). Potential voting rights that are currently exercisable or convertible are taken into consideration when assessing whether hGears controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by hGears and are deconsolidated from the date on which hGears’ control ceases. All intercompany transactions, balances, and unrealized results on transactions with subsidiaries are eliminated.

As of December 31, 2020, the financial statements of the following subsidiaries of hGears Holding GmbH are included in the consolidated financial statements by means of full consolidation:

Subsidiary	Percentage of ownership %	Subscribed capital	Result of FY 2020(*)
Herzog GmbH, Schramberg	100	kEUR 4,400	kEUR 4,944
mG miniGears S.p.A., Padova	100	kEUR 2,000	kEUR 597
mG miniGears (Suzhou) Co., Ltd., Suzhou	100	kRMB 49,487	kRMB 8,609

(*) the result is presented in accordance with local GAAP

According to paragraph 2 of the Control Agreement ("*Beherrschungsvertrag*") between hGears Holding GmbH and Herzog GmbH, signed on November 15, 2016, with the effective date from January 1, 2017, hGears commits itself to assume the losses of Herzog GmbH in accordance with the provision of Section 302 of the German Stock Corporation Act ("*Aktiengesetz*").

Starting from financial year 2020 Herzog GmbH is exempt from the obligation to prepare a management report and to publish the annual financial statements under Section 264 (3) HGB.

2.3 Recent Accounting Developments

The IASB continues to issue new standards, interpretations and amendments to existing standards. hGears-Group applies these new standards when their mandatory application is required by the EU. hGears-Group has not opted for early adoption for any of these standards.

Various new accounting standards and interpretations have been published but are not mandatory for reporting periods ending in December 31, 2020 and have not been adopted early by the Group. These standards are not expected to have a material impact on hGears-Group's net assets, financial position, and results of operations for the period presented or future reporting periods and on foreseeable future business transactions, respectively.

	Adopted by the European Union	**Early adoption**	**Impact on hGears Group**
Standards			
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts published in June 2020	Not yet endorsed	permitted	none
Amendements			
Amendments to References to Conceptual Framework in IFRS Standards (Amendment to IFRS 3)	Not yet endorsed	permitted	none
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	Not yet endorsed	permitted	none
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	Not yet endorsed	permitted	none
Annual Improvements to IFRS Standards (2018–2020 Cycle)	Not yet endorsed	permitted	none
Classification of liabilities as current or non-current (Amendments to IAS 1)	Not yet endorsed	permitted	none
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	Not yet endorsed	permitted	none

2.4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that to a certain extent affect the reported amounts of assets and liabilities, income, and expenses, as well as contingent liabilities.

The assumptions and estimates relate primarily to:

- the assessment of the recoverability of intangible assets,
- the uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group,
- the expected cash inflow from trade receivables,
- the valuation of inventories,
- the accounting and measurement of lease agreements,
- the accounting and measurement of shareholder loans,

- the accounting and measurement of management compensation programs,
- the accounting and measurement of pension provisions and other provisions,
- the accounting for deferred taxes.

The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group is subject to estimates made by management.

For trade receivables, credit default risks may arise to the extent that customers are unable to meet their payment obligations, resulting in losses to the Group. The calculation of the required loss allowances takes, among others, into account such things as the solvency of customers, existing securities as well as experience based on historical default rates. The actual payment defaults by customers may differ from anticipated payment defaults due to several influencing factors.

Inventories are valued at the lower value of acquisition and manufacturing cost and net realizable value. Net realizable value is determined by subtracting the costs incurred up to completion from the expected sales price of the end product. If assumptions regarding future sales prices or end product market potentials are not appropriate, this may lead to a further need for impairment of inventories.

When accounting for other provisions, management must make assumptions regarding the probability of certain business transactions resulting in impending losses for hGears Group. Estimates regarding the amount and timing of possible economic outflows form the basis for the measurement of provisions. If the actual amounts and the timing differ from estimates made, this may affect the result of the Group.

Management judgment is required for the calculation of deferred taxes. Deferred tax assets on tax loss carry forwards may only be recognized to the extent that it is probable that sufficient taxable profit will be available in the future. Management analyses various factors to assess the probability of the future utilization of deferred tax assets based on reasonable scenarios taken from the Group's tax planning process.

Assumptions and estimates are based on premises based on the knowledge at hand at the respective time. Unforeseeable developments and developments beyond management’s control may cause a difference between the originally estimated values and the actual amounts arising at a later date. In this case, the assumptions and, if necessary, the carrying amounts of the affected assets and liabilities will be adjusted accordingly.

2.5 Foreign Currency Translation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the related entity operates (‘functional currency’). The functional and reporting currency of hGears Holding GmbH, Herzog GmbH and mG miniGears S.p.A. is Euro. The functional and reporting currency of mG miniGears (Suzhou) Co., Ltd. is Renminbi.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss as other operating expenses or other operating income, respectively.

Translation differences on non-monetary financial assets and liabilities that are measured at fair value through profit or loss are reported as part of the fair value gain or loss. Conversely, when a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in comprehensive income.

The financial position and statement of profit or loss of a Group´s subsidiary that has a functional currency different from the presentation currency is translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date;
- income and expenses are translated at average exchange rates,
- all resulting exchange differences are recognized as a separate component within equity.

Exchange rate differences arising from the translation of a net investment in foreign operations and from borrowings and other currency instruments designated as hedges of such investments are realized within other comprehensive income (equity). When a foreign operation is partially disposed or sold, exchange rate differences previously recorded within other comprehensive income are recognized in the consolidated statement of profit or loss as part of the gain or loss of the sale.

The following foreign currency rates have been applied:

Chinese RMB	2020	2019
as of December 31	8.0225	7.8205
annual average rate	7.8747	7.7355

2.6 Accounting Policies

2.6.1 Revenue Recognition

Under IFRS 15, hGears Group recognizes revenue when it transfers control of goods and products to a customer, which occurs upon delivery. Management applies the following five step model when determining the timing and amount of revenue recognition:

1. Identifying the contracts with customers;
2. Identifying the separate performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to separate performance obligations; and
5. Recognizing revenue when each performance obligation is satisfied.

All revenues of hGears Group qualify as contracts with customers and fall in the scope of IFRS 15.

hGears Group generates revenue from the production of components and assemblies. Revenue is measured based on the consideration specified in a contract with a customer, taking into account variable purchase price components, when it is highly probable that a material adjustment to the cumulative recognized revenue will not occur. The amount of variable consideration is determined using either the expected amount method or the most likely amount based on the most appropriate estimation method. The Group recognizes revenue when it transfers control of an asset to a customer. hGears Group only manufactures products that can be sold to various customers with no or low rework costs. The power of disposal is transferred to the customer upon delivery of the products. Revenue is recognized at a point in time upon delivery. Contracts with customers do not include a significant financing component, as payment terms are short term, as common in the industry.

All revenue generated by hGears Group is included within the item revenue in the consolidated statements of profit or loss.

2.6.2 Finance income and finance expenses

Interest income and expenses are recognized using the effective interest method.

2.6.3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as measured at amortized cost.

2.6.4 Trade receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. Trade receivables are recognized initially at their transaction price unless they contain a significant financing component.

The Group usually holds trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Besides such trade receivables, the Group also holds trade receivables, that are subject to a factoring agreement, with the objective of collecting cash flows by selling them to a factor. These trade receivables are classified as measured at fair value through profit or loss.

If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

2.6.5 Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of raw, auxiliary and operating materials is determined by using the specific identification of their individual cost method. The cost of semi-finished and finished goods is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

If the net realizable value of a finished good is lower than costs, the difference is recognized as impairment immediately.

The finished products and semi-finished products costs include raw materials, direct manpower costs and other direct costs, as well as other indirect production costs for the share attributable to the production (calculated on the basis of the normal operating capacity). Financing costs are not included in the valuation of the inventories but are charged within the consolidated statement of profit or loss when incurred, since there are no requirements for the capitalization. Inventories of raw materials and semi-finished products no longer usable in the production cycle and inventories of unsaleable finished products are impaired.

2.6.6 Property, plant and equipment

Property, plant and equipment is valued at cost less depreciation and impairment losses, if any. Cost includes direct costs (e.g. materials, direct labor and work contracted out) and directly attributable overhead costs.

The estimated useful lives of the principal property, plant and equipment categories are as follows:

Asset class	Estimated useful life
Land and Buildings	10 to 50 years
Plants, Machinery, Tools and Dies	4 to 25 years
Other assets	3 to 15 years

Property, plant and equipment is depreciated using the straight-line method, based on estimated useful life, taking into account residual value. Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the reasons for impairment no longer exist.

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

2.6.7 Right-of-use-Assets/ Lease Liabilities

hGears Group accounts leases in accordance with IFRS 16, which defines a lease as a contract or part of a contract whereby the lessor conveys to the lessee the right to use the asset for an agreed period of time in exchange for consideration.

Where hGears Group is lessee, it generally recognizes a right-of-use asset and a lease liability in the statement of financial position for all leases. The lease liability is measured in the amount of the outstanding lease payments discounted using the incremental borrowing rate, while the right-of-use asset is generally measured in the amount of the lease liability plus initial direct costs.

The right-of-use asset is generally depreciated over the shorter of the lease term and the useful life of the right-of-use asset. If ownership of the leased asset is transferred to the lessee at the end of the lease term, or if the exercise of a purchase option was taken into account at the inception of the lease liability, the right-of-use asset is depreciated until the end of the useful life of the leased asset. The lease liability is adjusted using the effective interest method and taking the lease payments into account.

The incremental borrowing rate is the rate that the lessee would have to pay to obtain, over a similar term and with similar security, the funds that would be required to obtain an asset of similar value to the right-of-use asset in a similar economic environment to the underlying lease arrangement.

The right-of-use assets recognized in the consolidated statement of financial position are reported in those items that the assets underlying the lease would have been reported if they had been beneficially owned by hGears Group. The right-of-use assets were therefore reported under non-current assets within property, plant and equipment as of the balance sheet date.

There are recognition exemptions for short-term leases and leases of low-value assets. hGears Group takes advantage of these and consequently does not recognize right-of-use assets or lease liabilities for such leases. The associated lease payments are recognized directly in profit or loss as an expense. Leases of low-value assets are those where the value of the leased asset does not exceed USD 5,000 when new. Furthermore, the accounting requirements of IFRS 16 are not applied to leases of intangible assets.

In determining the lease term, all relevant facts and circumstances are taken into consideration that create an economic incentive to exercise, or not to exercise, the option. Optional periods are taken into account in determining the lease term if it is reasonably certain that the option will be exercised.

2.6.8 Intangible assets

Intangible assets include non-monetary assets, with no physical substance, clearly identifiable and suitable to generate future economic benefits. Such purchased intangible assets are capitalized at acquisition cost, including the expenses directly attributable to prepare the asset for its use, and subsequently measured net of accumulated depreciations and of any possible impairment losses. Amortization commences when the intangible asset is available to be used and is systematically allocated over the estimated useful life. In case of identification of the possible impairment indicators, the recoverable amount of the intangible asset is estimated, attributing an impairment in the consolidated statement of profit or loss. Should the requirements for the impairment no longer exist, the book value is reinstated through profit or loss, to the extent that the intangible asset`s carrying amount does not exceed the carrying amount net of amortization that would have been determined if an impairment had not been recognized.

Other intangible assets with a finite useful life

Intangible assets with a finite useful life are capitalized at cost, as previously described, and subsequently measured net of accumulated amortizations and of any possible impairment. Amortization starts when the asset is available to be used and is systematically allocated over the estimated useful life. The useful life estimated by the Company for the categories of intangible assets is as follows:

Asset class	Estimated useful life
Software and licenses	5 years
Brands and trademarks	5 years
Other	5 years

Following mG Italy contribution in hGears Holding GmbH (in January 2015), the management of the Group initiated a process of implementing and introducing a new brand in the market ("hGears") with the aim to place it, commercially, in combination with the existing and established mG miniGears brand as from July 2015. The useful life estimated by the Group is 5 years starting with the transition date in July 2015.

It is expected that the brand awareness of the “hGears” brand in the market is going to increase and, at the same time, the brand awareness of “mG miniGears” is going to reduce; for this reason the management considered it appropriate to update the estimate of the useful life of the “mG miniGears” brand previously considered to be indefinite to a definite useful lifetime of 5 years.

Impairment of intangible assets

Intangible assets with indefinite life are not subject to amortization, but subjected at least annually (more frequently in presence of specific impairment indicators) to the verification of the absence of lasting losses of value such to require an impairment, while intangible assets with a finite useful life are subjected to this verification only in the presence of specific impairment indicators.

The verification if an impairment of an intangible asset becomes necessary occurs by estimating the recoverable amount of the intangible asset and comparing it with the carrying amount. The recoverable amount is the higher amount of the fair value of an asset and its value in use, which is determined as the current value of expected cash flows that the company estimates will derive from the continuing use of the asset and from its disposal at the end of its useful life. This recoverable amount is determined for each individual asset unless said asset does not generate cash flows that are largely dependent of those generated by other assets. If the recoverable amount is lower than the carrying amount, the latter is reduced accordingly; such reduction constitutes an impairment loss, which is recognized in the consolidated statement of profit or loss. Should the reasons that triggered impairment losses previously recognized no longer exist, with the exception of the goodwill, the impairment is reversed to the extent the estimated value does not exceed the net carrying amount that the asset would have had if no impairment losses had been carried out. The reversal of value is recorded in the consolidated statement of profit or loss.

2.6.9 Trade and other payables

These amounts represent unpaid liabilities for goods and services provided to the Group prior to the end of the financial year. The amounts are unsecured and are usually paid within 30 days of recognition (for the German companies) and 60 days (for miniGears companies). Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.6.10 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that the facility or parts of it will be drawn down. In this case, the fee is deferred until the draw down occurs.

Borrowings are derecognized when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss as other income or finance expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.6.11 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation resulting from past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood of an outflow to settle these obligations is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The increase in the provision due to the passage of time is recognized as interest expense.

2.6.12 Employee Benefits

2.6.12.1 Pension obligations

The Group has defined benefit plans and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (funds). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay to all employees the benefits relating to employee service in the current and prior periods. The other plans are defined benefit plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually depending on one or more factors such as age, years of service and compensation.

The provision recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality fixed rate AA-corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other components of equity (other comprehensive income) in the period in which they arise.

Past-service costs are recognized immediately in income.

According to IAS 19, employee benefits to be paid out subsequent to the termination of the employment relationship and other long-term benefits (including the Provision for severance indemnity recognized by mG Italy) are subjected to actuarial valuations which have to take into account a series of variables (such as mortality, future salary and pension changes, the anticipated rate of inflation, etc.).

2.6.12.2 Other benefits

Liabilities for wages and salaries, including monetary and non-monetary benefits and accumulating sick leave that are expected to be fully settled within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

2.6.13 Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in the consolidated statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.6.14 Financial instruments

2.6.14.1 Recognition and derecognition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group offsets financial assets and financial liabilities only if offsetting is legally enforceable and it is intended to actually offset them. In general, financial instruments in the form of financial assets and financial liabilities are presented separately and on a gross basis.

Financial instruments are recognized as soon as hGears-Group becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are initially (de-)recognized and measured at the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss as other finance income or financial expense. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. Any revisions of the estimated cash flows are reflected by adjusting the amortized cost of the respective financial liability with recording the resulting change in amortized cost in profit or loss.

2.6.14.2 Financial assets

Financial assets include primarily trade receivables, receivables from banks, cash on hand and derivative financial assets. The classification of financial instruments is based on the business model within which these instruments are held and on the contractual cash flows.

Classification

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss.

Subsequent measurement of financial assets depends on the measurement category into which the Group classifies its financial assets. According to IFRS 9 there are three measurement categories:

- Amortized cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

For the classification in one of these categories hGears-Group differentiates between debt and equity instruments.

Subsequent measurement of **debt instruments** depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

- Financial assets are classified as measured at **Amortized Cost** if the Group holds the assets for collection of contractual cash flows (business model "hold to collect") and the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. After initial recognition, such financial instruments are subsequently carried at Amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the statement of income when the financial assets are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in the consolidated statement of profit or loss.

Most of the non-derivative financial assets of hGears fall into this category since both criteria are met.

- Debt financial assets are classified as measured at **fair value through other comprehensive income** if the business model is "hold to collect and sell" and the contractual cash flows are solely payments of principal and interest on principal amount outstanding. The changes in fair value are recognized in other comprehensive income and are reclassified to profit or loss when the instrument is derecognized. Changes in expected credit losses are recorded in profit or loss by adjusting the FVOCI reserve instead of the carrying amount.

  hGears Group does not hold financial instruments that fall into this category.

- Financial assets that do not meet the criteria for AC or FVOCI are classified as measured at **fair value through profit or loss**. In addition, the Group may irrevocably designate a debt instrument as measured at FVPL (so-called fair value option). Gains or losses on a debt instrument classified into this category are recognized in profit or loss and presented net within other income/(expenses) in the period in which they arise.

  hGears Group does not make use of the fair value option. Trade receivables subject to a factoring program fall under the business model "hold to sell" and hence into this category. Depending on the timing of the sales there might be circumstances under which trade receivables are outstanding at the end of the year that were not yet sold. Furthermore, derivative financial assets not designated as hedging instruments were outstanding as of December 31, 2020.

Equity investments are measured at fair value through profit or loss. Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the consolidated statement of profit or loss. In addition, there is an irrevocable option to present fair value gains and losses on equity investments in other comprehensive income. The Group decides on an instrument-by-instrument basis whether it elects this option. In this case, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. However, dividends from such investments continue to be recognized in the consolidated statement of profit or loss as other income when the Group's right to receive payments is established.

As of 2020, hGears Group did not hold any equity instruments.

Impairment of financial assets

Financial assets are subject to credit risk that are taken into consideration in the recognition of loss allowances or, for losses already incurred, when reporting an impairment. The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at AC and FVOCI.

The general impairment methodology applied follows a three-stage approach which is based on the change in credit quality of financial assets since initial recognition (general approach). According to this approach hGears Group considers the probability of default upon initial recognition of the respective asset and whether there has been a significant increase in credit risk. At initial recognition, debt instruments are assumed to have a low credit risk, for which a loss allowance for 12-months ECL is recognized (stage 1). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL (stage 2). A significant increase in credit risk is presumed if a debtor is more than 60 days past due in making a contractual payment or if the rating of the debtor was downgraded by external rating agencies (for example by insurance companies). If there is objective evidence of impairment (stage 3), hGears Group also accounts for lifetime ECL.

The Group considers that there is objective evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- higher probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The company categorizes a financial asset for write off only based on decisions made on specific debtors. The decision is based on available information and after the company concluded all required actions to collect the over dues amounts. Where financial assets have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

For trade receivables, the Group applies the simplified approach which uses a lifetime ECL allowance. To measure the ECL, trade receivables have been grouped based on shared risk characteristics (i.e. counterparty's industry). The expected loss rates are based on market data about the counterparties' ability to settle their obligation.

An impairment loss for trade receivables is recorded using an allowance account. For all other financial assets impairment loss directly reduces the carrying amount. Impairment losses are recognized in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

For detailed information on credit risk refer to Note 6.2.2.

2.6.14.3 Financial liabilities

Financial liabilities primarily include liabilities to banks, to shareholders, to leasing companies and derivative financial liabilities. They are initially recognized at fair value. For leasing liabilities please refer to section 2.6.7.

At initial recognition, the Group measures a financial liability at its fair value minus any directly attributable transaction costs, in case a financial liability is not classified at fair value through profit or loss. Transaction costs of financial liabilities carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss.

Subsequent measurement of financial liabilities depends on the measurement category into which the Group classifies its financial liabilities. According to IFRS 9 there are two measurement categories for financial liabilities:

- Amortized cost (AC)
- Fair value through profit or loss (FVPL)

Financial liabilities at **Amortized cost** are trade and other payables, liabilities to banks and shareholders. After initial recognition, financial liabilities are subsequently measured at Amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as in case of amortization using the effective interest method.

Financial liabilities at **fair value through profit or loss** include financial liabilities held for trading. Derivatives, which are not designated as hedging instruments in hedge accounting, are classified as held for trading and therefore recognized at fair value through profit and loss. Gains or losses on liabilities held for trading are recognized in consolidated statement of profit or loss.

As at December 31, 2020, the hGears Group had no financial liabilities at fair value through profit or loss outstanding.

2.6.14.4 Derivatives and hedge accounting

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months; it is classified as a current asset or liability when the remaining maturity is less than 12 months.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument.

If hedge accounting would not have been applied, the profit or loss arising from remeasuring the derivative financial instrument at its fair value is immediately recognized in the consolidated statement of profit or loss.

If hedge accounting is applied, derivatives can be designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

hGears Group only designates derivatives within cash flow hedges, whereby the effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve in other comprehensive income. The deferred gain or loss is removed from equity and recognized in consolidated statement of profit or loss in the same period in which the hedged transaction is recognized. The gain or loss relating to the ineffective portion of changes in the fair value of the hedging instrument is recognized immediately in the consolidated statement of profit or loss.

When an hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss recorded in equity shall remain in equity and be reclassified to the consolidated statement of profit or loss when the forecast transaction occurs. If the hedged forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in equity shall immediately be reclassified to profit or loss.

At inception of a hedge relationship, hGears Group documents the economic relationship between the hedging instrument and hedged item, its risk management objective and strategy for undertaking the hedge transaction as well as the method to assess hedge effectiveness prospectively.

2.6.15 Government Grants

Short-time work describes the reduction of the regular working hours for a temporary period of time. During that time the employer pays a salary to the employee which is reduced accordingly. The top-up amounts paid by the employer to the employees form an integral part of the current remuneration to be granted for work performed and have to be recorded as personnel expenses. Since the employee is entitled to the short-time work compensation, the forwarding of this compensation to the employees represents a transitory item in the financial statements from the company´s point of view. While the costs of social security contributions borne by the employer are to be recorded as personnel expenses, the reimbursements from the federal employment agency are categorized as performance-related grants under IAS 20. According to IAS 20.30 these reimbursements are reported as a deduction from personnel expenses (net statement).

3 Notes to the consolidated statement of profit or loss and the consolidated statement of comprehensive income

3.1 Revenues

hGears Group generates revenue from the sale of manufacturing, distribution and selling of precision turned parts, drive components, gear kits as well as complex system solutions. Revenues for the financial year 2020 amount to kEUR 126,260 (2019: kEUR 121,838).

The Group derives revenue its operations at a point in time in the following major revenue streams, business areas and geographical regions:

in kEUR	2020	2019
Sales of goods	125,498	121,088
Other	762	750
Revenues	**126,260**	**121,838**

Other revenues relate to the sale of scrap mainly in Germany.

hGears Group earns revenues on the sale of goods through its operations consisting of 3 business areas. The following table provides hGears Group’s sale of goods by business area:

in kEUR	2020	2019
e-Mobility	45,885	28,801
e-Tools	39,379	41,233
Conventional	40,234	51,054
Sales of goods	**125,498**	**121,088**

- e-Mobility: focuses on products for e-bike drive systems and drive train units for electric and hybrid vehicles. It includes the co-development and manufacturing of components for electrical drive applications (e.g. drive shaft, crank shaft and toothed washer). Electrical drive systems for vehicles require high precision components which are capable of withstanding high torque, are light weight and reduce noise;
- e-Tools: focuses on components utilized in the powering mechanism of battery driven (e-drive), cordless power and gardening tools. It includes the manufacturing of precision components that are used in the part of the gearbox that connects the electric motor to the actual tools (e.g. cutting tool, trimming tool);
- Conventional: focuses on components and gears for premium and luxury vehicles, motorbikes and gear units for various industrial applications, such as rolling shutters and HVAC systems. Traditional automotive and industrial applications are not part of hGears' primary strategic focus.

Revenue in the e-Mobility business area increased due to steady increase of the sales of products for e-bikes and electric and hybrid vehicles (2020: 36.6%, 2019: 23.8%).

hGears refocused e-Tools business area on high quality mission critical components. Nevertheless, revenue in this division declined year-on-year (2020: 31.4%, 2019: 34.0%).

Revenues in Conventional business area decreased year-on-year (2020: 32.0%, 2019: 42.2%) mainly due to the strategic exit from the premium & luxury vehicles business as part of the strategic shift to combustion-free electronic drive applications. This division will become less relevant for our core business, but the Group will continue to service our existing contracts in the mid-term.

The following table provides hGears Group's sales of goods by geographic location:

in kEUR	2020	2019
EU area	95,085	91,248
USA	8,430	9,817
China	8,327	7,372
Rest of the world	13,656	12,651
Sales of goods	**125,498**	**121,088**

Sales of goods in the EU area include sales in Germany for a total amount of kEUR 35,247 (2019: kEUR 42,631) and Hungary for a total amount of kEUR 40,638 (2019: kEUR 22,341).

Besides Germany and Hungary, sales in EU area are highly fragmented and are not exceeding more than 10% from sales of goods. Therefore, the Group decided to aggregate into EU area starting in the financial year 2020.

3.2 Other capitalized own work and Changes in inventories (finished goods and work in progress)

in kEUR	2020	2019
Other capitalized own work	80	132
Changes in inventories	(319)	(2,891)
Total	**(239)**	**(2,759)**

3.3 Other operating income

The line item breaks down as follows:

in kEUR	2020	2019
Income from the disposal of non-current assets	66	102
Reversal of impairment losses on receivables	-	40
Reversal of previous year accrual	194	85
Income for damages from supplier	11	57
Recharge to employees of car fees	163	165
Refund from Insurance	73	36
Income from prior years	-	95
Refund from energy company	-	124
Foreign currency exchange gains	1,185	722
Other	80	131
Total	**1,772**	**1,557**

3.4 Raw materials and consumables used

The line item breaks down as follows:

in kEUR	2020	2019
Raw Materials	(34,577)	(32,658)
Trade goods	(82)	(402)
Supplies	(2,114)	(2,150)
Energy costs for production	(4,615)	(4,569)
Tools	(6,824)	(6,363)
Inbound freight	(398)	(512)
Discounts	750	351
Outsourced manufacturing costs	(5,905)	(6,424)
Total	**(53,765)**	**(52,727)**

3.5 Personnel expenses

The line item breaks down as follows:

in kEUR	2020	2019
Wages and salaries	(30,241)	(30,500)
Social security contributions	(6,399)	(7,062)
Temporary workers	(2,565)	(3,743)
Total	**(39,205)**	**(41,305)**

In 2020, the use of short-time-work in Germany led to claims for the reimbursement of social-security contributions, which are recognized as reduction of the Personnel expenses, according to IAS 20 (kEUR 130).

In 2020 the Group employed 864 people on average (2019: 883) measured in full time equivalents ('FTE').

	2020	2019
Factory workers	716	729
Office workers and Managers	148	154
Total	**864**	**883**

As of December 31, 2020, the Group employed 862 FTEs (December 31, 2019: 903).

	December 31, 2020	December 31, 2019
Factory workers	779	820
Office workers and Managers	83	83
Total	**862**	**903**

3.6 Depreciation, amortization and impairment

The notes to the individual items show the breakdown of depreciation, amortization and impairment charges between intangible assets and property, plant and other equipment. Total depreciation, amortization and impairment came to kEUR 10,551 (December 31, 2019: kEUR 10,300).

3.7 Other operating expenses

The line item breaks down as follows:

in kEUR	2020	2019
Training/Clothing/Various Employees Costs	(1,386)	(1,579)
Travel and Entertainment costs	(118)	(548)
Office expenses / telephone and postal charges	(285)	(304)
Factory facility costs	(834)	(802)
Insurance premiums	(505)	(548)
Maintenance costs	(5,498)	(5,408)
Outbound freight	(913)	(1,078)
Other lease expenses	(563)	(669)
Banking fees	(164)	(60)
IT expenses	(819)	(784)
Advisory and other fees	(1,500)	(1,944)
Commissions	-	(8)
Warranties	(442)	(141)
Other Taxes	(161)	(199)
Foreign currency exchange losses	(1,428)	(817)
Losses from disposal of fixed assets	(134)	(182)
Other operating expenses	(729)	(767)
Total	**(15,479)**	**(15,838)**

Displayed below the details of the line Other operating expenses:

in kEUR	2020	2019
Other vehicles cost	(44)	(62)
Fuel costs for cars	(104)	(144)
Cost from previous years	(36)	(34)
Advertising and communications	(97)	(95)
Research and development costs	(23)	(19)
Quality costs	(7)	(18)
Membership fee	(51)	(48)
Industrial services	(166)	(240)
Increase in credit risk loss allowance	(79)	-
Accrual for provision for risk	(50)	(4)
Fine on taxes	(5)	(5)
Other	(67)	(98)
Total	**(729)**	**(767)**

The table below shows the fees booked in 2020 and 2019 for the Auditing Company:

in kEUR	2020	2019
Auditors		
** Audit*	*(274)*	*(245)*
** Tax*	*-*	*(6)*
** Other*	*(8)*	*(14)*
Total	**(282)**	**(265)**

3.8 Financial result

The line item breaks down as follows:

in kEUR	2020	2019
Interest expense on lease liabilities	(674)	(740)
Interest expenses for shareholder loans	(682)	(598)
Interest expenses banks loans and overdrafts	(1,830)	(1,438)
Other interest expenses and similar expenses	266	(1,940)
Finance expenses	**(2,920)**	**(4,716)**
Interest income (banks)	3	4
Other interest income	3	-
Finance income	**6**	**4**
Total	**(2,914)**	**(4,712)**

Other interest expenses and similar expenses include the scheduled amortization of transaction costs in relation to the loan in the amount of kEUR (220) as well as the reduction of amortized cost in the amount of kEUR 589 in connection with adjustments to the credit margins made in 2020 and the early repayment of a facility (see note 4.8). In addition, factoring interest in the amount of kEUR (103) thousand is included.

3.9 Income and deferred taxes

The line item breaks down as follows:

in kEUR	2020	2019
Current income taxes	(1,240)	(494)
Deferred income taxes	2,074	4
from temporary differences	239	(71)
from tax loss carry-forwards	1,835	75
Total taxes	**834**	**(490)**

Effective income taxes for 2020 include corporation tax, solidarity surcharges, trade tax and foreign income taxes paid totaling kEUR 1.240 (2019: kEUR 494).

In the table below the expected income tax expenses that would have arisen if the tax rate of the parent company of the Group, which is 29.125% (2019: 29.125%), had been applied to the income before taxes, is reconciled with the income tax expense displayed in the consolidated statement of profit or loss.

In kEUR	2020	2019
Income before income taxes	**5,879**	**(4,246)**
Theoretical taxes income/(expenses)	(1,712)	1,237
Effective taxes income/(expenses)	834	(490)
Lower (higher) tax burden related to:	**2,546**	**(1,727)**
Previously unrecognized tax losses, recouped	*120*	*-*
Deferred taxes on tax losses carry forwards	*2,912*	*75*
Temporary differences	*281*	*(44)*
Differences in foreign tax rates	*(159)*	*460*
Taxes not relating to the period	*66*	*33*
Non-deductible expenses	*(123)*	*(112)*
Taxes on dividends	*(35)*	*(12)*
Unused tax losses carry forwards	*(502)*	*(2,100)*
Others	*(14)*	*(27)*
Tax effect	**2,546**	**(1,727)**

The effective tax rate of the Group is 14.2% (2019: 11.5%).

Deferred tax assets and liabilities from temporary differences and tax loss carryforwards are related to the following items of the consolidated statement of financial position of the Group:

	Deferred tax assets	
in kEUR	**December 31, 2020**	**December 31, 2019**
Employee benefit obligations	38	38
Lease liabilities	1,173	1,212
Intangible assets	67	-
Inventories	556	558
Other current financial liabilities	5	5
Other receivables	118	2
Property, plant and equipment	822	1,022
Provisions	131	105
Tax losses carry forwards	2,985	1,150
Trade receivables	16	7
Borrowings	1	14
Other non-current liabilities	46	25
Other current liabilities	176	-
Other	193	167
Offsetting	(2,402)	(2,514)
Total	**3,925**	**1,791**

	Deferred tax liabilities	
in kEUR	**December 31, 2020**	**December 31, 2019**
Trade receivables	-	5
Employee benefit obligations	(19)	(15)
Lease liabilities	38	38
Other current financial liabilities	5	13
Other current liabilities	1	19
Inventories	10	2
Property, plant and equipment	2,374	2,496
Provisions	7	7
Borrowings	270	177
Offsetting	(2,402)	(2,514)
Total	**284**	**228**

Currently there are no restrictions for the utilization of hGears Group's tax loss carryforwards. Deferred tax assets have been recognized to the extent that the likelihood of utilization based on the company's forecasts is reasonably certain. Deferred tax assets of kEUR 2,985 (December 31, 2019: kEUR 1,150) have been recognized for tax loss carry forwards.

The deferred tax assets include an amount of kEUR 2,223 which relates to carried-forward tax losses of Herzog. The subsidiary has incurred the losses till 2019. The losses realized in the past years mainly relate to not profitable business, that will no longer occur in the future due to the strategic alignment to the e-Mobility business. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiary. The subsidiary generated taxable income in 2020 and is expected to generate taxable income onwards. The losses can be carried forward indefinitely and have no expiry date.

There are unused tax losses in the Group for corporate income and trade taxes in an amount of kEUR 11,019 (December 31, 2019: kEUR 16,300).

In 2020 deferred taxes of kEUR 6 (2019: kEUR 8) have been recognized within the other comprehensive income.

3.10 Segment reporting

hGears Group applies IFRS 8 "Operating Segments" initially in the financial year 2020.

An operating segment is defined as a unit of an entity that engages in business activities from which it can earn revenues and incur expenses and whose operating results are regularly reviewed by the entity's chief operating decision-maker, the Management Board, and for which discrete financial information is available.

In light of such definition, hGears consists of one operating segment, production of high precision gears and components.

The Management Board evaluates hGears Group economic success using selected key figures so that all relevant income and expenses are included. In detail the performance of the operating segment is measured on the basis of consolidated Adjusted EBITDA, the return on consolidated revenues and the consolidated Free Cash Flow, as measured for management reporting purposes.

The following table shows the segment Revenue and Adjusted EBITDA to consolidated net result of the period:

in kEUR Segments	**IFRS consolidated**		
FY	**2020**	**2019**	**2018**
Revenues	126,260	121,838	126,205
Adjusted EBITDA(1)	22,679	17,453	10,287
One-off and transaction costs	(3,335)	(6,687)	(1,506)
Depreciation, amortization and impairment	(10,551)	(10,300)	(7,411)
EBIT	8,793	466	1,370
Finance income	6	4	3
Finance expenses	(2,920)	(4,716)	(2,221)
EBT	5,879	(4,246)	(848)
Income and deferred taxes	834	(490)	(1,240)
Net result of the period	6,713	(4,736)	(2,088)

(1) the Company defines EBITDA as profit from operating activities before depreciation, amortization and impairment. The Company discloses EBITDA as a supplemental APM as it believes this is a meaningful measure to indicate hGears' earnings and thus to evaluate the performance of hGears' business activities over time.

The adjustments include individual items where they lead to material effects in a reporting year. These individual items may relate in particular to one-off costs and associated measures and restructuring measures.

The following table is the breakdown of One-off transaction costs:

in kEUR Segments	**IFRS consolidated**		
FY	**2020**	**2019**	**2018**
Personnel severance costs **(1)**	2,395	573	93
One-off advisory fees	384	823	843
One- off special project cost	(393)	5,364	763
Motorbike phase-out	-	(79)	(467)
COVID adjustments **(2)**	739	-	-
Other	210	6	274
Total	**3,335**	**6,687**	**1,506**

(1) it includes additional bonuses for employees and accruals for severance costs
(2) it includes additional costs incurred due to the safety measures adopted, unavoidable 'fixed' costs during the lockdown period and personnel expenses for quarantine and illness leave

The following table shows the return on revenues and the Free Cash Flow:

in kEUR Segments	**IFRS consolidated**		
FY	**2020**	**2019**	**2018**
Return on revenues in % **(1)**	5.3	(3.9)	(1.7)
Free Cash Flow **(2)**	9,694	(5,284)	(9,097)

(1) The Company defines return on revenues as the ratio of net result of the period to return revenues.
(2) The Company defines free cash flow as a sum of net cash flow from operating activities and net cash flow for investing activities, minus paid interest, received interest, and receipts leasing contracts, which are part of the payments for PPE and intangible assets

hGears Group generates more than 10% of its sales with one customer. As of December 31, 2020, this single most important customer represented accounts receivable with a carrying amount of kEUR 1,141 (December 31, 2019: kEUR 1,300, December 31, 2018: kEUR 1,005) and revenues in 2020 in the amount of kEUR 40,511 (December 31, 2019: kEUR 22,394, December 31, 2018: kEUR 12,657).

hGears' Group earns revenues worldwide through its operations. Geographic location of revenue is determined based on the final location of delivery. Sales by region are presented in section 3.1.

The non-current assets (intangible assets and property, plant and equipment) of the hGears Group are distributed across the following regions:

in kEUR Segments	**Germany**			**Italy**			**China**			**Reconciliation (1)**			**IFRS consolidated**		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
Additions	6,240	16,090	5,933	3,320	3,634	5,333	702	666	1,950	-	-	(656)	10,262	20,390	12,560
Carrying amounts	35,248	34,522	21,315	24,078	24,735	18,461	8,805	9,982	6,967	(392)	(552)	(643)	67,739	68,687	46,100

(1) The reconciliation relates to the elimination of intragroup transactions

3.11 Earnings Per Share

The basic earnings per share as of December 31, 2020 is EUR 107.44 (December 31, 2019: EUR (90.92)). It is calculated by dividing the net income or loss for the period attributable to holders of ordinary equity instruments of hGears by the weighted average number of ordinary shares outstanding during 2020, amounting to 62,500 (2019: 52,089).

Diluted earnings per share are identical to basic earnings per share since no share capital transactions were undertaken during the year.

4 Notes to the consolidated statements of financial position

4.1 Property, plant and equipment

The following table provides the breakdown of the Group's Property, plant and equipment:

in kEUR	December 31, 2020	December 31, 2019
Land and Buildings	13,029	14,110
Plants and Machinery	38,789	37,050
Tools and Dies	5,188	5,793
Other assets	5,726	5,942
Fixed assets under construction and down-payments	3,466	3,722
Total	**66,198**	**66,617**

The table reported in Annex 1 summarizes the changes occurred in Property, plant, and equipment.

The table below shows the Right-of-Use Assets of leases under IFRS 16:

in kEUR	December 31, 2020	December 31, 2019
Right-of-Use Assets:		
Land and Buildings	11,608	13,405
Plants and Machinery	7,678	5,330
Other assets	366	475
Total	**19,652**	**19,210**

The following table shows the movements in item "Right-of-use assets":

in kEUR	January 1, 2020	Addition	Dispolsal	Depreciation	Currency differences	December 31, 2020
Right-of-use Assets:						
Land and Buildings	13,405	-	(147)	(1,578)	(72)	11,608
Plants and Machinery	5,330	2,629	(24)	(808)	551	7,678
Other assets	475	137	-	(246)	-	366
Total	**19,210**	**2,766**	**(171)**	**(2,632)**	**479**	**19,652**

in kEUR	January 1, 2019	Addition	Depreciation	December 31, 2019
Right-of-use Assets:				
Land and Buildings	14,996	14	(1,605)	13,405
Plants and Machinery	5,445	692	(807)	5,330
Other assets	422	267	(214)	475
Total	**20,863**	**973**	**(2,626)**	**19,210**

Additions to the right-of-use assets during the financial year 2020 were kEUR 2,766 (December 31, 2019: kEUR 973).

In 2020, application of IFRS 16 - Leases resulted in the recognition of kEUR 2,632 in depreciation and amortization (2019 kEUR 2,626) and interest payments for leases kEUR 674 (2019: kEUR 740). As of December 31, 2020, lease liabilities amounted to kEUR 16,212 (December 31, 2019: kEUR 17,460).

During 2020 the Group applied the amendment for IFRS 16. For more details see paragraph 2.1.

Fixed assets under construction and down-payments amounted to kEUR 3,466 and also include down-payments to suppliers for the acquisition of fixed assets (December 31, 2019: kEUR 3,722).

The amounts refer to:

- Machines (kEUR 3,383);
- Others (kEUR 83).

Lease liabilities are effectively secured as the rights to the leased assets recognized in the consolidated financial statements revert to the lessor in the event of default.

4.2 Intangible assets

The following table provides the breakdown of the Group's intangible assets:

in kEUR	December 31, 2020	December 31, 2019
Software and licences	1,363	1,703
Brands and trademarks	0	156
Down-payments	104	122
Other	74	89
Total	**1,541**	**2,070**

The table attached in Annex 2 provides a reconciliation of the carrying amounts of hGears Group's intangible assets at the beginning and end of the periods presented in the consolidated financial statements.

Down-payments amounted to kEUR 104 (December 31, 2019: kEUR 122).

4.3 Inventories

The net value of the inventories as of December 31, 2020 is kEUR 14,555 (December 31, 2019: kEUR 16,331).

in kEUR	December 31, 2020	December 31, 2019
Raw materials, consumables and supplies	6,533	7,246
Finished goods and work in progress	12,791	14,078
Provisions for inventory	(4,769)	(4,993)
Total	**14,555**	**16,331**

The gross value of written-down inventories as of December 31, 2020 was kEUR 19,324 (December 31, 2019: kEUR 21,324).

Movements in the Group's provision for inventory is as follows:

in kEUR	
Balance as of December 31 2018	**(4,843)**
Addition	(928)
Release	611
Utilization	168
Other	(1)
Balance as of December 31 2019	**(4,993)**
Addition	(327)
Release	533
Utilization	13
Other	5
Balance as of December 31 2020	**(4,769)**

Depreciation of kEUR 327 was recognized in the consolidated statement of profit and loss. These are mainly due to revaluation in order to state inventories at net realizable value. During the year the Group recognized income from release for a total amount of kEUR 533.

4.4 Trade receivables

The carrying amounts of the trade receivables approximate to their fair values. Current trade receivables are non-interest bearing.

in kEUR	**December 31, 2020**	**December 31, 2019**
Trade receivables, gross	11,873	13,255
Loss allowances for expected credit losses	(226)	(147)
Total	**11,647**	**13,108**

Movements in the Group's loss allowance for expected credit losses of trade receivables are as follows:

in kEUR	
Balance as of January 1, 2019	**(184)**
Addition	-
Release	20
Utilization	17
Balance as of December 31, 2019	**(147)**
Addition	(79)
Release	-
Utilization	-
Balance as of December 31, 2020	**(226)**

The Group entered into a factoring arrangement with banks. Under these arrangements, Herzog, mG China and mG Italy have sold trade receivables to the bank. As the sale is non-recourse and the companies have not retained any risk, trade receivables amounting to kEUR 3,528 as of the reporting date, are derecognized in their entirety (December 31, 2019: kEUR 3,017). Further trade receivables intended to be sold and amounting to kEUR 1,348 are not yet sold as of the reporting date.

4.5 Other current assets and non-current assets

The following note provides an overview of financial and non-financial assets.

in kEUR	**December 31, 2020**	**December 31, 2019**
Other non-current assets, gross	125	116
Total Non-Current	**125**	**116**

The Item 'Other non-current assets' includes financial assets in form of cash deposits made to secure future payments and services.

in kEUR	**December 31, 2020**	**December 31, 2019**
Other current assets, gross	2,487	2,322
Total Non-Financial Assets	**2,487**	**2,322**
Other receivables current, gross	738	1,317
Other financial assets current, gross	203	185
Total Financial Assets	**941**	**1,502**
Total Current	**3,428**	**3,824**

Other current financial assets include positive fair values from forward exchange contracts.

The following note provides an overview of current financial other receivables and non-financial other receivables.

in kEUR	December 31, 2020	December 31, 2019
Receivables from social institution	1	3
Receivables for energy costs	313	95
Credit note to receive	46	-
Receivables from Leasing suppliers	-	568
Other	14	18
Total Non-Financial Assets	**374**	**684**
Receivables with credit card companies	3	6
Suppliers premium	240	330
Custom duties	3	2
Employee Loan	118	295
Total Financial Assets	**364**	**633**
Total	**738**	**1,317**

The following table provides the breakdown of the Group's other current non-financial assets:

in kEUR	December 31, 2020	December 31, 2019
VAT receivables	1,244	1,248
Other income tax receivables	857	753
Current prepaid operating expenses	386	321
Total	**2,487**	**2,322**

The table below reports the breakdown of the item current prepaid expenses:

in kEUR	December 31, 2020	December 31, 2019
Rental fees	168	129
Courses	2	2
Maintenance costs	49	112
IT expenses	72	48
Licences costs	-	3
Insurance	26	-
Other	69	27
Total	**386**	**321**

4.6 Cash and cash equivalents

At December 31, 2020, cash and cash equivalents amounted to kEUR 23,434 (December 31, 2019: kEUR 17,703).

The following table provides the breakdown of the Group's Cash and cash equivalents:

in kEUR	December 31, 2020	December 31, 2019
Cash on hand	6	6
Bank balance	23,428	17,697
Total	**23,434**	**17,703**

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was immaterial as of December 31, 2020.

4.7 Lease liabilities

The Group leases various plants and equipment within the scope of IFRS 16. The carrying amount of the corresponding lease liabilities amount to kEUR 16,212. Lease liabilities resulting from lease agreements in 2019 amounted to kEUR 17,460.

The Group's lease liabilities are split into non-current and current amounts as follows and relate to the lease of various plants and equipment as described below:

in kEUR	December 31, 2020	December 31, 2019
Lease liabilities current	2,772	2,905
Lease liabilities non-current	13,440	14,555
Total	**16,212**	**17,460**

The following table provides the breakdown of the total future gross minimum lease payments at the balance sheet date and their present value:

in kEUR	December 31, 2020	December 31, 2019
Gross lease liabilities - minimum lease payments:		
Less than 1 year	3,333	3,560
1 - 5 years	11,579	15,987
More than 5 years	3,289	738
Minimum lease payments	**18,201**	**20,285**

in kEUR	December 31, 2020	December 31, 2019
The present value of lease liabilities - minimum lease payments:		
Less than 1 year	2,772	2,905
1 - 5 years	10,343	13,847
More than 5 years	3,097	708
Net present value of minimum lease payments	**16,212**	**17,460**

The difference between the minimum lease payments and their present value is the interest portion that the Group has to pay in the future for the leasing contracts.

Expenses on leases of low value and short-term leases amounted to kEUR 563 during the financial year 2020 and kEUR 669 during the financial year 2019.

4.8 Borrowings

The carrying amounts of borrowings are as follows:

in kEUR	December 31, 2020	December 31, 2019
Bank loan current	18,273	10,975
Bank loan non-current	20,999	28,136
Total	**39,272**	**39,111**

The Group pledged as security for current and non-current borrowings property, plant and equipment in an amount of kEUR 22,812, trade receivables in an amount of kEUR 3,022 and bank accounts in an amount of kEUR 1,112.

Additionally, the parent company, hGears Holding, has granted as a pledge the shares of mG Italy.

Please see in the table below the conditions of the borrowings:

Company	Bank	Nominal Value (kEUR)	Date	Amendment date	Interest rates	Repayment/ Maturity	Transaction costs (kEUR)
hGears Holding GmbH	Arrangers	10,000	September 21, 2018	December 7, 2020	3.5% + 6m EURIBOR	Variable (till six months)	495
hGears Holding GmbH	Arrangers	4,750	September 21, 2018	December 7, 2020	3.5% + 6m EURIBOR	Semi-annual repayment	243
Herzog GmbH	Arrangers	8,000	September 21, 2018	December 7, 2020	4.0% + 6m EURIBOR	Final maturity	396
Herzog GmbH	Arrangers	20,750	September 21, 2018	December 7, 2020	3.75% + 6m EURIBOR	Semi-annual repayment	1,169

hGears Holding GmbH signed a Credit Facilities Agreement with Hamburg Commercial Bank AG (former: HSH Nordbank AG, hereafter: HCOB) and Skandinaviska Enskilda Banken AB (Publ) (hereafter: SEB) with a max volume of EUR 50,000,000 and a duration of 5 years (hereafter "refinancing") on September 21, 2018. The contract contains a margin that is determined depending on the leverage ratio. If the leverage ratio changes, the contractual credit margin changes. Any change in the credit margin is recognized in the income statement through a change in the carrying amount. At the same time all shareholders have concluded capital maintenance and subordination agreements with the banks. The refinancing replaced the previous loan agreement with Unicredit and BHF banks.

On November 21, 2019 the company signed an amendment and restatement agreement in relation to the EUR 45,500,000 Credit Facilities Agreement originally dated September 21, 2018 in which the company has renegotiated with the banks specific covenants requirements. Amongst others the effects of the adoption of IFRS 16 were considered in the covenant calculation resulting in an increase in the interest margins by 0.5%.

On December 7, 2020 the company and the lenders signed a second amendment to the Credit Facilities Agreement whereas Company agreed to voluntary prepay EUR 2,000,000 of outstanding facility B. Other terms and conditions remained unchanged.

Lenders are Hamburg Commercial Bank AG (former: HSH Nordbank AG) and Skandinaviska Enskilda Banken AB (Publ) participating 50% each.

The "Cancellation condition" of the Facility Agreement reported in the table above is:

1) change of control: Finatem III GmbH & Co. KG ceasing to directly or indirectly hold more than one-half of the shares in the Company or control the Company or the sale of all or substantially all of the assets of the Group.

As of December 31, 2020, hGears Group had met all financial and non-financial covenants under its existing facility agreements.

During 2020 the banks decreased the credit margins for all tranches two times. These revisions of the estimated contractual cash flows had to be reflected by adjusting the amortized cost to the present value of the future contractual cash flows discounted with the original effective interest rate and resulted in a reduction of the amortized cost. The adjustments were recognized in profit or loss.

4.9 Shareholder loans

in kEUR	December 31, 2020	December 31, 2019
Shareholder loans	14,341	13,660
Total	**14,341**	**13,660**

Please see in the table below the conditions of the shareholder:

Company	Bank	Nominal Value (kEUR)	Date	Interest rates	Cancellation conditions	Transaction costs
hGears Holding GmbH	Finatem III GmbH & Co. KG	5,165	April 27, 2016	4.50%	n.a.	n.a.
hGears Holding GmbH	Finatem III GmbH & Co. KG	3,492	April 7, 2011	8.00%	n.a.	n.a.
hGears Holding GmbH	HPH Beteiligungs-UG	307	April 18, 2011	8.00%	n.a.	n.a.
hGears Holding GmbH	M-H Herzog Beteiligungs-UG	300	April 18, 2011	8.00%	n.a.	n.a.

For the shareholder loans the following terms and conditions apply: the shareholder loans are provided long-term on a permanent basis and in general are free from repayment. Interest in connection with shareholder loans is not paid on an ongoing basis but is due upon repayment. The lenders are entitled to terminate the loans within the legal period of notice and taking into account the agreed subordination arrangements. The borrower is entitled to terminate the loan with a notice period of ten bank days. A termination requires that the Finatem shareholder loan is terminated for the same quota.

The shareholder loans include subordination clauses and bear higher interest rates as compared to external bank loans accordingly (refer to Note 4.8). Furthermore, to check the "market condition" on the interest rate, the Company received offers from external banks for mezzanine capital with same duration and conditions.

4.10 Provisions

The following note provides an overview of provision, current and non-current.

in kEUR	December 31, 2020	December 31, 2019
Provision, current	689	288
Provision, non-current	319	319
Total	**1,008**	**607**

in kEUR	December 31, 2020	December 31, 2019
Warranty provision	619	268
Other risk provision	70	20
Total Provision current	**689**	**288**

in kEUR	December 31, 2020	December 31, 2019
Environment provision	269	269
Other risk provision	50	50
Total Provision no-current	**319**	**319**

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

in kEUR	Environment provision	Other risk provision	Warranty provision	Total
Balance as of December 31, 2018	**269**	**71**	**340**	**680**
Addition	-	3	39	42
Release	-	-	(35)	(35)
Utilization	-	(4)	(76)	(80)
Balance as of December 31, 2019	**269**	**70**	**268**	**607**
Addition	-	50	363	413
Release	-	-	-	-
Utilization	-	-	(12)	(12)
Balance as of December 31, 2020	**269**	**120**	**619**	**1,008**

The amounts considered in "Environmental provision", relate on the opinion of legal and professional experts.

The amounts considered in "Other risks provision" refer to the best estimate made by the management about probable liabilities in relation to proceedings against suppliers, tax authorities, employees and other subjects. The estimate takes into account, where applicable, the opinion of legal advisors and other experts, the past experience of the Company in similar situations and the intention of the Company to proceed with further action.

The "Warranty provision" has been recognized to cover possible future replacement costs of products sold within during the year and according to the terms of the contractual warranty.

4.11 Employee benefit obligations

This item in question includes the estimated liability for the severance indemnity (TFR) related to the employees of the subsidiary mG Italy.

Italian "Trattamento di Fine Rapporto" (TFR) benefit is a deferred compensation item established by Italian law. It is regulated by the Italian Commercial Code (art. 2120). The value of the "TFR" results from the gross annual salaries of the employees, divided by 13.5. This amount is adjusted, later, by applying the inflation rate of the subsidiary country added to 1.5 percentage points (annual rate of increase TFR). The benefit is paid to the employees as a lump sum in case of a termination of the employment, i.e. in case of retirement, death, disability or turnover.

Based on generally accepted interpretation and following the changes made to the national laws by Law no. 296 of December 27, 2006 ("2007 Finance Act") and the following decrees and regulations issued in the early months of 2007, the Italian severance indemnity plans are deemed:

- a defined contribution plan for the quotas of the severance indemnity accrued as from January 1, 2007, both in the case of supplementary pension and in the case of allocation to the Treasury fund by INPS;

- a defined benefit plan for the quotas of the severance indemnity accrued until 31 December 2006, for which it is necessary to carry out actuarial calculations that exclude the component related to future salary increases.

The employee severance fund of Italian companies ("TFR") has no plan assets at its service.

The composition of this item is detailed as follows:

in kEUR	
Balance as of December 31, 2018	**1,585**
Actuarial Losses (profits) from experience	(4)
Actuarial Losses (profits) from changes in financial assumptions	67
Interest costs	17
Utilization of TFR	(105)
Balance as of December 31, 2019	**1,560**
Actuarial Losses (profits) from experience	(2)
Actuarial Losses (profits) from changes in financial assumptions	17
Interest costs	6
Utilisation of TFR	(78)
Balance as of December 31, 2020	**1,503**

The actuarial assumptions for the defined benefit plans are detailed in the following table:

	December 31, 2020	December 31, 2019
ECONOMIC TECHINICAL BASES SUMMARY		
Inflation rate	0.80%	1.20%
Discount rate	-0.02%	0.37%
Annual rate of increase TFR	2.10%	2.40%
DEMOGRAPHIC TECHINICAL BASES SUMMARY		
Mortality	Mortality table RG48 published by the General Accounting Office	
Inability	INPS tables divided for age and sex	
Retirement	100% when the AGO requirements are met	
TURNOVER ANNUAL FREQUENCE AND TFR ADVANCES		
Advances frequency	2.00%	2.00%
Turnover frequency	5.00%	5.00%

The annual frequencies of turnover and TFR advances are derived from the historical experience of the Company and from the experience of the actuary on a significant number of similar companies. Below is a sensitivity analysis related to pension plans with defined benefits on the basis of changes in the key assumptions:

in kEUR	Pension plan December 31, 2020	Pension plan December 31, 2019
Turnover rate +1%	1,490	1,546
Turnover rate -1%	1,515	1,572
Inflation rate +0,25%	1,520	1,578
Inflation rate -0,25%	1,484	1,539
Discount rate +0,25%	1,473	1,528
Discount rate -0,25%	1,532	1,590

The sensitivity above was made on the basis of changes in individual assumptions, while retaining the others unchanged, although in practice any change in an assumption generally can also be reflected in the other as a result of potential correlations. The sensitivity above was calculated using the same method (projected unit credit method) used to calculate the liability recognized in the consolidated statement of financial position. In the tables below are reported the contribution for the following year, the average duration of the defined benefit plan and the future estimated payments of the plan.

Service costs and duration

Service cost 2021	-
Duration (years)	8.4

Future estimated payments for defined benefit plans

YEAR	in kEUR
1	187
2	87
3	116
4	85
5	76

The total expense recognized in the current period in relation to the Group contributions was kEUR 2,069 during 2020 and kEUR 2,013 during 2019.

4.12 Trade and other payables

The following note provides an overview of trade payables and other payables:

in kEUR	December 31, 2020	December 31, 2019
Trade payables	16,197	20,612
Other payables	9,199	8,619
Total	**25,396**	**29,231**

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade payables are assumed to be the same as their fair values, due to their short-term nature. The following table provides the breakdown of the Group's Other payables:

in kEUR	December 31, 2020	December 31, 2019
Contract Liabilities	43	11
Other current liabilities	2,432	3,071
Employees liabilities	6,696	5,434
Current deferred operating expenses	28	104
Total Current Non-Financial Liabilities	**9,199**	**8,620**

Other current liabilities breakdown is as follows:

in kEUR	December 31, 2020	December 31, 2019
Taxes on wages	1,943	2,180
Auditor costs	240	219
Property, plant and equipment	-	385
Deposit	4	4
Education fund	4	2
Birth allowance	75	75
IT handing charge return	1	8
Other	165	198
Total	**2,432**	**3,071**

Employees liabilities and taxes on wages mainly relate to payrolls and wages (also board of management liabilities – for more information, please see Note 8.2.2) for the month of December, to vacation days accrued but not yet taken, to production bonuses and to the related social contributions.

4.13 Other current and non-current liabilities

The following note provides an overview of other current and non-current liabilities split into financial liabilities and non-financial liabilities.

The balance of other current financial liabilities as of the reporting date included the following item:

in kEUR	December 31, 2020	December 31, 2019
Interest liabilities	51	81
Derivate liabilities	13	48
Total	**64**	**129**

The balance of other non-current liabilities (non-financial) as of the reporting date included the following item:

in kEUR	December 31, 2020	December 31, 2019
Anniversary obligation	84	85
Trade Payables	263	253
Employees liabilities	81	-
Total	**428**	**338**

4.14 Current tax liabilities

The line “Current tax liabilities” includes the liability to the tax authorities related to the calculation of the current taxes on the result of the period. This position includes the payments on account made by the companies to the tax authorities for the taxes to be paid the following year.

4.15 Equity

At December 31, 2020 the share capital of kEUR 62.5 the company is divided into 62,500 ordinary shares with a par value of 1 Euro. Besides the minimum amount of share capital, required under German law, there are no distribution restrictions applicable. The entity itself does not hold any own shares.

Please find below the details of the share capital of the parent company hGears Holding GmbH.

Shareholder	**Place of business**	**Shares in kEUR - Dec 2020**	**Share % - 2020**	**Shares in kEUR - Dec 2019**	**Share % - 2019**
Finatem III GmbH & Co. KG, Trade register district court Frankfurt a. Main (HRA 44480)	Frankfurt am Main	56.3	90.0%	56.3	90.0%
HPH Beteiligungs-UG (unlimited liability), Trade register district court Stuttgart (HRB 738525)	Lauterbach	3.1	5.0 %	3.1	5.0 %
M-H Herzog Beteiligungs-UG (unlimited liability), Trade register district court Stuttgart (HRB 737759)	Schramberg	3.1	5.0 %	3.1	5.0 %
Share capital		**62.5**		**62.5**	

All shares issued are fully paid.

Capital Reserve in the parent company hGears Holding GmbH represents contributions of the shareholders (kEUR 6,963) and the contribution of miniGears companies (kEUR 13,485).

Other reserve includes the legal reserve is booked in the subsidiary mG Italy and it comes from the result of the previous year and is equal to 5% of its share capital.

The OCI Reserves includes:

- *Currency Translation Reserve*: it includes the reserve of the subsidiary mG China deriving from translating it results and financial position from RMB (functional currency) into EURO (presentation currency);

- Changes in *Fair value of derivative contracts* (Interest Rate Swap and Foreign exchange forward contracts);

- Changes in *Employee Plan Reserve* related to employee termination indemnities of defined benefit plans.

- Retained earnings includes the result of the current period and the results of the previous years that are not still paid to the shareholders.

5 Notes to the consolidated statements of cash flow

The following table provides the reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities.

			Non-cash changes					
	December 31, 2018	**Cash flows**	**Acquisition**	**IFRS 16**	**Fair value changes**	**Foreign exchange movement**	**Other**	**December 31, 2019**
Lease liabilities	6,338	(3,739)	-	13,230	-	-	1,631	17,460
Borrowings	23,374	13,166	-	-	-	-	2,571	39,111
Shareholder loans	13,061	-	-	-	-	-	597	13,660
Other current financial liabilities	219	-	-	-	(14)	-	(76)	129

			Non-cash changes					
	December 31, 2019	**Cash flows**	**Acquisition**	**IFRS 16**	**Fair value changes**	**Foreign exchange movement**	**Other**	**December 31, 2020**
Lease liabilities	17,460	(4,010)	-	-	-	(85)	2,847	16,212
Borrowings	39,111	(1,846)	-	-	-	-	2,007	39,272
Shareholder loans	13,660	-	-	-	-	-	681	14,341
Other current financial liabilities	129	(81)	-	-	(34)	-	50	64

The paid interests in the cash flow statement include interests for factoring in an amount of kEUR 92.

6 Capital management and financial risk management

6.1 Capital management

hGears Group’s policy is to maintain a strong base in terms of equity capital and sufficient cash balance in order to maintain investor and creditor confidence and to sustain the future development of the business. The primary goals when managing capital are to ensure sufficient liquidity to meet working capital requirements, fund capital investments and to safeguard our ability to continue operating as going concern.

hGears Group monitors all capital positions regularly (at least monthly) within its financial reporting, discusses the capital status frequently within the management meetings and also within its supervisory board meetings.

On September 21, 2018, as well as by amendment of November 21, 2019 and December 7, 2020 (see Note 4.8), the Group concluded with consortium banks, HCOB and SEB, a new Facilities Agreement. The Group shall ensure that it complies with the financial covenants, leverage and interest cover on the Group level, during the term of the Agreement. Testing Dates are March 31, June 30, September 30 and December 31 of each year. As of December 31, 2020 the financial covenants had been met.

6.2 Financial risk management

hGears-Group’s operating activities expose the Group to a variety of financial risks such as market risks, credit risks and liquidity risks. hGears Group’s finance department has created controlling instruments and key metrics to identify and evaluate such risks in close co-operation with the operating units.

6.2.1 Market risk

6.2.1.1 Foreign exchange risk

The exposure to the risk of changes in foreign exchange rates arises from commercial activities conducted by Group companies in currencies other than the respective functional currency, and in particular for expected sales made in US dollars and in Euro (other currencies are used for negligible amounts). These revenues in foreign currencies can be affected by fluctuations in the respective exchange rate impacting on the commercial margins. The Group’s companies also hold immaterial debts in foreign currency as well as foreign currency bank accounts.

The Group is primarily exposed to changes in RMB/Euro and RMB/US Dollar exchange rates due to its Chinese subsidiary. The Group also has exposures to changes in US Dollar/Euro exchange rates due to its Italian subsidiary. The measures implemented to hedge against these currency risks are defined at Group level. To mitigate the foreign currency risks and limiting the variability of turnover, the Group enters into foreign exchange forward contracts to partially hedge its planned sales in US Dollars on the basis of approved commercial budget. The derivative contracts are concluded exclusively with independently highly rated financial institutions.

The main information relating to foreign currency derivative instruments as of December 31, 2020 and December 31, 2019 are summarized in the table below:

Year	Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR*
December 31, 2020	RMB/EUR	13	November 18, 2019 and November 26, 2020	SEB	from January 28, 2021 to February 25, 2022	from 7.9464 to 8.1636	1,468	(24)
December 31, 2020	RMB/USD	14	November 18, 2019 and November 27, 2020	SEB	from January 28, 2021 to February 25, 2022	From 6.6260 to 7.0508	12,159	226

Year	Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR*
December 31, 2019	EUR/USD	2	February 15,2019	HCOB	from January 31, 2020 to February 29, 2020	from 1.1692 to 1.1721	166	(6)
December 31, 2019	RMB/EUR	14	December 11, 2018 and November 18, 2019	SEB	from January 31, 2020 to February 25, 2021	from 7.8215 to 8.0559	1,020	(6)
December 31, 2019	RMB/USD	14	December 11, 2018 and November 18, 2019	SEB	from January 31, 2020 to February 25, 2021	from 6.8585 to 7.0508	9,751	(13)

*In the consolidated statement of financial position the net position of derivatives is disclosed due to immaterial amounts.

Currency risks pursuant to IFRS 7 arise as a result of monetary financial instruments that are denominated in a currency other than the functional currency. Exchange rate differences from the translation of financial statements into the presentation currency (translation risk) are disregarded. Currency risks are measured using sensitivity analyses, during which the impact on profit after tax and equity of hypothetical changes to relevant risk variables is assessed. All non-functional currencies in which the Group employs financial instruments are treated as relevant risk variables. The periodic effects are determined by applying the hypothetical changes in the risk variables to the non-derivative and derivative financial instruments existing at the end of the reporting period. The effect to profit or loss arises mainly from U.S. dollar and Euro-denominated non-derivative financial instruments as well as from the non-designated components of derivatives. The impact on other components of equity arises from the components of foreign currency forward contracts designated as cash flow hedges.

The effects of a ten percent increase/decrease in RMB against foreign currencies were as follows as of the balance sheet date:

In kEUR	**December 31, 2020**			
	Equity		**Profit for the period**	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
RMB/Euro	(130)	130	60	(60)
RMB/U.S. Dollar	(1,070)	1,070	518	(518)

In kEUR	December 31, 2019			
	Equity		Profit for the period	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
RMB/Euro	(91)	91	100	(100)
RMB/U.S. Dollar	(795)	795	298	(298)

The effects of a ten percent increase/decrease in USD against Euro were as follows as of the balance sheet date:

In kEUR	December 31, 2020			
	Equity		Profit for the period	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
U.S. Dollar/Euro	-	-	(34)	41
In kEUR	**December 31, 2019**			
	Equity		**Profit for the period**	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
U.S. Dollar/Euro	-	-	(45)	58

For further information on derivatives and hedge accounting refer to Notes 2.6.14 and 7.3.

6.2.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings with variable interest rates, which exposes the Group to cash flow risk. In addition, the Group is exposed to interest rate risk due to its investments of available cash in bank deposits. Changes in market interest rates influence the cost and the performance of various forms of financing and utilization, thus impacting on the level of charges and finance income and financial expenses of the Group.

To mitigate, under economically acceptable conditions, the potential effects of changes in interest rates on the financial result the Group entered into floating-to-fixed interest rate swaps. Therefore, the Group covers part of the nominal value of bank loans with variable interest rate.

The table below summarises the key disclosures relating to these interest rate hedging instruments as of December 31, 2020:

Currency	N.	Trade date	Counterparties	Expiry date	Swap rate	Notional kEUR	Fair Value kEUR	Floating rate
EUR	1	September 4, 2019	HCOB	December 31, 2021	0.07%	8,000	(6)	EURIBOR 6M

As of December 31, 2020, floating-rate loans were partially hedged. The term of the interest rate derivatives is matched to these loans.

The main information relating to the interest rate swaps in effect at December 31, 2019, are summarized in the table below:

Currency	N.	Trade date	Counterparties	Expiry date	Swap rate	Notional kEUR	Fair Value kEUR	Floating rate
EUR	2	November 12, 2019	SEB	December 31, 2020	0.185%	7,500	(18)	EURIBOR 6M
EUR	1	September 4, 2020	HCOB	December 31, 2021	0.07%	8,000	(5)	EURIBOR 6M

The interest rate swaps require settlement every six months.

The measurement of the interest rate risk of the Group has been carried out through a sensitivity analysis that shows the effects on the consolidated statement of profit or loss and net equity which would be encountered during the year as of December 31, 2020 in the case of a hypothetical change in market interest rates. The effects to profit or loss results from floating rate financing that is not hedged, impact to equity results from the fair value changes of the interest rate swaps designated as hedging instruments. The group's fixed rate borrowings and receivables are carried at amortized cost. They are therefore not subject to interest rate risks as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

in kEUR	December 31, 2020	
	Equity	Result for the period
+100 bps	39	(153)
-100 bps	-	-

in kEUR	December 31, 2019	
	Equity	Result for the period
+100 bps	166	(235)
-100 bps	(2)	-

For further information on derivatives and hedge accounting refer to Notes 2.6.14 and 7.3.

6.2.1.3 Other market risk

hGears Group is not exposed to equity price risks or commodity price risks as it does not invest in these classes of investments.

6.2.2 Credit risk

Credit risk from financial assets relate to a possible default by a contractual party. The finance department works in close cooperation with other operating departments to identify risks related to account receivables balances. The Group analyses the credit risk of each new client before standard payment and delivery terms and conditions are offered.

The Group is exposed to credit risk from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding trade receivables.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management.

In order to keep the risk of bad debt loss under control, the subsidiary Herzog GmbH covers the risk on the account receivables with a trade credit insurance with Euler Hermes. The nominal value of the trade receivables covered by the insurance company is kEUR 1,194 (2019: kEUR 3,394). Due to the fact, that not all customers are blue chips and deliveries are made to a very wide range of customers, this insurance minimizes the credit risk.

The credit risk from (non-derivative) financial assets is covered by loss allowances for financial assets without objective evidence of impairment as well as by value adjustments for already impaired financial assets.

The table below shows the gross carrying amounts of trade receivables by credit risk rating grades depending on the days past due as well as the respective loss allowances as of the balance sheet date:

in kEUR	**December 31, 2020**		**December 31, 2019**	
	Gross	**Provision**	**Gross**	**Provision**
Amounts undue	11,064	(105)	10,073	(78)
Past due 0-30 days	615	(3)	2,635	(1)
Past due 31-60 days	16	-	315	-
Past due 61-90 days	91	-	218	-
More than 91 days	87	(118)	14	(68)
Total	**11,873**	**(226)**	**13,255**	**(147)**
Trade receivables, net	**11,647**		**13,108**	

For the reconciliation of the loss allowance on trade receivables please see Note 4.4.

The table below shows the gross carrying amounts by credit risk rating classes for each class of other financial assets measured at amortized cost as of December 31, 2020 and 2019.

in kEUR December 31, 2020	**Other non-current assets (deposits)**	**Other receivables**	**Other current assets**	**Other current financial assets**	**Cash and cash equivalents (bank balances)**
Credit risk rating class 1	125	364	-	203	23,434
Credit risk rating class 2	-	-	-	-	-
Credit risk rating class 3	-	-	-	-	-
Total	**125**	**364**	**-**	**203**	**23,434**

in kEUR December 31, 2019	**Other non-current assets (deposits)**	**Other receivables**	**Other current assets**	**Other current financial assets**	**Cash and cash equivalents (bank balances)**
Credit risk rating class 1	116	633	-	186	17,703
Credit risk rating class 2	-	-	-	-	-
Credit risk rating class 3	-	-	-	-	-
Total	**116**	**633**	**-**	**186**	**17,703**

For these financial assets the identified expected credit losses as of December 31, 2020, are immaterial.

6.2.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities. The Group monitors its short-term liquidity by weekly rolling forecasts and its long-term liquidity by quarterly rolling forecasts and financial reports. The Group ensures to remain solvent all the time by holding sufficient liquidity reserves and though confirmed credit lines.

The tables below present a maturity analysis of financial liabilities based on their contractual maturities for all non-derivative and derivative financial liabilities (including trade payables and other liabilities) as of the balance sheet date. The amounts disclosed are the undiscounted contractual cash flows. Balances due within 12 months equal their carrying amount as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using the spot interest rate applicable at the end of the reporting period 2020 and 2019 respectively. For FX Forwards the cash flows have been estimated using the spot FX rate applicable at the end of the reporting period 2020 and 2019 respectively.

in kEUR

Financial liability description	Carrying amount	December 31, 2020	< 1 year	1 - 5 years	> 5 years
Trade payables	16,197	16,197	16,197	-	-
Other payables	9,627	9,627	9,199	428	-
Derivatives - cash out flow (gross settlement)	29	(2)	3	(5)	-
Borrowings	39,272	43,450			
Borrowings - capital portion			17,748	22,450	-
Interest expenses on Borrowings			1,440	1,812	-
Shareholder loans	14,341	16,147			-
Shareholder loans - capital portion			-	9,265	-
Interest expenses on Shareholder loan			-	6,882	-
Lease liabilities	16,212	18,201	3,333	11,579	3,289
Total	**95,678**	**103,620**	**47,920**	**52,411**	**3,289**

in kEUR

Financial liability description	Carrying amount	December 31, 2019	< 1 year	1 - 5 years	> 5 years
					-
Trade payables	20,612	20,612	20,553	59	-
Other payables	8,957	8,957	8,517	440	-
Derivatives - cash out flow (gross settlement)	48	524	518	6	-
Borrowings	39,192	44,283			-
Borrowings - capital portion			12,500	27,000	-
Interest expenses on Borrowings			1,545	3,239	-
Shareholder loans	13,660	16,147			-
Shareholder loans - capital portion			-	9,265	-
Interest expenses on Shareholder loan			-	6,882	-
Lease liabilities	17,460	20,158	-	-	-
Lease liabilities - capital portion			2,905	13,847	708
Interest expenses on lease liabilities			640	2,030	28
Total	**99,929**	**110,682**	**47,178**	**62,769**	**736**

7 Additional disclosures on financial instruments

7.1 Fair value measurement

The fair value of financial instruments follows a fair value hierarchy based on input factors. The fair value of financial instruments can be categorized following the hierarchical levels:

- Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2;
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and current borrowings are assumed to be the same as their fair values, due to their short-term nature.

Specific valuation techniques used to determine the fair value of financial instruments include:

- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined as a present value by using forward exchange rates at the balance sheet date;
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis based on observable market data.

The Group's policy is to recognize transfers into and transfers out of the different levels as of the end of the reporting period. There were no transfers between levels 1 and 2 and from level 2 and 3 for recurring fair value measurements during the year.

The fair values of the derivative financial instruments and the fair values of the trade receivables measured at fair value through profit or loss (FVPL) are assigned to level 2. Financial instruments not measured at fair value are assigned to level 2.

7.2 Carrying amounts, amounts recognized, and fair values by class and measurement category

The tables below show the carrying amounts of financial instruments by category as well as the fair values of financial instruments by class.

in kEUR

	Classification IFRS 9	Carrying amount December 31, 2020	Fair Value December 31, 2020
ASSET			
Non-current assets			
Other non-current assets	AC	125	125
Current assets			
Trade receivables			
Trade receivables	*AC*	*10,299*	n/a*
Trade receivables subject to factoring	*FVPL*	*1,348*	*1,348*
Other receivables	AC	738	n/a*
Other current financial assets			
Derivatives with hedge accounting	*n/a*	*95*	*95*
Derivatives without hedge accounting	*FVPL*	*108*	*108*
Cash and cash equivalents	AC	23,434	n/a*
LIABILITIES			
Non-current liabilities			
Lease liabilities	n/a	13,440	n/a**
Borrowings	FLAC	20,999	21,959
Shareholder loan	FLAC	14,341	14,975
Current liabilities			
Lease liabilities	n/a	2,772	n/a**
Borrowings	FLAC	18,273	18,691
Other current financial liabilities			
Derivatives with hedge accounting	*n/a*	*13*	*13*
Accrued interest	*FLAC*	*51*	*51*
Trade and other payables			
Trade payables	*FLAC*	*16,197*	*n/a**
Other payables			
Other current non-financial payables	*n/a*	*9,199*	*n/a**

in kEUR

	Classification IFRS 9	Carrying amount December 31, 2019	Fair Value December 31, 2019
ASSET			
Non-current assets			
Other non-current assets	AC	116	116
Current assets			
Trade receivables	AC	13,108	n/a*
Other receivables			
Total Non-Financial Assets	n/a	*684*	n/a*
Total Financial Assets	AC	*633*	n/a*
Other current financial assets	AC	185	n/a*
Cash and cash equivalents	AC	17,703	n/a*
LIABILITIES			
Non-current liabilities			
Lease liabilities	n/a	14,555	n/a
Borrowings	FLAC	28,136	28,912
Shareholder loan	FLAC	13,660	13,897
Current liabilities			
Lease liabilities	n/a	2,905	n/a
Borrowings	FLAC	10,975	10,975
Other current financial liabilities			
Derivative financial liabilities in hedge accounting	*n/a*	*48*	*48*
Accrued interest	*FLAC*	*81*	*81*
Trade and other payables			
Trade payables	*FLAC*	*20,612*	*n/a**
Other payables			
Other current non-financial payables	*n/a*	*8,619*	*n/a*

Carrying amounts per category		**December 31, 2020**
Financial Assets measured at amortized costs	AC	**34,596**
Financial Liabilities measured at amortized costs	FLAC	**69,861**
Financial Assets & Liabilities measured at Fair Value through Profit or Loss	FVPL	**1,456**

Carrying amounts per category		**December 31, 2019**
Financial Assets measured at amortized costs	AC	**31,746**
Financial Liabilities measured at amortized costs	FLAC	**73,464**

n/a* According to IFRS 7.29 (a) disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value (e.g. for short-term trade receivables and payables). If this is the case for short-term financial instruments from your perspective, the disclosure of fair value is not required.
n/a** According to IFRS 7.29 (d) disclosure of fair value is not required for lease liabilities.

7.3 Derivatives and hedge accounting

The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. These are mainly currency risks and interest rate risks. For hedging the currency risk, the Group entered into forward exchange contracts to hedge sales planned for the next 12 months. The Group manages its interest rate risk from long-term borrowings with variable interest rates using floating-to-fixed interest rate swaps.

The table below comprises the nominal values and fair values of all derivative instruments in place as of the balance sheet date:

	Nominal values		**Fair Values**	
In kEUR	**December 31, 2020**	**December 31, 2019**	**December 31, 2020**	**December 31, 2019**
Hedging of currency risk				
Forward exchange contracts	13,627	10,938	203	(25)
thereof positive fair value	12,159	8,195	226	22
thereof negative fair value	1,468	2,743	(24)	(47)
Hedging of interest rate risk				
Interest rate swaps	8,000	15,500	(6)	(23)
thereof positive fair value	-	-	-	-
thereof negative fair value	8,000	15,500	(6)	(23)

*In the consolidated statement of financial position, the net position of derivatives is disclosed due to immaterial amounts. However, for a better understanding of the actual exposure this table shows the gross amount.

hGears Group applies the rules for hedge accounting if a clear economic relationship between the underlying transaction and the hedging instrument is documented and its effectiveness is demonstrated.

For hedges of foreign currency risks of highly probable future sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly the terms of the hedged item. The Group performs a qualitative assessment of prospective hedge effectiveness. Hedge ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of hGears Group or the derivative's counterparty.

The Group enters into interest rate swaps to hedge the interest rate risk of its loans. The derivatives have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. As all critical terms match, there is an economic relationship established. Hedge ineffectiveness may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the hedged loan.

Due to identical nominal values and same risks between the hedged items and hedging instruments, the hedge ratio for foreign currency hedges as well as interest rate hedges is determined as 1:1. Furthermore, the influence of credit risk to the value changes that result from the established economic relationship is considered as not dominating.

The following table shows the profile of the timing of the notional amount of derivatives designated as hedging instruments, by risk category:

in kEUR December 31, 2020	**Nominal amount By time to maturity**			**Nominal Amount total**	**Average Price/Rate of the hedging instrument**
	<1 year	1 – 5 years	>5 years	December 31, 2020	December 31, 2020
Hedging of Foreign Exchange Risks					
Forward Exchange Contracts EUR/RMB	959	339	-	1,297	8.0749
Forward Exchange Contracts USD/RMB	8,628	2,123	-	10,751	6.7045
Hedging of Interest Rate Risks					
Interest Rate Swaps	-	8,000	-	8,000	0.00070

in kEUR December 31, 2019	**Nominal amount By time to maturity**			**Nominal Amount total**	**Average Price/Rate of the hedging instrument**
	<1 year	1 – 5 years	>5 years	December 31, 2019	December 31, 2019
Hedging of Foreign Exchange Risks					
Forward Exchange Contracts EUR/RMB	742	171	-	913	7.9291
Forward Exchange Contracts USD/RMB	6,549	1,538	-	8,087	7.0386
Hedging of Interest Rate Risks					
Interest Rate Swaps	-	15,500	-	15,500	0.00126

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward element. The changes in the forward element of the foreign currency forwards that relate to hedged items are accounted for in profit or loss. In case of interest rate hedge accounting, the interest rate swaps are designated in their entirety.

Information related to the designated components of derivatives, separately by risk category, is presented below:

In kEUR	Carrying Amount December 31, 2020	Line Item December 31, 2020	Changes in Fair Value used for calculating hedge ineffectiveness December 31, 2020	Nominal Amount December 31, 2020
Hedging of Foreign Exchange Risks				
Forward exchange contracts				
Derivative Financial Assets	117*	Other current financial assets (*)	50	10,751
Derivative Financial Liabilities	(23)*	Other current financial liabilities (*)	(30)	1,297
Hedging of Interest Rate Risks				
Interest rate swaps				
Derivative Financial Liabilities	(6)	Other current financial liabilities	(6)	8,000

In KEUR	Carrying Amount December 31, 2019	Line Item December 31, 2019	Changes in Fair Value used for calculating hedge ineffectiveness December 31, 2019	Nominal Amount December 31, 2019
Hedging of Foreign Exchange Risks				
Forward exchange contracts				
Derivative Financial Assets	19*	Other current financial liabilities (*)	60	8,087
Derivative Financial Liabilities	(8)*	Other current financial liabilities (*)	(7)	913
Hedging of Interest Rate Risks				
Interest rate swaps				
Derivative Financial Liabilities	(23)	Other current financial liabilities	(23)	15,500

*In the consolidated statement of financial position, the net position of derivatives is disclosed due to immaterial amounts. However, for a better understanding of the actual exposure this table shows the gross amount.

The quantitative information about the respective hedged items by risk category is given in the table below:

In kEUR	Changes in value of hedged items used for calculating hedge ineffectiveness December 31, 2020	Balance of cash flow hedge reserve for continuing hedges December 31, 2020
Cash Flow Hedges		
Hedging of Foreign Exchange Risks		
Designated hedged items	(19)	19
Hedging of Interest Rate Risks		
Designated hedged items	6	(6)

	Changes in value of hedged items used for calculating hedge ineffectiveness	Balance of cash flow hedge reserve for continuing hedges
In kEUR	**December 31, 2019**	**December 31, 2019**
Cash Flow Hedges		
Hedging of Foreign Exchange Risks		
Designated hedged items	(52)	52
Hedging of Interest Rate Risks		
Designated hedged items	23	(23)

The quantitative information about hedging gains and losses resulting from cash flow hedges is presented below by risk category:

in kEUR	Hedging gains or losses recognized in OCI income/(expenses)	Reclassifications from Cash Flow Hedge Reserve to profit or loss	
		Due to realization of hedged item (income)/expense	Line item in statement of comprehensive income
	December 31, 2020	**December 31, 2020**	**December 31, 2020**
Hedging of Foreign Exchange Risks	15	(39)	Other operating income/expenses
Hedging of Interest Rate Risks	(4)	17	Finance income/expenses

in kEUR	Hedging gains or losses recognized in OCI income/(expenses)	Reclassifications from Cash Flow Hedge Reserve to profit or loss	
		Due to realization of hedged item (income)/expense	Line item in statement of comprehensive income
	December 31, 2019	**December 31, 2019**	**December 31, 2019**
Hedging of Foreign Exchange Risks	39	(17)	Other operating income/expenses
Hedging of Interest Rate Risks	(17)	16	Finance income/expenses

During the year there was no hedge ineffectiveness to be recognized.

The following table presents the reconciliation of the cash flow hedge reserve separately by risk category:

Cash Flow Hedge Reserve (in kEUR)	*FX hedges*	*Interest rate hedges*
Opening balance January 1, 2020	39	(17)
Changes in fair value of hedging instruments recognized in OCI (effective portion)	15	(4)
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	(39)	17
Closing balance December 31, 2020	15	(4)

Cash Flow Hedge Reserve (in kEUR)	*FX hedges*	*Interest rate hedges*
Opening balance January 1, 2019	17	(16)
Changes in fair value of hedging instruments recognized in OCI (effective portion)	39	(17)
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	(17)	16
Closing balance December 31, 2019	39	(17)

As of December 31, 2020, the unrealized pre-tax losses on the measurement of derivatives in cash flow hedges, which are recognized in other comprehensive income amounted to kEUR 11 (2019: kEUR 23). Losses that were reclassified from other comprehensive income to profit or loss amounted to kEUR 23 (2019: kEUR 237).

7.4 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group might also enter into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The Group did not offset any amounts of financial assets and liabilities in the consolidated statement of financial position. Netting agreements on derivative contracts or other financial asset and liabilities are not in place as of December 31, 2020 and December 31, 2019.

7.5 Income, expense, gains or losses on financial instruments

The table below shows the net gains or losses of financial instruments included in the consolidated statement of income (excluding derivative financial instruments used in hedge accounting):

in kEUR	**2020**	**2019**
Financial assets measured at amortized cost	(79)	18
Financial liabilities measured at amortized costs	(2,123)	(3,858)
Financial assets and liabilities at FVPL	7	-

Net gains/losses on financial assets at amortized cost include changes in loss allowance.

Net gains/losses on financial liabilities at amortized cost include mainly gains and losses from interest expenses on borrowings and shareholder loans and the adjustment of amortized cost due to changes in estimated cash flows for the Group’s bank loans.

Net gains/losses for FVPL include fair value changes.

The total interest income and total interest expense for financial assets measured at amortized costs as well as financial liabilities measured at amortized cost comprise of the following:

	December 31, 2020		**December 31, 2019**	
In kEUR	**Financial assets AC**	**Financial liabilities AC**	**Financial assets AC**	**Financial liabilities AC**
Finance income	6	589	4	-
Finance expenses	-	(2,712)	-	(3,858)
TOTAL	**6**	**(2,123)**	**4**	**(3,858)**

8 Other disclosures

8.1 Contingencies and commitments

8.1.1 Future obligations from short-term and low-value leases

The Group leases machinery and other minor assets under non-cancellable short-term or low value leases agreements. The lease terms are less than 5 years and the agreements are not renewable at the end of the lease term. The future aggregate minimum lease payments under non-cancellable short-term and low value leases and existing purchase commitments are as follows:

in kEUR	**December 31, 2020**	**December 31, 2019**
No later than 1 year	80	132
Later than 1 year and no later than 5 years	65	103
Total	**145**	**235**

8.1.2 Other commitments

The Group has no purchase commitments for capital expenditures related to property, plant and equipment.

8.1.3 Contingencies

As of December 31, 2020, there were no contingent liabilities.

8.2 Related party transactions

Finatem III GmbH & Co. KG, the direct parent of the Company and ultimate controlling party of the Group, has an interest of 90.0 % in the capital of the Company.

In the normal course of its business activities, hGears Group enters into agreements and transactions with its shareholders and other entities of Finatem III Group (defined as Finatem III GmbH & Co. KG and its subsidiaries, joint ventures and associated companies) for various business purposes, including the furnishing of services or financing of operating activities. These related-party transactions are described below.

Transactions within hGears Group are not included in the description as these are eliminated in the consolidated financial statements.

The following transactions were carried out with related parties:

8.2.1 Transactions with shareholders

The transactions with Finatem III GmbH & Co. KG are summarized below:

- Accrued financial expenses: the total value for the financial year 2020 is equal to kEUR 622 (2019: kEUR 548);
- Residual financial loan: the balance at December 31, 2020 is equal to kEUR 13,163 (at the end of 2019: kEUR 12,540). The increase is due to accrued interest.

The transactions with minority shareholders are summarized below:

- Accrued financial expenses: the total value for the financial year 2020 is equal to kEUR 60 (2019: kEUR 50);
- Residual financial loan: the balance at December 31, 2020 is equal to kEUR 1,179 (at the end of 2019: kEUR 1,119). The increase is due to accrued interest;

- Salaries: kEUR 141 (2019: kEUR 141);
- Building rent: kEUR 442 (2019: kEUR 439).

The Group believes that all transactions with related parties substantially took place on the basis of normal market conditions.

8.2.2 Transactions with related individuals

The Group's key management personnel is defined as those individuals that have authority and responsibility for planning, directing and controlling the activities of the Group. At hGears Group, key management personnel consists of the members of the Board of Management as well as the embers of the Advisory Board of hGears; beside Mr. Lattemann all other members of the Advisory Board of hGears Holding are also members of the Supervisory Board of mG Italy and thus hold key management positions in the Group:

Board of Management:

- Pierluca Sartorello
- Daniel Basok (from June 2020)

Advisory Board:

- Christophe Hemmerle – Chairman
- Daniel Kartje – Deputy Chairman
- Volker Stauch
- Bernd Lattemann

The short-term employee benefits for members of the Advisory Board of hGears Holding amount to kEUR 75 (2019: kEUR 75) The short-term employee benefits paid to the mG Italy Supervisory Board were kEUR 76 (2019: kEUR 76).

The compensation of the board of management for employee services is shown below:

in kEUR	**2020**	**2019**
Salaries and other short-term employee benefits	749	476
Total	**749**	**476**

Salaries and other short-term employee benefits include in 2020 granted exit bonuses for the board of management.

The unpaid liabilities to the board of management are shown below:

in kEUR	**December 31, 2020**	**December 31, 2019**
Payroll liabilities	479	110
Total	**479**	**110**

The increase in payroll liabilities results from the increased number of managing directors, an exit bonus granted and the increased variable bonus of the managing directors. There are no long-term employee benefits for key management to report for 2020 and 2019.

During 2018 a member of the management board received unsecured and interest-free loans amounting to kEUR 216 to pay payroll taxes in Germany for fiscal years 2015 - 2018 and to be recovered as foreign tax credit (FTC) with resubmission of Italian tax returns for the same years. For fiscal years 2019 a similar loan for similar purpose have been granted in amount of kEUR 30 respectively. In 2020 the board member repaid kEUR 164 based on the FTC refund received In Italy and by offsetting the payment of the bonuses.

Additional information related to the managing directors as of December 31, 2020 is as follows:

Pierluca Sartorello:

- CEO
- Residence: Treviso (Italy)
- Degree in International Business

Basok Daniel:

- CFO
- Residence: Friesenheim (Germany)
- Degree in Economics and Accounting, Certified Public Accountant (Israel)

8.3 Subsequent events

No events of special significance occurred after the end of the financial year as of December 31, 2020 that would have to be reported here.

8.4 Approval of financial statements

The financial statements were authorized for issue by the Board of Management for approval by the Advisory Board on March 19, 2021.

Pierluca Sartorello Chairman of the Management Board	Daniel Basok Member of the Management Board

Annex 1

	Change occurred during the current year								
	December 31, 2019	**Addition**	**Disposal**	**Depreciation**	**Reclassification**	**Writedown**	**IFRS 16 adoption**	**Exchange rate differences**	**December 31, 2020**
Gross value	*17,110*	*303*	*(212)*	*-*	*575*	*-*	*-*	*(100)*	*17,676*
Provisions for amortization and depreciation	*(3,000)*	*-*	*66*	*(1,736)*	*-*	*-*	*-*	*23*	*(4,647)*
Land and Buildings	**14,110**	**303**	**(146)**	**(1,736)**	**575**	**-**	**-**	**(77)**	**13,029**
Gross value	*115,367*	*5,737*	*(3,233)*	*0*	*1,604*	*-*	*-*	*(175)*	*119,300*
Provisions for amortization and depreciation	*(78,317)*	*0*	*3,206*	*(5,505)*	*0*	*-*	*-*	*105*	*(80,511)*
Plants and Machinery	**37,050**	**5,737**	**(28)**	**(5,505)**	**1,604**	**-**	**-**	**(70)**	**38,789**
Gross value	*17,124*	*927*	*(687)*	*0*	*(99)*	*-*	*-*	*(17)*	*17,248*
Provisions for amortization and depreciation	*(11,331)*	*0*	*552*	*(1,294)*	*0*	*-*	*-*	*13*	*(12,060)*
Tools and Dies	**5,793**	**927**	**(134)**	**(1,294)**	**(99)**	**-**	**-**	**(4)**	**5,188**
Gross value	*15,651*	*840*	*(92)*	*0*	*287*	*-*	*-*	*(85)*	*16,601*
Provisions for amortization and depreciation	*(9,709)*	*0*	*92*	*(1,281)*	*0*	*-*	*-*	*23*	*(10,875)*
Other assets	**5,942**	**840**	**0**	**(1,281)**	**287**	**-**	**-**	**(62)**	**5,726**
Fixed assets under construction and down-payments	**3,722**	**2,236**	**(106)**	***0***	**(2,367)**	**-**	**-**	**(19)**	**3,466**
Property, plant and equipment	**66,617**	**10,043**	**(414)**	**(9,816)**	**-**	**-**	**-**	**(232)**	**66,198**

	Change occurred during the current year								
	December 31, 2018	**Addition**	**Disposal**	**Depreciation**	**Reclassification**	**Writedown**	**IFRS 16 adoption**	**Exchange rate differences**	**December 31, 2019**
Gross value	*6,581*	*366*	*(1,924)*	*-*	*6*	*-*	*12,126*	*(45)*	*17,110*
Provisions for amortization and depreciation	*(3,295)*	*-*	*1,924*	*(1,668)*	*33*	*-*	*-*	*6*	*(3,000)*
Land and Buildings	**3,286**	**366**	**-**	**(1,668)**	**39**	**-**	**12,126**	**(39)**	**14,110**
Gross value	*103,093*	*14,651*	*(6,246)*	*-*	*3,658*	*-*	*164*	*47*	*115,367*
Provisions for amortization and depreciation	*(79,357)*	*-*	*6,244*	*(5,185)*	*-*	*-*	*-*	*(19)*	*(78,317)*
Plants and Machinery	**23,736**	**14,651**	**(2)**	**(5,185)**	**3,658**	**-**	**164**	**28**	**37,050**
Gross value	*15,645*	*1,578*	*(224)*	*-*	*117*	*-*	*-*	*8*	*17,124*
Provisions for amortization and depreciation	*(10,111)*	*-*	*100*	*(1,318)*	*2*	*-*	*-*	*(4)*	*(11,331)*
Tools and Dies	**5,534**	**1,578**	**(124)**	**(1,318)**	**119**	**-**	**-**	**4**	**5,793**
Gross value	*14,037*	*1,506*	*(373)*	*-*	*33*	*-*	*424*	*24*	*15,651*
Provisions for amortization and depreciation	*(9,092)*	*-*	*311*	*(1,153)*	*223*	*-*	*-*	*2*	*(9,709)*
Other assets	**4,945**	**1,506**	**(62)**	**(1,153)**	**256**	**-**	**424**	**26**	**5,942**
Fixed assets under construction and down-payments	**6,067**	**1,775**	**(50)**	**-**	**(4,072)**	**-**	**4**	**(2)**	**3,722**
Property, plant and equipment	**43,568**	**19,876**	**(238)**	**(9,324)**	**-**	**-**	**12,718**	**17**	**66,617**

Annex 2

	Change occurred during the current year							
	December 31, 2019	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2020**
Gross value	*4,667*	*193*	*(12)*	-	*26*	-	*(6)*	*4,868*
Provisions for amortization and depreciation	*(2,964)*	-	-	*(551)*	-	-	*10*	*(3,505)*
Software and licences	**1,703**	**193**	**(12)**	**(551)**	**26**	-	**4**	**1,363**
Gross value	*1,560*	-	-	-	-	-	-	*1,560*
Provisions for amortization and depreciation	*(1,404)*	-	-	*(156)*	-	-		*(1,560)*
Brands and trademarks	**156**	-	-	**(156)**	-	-	-	**0**
Intangible assets under construction and down-payments	***122***	***18***	-	-	***(29)***	-	***(7)***	**104**
Gross value	*365*	*8*	-	-	*3*	-	*2*	*378*
Provisions for amortization and depreciation	*(276)*	-	-	*(28)*	-	-	-	*(304)*
Other	**89**	**8**	-	**(28)**	**3**	-	**2**	**74**
Goodwill and Intangible assets	**2,070**	**219**	**(12)**	**(735)**	-	-	**(1)**	**1,541**

	Change occurred during the current year							
	December 31, 2018	**Addition**	**Disposal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2019**
Gross value	*4,252*	*273*	*-*	*-*	*140*	*-*	*2*	*4,667*
Provisions for amortization and depreciation	*(2,338)*	*-*	*-*	*(624)*	*-*	*-*	*(2)*	*(2,964)*
Software and licences	**1,914**	**273**	**-**	**(624)**	**140**	**-**	**-**	**1,703**
Gross value	*1,560*	*-*	*-*	*-*	*-*	*-*	*-*	*1,560*
Provisions for amortization and depreciation	*(1,092)*	*-*	*-*	*(312)*	*-*	*-*	*-*	*(1,404)*
Brands and trademarks	**468**	**-**	**-**	**(312)**	**-**	**-**	**-**	**156**
Intangible assets under construction and down-payments	***22***	***241***	**-**	**-**	***(140)***		***(1)***	**122**
Gross value	*364*	*-*	*-*	*-*	*-*	*-*	*1*	*365*
Provisions for amortization and depreciation	*(236)*	*-*	*-*	*(40)*	*-*	*-*	*-*	*(276)*
Other	**128**	**-**	**-**	**(40)**	**-**	**-**	**1**	**89**
Goodwill and Intangible assets	**2,532**	**514**	**-**	**(976)**	**-**	**-**	**-**	**2,070**

(The following independent auditor's report (Bestätigungsvermerk des unabhängigen Abschlussprüfers), prepared in accordance with Section 322 HGB ("Handelsgesetzbuch": "German Commercial Code"), refers to the consolidated financial statements, comprising the consolidated statement of financial position as of December 31, 2020, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the financial year from January 1, to December 31, 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies, together with the group management report of hGears Holding GmbH for the financial year from January 1, 2020 to December 31, 2020. The group management report is not included in this prospectus. The above-mentioned independent auditor's report and consolidated financial statements are both translations of the respective German-language documents.)

22.1.7 Independent Auditor's Report

To hGears Holding GmbH, Schramberg

Audit Opinions

We have audited the consolidated financial statements of hGears Holding GmbH, Schramberg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2020, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flow for the financial year from January 1, 2020 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of hGears Holding GmbH for the financial year from January 1, 2020 to December 31, 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2020, and of its financial performance for the financial year from January 1, 2020 to December 31, 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [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 of the group management report in accordance with § 317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles 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 and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibilities of the Executive Directors and the Advisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are 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 or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Advisory 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 about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate 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 appropriately 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 § 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) 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 executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- 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 audit 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 executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors 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 charged with 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.

Stuttgart, March 19, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Marcus Nickel)	(sgd. Denis Etzel)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

22.2 Audited consolidated financial statements of hGears Holding GmbH as of and for the financial year ended December 31, 2019 (prepared in accordance with IFRS) and independent auditor's report thereon

The following English-language consolidated financial statements of hGears Holding GmbH as of and for the financial year ended December 31, 2019 are translations of the respective German-language consolidated financial statements of hGears Holding GmbH.

22.2.1 Consolidated Statement of Profit or Loss

of hGears Holding GmbH, Schramberg for the period January 1, to December 31,

in kEUR	Note	2019	2018
Revenues	3.1	121,838	126,205
Other capitalized own work	3.2	132	172
Changes in inventories	3.2	(2,891)	(5,094)
Total output		**119,079**	**121,283**
Other operating income	3.3	1,557	2,417
Raw materials and consumables used	3.4	(52,727)	(55,802)
Personnel expenses	3.5	(41,305)	(39,713)
Depreciation, amortization and impairment	3.6	(10,300)	(7,411)
Other operating expenses	3.7	(15,838)	(19,404)
Profit / loss from operating activities		**466**	**1,370**
Finance income		4	3
Finance expenses		(4,716)	(2,221)
Financial result	**3.8**	**(4,712)**	**(2,218)**
Income before income taxes		**(4,246)**	**(848)**
Income and deferred taxes	3.9	(490)	(1,240)
Net result of the period		**(4,736)**	**(2,088)**
Result attribution to:			
Shareholders		**(4,736)**	**(2,088)**

The accompanying notes are an integral part of these consolidated financial statements.

22.2.2 Consolidated Statement of Comprehensive Income

of hGears Holding GmbH, Schramberg for the period January 1, to December 31,

in kEUR	2019	2018
Net result of the period	**(4,736)**	**(2,088)**
Other comprehensive income:	-	-
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment benefit obligations	(63)	35
Tax effect	15	(8)
Other comprehensive income that will be reclassified subsequently to profit or loss		
Gains/(Losses) on cash flow hedges	28	(70)
Tax effect	(7)	16
Currency translation adjustment	(10)	(38)
Total other comprehensive income	**(37)**	**(65)**
Total comprehensive income	**(4,773)**	**(2,153)**

The accompanying notes are an integral part of these consolidated financial statements.

22.2.3 Consolidated Statement of Financial Position

of hGears Holding GmbH, Schramberg

in kEUR	Note	December 31, 2019	December 31, 2018
Property, plant and equipment	4.1	66,617	43,568
Intangible assets	4.2	2,070	2,532
Other non-current assets	4.5	116	122
Deferred tax assets	3.9	1,791	2,100(*)
Total non-current assets		**70,594**	**48,322**
Inventories	4.3	16,331	16,372
Trade receivables	4.4	13,108	12,717
Other receivables	4.5	1,317	1,258
Other current assets	4.5	2,322	1,752
Other current financial assets	4.5	185	1,186
Cash and cash equivalents	4.6	17,703	7,768
Total current assets		**50,966**	**41,053**
Total assets		**121,560**	**89,375**

in kEUR	Note	December 31, 2019	December 31, 2018
Share capital		63	50
Capital reserve		20,448	15,460
Other reserves		400	400
OCI		1,018	1,055
Retained earnings		1,947	4,480
Net result of the period		(4,736)	(2,088)
Total Equity	**4.15**	**19,140**	**19,357**
Lease liabilities	4.7	14,555	4,969
Borrowings	4.8	28,136	16,147
Shareholder loans	4.9	13,660	13,061
Deferred tax liabilities	3.9	228	549(*)
Provisions	4.10	319	319
Employee benefit obligations	4.11	1,560	1,585
Other non-current liabilities	4.13	338	315
Total non-current liabilities		**58,796**	**36,945**
Lease liabilities	4.7	2,905	1,369
Borrowings	4.8	10,975	7,227
Provisions	4.10	288	361
Other current financial liabilities	4.13	129	219
Trade and other payables	4.12	29,231	23,573
Current tax liabilities	4.14	96	324
Total current liabilities		**43,624**	**33,073**
Total liabilities		**102,420**	**70,018**
Total equity and liabilities		**121,560**	**89,375**

(*) prior year adjustment: Offsetting of deferred taxes (refer to Note 3.9)

The accompanying notes are an integral part of these consolidated financial statements.

22.2.4 Consolidated Statement of Changes in Equity

of hGears Holding GmbH, Schramberg for the years ended December 31,

in kEUR				**OCI**				
	Share capital	**Capital reserve**	**Other reserves**	**Currency translation**	**Cash Flow Hedge Reserve**	**Employee plan**	**Retained earnings**	**Total equity**
Balance at January 1, 2018	**50**	**15,460**	**400**	**1,154**	**55**	**(89)**	**4,571**	**21,601**
Allocation previous year result	**-**	**-**	**-**	**92**	**-**	**-**	**(92)**	**-**
Income after income taxes	**-**	**-**	**-**	**(129)**	**(54)**	**27**	**(2,088)**	**(2,244)**
Balance at December 31, 2018	**50**	**15,460**	**400**	**1,117**	**1**	**(62)**	**2,392**	**19,357**
Change in accounting policy	**-**	**-**	**-**	**-**	**-**	**-**	**(554)**	**(554)**
Balance at January1, 2019	**50**	**15,460**	**400**	**1,117**	**1**	**(62)**	**1,838**	**18,803**
Allocation previous year result	-	-	-	(109)	-	-	109	**0**
Capital increase	13	4,988	-	-	-	-	-	**5,001**
Income after income taxes	-	-	-	99	21	(48)	(4,736)	**(4,664)**
Balance at December 31, 2019	**63**	**20,448**	**400**	**1,107**	**22**	**(110)**	**(2,789)**	**19,140**

The accompanying notes are an integral part of these consolidated financial statements.

22.2.5 Consolidated Statement of Cash Flow

of hGears Holding GmbH, Schramberg for the years ended December 31,

in kEUR	2019	2018
Profit / loss from operating activities	**466**	**1,370**
Depreciation, amortization and impairment	10,300	7,411
Other non-cash items	(799)	(1,601)
Income tax proceeds/payment	(1,256)	(1,041)
Provisions and other items	(98)	(117)
Interest paid	(2,356)	(969)
Interest received	3	3
Change in inventories	59	5,340
Change in receivables	(362)	(2,353)
Change in liabilities	4,755	(4,691)
Change in other assets	893	(1,596)
Change in other liabilities	912	487
Net cash provided by (used in) operating activities	**12,517**	**2,243**
Cash flows provided by (used in) investing activities		
Payments for Property, plant and equipment and intangible assets	(19,263)	(10,928)
Net cash provided by (used in) investing activities	**(19,263)**	**(10,928)**
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	15,169	39,602
Repayment of borrowings	(500)	(30,246)
Repayments for lease agreements	(2,999)	(1,571)
Capital increase	5,000	-
Net cash provided by (used in) financing activities	**16,670**	**7,785**
Net cash increase (decrease) in cash and cash equivalents	**9,924**	**(900)**
Cash and cash equivalents at the beginning of the period	7,768	8,742
Effects of exchange rate changes on cash and cash equivalents	11	(74)
Cash and cash equivalents at the end of the period	**17,703**	**7,768**

The accompanying notes are an integral part of these consolidated financial statements.

22.2.6 Notes to the consolidated Financial Statements

1. General Information

hGears Holding GmbH (former Herzog Beteiligungs GmbH) (HRB 737541) was incorporated in 2011 and is domiciled in Schramberg, Germany.

The address of its registered office is Brambach 38, 78713 Schramberg.

These consolidated financial statements consisting of the financial statements of hGears Holding GmbH, its subsidiaries: Herzog GmbH (herewith: "Herzog"); mG miniGears S.p.A (herewith: "mG Italy"), and its second-tier subsidiary mG miniGears (Suzhou) Co., Ltd. (herewith: "mG China") were prepared using uniform group accounting policies.

hGears Holding GmbH and its subsidiaries and second-tier subsidiary ("hGears-Group", "Group") manufacture, distribute and sell precision turned parts, drive components, gear kits as well as complex system solutions. For this, the Group combines traditional steel machining with powder metal technologies.

The consolidated financial statements are available at www.bundesanzeiger.de.

Management and the banks financing have agreed to adjust the financial key figures specified in the syndicated loan agreement as of November 21, 2019. As part of this agreement, the shareholders have increased the company's equity by EUR 5 million.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below and were applied consistently to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of hGears-Group as of December 31, 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as adopted by the European Union and § 315e of the German Commercial Code "HGB", and were released by the Board of Management for issue by the Advisory Board on February 15, 2021.

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The consolidated financial statements are presented in Euro (EUR). Individual items in the consolidated financial statements and the notes to the consolidated financial statements are presented in Euro thousands (kEUR) in accordance with commercial rounding practices. The financial year corresponds to the calendar year. The functional currency of the Company as well as of its subsidiaries is Euro, except for its second-tier subsidiary mG China, for which the functional currency is Renminbi (RMB).

Items that are classified "current" have a maturity within 12 months. All items with maturity of more than 12 months are classified as "non-current".

The consolidated financial statements have been prepared under the historical cost convention except for financial assets and liabilities measured at fair value through profit and loss. The consolidated statement of profit or loss is prepared based on the "Total cost method". The consolidated financial statements have been prepared on a going concern basis.

These consolidated financial statements cover the financial year from January 1, 2019 to December 31, 2019 (comparative period: January 1, 2018 to December 31, 2018).

The following explanatory notes are an integral part of the consolidated financial statements which further comprise the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flow.

IFRSs issued, endorsed by the EU and applied for the first time in the reporting period

Standard/ Interpretation		Mandatory Application for financial years starting on	Adopted by the European Union	Impact on hGears-Group
IFRS 9 (A)	Prepayment Features with Negative Compensation (Amendment to IFRS 9)	January 1, 2019	yes	none
IFRS 16	Leases	January 1, 2019	yes	yes
IAS 19 (A)	Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	January 1, 2019	yes	none
IAS 28 (A)	Long-term Interests in Associates and Joint Ventures	January 1, 2019	yes	none
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	yes	none
	Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019	yes	yes
(A) Amendments				

Application of IFRS 16: The Group has adopted the new standard on leases, IFRS 16, for the first time in the financial year commencing January 1, 2019. The comparative figures for the financial year 2018 have not been subsequently changed in accordance with the permitted transition regulations of the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

With the adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate of the lessee applied to the lease liabilities on January 1, 2019 was 4.97%.

For leases previously classified as finance leases the entity recognized the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognized as adjustments to the related right-of-use assets immediately after the date of initial application.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as of January 1, 2019
- accounting for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 as short-term leases

Measurement of lease liabilities (in kEUR)

Operating lease commitments disclosed as of December 31, 2018	16,692
Discounting using the lessee's incremental borrowing rate at the date of initial application	13,535
Add: finance lease liabilities recognized as of December 31, 2018	6,338
(Less): short-term leases not recognized as a liability	(67)
(Less): low-value leases not recognized as a liability	(111)
Add/(less): contracts reassessed as lease contracts	(34)
Lease liability recognized as of January 1, 2019	**19,661**
Of which are:	
Current lease liabilities	2,874
Non-current lease liabilities	16,788
Total	**19,661**

The details of the impacts of the application of the new Standard are presented in Note 3.8, 4.1 and 4.7.

Due to the adoption of the new standard IFRS 16 EBIT increased by kEUR 444 and the finance expenses increased by kEUR 624.

2.2 Basis of Consolidation

The consolidated financial statements for the Group include the accounts and results of hGears Holding GmbH ("hGears") as well as its subsidiaries and second-tier subsidiary (herewith: subsidiaries). Subsidiaries are all entities with regard to which hGears has the power to govern the financial and operating policies, generally by means of hGears having more than half of the voting rights ('control'). Potential voting rights that are currently exercisable or convertible are taken into consideration when assessing whether hGears controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by hGears and are deconsolidated from the date on which hGears' control ceases. All intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

As of December 31, 2019, the financial statements of the following subsidiaries of hGears Holding GmbH are included in the consolidated financial statements by means of full consolidation:

Subsidiary	Percentage of ownership	Subscribed capital	Result of FY 2019(*)
Herzog GmbH, Schramberg	100	kEUR 4,400	kEUR -
mG miniGears S.p.A., Padova	100	kEUR 2,000	kEUR 1,754
mG miniGears (Suzhou) Co., Ltd., Suzhou	100	kRMB 49,487	kRMB 6,646

(*) the result is presented in accordance with local GAAP

According to paragraph 2 of the Control Agreement ("*Beherrschungsvertrag*") between hGears Holding GmbH and Herzog GmbH, signed on November 15, 2016, with the effective date from

January 1, 2017, hGears commits to assume the losses of Herzog GmbH in accordance with the provision of Section 302 of the German Stock Corporation Act ("*Aktiengesetz*").

2.3 Recent Accounting Developments

The IASB continues to issue new standards, interpretations and amendments to existing standards. hGears-Group applies these new standards when their mandatory application is required by the EU. hGears-Group has not opted for early adoption for any of these standards.

Various new accounting standards and interpretations have been published but are not mandatory for reporting periods ending in December 31, 2019 and have not been adopted early by the Group. These standards are not expected to have a material impact on hGears-Group's net assets, financial position, and results of operations for the period presented or future reporting periods and on foreseeable future business transactions, respectively.

Standard/Interpretation		Mandatory Application for financial years starting on	Adopted by the European Union	Impact on hGears-Group
IFRS 3 (A)	Business Combinations	January 1, 2020	no	none
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020	yes	none
IFRS 17	Insurance Contracts	January 1, 2021	no	none
IAS 1 and IAS 8 (A)	Definition of Material	January 1, 2020	yes	none
	Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	yes	none
(A) Amendments				

2.4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that to a certain extent affect the reported amounts of assets and liabilities, income and expenses, as well as contingent liabilities.

The assumptions and estimates relate primarily to:

- the assessment of the recoverability of intangible assets,
- the uniform determination of the useful life for intangible assets and property, plant and equipment throughout the Group,
- the expected cash inflow from trade receivables,
- the valuation of inventories,
- the accounting and measurement of lease agreements,
- the accounting and measurement of shareholder loans,
- the accounting and measurement of management compensation programs,
- the accounting and measurement of pension provisions and other provisions,
- the accounting for deferred taxes.

The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group is subject to estimates made by management.

For trade receivables, solvency and credit default risks may arise to the extent that customers are unable to meet their payment obligations, resulting in losses to the Group. The calculation of the required impairments takes, among others, into account such things as the solvency of customers, existing securities as well as experience based on historical default rates. The actual payment defaults by customers may differ from anticipated payment defaults due to several influencing factors.

Inventories are measured at the lower value of acquisition and manufacturing cost and net realizable value. Net realizable value is determined by subtracting the costs incurred up to completion from the expected sales price of the end product. If assumptions regarding future sales prices or end product market potentials are not appropriate, this may lead to a further need for impairment of inventories.

When accounting for other provisions, management must make assumptions regarding the probability of certain business transactions resulting in impending losses for hGears-Group. Estimates regarding the amount and timing of possible economic outflows form the basis for the measurement of provisions. If the actual amounts and the timing differ from estimates made, this may affect the result of the Group.

Management judgment is required for the calculation of deferred taxes. Deferred tax assets on tax loss carry forwards may only be recognized to the extent that it is probable that sufficient taxable profit will be available in the future. Management analyses various factors to assess the probability of the future utilization of deferred tax assets based on reasonable scenarios taken from the Group's tax planning process.

Assumptions and estimates are based on premises based on the knowledge at hand at the respective time. Unforeseeable developments and developments beyond management’s control may cause a difference between the initially estimated values and the actual amounts arising at a later date. In this case, the assumptions and, if necessary, the carrying amounts of the affected assets and liabilities will be adjusted accordingly.

2.5 Foreign Currency Translation

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the related entity operates (‘functional currency’). The functional and reporting currency of hGears Holding GmbH, Herzog GmbH and mG miniGears S.p.A. is Euro. The functional and reporting currency of mG miniGears (Suzhou) Co., Ltd. is Renminbi.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss as other operating expenses or other operating income, respectively.

Translation differences on non-monetary financial assets and liabilities measured at fair value through profit or loss are reported as part of the fair value gain or loss. Conversely, when a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in comprehensive income.

The financial position and statement of profit or loss of a Group´s subsidiary that has a functional currency different from the presentation currency is translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date;
- income and expenses are translated at average exchange rates,

- all resulting exchange differences are recognized as a separate component within equity.

Exchange rate differences arising from the translation of a net investment in foreign operations and from borrowings and other currency instruments designated as hedges of such investments are realized within other comprehensive income (equity). When a foreign operation is partially disposed or sold, exchange rate differences previously recorded within other comprehensive income are recognized in the consolidated statement of profit or loss as part of the gain or loss of the sale.

The following foreign currency rates have been applied:

Chinese RMB	2019	2018
as of December 31,	7.8205	7.8751
annual average rate	7.7355	7.8081

2.6 Accounting Policies

2.6.1 Revenue Recognition

On January 1, 2018, hGears-Group adopted IFRS 15 using the modified retrospective transition method. The standard establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers.

Under IFRS 15, hGears-Group recognizes revenue when it transfers control of goods and products to a customer, which occurs upon delivery. Management applies the following five step model when determining the timing and amount of revenue recognition:

1. Identifying the contracts with customers;

2. Identifying the separate performance obligations;

3. Determining the transaction price;

4. Allocating the transaction price to separate performance obligations; and

5. Recognizing revenue when each performance obligation is satisfied.

All revenues of hGears-Group qualify as contracts with customers and fall in the scope of IFRS 15.

hGears-Group generates revenue from the production of components and assemblies. Revenue is measured based on the consideration specified in a contract with a customer, taking into account variable purchase price components, when it is highly probable that a material adjustment to the cumulative recognized revenue will not occur. The amount of variable consideration is determined using either the expected amount method or the most likely amount based on the most appropriate estimation method. The Group recognizes revenue when it transfers control of an asset to a customer. hGears-Group only manufactures products that can be sold to various customers with no or low rework costs. The power of disposal is transferred to the customer upon delivery of the products. Revenue is recognized at a point in time upon delivery. Contracts with customers do not include a significant financing component, as payment terms are short term, as common in the industry.

All revenue generated by hGears-Group is included within the item revenue in the consolidated statements of profit or loss.

2.6.2 Finance income and finance expenses

Interest income and expenses are recognized using the effective interest method.

2.6.3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as measured at amortized cost.

2.6.4 Trade receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. Trade receivables are recognized initially in the amount of the transaction price, unless they contain significant financing components. The Group holds the trade receivables, which are not the subject of factoring and cannot potentially be the subject of the existing factoring agreement, with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. If collection is expected within one year or less, they are classified as current assets. If not, they are presented as non-current assets.

2.6.5 Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of raw, auxiliary and operating materials is determined by using the specific identification of their individual cost method. The cost of semi-finished and finished goods is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

If the net realizable value of a finished good is lower than costs, the difference is recognized as impairment immediately.

The finished products and semi-finished products costs include raw materials, direct manpower costs and other direct costs, as well as other indirect production costs for the share attributable to the production (calculated on the basis of the normal operating capacity). Financing costs are not included in the valuation of the inventories but are charged within the consolidated statement of profit or loss when incurred, since there are no requirements for the capitalization. Inventories of raw materials and semi-finished products no longer usable in the production cycle and inventories of unsaleable finished products are impaired.

2.6.6 Property, plant and equipment

Property, plant and equipment is measured at cost less depreciation and impairment losses, if any. Cost includes direct costs (e.g. materials, direct labor and work contracted out) and directly attributable overhead costs.

The estimated useful lives of the principal property, plant and equipment categories are as follows:

Asset class	Estimated useful life
Land and Buildings	10 to 50 years
Plants, Machinery, Tools and Dies	4 to 25 years
Other assets	3 to 15 years

Property, plant and equipment is depreciated using the straight-line method, based on estimated useful life, taking into account residual value. Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the reasons for impairment no longer exist.

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

2.6.7 Right-of-use-Assets/ Lease Liabilities

Since January 1, 2019, hGears-Group has accounted for leases in accordance with IFRS 16, which defines a lease as a contract or part of a contract whereby the lessor conveys to the lessee the right to use the asset for an agreed period of time in exchange for consideration.

Where hGears-Group is lessee, it generally recognizes a right-of-use asset and a lease liability in the statement of financial position for all leases. The lease liability is measured in the amount of the outstanding lease payments discounted using the incremental borrowing rate, while the right-of-use asset is generally measured in the amount of the lease liability plus initial direct costs.

The right-of-use asset is generally depreciated over the shorter of the lease term and the useful life of the right-of-use asset. If ownership of the leased asset is transferred to the lessee at the end of the lease term, or if the exercise of a purchase option was taken into account at the inception of the lease liability, the right-of-use asset is depreciated until the end of the useful life of the leased asset. The lease liability is adjusted using the effective interest method and taking the lease payments into account.

The incremental borrowing rate is the rate that the lessee would have to pay to obtain, over a similar term and with similar security, the funds that would be required to obtain an asset of similar value to the right-of-use asset in a similar economic environment to the underlying lease arrangement.

The right-of-use assets presented in the consolidated statement of financial position are reported in those items that the assets underlying the lease would have been reported if they had been beneficially owned by hGears-Group. The right-of-use assets were therefore presented as non-current assets within property, plant and equipment as of the balance sheet date.

There are recognition exemptions for short-term leases and leases of low-value assets. hGears-Group takes advantage of these and consequently does not recognize right-of-use assets or lease liabilities for such leases. The associated lease payments are recognized directly in profit or loss as an expense. Leases of low-value assets are those where the value of the leased asset does not exceed USD 5,000 when new. Furthermore, the accounting requirements of IFRS 16 are not applied to leases of intangible assets.

In determining the lease term, all relevant facts and circumstances that create an economic incentive to exercise, or not to exercise, the option are taken into consideration. Optional periods are taken into account in determining the lease term if it is reasonably certain that the option will be exercised.

2.6.8 Intangible assets

Intangible assets include non-monetary assets, with no physical substance, clearly identifiable and suitable to generate future economic benefits. Such intangible assets are capitalized at cost, including the expenses directly attributable to prepare the asset for its use, and subsequently measured net of accumulated depreciations and of any possible impairment losses. Amortization commences when the intangible asset is available to be used and is systematically allocated over the estimated useful life. In case of identification of the possible impairment indicators, the recoverable amount of the intangible asset is estimated, attributing an impairment in the consolidated statement of profit or loss. Should the requirements for the impairment no longer exist, the carrying amount is reinstated through profit or loss, to the extent that the intangible asset`s carrying amount does not exceed the carrying amount net of amortization that would have been determined if an impairment had not been recognized.

Other intangible assets with a finite useful life

Intangible assets with a finite useful life are capitalized at cost, as previously described, and subsequently measured net of accumulated amortizations and impairment if any. Amortization starts when the asset is available to be used and is systematically allocated over the estimated useful life. The useful life estimated by the Company for the categories of intangible assets is as follows:

Asset class	Estimated useful life
Software and licenses	5 years
Brands and trademarks	5 years
Other	5 years

Following mG Italy contribution in hGears Holding GmbH (in January 2015), the management of the Group initiated a process of implementing and introducing a new brand in the market ("hGears") with the aim to place it, commercially, in combination with the existing and established mG miniGears brand as from July 2015. The useful life estimated by the Group is 5 years starting with the transition date in July 2015.

It is expected that the brand awareness of the "hGears" brand in the market is going to increase and, at the same time, the brand awareness of "mG miniGears" is going to reduce; for this reason the management considered it appropriate to update the estimate of the useful life of the "mG miniGears" brand previously considered to be indefinite to a definite useful lifetime of 5 years.

Impairment of intangible assets

Intangible assets with indefinite life are not subject to amortization, but subjected at least annually (more frequently in presence of specific impairment indicators) to the verification of the absence of lasting losses of value such to require an impairment, while intangible assets with a finite useful life are subjected to this verification only in the presence of specific impairment indicators.

The verification if an impairment of an intangible asset becomes necessary occurs by estimating the recoverable amount of the intangible asset and comparing it with the carrying amount. The recoverable amount is the higher amount of the fair value of an asset and its value in use, which is determined as the current value of expected cash flows that the company estimates will derive from the continuing use of the asset and from its disposal at the end of its useful life. This recoverable amount is determined for each individual asset unless said asset does not generate cash flows that are largely dependent of those generated by other assets. If the recoverable amount is lower than the carrying amount, the latter is reduced accordingly; such reduction constitutes an impairment loss, which is recognized in the consolidated statement of profit or loss. Should the reasons that triggered impairment losses previously recognized no longer exist, with the exception of the goodwill and of the intangible assets with indefinite useful life, the impairment is reversed to the extent the estimated value does not exceed the net carrying amount that the asset would have had if no impairment losses had been carried out. The reversal of value is recorded in the consolidated statement of profit or loss.

2.6.9 Trade and other payables

These amounts represent unpaid liabilities for goods and services provided to the Group prior to the end of the financial year. The amounts are unsecured and are usually paid within 30 days of recognition (for the German companies) and 60 days (for miniGears companies). Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.6.10 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that the facility or parts of it will be drawn down. In this case, the fee is deferred until the draw down occurs.

Borrowings are derecognized when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss as other income or finance expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.6.11 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation resulting from past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood of an outflow to settle these obligations is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The increase in the provision due to the passage of time is recognized as interest expense.

2.6.12 Employee Benefits

2.6.12.1 Pension obligations

The Group has defined benefit plans and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (funds). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay to all employees the benefits relating to employee service in the current and prior periods. The other plans are defined benefit plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually depending on one or more factors such as age, years of service and compensation.

The provision recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality fixed rate AA-corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other components of equity (other comprehensive income) in the period in which they arise.

Past-service costs are recognized immediately in income.

According to IAS 19, employee benefits to be paid out subsequent to the termination of the employment relationship and other long-term benefits (including the Provision for severance indemnity recognized by mG Italy) are subjected to actuarial valuations which have to take into account a series of variables (such as mortality, future salary and pension changes, the anticipated rate of inflation, etc.).

2.6.12.2 Other benefits

Liabilities for wages and salaries, including monetary and non-monetary benefits and accumulating sick leave that are expected to be fully settled within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

2.6.13 Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in the consolidated statement of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.6.14 Financial instruments

2.6.14.1 Recognition and derecognition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are presented separately.

Financial instruments are recognized as soon as hGears-Group becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are initially (de-)recognized and measured at the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of profit or loss as other finance income or financial expense.

2.6.14.2 Financial assets

Financial assets include primarily trade receivables, receivables from banks, cash on hand and derivative financial assets. The classification of financial instruments is based on the business model in which these instruments are held and on their contractual cash flows.

Classification

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss.

Subsequent measurement of financial assets depends on the measurement category into which the Group classifies its financial assets. According to IFRS 9 there are three measurement categories:

- Amortized cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

For the classification in one of these categories hGears-Group differentiates between debt and equity instruments.

Subsequent measurement of **debt instruments** depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

- Financial assets are classified as measured at **Amortized Cost** if the Group holds the assets for collection of contractual cash flows (business model "hold to collect") and the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. After initial recognition, such financial instruments are subsequently carried at Amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the statement of income when the financial assets are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in the consolidated statement of profit or loss.

  All non-derivative financial assets of hGears fall into this category since both criteria are met.

- Debt financial assets are classified as measured at **fair value through other comprehensive income** if the business model is "hold to collect and sell" and the contractual cash flows are solely payments of principal and interest on principal amount outstanding. The changes in fair value are recognized in other comprehensive income and are reclassified to profit or loss when the instrument is derecognized. Changes in expected credit losses are recorded in profit or loss by adjusting the FVOCI reserve instead of the carrying amount.

hGears-Group does not hold financial instruments that fall into this category.

- Financial assets that do not meet the criteria for AC or FVOCI are classified as measured at **fair value through profit or loss**. In addition, the Group may irrevocably designate a debt instrument as measured at FVPL (so-called fair value option). Gains or losses on a debt instrument classified into this category are recognized in profit or loss and presented net within other income/(expenses) in the period in which they arise.

  hGears-Group does not make use of the fair value option. During the year the Group holds trade receivables that fall under the business model "hold to sell".

Equity investments are measured at fair value through profit or loss. Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the consolidated statement of profit or loss. In addition, there is an irrevocable option to present fair value gains and losses on equity investments in other comprehensive income. The Group decides on an instrument-by-instrument basis whether it elects this option. In this case, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. However, dividends from such investments continue to be recognized in the consolidated statement of profit or loss as other income when the Group's right to receive payments is established.

As of 2019, hGears-Group did not hold any equity instruments.

Impairment of financial assets

Financial assets are subject to credit risk that are taken into consideration in the recognition of loss allowances or, for losses already incurred, when reporting an impairment. From 1 January 2019, the Group assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instruments carried at AC and FVOCI.

The general impairment methodology applied follows a three stage approach which is based on the change in credit quality of financial assets since initial recognition (general approach). According to this approach hGears-Group considers the probability of default upon initial recognition of the respective asset and whether there has been a significant increase in credit risk. At initial recognition, debt instruments are assumed to have a low credit risk, for which a loss allowance for 12-months ECL is recognized (stage 1). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL (stage 2). A significant increase in credit risk is presumed if a debtor is more than 60 days past due in making a contractual payment or if the rating of the debtor was downgraded by external rating agencies (for example by insurance companies). If there is objective evidence of impairment (stage 3), hGears-Group also accounts for lifetime ECL.

The Group considers that there is objective evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- enhanced probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The company categorizes a financial asset for write off only based on decisions made on specific debtors. The decision is based on available information and after the company concluded all required actions to collect the over dues amounts. Where financial assets have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

For trade receivables, the Group applies the simplified approach which uses a lifetime ECL allowance. To measure the ECL, trade receivables have been grouped based on shared risk characteristics (i.e. counterparty's industry). The expected loss rates are based on market data about the counterparties' ability to settle their obligation.

An impairment loss for trade receivables is recorded using an allowance account. For all other financial assets impairment loss directly reduces the carrying amount. Impairment losses are recognized in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

For detailed information on credit risk refer to Note 6.2.2.

2.6.14.3 Financial liabilities

Financial liabilities primarily include liabilities to banks, to shareholders, to leasing companies and derivative financial liabilities. They are initially recognized at fair value.

At initial recognition, the Group measures a financial liability at its fair value minus any directly attributable transaction costs, in case a financial liability is not classified at fair value through profit or loss. Transaction costs of financial liabilities carried at fair value through profit or loss are expensed in the consolidated statement of profit or loss.

Subsequent measurement of financial liabilities depends on the measurement category into which the Group classifies its financial liabilities. According to IFRS 9 there are two measurement categories for financial liabilities:

- Amortized cost (AC)
- Fair value through profit or loss (FVPL)

Financial liabilities at **Amortized cost** are liabilities to banks and the directly attributable transaction costs. After initial recognition, financial liabilities are subsequently measured at Amortized cost using the effective interest method.

Financial liabilities at **fair value through profit or loss** include financial liabilities held for trading. Derivatives, which are not designated as hedging instruments in hedge accounting, are classified as held for trading and therefore recognized at fair value through profit and loss. Gains or losses on liabilities held for trading are recognized in consolidated statement of profit or loss.

hGears-Group did not account for financial liabilities at fair value through profit or loss as of December 31, 2019.

2.6.14.4 Derivatives and hedge accounting

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months; it is classified as a current asset or liability when the remaining maturity is less than 12 months.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument.

If hedge accounting would not have been applied, the profit or loss arising from remeasuring the derivative financial instrument at its fair value is immediately recognized in the consolidated statement of profit or loss.

If hedge accounting is applied, derivatives can be designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)

- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or

- hedges of a net investment in a foreign operation (net investment hedges).

hGears-Group only designates derivatives within cash flow hedges, whereby the effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve in other comprehensive income. The deferred gain or loss is removed from equity and recognized in consolidated statement of profit or loss in the same period in which the hedged transaction is recognized. The gain or loss relating to the ineffective portion of changes in the fair value of the hedging instrument is recognized immediately in the consolidated statement of profit or loss.

When an hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss recorded in equity shall remain in equity and be reclassified to the consolidated statement of profit or loss when the forecast transaction occurs. If the hedged forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in equity shall immediately be reclassified to profit or loss.

At inception of a hedge relationship, hGears-Group documents the economic relationship between the hedging instrument and hedged item, its risk management objective and strategy for undertaking the hedge transaction as well as the method to assess hedge effectiveness prospectively.

3 Notes to the consolidated statement of profit or loss and the consolidated statement of comprehensive income

3.1 Revenues

hGears-Group generates revenues from the sale of manufacturing, distribution and selling of precision turned parts, drive components, gear kits as well as complex system solutions. Revenues for the financial year 2019 amounted to kEUR 121,838 (2018: kEUR 126,205).

The Group derives revenues through its operations at a point in time in the following major revenue streams, business areas and geographical regions:

in kEUR	2019	2018
Sales of goods	121,088	125,401
Other	750	804
Revenues	**121,838**	**126,205**

Other revenues relate to the sale of scrap mainly in Germany.

hGears-Group earns revenues on the sale of goods through its operations consisting of 6 business areas. The following table provides hGears Group's sales of goods by business area:

in kEUR	2019	2018
Automotive	41,158	35,950 (*)
Gardening	15,884	19,395
Power Tools	25,349	32,972
Motorbike	4,122	10,617
E-bike	22,948	13,013 (*)
Others	11,627	13,454 (*)
Sales of goods	**121,088**	**125,401**

(*) Adjustment of prior-year allocation from Other to Automotive (kEUR 2,714) and E-bike (kEUR 2,156)

The following table provides hGears Group's sales of goods by geographic location:

In kEUR	2019	2018
Austria	4,555	8,464
Belgium	2,284	3,052
Brazil	3,087	3,962
China	7,372	7,614
France	2,353	2,734
Germany	42,631	41,575
Great Britain	3,278	3,135
India	527	651
Italy	4,309	7,049
Liechtenstein	466	4,575
Sweden	3,659	4,563
USA	9,817	12,443
Hungary	22,341	13,032
Mexico	3,194	2,328
Bulgaria	1,661	1,349
Romania	1,422	1,915
Other not EU area	2,565	3,539
Other EU area	5,567	3,421
Sales of goods	**121,088**	**125,401**

Revenue in the e-Bike and Automotive business units increased due to the ramp-up of new products for e-bikes and electric and hybrid vehicles in 2019. Revenue in the Gardening and Power Tools business unit declined year-on-year due to increased price pressure in the Chinese market. Revenues in the Motorcycles business unit decreased year-on-year mainly due to the strategic exit from the motorcycle business as part of the strategic shift to combustion-free electronic drive applications. Other revenues decreased compared to the previous year, mainly due to the strategic shift from combustion technology to electronic drive systems.

As part of the strategic realignment, hGears-Group will combine the previous 6 business units into 3 business units in the future. The e-Mobility business unit will combine the e-bike business units and parts of the Automotive business unit (products for fully electric and hybrid vehicles), the e-Tools business unit will combine the gardening and power tools business units, and the Other business unit will combine parts of the Automotive business unit (products for vehicles with combustion engines), motorcycles and other. This results in the following table:

in kEUR	2019	2018
e-Mobility	28,802	14,541
e-Tools	41,233	52,367
Other	51,054	58,493
Sales of goods	**121,088**	**125,401**

3.2 Other capitalized own work and Changes in inventories (finished goods and work in progress)

in kEUR	2019	2018
Other capitalized own work	132	172
Changes in inventories	(2,891)	(5,094)
Total	**(2,759)**	**(4,922)**

3.3 Other operating income

The line item breaks down as follows:

in kEUR	2019	2018
Income from the disposal of non-current assets	102	260
Reversal of impairment losses on receivables	40	-
Reversal of previous year accrual	85	116
Income for damages from supplier	57	34
Recharge to employees of car fees	165	140
Refund from Insurance	36	70
Income from prior years	95	49
Refund from energy company	124	0
Foreign currency exchange gains	722	1,645
Other	131	103
Total	**1,557**	**2,417**

3.4 Raw materials and consumables used

The line item breaks down as follows:

in kEUR	2019	2018
Raw Materials	(32,658)	(36,007)
Trade goods	(402)	(384)
Supplies	(2,150)	(2,043)
Energy costs for production	(4,569)	(4,246)
Tools	(6,363)	(5,977)
Inbound freight	(512)	(508)
Discounts	351	259
Outsourced manufacturing costs	(6,424)	(6,896)
Total	**(52,727)**	**(55,802)**

3.5 Personnel expenses

The line item breaks down as follows:

in kEUR	2019	2018
Wages and salaries	(30,500)	(29,821)
Social security contributions	(7,062)	(6,982)
Temporary workers	(3,743)	(2,910)
Total	**(41,305)**	**(39,713)**

In 2019 the Group employed 883 people on average (2018: 889) measured in full time equivalents (‘FTE’).

	2019	2018
Factory workers	729	735
Office workers and Managers	154	154
Total	**883**	**889**

As of December 31, 2019, the Group employed 903 FTEs (December 31, 2018: 877).

	December 31, 2019	December 31, 2018
Factory workers	820	672
Office workers and Managers	83	205
Total	**903**	**877**

3.6 Depreciation, amortization and impairment

The notes to the individual items show the breakdown of depreciation, amortization and impairment charges between intangible assets and property, plant and other equipment. Total depreciation, amortization and impairment came to kEUR 10,300 (December 31, 2018: kEUR 7,411).

3.7 Other operating expenses

The line item breaks down as follows:

in kEUR	**2019**	**2018**
Training/Clothing/Various Employees Costs	(1,579)	(1,474)
Travel and Entertainment costs	(548)	(515)
Office expenses / telephone and postal charges	(304)	(333)
Factory facility costs	(802)	(827)
Insurance premiums	(548)	(558)
Maintenance costs	(5,408)	(5,091)
Outbound freight	(1,078)	(1,651)
Other lease expenses	(669)	(2,807)
Banking fees	(60)	(241)
IT expenses	(784)	(703)
Advisory and other fees	(1,944)	(1,989)
Commissions	(8)	(1)
Warranties	(141)	(121)
Other Taxes	(199)	(327)
Foreign currency exchange losses	(817)	(1,362)
Losses from disposal of non-current assets	(182)	(74)
Other operating expenses	(767)	(1,330)
Total	**(15,838)**	**(19,404)**

Other lease expenses in 2018 included expenses from operating leases in accordance with IAS 17 and in 2019 expenses for short-term leases and leases of low-value assets.

Displayed below the details of the line Other operating expenses:

in kEUR	**2019**	**2018**
Other vehicles cost	(62)	(61)
Fuel costs for cars	(144)	(152)
Cost from previous years	(34)	(16)
Advertising and communications	(95)	(122)
Research and development costs	(19)	(26)
Quality costs	(18)	(99)
Membership fee	(48)	(48)
Industrial services	(240)	(581)
Accrual for bad debt	-	(57)
Accrual for provision for risk	(4)	(12)
Fine on taxes	(5)	(5)
Losses on account receivable	-	(1)
Other	(98)	(150)
Total	**(767)**	**(1,330)**

The table below shows the fees booked in 2019 and 2018 for the Auditing Company:

in kEUR	**2019**	**2018**
Auditors	(265)	(297)
** Audit*	*(245)*	*(288)*
** Tax*	*(6)*	*(9)*
** Other*	*(14)*	*0*
Total	**(265)**	**(297)**

3.8 Financial result

The line item breaks down as follows:

in kEUR	**2019**	**2018**
Interest expense on lease liabilities	(740)	(147)
Interest expenses for shareholder loans	(598)	(587)
Interest expenses banks loans and overdrafts	(1,438)	(861)
Other interest expenses and similar expenses	(1,940)	(626)
Finance expenses	**(4,716)**	**(2,221)**
Interest income (bank)	4	3
Finance income	**4**	**3**
Total	**(4,712)**	**(2,218)**

Other interest expenses and similar expenses include Amortized Costs with an amount of kEUR 1,837 with regard to the loan and the carrying amount adjustment in connection with an amendment of the financial covenants and the respective interest rate related to the bank loan made in 2019 (see Note 4.8).

The increase in the line Interest expense on lease liabilities is due to the adoption of IFRS 16.

3.9 Income and deferred taxes

The line item breaks down as follows:

in kEUR	**2019**	**2018**
Current taxes	(494)	(1,676)
Deferred income taxes	4	436
from temporary differences	*(71)*	*135*
from tax loss carry forwards	*75*	*302*
Income and deferred taxes	**(490)**	**(1,240)**

Effective income taxes for 2019 include corporation tax, solidarity surcharges, trade tax and foreign income taxes paid totaling kEUR 490 (2018: kEUR 1,240).

In the table below the expected income tax expenses that would have arisen if the tax rate of the parent company of the Group, which is 29.125% (2017: 29.1255%), had been applied to the income before taxes, is reconciled with the income tax expense displayed in the consolidated statement of profit or loss.

In kEUR	2019	2018
Income before income taxes	**(4,246)**	**(848)**
Theoretical taxes income/(expenses)	1,237	247
Effective taxes income/(expenses)	(490)	(1,223)
Lower (higher) tax burden related to:	**(1,727)**	**(1,470)**
Deferred taxes on tax loss carry forwards	*75*	*302*
Temporary differences	*(44)*	*(22)*
Differences in foreign tax rates	*460*	*156*
Taxes not relating to the period	*33*	*23*
No-deductible expenses	*(112)*	*(165)*
Taxes on dividends(*)	*(12)*	*(17)*
Unused tax loss carry forwards(*)	*(2,100)*	*(1,738)*
Others	*(27)*	*(9)*
Tax charge	**(1,727)**	**(1,470)**

(*)Prior-year allocation from the line item Taxes on dividends (kEUR 1,344) and Others (kEUR 394) in the line item Unused tax loss carry forwards due to offsetting of deferred taxes.

The effective tax rate of the Group is (11.5%); 2018 (144.2%).

Deferred tax assets and liabilities from temporary differences and tax loss carry forwards are related to the following items of the consolidated statement of financial position of the Group:

	Deferred tax assets	
in kEUR	**December 31, 2019**	**December 31, 2018**
Employee benefit obligations	38	147
Lease liabilities	1,212	1,166
Inventories	558	347
Other current financial liabilities	5	5
Other receivables	2	2
Property, plant and equipment	1,022	1,124
Provisions	105	104
Tax loss carry forwards	1,150	1,075
Trade receivables	7	7
Borrowings	14	31
Other non-current liabilities	25	23
Other	167	200
Offsetting	(2,514)	(2,131)(*)
Total	**1,791**	**2,100**

(*) Prior-year adjustments due to offsetting of deferred taxes

in kEUR	Deferred tax liabilities December 31, 2019	December 31, 2018
Trade receivables	5	11
Employee benefit obligations	(15)	10
Lease liabilities	38	38
Other current financial liabilities	13	6
Other current liabilities	19	18
Inventories	2	-
Property, plant and equipment	2,496	2,093
Provisions	7	(3)
Intangible assets	-	3
Borrowings	177	504
Offsetting	(2,514)	(2,131)(*)
Total	**228**	**549**

(*) Prior-year adjustments due to offsetting of deferred taxes

Due to a refinement of the calculation method, the hGears-Group has recognized deferred tax assets and liabilities in the amount of kEUR 2,131 retrospectively for financial year 2018 on a net basis. This is intended to improve the insight into the Company's net assets and financial position. Deferred tax assets as of December 31, 2018 amounted to kEUR 2,100 after offsetting (kEUR 4,231 before offsetting), deferred tax liabilities amounted to kEUR 549 after offsetting (kEUR 2,680 before offsetting). No retrospective offsetting has been performed for financial years prior to 2018, as the effects on the presentation of the Company's net assets and financial position are not material from management's perspective for prior financial years.

Currently there are no restrictions for the utilization of hGears-Group's tax loss carry forwards. Deferred tax assets have been recognized to the extent that the likelihood of utilization based on the company's forecasts is reasonably certain. Deferred tax assets of kEUR 1,150 (December 31, 2018: kEUR 1,075) have been recognized for tax loss carry forwards.

There are unused tax losses in the Group for corporate income and trade taxes in an amount of kEUR 16,300 (December 31, 2018: kEUR 14,211).

In 2019 deferred taxes of kEUR 8 (2018: kEUR 8) have been recognized within the other comprehensive income.

4 Notes to the consolidated statements of financial position

4.1 Property, plant and equipment

The following table provides the breakdown of the Group's Property, plant and equipment:

in kEUR	December 31, 2019	December 31, 2018
Land and Buildings	14,110	3,286
Plants and Machinery	37,050	23,736
Tools and Dies	5,793	5,534
Other assets	5,942	4,945
Fixed assets under construction and down-payments	3,722	6,067
Total	**66,617**	**43,568**

The table reported in Annex 1 summarizes the changes occurred in Property, plant and equipment.

In the previous year, the Group only recognized lease assets in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets leased were presented in property, plant and equipment.

The table below shows the Right-of-Use assets of leases under IFRS 16:

in kEUR	**December 31, 2019**	**January 1, 2019**
Right-of-use Assets:		
Land and Buildings	13,405	14,996
Plants and Machinery	5,330	5,445
Other assets	475	422
Total	**19,210**	**20,863**

The following table shows the movements in item "Right-of-use assets":

in kEUR	**January 1, 2019**	**Addition (+)**	**Depreciation (-)**	**December 31, 2019**
Right-of-use Assets:				
Land and Buildings	14,996	14	(1,605)	13,405
Plants and Machinery	5,445	692	(807)	5,330
Other assets	422	267	(214)	475
Total	**20,863**	**973**	**(2,626)**	**19,210**

Fixed assets under construction and down-payments amounted to kEUR 3,722 and also include down-payments to suppliers for the acquisition of fixed assets (December 31, 2018: kEUR 6,067).

The amounts refer to:

- Machines (kEUR 3,640);
- Others (kEUR 82).

Lease liabilities are effectively secured as the rights to the leased assets recognized in the consolidated financial statements revert to the lessor in the event of default.

4.2 Intangible assets

The following table provides the breakdown of the Group's intangible assets:

in kEUR	**December 31, 2019**	**December 31, 2018**
Software and licenses	1,703	1,914
Brands and trademarks	156	468
Down-payments	122	21
Other	89	129
Total	**2,070**	**2,532**

The table attached in Annex 2 provides a reconciliation of the carrying amounts of hGears-Group's intangible assets at the beginning and end of the periods presented in the consolidated financial statements.

Down-payments amounted to kEUR 122 (December 31, 2018: kEUR 21).

4.3 Inventories

The net value of the inventories as of December 31, 2019 is kEUR 16,331 (December 31, 2018: kEUR 16,372).

in kEUR	**December 31, 2019**	**December 31, 2018**
Raw materials, consumables and supplies	7,246	7,438
Finished goods and work in progress	14,078	14,176
Provisions for inventory	(4,993)	(4,843)
Down-payments	-	(400)
Total	**16,331**	**16,372**

In 2018 Semi finished products and work in process where classified in Raw materials, consumables and supplies.

The gross value of written-down inventories as of December 31, 2019 was kEUR 21,324 (December 31, 2018: kEUR 21,615).

Movements in the Group's provision for inventory is as follows:

in kEUR	
Balance as of December 31 2017	**(4,897)**
Addition	(571)
Releases	520
Other	105
Balance as of December 31 2018	**(4,843)**
Addition	(928)
Releases	611
Utilization	168
Other	(1)
Balance as of December 31 2019	**(4,993)**

Depreciation of kEUR 928 was recognized in the consolidated statement of profit and loss. These are mainly due to revaluation in order to state inventories at net realizable value. Releases of kEUR 611 are mainly relate to the release of scrap costs.

4.4 Trade receivables

The carrying amounts of the trade receivables approximate to their fair values. Current trade receivables are non-interest bearing.

in kEUR	**December 31, 2019**	**December 31, 2018**
Trade receivables, gross	13,255	12,901
Loss allowances for expected credit losses	(147)	(184)
Total	**13,108**	**12,717**

Movements in the Group's loss allowance for expected credit losses of trade receivables are as follows:

Balance as of January 1, 2018	**(291)**
Addition	(56)
Release	4
Utilization	159
Other	-
Balance as of December 31, 2018	**(184)**
Addition	-
Release	20
Utilization	17
Other	-
Balance as of December 31, 2019	**(147)**

The Group entered into a factoring agreement with banks. Under these agreements, mG China and mG Italy have sold specific trade receivables to the banks. As the sale is non-recourse and the companies have not retained any risk, trade receivables amounting to kEUR 3,017 as of the balance sheet date are derecognized (December 31, 2018: kEUR 2,144).

4.5 Other current assets and non-current assets

The following note provides an overview of financial and non-financial assets.

in kEUR	**December 31, 2019**	**December 31, 2018**
Other non-current assets, gross	116	122
Total Non-Current	**116**	**122**

in kEUR	**December 31, 2019**	**December 31, 2018**
Other current assets, gross	2,322	1,752
Total Non-Financial Assets	**2,322**	**1,752**
Other receivables current, gross	1,317	1,258
Other financial assets current, gross	185	1,186
Total Financial Assets	**1,502**	**2,444**
Total Current	**3,824**	**4,196**

The Item 'Other non-current assets' includes financial assets in form of cash deposits made to secure future payments and services.

The following note provides an overview of current financial other receivables and non-financial other receivables.

in kEUR	December 31, 2019	December 31, 2018
Receivables from social institution	3	6
Receivables for energy costs	95	170
Export tax refund	-	129
Receivables from Leasing suppliers	568	-
Other	18	9
Total Non-Financial Assets	**684**	**314**
Receivables with credit card companies	6	4
Suppliers premium	330	79
Custom duties	2	582
Employee Loan	295	279
Total Financial Assets	**633**	**944**
Total	**1,317**	**1,258**

The following table provides the breakdown of the Group's other current non-financial assets:

in kEUR	December 31, 2019	December 31, 2018
VAT receivables	1,248	1,203
Other income tax receivables	753	190
Current prepaid operating expenses	321	359
Total Non-Financial Assets	**2,322**	**1,752**

The table below reports the breakdown of the item current prepaid expenses:

in kEUR	December 31, 2019	December 31, 2018
Prepaid travel expense	-	5
Rental fees	129	107
Courses	2	-
Maintenance costs	112	109
IT expenses	48	93
License costs	3	-
Insurance	-	14
Other	27	31
Total	**321**	**359**

Other current financial assets include cash deposits amounting to kEUR 186 to secure effects resulting from foreign exchange hedging.

4.6 Cash and cash equivalents

At December 31, 2019, cash and cash equivalents amounted to kEUR 17,703 (December 31, 2018: kEUR 7,768).

The following table provides the breakdown of the Group's Cash and cash equivalents:

in kEUR	December 31, 2019	December 31, 2018
Cash on hand	6	7
Bank balance	17,697	7,761
Total	**17,703**	**7,768**

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was immaterial as of December 31, 2019.

4.7 Lease liabilities

The Group leases various plants and equipment within the scope of IFRS 16. The carrying amount of the corresponding lease liabilities amount to kEUR 17,460. Lease liabilities resulting from finance lease agreements in 2018 amounted to kEUR 6,338.

The Group's finance lease liabilities are split into non-current and current amounts as follows and relate to the lease of various plants and equipment as described below:

in kEUR	December 31, 2019	December 31, 2018
Lease liabilities current	2,905	1,369
Lease liabilities non-current	14,555	4,969
Total	**17,460**	**6,338**

In the previous year, the Group only recognized lease liabilities in relation to leases that were classified as 'finance leases' within the scope of IAS 17 Leases. The liabilities were presented as part of the group's borrowings.

The following table provides the breakdown of the total future gross minimum lease payments at the balance sheet date and their present value:

in kEUR	December 31, 2019	December 31, 2018
Gross lease liabilities - minimum lease payments:		
Less than 1 year	3,560	1,481
1 - 5 years	15,987	5,217
More than 5 years	738	-
Minimum lease payments	**20,285**	**6,698**

in kEUR	December 31, 2019	December 31, 2018
The present value of liabilities - minimum lease payments:		
Less than 1 year	2,905	1,369
1 - 5 years	13,847	4,969
More than 5 years	708	-
Net present value of minimum lease payments	**17,460**	**6,338**

The difference between the minimum lease payments and their present value is the interest portion that the Group has to pay in the future for the leasing contracts.

Expenses on leases of low value and short-term leases amounted to kEUR 669 during the financial year 2019 and kEUR 2,807 during the financial year 2018. During the financial year 2018, this includes all expenses in connection with operating lease relationships as defined by IAS 17.

4.8 Borrowings

The carrying amounts of borrowings are as follows:

in kEUR	December 31, 2019	December 31, 2018
Bank loan current	10,975	7,227
Bank loan non-current	28,136	16,147
Total	**39,111**	**23,374**

The Group pledged as security for current and non-current borrowings property, plant and equipment in an amount of kEUR 20,227, trade receivables in an amount of kEUR 3,795 and bank accounts in an amount of kEUR 897. Additionally, the parent company, hGears Holding, has granted as a pledge the shares of mG Italy.

Please see in the table below the conditions of the borrowings:

Company	Bank	Nominal Value (kEUR)	Date	Amendment date	Interest rates	Repayment/ Maturity	Tran-saction costs (kEUR)
hGears Holding GmbH	Arrangers	10,000	21.09. 2018	November 21, 2019	3.5% + 6m EURIBOR	Variable (till six months)	495
hGears Holding GmbH	Arrangers	2,000	21.09. 2018	November 21, 2019	4.0% + 6m EURIBOR	Final maturity	99
hGears Holding GmbH	Arrangers	4,750	21.09. 2018	November 21, 2019	3.5% + 6m EURIBOR	Semi-annual repayment	243
Herzog GmbH	Arrangers	8,000	21.09. 2018	November 21, 2019	4.0% + 6m EURIBOR	Final maturity	396
Herzog GmbH	Arrangers	20,750	21.09. 2018	November 21, 2019	3.75% + 6m EURIBOR	Semi-annual repayment	1,169

hGears Holding GmbH signed a Credit Facilities Agreement with Hamburg Commercial Bank AG (former: HSH Nordbank AG, hereafter: HCOB) and Skandinaviska Enskilda Banken AB (Publ) (hereafter: SEB) with a max volume of EUR 50 million and a duration of 5 years (hereafter "refinancing") on September 21, 2018. At the same time all shareholders have concluded capital maintenance and subordination agreements with the banks. The refinancing replaced the previous loan agreement with Unicredit and BHF banks.

On November 21, 2019 the company has concluded a renegotiation with the banks regarding specific covenant policies. A max volume has been reduced to EUR 45.5 million.

Amongst others the effects of the adoption of IFRS 16 where considered in the covenant calculation resulting in an increase in the interest margins by 0.5%.

Lenders are Hamburg Commercial Bank AG (former: HSH Nordbank AG) and Skandinaviska Enskilda Banken AB (Publ) participating 50% each.

The "Cancellation condition" of the Facility Agreement reported in the table above is:

1) <u>change of control</u>: Finatem III GmbH & Co. KG ceasing to directly or indirectly hold more than one-half of the shares in the Company or control the Company or the sale of all or substantially all of the assets of the Group.

As of December 31, 2019, hGears-Group had met all financial and non-financial covenants under its existing facility agreements.

4.9 Shareholder loans

in kEUR	December 31, 2019	December 31, 2018
Shareholder loans	13,660	13,061
Total	**13,660**	**13,061**

Please see in the table below the conditions of the shareholder:

Company	Bank	Nominal Value (kEUR)	Date	Interest rates	Cancellation conditions	Transaction costs
hGears Holding GmbH	Finatem III GmbH & Co. KG	5,165	April 27, 2014	4.50%	n.a.	n.a.
hGears Holding GmbH	Finatem III GmbH & Co. KG	3,492	April 7, 2016	8.00%	n.a.	n.a.
hGears Holding GmbH	HPH Beteiligungs-UG	307	April 18, 2011	8.00%	n.a.	n.a.
hGears Holding GmbH	M-H Herzog Beteiligungs-UG	300	April 18, 2011	8.00%	n.a.	n.a.

For the shareholder loans the following terms and conditions apply: the shareholder loans are provided long-term on a permanent basis and in general are free from repayment. Interest in connection with shareholder loans is not paid on an ongoing basis but is due upon repayment. The lenders are entitled to terminate the loans within the legal period of notice and taking into account the agreed subordination arrangements. The borrower is entitled to terminate the loan with a notice period of ten bank days. A termination requires that the Finatem shareholder loan is terminated for the same quota.

The shareholder loans include subordination clauses and bear higher interest rates as compared to external bank loans accordingly (refer to Note 4.8). Furthermore, to check the “market condition” on the interest rate, the Company received offers from external banks for mezzanine capital with same duration and conditions.

4.10 Provisions

The following note provides an overview of provision, current and non-current.

In kEUR	December 31, 2019	December 31, 2018
Provision, current	288	361
Provision, non-current	319	319
Total	**607**	**680**

in kEUR	December 31, 2019	December 31, 2018
Warranty provision	268	290
Other risk provision	20	71
Total Provision current	**288**	**361**

in kEuro	December 31, 2019	December 31, 2018
Environment provision	269	269
Other risk provision	50	50
Total Provision non-current	**319**	**319**

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

in kEUR	Environment provision	Other risk provision	Warranty provision	Total
Balance as of December 31, 2017	**269**	**61**	**300**	**630**
Addition	-	12	72	84
Utilization	-	(2)	(32)	(34)
Balance as of December 31, 2018	**269**	**71**	**340**	**680**
Addition	-	3	39	42
Release	-	-	(35)	(35)
Utilization	-	(4)	(76)	(80)
Balance as of December 31, 2019	**269**	**70**	**268**	**607**

The amounts considered in "Environmental provision", relate on the opinion of legal and professional experts.

The amounts considered in "Other risks provision" refer to the best estimate made by the management about probable liabilities in relation to proceedings against suppliers, tax authorities, employees and other subjects. The estimate takes into account, where applicable, the opinion of legal advisors and other experts, the past experience of the Company in similar situations and the intention of the Company to proceed with further action.

The "Warranty provision" has been recognized to cover possible future replacement costs of products sold within during the year and according to the terms of the contractual warranty.

4.11 Employee benefit obligations

This item in question includes the estimated liability for the severance indemnity (TFR) related to the employees of the subsidiary mG Italy.

Italian "Trattamento di Fine Rapporto" (TFR) benefit is a deferred compensation item established by Italian law. It is regulated by the Italian Commercial Code (art. 2120). The value of the "TFR" results from the gross annual salaries of the employees, divided by 13.5. This amount is adjusted, at a later time, by applying the inflation rate of the subsidiary country added to 1.5 percentage points (annual rate of increase TFR). The benefit is paid to the employees as a lump sum in case of a termination of the employment, i.e. in case of retirement, death, disability or turnover.

According to the Employee Severance Pay Fund and based on generally accepted interpretation and following the changes made to the national laws by Law no. 296 of December 27, 2006 (" 2007 Finance Act") and the following decrees and regulations issued in the early months of 2007, the Italian severance indemnity plans are deemed:

- a defined contribution plan for the quotas of the severance indemnity accrued as from January 1, 2007, both in the case of supplementary pension and in the case of allocation to the Treasury fund by INPS;

- a defined benefit plan for the quotas of the severance indemnity accrued until December 31, 2006, for which it is necessary to carry out actuarial calculations that exclude the component related to future salary increases.

The employee severance fund of Italian companies ("TFR") has no plan assets at its service.

The composition of this item is detailed as follows:

in kEUR	
Balance as of December 31, 2017	**1,751**
Actuarial Losses (profits) from experience	(3)
Actuarial Losses (profits) from changes in financial assumptions	(32)
Interest expenses	15
Utilization of TFR	(146)
Balance as of December 31, 2018	**1,585**
Actuarial Losses (profits) from experience	(4)
Actuarial Losses (profits) from changes in financial assumptions	67
Interest expenses	17
Utilization of TFR	(105)
Balance as of December 31, 2019	**1,560**

The actuarial assumptions for the defined benefit plans are detailed in the following table:

	December 31, 2019	December 31, 2018
ECONOMIC TECHINICAL BASES SUMMARY		
Inflation rate	1.20%	1.50%
Discount rate	0.37%	1.13%
Annual rate of increase TFR	2.40%	2.63%
DEMOGRAPHIC TECHINICAL BASES SUMMARY		
Mortality	Mortality table RG48 published by the General Accounting Office	
Inability	INPS tables divided for age and sex	
Retirement	100% when the AGO requirements are met	
TURNOVER ANNUAL FREQUENCE AND TFR ADVANCES		
Advances frequency	2.00%	2.00%
Turnover frequency	5.00%	5.00%

The annual frequencies of turnover and TFR advances are derived from the historical experience of the Company and from the experience of the actuary on a significant number of similar companies.

Below is a sensitivity analysis related to pension plans with defined benefits on the basis of changes in the key assumptions:

in kEUR	Pension plan December 31, 2019	Pension plan December 31, 2018
Turnover rate +1%	1,546	1,576
Turnover rate -1%	1,572	1,593
Inflation rate +0,25%	1,578	1,604
Inflation rate -0,25%	1,539	1,565
Discount rate +0,25%	1,528	1,553
Discount rate -0,25%	1,590	1,616

The sensitivity above was made on the basis of changes in individual assumptions, while retaining the others unchanged, although in practice any change in an assumption generally can also be reflected in the other as a result of potential correlations. The sensitivity above was calculated using the same method (projected unit credit method) used to calculate the liability recognized in the consolidated statement of financial position. In the tables below are reported the contribution for the following year, the average duration of the defined benefit plan and the future estimated payments of the plan.

Service costs and duration

Service cost 2020	-
Duration (years)	8.67

Future estimated payments for defined benefit plans

YEAR	in kEUR
1	184
2	123
3	85
4	112
5	92

The total expense recognized in the current period in relation to these contributions was kEUR 2,013 during 2019 and kEUR 1,998 during 2018.

4.12 Trade and other payables

The following note provides an overview of trade payables and other payables:

in kEUR	December 31, 2019	December 31, 2018
Trade payables	20,612	15,808
Other payables	8,619	7,765
Total	**29,231**	**23,573**

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature. The following table provides the breakdown of the Group’s Other payables:

in kEUR	December 31, 2019	December 31, 2018
Contract Liabilities	11	64
Other current liabilities	3,071	2,945
Employees liabilities	5,434	4,750
Current deferred operating expenses	104	6
Total Current Non-Financial Liabilities	**8,620**	**7,765**

Other current liabilities breakdown is as follows:

in kEUR	December 31, 2019	December 31, 2018
Taxes on wages	2,180	2,041
Auditor costs	219	264
Property, plant and equipment	385	377
Deposit	4	4
Education fund	2	7
Birth allowance	75	76
IT handing charge return	8	9
Other	198	167
Total	**3,071**	**2,945**

Employees liabilities and taxes on wages mainly relate to payrolls and wages (also board of management liabilities – for more information, please see Note 8.2.2) for the month of December, to vacation days accrued but not yet taken, to production bonuses and to the related social contributions.

4.13 Other current and non-current liabilities

The following note provides an overview of other current and non-current liabilities split into financial liabilities and non-financial liabilities.

The balance of other current financial liabilities as of the reporting date included the following item:

in kEUR	December 31, 2019	December 31, 2018
Interest liabilities	81	157
Derivate liabilities	48	62
Total	**129**	**219**

The balance of other non-current liabilities (non-financial) as of the reporting date included the following item:

in kEUR	December 31, 2019	December 31, 2018
Anniversary obligation	85	79
Trade Payables	253	236
Total	**338**	**315**

4.14 Current tax liabilities

The line "Current tax liabilities" includes the liability to the tax authorities related to the calculation of the current taxes on the result of the period. This position includes the payments on account made by the companies to the tax authorities for the taxes to be paid the following year.

4.15 Equity

In November 2019 the company issued 12,500 ordinary shares that were fully paid. At December 31, 2019 the share capital of kEUR 62.5 the company is divided into 62,500 ordinary shares with a par value of 1 Euro. Besides the minimum amount of share capital, required under German law, there are no distribution restrictions applicable. The entity itself does not hold any own shares.

Please find below the details of the share capital of the parent company hGears Holding GmbH.

Shareholder	**Place of business**	**Shares in kEUR - Dec 2019**	**Share % - 2019**	**Shares in kEUR - Dec 2018**	**Share % - 2018**
Finatem III GmbH & Co. KG, Trade register district court Frankfurt a. Main (HRA 44480)	Frankfurt am Main	56.3	90.0%	44	87.5%
HPH Beteiligungs-UG (unlimited liability), Trade register district court Stuttgart (HRB 738525)	Lauterbach	3.1	5.0 %	3	6.3%
M-H Herzog Beteiligungs-UG (unlimited liability), Trade register district court Stuttgart (HRB 737759)	Schramberg	3.1	5.0 %	3	6.2%
Share capital		**62.5**		**50**	

All shares issued are fully paid.

Capital Reserve in the parent company hGears Holding GmbH represents contributions of the shareholders (kEUR 6,963) and the contribution of miniGears companies (kEUR 13,485).

Other reserve includes the legal reserve is booked in the subsidiary mG Italy and it comes from the result of the previous year and is equal to 5% of its share capital.

The OCI Reserves includes:

- *Currency Translation Reserve*: it includes the reserve of the subsidiary mG China deriving from translating it results and financial position from CNY (functional currency) into EURO (presentation currency);

- Changes in *Fair value of derivative contracts* (Interest Rate Swap and Foreign exchange forward contracts);

- Changes in *Employee Plan Reserve* related to employee termination indemnities of defined benefit plans.

Retained earnings includes the result of the current period and the results of the previous years that are not still paid to the shareholders. Furthermore, the adoption effect of IFRS 9 is recognized Retained earnings.

5 Notes to the consolidated statements of cash flow

The following table provides the reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities.

			Non-cash changes					
	December 31, 2018	**Cash flows**	**Acquisition**	**IFRS 16**	**Fair value changes**	**Foreign exchange movement**	**Other**	**December 31, 2019**
Lease liabilities	6,338	(3,739)	-	13,230	-	-	1,631	17,460
Borrowings	23,374	13,166	-	-	-	-	2,571	39,111
Shareholder loans	13,061	-	-	-	-	-	597	13,660
Other current financial liabilities	219	-	-	-	(14)	-	(76)	129

6 Capital management and financial risk management

6.1 Capital management

hGears Group's policy is to maintain a strong base in terms of equity capital and sufficient cash balance in order to maintain investor and creditor confidence and to sustain the future development of the business. The primary goals when managing capital are to ensure sufficient liquidity to meet working capital requirements, fund capital investments and to safeguard the ability to continue operating as going concern.

hGears Group monitors all capital positions regularly (at least monthly) within its financial reporting, discusses the capital status frequently within the management meetings and also within its advisory board meetings.

On September 21, 2018, as well as by amendment of November 21, 2019 (see Note 4.8), the Group concluded with consortium banks, HCOB and SEB, a new Facilities Agreement. The Group shall ensure that it complies with the financial covenants, leverage and interest cover on the Group level, during the term of the Agreement. Testing Dates are March 31, June 30, September 30 and December 31 of each year. As of December 31, 2019, the financial covenants had been met.

6.2 Financial risk management

hGears-Group's operating activities expose the Group to a variety of financial risks such as market risks, credit risks and liquidity risks. hGears-Group's finance department has created controlling instruments and key metrics to identify and evaluate such risks in close co-operation with the operating units.

6.2.1 Market risk

6.2.1.1 Foreign exchange risk

The exposure to the risk of changes in foreign exchange rates arises from commercial activities conducted by mG Italy and mG China in foreign currencies, and in particular for expected sales made in US dollars and in Euro (other currencies are used for negligible amounts). These revenues in foreign currencies can be affected by fluctuations in the respective exchange rate impacting on the commercial margins. The Group's companies also hold immaterial debts in foreign currency as well as foreign currency bank accounts.

The Group is primarily exposed to changes in RMB/Euro and RMB/US Dollar exchange rates due to its Chinese subsidiary. The Group also has exposures to changes in US Dollar/Euro exchange rates due to its Italian subsidiary. The measures implemented to hedge against these currency risks are defined at Group level. To mitigate the foreign currency risks and limiting the variability of turnover, the Group enters into foreign exchange forward contracts to partially hedge its planned sales in US

Dollars on the basis of approved commercial budget. The derivative contracts are concluded exclusively with independently highly rated financial institutions.

The main information relating to foreign currency derivative instruments as of December 31, 2019 and December 31, 2018 are summarized in the table below:

Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR
EUR/USD	2	February 15,2019	HCOB	from January 31, 2020 to February 29, 2020	from 1.1692 to 1.1721	166	(6)
RMB/EUR	14	December 11, 2018 and November 18, 2019	SEB	from January 31, 2020 to February 25, 2021	from 7.8215 to 8.0559	1,020	(6)*
RMB/USD	14	December 11, 2018 and November 18, 2019	SEB	from January 29, 2019 to February 27, 2020	from 6.8585 to 7.0508	9,751	(13)

Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR
EUR/USD	2	December 12, 2017	Unicredit	from January 31, 2019 to February 28, 2019	from 1.2142 to 1.2166	262	(14)
RMB/EUR	14	December 12, 2018	SEB/Unicredit	from January 29, 2019 to February 27, 2020	from 7.8520 to 8.1610	1,075	3*
RMB/USD	14	December 11, 2018	SEB/Unicredit	from January 29, 2019 to February 27, 2020	from 6.6617 to 6.8858	10,971	(27)

*In the consolidated statement of financial position, the net position of derivatives is disclosed due to immaterial amounts. However, actually there are also derivatives with positive fair values.

Currency risks pursuant to IFRS 7 arise as a result of monetary financial instruments that are denominated in a currency other than the functional currency. Exchange rate differences from the translation of financial statements into the presentation currency (translation risk) are disregarded. Currency risks are measured using sensitivity analyses, during which the impact on profit after tax and equity of hypothetical changes to relevant risk variables is assessed. All non-functional currencies in which the Group employs financial instruments are treated as relevant risk variables. The periodic effects are determined by applying the hypothetical changes in the risk variables to the non-derivative and derivative financial instruments existing at the end of the reporting period. The effect to profit or loss arises mainly from U.S. dollar and Euro-denominated non-derivative financial instruments as well as from the non-designated components of derivatives. The impact on other components of equity arises from the components of foreign currency forward contracts designated as cash flow hedges.

The effects of a ten percent increase/decrease in RMB against foreign currencies were as follows as of the balance sheet date:

In kEUR	**December 31, 2019**			
	Equity		**Profit for the period**	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
RMB/Euro	(91)	91	100	(100)
RMB/U.S. Dollar	(795)	795	298	(298)

In kEUR	**December 31, 2018**			
	Equity		**Profit for the period**	
Exchange rate	*10%*	*(10%)*	*10%*	(10%)
RMB/Euro	(91)	91	32	(33)
RMB/U.S. Dollar	(855)	855	87	(87)

The effects of a ten percent increase/decrease in USD against Euro were as follows as of the balance sheet date:

In kEUR	December 31, 2019			
	Equity		Profit for the period	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
U.S. Dollar/Euro	-	-	(45)	58

In kEUR	December 31, 2018			
	Equity		Profit for the period	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
U.S. Dollar/Euro	-	-	(67)	82

For further information on derivatives and hedge accounting refer to Notes 2.6.13 and 7.3.

6.2.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings with variable interest rates, which exposes the Group to cash flow risk. In addition, the Group is exposed to interest rate risk due to its investments of available cash in bank deposits. Changes in market interest rates influence the cost and the performance of various forms of financing and utilization, thus impacting on the level of charges and finance income and finance expenses of the Group.

To mitigate, under economically acceptable conditions, the potential effects of changes in interest rates on the financial result the Group entered into floating-to-fixed interest rate swaps. Therefore, the Group covers 100% of the nominal value of bank loans with variable interest rate.

In the table below are summarized the main information relating to these hedging instruments on interest rates in effect at December 31, 2019:

Currency	N.	Trade date	Counterparties	Expiry date	Swap rate	Notional kEUR	Fair Value kEUR	Floating rate
EUR	2	November 12, 2018	SEB	December 31, 2020	0.185%	7,500	(18)	EURIBOR 6M
EUR	1	September 4, 2019	HCOB	December 31, 2021	0.07%	8,000	(5)	EURIBOR 6M

As of December 31, 2019, variable interest facilities are 50% hedged. The interest rate derivatives duration is aligned with the facilities.

The main information relating to these interest rate swaps in effect at December 31, 2018, are summarized in the table below:

Currency	N.	Trade date	Counterparties	Expiry date	Swap rate	Notional kEUR	Fair Value kEUR	Floating rate
EUR	2	November 12, 2018	SEB	December 31, 2020	0.00185	7,500	(24)	EURIBOR 6M

The interest rate swaps require settlement of net interest receivable or payable every six months.

The measurement of the interest rate risk of the Group has been carried out through a sensitivity analysis that shows the effects on the consolidated statement of profit or loss and net equity which would be encountered during the year 2019 in the case of a hypothetical change in market interest rates. The effects to profit or loss results from floating rate financing that is not hedged, impact to equity results from the fair value changes of the interest rate swaps designated as hedging instruments. The group's fixed rate borrowings and receivables are carried at Amortized cost. They are therefore not subject to interest rate risks as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

in kEUR	**December 31, 2019**	
	Equity	Result for the period
+100 bps	166	(235)
-100 bps	(2)	-

in kEUR	**December 31, 2018**	
	Equity	Result for the period
+100 bps	93	(26)
-100 bps	(5)	-

For further information on derivatives and hedge accounting refer to Notes 2.6.13 and 7.3.

6.2.1.3 Other market risk

hGears-Group is not exposed to equity price risks or commodity price risks as it does not invest in these classes of investments.

6.2.2 Credit risk

Credit risk from financial assets relate to a possible default by a contractual party. The finance department works in close cooperation with other operating departments to identify risks related to account receivables balances. The Group analyses the credit risk of each new client before standard payment and delivery terms and conditions are offered. The Group is exposed to credit risk from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding trade receivables. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management.

In order to keep the risk of bad debt loss under control, the subsidiary Herzog GmbH covers the risk on the account receivables with a trade credit insurance with Euler Hermes. The nominal value of the trade receivables covered by the insurance company is kEUR 3,394 (2018: kEUR 2,958). Due to the fact, that not all customers are blue chips and deliveries are made to a very wide range of customers, this insurance minimizes the credit risk.

The credit risk from (non-derivative) financial assets is covered by loss allowances for financial assets without objective evidence of impairment as well as by value adjustments for already impaired financial assets.

The table below shows the gross carrying amounts of trade receivables by credit risk rating grades depending on the days past due as well as the respective loss allowances as of the balance sheet date:

in kEUR	December 31, 2019		December 31, 2018	
	Gross	Provision	Gross	Provision
Amounts undue	10,073	(78)	10,037	(95)
Past due 0-30 days	2,635	(1)	1,801	(2)
Past due 31-60 days	315	-	423	-
Past due 61-90 days	218	-	141	-
More than 91 days	14	(68)	499	(87)
Total	**13,255**	**(147)**	**12,901**	**(184)**
Trade receivables, net	**13,108**		**12,717**	

For the reconciliation of the loss allowance on trade receivables please see Note 4.4.

The table below shows the gross carrying amounts by credit risk rating classes for each class of other financial assets measured at amortized cost as of December 31, 2019 and 2018.

in kEUR	Other non-current assets (deposits)	Other receivables	Other current assets	Other current financial assets	Cash and cash equivalents (bank balances)
Credit risk rating class 1	116	633	-	186	17,703
Credit risk rating class 2	-	-	-	-	-
Credit risk rating class 3	-	-	-	-	-
Total	**116**	**633**	**-**	**186**	**17,703**

in kEUR	Other non-current assets (deposits)	Other receivables	Other current assets	Other current financial assets	Cash and cash equivalents (bank balances)
Credit risk rating class 1	123	1,258	1,768	1,186	7,761
Credit risk rating class 2	-	-	-	-	-
Credit risk rating class 3	-	-	-	-	-
Total	**123**	**1,258**	**1,768**	**1,186**	**7,761**

For these financial assets the identified expected credit losses as of December 31, 2019, are immaterial.

6.2.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities. The Group monitors its short term liquidity by weekly rolling forecasts and its long term liquidity by quarterly rolling forecast and financial reports. The Group ensures to remain solvent all the time by holding sufficient liquidity reserves and though confirmed credit lines.

The tables below present a maturity analysis of financial liabilities based on their contractual maturities for all non-derivative and derivative financial liabilities (including trade payables and other liabilities) as of the balance sheet date. The amounts disclosed are the undiscounted contractual cash flows. Balances due within 12 months equal their carrying amount as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using the spot interest rate applicable at the end of the reporting period 2019 and 2018 respectively.

in kEUR

Financial liability description	Carrying amount	December 31, 2019	< 1 year	1 - 5 years	> 5 years
Trade payables	20,612	20,612	20,553	59	-
Other payables	8,957	8,957	8,517	440	-
Derivatives - cash out flow (gross settlement)	48	524	518	6	-
Borrowings	39,192	44,283	-	-	-
Borrowings - capital portion	-	-	12,500	27,000	-
Interest expenses on Borrowings	-	-	1,545	3,239	-
Shareholder loans	13,660	16,147	-	-	-
Shareholder loans - capital portion	-	-	-	9,265	-
Interest expenses on Shareholder loan	-	-	-	6,882	-
Lease liabilities	17,460	20,158	-	-	-
Lease liabilities - capital portion	-	-	2,905	13,847	708
Interest expenses on Lease liabilities	-	-	640	2,030	28
Total	**99,929**	**110,682**	**47,178**	**62,769**	**736**

in kEUR

Financial liability description	Carrying amount	December 31, 2018	< 1 year	1 - 5 years	> 5 years
Trade payables	15,808	15,808	15,676	132	-
Other payables	8,080	8,080	7,784	296	-
Derivatives - cash out flow	62	105	89	16	-
Borrowings	23,531	28,765(*)	-	-	-
Borrowings - capital portion	-	-	7,500(*)	17,500(*)	-
Interest expenses on Borrowings	-	-	878(*)	2,887(*)	-
Shareholder loans	13,061	15,864(*)	-	-	-
Shareholder loans - capital portion	-	-	-	9,265(*)	-
Interest expenses on Shareholder loan	-	-	-	6,599	-
Lease liabilities	6,338	6,698	-	-	-
Lease liabilities - capital portion	-	-	1,369	4,969	-
Interest expenses on Lease liabilities	-	-	112	247	-
Total	**66,880**	**75,320**	**33,408**	**41,911**	**-**

(*) Prior year adjustment

7 Additional disclosures on financial instruments

7.1 Fair value measurement

The fair value of financial instruments follows a fair value hierarchy based on input factors. The fair value of financial instruments can be categorized following the hierarchical levels:

- Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2;

- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and current borrowings are assumed to be the same as their fair values, due to their short-term nature.

Specific valuation techniques used to determine the fair value of financial instruments include:

- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;

- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date;

- the fair value of the remaining financial instruments is determined using discounted cash flow analysis based on observable market data.

The Group's policy is to recognize transfers into and transfers out of the different levels as of the end of the reporting period. There were no transfers between levels 1 and 2 and from level 2 and 3 for recurring fair value measurements during the year.

The fair values of the derivative financial instruments are assigned to level 2. Financials instruments not measured at fair value are assigned to level 2.

7.2 Carrying amounts, amounts recognized, and fair values by class and measurement category

The tables below show the carrying amounts of financial instruments by category as well as the fair values of financial instruments by class.

in kEUR

	Classification IFRS 9	Carrying amount December 31, 2019	Fair Value December 31, 2019
ASSET			
Non-current assets			
Other non-current assets	AC	116	116
Current assets			
Trade receivables	AC	13,108	n/a*
Other receivables			
Total Non-Financial Assets	n/a	*684*	n/a*
Total Financial Assets	AC	*633*	n/a*
Other current financial assets	AC	185	n/a*
Cash and cash equivalents	AC	17,703	n/a*
LIABILITIES			
Non-current liabilities			
Lease liabilities	n/a	14,555	n/a
Borrowings	FLAC	28,136	28,912
Shareholder loan	FLAC	13,660	13,897
Current liabilities			
Lease liabilities	n/a	2,905	n/a
Borrowings	FLAC	10,975	10,975
Other current financial liabilities			
Derivative financial liabilities in hedge accounting	*n/a*	*48*	*48*
Accrued interest	*FLAC*	*81*	*81*
Trade and other payables			
Trade payables	*FLAC*	*20,612*	*n/a**
Other payables			
Other current non-financial payables	*n/a*	*8,619*	*n/a*

in kEUR

	Classification IFRS 9	Carrying amount December 31, 2018	Fair Value December 31, 2018
ASSET			
Non-current assets			
Other non-current assets	AC	122	122
Current assets			
Trade receivables	AC	12,717	n/a*
Other receivables			
Total Non-Financial Assets	n/a	*314*	n/a*
Total Financial Assets	AC	*944*	n/a*
Other current financial assets	AC	1,186	n/a*
Cash and cash equivalents	AC	7,768	n/a*
LIABILITIES			
Non-current liabilities			
Lease liabilities	n/a	4,969	n/a**
Borrowings	FLAC	16,147	18,428
Shareholder loan	FLAC	13,061	13,842
Current liabilities			
Lease liabilities	n/a	1,369	n/a**
Borrowings	FLAC	7,227	7,227
Other current financial liabilities			
Derivative financial liabilities in hedge accounting	*n/a*	*62*	n/a
Accrued interest	*FLAC*	*157*	*157*
Trade and other payables			
Trade payables	*FLAC*	*15,808*	*n/a**
Other payables			
Other current non-financial payables	*n/a*	*7,765*	*n/a**

Carrying amounts per category		**December 31, 2019**
Amortized costs	AC	**31,746**
Financial Liabilities measured at Amortized Cost	FLAC	**73,464**

Carrying amounts per category		**December 31, 2018**
Amortized costs	AC	**22,859**
Financial Liabilities measured at Amortized Cost	FLAC	**52,400**

n/a* According to IFRS 7.29 (a) disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value (e.g. for short-term trade receivables and payables). If this is the case for short-term financial instruments from your perspective, the disclosure of fair value is not required.

n/a** According to IFRS 7.29 (d) disclosure of fair value is not required for lease liabilities.

7.3 Derivatives and hedge accounting

The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. These are mainly currency risks and interest rate risks. For hedging the currency risk, the Group entered into forward exchange contracts to hedge sales planned for the next 12 months. The Group manages its interest rate risk from long-term borrowings with variable interest rates using floating-to-fixed interest rate swaps.

The table below comprises the nominal values and fair values of all derivative instruments in place as of the balance sheet date:

In kEUR	Nominal values December 31, 2019	Nominal values December 31, 2018	Fair Values December 31, 2019	Fair Values December 31, 2018
Hedging of currency risk				
Forward exchange contracts	10,938	12,308	(25)	(38)
thereof positive fair value	8,195	8,947	22	37
thereof negative fair value	2,743	3,360	(47)	(75)
Hedging of interest rate risk				
Interest rate swaps	15,500	7,500	(23)	(24)
thereof positive fair value	-	-	-	-
thereof negative fair value	15,500	7,500	(23)	(24)

*In the consolidated statement of financial position the net position of derivatives is disclosed due to immaterial amounts. However, for a better understanding of the actual exposure this table shows the gross amount.

hGears-Group applies the rules for hedge accounting if a clear economic relationship between the underlying transaction and the hedging instrument is documented and its effectiveness demonstrated.

For hedges of foreign currency risks of highly probable future sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly the terms of the hedged item. The Group performs a qualitative assessment of prospective hedge effectiveness. Hedge ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of hGears-Group or the derivative's counterparty.

The Group enters into interest rate swaps to hedge the interest rate risk of its loans. The derivatives have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. As all critical terms match, there is an economic relationship established. Hedge ineffectiveness may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the hedged loan.

Due to identical nominal values and same risks between the hedged items and hedging instruments, the hedge ratio for foreign currency hedges as well as interest rate hedges is determined as 1:1. Furthermore, the influence of credit risk to the value changes that result from the established economic relationship is considered as not dominating.

The following table shows the profile of the timing of the notional amount of derivatives designated as hedging instruments, by risk category:

in kEUR December 31, 2019	Nominal amount By time to maturity			Nominal Amount total	Average Price/Rate of the hedging instrument
	<1 year	1 – 5 years	>5 years	December 31, 2019	December 31, 2019
Hedging of Foreign Exchange Risks					
Forward Exchange Contracts EUR/USD	-	-	-	-	-
Forward Exchange Contracts EUR/RMB	742	171	-	913	7.9291

Forward Exchange Contracts USD/RMB	6,549	1,538	-	8,087	7.0386
Hedging of Interest Rate Risks					
Interest Rate Swaps	-	15,500	-	15,500	0.00126

in kEUR December 31, 2018	**Nominal amount By time to maturity**			**Nominal Amount total**	**Average Price/Rate of the hedging instrument**
	<1 year	1 – 5 years	>5 years	December 31, 2018	December 31, 2018
Hedging of Foreign Exchange Risks					
Forward Exchange Contracts EUR/USD	262	-	-	262	1.2152
Forward Exchange Contracts EUR/RMB	967	107	-	1,075	7.9680
Forward Exchange Contracts USD/RMB	9,338	1,633	-	10,971	6.8314
Hedging of Interest Rate Risks					
Interest Rate Swaps	-	7,500	-	7,500	0.00185

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward element. The changes in the forward element of the foreign currency forwards that relate to hedged items are accounted for in profit or loss. In case of interest rate hedge accounting, the interest rate swaps are designated in full.

Information related to the designated components of derivatives, separately by risk category, is presented below:

	Carrying Amount	**Line Item**	**Changes in Fair Value used for calculating hedge ineffectiveness**	**Nominal Amount**
In kEUR	**December 31, 2019**	**December 31, 2019**	**December 31, 2019**	**December 31, 2019**
Hedging of Foreign Exchange Risks				
Forward exchange contracts				
Derivative Financial Assets	19*	Other current financial liabilities	60	8,087
Derivative Financial Liabilities	(8)*	Other current financial liabilities	(7)	913
Hedging of Interest Rate Risks				
Interest rate swaps				
Derivative Financial Liabilities	(23)	Other current financial liabilities	(23)	15,500

In kEUR	Carrying Amount December 31, 2018	Line Item December 31, 2018	Changes in Fair Value used for calculating hedge ineffectiveness December 31, 2018	Nominal Amount December 31, 2018
Hedging of Foreign Exchange Risks				
Forward exchange contracts				
Derivative Financial Assets	31*	Other current financial liabilities	31	8,787
Derivative Financial Liabilities	(2)*	Other current financial liabilities	(8)	915
Hedging of Interest Rate Risks				
Interest rate swaps				
Derivative Financial Liabilities	(24)	Other current financial liabilities	(24)	7,500

*In the consolidated statement of financial position the net position of derivatives is disclosed due to immaterial amounts. However, for a better understanding of the actual exposure this table shows the gross amount.

The quantitative information about the respective hedged items by risk category is given in the table below:

In kEUR	Changes in value of hedged items used for calculating hedge ineffectiveness December 31, 2019	Balance of cash flow hedge reserve for continuing hedges December 31, 2019
Cash Flow Hedges		
Hedging of Foreign Exchange Risks		
Designated hedged items	(52)	52
Hedging of Interest Rate Risks		
Designated hedged items	23	(23)

In kEUR	Changes in value of hedged items used for calculating hedge ineffectiveness December 31, 2018	Balance of cash flow hedge reserve for continuing hedges December 31, 2018
Cash Flow Hedges		
Hedging of Foreign Exchange Risks		
Designated hedged items	(23)	17
Hedging of Interest Rate Risks		
Designated hedged items	24	(16)

The quantitative information about hedging gains and losses resulting from cash flow hedges is presented below by risk category:

in kEUR	Hedging gains or losses recognized in OCI income/(expenses)	Reclassifications from Cash Flow Hedge Reserve to profit or loss	
		Due to realization of hedged item (income)/expense	Line item in statement of comprehensive income
	December 31, 2019	December 31, 2019	December 31, 2019
Hedging of Foreign Exchange Risks	39	(17)	Other operating income/expenses
Hedging of Interest Rate Risks	(17)	16	Finance income/expenses

in kEUR	Hedging gains or losses recognized in OCI income/(expenses)	Reclassifications from Cash Flow Hedge Reserve to profit or loss	
		Due to realization of hedged item (income)/expense	Line item in statement of comprehensive income
	December 31, 2018	December 31, 2018	December 31, 2018
Hedging of Foreign Exchange Risks	17	(112)	Other operating income/expenses
Hedging of Interest Rate Risks	(16)	56	Finance income/expenses

During the year there was no hedge ineffectiveness to be recognized.

The following table presents the reconciliation of the cash flow hedge reserve separately by risk category:

Cash Flow Hedge Reserve (in kEUR)	*FX hedges*	*Interest rate hedges*
Opening balance January 1, 2019	17	(16)
Changes in fair value of hedging instruments recognized in OCI (effective portion)	39	(17)
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	(17)	16
Closing balance December 31, 2019	39	(17)
Cash Flow Hedge Reserve (in kEUR)	*FX hedges*	*Interest rate hedges*
Opening balance January 1, 2018	112	(56)
Changes in fair value of hedging instruments recognized in OCI (effective portion)	17	(16)
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	(112)	56
Closing balance December 31, 2018	17	(16)

As of December 31, 2019, the unrealized pre-tax losses on the measurement of derivatives in cash flow hedges, which are recognized in other comprehensive income amounted to kEUR 23 (2018: kEUR 21). Losses that were reclassified from other comprehensive income to profit or loss amounted to kEUR 237 (2018: kEUR 237).

7.4 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group might also enter into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The Group did not offset any amounts of financial assets and liabilities in the consolidated statement of financial position. Netting agreements on derivative contracts or other financial asset and liabilities are not in place as of December 31, 2019 and December 31, 2018.

7.5 Income, expense, gains or losses on financial instruments

The table below shows the net gains or losses of financial instruments included in the consolidated statement of income (excluding derivative financial instruments used in hedge accounting):

in kEUR	**2019**	**2018**
Financial assets measured at Amortized cost	18	(53)
Financial liabilities measured at Amortized costs	(3,858)	(1,845)

Net gains/losses on financial assets at amortized cost mainly include changes in loss allowance.

Net gains/losses on financial liabilities at amortized cost include gains and losses from interest expenses on borrowings and shareholder loans and the release of the former amortized costs.

The total interest income and total interest expense for financial assets measured at amortized as well as financial liabilities measured at amortized cost comprise of the following:

	December 31, 2019		**December 31, 2018**	
In kEUR	**Financial assets AC**	**Financial liabilities AC**	**Financial assets AC**	**Financial liabilities AC**
Interest income	4	-	3	-
Interest expense	-	(3,858)	-	(1,845)
TOTAL	**4**	**(3,858)**	**3**	**(1,845)**

8. Other disclosures

8.1 Contingencies and commitments

8.2 Future obligations from short-term and low-value leases

The Group leases machinery and other minor assets under non-cancellable short-term or low value leases agreements. The lease terms are less than 5 years and the agreements are not renewable at the end of the lease term. The future aggregate minimum lease payments under non-cancellable short-term and low value leases and existing purchase commitments are as follows:

in kEUR	**December 31, 2019**	**December 31, 2018**
No later than 1 year	132	2,322
Later than 1 year and no later than 5 years	103	8,146
Later than 5 years	-	6,224
Total	**235**	**16,692**

8.2.1 Other commitments

The Group has no purchase commitments for capital expenditures related to property, plant and equipment.

8.2.2 Contingencies

As of December 31, 2019, there were no contingent liabilities.

8.3 Related party transactions

Finatem III GmbH & Co. KG, the direct parent of the Company and ultimate controlling party of the Group, has an interest of 90.0 % in the capital of the Company.

In the normal course of its business activities, hGears Group enters into agreements and transactions with its shareholders and other entities of Finatem III Group (defined as Finatem III GmbH & Co. KG and its subsidiaries, joint ventures and associated companies) for various business purposes, including the furnishing of services or financing of operating activities. These related-party transactions are described below.

Transactions within hGears-Group are not included in the description as these are eliminated in the consolidated financial statements.

The following transactions were carried out with related parties:

8.3.1 Transactions with shareholders

The transactions with Finatem III GmbH & Co. KG are summarized below:

- Accrued finance expenses: the total amount for the financial year 2019 is equal to kEUR 548 (2018: kEUR 537);
- Residual financial loan: the balance at December 31, 2019 is equal to kEUR 12,540 (at the end of 2018: kEUR 11,992). The increase is due to accrued interest.

The transactions with minority shareholders are summarized below:

- Accrued finance expenses: the total amount for the financial year 2019 is equal to kEUR 50 (2018: kEUR 50);
- Residual financial loan: the balance at December 31, 2019 is equal to kEUR 1,119 (at the end of 2018: kEUR 1,070) The increase is due to accrued interest;
- Salaries: kEUR 141 (2018: kEUR 141);
- Building rent: kEUR 439 (2018: kEUR 441).

The Group believes that all transactions with related parties substantially took place on the basis of normal market conditions.

8.3.2 Transactions with related individuals

The Group's key management personnel is defined as those individuals that have authority and responsibility for planning, directing and controlling the activities of the Group. At hGears Group, key management personnel consists of the members of the Board of Management as well as the embers of the Advisory Board of hGears; beside Mr. Lattemann all other members of the Advisory Board of hGears Holding are also members of the Supervisory Board of mG Italy and thus hold key management positions in the Group:

Board of Management:

- Pierluca Sartorello
- Patrick Philip Heimpold (until June 2019)

Advisory Board:

- Christophe Hemmerle
- Daniel Kartje
- Volker Stauch
- Bernd Lattemann

The short-term employee benefits for members of the Advisory Board of hGears Holding amount to kEUR 75 (2018: kEUR 75). The short-term employee benefits paid to the mG Italy Supervisory Board were kEUR 76 (2018: kEUR 76).

The compensation of the board of management for employee services is shown below:

in kEUR	**2019**	**2018**
Salaries and other short-term employee benefits	476	732
Total	**476**	**732**

The unpaid liabilities to the board of management are shown below:

in kEUR	**2019**	**2018**
Payroll liabilities	110	208
Total	**110**	**208**

There are no long-term employee benefits for key management to report for 2019 and 2018.

During 2018 a member of the management board received unsecured and interest-free loans amounting to kEUR 216. In 2019 the mentioned board member received additional loan, under same conditions and purpose, in amount of kEUR 30. The loans repayment is tied to the refund of Italian payroll tax to the borrower.

Additional information related to the managing directors as of December 31, 2019 is as follows:

Pierluca Sartorello:

- o CEO
- o Residence: Treviso (Italy)
- o Degree in International Business

8.4 Subsequent events

At the end of December 2019, initial cases of a new sometimes fatal lung disease emerged in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also began to appear outside China from mid-January 2020. In order to contain the results of Covid-19 pandemic, governments around the world have introduced measures during 2020 that have resulted in a huge disruption to everyday life and economic activity.
hGears-Group currently assumes that the Covid-19 pandemic is a temporary event that will have a negative impact in the short-term, but not on the Group's long-term business performances. In June 2020, Daniel Basok was appointed Chief Financial Officer (CFO) of the Group.

8.5 Approval of financial statements

The financial statements were released by the Board of Management for approval by the Advisory Board on February 15, 2021.

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Pierluca Sartorello
(Chairman of the Board of Directors)

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Daniel Basok
(CFO)

Annex 1

	Change occurred during the current year								
	December 31, 2018	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**IFRS 16 adoption**	**Exchange rate differences**	**December 31, 2019**
Gross value	*6,581*	*366*	*(1,924)*	*-*	*6*	*-*	*12,126*	*(45)*	*17,110*
Provisions for amortization and depreciation	*(3,295)*	*-*	*1,924*	*(1,668)*	*33*	*-*	*-*	*6*	*(3,000)*
Land and Buildings	**3,286**	**366**	**-**	**(1,668)**	**39**	**-**	**12,126**	**(39)**	**14,110**
Gross value	*103,093*	*14,651*	*(6,246)*	*-*	*3,658*	*-*	*164*	*47*	*115,367*
Provisions for amortization and depreciation	*(79,357)*	*-*	*6,244*	*(5,185)*	*-*	*-*	*-*	*(19)*	*(78,317)*
Plants and Machinery	**23,736**	**14,651**	**(2)**	**(5,185)**	**3,658**	**-**	**164**	**28**	**37,050**
Gross value	*15,645*	*1,578*	*(224)*	*-*	*117*	*-*	*-*	*8*	*17,124*
Provisions for amortization and depreciation	*(10,111)*	*-*	*100*	*(1,318)*	*2*	*-*	*-*	*(4)*	*(11,331)*
Tools and Dies	**5,534**	**1,578**	**(124)**	**(1,318)**	**119**	**-**	**-**	**4**	**5,793**
Gross value	*14,037*	*1,506*	*(373)*	*-*	*33*	*-*	*424*	*24*	*15,651*
Provisions for amortization and depreciation	*(9,092)*	*-*	*311*	*(1,153)*	*223*	*-*	*-*	*2*	*(9,709)*
Other assets	**4,945**	**1,506**	**(62)**	**(1,153)**	**256**	**-**	**424**	**26**	**5,942**
Fixed assets under construction and down-payments	**6,067**	**1,775**	**(50)**	**-**	**(4,072)**	**-**	**4**	**(2)**	**3,722**
Property, plant and equipment	**43,568**	**19,876**	**(238)**	**(9,324)**	**-**	**-**	**12,718**	**17**	**66,617**

	Change occurred during the current year							
	December 31, 2017	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2018**
Gross value	*6,581*	*-*	*-*	*-*	*-*	*-*	*0*	*6,581*
Provisions for amortization and depreciation	*(3,162)*	*-*	*-*	*(133)*	*-*	*-*	*1*	*(3,295)*
Land and Buildings	**3,419**	**-**	**-**	**(133)**	**-**	**-**	**1**	**3,286**
Gross value	*104,085*	*1,976*	*(5,043)*	*-*	*2,130*	*-*	*(55)*	*103,093*
Provisions for amortization and depreciation	*(79,911)*	*-*	*4,864*	*(4,341)*	*-*	*-*	*31*	*(79,357)*
Plants and Machinery	**24,173**	**1,976**	**(179)**	**(4,341)**	**2,130**	**-**	**(24)**	**23,736**
Gross value	*14,685*	*957*	*(20)*	*-*	*32*	*-*	*(9)*	*15,645*
Provisions for amortization and depreciation	*(8,765)*	*-*	*16*	*(1,369)*	*-*	*-*	*7*	*(10,111)*
Tools and Dies	**5,920**	**957**	**(4)**	**(1,369)**	**32**	**-**	**(2)**	**5,534**
Gross value	*10,471*	*577*	*(103)*	*-*	*3,094*	*-*	*(2)*	*14,037*
Provisions for amortization and depreciation	*(8,309)*	*-*	*58*	*(844)*	*-*	*-*	*3*	*(9,092)*
Other assets	**2,162**	**577**	**(45)**	**(844)**	**3,094**	**-**	**1**	**4,945**
Fixed assets under construction and down-payments	**3,253**	**8,136**	**(28)**	**-**	**(5,257)**	**-**	**(37)**	**6,067**
Property, plant and equipment	**38,926**	**11,645**	**(256)**	**(6,687)**	**-**	**-**	**(62)**	**43,568**

Annex 2

	Change occurred during the current year							
	December 31, 2018	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2019**
Goodwill	-	-	-	-	-	-	-	-
Gross value	*4,252*	*273*	-	-	*140*	-	*2*	*4,667*
Provisions for amortization and depreciation	*(2,338)*	-	-	*(624)*	-	-	*(2)*	*(2,964)*
Software and licences	**1,914**	**273**	**-**	**(624)**	**140**	**-**	**-**	**1,703**
Gross value	*1,560*	-	-	-	-	-	-	*1,560*
Provisions for amortization and depreciation	*(1,092)*	-	-	*(312)*	-	-	-	*(1,404)*
Brands and trademarks	**468**	**-**	**-**	**(312)**	**-**	**-**	**-**	**156**
Intangible assets under construction and down-payments	**22**	*241*	-	-	*(140)*	-	*(1)*	**122**
Gross value	*364*	-	-	-	-	-	*1*	*365*
Provisions for amortization and depreciation	*(236)*	-	-	*(40)*	-	-	-	*(276)*
Other	**128**	**-**	**-**	**(40)**	**-**	**-**	**1**	**89**
Goodwill and Intangible assets	**2,532**	**514**	**-**	**(976)**	**-**	**-**	**-**	**2,070**

	Change occurred during the current year							
	December 31, 2017	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2018**
Goodwill	-	-	-	-	-	-	-	-
Gross value	*2,753*	*489*	-	-	*1,012*	-	*(2)*	*4,252*
Provisions for amortization and depreciation	*(1,973)*	-	-	*(367)*	-	-	*2*	*(2,338)*
Software and licences	**780**	**489**	**-**	**(367)**	**1,012**	**-**	**-**	**1,914**
Gross value	*1,560*	-	-	-	-	-	-	*1,560*
Provisions for amortization and depreciation	*(780)*	-	-	*(312)*	-	-	-	*(1,092)*
Brands and trademarks	**780**	**-**	**-**	**(312)**	**-**	**-**	**-**	**468**
Intangible assets under construction and down-payments	*608*	*426*	-	-	*(1,012)*	-	-	**22**
Gross value	*364*	-	-	-	-	-	-	*364*
Provisions for amortization and depreciation	*(191)*	-	-	*(45)*	-	-	-	*(236)*
Other	**172**	**-**	**-**	**(45)**	**-**	**-**	**-**	**128**
Goodwill and Intangible assets	**2,340**	**915**	**-**	**(724)**	**-**	**-**	**-**	**2,532**

The following independent auditor's report (Bestätigungsvermerk des unabhängigen Abschlussprüfers), prepared in accordance with Section 322 HGB ("Handelsgesetzbuch": "German Commercial Code"), refers to the consolidated financial statements, comprising the consolidated statement of financial position as of December 31, 2019, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1, to December 31, 2019, and the notes to the consolidated financial statements, including a summary of significant accounting policies, together with the group management report of hGears Holding GmbH for the financial year from January 1, 2019 to December 31, 2019. The group management report is not included in this prospectus. The above-mentioned independent auditor's report and consolidated financial statements are both translations of the respective German-language documents.

22.2.7 Independent Auditor's Report

To hGears Holding GmbH, Schramberg

Audit Opinions

We have audited the consolidated financial statements of hGears Holding GmbH, Schramberg and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flow for the financial year from January 1, 2019 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of hGears Holding GmbH for the financial year from January 1, 2019 to December 31, 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2019, and of its financial performance for the financial year from January 1, 2019 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [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 of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles 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 and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and ap-propriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibilities of the Executive Directors for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are 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 or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in 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 about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate 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 appropriately 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 § 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) 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 executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- 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, super-vision and performance of the group audit. We remain solely responsible for our audit 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 executive directors in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors 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 charged with 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.

Stuttgart, February 15, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Marcus Nickel)	(sgd. Denis Etzel)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

22.3 Audited amended consolidated financial statements of hGears Holding GmbH as of and for the financial year ended December 31, 2018 (prepared in accordance with IFRS) and independent auditor's report thereon

The following English-language amended consolidated financial statements of hGears Holding GmbH as of and for the financial year ended December 31, 2018 are translations of the respective German-language amended consolidated financial statements of hGears Holding GmbH.

22.3.1 Consolidated Statement of Profit or Loss

of hGears Holding GmbH, Schramberg for the period January 1, to December 31,

in kEUR	Note	2018	2017
Revenues	3.1	126,205	140,047
Other capitalized own work	3.2	172	275
Changes in inventories	3.2	(5,094)	1,047
Total output		**121,283**	**141,369**
Other operating income	3.3	2,417	1,212
Raw materials and consumables used	3.4	(55,802)	(67,174)
Personnel expenses	3.5	(39,713)	(42,876)
Depreciation, amortization and impairment	3.6	(7,411)	(8,649)
Other operating expenses	3.7	(19,404)	(18,094)
Profit / loss from operating activities		**1, 370**	**5,788**
Finance income		3	4
Finance expenses		(2,221)	(1,679)
Financial result	**3.8**	**(2,218)**	**(1,675)**
Income before income taxes		**(848)**	**4,113**
Income and deferred taxes	3.9	(1,240)	(1,756)
Net result of the period		**(2,088)**	**2,357**
Result attribution to:			
Shareholders		**(2,088)**	**2,357**

22.3.2 Consolidated Statement of Comprehensive Income

of hGears Holding GmbH, Schramberg for the period January 1, to December 31,

in kEUR	**2018**	**2017**
Net result of the period	**(2,088)**	**2,357**
Other comprehensive income:		
Other comprehensive income that will not be reclassified subsequently to profit or loss		
Remeasurements of post-employment benefit obligations	35	8
Tax effect	(8)	(6)
Other comprehensive income that will be reclassified subsequently to profit or loss		
Gains/(Losses) on cash flow hedges	(70)	246
Tax effect	16	(30)
Currency translation adjustment	(38)	(467)
Total other comprehensive income	**(65)**	**(249)**
Total comprehensive income	**(2,153)**	**2,108**

22.3.3 Consolidated Statement of Financial Position

of hGears Holding GmbH, Schramberg for the years ended December 31,

in kEUR	Note	December 31, 2018	December 31, 2017
Property, plant and equipment	4.1	43,568	38,926
Intangible assets	4.2	2,532	2,340
Other non-current assets	4.5	122	143
Deferred tax assets	3.9	4,231	3,792
Total non-current assets		**50,453**	**45,201**
Inventories	4.3	16,372	21,736
Trade receivables	4.4	12,717	10,396
Other receivables	4.5	1,258	915
Other current assets	4.5	1,752	2,110
Other current financial assets	4.5	1,186	222
Cash and cash equivalents	4.6	7,768	8,742
Total current assets		**41,053**	**44,121**
Total assets		**91,506**	**89,322**

in kEUR	Note	December 31, 2018	December 31, 2017
Share capital		50	50
Capital reserve		15,460	15,460
Other reserves		400	400
OCI		1,055	1,120
Retained earnings		4,480	2,327
Net result of the period		(2,088)	2,357
Total Equity	**4.15**	**19,357**	**21,714**
Finance lease liabilities	4.7	4,969	4,976
Borrowings	4.8	16,147	12,088
Shareholder loans	4.9	13,061	12,475
Deferred tax liabilities	3.9	2,680	2,701
Provisions	4.10	319	310
Employee benefit obligations	4.11	1,585	1,751
Other non-current liabilities	4.13	315	317
Total non-current liabilities		**39,076**	**34,618**
Finance lease liabilities	4.7	1,369	1,556
Borrowings	4.8	7,227	3,079
Provisions	4.10	361	320
Other current financial liabilities	4.13	219	89
Trade and other payables	4.12	23,573	27,830
Current tax liabilities	4.14	324	116
Total current liabilities		**33,073**	**32,990**
Total liabilities		**72,149**	**67,608**
Total equity and liabilities		**91,506**	**89,322**

22.3.4 Consolidated Statement of Changes in Equity

of hGears Holding GmbH, Schramberg for the years ended December 31,

in kEUR				OCI				
	Share capital	Capital reserve	Other reserves	Currency translation	Cash Flow Hedge Reserve	Employee plan	Retained earnings	Total equity
Balance at January 1, 2017	**50**	**15,460**	**174**	**1,621**	**(161)**	**(91)**	**2,754**	**19,807**
Allocation previous year result			226	201			(427)	**-**
Income after income taxes				(668)	216	2	2,357	**1,907**
Balance at December 31, 2017	**50**	**15,460**	**400**	**1,154**	**55**	**(89)**	**4,684**	**21,714**
Change in accounting policy							**(113)**	**(113)**
Balance at January 1, 2018	**50**	**15,460**	**400**	**1,154**	**55**	**(89)**	**4,571**	**21,601**
Allocation previous year result				92			(92)	**-**
Income after income taxes				(129)	(54)	27	(2,088)	**(2,244)**
Balance at December 31, 2018	**50**	**15,460**	**400**	**1,117**	**1**	**(62)**	**2,392**	**19,357**

22.3.5 Consolidated Statement of Cash Flow

of hGears Holding GmbH, Schramberg for the years ended December 31,

in kEUR	2018	2017
Profit / loss from operating activities	**1,370**	**5,788**
Depreciation, amortization and impairment	7,411	8,649
Other non-cash items	(1,601)	50
Income tax proceeds/payment	(1,041)	(2,685)
Provisions and others	(117)	(258)
Interest paid	(969)	(980)
Interest received	3	4
Change in inventories	5,340	(156)
Change in receivables	(2,353)	5,040
Change in liabilities	(4,691)	691
Change in other assets	(1,596)	(1,478)
Change in other liabilities	487	93
Net cash provided by (used in) operating activities	**2,243**	**14,758**
Cash flows provided by (used in) investing activities		
Payments for Property, plant and equipment and intangible assets	(10,928)	(10,298)
Income from sales of fixed assets	-	27
Net cash provided by (used in) investing activities	**(10,928)**	**(10,271)**
Cash flows provided by (used in) financing activities		
Proceeds from borrowings	39,602	3,997
Repayment of borrowings	(30,246)	(7,279)
Repayments for lease agreements	(1,571)	(1,577)
Net cash provided by (used in) financing activities	**7,785**	**(4,859)**
Net cash increase (decrease) in cash and cash equivalents	**(900)**	**(372)**
Cash and cash equivalents at the beginning of the period	8,742	9,346
Effects of exchange rate changes on cash and cash equivalents	(74)	(232)
Cash and cash equivalents at the end of the period	**7,768**	**8,742**

22.3.6 Amended notes to the consolidated Financial Statements

1. General Information

hGears Holding GmbH (former Herzog Beteiligungs GmbH) was incorporated in 2011 and is domiciled in Schramberg, Germany.

The address of its registered office is Brambach 38, 78713 Schramberg.

These consolidated financial statements consisting of the financial statements of hGears Holding GmbH, its subsidiaries: Herzog GmbH (herewith: "Herzog"); mG miniGears S.p.A (herewith: "mG Italy"), and its second-tier subsidiary mG miniGears (Suzhou) Co., Ltd. (herewith: "mG China") were prepared using uniform group accounting policies.

hGears Holding GmbH and its subsidiaries ("hGears-Group", "Group") manufacture, distribute and sell precision turned parts, drive components, gear kits as well as complex system solutions. For this, the Group combines traditional steel machining with powder metal technologies.

The consolidated financial statements are available at www.bundesanzeiger.de.

Management has signed an agreement with the financing banks, adjusting the key financial ratios specified in the syndicated loan agreement. Within the context of this agreement, the stakeholders resolved to increase the company's equity by EUR 5 million. Because of these measures, Management has amended its original risk assessment. Management thus considers the funding of the company to be safeguarded.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below and applied consistently to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of hGears Group as of December 31, 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and §315A of the German Commercial Code "HGB", and were released by the Board of Management for approval by the Advisory Board on May 29, 2019.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.4.

The consolidated financial statements are presented in Euro (EUR). Individual items in the consolidated financial statements and the notes to the consolidated financial statements are presented in thousands of Euro (kEUR) in accordance with commercial rounding practices. The financial year corresponds to the calendar year. The functional currency of the Company as well as of its subsidiaries is Euro, except its second-tier subsidiary mG China, for which the functional currency is Renminbi (RMB).

Items that are classified "current" have a maturity within 12 months. All items with maturity of more than 12 months are considered "non- current".

The consolidated financial statements have been prepared under the historical cost convention except for financial assets and liabilities measured at fair value through profit and loss.. The statement of profit or loss is prepared based on the "Total cost method". The financial statements have been prepared on a going concern basis.

These financial statements cover the financial year from January 1, 2018 to December 31, 2018 (comparative period: January 1, 2017 to December 31, 2017).

The following explanatory notes are an integral part of the consolidated financial statements which further comprise the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and the consolidated statement of changes in equity.

IFRSs issued, EU endorsed and initially adopted in the reporting period

Application of IFRS 15 Revenue from Contracts with Customers: In May 2014, the IASB published the standard IFRS 15. It replaces existing guidance for revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. The new standard lays down a comprehensive framework for determining in which amount and at which date revenue is recognized. The new standard specifies a uniform, five-step model for revenue recognition, which is generally to be applied to all contracts with customers.

The steps for the recognition of revenue under the new model are:

- identify the contracts with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognize revenue when (or as) the entity satisfies a performance obligation.

hGears applies IFRS 15 for the first time for the financial year beginning January 1, 2018.

First time adoption has been conducted retrospectively, without adjusting the comparative periods presented.

First-time adoption of IFRS 15 does not have a material impact on profitability, liquidity and capital resources or financial position, nor for the current reporting period, neither the previous periods.

Other liabilities which were previously recognized as Advance payments received, have been reclassified effective as of the entry into force of IFRS 15 as Contract liabilities.

2.2 Basis of Consolidation

The consolidated financial statements include the financial results of hGears Holding GmbH ("hGears") as well as its subsidiaries and second-tier subsidiary (herewith: subsidiaries). Subsidiaries are all entities with regard to which hGears has the power to govern the financial and operating policies, generally by means of hGears having more than half of the voting rights ('control'). Potential voting rights that are currently exercisable or convertible are taken into consideration when assessing whether hGears controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by hGears and are deconsolidated from the date on which hGears' control ceases. All intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

As of December 31, 2018, the financial statements of the following subsidiaries of hGears Holding GmbH are included in the consolidated financial statements by means of full consolidation:

Subsidiary	Percentage of ownership	Subscribed capital	Result of FY 2018(*)
Herzog GmbH, Schramberg	100	4,400 kEUR	0 kEUR
mG miniGears S.p.A., Padova	100	2,000 kEUR	3,258 kEUR
mG miniGears (Suzhou) Co., Ltd., Suzhou	100	49,487 kRMB	9,516 kRMB

(*) the result is presented in accordance with local GAAP

According to paragraph 2 of the Control Agreement ("*Beherrschungsvertrag*") between hGears Holding GmbH and Herzog GmbH, signed on November 15, 2016, with the effective date from January 1, 2017, hGears commits to assume the losses of Herzog GmbH in accordance with the provision of Section 302 of the German Stock Corporation Act ("*Aktiengesetz*").

In accordance with IFRS 3 »Business Combinations«, business combinations are accounted for using the acquisition method. The acquisition costs correspond to the fair value of the assets given, the issued equity instruments and the incurred or assumed debt at the time of the transaction. Transaction costs are expensed. Assets, debts and contingent liabilities identified during a business combination are recognized for the first-time consolidation at their fair value at the time of acquisition, regardless of the extent of minority interests. The excess of the cost of acquisition over the Group's share of the fair value of the net assets is disclosed as goodwill. If the acquisition costs are less than the Group's interest in the fair value of the net assets of the acquired subsidiary, the difference in the amount is disclosed directly in the consolidated statement of comprehensive income.

If a substantial amount of Goodwill is reported, in accordance with IAS 36 it is subject to an impairment test at least once a year in accordance with IAS 36 »Impairment of Assets«. Reversals of impairment losses for goodwill are prohibited.

Intangible assets that are anticipated to supply the company with incoming cash for an unlimited period of time are to be disclosed with an indefinite useful life. The systematic amortization of such intangible assets is prohibited.

With regard to common control transactions, the Group applies the predecessor accounting method in its consolidated financial statements. The predecessor accounting method requires a business combination effected under common control to be accounted for using predecessor book values without any step up to fair value. Thus, the net assets acquired by an entity in a business combination under common control are measured at their book values recorded at the ultimate parent level. Therefore, in case the Group acquires an entity that is under common control of Finatem III GmbH & Co. KG ("Finatem"), which is not preparing consolidated financial statements under IFRS, the net assets acquired including goodwill are taken over and carried on at book values as accounted for in the subgroup consolidated financial statements of mG miniGears S.p.A.

On January 26,2015 Finatem III GmbH & Co. KG contributed in kind 100% of the share capital in mG miniGears S.p.A., with its companies (mG miniGears S.p.A and mG miniGears Suzhou Co., Ltd.) being specialized in drives technology for small- to medium-sized gears and components, to hGears Holding GmbH for purpose of fulfillment of its obligation under a capital increase resolved at hGears Holding GmbH in January 2015.

As a result of the transaction, the Group expects to become one of the leading manufacturers and retailers of high precision components on the European market. Through the planned expansion of existing production sites in Germany, Italy and China, it also expects to reduce costs through economies of scale. Common control transactions do not result in the recognition of goodwill for differences between the net assets at Group carrying values and the consideration transferred.

The consideration transferred amounts to kEUR 13,510 and relates to a capital increase of the subsidiary mG Italy of kEUR 13,490 and the purchase price of kEUR 20 paid for the purchase of Distonia S.r.l., the shell company acquired by Finatem for the takeover of mG Italy.

The contribution in kind is recorded as a common control transaction and does not result in the recognition of goodwill for differences between the net assets at Group carrying values and the consideration transferred (predecessor accounting).

Assets and liabilities of the sub-group miniGears were not revaluated at the "contribution in kind date" as it has been a transaction between companies "under common control".

2.3 Recent Accounting Developments

The International Accounting Standards Board (IASB) continues to issue new standards, interpretations and amendments to existing standards. hGears Group applies these new standards when their mandatory application is required by the EU. hGears Group has not opted for early adoption for any of these standards.

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

	IFRS 16 *Leases*
Nature of change	IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability for lease payments are recognized. The only exceptions are short-term and low-value leases.
Impact	The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. As of the reporting date, the Group has non-cancellable operating lease commitments of kEUR 16,692, of which, approximately kEUR 67 relate to short-term leases and kEUR 111 to low value leases which will both be recognized on a straight-line basis as expense in profit or loss. For the remaining lease commitments the Group expects to recognize right-of-use assets of approximately kEUR 12,600 on January 1, 2019, lease liabilities of approximately kEUR 13,200. Overall net assets will be approximately kEUR 600 lower. The Group expects that net profit after tax will decrease by approximately kEUR 140 for 2019 as a result of adopting the new rules. Adjusted EBITDA is expected to increase by approximately kEUR 2,140, as the operating lease payments were included in EBITDA, but the amortization of the right-of-use assets and interest on the lease liability are excluded from this measure. Operating cash flows will increase and financing cash flows decrease by approximately kEUR 1,900 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The Group does not operate as a lessor and hence the Group does not expect any impact on the financial statements.

Date of adoption by Group	The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for Land and Buildings leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Adoption of IFRS 9

IFRS 9 (in the version of 2014) replaces IAS 39 and addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. IFRS 9 has to be applied for financial years commencing on or after January 1, 2018. The Group adopted the standard using the modified retrospective approach which means that the cumulative impact of the adoption was recognized in retained earnings as of January 1, 2018 without restatement of comparatives.

Under IFRS 9 the classification and measurement of financial assets depends on the Group's business model for managing its financial assets and the cash flow characteristics. Based on this, at initial recognition a financial asset has to be classified as "measured at amortized cost", "measured at fair value through other comprehensive income" or "measured at fair value through profit or loss". The new requirements for classification and measurement of financial liabilities relates to such financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of loss allowances based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost and fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new standard also introduces expanded disclosure requirements according to IFRS 7 and changes in presentation.

On January 1, 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The Group only holds non-derivative debt financial assets as well as derivative financial assets. Since the non-derivative debt financial assets existing at transition date are managed within the business model "hold to collect" and have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, these financial assets are classified as "measured at amortized cost" according to IFRS 9. As the Group does not have any financial liabilities at fair value through profit or loss, there will be no impact on the Group's accounting for financial liabilities. Therefore, no reclassification effects occurred for the Group. Furthermore, the Group has assessed that its hedge relationships under IAS 39 qualify as continuing hedges upon the adoption of IFRS 9 and did not result in any impact. The only impact to the Group results from the new impairment requirements. With adoption of IFRS 9, the Group applies the simplified approach for trade receivables, whereby lifetime expected credit losses have to be recorded. As of January 1, 2018, the Group recorded an increase in the loss allowance for trade receivables amounting to kEUR 132. For all the other financial assets the Group assesses impairment losses according to the general approach. As the identified impairment losses are immaterial, no transition impact was recorded by the Group. The main effects as a result of the new requirements for classification and measurement and impairment of financial assets are presented below: The following table shows the change of measurement categories and carrying amounts in accordance with IAS 39 as of December 31, 2017, and IFRS 9 as of January 1, 2018, for each class of financial instruments.

in kEUR			Measurement Category		Carrying Amount	
			IAS 39	IFRS 9	IAS 39	IFRS 9
ASSETS						
Non-current assets						
Other non-current assets			LaR	AC	142	142
	Deposit for energy and gas		LaR	AC	1	1
	Deposit for the warehouse and apartments		LaR	AC	5	5
	Deposit for custom duties		LaR	AC	-	-
	Deposit for machines in production		LaR	AC	2	2
	Other deposit		LaR	AC	134	134
Current assets						
Trade receivables			LaR	AC	10,396	10,264
Other receivables			LaR	AC	3,025	3,025
Other current financial assets (Derivative financial assets in hedge accounting)			n/a	n/a	222	222
Cash and cash equivalents			LaR	AC	8,742	8,742
LIABILITIES						
Non-current liabilities						
Borrowings			FLAC	FLAC	12,088	12,088
Shareholder loan			FLAC	FLAC	12,475	12,475
Current liabilities						
Borrowings			FLAC	FLAC	3,079	3,079
Other current financial liabilities						
	Derivative financial liabilities in hedge accounting		n/a	n/a	78	78
	Interest liabilities		FLAC	FLAC	11	11
Trade and other payables					27,830	27,830
	Trade payables		FLAC	FLAC	20,542	20,542
	Other payables				7,288	7,288
		Other current financial liabilities	FLAC	FLAC	5,468	5,468
		Other current non-financial payables	n/a	n/a	1,820	1,820

The table below reconciles the carrying amounts of IAS 39 measurement categories to the new carrying amounts of IFRS 9 measurement categories for the Group's financial assets.

IAS 39 category	Loans and Receivables
IFRS 9 category	Measured at amortized cost
Carrying amount December 31, 2017 (IAS 39)	**22,448**
Carrying amount January 1, 2019 (IFRS 9) before remeasurement	**22,448**
Remeasurement effect due to impairment	(132)
Carrying amount January 1, 2018 (IFRS 9) after remeasurement	**22,316**

The reconciliation of the loss allowances for trade receivables from IAS 39 to IFRS 9 is in the table below:

in kEUR	Trade receivables	Changes in retained earnings
Loss allowance as of December 31, 2017 (calculated under IAS 39)	(161)	-
Change in loss allowance due to IFRS 9	(132)	(132)
Loss allowance as of January 1, 2018 according to IFRS 9	(293)	-

2.4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that to a certain extent affect the reported amounts of assets and liabilities, income and expenses, as well as contingent liabilities.

The assumptions and estimates relate primarily to:

- the assessment of the value of intangible assets (particularly goodwill),
- the uniform determination of the useful life for intangible assets and property, plant and equipment throughout the Group,
- the collectability of receivables,
- the valuation of inventories,
- the accounting and measurement of lease agreements,
- the accounting of shareholder loans,
- the accounting and measurement of management compensation programs,
- the accounting and measurement of pension provisions and other provisions,
- the accounting for deferred taxes.

To test goodwill for impairment, the fair value less cost of disposal for cash-generating units to which goodwill has been allocated is determined by means of a discounted cash flow method. Assumptions regarding future business developments and general underlying data are to be made for this purpose. If there are any changes in these influencing factors, the fair value less costs of disposal of the cash-generating units can change, possibly necessitating a need for impairment.

The uniform determination of the useful economic life for intangible assets and property, plant and equipment throughout the Group is subject to estimates made by management.

For trade receivables, solvency and default risks may arise to the extent that customers are unable to meet their payment obligations, resulting in losses to the Group. The calculation of the required impairments takes into account such things as the solvency of customers, existing securities as well as experience based on historical default rates. The actual payment defaults by customers may differ from anticipated payment defaults due to several influencing factors.

Inventories are measured at the lower value of acquisition and manufacturing cost and net realizable value. Net realizable value is determined by subtracting the costs incurred up to completion from the expected sales price of the end product. If assumptions regarding future sales prices or end product market potentials are not appropriate, this may lead to a further need for impairment of inventories.

When accounting for provisions, management must make assumptions regarding the probability of certain business transactions resulting in an impending loss of commercial benefit for hGears-Group. Estimates regarding the amount and timing of possible economic outflows form the basis for the measurement of provisions. If the actual amount and the timing differ from estimates made, this may affect the results of the Group.

Management judgment is required for the calculation of deferred taxes. Deferred tax assets may only be recognized to the extent that it is probable that sufficient taxable profit will be available in the future. Management analysis various factors to assess the probability of the future utilization of deferred tax assets based on reasonable scenarios taken from the Group's tax planning process.

Assumptions and estimates are based on premises based on the knowledge at hand at the respective time. Unforeseeable developments and developments beyond management's control may cause a difference between the initially estimated values and the actual amounts arising at a later date. In this case, the assumptions and, if necessary, the carrying amounts of the affected assets and liabilities will be adjusted accordingly.

2.5 Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the related entity operates ('functional currency'). The functional and reporting currency of hGears Holding GmbH, Herzog GmbH and mG miniGears S.p.A. is Euro (€). The functional and reporting currency of mG miniGears (Suzhou) Co., Ltd. is RMB.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss as finance expenses or finance income respectively.

Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities measured at fair value through profit or loss are reported as part of the fair value gain or loss. Conversely, when a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in comprehensive income.

The results and financial position of the Group entity that has a functional currency different from the presentation currency is translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates,
- all resulting exchange differences are recognized as a component of equity.

Exchange rate differences arising from the translation of a net investment in foreign operations and from borrowings and other currency instruments designated as hedges of such investments are realized within equity. When a foreign operation is partially disposed or sold, exchange rate differences previously recorded in equity are recognized in the income statement as part of the gain or loss of the sale.

The following foreign currency rates have been applied:

RMB	2018	2017
as of December, 31	7.8751	7.8044
annual average rate	7.8081	7.6290

2.6 Accounting Policies

2.6.1 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services. hGears-Group recognizes revenue at the time that the relevant risks and opportunities associated with the ownership of the sold goods and products are transferred to the customer and when it is probable that future economic benefits will flow to the entity. Revenues are presented net of value-added tax, rebates and discounts.

2.6.2 Finance income and finance expense

Interest income and expenses are recognized using the effective interest method.

2.6.3 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement date at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 8.1.1). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.6.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are classified as measured at amortized cost.

2.6.5 Trade receivables

Trade receivables are amounts due from customers for goods and products sold or services performed in the ordinary course of business. Trade receivables classified as measured at amortized cost in accordance with IFRS 9. Therefore, they are initially recognized at fair value, and subsequently measured at Amortized cost using the effective interest rate method, less loss allowance for expected credit losses. If collection is expected within one year or less, they are classified as current assets. If not, they are presented as non-current assets.

2.6.6 Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of raw, auxiliary and operating materials is determined by using the specific identification of their individual cost method. The cost of semi-finished and finished goods is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

If the net realizable value of a finished good is lower than costs, the difference is recognized as impairment immediately.

The finished products and semi-finished products cost includes raw materials, direct manpower costs and other direct costs, as well as other indirect production costs for the share attributable to the production (calculated on the basis of the normal operating capacity). Financing costs are not included in the valuation of the inventories but are charged to the consolidated statement of profit or loss when incurred, since there are no requirements for the capitalization. Inventories of raw materials and semi-finished products no longer usable in the production cycle and inventories of unsaleable finished products are written down.

2.6.7 Property, plant and equipment

Property, plant and equipment is measured at cost less depreciation and impairment losses, if any. Cost includes direct costs (e.g. materials, direct labor and work contracted out) and directly attributable overhead costs.

The estimated useful lives of the principal property, plant and equipment categories are as follows:

Asset class	Depreciation term
Land and Buildings	10 to 50 years
Plants, Machinery, Tools and Dies	4 to 25 years
Other assets	3 to 15 years

Property, plant and equipment is depreciated using the straight-line method, based on estimated useful life, taking into account residual value. Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets concerned may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use. Impairments are reversed if and to the extent that the reasons for impairment no longer exist.

The assets' residual values and useful lives are reviewed at least annually and adjusted if appropriate.

2.6.8 Intangible assets

Intangible assets include non-monetary assets, with no physical substance, clearly identifiable and suitable to generate future economic benefits. Such intangible assets are capitalized at cost, including the expenses directly attributable to prepare the asset for its use, and subsequently measured net of accumulated depreciations and of any possible impairment losses.

Amortization commences when the intangible asset is available to be used and is systematically allocated over the estimated useful life. In case of identification of the possible impairment indicators, the recoverable amount of the intangible asset is estimated, attributing an impairment in the consolidated statement of profit or loss. Should the requirements for the impairment no longer exist, the carrying amount is reinstated through profit or loss, to the extent that the intangible asset`s carrying amount does not exceed the carrying amount net of amortization that would have been determined if an impairment had not been recognized.

a) Goodwill

Goodwill is classified as an intangible asset with an indefinite useful life and is initially recorded at cost, as previously described, and subsequently subjected to evaluation at least annually in order to identify any loss in value. The impairment reversal in the case of a previous write-down for impairment is not allowed.

b) Other intangible assets with a finite useful life

Intangible assets with a finite useful life are capitalized at cost, as previously described, and measured subsequently net of accumulated amortizations and impairment if any. Amortization starts when the asset is available to be used and is systematically allocated over the remaining possibility of use of the latter and that is on the basis of the estimated useful life. The useful life estimated by the Company for the several categories of intangible assets is as follows:

Asset class	Depreciation
Software and licenses	5 years
Brands and trademarks	5 years
Other	5 years

Following mG Italy contribution in hGears Holding GmbH (in January 2015), the management of the Group initiated a process of implementing and introducing a new brand in the market ("hGears") with the aim to place it, commercially, in combination with the existing and established mG miniGears brand as from July 2015.

It is expected that the brand awareness of the "hGears" brand in the market is going to increase and, at the same time, the brand awareness of "mG miniGears" is going to reduce; for this reason the management considered it appropriate to update the estimate of the useful life of the "mG miniGears" brand previously considered to be indefinite to a definite useful lifetime of 5 years.

Impairment of tangible and intangible assets

Intangible assets with indefinite life are not subject to amortization, but subjected at least annually (more frequently in presence of specific impairment indicators) to the verification of the absence of lasting losses of value such to require an impairment, while the tangible and intangible assets with a finite useful life are subjected to this verification only in the presence of specific impairment indicators.

The verification if an impairment of an intangible asset becomes necessary occurs by estimating the recoverable amount of the intangible asset and comparing it with the carrying amount. The recoverable amount is the higher amount of the fair value of an asset and its value in use, which is determined as the current value of expected cash flows that the company estimates will derive from the continuing use of the asset and from its disposal at the end of its useful life. This recoverable amount is determined for each individual asset unless said asset does not generate cash flows that are largely dependent of those generated by other assets. If the recoverable amount is lower than the carrying amount, the latter is reduced accordingly; such reduction constitutes an impairment loss, which is recognized in the consolidated statement of profit or loss. Should the reasons that triggered impairment losses previously recognized no longer exist, with the exception of the goodwill and of the intangible assets with indefinite useful life, the impairment is reversed to the extent the estimated value does not exceed the net carrying amount that the asset would have had if no impairment losses had been carried out. The reversal of value is recorded in the consolidated statement of profit or loss.

2.6.9 Trade and other payables

These amounts represent unpaid liabilities for goods and services provided to the Group prior to the end of the financial year. The amounts are unsecured and are usually paid within 30 days of recognition (for the Germany companies) and 60 days (for miniGears companies). Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.6.10 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.6.11 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation resulting from past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood of an outflow to settle these obligations is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any item included in the same class of obligations may be small.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2.6.12 Employee Benefits

2.6.12.1 Pension obligations

The Group has defined benefit plans and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (funds). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay to all employees the benefits relating to employee service in the current and prior periods. The other plans are defined benefit plans. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually depending on one or more factors such as age, years of service and compensation.

The provision recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality AA-corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other components of equity (reserves) in the period in which they arise.

Past-service costs are recognized immediately in income.

According to IAS 19, employee benefits to be paid out subsequent to the termination of the employment relationship and other long-term benefits (including the Provision for severance indemnity recognized by mG Italy) are subjected to actuarial valuations which have to take into account a series of variables (such as mortality, future salary and pension changes, the anticipated rate of inflation, etc.).

Following the adoption of IAS 19 Revised, actuarial gains/losses are no longer directly recognized in the consolidated statement of profit or loss, but are directly recognized in a reserve of shareholders' equity with immediate recognition in the Statement of Comprehensive Income. The item Interest cost is classified under finance income/expenses and no longer under the item Personnel Costs.

2.6.12.2 Other benefits

Liabilities for wages and salaries, including monetary and non-monetary benefits and accumulating sick leave that are expected to be fully settled within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees’ services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

2.6.13 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.6.14 Financial instruments

2.6.14.1 Recognition and derecognition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments in the form of financial assets and financial liabilities are generally presented separately.

Financial instruments are recognized as soon as hGears-Group becomes a party to the contractual provisions of the financial instrument. Regular way purchases and sales of financial assets are generally recorded on the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs.

2.6.14.2 Financial assets

Financial assets include primarily trade receivables, receivables from banks, cash on hand and derivative financial assets. The classification of financial instruments is based on the business model in which these instruments are held and on their contractual cash flows.

Classification

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial assets depends on the measurement category into which the Group classifies its financial assets. According to IFRS 9 there are three measurement categories:

- Amortized cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

For the classification in one of these categories hGears differentiates between debt and equity instruments.

Subsequent measurement of **debt instruments** depends on the Group 's business model for managing the asset and the cash flow characteristics of the asset.

- Financial assets are classified as measured at **Amortized Cost** if the Group holds the assets for collection of contractual cash flows (business model "hold to collect") and the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. After initial recognition, such financial instruments are subsequently carried at Amortized cost using the effective interest method less any impairment losses. Gains and losses are recognized in the statement of income when the financial assets are impaired or derecognized. Interest effects on the application of the effective interest method are also recognized in profit or loss.

  All non-derivative financial assets of hGears fall into this category since both criteria are met.

- Debt financial assets are classified as measured at **fair value through other comprehensive income** if the business model is "hold to collect and sell" and the contractual cash flows are solely payments of principal and interest on principal amount outstanding. The changes in fair value are recognized in other comprehensive income and are reclassified to profit or loss when the instrument is derecognized. Changes in expected credit losses are recorded in profit or loss by adjusting the FVOCI reserve instead of the carrying amount.

  hGears does not hold financial instruments that fall into this category.

- Financial assets that do not meet the criteria for AC or FVOCI are classified as measured at **fair value through profit or loss**. In addition, the Group may irrevocably designate a debt instrument as measured at FVPL (so-called fair value option). Gains or losses on a debt instrument classified into this category are recognized in profit or loss and presented net within other gains/(losses) in the period in which they arise.

  hGears does not make use of the fair value option. During the year the Group holds trade receivables that fall under the business model "hold to sell".

Equity investments are measured at fair value through profit or loss. Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss. In addition, there is an irrevocable option to present fair value gains and losses on equity investments in other comprehensive income. The Group decides on an instrument-by-instrument basis whether it elects this option. In this case, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. However, dividends from such investments continue to be recognized in profit or loss as other income when the Group 's right to receive payments is established.

As of 2018, hGears-Group does not hold any equity instruments.

Impairment of financial assets

Financial assets are subject to credit risk that are taken into consideration in the recognition of loss allowances or, for losses already incurred, when reporting an impairment. From January 1, 2018, hGears-Group assesses on a forward looking basis the expected credit losses (ECL) associated with its debt instruments carried at AC and FVOCI.

The general impairment methodology applied follows a three stage approach which is based on the change in credit quality of financial assets since initial recognition (general approach). According to this approach hGears-Group considers the probability of default upon initial recognition of the respective asset and whether there has been a significant increase in credit risk. At initial recognition, debt instruments are assumed to have a low credit risk, for which a loss allowance for 12-months ECL is recognized (stage 1). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL (stage 2). A significant increase in credit risk is presumed if a debtor is more than 60 days past due in making a contractual payment or if the rating of the debtor was downgraded by external (for example by insurance companies). If there is objective evidence of impairment (stage 3), hGears-Group also accounts for lifetime ECL.

The Group considers that there is objective evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The company categorizes a financial asset for write off only based on decisions made on specific debtors. The decision is based on available information and after the company concluded all required actions to collect the over dues. Where financial assets have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

For trade receivables, the Group applies the simplified approach which uses a lifetime ECL allowance. To measure the ECL, trade receivables have been grouped based on shared risk characteristics (i.e. counterparty’s industry). The expected loss rates are based on market data about the counterparties’ ability to settle their obligation.

An impairment loss for trade receivables is recorded using an allowance account. For all other financial assets impairment loss directly reduces the carrying amount. Impairment losses are recognized in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

For detailed information on credit risk refer to Note 6.2.2.

2.6.14.3 Financial liabilities

Financial liabilities primarily include liabilities to banks, to shareholders, to leasing companies and derivative financial liabilities. They are initially recognized at fair value.

At initial recognition, the Group measures a financial liability at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial liability. Transaction costs of financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial liabilities depends on the measurement category into which the Group classifies its financial liabilities. According to IFRS 9 there are two measurement categories for financial liabilities:

- Amortized cost (AC)
- Fair value through profit or loss (FVPL)

Financial liabilities at **Amortized cost** are liabilities to banks and the directly attributable transaction costs. After initial recognition, financial liabilities are subsequently measured at Amortized cost using the effective interest method.

Financial liabilities at **fair value through profit or loss** include financial liabilities held for trading. Derivatives, which are not designated as hedging instruments in hedge accounting, are classified as held for trading and therefore recognized at fair value through profit and loss. Gains or losses on liabilities held for trading are recognized in profit or loss.

hGears does not account for financial liabilities at fair value through profit or loss as of December 31, 2018.

2.6.14.4 Derivatives and hedge accounting

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value at the end of each reporting period. The full fair value of a derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months; it is classified as a current asset or liability when the remaining maturity is less than 12 months.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument.

If hedge accounting is not applied, the gain or loss arising from remeasuring the derivative financial instrument at its fair value is immediately recognized in the consolidated statement of profit or loss.

If hedge accounting is applied, derivatives can be designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges)

- hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges), or

- hedges of a net investment in a foreign operation (net investment hedges).

hGears only designates derivatives within cash flow hedges, whereby the effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve in other comprehensive income. The deferred gain or loss is removed from equity and recognized in profit or loss in the same period in which the hedged transaction is recognized. The gain or loss relating to the ineffective portion of changes in the fair value of the hedging instrument is recognized immediately in the consolidated statement of profit or loss.

When an hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss recorded in equity shall remain in equity and be reclassified to profit or loss when the forecast transaction occurs. If the hedged forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in equity shall immediately be reclassified to profit or loss.

At inception of a hedge relationship, hGears documents the economic relationship between the hedging instrument and hedged item, its risk management objective and strategy for undertaking the hedge transaction as well as the method to assess hedge effectiveness prospectively.

3. Notes to the consolidated statement of profit or loss and the consolidated statement of comprehensive income

3.1 Revenues

Revenues for the financial year 2018 are kEUR 126,205 (2017: kEUR 140,047).

Revenues recognized include revenue arising from:

in kEUR	2018	2017
Sales of goods	125,401	139,355
Other	804	692
Revenues	**126,205**	**140,047**

Displayed below are sales of goods split by business area:

in kEUR	2018	2017
Automotive	33,236	33,020
Gardening	19,478	18,766
Power Tools	32,835	33,621
Motorbike	23,786	39,365
Others	16,066	14,583
Sales of goods	**125,401**	**139,355**

Displayed below are sales of goods split by region:

in kEUR	2018	2017
Austria	8,464	25,496
Belgium	3,052	3,051
Brazil	3,962	3,751
China	7,675	7,429
France	2,734	2,640
Germany	41,598	46,773
Great Britain	3,135	2,398
Hungary	12,987	4,649
India	651	548
Italy	7,057	8,531
Liechtenstein	4,585	4,053
Sweden	4,563	6,386
USA	12,443	14,700
Other not EU area	5,801	3,619
Other EU area	6,694	5,331
Sales of Goods	**125,401**	**139,355**

3.2 Other capitalized own work and Changes in inventories (finished goods and work in progress)

in kEUR	2018	2017
Other capitalized own work	172	275
Changes in inventories	(5,094)	1,047
Total	**(4,922)**	**1,322**

3.3 Other operating income

The line item breaks down as follows:

in kEUR	2018	2017
Income from the disposal of non-current assets	260	12
Reversal of previous year accrual	116	159
Income for damages from supplier	34	78
Recharge to employees of car fees	140	139
Refund from Insurance	70	52
Income from prior years	49	559
Income from energy company	0	91
Foreign currency exchange gains	1,645	27
Other	103	95
Total	**2,417**	**1,212**

3.4 Raw materials and consumables used

The line item breaks down as follows:

in kEUR	2018	2017
Raw Materials	(36,007)	(45,482)
Trade goods	(384)	(189)
Supplies	(2,043)	(2,304)
Energy costs for production	(4,246)	(4,846)
Tools	(5,977)	(5,486)
Inbound freight	(508)	(564)
Discounts	259	176
Outsourced manufacturing costs	(6,896)	(8,479)
Total	**(55,802)**	**(67,174)**

3.5 Personnel expenses

The line item breaks down as follows:

in kEUR	2018	2017
Wages and salaries	(29,821)	(32,224)
Social security contributions	(6,982)	(7,162)
Temporary workers	(2,910)	(3,490)
Total	**(39,713)**	**(42,876)**

In 2018 the Group employed 889 people on average (2017: 932) measured in full time equivalents (‘FTE’).

	2018	2017
Factory workers	735	790
Office workers and Managers	154	142
Total	**889**	**932**

As of December 31, 2018, the Group employed 877 FTEs (December 31, 2017: 893).

	31.12.2018	31.12.2017
Factory workers	672	746
Office workers and Managers	205	147
Total	**877**	**893**

3.6 Depreciation, amortization and impairment

The notes to the individual items show the breakdown of depreciation, amortization and impairment charges between intangible assets and property, plant and other equipment. Total depreciation, amortization and impairment came to kEUR 7,411 (December 31, 2017: kEUR 8,649).

3.7 Other operating expenses

The line item breaks down as follows:

in kEUR	2018	2017
Training/Clothing/Various Employees Costs	(1,474)	(1,358)
Travel and Entertainment costs	(515)	(546)
Office expenses / telephone and postal charges	(333)	(279)
Factory facility costs	(827)	(774)
Insurance premiums	(558)	(550)
Maintenance costs	(5,091)	(4,823)
Outbound freight	(1,651)	(1,794)
Operating lease expenses	(2,156)	(2,355)
Banking fees	(241)	(211)
IT expenses	(703)	(616)
Advisory and other fees	(1,989)	(1,618)
Commissions	(1)	(73)
Warranties	(121)	(157)
Other Taxes	(327)	(289)
Foreign currency exchange losses	(1,362)	(284)
Losses from disposal of non-current assets	(74)	(68)
Other operating lease expenses	(651)	(496)
Other operating expenses	(1,330)	(1,803)
Total	**(19,404)**	**(18,094)**

For the refinancing, the Group has recorded one-time expenses for Advisory and Banking fees in amount of kEUR 828.

Displayed below the details of the line Other operating expenses:

in kEUR	2018	2017
Other vehicles cost	(61)	(58)
Fuel costs for cars	(152)	(134)
Cost from previous years	(16)	(215)
Advertising and communications	(122)	(91)
Research and development costs	(26)	(38)
Quality costs	(99)	(8)
Membership fee	(48)	(45)
Industrial services	(581)	(247)
Accrual for bad debt	(57)	(159)
Accrual for provision for risk	(12)	-
Fine on taxes	(5)	(5)
Losses on account receivable	(1)	-
Machine moving for relocation	-	(715)
Other	(150)	(88)
Total	**(1,330)**	**(1,803)**

Industrial services include one-time expenses for new layout in mG Italy in amount of kEUR 274.

The table below shows the fees booked in 2018 and 2017 for the Auditing Company:

in kEUR	2018	2017
** Tax*	*(9)*	*(20)*
** Audit*	*(288)*	*(256)*
** Other*	*-*	*(12)*
Total	**(297)**	**(288)**

3.8 Financial result

The line item breaks down as follows:

in kEUR	2018	2017
Interest expense on finance lease liabilities	(147)	(155)
Interest expenses for shareholder loans	(587)	(576)
Interest expenses banks loans and overdrafts	(861)	(719)
Other interest expenses and similar expenses	(626)	(229)
Finance expenses	**(2,221)**	**(1,679)**
Interest income (bank)	3	4
Finance income	**3**	**4**
Total	**(2,218)**	**(1,675)**

hGears Holding GmbH signed on September 21, 2018 a Credit Facilities Agreement with Hamburg Commercial Bank AG (former: HSH Nordbank AG, hereafter: HCOB) and Skandinaviska Enskilda Banken AB (Publ) (hereafter: SEB) with a max volume of EUR 50 million and a duration of 5 years (hereafter "refinancing"). At the same time all shareholders have concluded capital maintenance and subordination agreements with the banks.

The refinancing replaced the previous loan agreement with Unicredit and BHF banks.

Other interest expenses and similar expenses includes the release of Amortized Costs related to repaid loan agreement with Unicredit and BHF banks in amount of kEUR 448.

3.9 Income and deferred taxes

The line item breaks down as follows:

in kEUR	2018	2017
Current income taxes	(1,676)	(1,787)
Deferred income taxes	436	31
from temporary differences	*135*	*272*
from tax loss carry forwards	*302*	*(241)*
Total taxes	**(1,240)**	**(1,756)**

Effective income taxes for 2018 include corporation tax, solidarity surcharges, trade tax and other foreign income taxes paid totaling kEUR 1,676 (2017: kEUR 1,787).

In the table below the expected income tax expenses that would have arisen if the tax rate of the parent company of the Group, which is 29.125% (2017: 27.725%), had been applied to the IFRS net income before taxes, is reconciled with the income tax expense displayed in the consolidated statement of profit or loss.

In kEUR	2018	2017
Income before income taxes	**(848)**	**4,113**
Theoretical taxes income/(expenses)	247	(1,140)
Effective taxes income/(expenses)	(1,223)	(1,756)
Lower (higher) tax burden related to:	**(1,470)**	**(616)**
Deferred taxes on tax loss carryforwards and temporary differences	*280*	*33*
Differences in foreign tax rates	*156*	*(115)*
Taxes not relating to the period	*23*	*(7)*
Non-deductible expenses	*(165)*	*(286)*
Deferred Taxes on dividends	*(1,361)*	*0*
Others	*(403)*	*(241)*
Tax charge	**(1,470)**	**(616)**

The effective tax rate of the Group is (144%) (2017 was 43%).

Deferred tax assets and liabilities from temporary differences and tax loss carry forwards are related to the following balance sheet items of the Group:

	Deferred tax assets	
in kEUR	**December 31, 2018**	**December 31, 2017**
Employee benefit obligations	147	36
Finance lease liabilities	1,166	1,385
Inventories	347	298
Other current financial liabilities	5	5
Other receivables	2	1
Property, plant and equipment	1,124	927
Provisions	104	101
Tax losses carry forward	1,075	907
Trade receivables	7	(10)
Borrowings	31	93
Other non-current liabilities	23	27
Other	200	22
Total	**4,231**	**3,792**

	Deferred tax liabilities	
in kEUR	**December 31, 2018**	**December 31,2017**
Trade receivables	11	12
Employee benefit obligations	10	(1)
Finance lease	38	38
Other current financial assets	6	30
Other current assets	18	21
Inventories	-	44
Property, plant and equipment	2,093	2,319
Provisions	(3)	7
Intangible assets	3	18
Borrowings	504	213
Total	**2,680**	**2,701**

Currently there are no restrictions for the utilization of hGears-Group’s tax loss carry forwards. Deferred tax assets have been recognized to the extent that the likelihood of utilization based on the company's forecasts is reasonably certain. Deferred tax assets of kEUR 1,075 (December 31, 2017: kEUR 907) have been recognized for tax loss carry forwards.

There are unused tax losses in the Group for corporate income and trade taxes in an amount of kEUR 14,211 (December 31, 2017: kEUR 7,441).

In 2018 deferred taxes of kEUR 8 (2017: kEUR (36)) have been recorded against equity.

4. Notes to the consolidated statements of financial position

4.1 Property, plant and equipment

The following table provides the breakdown of the Group's Property, plant and equipment:

in kEUR	December 31, 2018	December 31, 2017
Land and Buildings	3,286	3,419
Plants and Machinery	23,736	24,174
Tools and Dies	5,534	5,920
Other assets	4,945	2,161
Fixed assets under construction and down-payments	6,067	3,252
Total	**43,568**	**38,926**

The table reported in Annex 1 summarizes the changes occurred in Property, plant and equipment.

The net book value of Plant and Machinery of which hGears-Group as the lessee is the beneficial owner under finance lease contracts amounted to kEUR 8,194 as of December 31, 2018 (December 31, 2017: kEUR 8,720). For further details please refer to Note 4.7.

Assets under construction amounted to kEUR 6.067 and also include down-payments to suppliers for the acquisition of fixed assets (December 31, 2017: kEUR 3,252).

The amounts refer to:

- Machines (kEUR 5,589);
- Others (kEUR 478).

Lease liabilities are effectively secured as the rights to the leased assets recognized in the financial statements revert to the lessor in the event of default.

The amortization period of the buildings under finance leases is 30 years and this is longer than the residual contract life, because the management expects to receive legal ownership after the end of the contracts.

4.2 Intangible assets

The following table provides the breakdown of the Group's intangible assets:

in kEUR	December 31, 2018	December 31, 2017
Software and licences	1,914	779
Brands and trademarks	468	780
Intangible assets under construction and down-payments	21	608
Other	129	173
Total	**2,532**	**2,340**

The table attached in Annex 2 provides a reconciliation of the carrying amounts of hGears-Group's intangible assets at the beginning and end of the periods presented in the consolidated financial statements.

Assets under construction amounted to kEUR 21 (December 31, 2017: kEUR 608).

4.3 Inventories

The net value of the inventories as of December 31, 2018 is kEUR 16,372 (December 31, 2017: kEUR 21,736).

in kEUR	December 31, 2018	December 31, 2017
Raw materials, consumables and supplies	14,867	17,153
Finished goods and work in progress	6,748	9,480
Provisions for inventory	(4,843)	(4,897)
Downpayments	(400)	-
Total	**16,372**	**21,736**

The gross value of written-down inventories as of December 31, 2018 was kEUR 21,615 (December 31, 2017: kEUR 26,633).

Down payments in amount of kEUR 400 refer to phase-out agreement with a customer for left over goods.

Movements in the Group's provision for inventory is as follows:

in kEUR	
Balance as of December 31 2016	**(3,309)**
Addition	(2,073)
Reverse	91
Utilization	380
Other	14
Balance as of December 31 2017	**(4,897)**
Addition	(571)
Reverse	520
Utilization	-
Other	105
Balance as of December 31 2018	**(4,843)**

Write-downs of kEUR 571 were booked in the Group Financial Statements. These are mainly due to revaluation in order to state inventories at net realizable value. Reverse of kEUR 520 is due to an agreement signed with phased-out customer for left over goods, the rest relates to changes in hourly rates

4.4 Trade receivables

The carrying amounts of the trade receivables approximate to their fair values. Current trade receivables are non-interest bearing.

in kEUR	December 31, 2018	December 31, 2017
Trade receivables, gross	12,901	10,557
Loss allowances for expected credit losses	(184)	(161)
Total	**12,717**	**10,396**

Movements in the Group's loss allowance for expected credit losses of trade receivables are as follows:

in kEUR	
Balance as of December 31, 2016	**(63)**
Addition	(160)
Reverse	-
Utilization	62
Other	-
Balance as of December 31, 2017 (IAS 39)	**(161)**
Balance as of January 1, 2018 (IFRS 9)	**(291)**
Addition	(56)
Reverse	4
Utilization	159
Other	-
Balance as of December 31, 2018	**(184)**

The Group entered into a factoring arrangement with banks. Under these arrangements, mG China and mG Italy have sold trade receivables to the bank. As the sale is non-recourse and the companies have not retained any risk, trade receivables amounting to kEUR 2,144 as of the reporting date, are derecognized.

4.5 Other current assets and non-current assets

The following note provides an overview of other non-current financial assets and non-financial assets.

in kEUR	December 31, 2018	December 31, 2017
Other receivables non-current, gross	122	143
Total Non-Current	**122**	**143**

The Other receivables non-current includes financial assets in form of cash deposits made to secure future payments and services.

The following note provides an overview of current financial other receivables and non-financial other receivables.

in kEUR	December 31, 2018	December 31, 2017
Advances to employees	-	66
Receivables from social institution	6	20
Receivables for energy costs	170	180
Export tax refund	129	-
Other	9	11
Total Non-Financial Assets	**314**	**277**
Receivables with credit card companies	4	4
Suppliers premium	79	135
Deposit for custom duties	582	499
Employee loans	279	-
Total Financial Assets	**944**	**638**
Total	**1,258**	**915**

The following table provides the breakdown of the Group's other current non-financial assets current:

in kEUR	December 31, 2018	December 31, 2017
VAT receivables	1,203	934
Other income tax receivables	190	586
Current prepaid operating expenses	359	590
Total	**1,752**	**2,110**

The table below reports the breakdown of the item current prepaid expenses:

in kEUR	December 31, 2018	December 31, 2017
Prepaid travel expenses	5	11
Rental fees	107	120
Courses	-	2
Maintenance costs	109	308
IT expenses	93	103
Inbound and outbound costs	-	4
Insurance	14	21
Consulting fees	-	5
Other	31	16
Total	**359**	**590**

Other financial assets current includes cash deposits by the bank to secure foreign exchange hedging.

4.6 Cash and cash equivalents

At December 31, 2018, cash and cash equivalents amounted to kEUR 7,768 (December 31, 2017: kEUR 8,742).

The following table provides the breakdown of the Group's Cash and cash equivalents:

in kEUR	December 31, 2018	December 31, 2017
Cash on hand	7	2
Bank balance	7,761	8,740
Total	**7,768**	**8,742**

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified expected credit loss was immaterial as of December 31, 2018.

4.7 Finance lease liabilities

The Group leases various plants and equipment under finance leases with a carrying amount of lease liabilities in an amount of kEUR 6,338 (December 31, 2017: kEUR 6,532).

The Company's finance lease liabilities are split into non-current and current amounts as follows and relate to the lease of machinery as described below:

in kEUR	December 31, 2018	December 31, 2017
Finance lease liabilities current	1,369	1,556
Finance lease liabilities non-current	4,969	4,976
Total	**6,338**	**6,532**

The following table provides the breakdown of the total future gross minimum lease payments at the end of the reporting period and their present value:

in kEUR	December 31, 2018	December 31, 2017
Gross finance lease liabilities - minimum lease payments:		
Less than 1 year	1,481	1,674
1 - 5 years	5,217	2,756
More than 5 years	-	2,520
Minimum lease payments	**6,698**	**6,950**

in kEUR	December 31, 2018	December 31, 2017
The present value of finance liabilities - minimum lease payments:		
Less than 1 year	1,369	1,556
1 - 5 years	4,969	2,493
More than 5 years	-	2,483
Net present value of minimum lease payments	**6,338**	**6,532**

The difference between the minimum lease payments and their present value is the interests that the Group has to pay in the future for the leasing contracts.

All the leasing contracts have a purchase option at the end of each contract. The likelihood expectation to exercise the purchase option is more likely than not.

4.8 Borrowings

The carrying amounts of borrowings are as follows:

in kEUR	December 31, 2018	December 31, 2017
Bank loan current	7,227	3,079
Bank loan non-current	16,147	12,088
Total	**23,374**	**15,167**

For refinancing details, see paragraph 3.8 Financial result.

The Group pledged as security for current and non-current borrowings property, plant and equipment in an amount of kEUR 6,347, trade receivables in an amount of kEUR 4,694 and bank accounts in an amount of kEUR 233. Additionally, the parent company, hGears Holding, has granted as a pledge the shares of mG Italy.

Please see in the table below the conditions of the borrowings:

Company	Bank	Nominal Value (kEUR)	Date	Interest rates	Repayment/Maturity	Transaction costs (kEUR)
hGears Holding GmbH	Arrangers	10,000	September 21, 2018	3.25% + 6m EURIBOR	Variable (till six months)	334
hGears Holding GmbH	Arrangers	2,000	September 21, 2018	3.75% + 6m EURIBOR	Final maturity	67
hGears Holding GmbH	Arrangers	5,000	September 21, 2018	3.25% + 6m EURIBOR	Semi-annual repayment	167
Herzog GmbH	Arrangers	8,000	September 21, 2018	3.75% + 6m EURIBOR	Final maturity	267
Herzog GmbH	Arrangers	25,000	September 21, 2018	3.5% + 6m EURIBOR	Semi-annual repayment	833

Arrangers are Hamburg Commercial Bank AG (former: HSH Nordbank AG) and Skandinaviska Enskilda Banken AB (Publ) participating 50% each.

The "Cancellation condition" of the Facility Agreement reported in the table above is:

1) change of control: Finatem III GmbH & Co. KG ceasing to directly or indirectly hold more than one-half of the shares in the Company or control the Company or the sale of all or substantially all of the assets of the Group.

4.9 Shareholder loans

in kEUR	December 31, 2018	December 31, 2017
Shareholder loans	13,061	12,475
Total	**13,061**	**12,475**

Please see in the table below the conditions of the shareholder loans:

Company	Bank	Nominal Value (kEUR)	Date	Interest rates	Cancellation conditions	Transaction costs
hGears Holding GmbH	Finatem III GmbH & Co. KG	6,900	April 30, 2014	8.00%	n.a.	n.a.
hGears Holding GmbH	Finatem III GmbH & Co. KG	5,165	April 27, 2016	4.50%	n.a.	n.a.
hGears Holding GmbH	HPH Beteiligungs-UG	607	April 11, 2011	8.00%	n.a.	n.a.
hGears Holding GmbH	M-H Herzog Beteiligungs-UG	593	April 11, 2011	8.00%	n.a.	n.a.

For the shareholder loans the following terms and conditions apply: the shareholder loans are provided long-term on a permanent basis and in general are free from repayment. The lenders are entitled to terminate the loans within the legal period of notice. The borrower is entitled to terminate the loan with a notice period of ten bank days. A termination requires that the Finatem shareholder loan is terminated for the same quota.

The shareholder loans include subordination clauses and bear higher interest rates as compared to external bank loans accordingly. Furthermore, to check the "market condition" on the interest rate, the Company received offers from external banks for mezzanine capital with same duration and conditions: finally the interest proposed was 8%.

4.10 Provisions

The following note provides an overview of provision, current and non-current.

in kEUR	December 31, 2018	December 31, 2017
Provision, current	361	320
Provision, non-current	319	310
Total	**680**	**630**

in kEUR	December 31, 2018	December 31, 2017
Warranty provision	290	300
Other risk provision	71	20
Total Provision current	**361**	**320**

in kEUR	December 31, 2018	December 31, 2017
Environment provision	269	269
Other risk provision	50	41
Total Provision non-current	**319**	**310**

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

in kEUR	Environment provision	Other risk provision	Warranty provision	Total
Balance as of December 31, 2016	**269**	**61**	**415**	**745**
Addition	-	-	95	95
Reverse	-	-	(61)	(61)
Utilization	-	-	(142)	(142)
Other	-	-	(7)	(7)
Balance as of December 31, 2017	**269**	**61**	**300**	**630**
Addition	-	12	72	84
Reverse	-	-	-	-
Utilization	-	(2)	(32)	(34)
Other	-	-	-	-
Balance as of December 31, 2018	**269**	**71**	**340**	**680**

The amounts considered in “Environmental provision”, relate on the opinion of legal and professional experts.

The amounts considered in "Other risks provision" refer to the best estimate made by the management about probable liabilities in relation to proceedings against suppliers, tax authorities, employees and other subjects. The estimate takes into account, where applicable, the opinion of legal advisors and other experts, the past experience of the Company in similar situations and the intention of the Company to proceed with further action.

The product “Warranty provision” was recorded against costs to be incurred for the replacement of products sold within the balance sheet date and according to the terms of the contractual warranty.

4.11 Employee benefit obligations

This item in question includes the estimated liability for the severance indemnity (TFR) related to the employees of the subsidiary mG Italy.

Italian "Trattamento di Fine Rapporto" (TFR) benefit is a deferred compensation item established by Italian law. It is regulated by the Italian Commercial Code (art. 2120). The value of the "TFR" results from the gross annual salaries of the employees, divided by 13.5. This amount is adjusted, at a later time, by applying the inflation rate of the subsidiary country added to 1.5 percentage points (annual rate of increase TFR). The benefit is paid to the employees as a lump sum in case of a termination of the employment, i.e. in case of retirement, death, disability or turnover.

Based on generally accepted interpretation and following the changes made to the national laws by Law no. 296 of December 27, 2006 (" 2007 Finance Act") and the following decrees and regulations issued in the early months of 2007, the Italian severance indemnity plans are deemed:

- a defined contribution plan for the quotas of the severance indemnity accrued as from January 1, 2007, both in the case of supplementary pension and in the case of allocation to the Treasury fund by INPS;
- a defined benefit plan for the quotas of the severance indemnity accrued until December 31, 2006, for which it is necessary to carry out actuarial calculations that exclude the component related to future salary increases.

The employee severance fund of Italian companies ("TFR") has no plan assets at its service.

The composition of this item is detailed as follows:

in kEUR	
Balance as of December 31, 2016	**1,899**
Actuarial Losses (profits) from experience	1
Actuarial Losses (profits) from changes in financial assumptions	(3)
Interest expenses	16
Utilization of TFR	(162)
Balance as of December 31, 2017	**1,751**
Actuarial Losses (profits) from experience	(3)
Actuarial Losses (profits) from changes in financial assumptions	(32)
Interest expenses	15
Utilization of TFR	(146)
Balance as of December 31, 2018	**1,585**

The actuarial assumptions for the defined benefit plans are detailed in the following table:

	December 31, 18	December 31, 17
ECONOMIC TECHINICAL BASES SUMMARY		
Inflation rate	1.50%	1.50%
Discount rate	1.13%	0.88%
Annual rate of increase TFR	2.63%	2.63%
DEMOGRAPHIC TECHINICAL BASES SUMMARY		
Mortality	Mortality table RG48 published by the General Accouting Office	
Inability	INPS tables divided for age and sex	
Retirement	100% when the AGO requirements are met	
TURNOVER ANNUAL FREQUENCE AND TFR ADVANCES		
Advances frequency	2.00%	2.00%
Turnover frequency	5.00%	5.00%

The annual frequencies of turnover and TFR advances are derived from the historical experience of the Company and from the experience of the actuary on a significant number of similar companies. Below is a sensitivity analysis related to pension plans with defined benefits on the basis of changes in the key assumptions:

in kEUR	Pension plan December 31, 18	Pension plan December 31, 17
Turnover rate +1%	1,576	1,740
Turnover rate -1%	1,593	1,764
Inflation rate +0,25%	1,604	1,774
Inflation rate -0,25%	1,565	1,729
Discount rate +0,25%	1,553	1,716
Discount rate -0,25%	1,616	1,788

The sensitivity above was made on the basis of changes in individual assumptions, while retaining the others unchanged, although in practice any change in an assumption generally can also be reflected in the other as a result of potential correlations. The sensitivity above was calculated using the same method (projected unit credit method) used to calculate the liability recognized in the statement of financial position. In the tables below are reported the contribution for the following year, the average duration of the defined benefit plan and the future estimated payments of the plan.

Service costs and duration

Service cost 2019	-
Duration (years)	8.64

Future estimated payments

YEAR	In kEUR
1	110
2	171
3	94
4	133
5	111

4.12 Trade and other payables

The following note provides an overview of trade payables and other payables:

in kEUR	December 31, 2018	December 31, 2017
Trade payables	15,808	20,542
Other payables	7,765	7,288
Total	**23,573**	**27,830**

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature. The following table provides the breakdown of the Group's Other payables:

in kEUR	December 31, 2018	December 31, 2017
Advance payments received	-	26
Contract Liabilities	64	-
Other current liabilities	2,945	2,011
Employees liabilities	4,750	5,240
Current deferred operating expenses	6	11
Total Current Non-Financial Liabilities	**7,765**	**7,288**

Other current liabilities breakdown is as follows:

in kEUR	December 31, 2018	December 31, 2017
Taxes on wages	2,041	1,708
Auditor costs	264	179
Property, plant and equipment	377	-
Deposit	4	4
Education fund	7	4
Birth allowance	76	66
IT handing charge return	9	5
Other	167	45
Total	**2,945**	**2,011**

Employees liabilities and taxes on wages mainly relate to payrolls and wages (also board of management liabilities – for more information, please see Note 8.2.2) for the month of December, to vacation days accrued but not yet taken, to production bonuses and to the related social contributions.

4.13 Other current and non-current liabilities

The following note provides an overview of other current and non-current liabilities split into financial liabilities and non-financial liabilities.

The balance of other current financial liabilities as of the reporting date included the following item:

in kEUR	December 31, 2018	December 31, 2017
Interest liabilities	157	11
Derivate liabilities	62	78
Total	**219**	**89**

The balance of other non-current liabilities (non-financial) as of the reporting date included the following item:

in kEUR	December 31, 2018	December 31, 2017
Anniversary obligation	79	97
Trade Payables	236	220
Total	**315**	**317**

4.14 Current tax liabilities

The line "Current tax liabilities" includes the liability to the tax authorities related to the calculation of the current taxes on the result of the period. This position includes the payments on account made by the companies to the tax authorities for the taxes to be paid the following year.

4.15 Equity

At December 31, 2018 the share capital of kEUR 50 is divided into 50,000 ordinary shares with a par value of 1 Euro. Besides the minimum amount of share capital, required under German law, there are no distribution restrictions applicable. The entity itself does not hold any own shares.

Please find below the details of the share capital of the parent company hGears Holding GmbH.

Shareholder	**Place of business**	**Shares in kEUR - Dec 2018**	**Share % - 2018**	**Shares in kEUR - Dec 2017**	**Share % - 2017**
Finatem III GmbH & Co. KG, Trade register district court Frankfurt a. Main (HRA 44480)	Frankfurt am Main	44	87.5%	44	87.5%
HPH Beteiligungs-UG (unlimited liability), Trade register district court Stuttgart (HRB 738525)	Lauterbach	3	6.3%	3	6.3%
M-H Herzog Beteiligungs-UG (unlimited liability), Trade register district court Stuttgart (HRB 737759)	Schramberg	3	6.2%	3	6.2%
Share capital		**50**		**50**	

All shares issued are fully paid.

Capital Reserve in the parent company hGears Holding GmbH represents contributions of the shareholders (kEUR 1,975) and the contribution of miniGears companies (kEUR 13,485).

Other reserve includes the legal reserve is booked in the subsidiary mG Italy and it comes from the result of the previous year and is equal to 5% of its share capital.

The OCI Reserves includes:

- *Currency Translation Reserve*: it includes the reserve of the subsidiary mG China deriving from translating it results and financial position from CNY (functional currency) into EURO (presentation currency);
- Changes in *Fair value of derivative contracts* (Interest Rate Swap and Foreign exchange forward contracts);
- Changes in *Employee Plan Reserve* related to employee termination indemnities of defined benefit plans.

Retained earnings includes the result of the current period and the results of the previous years that are not still paid to the shareholders. Furthermore, the adoption effect of IFRS 9 is recognized Retained earnings.

5. Notes to the consolidated statements of cash flow

The following table provides the reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

In kEUR			Non-cash changes				
	December 31, 2017	Cash flows	Acquisition	Fair value changes	Foreign exchange movement	Other	December 31, 2018
Finance lease liabilities	6,532	(1.572)	-	-	-	1,378	6,338
Borrowings	15,167	9,356	-	-	-	(1,149)	23,374
Shareholder loans	12,475	-	-	-	-	587	13,061
Other current financial liabilities	89	-	-	(16)	-	146	219

6. Capital management and financial risk management

6.1 Capital management

hGears-Group's policy is to maintain a strong base in terms of equity capital and sufficient cash balance in order to maintain investor and creditor confidence and to sustain the future development of the business. The primary goals when managing capital are to ensure sufficient liquidity to meet working capital requirements, fund capital investments and to safeguard the ability to continue operating as going concern.

hGearsGroup monitors all capital positions regularly (at least monthly) within its financial reporting, discusses the capital status frequently within the management meetings and also within its advisory board meetings.

On September 2[1], 2018 the Group concluded with consortium banks, HCOB and SEB, a new Facilities Agreement. The Group shall ensure that it complies with the financial covenants, leverage and interest cover on the Group level, during the term of the Agreement. Testing Dates are March 31, June 30, September 30, and December 31, of each year. As of December 31, 2018, the financial covenants had been met.

6.2 Financial risk management

hGears-Group's operating activities expose the Group to a variety of financial risks such as market risks, credit risks and liquidity risks. hGears-Group's finance department has created controlling instruments and key metrics to identify and evaluate such risks in close co-operation with the operating units.

6.2.1 Market risk

6.2.1.1 Foreign exchange risk

The exposure to the risk of changes in foreign exchange rates arises from commercial activities conducted by mG Italy and mG China in foreign currencies, and in particular for expected sales made in US dollars and in Euro (other currencies are used for negligible amounts). These revenues in foreign currencies can be affected by fluctuations in the respective exchange rate impacting on the commercial margins. The Group 's companies also hold immaterial debts in foreign currency as well as foreign currency bank accounts.

The Group is primarily exposed to changes in RMB/Euro and RMB/US Dollar exchange rates due to its Chinese subsidiary. The Group also has exposures to changes in US Dollar/Euro exchange rates due to its Italian subsidiary. The measures implemented to hedge against these currency risks are defined at Group level. To mitigate the foreign currency risks and limiting the variability of turnover, the Group enters into foreign exchange forward contracts to partially hedge its planned sales in US Dollars on the basis of approved commercial budget. The derivative contracts are concluded exclusively with independently highly rated financial institutions.

The main information relating to foreign currency derivative instruments as of December 31, 2018 are summarized in the table below:

Currency	N.	Trade date	Counterparties	Expiry date	Forward price	Notional kEUR	Fair Value kEUR
EUR/USD	2	December 12, 2017	Unicredit	from January 31, 2019 to February 28, 2019	from 1.2142 to 1.2166	262	(14)
RMB/EUR	14	December 12, 2018	SEB/Unicredit	from January 29, 2019 to Feburary 27, 2020	from 7.8520 to 8.1610	1,075	3*
RMB/USD	14	December 11, 2018	SEB/Unicredit	from January 29, 2019 to February 27, 2020	from 6.6617 to 6.8858	10,971	(27)

*In the balance sheet the net position of derivatives is disclosed due to immaterial amounts. However, actually there are also derivatives with positive fair values.

Currency risks pursuant to IFRS 7 arise as a result of monetary financial instruments that are denominated in a currency other than the functional currency. Exchange rate differences from the translation of financial statements into the Group currency (translation risk) are disregarded. Currency risks are measured using sensitivity analyses, during which the impact on profit after tax and equity of hypothetical changes to relevant risk variables is assessed. All non-functional currencies in which the Group employs financial instruments are treated as relevant risk variables. The periodic effects are determined by applying the hypothetical changes in the risk variables to the non-derivative and derivative financial instruments existing at the end of the reporting period. The effect to profit or loss arises mainly from U.S. dollar and Euro-denominated non-derivative financial instruments as well as from the non-designated components of derivatives. The impact on other components of equity arises from the components of foreign currency forward contracts designated as cash flow hedges.

The effects of a ten percent increase/decrease in RMB against foreign currencies were as follows as of the balance sheet date:

In kEUR	**December 31, 2018**			
	Equity		**Profit for the period**	
Exchange rate	*10%*	*(10%)*	*10%*	(10%)
RMB/Euro	(91)	91	32	(33)
RMB/U.S. Dollar	(855)	855	87	(87)

In kEUR	**December 31, 2017**			
	Equity		**Profit for the period**	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
RMB/Euro	(92)	136	(300)	367
RMB/U.S. Dollar	(1,346)	1.567	454	(555)

The effects of a ten percent increase/decrease in USD against Euro were as follows as of the balance sheet date:

In kEUR	**December 31, 2018**			
	Equity		**Profit for the period**	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
U.S. Dollar/Euro	0	0	(67)	82

In kEUR	**December 31, 2017**			
	Equity		**Profit for the period**	
Exchange rate	*10%*	*(10%)*	*10%*	*(10%)*
U.S. Dollar/Euro	177	(216)	(108)	132

For further information on derivatives and hedge accounting refer to Notes 2.6.4 and 7.3.

6.2.1.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group’s main interest rate risk arises from long-term borrowings with variable interest rates, which exposes the Group to cash flow risk. In addition, the Group is exposed to interest rate risk due to its investments of available cash in bank deposits. Changes in market interest rates influence the cost and the performance of various forms of financing and utilization, thus impacting on the level of charges and finance income of the Group.

To mitigate, under economically acceptable conditions, the potential effects of changes in interest rates on the financial result the Group entered into floating-to-fixed interest rate swaps. Therefore, the Group covers 100% of the nominal value of bank loans with variable interest rate.

The main information relating to these interest rate swaps in effect at December 31, 2018, are summarized in the table below:

In the table below are summarized the main information relating to these hedging instruments on interest rates in effect at December 31, 2018:

Currency	N.	Trade date	Counterparties	Expiry date	Swap rate	Notional kEUR	Fair Value kEUR	Floating rate
EUR	2	November 12, 2018	SEB	December 31, 2020	0.00185	7,500	(24)	EURIBOR 6M

As of December 31, 2018, variable interest facilities are 50% hedged. The interest rate derivatives duration is aligned with the facilities.

The interest rate swaps require settlement of net interest receivable or payable every six months.

The measurement of the interest rate risk of the Group has been carried out through a sensitivity analysis that shows the effects on the consolidated statement of profit or loss and net equity which would be encountered during the year 2018 in the case of a hypothetical change in market interest rates. The effects to profit or loss results from floating rate financing that is not hedged, impact to equity results from the fair value changes of the interest rate swaps designated as hedging instruments. The Group's fixed rate borrowings and receivables are carried at Amortized cost. They are therefore not subject to interest rate risks as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

in kEUR	31.12.2018	
	Equity	Result for the period
+100 bps	93	(26)
-100 bps	(5)	-

For further information on derivatives and hedge accounting refer to Notes 2.6.4 and 7.3.

6.2.1.3 Other market risk

hGears-Group is not exposed to equity price risks or commodity price risks as it does not invest in these classes of investments.

6.2.2 Credit risk

Credit risk from financial assets relate to a possible default by a contractual party. The finance department works in close cooperation with other operating departments to identify risks related to account receivables balances. The Group analyses the credit risk of each new client before standard payment and delivery terms and conditions are offered. The Group is exposed to credit risk from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding trade receivables. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets. For bank and financial institutions, only independently rated parties with a minimum rating of "A" are accepted. If customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management.

In order to keep the risk of bad debt loss under control, the subsidiary Herzog GmbH covers the risk on the account receivables with a trade credit insurance with Euler Hermes. The nominal value of the trade receivables covered by the insurance company is kEUR 2,958 (2017: kEUR 2,824). Due to the fact, that not all customers are blue chips and deliveries are made to a very wide range of customers, this insurance minimizes the credit risk.

The credit risk from (non-derivative) financial assets is covered by loss allowances for financial assets without objective evidence of impairment as well as by value adjustments for already impaired financial assets.

The table below shows the gross carrying amounts of trade receivables by credit risk rating grades depending on the days past due as well as the respective loss allowances as of the balance sheet date:

in kEUR	**December 31, 2018**		**December 31, 2017**	
	Gross	**Provision**	**Gross**	**Provision**
Amounts undue	10,037	(95)	9,814	-
Past due 0-30 days	1,801	(2)	617	-
Past due 31-60 days	423	(0)	99	-
Past due 61-90 days	141	(0)	50	-
More than 91 days	499	(87)	(22)	(161)
Total	**12,901**	**(184)**	**10,557**	**(161)**
Trade receivables, net	**12,717**		**10,396**	

For the reconciliation of the loss allowance on trade receivables please see Note 4.4.

The table below shows the gross carrying amounts by credit risk rating classes for each class of other financial assets measured at amortized cost as of December 31, 2018.

in kEUR	Other non-current assets (deposits)	Other receivables	Other current assets	Other current financial assets	Cash and cash equivalents (bank balances)
Credit risk rating class 1	123	1,258	1,768	1,186	7,761
Credit risk rating class 2	-	-	-	-	-
Credit risk rating class 3	-	-	-	-	-
Total	**123**	**1,258**	**1,768**	**1,186**	**7,761**

For these financial assets the identified expected credit losses as of December 31, 2018, are immaterial.

Comparative information (according to IAS 39)

In the prior year, the impairment of trade receivables was assessed on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognized in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

The table below provides an overview of the ageing analysis of receivables past due but not impaired. Receivables not subject to an individual impairment assessment are grouped and subject to collective impairment allowances to cover credit losses.

kEUR	December 31, 2017
Receivables past due, not impaired	707
Past due 1-30 days	644
Past due 31-60 days	104
Past due 61-90 days	48
Past due 91-180 days	(53)
More than 181 days	(36)

Impaired trade receivables relate to gross receivables in an amount of kEUR 615 that are experiencing unexpected economic difficulties or specific country risks. The Group expected that a portion of the receivables would be recovered and had recognized impairment losses of kEUR 161.

	December 31, 2017	
***in* kEUR**	**Gross value**	**Impairment losses**
Receivables impaired individually	615	(161)
Receivables impaired by category of Country risk	-	-
Total	**615**	**(161)**

6.2.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities. The Group monitors its short term liquidity by weekly rolling forecasts and its long term liquidity by quarterly rolling forecast and financial reports. The Group ensures to remain solvent all the time by holding sufficient liquidity reserves and though confirmed credit lines.

The tables below present a maturity analysis of financial liabilities based on their contractual maturities for all non-derivative and derivative financial liabilities (including trade payables and other liabilities) as of the balance sheet date. The amounts disclosed are the undiscounted contractual cash flows. Balances due within 12 months equal their carrying amount as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using the spot interest rate applicable at the end of the reporting period 2018.

in kEUR

Financial liability description	**December 31, 2017**	**< 1 year**	**1 - 5 years**	**> 5 years**
Trade payables	20,541	20,487	54	-
Other payables	7,508	7,264	244	-
Derivatives - cash out flow	81	56	25	-
Borrowings	16,753			
Borrowings - capital portion		*3,258*	*12,400*	-
Interest expenses on Borrowings		*406*	*689*	-
Shareholder loans	14,272			
Shareholder loans - capital portion		-	*10,187*	-
Interest expenses on Shareholder loan		-	*4,084*	-
Finance lease liabilities	6,950			
Finance lease liabilities - capital portion		*1,556*	*2,493*	*2,484*
Interest expenses on Finance lease liabilities		*118*	*263*	*36*
Total	**66,104**	**33,144**	**30,440**	**2,520**

Financial liability description	December 31, 2018	< 1 year	1 - 5 years	> 5 years
Trade payables	15,808	15,676	132	-
Other payables	8,000	7,704	296	-
Derivatives - cash out flow	105	89	16	-
Borrowings	53,053			
Borrowings - capital portion		500	46,500	-
Interest expenses on Borrowings		1,241	4,812	-
Shareholder loans	10,699			
Shareholder loans - capital portion		-	4,100	-
Interest expenses on Shareholder loan		-	6,599	-
Finance lease liabilities	6,698			
Finance lease liabilities - capital portion		1,369	4,969	-
Interest expenses on Finance lease liabilities		112	247	-
Total	**94,361**	**26,690**	**67,671**	**-**

7. Additional disclosures on financial instruments

7.1 Fair value measurement

The fair value of financial instruments follows a fair value hierarchy based on input factors. The fair value of financial instruments can be categorized following the hierarchical levels:

- Level 1: quoted market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2;
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, and current borrowings are assumed to be the same as their fair values, due to their short-term nature.

Specific valuation techniques used to determine the fair value of financial instruments include:

- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date;
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

The Group’s policy is to recognize transfers into and transfers out of the different levels as of the end of the reporting period. There were no transfers between levels 1 and 2 and from level 2 and 3 for recurring fair value measurements during the year.

The fair values of the derivative financial instruments are assigned to level 2. Financials instruments not measured at fair value are assigned to level 2.

7.2 Carrying amounts, amounts recognized, and fair values by class and measurement category

The tables below show the carrying amounts of financial instruments by category as well as the fair values of financial instruments by class.

in kEUR

	Classification IFRS 9	Carrying amount December 31, 2018	Fair Value December 31, 2018
ASSET			
Non-current assets			
Other non-current assets	AC	122	122
Current assets			
Trade receivables	AC	12,717	n/a*
Other receivables			
Total Non-Financial Assets	n/a	*314*	n/a*
Total Financial Assets	AC	*944*	n/a*
Other current financial assets	AC	1,186	n/a*
Cash and cash equivalents	AC	7,768	n/a*
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	n/a	4,969	n/a
Borrowings	FLAC	16,147	18,428
Shareholder loan	FLAC	13,061	13,842
Current liabilities			
Finance lease liabilities	n/a	1,369	n/a
Borrowings	FLAC	7,227	7,227
Other current financial liabilities			
Derivative financial liabilities in hedge accounting	*n/a*	*62*	n/a
Accrued interest	*FLAC*	*157*	*157*
Trade and other payables			
Trade payables	*FLAC*	*15,808*	*n/a**
Other payables			
Other current non-financial payables	*n/a*	*7,765*	*n/a**

Carrying amounts per category		**December 31, 2018**
Amortized costs	AC	**22,859**
Financial Liabilities measured at Amorized Cost	FLAC	**52,400**

n/a* According to IFRS 7.29 (a) disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value (e.g. for short-term trade receivables and payables). If this is the case for short-term financial instruments from your perspective, the disclosure of fair value is not required.

7.3 Derivatives and hedge accounting

The Group uses derivative financial instruments exclusively for hedging financial risks that arise from its commercial business or refinancing activities. These are mainly currency risks and interest rate risks. For hedging the currency risk, the Group entered into forward exchange contracts to hedge sales planned for the next 12 months. The Group manages its interest rate risk from long-term borrowings with variable interest rates using floating-to-fixed interest rate swaps.

The table below comprises the nominal values and fair values of all derivative instruments in place as of the balance sheet date:

	Nominal values		Fair Values	
In kEUR	**December 31, 2018**	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Hedging of currency risk				
Forward exchange contracts	12,308	17,589	(38)	222
thereof positive fair value	8,947	17,589	37	222
thereof negative fair value	3,360	-	(75)	-
Hedging of interest rate risk				
Interest rate swaps	7,500	14,600	(24)	(78)
thereof positive fair value	-	-	-	-
thereof negative fair value	7,500	14,600	(24)	(78)

*In the balance sheet the net position of derivatives is disclosed due to immaterial amounts. However, for a better understanding of the actual exposure this table shows the gross amount.

hGears-Group applies the rules for hedge accounting if a clear economic relationship between the underlying transaction and the hedging instrument is documented and its effectiveness demonstrated.

For hedges of foreign currency risks of highly probable future sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly the terms of the hedged item. The Group performs a qualitative assessment of prospective hedge effectiveness. Hedge ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of hGears-Group or the derivative’s counterparty.

The Group enters into interest rate swaps to hedge the interest rate risk of its loans. The derivatives have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. As all critical terms match, there is an economic relationship established. Hedge ineffectiveness may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the hedged loan.

Due to identical nominal values and same risks between the hedged items and hedging instruments, the hedge ratio for foreign currency hedges as well as interest rate hedges is determined as 1:1. Furthermore, the influence of credit risk to the value changes that result from the established economic relationship is considered as not dominating.

The following table shows the profile of the timing of the notional amount of derivatives designated as hedging instruments, by risk category:

in kEUR	Nominal amount By time to maturity			Nominal Amount total	Average Price/Rate of the hedging instrument
	<1 year	1 – 5 years	>5 years	December 31, 2018	December 31, 2018
Hedging of Foreign Exchange Risks					
Forward Exchange Contracts EUR/USD	262	-	-	262	1.2152
Forward Exchange Contracts EUR/RMB	967	107	-	1,075	7.9680
Forward Exchange Contracts USD/RMB	9,338	1,633	-	10,971	6.8314
Hedging of Interest Rate Risks					
Interest Rate Swaps	-	7,500	-	7,500	0.00185

The Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. The changes in the forward element of the foreign currency forwards that relate to hedged items are accounted for in profit or loss. In case of interest rate hedge accounting, the interest rate swaps are designated in full.

Information related to the designated components of derivatives, separately by risk category, are presented below:

	Carrying Amount	Line Item	Changes in Fair Value used for calculating hedge ineffectiveness	Nominal Amount
In kEUR	**December 31, 2018**	**December 31, 2018**	**December 31, 2018**	**December 31, 2018**
Hedging of Foreign Exchange Risks				
Forward exchange contracts				
Derivative Financial Assets	31*	Other current financial assets	31	8,787
Derivative Financial Liabilities	(2)*	Other current financial liabilities	(8)	915
Hedging of Interest Rate Risks				
Interest rate swaps				
Derivative Financial Liabilities	(24)	Other current financial liabilities	(24)	7,500

*In the balance sheet the net position of derivatives is disclosed due to immaterial amounts. However, for a better understanding of the actual exposure this table shows the gross amount.

The quantitative information about the respective hedged items by risk category is given in the table below:

	Changes in value of hedged items used for calculating hedge ineffectiveness	Balance of cash flow hedge reserve for continuing hedges
In kEUR	**December 31, 2018**	**December 31, 2018**
Cash Flow Hedges		
Hedging of Foreign Exchange Risks		
Designated hedged items	(23)	17
Hedging of Interest Rate Risks		
Designated hedged items	24	(16)

The quantitative information about hedging gains and losses resulting from cash flow hedges are presented below by risk category:

in kEUR	Hedging gains or losses recognized in OCI income/(expenses)	Reclassifications from Cash Flow Hedge Reserve to profit or loss	
		Due to realization of hedged item (income)/expense	Line item in statement of comprehensive income
	December 31, 2018	**December 31, 2018**	**December 31, 2018**
Hedging of Foreign Exchange Risks	17	(112)	Other operating income/expenses
Hedging of Interest Rate Risks	(16)	56	Finance income/expenses

During the year there was no hedge ineffectiveness to be recognized.

The following table presents the reconciliation of the cash flow hedge reserve separately by risk category:

Cash Flow Hedge Reserve (in kEUR)	*FX hedges*	*Interest rate hedges*
Opening balance January 1, 2018	112	(56)
Changes in fair value of hedging instruments recognized in OCI (effective portion)	17	(16)
Amount reclassified from OCI to profit or loss as the hedged item has affected profit or loss	(112)	56
Closing balance December 31, 2018	17	(16)

As of December 31, 2017, the unrealized pre-tax losses on the measurement of derivatives in cash flow hedges, which are recognized in other comprehensive income amounted to kEUR 21. Losses that were reclassified from other comprehensive income to profit or loss amounted to kEUR 237.

7.4 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group might also enter into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The Group did not offset any amounts of financial assets and liabilities in the balance sheet. Netting agreements on derivative contracts or other financial asset and liabilities are not in place as of December 31, 2018.

7.5 Income, expense, gains or losses on financial instruments

The table below shows the net gains or losses of financial instruments included in the consolidated statement of income (excluding derivative financial instruments used in hedge accounting):

in kEUR	2018
Financial assets measured at Amortized cost	(53)
Financial liabilities measured at Amortized costs	(1,845)

Net losses on loans and receivables mainly include impairment losses that are charged to other operating expenses. Net gains on financial liabilities measured at amortized cost include gains and losses from interest expenses.

in kEUR	2017
Available for sale	(4)
Financial liabilities measured at Amortized costs	(1,295)

In the previous year, net losses on loans and receivables mainly include impairment losses that are charged to other operating expenses. Net gains on financial liabilities measured at amortized cost include gains and losses from interest expenses.

The total interest income and total interest expense for financial assets measured at amortized as well as financial liabilities measured at amortized cost comprise of the following:

	2018	
In kEUR	**Financial assets AC**	**Financial liabilities AC**
Interest income	3	-
Interest expenses	-	(1,845)
TOTAL	**3**	**(1,845)**

In the previous year, the total interest income and total interest expense for financial instruments that are not classified as of fair value through profit or loss comprise of the following:

In kEUR	2017
Interest income	4
Interest expenses	(1,520)
TOTAL	**(1,517)**

8. Other disclosures

8.1 Contingencies and commitments

8.1.1 Operating lease commitments

The Group leases buildings, machinery and vehicles under non-cancellable operating leases agreements. The lease term is less than 5 years and the agreements are not renewable at the end of the lease term. The future aggregate minimum lease payments under non-cancellable operating leases and existing purchase commitments are as follows:

in kEUR	December 31, 2018	December 31, 2017
No later than 1 year	2,322	2,317
Later than 1 year and no later than 5 years	8,146	9,295
Later than 5 years	6,224	7,529
Total	**16,692**	**19,141**

8.1.2 Other commitments

The Group has no purchase commitments for capital expenditures related to property, plant and equipment.

8.1.3 Contingencies

As of December 31, 2018, there were no contingent liabilities.

8.2 Related party transactions

Finatem III GmbH & Co. KG, the direct parent of the Company and ultimate controlling party of the Group, has an interest of 87.5 % in the capital of the Company.

In the normal course of its business activities, hGears-Group enters into agreements and transactions with its shareholders and other entities of Finatem III Group (defined as Finatem III GmbH & Co. KG and its subsidiaries, joint ventures and associated companies) for various business purposes, including the furnishing of services or financing of operating activities. These related-party transactions are described below.

Transactions within hGears-Group are not included in the description as these are eliminated in the consolidated financial statements.

The following transactions were carried out with related parties:

8.2.1 Transactions with shareholders

The transactions with Finatem III GmbH & Co. KG are summarized below:

- Accrued finance expenses: the total amount for the financial year 2018 is equal to kEUR 537 (2017: kEUR 526);
- Residual financial loan: the balance at December 31, 2018 is equal to kEUR 11,992 (at the end of 2017: kEUR 11,454). The increase is due to accrued interest.

The transactions with minority shareholders are summarized below:

- Accrued finance expenses: the total amount for the financial year 2018 is equal to kEUR 50 (2017: kEUR 50);
- Residual financial loan: the balance at December 31, 2018 is equal to kEUR 1,070 (at the end of 2017: kEUR 1,021). The increase is due to accrued interest;
- Salaries: kEUR 141 (2017: kEUR 141);
- Building rent: kEUR 441 (2017: kEUR 441).

The Group believes that all transactions with related parties substantially took place on the basis of normal market conditions.

8.2.2 Transactions with related individuals

The Group's key management personnel is defined as those individuals that have authority and responsibility for planning, directing and controlling the activities of the Group. At hGears-Group, key management personnel consists of the members of the Board of Management as well as the members of the Advisory Board of hGears:

Board of Management:

- Pierluca Sartorello
- Patrick Philip Heimpold

Advisory Board:

- Christophe Hemmerle
- Daniel Kartje
- Volker Stauch
- Bernd Lattemann

The fees paid in 2018 to the hGears Holding Advisory Board were kEUR 75 (2017: kEUR 60) and the fees paid to the mG Italy Supervisory Board were kEUR 76 (2017: kEUR 68).

The compensation of key management for employee services is shown below:

in kEUR	**2018**	**2017**
Salaries and other short-term employee benefits	732	690
Total		**690**

The unpaid liabilities and severance payments to the key management are shown below:

in kEUR	**2018**	**2017**
Payroll liabilities and severance payments	208	172
Total		**172**

There are no long-term employee benefits for key management to report for 2018 and 2017.

There were neither loans to members of the key management personnel outstanding as of December 31, 2017 and January 1, 2017, nor any repayments of such loans during that year. During 2018 a member of the management board received unsecured and interest-free loans amounting to kEUR 216. The loans repayment is tied to the refund of Italian payroll tax to the borrower.

Additional information related to the current managing directors is as follows:

Pierluca Sartorello:

- o CEO
- o Residence: Treviso (Italy)
- o Degree in International Business

Patrick Philip Heimpold

- o CFO
- o Residence: Ilvesheim (Germany)
- o Degree in Business Administration.

8.3 Subsequent events

With effect from June 30, 2019 Mr. Patrick P. Heimpold will resign from his role as Managing Director - CFO.

In November 2019 the Group has agreed with the financing banks to adjust the syndicated loan agreement, amongst others the key financial ratios specified in the syndicated loan agreement were revised. Within the context of this agreement, the stakeholders resolved to increase the company's equity by EUR 5 million. As of the signing date of this report the amount was credited to a bank account of the hGears Holding Group.

8.4 Approval of financial statements

The financial statements were released by the Board of Management for approval by the Advisory Board on November 22, 2019.

Schramberg, November 29, 2019

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Pierluca Sartorello
(Chairman of the Board of Directors)

Annex 1

	Change occurred during the current year							
	December 31, 2017	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2018**
Gross value	*6,581*	-	-	-	-	-	*0*	*6,581*
Provisions for amortization and depreciation	*(3,162)*	-	-	*(133)*	-	-	*1*	*(3,295)*
Land and Buildings	**3,419**	**-**	**-**	**(133)**	**-**	**-**	**1**	**3,286**
Gross value	*104,085*	*1,976*	*(5,043)*	-	*2,130*	-	*(55)*	*103,093*
Provisions for amortization and depreciation	*(79,911)*	-	*4,864*	*(4,341)*	-	-	*31*	*(79,357)*
Plants and Machinery	**24,173**	**1,976**	**(179)**	**(4,341)**	**2,130**	**-**	**(24)**	**23,736**
Gross value	*14,685*	*957*	*(20)*	-	*32*	-	*(9)*	*15,645*
Provisions for amortization and depreciation	*(8,765)*	-	*16*	*(1,369)*	-	-	*7*	*(10,111)*
Tools and Dies	**5,920**	**957**	**(4)**	**(1,369)**	**32**	**-**	**(2)**	**5,534**
Gross value	*10,471*	*577*	*(103)*	-	*3,094*	-	*(2)*	*14,037*
Provisions for amortization and depreciation	*(8,309)*	-	*58*	*(844)*	-	-	*3*	*(9,092)*
Other assets	**2,162**	**577**	**(45)**	**(844)**	**3,094**	**-**	**1**	**4,945**
Fixed assets under construction and down-payments	**3,253**	**8,136**	**(28)**	**-**	**(5,257)**	**-**	**(37)**	**6,067**
Property, plant and equipment	**38,926**	**11,645**	**(256)**	**(6,687)**	**-**	**-**	**(62)**	**43,568**

	Change occurred during the current year							
	December 31, 2016	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2017**
Gross value	*6,580*	*-*	*-*	*-*	*-*	*-*	*1*	*6,581*
Provisions for amortization and depreciation	*(3,030)*	*-*	*-*	*(133)*	*-*	*-*	*1*	*(3,162)*
Land and Buildings	**3,550**	**-**	**-**	**(133)**	**-**	**-**	**2**	**3,419**
Gross value	*100,152*	*3,943*	*(1,007)*	*0*	*1,373*	*-*	*(376)*	*104,085*
Provisions for amortization and depreciation	*(75,809)*	*-*	*943*	*(5,213)*	*-*	*-*	*168*	*(79,911)*
Plants and Machinery	**24,343**	**3,943**	**(64)**	**(5,213)**	**1,373**	**-**	**(208)**	**24,173**
Gross value	*13,662*	*1,032*	*(9)*	*-*	*64*	*-*	*(64)*	*14,685*
Provisions for amortization and depreciation	*(7,409)*	*-*	*-*	*(1,382)*	*0*	*-*	*26*	*(8,765)*
Tools and Dies	**6,253**	**1,032**	**(9)**	**(1,382)**	**64**	**-**	**(38)**	**5,920**
Gross value	*10,060*	*648*	*(313)*	*0*	*108*	*-*	*(32)*	*10,471*
Provisions for amortization and depreciation	*(7,580)*	*-*	*313*	*(1,035)*	*0*	*(20)*	*13*	*(8,309)*
Other assets	**2,480**	**648**	**(1)**	**(1,035)**	**108**	**(20)**	**(19)**	**2,162**
Fixed assets under construction and down-payments	**929**	**3,979**	**(30)**	**-**	**(1,545)**	**-**	**(80)**	**3,253**
Property, plant and equipment	**37,555**	**9,602**	**(103)**	**(7,763)**	**-**	**(20)**	**(344)**	**38,926**

Annex 2

	Change occurred during the current year							
	December 31, 2017	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2018**
Goodwill	-	-	-	-	-	-	-	-
Gross value	*2,753*	*489*	-	-	*1,012*	-	*(2)*	*4,252*
Provisions for amortization and depreciation	*(1,973)*	-	-	*(367)*	-	-	*2*	*(2,338)*
Software and licences	**780**	**489**	**-**	**(367)**	**1,012**	**-**	**-**	**1,914**
Gross value	*1,560*	-	-	-	-	-	-	*1,560*
Provisions for amortization and depreciation	*(780)*	-	-	*(312)*	-	-	-	*(1,092)*
Brands and trademarks	**780**	**-**	**-**	**(312)**	**-**	**-**	**-**	**468**
Intangible assets under construction and down-payments	*608*	*426*	-	-	*(1,012)*	-	-	**22**
Gross value	*364*	-	-	-	-	-	-	*364*
Provisions for amortization and depreciation	*(191)*	-	-	*(45)*	-	-	-	*(236)*
Other	**172**	**-**	**-**	**(45)**	**-**	**-**	**-**	**128**
Goodwill and Intangible assets	**2,340**	**915**	**-**	**(724)**	**-**	**-**	**-**	**2,532**

	Change occurred during the current year							
	December 31, 2016	**Addition**	**Dismissal**	**Depreciation**	**Reclassification**	**Writedown**	**Exchange rate differences**	**December 31, 2017**
Goodwill	122	-	-	-	-	(122)	-	-
Gross value	*2,566*	*149*	*-*	*-*	*50*	*-*	*(12)*	*2,753*
Provisions for amortization and depreciation	*(1,595)*	*-*	*-*	*(387)*	*-*	**(0)**	*9*	*(1,973)*
Software and licences	**971**	**149**	**-**	**(387)**	**50**	**(0)**	**(3)**	**780**
Gross value	*1,560*	*-*	*-*	*0*	*-*	*-*	*-*	*1,560*
Provisions for amortization and depreciation	*(468)*	*-*	*-*	*(312)*	*-*	*-*	*-*	*(780)*
Brands and trademarks	**1,092**	**-**	**-**	**(312)**	**-**	**-**	**-**	**780**
Intangible assets under construction and down-payments	*38*	*623*	*-*	*-*	*(50)*	*-*	*(3)*	**608**
Gross value	*363*	*-*	*-*	*-*	*-*	*-*	*1*	*364*
Provisions for amortization and depreciation	*(146)*	*-*	*-*	*(45)*	*-*	*-*	*-*	*(191)*
Other	**217**	**-**	**-**	**(45)**	**-**	**-**	**1**	**172**
Goodwill and Intangible assets	**2,440**	**772**	**-**	**(744)**	**-**	**(122)**	**(6)**	**2,340**

The following independent auditor's report (Bestätigungsvermerk des unabhängigen Abschlussprüfers), prepared in accordance with Section 322 HGB ("Handelsgesetzbuch": "German Commercial Code"), refers to the amended consolidated financial statements, comprising the consolidated statement of financial position as of December 31, 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the financial year from January 1, to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies, together with the group management report of hGears Holding GmbH for the financial year from January 1, 2018 to December 31, 2018. The group management report as a whole is not included in this prospectus. The above-mentioned independent auditor's report and consolidated financial statements are both translations of the respective German-language documents.

22.3.7 Independent Auditor's Report

To hGears Holding GmbH, Schramberg

Audit Opinions

We have audited the consolidated financial statements of hGears Holding GmbH, Schramberg and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flow for the financial year from January 1, 2018 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of hGears Holding GmbH for the financial year from January 1, 2018 to December 31, 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2018, and of its financial performance for the financial year from January 1, 2018 to December 31, 2018 and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [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 of the group management report in accordance with § 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles 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 and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and ap-propriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibilities of the Executive Directors for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are 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 or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in 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 about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate 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 appropriately 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 § 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) 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 executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- 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, super-vision and performance of the group audit. We remain solely responsible for our audit 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 executive directors in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors 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 charged with 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.

Note regarding Supplementary Audit

We issue this auditor's report on the amended consolidated financial statements and amended group management report, based on our dutiful audit concluded on May 29, 2019, and on our supplementary audit concluded on November 28, 2019, which related to the amendments made to the presentation of the opportunities and risks in the group management report and the corresponding adjustments to the general information given in the notes to the consolidated financial statements. Please refer to the presentation of the changes made by the executive directors in the amended notes to the financial statements, Section 1 "General Information", and in the amended group management report, Section 4 "Opportunities and risks, III. Financial business risks, 4. Financing risk" and Section 4 "Opportunities and risks, c. Risk management and general statement concerning the risk situation, II".

Stuttgart, May 29, 2019 / Limited to the changes specified in the notice regarding Supplementary Audit: Stuttgart, November 29, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Denis Etzel)	(sgd. ppa. Dieter Joachim Böhm)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

22.4 Audited annual financial statements of hGears Holding GmbH as of and for the financial year ended December 31, 2020 (prepared in accordance with German GAAP) and independent auditor’s report thereon

(The following English-language financial statements of hGears Holding GmbH as of and for the financial year ended December 31, 2020 are translations of the respective German-language financial statements of hGears Holding GmbH.)

22.4.1 Balance Sheet as of 31 December 2020

ASSETS

		31.12.2020		31.12.2019	
		EUR	EUR	EUR	EUR
A.	**Fixed assets**				
I.	Financial assets				
1.	Shares in affiliated companies	19,880,786.92		19,880,786.92	
2.	Loans to affiliated companies	7,000,000.00		8,400,000.00	
			26,880,786.92		28,280,786.92
			26,880,786.92		**28,280,786.92**
B.	**Current assets**				
I.	Receivables and other assets				
1.	Receivables from affiliated companies	2,899,395.41		9,814,105.45	
2.	Other assets	830,227.40		1,191,805.66	
			3,729,622.81		11,005,911.11
III.	Cash in hand and at bank		17,496,256.20		10,416,502.76
			21,225,879.01		**21,422,413.87**
			48,106,665.93		**49,703,200.79**

LIABILITIES

		31.12.2020		31.12.2019	
		EUR	EUR	EUR	EUR
A.	**Equity**				
I.	Subscribed capital		62,500.00		62,500.00
II.	Capital reserve		20,447,500.00		20,447,500.00
III.	Net loss		(7,344,000.90)		(7,098,224.60)
			13,165,999.10		**13,411,775.40**
B.	**Provisions**				
1.	Other provisions	377,504.38		98,908.55	
			377,504.38		**98,908.55**
C.	**Liabilities**				
1.	Trade payables	243,098.64		73,203.76	
2.	Amounts owed to banks	13,545,500.00		16,540,993.06	
3.	Amounts owed to shareholders	14,341,391.76		13,659,586.73	
4.	Amounts owed to affiliated companies	6,407,796.85		5,918,733.29	
5.	Other liabilities	25,375.20		0.00	
			34,563,162.45		**36,192,516.84**
			48,106,665.93		**49,703,200.79**

22.4.2 Income Statement for the period from 1 January to 31 December 2020

		31.12.2020		31.12.2019	
		EUR	EUR	EUR	EUR
1.	Sales revenues		218,161.52		903,832.81
			218,161.52		903,832.81
2.	Other operating income - of which from currency conversion: EUR 0 (in PY EUR 0)		13,381.72		16,910.18
			231,543.24		920,742.99
3.	Staff costs				
a)	Wages and salaries	347,201.86		114,958.70	
b)	Social security contributions and pension costs	8,592.68		8,276.49	
			355,794.54		123,235.19
4.	Other operating expenses		914,362.07		2,121,193.66
5.	Income from participating interests - of which from affiliated companies: kEUR 1,753 (in PY kEUR 3,326)	1,753,000.00		3,326,000.00	
6.	Income from loans of financial assets - of which from affiliated companies: kEUR 223 (in PY kEUR 259)	222,908.26		258,689.89	
7.	Other interest and similar income - of which from affiliated companies: kEUR 214 (in PY kEUR 295)	214,637.93		294,726.92	
8.	Interest and similar expenses	1,383,003.01		1,247,133.61	
	- of which to shareholders: kEUR 682 (in PY kEUR 598) - of which from affiliated companies: kEUR 31 (in PY kEUR 64)		807,543.18		2,632,283.20
9.	Expenditure from assumption of loss		0.00		3,558,757.04
10.	Earnings after tax		(231,070.19)		(2,250,159.70)
11.	Other taxes		14,706.11		11,630.32
12.	Annual deficit		(245,776.30)		(2,261,790.02)
13.	Loss carryforward		(7,098,224.60)		(4,836,434.58)
14.	Net loss		(7,344,000.90)		(7,098,224.60)

22.4.3 Notes to the Financial Statements 2020

Of hGears Holding GmbH, Schramberg

A. General information

hGears Holding GmbH has its registered office in Schramberg and is registered with Stuttgart District Court under the commercial register number 737541. The annual financial statements have been drawn up on the basis of the recognition, evaluation and structuring regulations of the German Commercial Code (HGB). In addition, the provisions of the German Limited Liability Companies Act ("GmbH-Gesetz") had to be complied with.

As of the reference date for the annual financial statements, the company has the size characteristics of a small corporation pursuant to Section 267 Para. 2 and 3 of the German Commercial Code (HGB).

The financial year is the calendar year.

The annual financial statements have been drawn up in accordance with the structuring regulations of Section 266 of the German Commercial Code (HGB; balance sheet) and Section 275 of the German Commercial Code (HGB; income statement).

The total cost method pursuant to Section 275 Para. 2 of the German Commercial Code (HGB) was selected for the income statement.

In the interest of improving clarity and transparency, the comments to be included for the items of the balance sheet and income statement pursuant to the statutory regulations as well as the comments that are to be optionally included in the balance sheet and/or income statement or in the notes are, for the most part, listed in the notes. In addition, the amounts owed to shareholders are indicated separately.

The required information pursuant to Section 265 Para. 2 of the German Commercial Code (HGB) has been provided.

B. Information regarding the accounting and valuation methods

I. Fixed assets

The loans to affiliated companies and the shares in affiliated companies are indicated at their nominal value or the lower attributable value.

II. Current assets

The receivables and other assets are recognised at their nominal amounts or the lower value attributable on the balance sheet reference date. In the process, the discernible risks are taken into account through appropriate individual value adjustments.

The **liquid funds** are recognised at their nominal value on the balance sheet reference date.

III. Equity

The **subscribed capital** is recognised in the balance sheet at nominal value.

IV. Provisions

The provisions take into account all discernible risks and uncertain obligations and are valued at the settlement amounts necessary according to reasonable commercial assessment. If provisions have a residual term of more than one year, they are discounted at the average market interest rate of the last seven financial years corresponding to their residual term. The provisions with a residual term of less than a year are not discounted. Costs and income from interest rates and residual terms that have changed over the course of time are indicated in the financial result.

V. Liabilities

Liabilities are indicated at the respective settlement amount.

VI. Deferred taxes

As a general rule, deferred taxes are recognised in the differences in the balance sheet amounts of the commercial balance sheet and the tax balance sheet, if they are anticipated to be lower in subsequent financial years.

VII. Bases for the currency conversion

Currency receivables are recognised at the current rate at the time the receivable was established or at the lower rate on the reference date for the final balance sheet. Currency liabilities are recognised at the current rate at the time of the business transaction or at the higher rate on the reference date. In deviation from this, receivables and liabilities with a residual term of no more than one year are converted at the average spot rate for foreign exchange on the reference date of the annual financial statements.

C. Information regarding balance sheet items

The principles of Section 252 Para. 1 of the German Commercial Code (HGB) were complied with.

I. Assets

1. Fixed assets

The fixed assets solely comprise financial assets (shares and loans to affiliated companies).

2. Receivables and other assets

As in the previous year, all receivables have a residual term of up to one year. The other assets have a term of up to one year.
The other assets include tax reimbursement claims for VAT in the amount of kEUR 827 (2019: kEUR 994). The other assets also include a loan to a member of the Executive Board in the amount of kEUR 3 (2019: kEUR 12) with a residual term of more than one year.
The other assets also include a deposit in the amount of kEUR 0 (2019: kEUR 186) in order to safeguard forward exchange deals of the subsidiary.

The receivables from affiliated companies are trade receivables in the amount of kEUR 107 (2019: kEUR 704).

3. Liquid funds

The liquid funds include cash in hand and at bank.

II. Liabilities

1. Equity

The fully paid-up share capital entered in the commercial register amounts to kEUR 63 (2019: kEUR 63).

The capital reserve posted is kEUR 20,448 (2019: kEUR 20,448).

Net loss
The net loss includes kEUR 7,098 (2019: kEUR 4,836) of losses carried forward.

2. Provisions

The **other provisions** include the following obligations:

	kEUR
Costs of annual financial statements and auditing	89
Bonuses	226
Other	63
	378

3. Liabilities

The type and due dates of the **liabilities** indicated can be found in the following table:

In kEUR

Type of liability		Total amount	up to 1 year	greater than 1 year
to banks		13,546	1,546	12,000
	Previous year	16,541	1,041	15,500
Trade payables		243	243	0
	Previous year	73	73	0
to shareholders		14,341	0	14,341
	Previous year	13,660	0	13,660
to affiliated companies		6,408	6,408	0
	Previous year	5,919	5,919	0
other liabilities		25	25	0
	Previous year	0	0	0
Total		**34,563**	**8,222**	**26,341**
Previous year		36,193	7,033	29,160

As in the previous year, the liabilities do not include any liabilities with a residual term of more than 5 years.

The amounts due to shareholders are loan liabilities in the amount of kEUR 14,341 (2019: kEUR 13,660) and exist for an indefinite period of time.

The amounts due to affiliated companies are trade liabilities in the amount of kEUR 102 (2019: kEUR 92).

4. Total amount of the secured liabilities

As security for amounts due to bank, hGears Holding GmbH pledged the shares in Herzog GmbH, Schramberg and mG miniGears S.p.A., Padua/Italy.

D. Information about items of the income statement

I. Breakdown of the sales revenues

The **sales revenues** are broken down as follows:

	kEUR
Germany	124 (2019: 688)
Other EU countries	63 (2019: 111)
Non-EU countries	31 (2019: 105)
Total	218 (2019: 904)

II. Other operating income

The other operating income includes primarily income from the private use of company vehicles and the provision of company vehicles in the amount of kEUR 9 (2019: kEUR 7) and income from the reversal of other provisions in the amount of kEUR 5 (2019: kEUR 10).

III. Other operating expenses

The other operating expenses primarily include operating costs such as rental costs, as well as insurance costs, remuneration of advisory board members, administrative costs as well as group services and legal and consulting costs. They also include additions to the provisions and incidental costs of monetary transactions.

IV. Income taxes

As was already the case in the previous year, no income taxes are incurred in the 2020 financial year.

E. Other information

I. Information about employees

With the exception of the managing directors, no personnel were employed.

II. Information about the company

1. Members of the Executive Board

Mr. Pierluca Sartorello, Dipl. Volkswirt (graduate economist), Chairman of the Management Board, Treviso/Italy
Mr. Daniel Basok, Economics (B.A.), Member of the Management Board, Friesenheim (since 1 June 2020)

The managing director Mr. Sartorello is entitled to represent the company alone and has the authority to conclude legal transactions on behalf of the company on his own behalf or as the representative of a third party. The managing director Mr. Basok is authorised to conclude legal transactions on behalf of the company on his own behalf or as the representative of a third party.

2. Remuneration of the Management Board

In accordance with the protective clause of Section 286 Para. 4 of the German Commercial Code (HGB), information about the total remuneration of the Executive Board is waived as the remuneration of a member of the Executive Board can be determined from the information. A member of the Executive Board was granted unsecured and interest-free loans in the amount of kEUR 3 (2019: kEUR 12). The loans are tied to the reimbursement of Italian income tax to the borrower.

3. Contingent liabilities

hGears Holding GmbH granted a guarantee to mG miniGears Suzhou/China in order to hedge foreign currency risks amounting to a volume of kEUR 2,000. The risk of claims being made out of the securities granted was classified as low on the basis of the insights existing at the time when the balance sheet was drawn up.

4. Transactions that do not appear in the balance sheet (Section 285 No. 3 of the German Commercial Code [HGB])

There are no transactions that do not appear in the balance sheet.

5. Total amount of other financial liabilities (Section 285 No. 3a of the German Commercial Code [HGB])

There are no other financial liabilities.

6. Breakdown of the total fee of the auditor of the annual financial statements according to Section 285 of the German Commercial Code (HGB)

The information is waived due to the information regarding the total fee being provided in the consolidated annual financial statements of the parent company.

7. Group affiliation

The parent company is Finatem III GmbH, Frankfurt, which holds a 90% stake. In addition, HPH Beteiligungs UG Lauterbach holds 5.1% and M-H Beteiligungs UG 4.9% of the shares.
hGears Holding GmbH, Schramberg, draws up consolidated annual financial statements for the hGears Group for the largest and the smallest consolidated entities.

8. Appropriation of earnings

It is proposed to the shareholders' meeting that the net loss be carried forward for new account.

Schramberg, 19 March 2021

Pierluca Sartorello Chairman of the Management Board	Daniel Basok Member of the Management Board

The following independent auditor‘s report (Bestätigungsvermerk des unabhängigen Abschlussprüfers), prepared in accordance with Section 322 HGB ("Handelsgesetzbuch": "German Commercial Code"), refers to the financial statements, comprising the balance sheet as of 31 December 2020, the statement of income for the financial year from 1 January 2020 to 31 December 2020, and notes to the financial statements, including the presentation of the recognition and measurement policies of hGears Holding GmbH for the financial year from 1 January 2020 to 31 December 2020. The above-mentioned independent auditor's report and financial statements are both translations of the respective German-language documents.

22.4.4 Independent Auditor's Report

To hGears Holding GmbH, Schramberg

Audit Opinion

We have audited the annual financial statements of hGears Holding GmbH, Schramberg, which comprise the balance sheet as of 31 December 2020, and the income statement for the financial year from 1 January to 31 December 2020 and notes to the financial statements, including the presentation of the recognition and measurement policies.

In our opinion, on the basis of the knowledge obtained in the audit, the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as of 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020 in compliance with German Legally Required Accounting Principles.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements.

Basis for the Audit Opinion

We conducted our audit of the annual financial statements in accordance with § 317 HGB in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor’s Responsibilities for the Audit of the Annual Financial Statements" section of our auditor’s report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the annual financial statements.

Responsibilities of the Executive Directors and the Advisory Board for the Annual Financial Statements

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

The Advisory Board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, as well as to issue an auditor's report that includes our audit opinion on the annual financial statements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 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 annual financial statements.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one 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 annual financial statements 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 this system of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' 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 Company'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 annual financial statements or, if such disclosures are inadequate, to modify our audit opinion. 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 Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

We communicate with those charged with 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.

Stuttgart, March 19, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Marcus Nickel)
Wirtschaftsprüfer
(German Public Auditor)

(sgd. Denis Etzel)
Wirtschaftsprüfer
(German Public Auditor)