Registered number: 00537328

LAPMASTER WOLTERS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Bishop Fleming

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LAPMASTER WOLTERS LIMITED

COMPANY INFORMATION

DIRECTORS	Mr B Nelson Mr K Cavitt (appointed 16 August 2019) Mr D Oswald (appointed 3 September 2019)
REGISTERED NUMBER	00537328
REGISTERED OFFICE	Unit 1 Central Avenue Lee Mill Industrial Estate Ivybridge Devon PL21 9EN
INDEPENDENT AUDITORS	Bishop Fleming LLP Chartered Accountants & Statutory Auditors Salt Quay House 4 North East Quay Sutton Harbour Plymouth PL4 0BN
BANKERS	Barclays 20-21 Lemon Street Truro Cornwall TR1 2NB
SOLICITORS	Foot Anstey LLP Salt Quay House 4 North East Quay Sutton Harbour Plymouth Devon PL4 0BN

LAPMASTER WOLTERS LIMITED

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LAPMASTER WOLTERS LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

BUSINESS REVIEW

Lapmaster Wolters Limited is a highly regarded and well established international machine tool business engaged in the manufacture and distribution of a wide range of lapping and polishing machines, spare parts, consumables and accessories to a diverse market including oil and gas, aerospace, automotive, medical, semiconductor and communication.

Lapmaster Wolters Ltd produces 3D Printer equipment for Admatec Europe B.V., who are also part of the newly established parent group company; Precision Surfacing Solutions (PSS).

Lapmaster Wolters also designs and manufactures custom lapping and polishing systems to suit particular customer application requirements. Lapping is derived from the phrase "Loose Abrasive Processing". It is a process to remove microscopic chips of material, such as ceramic, glass, sapphire and semi-conductor substrates, to achieve a precise dimensional accuracy of up to +/- 0.001mm.

Lapmaster provides turnkey solutions to a variety of industries from medical, automotive, aerospace and oil industries amongst many others.

PRINCIPAL RISKS AND UNCERTAINTIES

Ongoing uncertainties on Brexit's future, coupled with the continued sterling fluctuation, continues to raise risk to Lapmaster's business.

Lapmasters' competitiveness within the market remains strong with a push for additional visibility from its distributors as well as a continued search for new business within the group.

With the company continuing to be cautious in its approach whilst the UK continues to gain clarity in its position within Europe, Lapmaster achieved further improvement in turnover.

FINANCIAL KEY PERFORMANCE INDICATORS

With the company aiming for year on year revenue growth of 7%, revenue growth is considered to be a key performance indicator.

Year	2018	2017	2016	2015	2014
Total UK Sales	£4,513,498	£3,328,548	£2,541,391	£2,927,338	£3,031,111

UK business exceeded budget at year end for the second consecutive year compared with the previous two years.

Predicted increases in customer activity within the optics markets, in addition to buoyant 3D printer sales, resulted in increased sales for the year.

Higher volumes of contract grinding also resulted in an upturn within this business area, however, this was achieved without the predicted need for additional equipment keeping costs in check.

Distributor performance continued to be a focal point resulting in greater sales.

This report was approved by the board on 9/17/19 (17 September 2019) and signed on its behalf.

Mr D Oswald
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The principal activities of the company are to research, develop, manufacture and sell lapping and polishing machines. The company also provides contract lapping, process design and contract polishing services.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £528,986 (2017: £88,500).

DIRECTOR

The director who served during the year was·

Mr B Nelson

FUTURE DEVELOPMENTS

With a Brexit decision expected in 2019, some markets are questioning whether the UK will be as competitive as its European suppliers once an agreement has been finalised. This may have a notable impact on business in the second half of the year but it is difficult to evaluate the outcome. The company has sought reassurance from its supply chain to meet demand and maintain appropriate stock levels.

A continued increase in optical equipment enquires in 2018 still offers the potential to continue for the next 2 -3 years, as does an upturn in 3D equipment.

Enquiries of AC grinding equipment into the UK may also provide additional sales revenue during the year.

The UK is redesigning its smaller bench top models that continue to be popular with many customers worldwide, which should result in better ergonomics for the user and less impact on the environment with lower running costs and higher efficiencies.

With European sales continuing to see increases over the year, the addition of a new product manager has been introduced in the UK to support the European Sales Manager. This provides reduced lead times in quoting and the ability to manage projects internally with greater efficiency.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

POST BALANCE SHEET EVENTS

On 30 April 2019 Lapmaster Wolters Limited acquired 100% of the share capital of Precisions Surfacing Solutions GmbH, a company registered in Thun, Switzerland for CHF50,000,000.

AUDITORS

The auditors, Bishop Fleming LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

LAPMASTER WOLTERS LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

This report was approved by the board and signed on its behalf.

Mr D Oswald
Director

Date: 9/17/19 (17 September 2019)

Unit 1
Central Avenue
Lee Mill Industrial Estate
Ivybridge
Devon
PL21 9EN

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LAPMASTER WOLTERS LIMITED

OPINION

We have audited the financial statements of Lapmaster Wolters Limited (the 'Company') for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical 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 opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' Responsibilities Statement on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LAPMASTER WOLTERS LIMITED (CONTINUED)

USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Bishop Fleming LLP

Robert Davey FCA (Senior Statutory Auditor)
for and on behalf of
Bishop Fleming LLP
Chartered Accountants
Statutory Auditors
Salt Quay House
4 North East Quay
Sutton Harbour
Plymouth
PL4 0BN
Date: 23 SEPTEMBER 2019.

LAPMASTER WOLTERS LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £	2017 £
Turnover	4	**4,513,498**	3,432,597
Cost of sales		**(3,334,478)**	(2,752,421)
GROSS PROFIT		**1,179,020**	680,176
Administrative expenses		**(521,845)**	(544,825)
OPERATING PROFIT	5	**657,175**	135,351
Interest payable and expenses	8	**(1,520)**	(22,413)
PROFIT BEFORE TAX		**655,655**	112,938
Tax on profit	9	**(126,669)**	(24,438)
PROFIT FOR THE FINANCIAL YEAR		**528,986**	88,500

There were no recognised gains and losses for 2018 or 2017 other than those included in the statement of comprehensive income.

There was no other comprehensive income for 2018 (2017:£NIL).

The notes on pages 12 to 25 form part of these financial statements.

LAPMASTER WOLTERS LIMITED
REGISTERED NUMBER:00537328

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note		2018 £		2017 £
FIXED ASSETS					
Tangible assets	10		**1,209,217**		1,164,737
Investments	11		**6,246,056**		6,246,056
			7,455,273		7,410,793
CURRENT ASSETS					
Stocks	12	**799,776**		542,826	
Debtors: amounts falling due within one year	13	**1,186,011**		775,667	
Cash at bank and in hand	14	**155,327**		213,866	
		2,141,114		1,532,359	
Creditors: amounts falling due within one year	15	**(1,968,875)**		(1,851,651)	
NET CURRENT ASSETS/(LIABILITIES)			**172,239**		(319,292)
TOTAL ASSETS LESS CURRENT LIABILITIES			**7,627,512**		7,091,501
PROVISIONS FOR LIABILITIES					
Deferred tax	17		**(16,558)**		(9,533)
NET ASSETS			**7,610,954**		7,081,968
CAPITAL AND RESERVES					
Called up share capital	18		**208,640**		208,640
Revaluation reserve	19		**991,758**		1,001,320
Capital redemption reserve	19		**9,200**		9,200
Other reserves	19		**5,608,171**		5,608,171
Profit and loss account	19		**793,185**		254,637
			7,610,954		7,081,968

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Mr D Oswald
Director

Date. 9/17/19 (17 September 2019)

The notes on pages 12 to 25 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital	Capital redemption reserve	Revaluation reserve	Capital contribution reserve	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2018	208,640	9,200	1,001,320	5,608,171	254,637	7,081,968
Profit for the year	-	-	-	-	528,986	528,986
Transfer to/from profit and loss account	-	-	(9,562)	-	9,562	-
AT 31 DECEMBER 2018	**208,640**	**9,200**	**991,758**	**5,608,171**	**793,185**	**7,610,954**

The notes on pages 12 to 25 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Capital redemption reserve	Revaluation reserve	Capital contribution reserve	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 January 2017	208,640	9,200	1,010,882	5,608,171	156,575	6,993,468
Profit for the year	-	-	-	-	88,500	88,500
Transfer to/from profit and loss account	-	-	(9,562)	-	9,562	-
AT 31 DECEMBER 2017	**208,640**	**9,200**	**1,001,320**	**5,608,171**	**254,637**	**7,081,968**

The notes on pages 12 to 25 form part of these financial statements.

1. GENERAL INFORMATION

Lapmaster Wolters Limited is a limited liability company incorporated in England, United Kingdom. The address of its registered office is Unit 1 Central Avenue, Lee Mill Industrial Estate, Ivybridge, Devon, PL21 9EN.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

Under the Companies Act 2006 the company is exempt from producing consolidated accounts as it is included in non-EEA group accounts of a larger group (s.401).

The company have taken the exemption to prepare a cashflow statement which has been approved by the shareholders.

The parent entity in which consolidated statements are being produced is Lapmaster Group Holdings LLC. These statements are to be submitted with the statements of Lapmaster Wolters Limited.

The following principal accounting policies have been applied:

2.2 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

2. ACCOUNTING POLICIES (continued)

2.3 REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.4 OPERATING LEASES: THE COMPANY AS LESSEE

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.5 RESEARCH AND DEVELOPMENT

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2. ACCOUNTING POLICIES (continued)

2.6 FINANCE COSTS

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.7 BORROWING COSTS

All borrowing costs are recognised in the Statement of Comprehensive Income in the year in which they are incurred.

2.8 PENSIONS

DEFINED CONTRIBUTION PENSION PLAN

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

2.9 *CURRENT AND DEFERRED TAXATION*

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2. ACCOUNTING POLICIES (continued)

2.10 TANGIBLE FIXED ASSETS

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses with the exception of Freehold Property. Freehold Property is held at its deemed cost on transition to FRS102 based on a 3rd party valuation as at 9 September 2015. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	- 2%
Plant and machinery	- 8%
Motor vehicles	- length of the lease
Fixtures and fittings	- 10-25%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.11 VALUATION OF INVESTMENTS

Investments in subsidiaries are measured at cost less accumulated impairment.

2.12 STOCKS

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2. ACCOUNTING POLICIES (continued)

2.13 PROVISIONS FOR LIABILITIES

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

2.14 FINANCIAL INSTRUMENTS

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However the nature of estimation means that actual outcomes could differ from those estimations. The following judgements have had the most significant effect on amounts recognised in the financial statements.

Stock impairment:
Management review stock for obsolescence on a yearly basis. The stock value in the financial statements is impaired for any obsolete stock identified.

4. TURNOVER

An analysis of turnover by class of business is as follows:

	2018 £	2017 £
Sale of goods	**4,188,097**	3,186,555
Rendering of services	**325,401**	246,042
	4,513,498	3,432,597

Analysis of turnover by country of destination·

	2018 £	2017 £
United Kingdom	**1,544,118**	1,174,561
Rest of Europe	**2,144,323**	1,741,355
Rest of the world	**825,057**	516,681
	4,513,498	3,432,597

5. OPERATING PROFIT

The operating profit is stated after charging:

	2018 £	2017 £
Research & development charged as an expense	**265**	230
Exchange differences	**87**	12,030
Other operating lease rentals	**39,068**	38,864
Depreciation of tangible fixed assets	**42,835**	42,749

6. AUDITORS' REMUNERATION

	2018 £	2017 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**13,500**	13,500

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent Company.

7. EMPLOYEES

Staff costs were as follows:

	2018 £	2017 £
Wages and salaries	**631,351**	595,258
Social insurance costs	**57,947**	53,713
Cost of defined contribution scheme	**62,100**	36,603
	751,398	685,574

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Production	**16**	16
Sales and administration	**7**	6
Technical	**2**	2
	25	24

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2018 £	2017 £
Other loan interest payable	**1,520**	22,413
	1,520	22,413

9. TAXATION

	2018 £	2017 £
CORPORATION TAX		
Current tax on profits for the year	**119,644**	24,547
DEFERRED TAX		
Origination and reversal of timing differences	**7,025**	(109)
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	**126,669**	24,438

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2017: higher than) the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £	2017 £
Profit on ordinary activities before tax	**655,655**	112,938
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**124,574**	21,737
EFFECTS OF:		
Capital allowances for year in excess of depreciation	**2,605**	2,578
Non-taxable income less expenses not deductible for tax purposes, other than goodwill and impairment	**316**	108
Other differences leading to an increase (decrease) in the tax charge	**(826)**	15
TOTAL TAX CHARGE FOR THE YEAR	**126,669**	24,438

10. TANGIBLE FIXED ASSETS

	Freehold property £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
COST					
At 1 January 2018	1,050,000	662,387	12,550	39,223	1,764,160
Additions	-	88,783	-	2,725	91,508
Disposals	-	(34,538)	-	(299)	(34,837)
At 31 December 2018	1,050,000	716,632	12,550	41,649	1,820,831
DEPRECIATION					
At 1 January 2018	31,257	526,880	10,595	30,691	599,423
Charge for the year on owned assets	13,396	23,358	-	5,683	42,437
Charge for the year on financed assets	-	-	398	-	398
Disposals	-	(30,345)	-	(299)	(30,644)
At 31 December 2018	44,653	519,893	10,993	36,075	611,614
NET BOOK VALUE					
At 31 December 2018	1,005,347	196,739	1,557	5,574	1,209,217
At 31 December 2017	1,018,743	135,507	1,955	8,532	1,164,737

10. TANGIBLE FIXED ASSETS (CONTINUED)

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2018 £	2017 £
Motor vehicles	**1,557**	1,955

11. FIXED ASSET INVESTMENTS

	Investments in subsidiary companies £
COST OR VALUATION	
At 1 January 2018	**6,246,056**
At 31 December 2018	**6,246,056**

12. STOCKS

	2018 £	2017 £
Raw materials and consumables	**608,271**	398,567
Work in progress (goods to be sold)	**158,367**	74,154
Finished goods and goods for resale	**33,138**	70,105
	799,776	542,826

Stock recognised in cost of sales during the year as an expense was £2,376,268 (2017: £1,825,923).

13. DEBTORS

	2018 £	2017 £
Trade debtors	**266,373**	240,357
Amounts owed by group undertakings	**847,277**	468,674
Other debtors	**32,468**	22,601
Prepayments and accrued income	**39,893**	44,035
	1,186,011	775,667

14. CASH AND CASH EQUIVALENTS

	2018 £	2017 £
Cash at bank and in hand	**155,327**	213,866
	155,327	213,866

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £	2017 £
Other loans	**-**	177,462
Trade creditors	**465,474**	368,610
Amounts owed to group undertakings	**877,535**	874,366
Corporation tax	**119,515**	24,547
Taxation and social security costs	**15,039**	14,388
Accruals	**168,670**	138,433
Deferred income	**322,642**	253,845
	1,968,875	1,851,651

16. FINANCIAL INSTRUMENTS

	2018 £	2017 £
FINANCIAL ASSETS		
Financial assets that are debt instruments measured at amortised cost	**1,301,445**	945,498
FINANCIAL LIABILITIES		
Financial liabilities measured at amortised cost	**(1,511,679)**	(1,558,871)

Financial assets that are debt instruments measured at amortised cost comprise trade debtors, amounts owed by group undertakings, other debtors and cash at bank.

Financial liabilities measured at amortised cost comprise trade creditors, accruals, amounts owed to group undertakings, bank loans and other loans.

17. DEFERRED TAXATION

	2018 £	2017 £
At beginning of year	**(9,533)**	(9,642)
Charged to profit or loss	**(7,025)**	109
AT END OF YEAR	**(16,558)**	(9,533)

The provision for deferred taxation is made up as follows:

	2018 £	2017 £
Accelerated capital allowances	**16,558**	9,533
	16,558	9,533

18. SHARE CAPITAL

	2018 £	2017 £
ALLOTTED, CALLED UP AND FULLY PAID		
208,640 (2017: 208,640) Ordinary shares of £1.00 each	**208,640**	208,640

19. RESERVES

Revaluation reserve

The revaluation reserve contains cumulative revaluation gains on the company's freehold property prior to conversion to FRS102.

Capital redemption reserve

The capital redemption reserve was created upon the repurchase by the company of its own shares. The nominal value of the repurchased share capital was transferred from retained earnings into this reserve.

Other reserves - Capital contribution

The capital contribution surplus was created when the shareholders injected assets into the company with no return of shares.

Profit and loss account

The profit and loss account contains the company's cumulative undistributed profits and losses.

20. PENSION COMMITMENTS

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £62,100 (2017: £36,603). Contributions totaling £Nil (2017: £Nil) were payable to the fund at the reporting date

21. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018	2017
	£	£
Not later than 1 year	**36,927**	35,402
Later than 1 year and not later than 5 years	**15,810**	13,185
	52,737	48,587

22. RELATED PARTY TRANSACTIONS

A partner of a member of key management owns 50% of a piece of land which is used by the group in its trade. In an arm's length transaction, the company paid rent of £22,500 (2017: £22,500), the open market value, during the year for the use of this land.

Key Management Personnel
The Director, who has authority and responsibility for planning, directing and controlling the activities of the Company is considered to be the only key management personnel. The Director is not remunerated by the Company.

23. POST BALANCE SHEET EVENTS

On 30 April 2019, Lapmaster Wolters Limited acquired 100% of the share capital of Precision Surfacing Solutions GmbH, a company registered in Thun, Switzerland for CHF50,000,000.

24. CONTROLLING PARTY

The immediate parent undertaking is Lapmaster Group Holdings LLC. The ultimate parent undertaking is China Everbright Limited.

The parent undertaking of the smallest group to consolidate these financial statements is Lapmaster Group Holdings LLC, a company incorporated in the United States of America. Copies of the Lapmaster Group Holdings LLC can be obtained from Lapmaster International LLC, 501 W Algonquin Road, Mount Prospect, IL 60056, USA.

The parent undertaking of the largest group to consolidate these financial statements is China Everbright Limited, a company registered in Hong Kong and is listed on the Hong Kong stock exchange. Copies of the China Everbright Limited can be obtained from China Everbright Limited, 46/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

Under the Companies Act 2006 the company is exempt from producing consolidated accounts as it is included in non-EEA group accounts of a larger group (s.401).

25. SUBSIDIARY UNDERTAKINGS

SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the Company:

Name	**Registered office**	**Class of shares**	**Holding**
Formatec Holdings B.V.	Nobelstraat 14, 58051 DV Goirle, Netherlands	Ordinary	100%
Formatec Ceramics B.V.	Nobelstraat 14, 58051 DV Goirle, Netherlands	Ordinary	100%
Admatec Europe B.V.	Nobelstraat 14, 58051 DV Goirle, Netherlands	Ordinary	100%

The aggregate of the share capital and reserves as at 31 December 2018 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	***Aggregate* of share capital and reserves**	**Profit/(Loss)**
	£	**£**
Formatec Holdings B.V.	**1,442,623**	**(67,371)**
Formatec Ceramics B.V.	**(61,479)**	**(507,103)**
Admatec Europe B.V.	**14,866**	**(279,238)**

Lapmaster Group Holdings, LLC and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

THESE ACCOUNTS FORM PART OF A GROUP PACKAGE FOR

LAPMASTER WOLTERS LIMITED

537328

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lapmaster Group Holdings, LLC and Subsidiaries
Mount Prospect, Illinois

We have audited the accompanying consolidated financial statements of Lapmaster Group Holdings, LLC and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lapmaster Group Holdings, LLC and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

April 25, 2019

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,115,284	$ 5,310,408
Accounts receivable—net of allowance for doubtful accounts of $636,594 and $723,723 in 2018 and 2017, respectively	57,657,438	40,793,402
Inventories—net	78,864,744	53,984,895
Refundable income and other taxes	2,931,058	1,699,139
Prepaid expenses and other current assets	5,669,367	4,050,545
Total current assets	155,237,891	105,838,389
PROPERTY, PLANT, AND EQUIPMENT—Net	13,594,702	14,165,585
OTHER ASSETS:		
Goodwill	20,916,318	24,692,263
Intangible assets—net	29,261,042	33,118,684
Other assets	342,787	41,200
Total other assets	50,520,147	57,852,147
TOTAL ASSETS	$ 219,352,740	$ 177,856,121
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt—net of debt issuance costs	$ 6,646,808	$ 6,903,098
Subordinated debt	6,372,000	2,520,000
Lines of credit—short term	7,754,625	568,951
Accounts payable	22,433,839	14,625,555
Accrued warranty and installation obligations, current portion	6,847,836	5,252,049
Accrued expenses and other current liabilities	11,877,706	8,075,844
Pension liability, current portion	661,624	696,152
Unearned revenue	48,324,139	25,377,193
Income and other taxes payable	3,679,950	2,912,840
Total current liabilities	114,598,527	66,931,682
LONG-TERM LIABILITIES:		
Long-term debt—net of current portion and debt issuance costs	23,937,028	31,279,112
Deferred income tax liabilities	4,114,952	5,139,990
Pension liability—net of current portion	9,896,892	11,034,410
Accrued warranty obligations—net of current portion	1,417,098	669,309
Total long-term liabilities	39,365,970	48,122,821
MEMBERS' EQUITY:		
Preferred member units (44,655,556 units, $1 par value)	44,655,556	44,655,556
Statutory reserves	1,480,489	1,134,896
Accumulated other comprehensive loss	(6,117,837)	(1,054,080)
Common Member Units (1)	25,370,035	18,111,708
Noncontrolling interest	-	(46,462)
Total members' equity	65,388,243	62,801,618
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 219,352,740	$ 177,856,121

(1) Comprised of Preferred B, Class A, and Class B units (See Note 5)

The accompanying notes are an integral part of these consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
NET SALES	$217,484,001	$152,115,410
COST OF SALES	138,767,529	100,143,314
GROSS PROFIT	78,716,472	51,972,096
OPERATING EXPENSES:		
Engineering expenses	16,452,735	11,143,128
Selling expenses	19,931,562	14,650,833
General and administrative expenses	19,086,594	15,711,356
Amortization of goodwill	2,737,103	2,723,973
Acquisition and other transactional expenses	3,719,314	1,969,002
	61,927,308	46,198,292
INCOME FROM OPERATIONS	16,789,164	5,773,804
OTHER INCOME (EXPENSE):		
Interest expense—net	(2,535,594)	(2,522,877)
Other	(344,736)	(332,572)
	(2,880,330)	(2,855,449)
INCOME BEFORE INCOME TAXES	13,908,834	2,918,355
PROVISION FOR INCOME TAXES	6,111,925	2,679,786
NET INCOME	7,796,909	238,569
NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	(40,428)	102,015
NET INCOME ATTRIBUTABLE TO LAPMASTER GROUP HOLDINGS LLC	$ 7,837,337	$ 136,554

The accompanying notes are an integral part of these consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
NET INCOME	$ 7,796,909	$ 238,569
OTHER COMPREHENSIVE INCOME (LOSS):		
Change in net pension actuarial (gain) loss	143,394	(20,565)
Foreign currency translation adjustment	(5,207,151)	10,098,787
Comprehensive income—December 31	2,733,152	10,316,791
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST	(40,428)	102,015
COMPREHENSIVE INCOME ATTRIBUTABLE TO LAPMASTER GROUP HOLDINGS, LLC	$ 2,773,580	$ 10,214,776

The accompanying notes are an integral part of these consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Member Units [1]	Preferred A Member Units	Statutory Reserves	Accumulated Other Comprehensive Loss [2]	Noncontrolling Interest	Total Members' Equity
BALANCE—January 1, 2017	$ 18,183,758	$ 44,655,556	$ 1,134,896	$ (11,132,302)	$ (148,477)	$ 52,693,431
Distributions	(208,604)	-	-	-	-	(208,604)
Net income	136,554	-	-	-	102,015	238,569
Other comprehensive income (loss):						
Change in net pension actuarial gain (loss)	-	-	-	(20,565)	-	(20,565)
Foreign currency translation adjustment	-	-	-	10,098,787	-	10,098,787
BALANCE—December 31, 2017	18,111,708	44,655,556	1,134,896	(1,054,080)	(46,462)	62,801,618
Distributions	(146,527)	-	-	-	-	(146,527)
Net income (loss)	7,837,337	-	-	-	(40,428)	7,796,909
Purchase of noncontrolling interest	(86,890)	-	-	-	86,890	-
Transfer to reserves (Note 9)	(345,593)	-	345,593	-	-	-
Other comprehensive income (loss):						
Change in net pension actuarial gain	-	-	-	143,394	-	143,394
Foreign currency translation adjustment	-	-	-	(5,207,151)	-	(5,207,151)
BALANCE—December 31, 2018	$ 25,370,035	$ 44,655,556	$ 1,480,489	$ (6,117,837)	$ -	$ 65,388,243

[1] Comprised of Preferred B, Class A, and Class B units (see Note 5)

[2] Accumulated other comprehensive income (loss) at December 31, 2018 and 2017 consists of the following:

	2018	2017
Foreign currency translation adjustment	$ (6,912,502)	$ (1,705,351)
Net pension actuarial gain	794,665	651,271
	$ (6,117,837)	$ (1,054,080)

The accompanying notes are an integral part of these consolidated financial statements.

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,796,909	$ 238,569
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,816,262	7,250,383
Amortization of debt issuance costs	140,000	140,000
Net periodic pension cost	195,813	183,309
Gain on disposal of property, plant, and equipment	(137,494)	-
Gain on bargain purchase	(44,844)	-
Formatec seller note settlement	-	(338,700)
(Increase) decrease in assets:		
Accounts receivable	(10,683,311)	(21,831,896)
Inventories	(16,594,819)	(10,923,680)
Refundable income and other taxes	(1,462,466)	(32,104)
Prepaid expenses and other current assets	(1,860,185)	(1,519,274)
Other assets	(135,193)	(9,861)
Increase (decrease) in liabilities:		
Accounts payable	3,631,157	5,433,980
Accrued warranty obligations	2,134,323	2,584,981
Accrued expenses and other current liabilities	2,940,217	1,713,204
Deferred tax liability	(626,833)	203,467
Pension liability	(789,825)	(648,609)
Unearned revenue	15,899,406	9,809,356
Income and other taxes payable	912,993	2,369,608
Net cash provided by (used in) operating activities	9,132,110	(5,377,267)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale if property, plant, and equipment	662,750	-
Notes issued to members	(170,000)	-
Purchases of property, plant, and equipment	(3,355,954)	(1,758,683)
Purchase of intangible assets	-	(39,390)
Purchase of assets from business combination	(1,251,910)	-
Net cash used in investing activities	(4,115,114)	(1,798,073)

(Continued)

LAPMASTER GROUP HOLDINGS, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds (repayments) on lines of credit	$ 7,213,166	$ 37,640
Proceeds from long-term debt	-	-
Payments on long-term debt	(7,748,454)	(7,285,828)
Proceeds from subordinated debt	3,600,000	-
Distributions	(146,527)	(208,604)
Net cash provided by (used in) financing activities	2,918,185	(7,456,792)
EFFECT OF EXCHANGE RATES ON CHANGE IN CASH	(3,130,305)	387,059
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,804,876	(14,245,073)
CASH AND CASH EQUIVALENTS—Beginning of year	5,310,408	19,555,481
CASH AND CASH EQUIVALENTS—End of year	$ 10,115,284	$ 5,310,408
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 1,988,942	$ 2,219,880
Cash paid for taxes	$ 5,344,815	$ 468,300
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment purchased with long-term debt	$ -	$ 175,000
Increase in minimum pension liability	$ 143,394	$ (20,565)
Accrued interest on subordinated debt	$ 604,713	$ 252,000
Formatec purchase price adjustment to seller note	$ -	$ (338,700)

The accompanying notes are an integral part of these consolidated financial statements.

(Concluded)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business—Lapmaster Group Holdings, LLC and Subsidiaries (the "Company") is a manufacturer and distributor of a wide range of lapping, grinding, polishing and bore honing machines, spare parts, consumables, cleaning systems, and accessories.

In November 2015, a third party purchased a controlling interest in the Company. The controlling member and the Company elected not to apply pushdown accounting and as such, the Company's assets and liabilities were note remeasured or otherwise adjusted to fair value as of the acquisition date.

Principles of Consolidation—The consolidated financial statements include the accounts of Lapmaster Group Holdings, LLC and its wholly-owned subsidiaries, Lapmaster International, LLC ("Lapmaster US"), Lapmaster Wolters (Shenyang) Precision Machinery Co., Ltd. ("Lapmaster China"), Lapmaster Wolters Limited ("Lapmaster UK"), Lapmaster Wolters GmbH ("Lapmaster Germany"), Elb Schliff Werkzeugmaschinen GmbH ("Elb"), ABA Grinding Technologies GmbH ("ABA"), and REFORM Maschinenfabrik Adolf Rabenseifner GmbH & Co. KG ("REFORM"), and limited partner, Precision Surfacing Solutions Gmbh & Co. KG ("PSS"). The consolidated financial statements also include the accounts of Lapmaster Wolters India Private Ltd. ("Lapmaster India"), an entity for which the Company has a 95% ownership interest. The ownership interests in Lapmaster India, other than those of the Company, have not been presented separately as noncontrolling interests in the consolidated financial statements due to the insignificance of those interests. The Company previously owned 67% of Admatec Europe B.V. The remaining 33% was presented as noncontrolling interest in the consolidated financial statements as of and for the year ended December 31, 2017. On March 28, 2018, the Company acquired the remaining 33% of Admatec Europe B.V. it did not previously own for €750,000 (approximately $923,000). The purchase price included €450,000 (approximately $554,000) of property, plant, and equipment and €300,000 (approximately $369,000) of goodwill. All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents—The Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents.

Accounts Receivable—Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 to 60 days from the invoice date. Accounts receivable are stated at the amounts billed to the customers. No interest or late fees are charged on those accounts which are considered to be delinquent. Payments of accounts receivable are allocated to specific invoices identified on the customer's remittance advice or, if unspecified, to the oldest unpaid invoices.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. Management reviews all accounts receivable balances and, based on an assessment of collection and current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management's estimate also considers any changes in future economic conditions that might give rise to results that differ from past experience.

Inventories—Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted-average cost method on a first-in, first-out (FIFO) basis. Work in process and finished goods include materials, labor, and allocated overhead. Potential losses from obsolete and slow-moving inventories are recorded as a reserve when identified.

Property, Plant, and Equipment—Property, plant, and equipment are stated at cost. Depreciation is provided primarily using the straight-line method over the estimated useful lives of the related assets. Expenditures for repairs and maintenance are charged to operations.

Property, plant, and equipment as of December 31, 2018 and 2017 is as follows:

	2018	**2017**
Machinery and equipment	$ 15,676,335	$ 14,645,674
Buildings and improvements	5,955,780	5,445,251
Office and computer equipment	3,064,968	1,781,305
Vehicles	799,997	968,109
Furniture and fixtures	1,866,865	1,173,455
Leasehold improvements	1,586,242	1,118,959
	28,950,187	25,132,754
Less accumulated depreciation	(17,414,235)	(13,136,141)
	11,535,952	11,996,613
Land	2,058,750	2,168,972
Total property, plant, and equipment—net	$ 13,594,702	$ 14,165,585

The estimated lives used for the computation of depreciation are as follows:

Machinery and equipment	5–22 years
Building and improvements	8–50 years
Office and computer equipment	3–10 years
Vehicles	3–6 years
Furniture and fixtures	4–13 years

Leasehold improvements are amortized over the shorter of the economic useful life of the improvement, or the term of the lease.

When properties are retired or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized within operating expenses. The Company reviews property, plant, and equipment for potential impairment whenever events or circumstances indicate that the carrying value of such assets may not be recoverable. If the review indicates that the carrying value of these assets is not recoverable, the carrying amount of the assets is reduced to fair value with a corresponding charge to operating expenses in the period in which the determination is made. No such impairment charges were recorded for either of the years ended December 31, 2018 or 2017.

Intangible Assets—The Company amortizes its intangible assets with definite lives over their respective estimated useful lives and reviews these assets for impairment when certain indicators are present. If the review indicates that the carrying value of these assets is not recoverable, the carrying amount of the assets is reduced to fair value with a corresponding charge to operating expenses in the period in which the determination is made. Intangible assets with indefinite lives are not amortized and are evaluated for impairment annually or earlier if certain indicators are present. The Company has determined that no impairment exists as of December 31, 2018 or 2017. The intangible assets as reported in the consolidated balance sheet consist of trademarks and trade names, licenses, patents, technological processes, and customer-related assets.

Goodwill—Goodwill represents the excess of the purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. During the year ended December 31, 20117, the Company began amortizing goodwill over a 10-year useful life. The Company tests goodwill at the entity level for impairment if an event occurs or circumstances change that indicate that the fair value of the entity may be below its carrying value. The Company has determined that no impairment exists at December 31, 2018 or 2017.

Changes to goodwill for the years ended December 31, 2018 and 2017 are as follows:

	2018	**2017**
Balance—January 1,	$ 24,692,263	$ 24,542,852
Goodwill amortization	(2,737,102)	(2,723,973)
Goodwill acquired	368,791	-
Impact of foreign currency translation	(1,407,634)	2,873,384
Balance—December 31,	$ 20,916,318	$ 24,692,263

Debt Issuance Costs—Debt issuance costs are included as a direct deduction from the carrying amount of the debt liability, consistent with debt premiums and discounts.

Revenue Recognition—Revenue from the sale of goods is generally recognized upon shipment of the product to the customer, at which time title and risk of loss passes to the customer. Revenue for services performed is recognized as those services are provided. In certain instances, customer deposits on machine sales are provided in advance of the final sale. When this occurs, revenue is deferred as unearned revenue until completion and shipment of the machine, at which time title and risk of loss passes to the customer. Shipping charges to the customer are included in sales and the related costs are classified as cost of sales.

Income Taxes—The Company's domestic entities are limited liability companies classified as partnerships for federal income tax purposes. Consequently, related income and losses flow directly through to the members of the Company. Accordingly, no provision for U.S. federal income taxes has been reflected in the consolidated financial statements. The Company's domestic entities may be subject to certain state taxes.

The majority of the Company's foreign subsidiaries have elected to be classified as entities disregarded from the Company for federal income tax purposes. Consequently, income and losses of these Company's foreign subsidiaries flow directly through to the members of the Company. The income of those foreign subsidiaries not having made the election to be disregarded from the Company for federal income tax purposes will flow through to the members of the Company when a distribution, or a transaction taxable under U.S. federal income tax law as a deemed distribution, occurs.

All of the Company's foreign subsidiaries are also subject to various foreign income taxes. The international tax rates vary by country and are assessed on the Company's international operations. Withholding tax is also required to be remitted on certain types of payments made by foreign jurisdictions, including but not limited to royalty charges and sales and marketing charges. The withholding tax rules vary by jurisdiction and by entity classification. The Company accrues withholding tax as incurred throughout the year.

The Company recognizes tax liabilities when the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments would be included in income tax expense.

Management has analyzed the tax positions taken by the Company and has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken by these entities that would require recognition of a liability in the consolidated financial statements.

Use of Estimates—The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency:

Translation—All of the foreign subsidiaries use their local currency as the functional currency. The assets and liabilities of the foreign subsidiaries are translated into U.S. dollars using rates of exchange as of the balance sheet date. Revenues and expenses are translated at average exchange rates in effect during the year. The cumulative effect resulting from such translation is included in accumulated other comprehensive income, and changes in the cumulative effect of such translations are included in other comprehensive income in the consolidated financial statements.

Transaction—The Company enters into certain transactions denominated in foreign currency. Gains and losses on foreign currency transactions are recognized currently in the consolidated statements of income within other income (expense). For the years ended December 31, 2018 and 2017 the loss on foreign currency transactions was $499,309 and $583,101, respectively.

Fair Value of Financial Instruments—The carrying amounts of financial instruments, including cash in foreign bank accounts, cash equivalents, accounts receivable, accounts payable, accrued expenses, and short-term borrowings, approximate fair value due to the short maturity of these instruments. The carrying amount of long-term debt approximates fair value because the interest rates fluctuate with market interest rates or the fixed rates are based on current rates offered to the Company for debt with similar terms and maturities.

It is the Company's policy, in general, to measure nonfinancial assets and liabilities at fair value on a nonrecurring basis. These items are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (such as evidence of impairment) which, if material, are disclosed in the accompanying notes to the consolidated financial statements.

Derivative Financial Instruments—The Company does not apply hedge accounting to derivative instruments and all changes are accounted for in the statement of operations within interest expense.

Research and Development—Expenditures for research and development are expensed when incurred and are included in engineering expenses. In the years ended December 31, 2018 and 2017, the Company's research and development costs were approximately $5.8 and $2.8 million, respectively.

Related Party Note Receivable—In 2018, a note with principal of $170,000 bearing interest of 2.86% per annum was issued to a member. The note matures on December 31, 2021 and is included within other assets.

Limitations of Liability—Lapmaster Group Holdings, LLC and Lapmaster International, LLC were organized pursuant to the Illinois Limited Liability Company Act, which limits the liability of the individual members. The term of existence began with the filing of the Articles of Organization with the State of Illinois and continues indefinitely. As these entities have been organized as limited liability companies, their members are not liable for any act, debt, obligation, or liability of the entity, except to the extent a member personally guarantees any liabilities of these entities.

New Accounting Pronouncements:

Leases—In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. The new standard amends the recognition of lease assets and lease liabilities by lessees for those leases currently classified as operating leases and amends disclosure requirements associated with leasing arrangements. The new standard is effective for fiscal years beginning after December 15, 2019 for private companies. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. The Company is currently assessing the impact of the adoption of this ASU will have on the Company's consolidated financial statements.

Revenue Recognition—In May 2014, the FASB issued guidance codified in ASC 606, *Revenue Recognition - Revenue from Contracts with Customers*, which amends the guidance in ASC 605, *Revenue Recognition*. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2018 for private companies and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently assessing the impact the adoption of this guidance will have on its consolidated financial statements.

2. BUSINESS COMBINATIONS

REFORM Maschinenfabrik Adolf Rabenseifner GmbH & Co. KG—On January 1, 2018, in an effort to expand the Company's global presence, product lines, to utilize purchasing power and other synergies, and to increase the Company's technical capabilities, PSS entered into a purchase agreement to acquire all of the issued and outstanding shares of REFORM, located in Fulda, Germany, for one Euro plus certain working capital adjustments.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed and consideration given at the date of the acquisition:

Consideration—cash	$ 1,528,130
Fair value of total consideration transferred	$ 1,528,130
Recognized amounts of tangible and intangible assets acquired and liabilities assumed:	
Cash	$ 321,064
Trade and other receivables	2,974,634
Inventories	6,277,520
Prepaids and other current assets	16,772
Property, plant, and equipment	57,504
Total assets acquired	9,647,494
Trade and other payables and accrued expenses	(3,199,858)
Accrued warranty	(214,442)
Unearned revenue	(4,660,220)
Total liabilities acquired	(8,074,520)
Total identifiable net assets acquired	1,572,974
Gain on bargain purchase	$ 44,844

As a result of the net working capital adjustments, the purchase price was in excess of the total identifiable net assets acquired, resulting in a gain on bargain purchase of $44,844 which is included in other income in the consolidated statement of income for the year ended December 31, 2018.

3. INVENTORIES

Inventories at December 31, 2018 and 2017 consist of the following:

	2018	2017
Raw materials	$ 48,748,595	$ 31,478,310
Work in process	24,012,247	19,921,579
Finished goods	13,692,331	9,242,388
	86,453,173	60,642,277
Less reserve	(7,588,429)	(6,657,382)
	$ 78,864,744	$ 53,984,895

4. INTANGIBLE ASSETS

The Company's intangible assets consist of trademarks and trade names, patents, technology related to certain manufacturing processes, customer backlog, and licenses. All intangibles are depreciated with the exception of trademarks and trade names. The gross carrying amounts and accumulated amortization of the intangible assets as of December 31, 2018 and 2017 are as follows:

	2018			
	Useful Life	Gross Amount	Accumulated Amortization	Net Amount
Not subject to amortization—trademarks and trade names		$ 15,250,545	$ -	$ 15,250,545
Subject to amortization:				
Patents	20 years	1,245,051	757,640	487,411
Technology	8–10 years	11,825,223	5,612,628	6,212,595
Customer-related	2–20 years	8,756,441	1,445,950	7,310,491
		$ 37,077,260	$ 7,816,218	$ 29,261,042

	2017			
	Useful Life	Gross Amount	Accumulated Amortization	Net Amount
Not subject to amortization—trademarks and trade names		$ 16,065,913	$ -	$ 16,065,913
Subject to amortization:				
Patents	20 years	1,241,088	747,646	493,442
Technology	8–10 years	12,457,453	4,431,117	8,026,336
Customer-related	2–20 years	9,224,600	817,934	8,406,666
Licenses	10 years	183,908	57,581	126,327
		$ 39,172,962	$ 6,054,278	$ 33,118,684

During 2018 and 2017, to the impact of amortization and changes in foreign exchange rates on the net balance of intangible assets was as follows:

	2018	2017
Balance, January 1,	$ 33,118,684	$ 31,162,576
Amortization	(2,234,362)	(2,817,115)
Impact of foreign currency translation	(1,623,280)	4,773,223
Balance, December 31,	$ 29,261,042	$ 33,118,684

Estimated annual amortization expense for the years ending December 31 is as follows:

2019	$ 2,141,736
2020	2,141,736
2021	2,141,736
2022	1,581,769
2023	1,021,801
Thereafter	4,981,719
	$ 14,010,497

5. EQUITY

In December 2016, a total of $44,655,556 of outstanding subordinated debt principal and interest was converted to Preferred A Units, issued at $1 per unit. The units accrue a preferred return at 10% per annum compounding monthly. Payment of unreturned capital and accrued preferred return of the Preferred A Units are subject and restricted to certain events.

On February 15, 2017, the Company completed a recapitalization and restructuring of its equity. As per the Third Amended and Restated Limited Liability Company Agreement (the "LLC Agreement"), the classes of outstanding equity of the Company are comprised of Preferred A Units as described above, Preferred B Units, Class A Units, and Class B Units. A unit holder may hold a combination of interests, including more than one class of units. In conjunction with the restructuring, 116,771,444 Preferred B Units were issued. In addition, 1,198,719 and 413,651 Class A and Class B Units, respectively, were issued. The Class A Units and Class B Units are common units that are junior in priority to the Preferred A and Preferred B Units. Class B units are subject to an annual adjustment mechanism as set forth in the LLC Agreement. Units are not redeemable by the Company and are not transferrable except for certain circumstances in the LLC Agreement.

Each Class A Unit is entitled to one vote, however, the Preferred A Units, Preferred B Units, and Class B Units hold no such voting rights.

In accordance with the terms of the LLC Agreement, the Preferred A and B Units accrue a preferred return at 10% and 12.9% per annum, respectively, compounding monthly. The Class A and Class B Units do not accrue a preferred return. Upon the occurrence of certain events as specified in the LLC Agreement, distributions shall be made to unit holders in respect of their outstanding units and unpaid preferred returns. First, unpaid preferred returns would be distributed to Preferred A Units ratably until such amount is reduced to $0. Second, unpaid preferred returns would be distributed to Preferred B Units. Subsequently, Preferred A Units would be distributed their aggregate unreturned capital and then Preferred B Units would be distributed their unreturned capital. Once these distributions have been made, remaining amounts available for distribution would be made to Class A units. Class B Units only receive distributions after all debtors have been repaid following the previously described distributions to other classes of unit holders. The Preferred A, Preferred B, Class A, and Class B Units are held principally by the same two parties which also collectively control the Company and any potential distribution to the holders. As of December 31, 2018 and 2017, the preferred return that would be payable at the discretion of the holders of the Preferred A and B Units was $41,708,599 and $18,749,351, respectively. No such distributions of preferred returns or unreturned capital have been made as of December 31, 2018.

6. LINES OF CREDIT

On December 29, 2016, the Company entered into a credit agreement which allows for maximum borrowings on the revolving line of credit up to $15,000,000. The applicable interest rate is the prime rate (5.5% and 4.5% at December 31, 2018 and 2017, respectively) or one-month LIBOR (2.51% and 1.57% at December 31, 2018 and 2017, respectively) plus an applicable margin based on the Company's total leverage ratio. There was an outstanding balance of $7,500,000 at December 31, 2018. There was no outstanding balance at December 31, 2017. The maturity date of the revolving line of credit agreement is December 29, 2021.

In accordance with the terms of the credit agreement, the revolving line of credit and term loan are collateralized by substantially all of the Company's assets and unconditional guarantees from each of the subsidiaries of the Company. The Company is subject to certain financial covenants, which are discussed further in Note 7.

Lapmaster India has a line of credit agreement which allows for maximum borrowings of approximately $325,000. The applicable interest rate is 11.10% per annum at December 31, 2018, and 2017, respectively. The line is guaranteed by all assets of Lapmaster India and the personal guarantee of an officer of Lapmaster India. The outstanding balance on the line of credit was $254,625 and $321,951 at December 31, 2018 and 2017, respectively.

Formatec Technical Ceramics B.V. has a line of credit agreement which allows for maximum borrowings of approximately $330,000 The applicable interest rate is 5.5% per annum at December 31, 2018, and 2017, respectively. The line is guaranteed by all assets of Formatec Technical Ceramics B.V. There was no outstanding balance at December 31, 2018. The outstanding balance on the line of credit was $247,000 at December 31, 2017.

7. LONG-TERM DEBT

In conjunction with the acquisition of Formatec Holding B.V. in 2015, a note was issued and was due to the managing directors of the acquired companies (the "Formatec Seller Note"). The Formatec Seller Note was to be repaid in equal semi-annual installments of approximately $275,000, with the first installment due six months following the inception of the agreement. Interest was calculated and accrued at 5% per annum beginning January 2017 and was due in full upon the final installment of the loan. The Formatec Seller Note was repaid in full in April 2018.

On December 29, 2016 the Company entered into a credit agreement with a syndicate of lenders which includes a $45,000,000 term loan (the "Credit Agreement") and the revolving line of credit discussed in Note 6. Quarterly principal installment payments of $1,687,500, plus interest, are required with the remaining unpaid principal and interest due at the maturity date of December 29, 2021. The applicable interest rate is the prime rate (5.5% and 4.5% at December 31, 2018 and 2017, respectively), plus an applicable margin or one-month LIBOR (2.51% and 1.57% at December 31, 2018 and 2017, respectively), plus an applicable margin, as determined by the Company's total leverage ratio. Related to the issuance of the credit agreement, the Company incurred debt issuance costs of $700,000 which are recorded as a reduction to the carrying value of the term loan. This reduction is recognized on a straight-line basis as interest expense over the original maturity of the term loan. The Company is subject to certain financial covenants. The covenants include a consolidated leverage ratio and fixed charge coverage ratio which must be calculated quarterly.

In November 2016, the Company entered into a 10-year operating lease for a building which included a tenant allowance for $175,000 of building improvements. The Company is required to reimburse the landlord monthly over the life of the lease including interest of 8% per annum which compounds monthly.

The Company holds various notes payable to finance companies that bear interest ranging from 0% to 3.80% and require monthly payments ranging from approximately $400 to $1,500 (the "Vehicle Loans"). The notes are due at various dates through October 2020. The notes are collateralized by vehicles with costs approximating $199,000 and $226,000 at December 31, 2018 and 2017, respectively.

Long-term debt at December 31, 2018 and 2017, consists of the following:

	2018	**2017**
Formatec Seller Note	$ -	$ 239,467
Credit Agreement	30,808,348	38,250,000
Leasehold allowance	156,763	169,067
Vehicle Loans	38,725	83,676
Less unamortized debt issuance costs	(420,000)	(560,000)
	30,583,836	38,182,210
Less current maturities	6,646,808	6,903,098
	$ 23,937,028	$ 31,279,112

Future minimum debt maturities are as follows for the years ending December 31:

	Principal	Debt Issuance Costs	Net Outstanding Long-Term Debt
2019	$ 6,786,808	$140,000	$ 6,646,808
2020	6,779,669	140,000	6,639,669
2021	17,323,974	140,000	17,183,974
2022	16,923	-	16,923
2023	18,328	-	18,328
Thereafter	78,134	-	78,134
	$ 31,003,836	$420,000	$ 30,583,836

8. SUBORDINATED DEBT

In conjunction with the Credit Agreement discussed in Note 7, the Company entered into a promissory note from a member in the amount of $2,520,000. Interest accrues on a daily basis at a rate of 10% per annum and is due upon repayment of the note. Interest accrued and expensed in 2017 totaled $252,000. Repayment of the note is required to satisfy certain provisions outlined in the Credit Agreement and can only be repaid once these provisions have been met, which cannot be earlier than one year after the issuance of the note. On January 30, 2018 the subordinated note was revised to convert $252,000 of unpaid interest to principal making the new principal balance $2,772,000. Additionally, the maturity date was modified to December 31, 2018 with 25% of the outstanding principal and accrued interest due on June 30, 2018. The maturity date was then verbally extended and in January 2019 the note was formally modified extending the maturity date to December 31, 2019. The subordinated note and the related accrued interest as of December 31, 2018 and 2017 is reflected within the current portion of long term debt in the accompanying consolidated balance sheet.

In conjunction with the REFORM acquisition discussed in Note 2, on January 30, 2018 the Company entered into a promissory note from a member in the amount of $3,600,000. Interest accrues on a daily basis at a rate of 10% per annum and is due upon repayment of the note. Interest accrued and expensed in 2018 totaled $326,513. Repayment of the note is required to satisfy certain provisions outlined in the Credit Agreement and can only be repaid once these provisions have been met, which cannot be earlier than one year after the issuance of the note. In January 2019 the maturity date of the note was extended to December 31, 2019. The subordinated note and the related accrued interest as of December 31, 2018 is reflected within the current portion of long term debt in the accompanying consolidated balance sheet.

9. STATUTORY RESERVES

Pursuant to the corporate law of the People's Republic of China ("PRC"), Lapmaster China is required to maintain a statutory reserve by appropriating from its after-tax profit before declaration or payment of dividends. The statutory reserve represents restricted retained earnings. Lapmaster China is required to transfer 10% of its net income, as determined under PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. There are no legal requirements in the PRC to fund this reserve by transfer of cash to restricted accounts, and Lapmaster China does not do so. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital. A total of $345,593 was transferred to the reserve at December 31, 2018. Based on the performance of Lapmaster China in 2017, no statutory reserve transfer or increase was required.

10. WARRANTY AND INSTALLATION OBLIGATIONS

The Company offers a warranty or product guarantee on substantially all sales. The warranty period, in general, ranges from six months to two years from the date of shipment. The warranties cover repair or replacement of defective machine components and parts. Although historical warranty costs have been insignificant, there can be no assurance that future warranty costs will not exceed historical amounts. Changes to the warranty obligation for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Warranty obligation—beginning of year	$2,947,389	$2,362,467
Additions	3,956,818	1,505,237
Warranty claims	(731,851)	(705,904)
Release of prior reserves	(897,954)	(553,966)
Effect of exchange rate changes	(217,814)	258,091
Warranty obligation—end of year	$5,056,588	$2,865,925

At December 31, 2018 and 2017, the Company has an installation liability of $3,208,346 and 3,055,043, respectively, to cover future costs for machines shipped but not yet installed. The obligation for warranty and installation were presented in the financial statements as of and for the year ended December 31, 2017 in one combined amount. The 2017 presentation was corrected and the amounts for warranty and installation obligation have been presented separately in 2018. In addition, the activity in the warranty obligation for the year ended December 31, 2017 has been added in 2018.

11. INCOME TAXES

The Company's income tax provision reflects its partnership tax classification and is composed of various foreign and US state income tax provisions.

The provision benefit for income taxes for the years ended December 31, 2018 and 2017 consists of the following:

	2018	2017
State, foreign, and withholding	$6,111,925	$2,679,786

Deferred tax assets and liabilities as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets:		
Tax loss carryforwards	$ 4,385,043	$ 3,896,621
Pension plans	634,871	668,813
Other temporary differences	289,179	259,517
	5,309,093	4,824,951
Deferred tax liabilities:		
Intangible assets	9,424,045	9,964,941
Net deferred tax liabilities	$ 4,114,952	$ 5,139,990

Deferred tax assets related to pension plans and other temporary differences were presented as tax loss carryforwards in the financial statements as of and for the year ended December 31, 2017. The 2017 presentation was corrected and deferred tax assets were split into appropriate categories related to tax loss carryforwards, pension plans, and other temporary differences in 2018.

12. LEASE COMMITMENTS

The Company leases office and warehouse space in Mount Prospect, Illinois, Fishers, Indiana, Plainville, Massachusetts, and Bensenville, Illinois, under the terms of multiple operating leases. The continuing lease agreements require monthly rental payments ranging from approximately $7,000 to $27,000. The leases expire at various dates through April 2027. The Company is responsible for the payment of property taxes, utilities, and certain maintenance costs, as defined in the agreements.

The Company has a lease of land and buildings in Devon, England that requires monthly rental payments of approximately $2,400 which expires on June 30, 2019. The Company intends to renew the lease for a one-year term.

The Company has several leases of land and buildings in the Netherlands which require monthly payments ranging from approximately $2,600 to $9,500 through May 2024.

The Company has a lease for a factory and office space in Chennai, India which requires monthly rental payments approximating $4,000. The lease expires in July 2022.

The Company also has operating leases for the rental of various office equipment and vehicles. The terms of these leases require minimum base monthly rentals aggregating to approximately $70,100 and expire at various dates through December 2023.

Total rent expense for all operating lease commitments approximated $3,239,000 and $2,440,000 for the years ended December 31, 2018 and 2017, respectively.

Total future minimum lease payments for years ending December 31, 2018 are as follows:

2019	$ 3,456,368
2020	2,353,560
2021	2,127,971
2022	1,689,184
2023	1,343,772
Thereafter	3,449,919
	$ 14,420,774

13. CONTINGENCIES

The Company from time to time is named respondent in various legal actions and proceedings covering a wide range of matters. Although litigation is subject to many uncertainties and the ultimate exposure with respect to these matters cannot be ascertained, management believes that the final outcome will not have a significant adverse effect on the consolidated financial statements.

14. EMPLOYEE BENEFITS

Defined Contribution Plans—The Company has a 401(k) profit sharing plan covering eligible employees of Lapmaster US, as defined in the plan document. Under provisions of the plan, an employee is allowed to make voluntary contributions, subject to Internal Revenue Code limitations. The Company may, at its discretion, make a matching contribution and/or profit sharing contribution to the plan. The Company made contributions approximating $105,000 and $95,000 for the years ended December 31, 2018 and 2017, respectively.

The Company has two defined contribution plans covering eligible employees of Lapmaster UK, as defined in the plan document. The Company made contributions approximating $83,000 and $11,000 to the plan for the years ended December 31, 2018 and 2017, respectively.

The Company also makes contributions to state sponsored retirement schemes as required by the governments of India and China on behalf of employees of Lapmaster India and Lapmaster China. Contributions approximating $295,000 and $144,000 were made related to these requirements for the years ended December 31, 2018 and 2017, respectively.

Pension Plans—Lapmaster Germany has a defined benefit retirement plan covering substantially all eligible employees (Plan A), and a defined benefit retirement plan covering one member of management (Plan B). The plans are designed to provide retirement and disability benefits, together with survivor retirement benefits to spouses. The plans are not currently funded.

Elb also has a pension plan (Plan C). The plan is designed to provide retirement and disability benefits, together with survivor retirement benefits to spouses. The plan is not currently funded. Activity in the plan for 2018 and 2017 is disclosed below.

The following table sets forth the benefit obligation of the Company's plans, amounts recognized in the Company's consolidated financial statements, and the principal weighted-average assumptions used. As the plans are not funded, the unfunded status is equal to the benefit obligation.

Change in Projected Benefit Obligation	**2018**			
	Plan A	**Plan B**	**Plan C**	**Total**
Benefit obligation—beginning of year	$ 6,713,601	$ 302,756	$ 4,714,204	$ 11,730,561
Service cost	37,895	-	-	37,895
Interest cost	94,147	4,359	65,419	163,925
Actuarial (gain) loss	(124,856)	(15,790)	22,000	(118,646)
Benefits paid	(351,063)	-	(331,382)	(682,445)
Effect of exchange rate changes	(327,775)	(14,934)	(230,065)	(572,774)
Benefit obligation—end of year	$ 6,041,949	$ 276,391	$ 4,240,176	$ 10,558,516

Change in Projected Benefit Obligation	**2017**			
	Plan A	**Plan B**	**Plan C**	**Total**
Benefit obligation—beginning of year	$ 6,032,166	$ 264,363	$ 4,451,966	$ 10,748,495
Service cost	41,958	-	-	41,958
Interest cost	89,682	4,029	65,544	159,255
Actuarial (gain) loss	45,673	(2,531)	(80,424)	(37,282)
Benefits paid	(326,534)	-	(322,075)	(648,609)
Effect of exchange rate changes	830,657	36,895	599,194	1,466,746
Benefit obligation—end of year	$ 6,713,602	$ 302,756	$ 4,714,204	$ 11,730,562

The accumulated benefit obligation was $10,511,842 and $11,681,737 as of December 31, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, the actuarial gains are primarily relate to the demographic changes of current plan participants and changes in the discount rate.

Amounts recognized in the balance sheet consist of:

	2018			
	Plan A	**Plan B**	**Plan C**	**Total**
Current liabilities	$ 332,250	$ 67	$ 329,307	$ 661,624
Noncurrent liabilities	5,709,699	276,324	3,910,869	9,896,892
Net amount recognized	$6,041,949	$276,391	$4,240,176	$10,558,516

	2017			
	Plan A	**Plan B**	**Plan C**	**Total**
Current liabilities	$ 352,640	$ 182	$ 343,330	$ 696,152
Noncurrent liabilities	6,360,962	302,574	4,370,874	11,034,410
Net amount recognized	$6,713,602	$302,756	$4,714,204	$11,730,562

The weighted-average assumptions used in both plans for 2018 and 2017 were:

	2018	2017
Discount rate	1.75%	1.46%
Expected long-term rate of return on assets	n/a	n/a
Rate of compensation increase	1.5% - 2.00%	1.5% - 2.00%

Components of net periodic benefit cost are as follows:

	2018			
	Plan A	**Plan B**	**Plan C**	**Total**
Service cost	$ 37,895	$ -	$ -	$ 37,895
Interest cost	94,147	4,359	65,419	163,925
Amortization of gain	(6,007)	-	-	(6,007)
Net periodic benefit cost	$126,035	$4,359	$65,419	$195,813

	2017			
	Plan A	**Plan B**	**Plan C**	**Total**
Service cost	$ 41,958	$ -	$ -	$ 41,958
Interest cost	89,682	4,029	65,544	159,255
Amortization of gain	(17,903)	-	-	(17,903)
Net periodic benefit cost	$113,737	$4,029	$65,544	$183,310

The change in benefit obligation recognized in AOCI is as follows:

	2018			
	Plan A	**Plan B**	**Plan C**	**Total**
Net pension actuarial gain—current year	$(124,856)	$(15,790)	$ 22,000	$(118,646)
Amortization of gain	6,007	-	-	6,007
Effect of exchange rates and other	4,474	595	(828)	4,241
Total change in AOCI	$(114,375)	$(15,195)	$ 21,172	$(108,398)

	2017			
	Plan A	**Plan B**	**Plan C**	**Total**
Net pension actuarial gain—current year	$ 17,903	$ (2,531)	$(80,424)	$ (65,053)
Amortization of gain	45,673	-	-	45,673
Effect of exchange rates and other	3,885	(155)	(4,915)	(1,184)
Total change in AOCI	$ 67,461	$ (2,686)	$(85,340)	$ (20,565)

The net actuarial gain expected to be amortized from AOCI into net periodic benefit cost during the year ending December 31, 2019 is $42,647.

The Company is required to make minimum funding contributions to the pension plan. The Company expects to contribute approximately $661,000 during 2019, which is classified as a current liability in the consolidated financial statements. The Company made contributions of $696,000 and $649,000 during the years ended December 31, 2018 and 2017, respectively.

The following pension benefit payouts are expected to be paid:

	Plan A	Plan B	Plan C	Total
2019	$ 332,000	$ -	$ 329,000	$ 661,000
2020	327,000	-	321,000	648,000
2021	320,000	-	313,000	633,000
2022	313,000	11,000	302,000	626,000
2023	304,000	11,000	291,000	606,000
Years 2024–2028	1,485,000	56,000	1,279,000	2,820,000

15. CONCENTRATIONS

Uninsured Cash and Cash Equivalents—Lapmaster US maintains its cash balances at a financial institution located in Illinois. These cash balances are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. The Company may, from time to time, have balances in excess of FDIC insured deposit limits.

The Company also maintains cash and cash equivalents in financial institutions located in Germany, China, India, Japan, the Netherlands and the UK. These balances, approximating $10,610,000 and $3,880,000 were uninsured at December 31, 2018 and 2017, respectively.

Significant Project—During 2017, the Company completed a project with a single customer with total project sales value approximating $15,800,000. Outstanding accounts receivable related to this project was $10,131,977 as of December 31, 2017 comprising approximately 25% of consolidated accounts receivable.

Foreign Subsidiaries—The financial statements of the Company's foreign subsidiaries reflect total assets approximating $196,000,000 and $144,000,000 as of December 31, 2018 and 2017, respectively, and total net sales approximating $171,890,000 and $96,625,000 for the years ended December 31, 2018 and 2017, respectively, of the consolidated financial statement totals.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 25, 2019, the date that these consolidated financial statements were available to be issued.

On January 4, 2019, in an effort to expand the Company's global presence, product lines, to utilize purchasing power and other synergies, and to increase the Company's technical capabilities, PSS acquired all of the issued and outstanding shares of Kehren GmbH, located in Hennef, Germany, for €4,000,000 Euro with a €2,000,000 million earn out provision based on 2019 results. As the allocation of the purchase price to the assets and liabilities acquired is not yet complete, the Company is unable to disclose the fair value of the assets and liabilities acquired, including the identification of any intangible assets or associated goodwill.

In February 2019, the Company signed an agreement to acquire the wafer technology division of Meyer Burger, which is headquartered in Switzerland, for 50,000,000 Swiss Francs (CHF) with a CHF 10,000,000 earn out provision based on 2019 results. To assist in funding the transaction, the Company amended the existing Credit Agreement in March 2019 to increase the line of credit by $5,000,000 and the term loan by $25,000,000 with a delayed draw down provision allowing the Company to borrow the funds at any point through June 30, 2019. As of the date of these consolidated financial statements, the acquisition has not closed nor has funding of the transaction occurred. As the transaction has not been finalized, the allocation of the purchase price to the assets and liabilities to be acquired is not yet complete, the Company is unable to disclose the fair value of the assets and liabilities acquired, including the identification of any intangible assets or associated goodwill.

Management has determined that no other events or transactions have occurred subsequent to the balance sheet date.

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