

Sarine Technologies Ltd. and its Subsidiaries

(Incorporated in Israel)

PART 1 INFORMATION REQUIRED FOR ANNOUNCEMENT OF QUARTERLY (Q1, Q2 & Q3), FULL YEAR RESULTS

1(a) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated Statements of Comprehensive Income (loss) for the (US\$'000):

	<u>Group</u> <u>Quarter ended</u> <u>December 31,</u>			<u>Group</u> <u>Year ended</u> <u>December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>
			<u>%</u>			<u>%</u>
Revenue	12,182	12,937	(5.8)	58,504	58,644	(0.2)
Cost of sales	4,692	4,479	4.8	19,936	19,298	3.3
Gross profit	7,490	8,458	(11.4)	38,568	39,346	(2.0)
Research and development expenses	1,964	2,014	(2.5)	9,280	10,519	(11.8)
Sales and marketing expenses	3,110	2,966	4.9	13,263	13,592	(2.4)
General and administrative expenses	1,408	1,376	2.3	6,019	5,819	3.4
Profit from operations	1,008	2,102	(52.0)	10,006	9,416	6.3
Net finance income (expense)	8	(89)	NM	143	17	741.2
Profit before income tax	1,016	2,013	(49.5)	10,149	9,433	7.6
Income tax expense	923	1,400	(34.1)	2,547	3,669	(30.6)
Profit for the period	93	613	(84.8)	7,602	5,764	31.9
Remeasurement of defined benefit plan	10	(42)	NM	10	(42)	NM
Foreign currency translation differences from foreign operations	364	207	75.8	(826)	533	NM
Total comprehensive income for the period	467	778	(40.0)	6,786	6,255	8.5

Notes to consolidated statements of comprehensive income (loss) (US\$'000)

Profit before income tax is stated after charging the following:

	<u>Group</u> <u>Quarter ended</u> <u>December 31,</u>			<u>Group</u> <u>Year ended</u> <u>December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>
			<u>%</u>			<u>%</u>
Allowance for doubtful trade receivables	109	49	122.4	209	126	65.9
Depreciation and amortization	802	613	30.8	3,655	3,515	4.0
Interest income, net	95	(81)	NM	331	108	206.5
Exchange rate differences	(87)	(8)	987.5	(188)	(91)	106.6
Warranty provision	10	(27)	NM	21	(65)	NM

NM- Not meaningful

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

Statement of Financial Position as at (US\$'000):

	<u>Group</u>		<u>Company</u>	
	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Assets				
Property, plant and equipment	14,641	15,646	1,381	1,961
Intangible assets	4,944	6,648	342	411
Investment in equity accounted investee and subsidiaries	--	--	44,437	47,200
Deferred tax assets	998	1,595	--	400
Total non-current assets	<u>20,583</u>	<u>23,889</u>	<u>46,160</u>	<u>49,972</u>
Inventories	7,032	7,200	5,297	4,285
Trade receivables	16,406	17,269	3,980	2,566
Other receivables	3,037	2,888	835	1,507
Short-term investments (bank deposits)	12,021	12,381	7,787	9,165
Cash and cash equivalents	16,832	16,736	7,271	8,792
Total current assets	<u>55,328</u>	<u>56,474</u>	<u>25,170</u>	<u>26,315</u>
Total assets	<u><u>75,911</u></u>	<u><u>80,363</u></u>	<u><u>71,330</u></u>	<u><u>76,287</u></u>
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(3,576)	(3,055)	(3,576)	(3,055)
Share premium, reserves and retained earnings	69,232	73,773	69,232	73,773
Total equity	<u>65,656</u>	<u>70,718</u>	<u>65,656</u>	<u>70,718</u>
Liabilities				
Employee benefits	192	208	182	197
Total non-current liabilities	<u>192</u>	<u>208</u>	<u>182</u>	<u>197</u>
Trade payables	2,328	1,750	1,377	1,167
Other payables	6,831	6,673	3,889	3,987
Current tax payable	589	720	--	--
Warranty provision	315	294	226	218
Total current liabilities	<u>10,063</u>	<u>9,437</u>	<u>5,492</u>	<u>5,372</u>
Total liabilities	<u>10,255</u>	<u>9,645</u>	<u>5,674</u>	<u>5,569</u>
Total equity and liabilities	<u><u>75,911</u></u>	<u><u>80,363</u></u>	<u><u>71,330</u></u>	<u><u>76,287</u></u>

* No par value

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.

Zero borrowings from banks as at December 31, 2018 and 2017

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Cash Flows (US\$'000):

	<u>Group</u>	
	<u>Year ended</u>	
	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Profit for the period	7,602	5,764
Adjustments for:		
Share-based payment expenses	874	785
Income tax expense	2,547	3,669
Depreciation of property, plant and equipment	1,951	1,938
Amortisation of intangible assets	1,704	1,577
Net finance income	(143)	(17)
Changes in working capital		
Inventories	168	2,148
Trade receivables	863	(314)
Other receivables	58	530
Trade payables	578	(1,975)
Other liabilities	(21)	(1,231)
Employee benefits	(16)	64
Income tax paid, net	(2,288)	(2,155)
Net cash from operating activities	13,877	10,783
Cash flows used in investing activities		
Acquisition of property, plant and equipment	(1,810)	(3,279)
Proceeds from realisation of property, plant and equipment	248	--
Short-term investments, net	360	6,139
Capitalisation of development expenses	--	(756)
Interest received	331	108
Net cash (used in) from investing activities	(871)	2,212
Cash flows used in financing activities		
Proceeds from exercise of share options	80	804
Purchase of Company's shares by the Company	(521)	(642)
Dividend paid	(12,281)	(15,797)
Net cash used in financing activities	(12,722)	(15,635)
Net increase (decrease) in cash and cash equivalents	284	(2,640)
Cash and cash equivalents at beginning of the period	16,736	19,467
Exchange rate differences	(188)	(91)
Cash and cash equivalents at end of the period	16,832	16,736

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Shareholders' Equity

Group (US\$'000)

	Share Capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2017	--	29,688	(1,919)	53,957	(2,413)	79,313
Profit for the year ended December 31, 2017	--	--	--	5,764	--	5,764
Other comprehensive income for the year ended December 31, 2017	--	(42)	533	--	--	491
Share-based payment expenses	--	785	--	--	--	785
Exercise of options	--	804	--	--	--	804
Dormant shares, acquired at cost (706,900)	--	--	--	--	(642)	(642)
Dividend paid	--	--	--	(15,797)	--	(15,797)
Balance at December 31, 2017	--	31,235	(1,386)	43,924	(3,055)	70,718
Balance at January 1, 2018	--	31,235	(1,386)	43,924	(3,055)	70,718
Profit for the year ended December 31, 2018	--	--	--	7,602	--	7,602
Other comprehensive loss for the year ended December 31, 2018	--	10	(826)	--	--	(816)
Share-based payment expenses	--	874	--	--	--	874
Exercise of options	--	80	--	--	--	80
Dormant shares, acquired at cost (746,400)	--	--	--	--	(521)	(521)
Dividend paid	--	--	--	(12,281)	--	(12,281)
Balance at December 31, 2018	--	32,199	(2,212)	39,245	(3,576)	65,656

* No par value

Statement of Changes in Shareholders' Equity

Company (US\$'000)

	Share Capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2017	--	29,688	(1,919)	53,957	(2,413)	79,313
Profit for the year ended December 31, 2017	--	--	--	5,764	--	5,764
Other comprehensive income for the year ended December 31, 2017	--	(42)	533	--	--	491
Share-based payment expenses	--	785	--	--	--	785
Exercise of options	--	804	--	--	--	804
Dormant shares, acquired at cost (706,900)	--	--	--	--	(642)	(642)
Dividend paid	--	--	--	(15,797)	--	(15,797)
Balance at December 31, 2017	--	31,235	(1,386)	43,924	(3,055)	70,718
Balance at January 1, 2018	--	31,235	(1,386)	43,924	(3,055)	70,718
Profit for the year ended December 31, 2018	--	--	--	7,602	--	7,602
Other comprehensive loss for the year ended December 31, 2018	--	10	(826)	--	--	(816)
Share-based payment expenses	--	874	--	--	--	874
Exercise of options	--	80	--	--	--	80
Dormant shares, acquired at cost (746,400)	--	--	--	--	(521)	(521)
Dividend paid	--	--	--	(12,281)	--	(12,281)
Balance at December 31, 2018	--	32,199	(2,212)	39,245	(3,576)	65,656

* No par value

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

	December 31, 2018	September 30, 2018	December 31, 2017
	No. of shares	No. of shares	No. of shares
Authorised:			
Ordinary shares of no par value	2,000,000,000	2,000,000,000	2,000,000,000
Issued and fully paid:			
Ordinary shares of no par value	353,672,126	353,672,126	353,470,626
Dormant shares (out of the issued and fully paid share capital):			
Ordinary shares of no par value	3,076,400	3,076,400	2,330,000
Total number of issued shares (excluding dormant shares)	350,595,726	350,595,726	351,140,626

For the three months ended December 31, 2018, no share options were exercised into ordinary shares. For the three months ended December 31, 2018, the Company did not purchase any of its ordinary shares.

In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares (treasury shares in Singaporean terms) as long as the Company holds them, and, as such, they do not bear any rights until they are transferred to a third party. The issued and fully paid shares as at December 31, 2018, September 30, 2018 and December 31, 2017 included 3,076,400, 3,076,400 and 2,330,000 dormant shares, respectively.

Details of changes in share options:

	Average exercise price in US\$ per share	Options
At January 1, 2018	1.248	19,833,650
Granted	0.872	7,970,000
Cancelled	1.163	(7,725,266)
Exercised	0.396	(201,500)
At December 31, 2018	1.107	<u>19,876,884</u>

At December 31, 2018, the average exercise price in Singapore dollars per share was S\$ 1.511, based on an exchange rate of US\$ 1 = S\$ 1.3648.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

As at December 31, 2018, the total number of issued shares excluding dormant shares was 350,595,726 (as at December 31, 2017- 351,140,626). As at December 31, 2018, the total number of dormant shares was 3,076,400 (as at December 31, 2017- 2,330,000).

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

For the three months and year ended at December 31, 2018, the Company did not purchase any of its ordinary shares, and there was no sale, transfer, disposal, cancellation and/or use of treasury shares by the Company.

2. Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice.

These figures have not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended December 31, 2017 have been applied in the preparation for the financial statements for year ended at December 31, 2018, except for the adoption of IFRS 15, Revenues from Contracts with Customers and IFRS 9 (2014), Financial Instruments.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The adoption of IFRS 15 and IFRS 9 (2014) has had an immaterial effect on the Group's consolidated financial statements from January 1, 2018, and has had no impact on the presented comparable periods.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	For the Quarter ended December 31,		For the Year ended December 31,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<u>US cents</u>				
Basic earnings per share	0.03	0.17	2.17	1.64
Diluted earnings per share	0.03	0.17	2.17	1.64
<u>Singapore cents*</u>				
Basic earnings per share	0.04	0.23	2.96	2.24
Diluted earnings per share	0.04	0.23	2.96	2.24

Basic earnings per share for the three months ended December 31, 2018 are calculated based on the weighted average number of 350,595,726 ordinary shares issued during the current period and the equivalent of 350,792,034 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended December 31, 2018 are calculated based on the weighted average number of 350,595,726 ordinary shares and outstanding options and the equivalent of 350,988,238 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the year ended December 31, 2018 are calculated based on the weighted average number of 350,919,208 ordinary shares issued during the current period and the equivalent of 350,846,747 ordinary shares during the preceding period.

Diluted earnings per share for the year ended December 31, 2018 are calculated based on weighted average number of 350,921,294 ordinary shares and outstanding options and the equivalent of 351,258,604 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US\$ 1= S\$ 1.3648 at December 31, 2018.

- 7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:**
- (a) current financial period reported on; and**
- (b) immediately preceding financial year.**

	Group		Company	
	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Net asset value (US\$ thousands)	65,656	70,718	65,656	70,718
Net asset value per ordinary share (US cents)	18.73	20.14	18.73	20.14
Net asset value per ordinary share (Singapore cents*)	25.56	27.49	25.56	27.49

At December 31, 2018, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2018 of 350,595,726 (not including 3,076,400 dormant ordinary shares at December 31, 2018). At December 31, 2017, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2017 of 351,140,626 (not including 2,330,000 dormant ordinary shares at December 31, 2017).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.3648 at December 31, 2018.

- 8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Overview

For the year ended December 31, 2018, the Group reported revenues of US\$ 58.5 million, profit from operations of US\$ 10.0 million, and net profit of US\$ 7.6 million, as compared to revenues of US\$ 58.6 million, profit from operations of US\$ 9.4 million, and net profit of US\$ 5.8 million for the year ended December 31, 2017. The Group's profitability improved in 2018 on stable revenues as compared to 2017, with increased operating profits and net profits reported primarily due to overall lower operational expenses and lower taxes. It is notable that the Group realised (+3%) higher Galaxy® recurring revenues with a record number of 12 million stones being scanned in 2018 (as compared to a then record 10 million in 2017), despite lower aggregate volumes of rough stones entering the pipeline in 2018.

The following conditions which unfolded during 2018 contributed to a negative sentiment in the diamond industry, primarily in the second half of 2018, as elaborated upon in section 10:

- uncertainty surrounding trade tariffs' impacts on China, which was manifested by a 20-30% drop in equity markets and a reduction in luxury consumption, in general, and in diamonds and jewellery, specifically;
- an ongoing tightening of credit terms by Indian banks, as a result of a major fraud and transparency issues, resulting in cash flow problems for some midstream industry players;
- the devaluation and volatility of the Indian Rupee (INR) in U.S. dollar terms, exacerbating cash flow issues, impacting the profitability of Indian manufacturers with significant domestic markets and also resulting in our equipment being more expensive as compared to domestic Indian competitors, who price their products in INR; and
- uncertainties regarding the long-term effects of the advent of lab-grown (LGD) diamonds into the market, as DeBeers launched its Lightbox line of jewellery and the U.S. Federal Trade Commission updated its definition of a diamond to include LGD.

On a quarterly basis, the Group' reported revenues in Q4 2018 of US\$ 12.2 million, profit from operations of US\$ 1.0 million and net profit of US\$ 0.1 million, as compared to revenues of US\$ 12.9 million, profit from operations of US\$ 2.1 million and net profit of US\$ 0.6 million reported in Q4 2017, and as compared

to revenues in Q3 2018 of US\$ 11.7 million, profit from operations of US\$ 0.8 million, and net profit of US\$ 0.3 million. The year-over-year decrease in revenue and corresponding operating and net profit was due to weak industry conditions and sentiment, resulting in lower capital equipment sales and reduced recurring revenues. Despite the sequential increase in revenues from higher capital equipment sales, offset somewhat by lower recurring revenues (characteristically in Q4, from the Diwali holiday in India), net profits were lower in Q4 2018 as compared to Q3 2018 due to increased income tax expenses on the write down of certain deferred tax assets.

With deliveries in Q4 2018 of 20 Galaxy[®] family systems to customers, comprising 16 Meteorite[™] models, three Galaxy[®] systems and a Galaxy[®] Ultra system, our installed base grew to 410 systems as of December 31, 2018. Notably, all the systems for smaller stones were delivered in India. Overall recurring revenues for the year ended December 31, 2018 (including Galaxy[®]-related, Quazer[®] services, polished diamond related ("Trade") services, annual maintenance contracts, spare parts, etc.) approximately half of our overall revenue. Overall polished diamond retail-related revenues, currently mostly still only from the Sarine Profile[™] and its various components (Sarine Light[™], Sarine Loupe[™], Sarine Connect[™], etc.) were over 2% of our overall revenue for the year ended December 31, 2018, just under a 15% overall improvement year-over-year.

Balance Sheet and Cash Flow Highlights

As at December 31, 2018, cash and cash equivalents and short-term investments (bank deposits) ("Cash Balances") decreased insignificantly to US\$ 28.9 million as compared to US\$ 29.1 million as of December 31, 2017. The decrease in Cash Balances was primarily due to the payment of US\$ 12.3 million in dividends in 2018 (the US\$ 5.3 million final dividend for 2017 paid in Q2 2018 and the US\$ 7.0 million interim 2018 dividend paid in Q3 2018), the repurchase of US\$ 0.5 million of Sarine shares in the open market, offset by the Group's improved operating results, lower trade receivables and increased payables. Net cash flow from operating activities totalled US\$ 13.9 million, negative headwinds notwithstanding.

Revenues

Revenue by geographic segments -- (US\$ '000)

2018 versus 2017				
Region	2018	2017	\$ change	% change
India	38,889	40,441	(1,552)	(3.8)
Africa	7,029	5,200	1,829	35.2
Europe	2,258	2,787	(529)	(19.0)
North America	1,043	1,048	(5)	(0.5)
Israel	3,399	3,883	(484)	(12.5)
Other*	5,886	5,285	601	11.4
Total	58,504	58,644	(140)	(0.2)

Q4 2018 versus Q4 2017				
Region	Q4 2018	Q4 2017	\$ change	% change
India	5,919	7,406	(1,487)	(20.1)
Africa	2,306	2,006	300	15.0
Europe	630	872	(242)	(27.8)
North America	222	201	21	10.4
Israel	786	1,178	(392)	(33.3)
Other*	2,319	1,274	1,045	82.0
Total	12,182	12,937	(755)	(5.8)

Q4 2018 versus Q3 2018				
Region	Q4 2018	Q3 2018	\$ change	% change
India	5,919	7,387	(1,468)	(19.9)
Africa	2,306	1,256	1,050	83.6
Europe	630	626	4	0.6
North America	222	328	(106)	(32.3)
Israel	786	664	122	18.4
Other*	2,319	1,441	878	60.9
Total	12,182	11,702	480	4.1

*primarily Asia, excluding India

The Group reported revenues for the year ended December 31, 2018 of US\$ 58.5 million, as compared to revenues of US\$ 58.6 million for the year ended December 31, 2017. Virtually flat revenues was due to lower capital equipment sales offset somewhat by higher recurring revenues, mainly from Galaxy® inclusion mapping scanning, despite lower aggregate volumes of rough stones entering the pipeline in 2018. Revenues in India were lower in FY2018, offset somewhat by improved revenues especially in Africa and Russia (revenues generated in Russia are included in “Other”).

On a quarterly basis, the Group’ reported revenues in Q4 2018 of US\$ 12.2 million, as compared to revenues of US\$ 12.9 million in Q4 2017 and revenues of US\$ 11.7 million in Q3 2018. The year-over-year decrease in revenue on impaired industry conditions, especially in India, resulted from lower capital equipment sales and reduced recurring revenues due to a decline in the number of rough diamonds entering the pipeline. On a quarterly sequential basis, the increase in revenue was primarily due to higher diamond manufacturing equipment sales, primarily ex-India, and also due to increased Galaxy® family Meteorite™ systems sold in India, offset somewhat by lower recurring revenues, which resulted, characteristically in Q4, from the Diwali holiday break in India.

Cost of sales and gross profit

Cost of sales for the year ended December 31, 2018 increased to US\$ 19.9 million, versus US\$ 19.3 million for the year ended December 31, 2017, with gross profit margins of 66% in FY2018 versus 67% in FY2017. The increase in cost of sales on a year-over-year basis was primarily due to expenses associated with the newly opened Sarine Technology Laboratories and also the product mix as compared FY2017.

Cost of sales in Q4 2018 increased to US\$ 4.7 million, as compared to US\$ 4.5 million in Q4 2017, with a gross profit margin of 61% in Q4 2018 versus 65% in Q4 2017, and as compared to US\$ 4.2 million with a gross profit margin of 64% in Q3 2018. The increase in cost of sales and associated decline in gross margin on a year-over-year basis was primarily due to product mix in Q4 2018 (increased number of Meteorite™ and Quazer™ sales) compared to Q4 2017, and also due to expenses associated with the newly opened Sarine Technology Laboratories. The increase in cost of sales and associated decline in gross margin on a sequential basis was primarily due to product mix (as noted above) in Q4 2018 as compared to Q3 2018 and also due to lower recurring revenues, which resulted, in Q4, from the Diwali holiday in India.

Research and development expenses

Research and development expenses for the year ended December 31, 2018, Q4 2018 and the comparable periods are presented in the table below. The Group capitalised in FY2017 (in compliance with IFRS) costs associated with the development of the Sarine Clarity™ and Sarine Color™ systems, resulting in lower reported expenses.

US\$ (thousands)	2018	2017	Q4 2018	Q4 2017	Q3 2018
R&D expenses as reported	9,280	10,519	1,964	2,014	2,194
Capitalised development	--	756	--	353	--
Total R&D costs incurred	9,280	11,275	1,964	2,367	2,194

Research and development costs for the year ended December 31, 2018 of US\$ 9.3 million decreased versus US\$ 11.3 million for the year ended December 31, 2017. Research and development costs for Q4 2018 decreased to US\$ 2.0 million as compared to US\$ 2.4 million in Q4 2017 and as compared to US\$ 2.2 million in Q3 2018. The decrease in research and development costs, as planned, was primarily due to lower employee compensation and outsourcing expenses following the completion of major development efforts in FY2017 related to key Sarine Profile™ enhancements – the AI-based grading of Clarity and Color.

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2018 decreased to US\$ 13.3 million, as compared to US\$ 13.6 million for the year ended December 31, 2017. The decrease in sales and marketing expenses on a year-over-year basis was primarily due to lower compensation expenses and decreased marketing and trade-show expenses, offset by higher third-party commission expenses associated with higher sales outside India in FY 2018.

Sales and marketing expenses for Q4 2018 increased to US\$ 3.1 million as compared to US\$ 3.0 million in Q4 2017 and were virtually flat as compared Q3 2018. The quarterly year-over-year increase in sales and marketing expenses was due to higher third party commission expenses associated with higher sales outside India.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2018 increased to US\$ 6.0 million as compared to US\$ 5.8 million for the year ended December 31, 2017. General and administrative expenses for Q4 2018 were US\$ 1.4 million, virtually flat with Q4 2017 and Q3 2018. The year-over-year increase in general and administrative expenses was primarily due to higher third-party professional fees related to our proactive IP protection activities mainly in India (see Section 10).

Profit from operations

Profit from operations for the year ended December 31, 2018 was US\$ 10.0 million as compared to US\$ 9.4 million for the year ended December 31, 2017. The increase in profit from operations in FY2018 on stable revenues was primarily due to lower overall operating expenses, offset somewhat by lower gross profitability.

Profit from operations for Q4 2018 decreased to US\$ 1.0 million as compared to US\$2.1 million in Q4 2017 and increased as compared to US\$ 0.8 million in Q3 2018. The year-over-year decrease in profit from operations was primarily due to lower revenues and gross profitability, as detailed above. The sequential increase in profit from operations was primarily due to lower operating expenses, offset somewhat by lower gross profitability.

Net finance income

Net finance income for the year ended December 31, 2018 was US\$ 143,000 as compared to US\$ 17,000 for the year ended December 31, 2017. Net finance income for Q4 2018 was US\$ 8,000 as compared to an expense of \$89,000 in Q4 2017 and net finance income of US\$ 24,000 in Q3 2018. The year-over-year increase in net finance income was primarily due to higher interest rates available in the market on our bank deposits.

Income tax expense

The Group recorded an income tax expense of US\$ 2.5 million for the year ended December 31, 2018, versus an expense of US\$ 3.7 million for the year ended December 31, 2017. The decrease in income tax expenses in FY2018 as compared to FY2017 was primarily due to a write down in FY 2018 of US\$ 0.5 million of certain

deferred tax assets as compared to a write down of US\$ 1.4 million of certain deferred and other tax assets in FY2017.

For Q4 2018, the Group recorded an income tax expense of US\$ 0.9 million, as compared to an expense of US\$ 1.4 million in Q4 2017 and an expense of US\$ 0.5 million in Q3 2018. The year-over-year decrease in income tax expenses was primarily due to lower pre-tax profitability and the write down of US\$ 0.5 million in Q4 2018 as compared to write down in Q4 2017 of US\$ 1.0 million of certain deferred and other tax assets.

Profit for the period

For the year ended December 31, 2018, net profit increased to US\$ 7.6 million versus US\$ 5.8 million for the year ended December 31, 2017. The increase in net profit in FY2018 on stable revenues was primarily due to lower overall operating expenses and income tax, offset somewhat by lower gross profitability, as discussed above.

Net profit for Q4 2018 of US\$ 0.1 million decreased as compared to US\$ 0.6 million in Q4 2017 and US\$ 0.3 million for Q3 2018. The year-over-year decrease in net profit was primarily due to lower revenues and gross profitability, offset by lower income taxes, as detailed above. The sequential decrease in net profit was primarily due to higher income taxes, offset somewhat by lower operating expenses.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

We expect the following industry trends to continue influencing our business:

- a. The mutual trade tariffs imposed between the U.S and China continue to have a negative impact, primarily on the Chinese economy and Chinese consumer sentiment, with many luxury retailers in China, in general, and jewellers specifically, reporting a downturn in sales in the second half of 2018 (e.g., Tiffany, Chow Tai Fook and Luk Fook). In the U.S., diamond jewellery sales during the key 2018 holiday season were 3.8% higher than in 2017, which is, however, lower growth than 2017's very strong 5.8% increase year-over-year (vis-à-vis 2016) and less than the overall retail spending growth of 5.1% during the 2018 holiday season. During the Chinese New Year holiday, retail sales in China expanded by 8.5% year-over-year, but that was a slower expansion than a year before, which experienced 10.2% growth in retail sales over 2017. In the short term, the trade issues, which have not been resolved, continue to weigh negatively on the market. Beyond these short-term concerns, prospects for the diamond industry remain positive longer-term. Growing middle classes in developing economies are expected to increase demand for diamond jewellery, as noted in numerous projections (e.g., <https://www.bain.com/insights/global-diamond-industry-report-2017>; and <http://www.paulzimnisky.com/lab-grown-diamond-jewelry-market-forecast>
- b. Banks in India have continued to toughen their requirements from their midstream diamond manufacturing customers for more transparency in their operations (e.g. disclosure of international trading parties' identities and proof of their being non-related parties) and financial disclosure as per accepted accounting practises, as well as for the injection of capital by the entities' owners, as preconditions for their continued issuing of working capital credit. In addition, anecdotal information indicates that, notwithstanding said expectations from their customers, some Indian banks have decided to reduce their exposure to the diamond industry, in general, and have reduced their credit lines to midstream manufacturers between 20-30%. This has created a significant shortage of working capital and created cash-flow problems for some midstream entities.

- c. The Indian Rupee (INR) devalued against the US\$ by some 12% during 2018 (intra-year, as high as 15%). Though rough stones and polished gems are bought and sold in US\$, and the manufacturers' costs, which are mostly in INR, are actually reduced by this devaluation, the devaluation has had three negative effects:
- Manufacturers who have a significant domestic Indian component to their sales, to which they sell in INR, are negatively impacted;
 - As the manufacturers' foreign currency export credits are pegged in INR, the actual USD equivalent depreciates, thus further exacerbating the working capital shortfall discussed in [b] above (see <https://economictimes.indiatimes.com/markets/stocks/news/diamond-traders-look-for-export-credit-limits-in-dollars/articleshow/66504903.cms>); and
 - The Group's products, which are priced in US\$, become more expensive as compared to our Indian competitors' systems priced in INR.
- d. DeBeers launch of their line of Lightbox jewellery based on lab-grown diamonds (LGD) and the U.S. Federal Trade Commission (FTC) refined guidelines that LGD are de facto and de jure diamonds have created uncertainty, primarily impacting the lower quality small polished diamonds market, wherein a definite lack of enthusiasm for natural stones is currently prevailing in the industry. Clearly, some polishers of very small diamonds are rethinking the viability of their business models. Longer-term various studies published by various industry analysts portray significantly diverging opinions as to the future. Some (<http://www.paulzimmisky.com/lab-grown-diamond-jewelry-market-forecast>) claim LGD will grow almost tenfold by 2035, at 9% CAGR, but still only account even then for some 15% of the market, as overall demand nearly doubles in parallel, due to growing middle class populations in developing economies. Others (<https://insights.abnamro.nl/en/2019/01/diamond-sector-outlook-entering-a-growth-and-disruption-phase/>) strike a more salient tone, all but eulogising natural diamonds and urging miners to stop spending money on exploration, as it will not be recoverable. We believe both studies have valid points but also significant flaws. The acceptance of LGD will be driven by many issues including basic economics, but also other considerations such as sustainability concerns, cultural differences and even psychological perceptions (e.g., will couples treat LGD engagement rings where the solitaire centre stone costs only several hundred US dollars as showing eternal commitment?).
- If the latter of the above two, third-party, forecasts is eventually proven more "spot-on", we would emphasise that our technologies are also very much applicable to LGD (as we have already noted in our previous disclosures). Most HPHT LGD (the predominant technology utilised in the manufacture of small "melee" LGD) require most, if not all, of the processes applied to natural diamonds, thus making their eventual market share less of an apparent issue to our Group. As for CVD LGD (the technology applied to larger higher-quality LGD, like the Lightbox line), though these tend to be cleaner and more uniform than HPHT LGD, thus arguably requiring less inclusion scanning and planning processes, they too need at least some form of inspection for inclusions and imperfections, essentially depending on one's self-determined cut-off Clarity threshold. Incidentally, they actually create a strong market for our laser cutting systems, which excel at processing these stones, creating a new market for us. Lastly, though today our endeavours relating to the retail trade of polished diamonds (our Sarine Profile™, AI-driven technology-based grading of the 4Cs and the Sarine Diamond Journey™) primarily address the market of polished natural diamonds, all these initiatives, as they pertain to branding, consumer experience and confidence, are equally applicable to the LGD consumer market. There is clear consumer demand for the full grading of LGD, regardless of the stance taken by some manufacturers (e.g. Lightbox) that as LGD are "all the same" there is no need for their grading. One could market technology-derived grading of the 4Cs as the most suitable for technology-derived LGD.
- e. The first DeBeers sight of 2019, provisionally at US\$ 505 million, shows a significant 25% decrease as compared to the corresponding sight of 2018 and a 30% decrease compared to January 2017. We believe this is symptomatic of the effects of the above-mentioned issues impairing the midstream diamond industry - weaker consumer sentiment in China, a dearth of working capital in India and negative sentiment pertaining to smaller low-quality diamonds due to LGD. In fact, due primarily to the pinch on working capital, the seasonal rebound in midstream activity due to the need to replenish inventories following the end-of year, Chinese New Year and Valentine's Day holiday seasons, has not yet manifested itself.
- f. Notwithstanding the above noted headwinds and the Diwali holiday in Q4, we delivered 20 inclusion mapping systems - 3 of the Galaxy® model, one Galaxy® Ultra and 16 of the Meteorite™ model for very small stones, notably, all of the latter delivered in India, which continues to underpin our belief in our

ongoing success at containing the effects of the illicit competition, as detailed below. These deliveries bring our installed base to 410 as of December 31, 2018. We continue to see scanning activities at record levels, and finished 2018 with 20% growth in the number of stones scanned for the year – 12 million as compared to the 10 million scanned in 2017. This, even though DeBeers and Alrosa's rough sales decreased on a y-o-y basis. We believe this too is an indication of our success in reducing the infringing parties' impact on our business. In addition to the promotion successfully introduced in Q4 2018 for the Meteorite™ model, we have now introduced a similarly modelled promotion for the Meteor™ model, as well. Initial indications are that this offering is being well received.

- g. Based on our continued setting of new records of rough stones being scanned by our inclusion mapping systems (irrespective of the drop in the number of rough stones entering the pipeline), as mentioned above, the number of users who continue to migrate to Advisor® 7.0 and the sales of increasing numbers of inclusion mapping systems to Indian manufacturers, we believe we are significantly constraining the illicit competition.
- Technological – The tangible benefits and enhanced planning capabilities provided by our current planning software and hardware, along with the announced end-of-life of Advisor® 5.3 and earlier versions, as of year-end 2018, continue to incentivise manufacturers to migrate upwards to the latest version of our Advisor® software. As of year-end 2018 users of some 15,000 installations of our some 24,000 installed planning systems (we sold just under 2,000 new Advisor® 6.0/7.0 stations in each of 2017 and 2018, itself a notable achievement and evidence of the perceived advantage of our technology) had adopted the latest software, with a significant backlog of orders received, so that as of the end of Q1 2019 we expect 16,000 installations to have been upgraded out of a realistically convertible number not exceeding 20,000 (due to the number of users of our planning software on our DiaExpert® Atom and DiaExpert® Nano systems for small and very small rough stones, where the benefits of the newer Advisor® versions are less tangible, or on mobile systems, which cannot always be connected to the Internet).
 - Commercial – Our expanding relationships with mining producers' programs, such as Dominion's CanadaMark® and Lucara's Clara initiatives, as well as retailers launching programs implementing the enhanced Sarine Profile™, including grading of the 4Cs and the Sarine Diamond Journey™ provenance solution, and the fact that only suppliers who have migrated to Advisor® 7.0 can participate in same, are also adding to the migration upwards, locking out potential use of DBC's and other infringing technologies.
 - In the Indian judicial system, we are pursuing parallel lawsuits against Diyora & Bhandari Corporation (“**DBC**”) for patent infringement and copyright (software) infringement. In both ongoing actions, we are requesting interim injunctions to put an immediate halt to the infringing activities, and are proceeding to trial as quickly as practicable.
 - U.S Enforcement – We continue to provide U.S. retailers with details of the alleged infringements, and actions implemented by leading retailers in response to our representations have notably increased pressure on the infringing parties in India.
- h. Our Group's Sarine Profile™, Sarine Diamond Journey™ and Sarine Technology Lab AI-based 4Cs grading solutions for the wholesale and retail online and in-store polished diamond trade continue to generate keen interest and gain traction, primarily in the APAC market. In addition to our K-Uno launch customer for our AI-based 4Cs grading in Japan, we now have launch customers (to be disclosed upon actual pending launches) in China, Hong Kong and Israel. Following Cima, the launch customer for our Sarine Diamond Journey™ in Japan, we have additional customers in various stages of adoption and launch in Japan, as well as launch customers in China, Thailand and Israel. The two Israeli customers noted are prominent midstream suppliers, whose lines are sold by retail outlets in China, Taiwan, Singapore, Malaysia, and the United States. A further positive development is that a number of leading midstream Indian suppliers of polished diamonds are joining the Sarine Diamond Journey™ paradigm. They have opted to enable our solution to collect the appropriate data and imagery during the various stages of transition from rough to polished stone, and to store same in our database. Their aim is to be “Journey-ready”, so as to offer potential retail customers this option and to allow them to handily subscribe for the service based on data already existing in our cloud repository. Lastly, our Sarine Profile™ continues to draw additional customers from throughout the APAC region and is expanding into additional geographies (e.g., Australia, India, the United Kingdom and Poland), primarily choosing it for our market-leading light performance grading and the enhanced consumer experience it provides.

We continue to focus our research and development initiatives on the following objectives:

- **Polished diamond oriented systems and services:**
 - Continue refining the Sarine Clarity™ and Sarine Color™ AI-based grading capabilities;
 - Continue refining our provenance (Sarine Diamond Journey™) and related (e.g., fingerprinting) capabilities;
 - Continue developing our ability to fine-sort a diamond's Clarity in accordance with customer-specific industry-accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table"), etc.
- **Manufacturing products:**
 - **Galaxy® Tension Mapping** – Continue refining the added-value tension mapping capability of the Galaxy® family of systems and integrate same into our Advisor® planning proposition along with other advanced planning features (Advisor® 8.0).
 - **Axiom™** – Our third generation of standard-setting Axiom™ system for the ultra-accurate (better than 10 micron accuracy) measurement of a polished diamond's proportions will provide the means to automatically grade a standard ideal round Cut's symmetry and analyse the quality of the workmanship on fancy cuts and non-standard faceted models. As the latter categories of diamonds typically do not get a Cut grade from other gem labs, this will enable the Sarine Technology Lab to provide a unique service of documenting their quality.

We will focus the Group's marketing efforts in 2019 on:

- The continued demonstration of the significant added value of our industry standard rough diamond planning and manufacturing technology, including the new Galaxy® Tension and soon-to-be-released (Q2 2019) Advisor® 8.0, so as to drive their continued adoption and thus impede current and potential IP infringements.
- Continue / launch aggressive campaigns to bolster the price-performance appeal of our Galaxy® family of products, as initiated in Q4 2018 for the Meteorite model, expanding the initiative to the Meteor model in Q1 2019 and later, possibly, to the Solaris model.
- The broader adoption of the Group's Sarine Profile™, Sarine Diamond Journey™ and Sarine Technology Lab AI-based 4Cs grading solutions for the wholesale and retail online and in-store polished diamond trade primarily in the APAC market.
- Enhancing the Sarine brand recognition at the retail and end-consumer level through targeted social media and similar initiatives.

11. Dividend

(a) Current Financial Period Reported

Any dividend declared/recommended for the current financial period reported on?

On 24 February 2019, the Board of Directors recommended the Annual General Meeting (AGM) approve a final dividend of US 1.0 cents per ordinary share for the financial year ended 31 December 2018. This will bring our total payout for 2018 to some US\$ 10.5 million, if approved at the AGM. More than our net profit and approximately equal to our total free cash flow for the year.

In light of the escalated return of 10% which would be generated by the previous dividend policy at current share prices, as well as the uncertainties still facing the industry and the higher expenditures in sales and marketing planned for the upcoming year, in order to meet long-term growth targets, the dividend policy for 2019 will be reduced temporarily to US cent 1.0 every six months (subject to market conditions and to the Board of Directors' discretion).

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

On 25 February 2018, the Board of Directors recommended the Annual General Meeting approve a final dividend of US 1.5 cents per ordinary share for the full year ended 31 December 2017.

(c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived.

	<u>Amount before tax</u> <u>US\$'000</u>	<u>Tax rate applicable to shareholders</u> <u>%</u>
2018	3,506	20%/0% ¹ / 10% ^{2,3}
2017	5,268	20%/0% ¹ / 10% ^{2,3}

¹ The tax rate will be 20% (20% in 2017) for individual Israeli shareholders and 0% (0% in 2017) for Israeli corporate shareholders.

² The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2017).

³ Payments to shareholders of dividends distributed by the Company will be subject to a tax deduction at source at the rate of 20%, in compliance with Israeli tax directives. Tax amounts deducted from dividend payments will be deposited with a trustee. A shareholder claiming eligibility for preferential tax treatment on dividend payments pursuant to Israeli tax laws or international tax treaties may apply to the trustee within 30 days of the distribution date providing all necessary details and documents, for reimbursement of excess deduction, subject to verification of such eligibility. Details regarding the application procedure shall be provided by the Company in the formal dividend announcement posted on the SGX.

(d) Date Payable

	<u>Amount</u> <u>US\$'000</u>
17 May 2019***	3,506
10 May 2018	5,268

(e) Books Closure Date

5:00 PM on:

	<u>Amount</u> <u>US\$'000</u>
08 May 2019***	3,506
02 May 2018	5,268

***Pending Annual General Meeting Approval

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

13. If the group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions under Rule 920(1)(a)(ii). If no IPT mandate has been obtained a statement to that effect.

The Group has not obtained a general mandate from its shareholders for IPTs.

14. Negative confirmation pursuant to Rule 705(5) (not required for announcement of full year results).

Not applicable.

PART II ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT (This part is not applicable to Q1, Q2, Q3 or Half Year Results)

15. Segmented revenue and results for business or geographical segments (of the Group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

In accordance with IFRS 8 Operating Segments, the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. The Group operates in only one operating segment. Presented below are revenues broken out by geographic distribution.

	<u>India</u>	<u>Africa</u>	<u>Europe</u>	<u>North America</u>	<u>Israel</u>	<u>Others</u>	<u>Consolidated</u>
	2018						
	US\$'000						
External revenues	<u>38,889</u>	<u>7,029</u>	<u>2,258</u>	<u>1,043</u>	<u>3,399</u>	<u>5,886</u>	<u>58,504</u>
Unallocated expenses							<u>48,498</u>
Profit from operations							10,006
Net finance income							143
Income tax expense							<u>2,547</u>
Profit for the year							<u>7,602</u>

	<u>India</u>	<u>Africa</u>	<u>Europe</u>	<u>North America</u>	<u>Israel</u>	<u>Others</u>	<u>Consolidated</u>
	2017						
	US\$'000						
External revenues	<u>40,441</u>	<u>5,200</u>	<u>2,787</u>	<u>1,048</u>	<u>3,883</u>	<u>5,285</u>	<u>58,644</u>
Unallocated expenses							<u>49,228</u>
Profit from operations							9,416
Net finance expense							17
Income tax expense							<u>3,669</u>
Profit for the year							<u>5,764</u>

16. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

See section 8 above.

17. Breakdown of sales.

	<u>2018</u> <u>US\$'000</u>	<u>2017</u> <u>US\$'000</u>
Revenue reported for:		
First half-year ended 30 June	34,620	34,422
Second half-year ended 31 December	23,884	24,222
	<u>58,504</u>	<u>58,644</u>
Profit for the period:		
First half-year ended 30 June	7,240	5,681
Second half-year ended 31 December	362	83
	<u>7,602</u>	<u>5,764</u>

18. A breakdown of the total annual dividend (in US dollar value) for the issuer's latest full year and its previous full year.

	<u>Latest Full Year</u> <u>US\$'000</u>	<u>Previous Full Year</u> <u>US\$'000</u>
Ordinary	[8,766][10,519]*	12,287

*Pending Annual General Meeting Approval.

19. Interested Person Transactions

The Company confirms that, during the year ended December 31, 2018, there was no person occupying any managerial position in the Company or any of its subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the Company.

20. Confirmation pursuant to Rule 720 (1) of the Listing Manual

The Company confirms that it has procured undertakings from all its Directors and Executive Officers in the format set out in Appendix 7.7 under Rule 720 (1) of the Listing Manual.

On behalf of the Directors



Daniel Benjamin Glinert
Executive Chairman

24 February 2019