SARINE TECHNOLOGIES LTD. | ANNUAL REPORT 2016

SARINE LIGHT PERFORMANCE

THE TRUE MEASURE OF A DIAMOND'S BEAUTY

CONTENTS

CORPORATE PROFILE

Sarine Technologies Ltd. develops, manufactures, markets and sells precision technology products for the processing and trade of diamonds and gemstones.

Our products and services provide industry-leading automated solutions for every stage of the rough diamond manufacturing process, from high-precision geometrical modelling and internal inclusion mapping of the rough stone, through determining the optimally derivable polished gems based on true dollar value and market trends, through laser cutting and shaping, to the inline quality control of the actual making and faceting of the polished jewel.

Our DiaExpert™ family of platforms (DiaExpert™, DiaExpert™ Atom, DiaExpert™ Nano 6.5, DiaExpert™ XL, DiaExpert-Eye™, DiaScan™ S+, DiaMobile™ XL and DiaMark™ Z) and the Advisor™ software are the de-facto worldwide standard for planning the optimal utilisation of rough diamonds. Our systems assist the manufacturer in cutting and polishing rough stones so as to achieve yields based on tradeoffs between three of the four “C” parameters, which can be meaningfully optimised by the process, namely Carat weight, Cut quality and Clarity grade (the latter if utilising data input from the Galaxy™ family of inclusion mapping systems or the DiaExpert™ Eye) and market trends and prices.

The revolutionary and still unmatched Galaxy™ family of internal inclusion mapping systems for rough diamonds, based on unique patented technology comprises the Galaxy™ 1000/2000 systems for diamonds 2.5 to 20+ carats in size, the Galaxy™ XL for large stones up to 200+ carats, the Solaris™ for small stones from 0.9 to 2.5 carats and the Meteor™ for even smaller rough stones of 0.2 to 0.9 carats. The Galaxy™ Ultra provides high resolution scanning, which offers microscopic-level, fully automatic, fast and comprehensive identification and mapping of inclusions at single-micron accuracy, allowing for the more confident planning of internally flawless (IF) and VVS1 polished diamonds. All these products enable the automated prediction of the Clarity of the Advisor™–planned polished stones, so as to truly optimise the dollar value derived from the processed rough diamonds. To allow the industry to fully benefit from this cutting edge technology, we offer per-carat inclusion scanning services at wholly-owned or affiliated service centres in all the major diamond trading and polishing centres: Mumbai and Surat (India), Ramat-Gan (Israel), Antwerp (Belgium), Moscow, Johannesburg, Gaborone (Botswana), Windhoek (Namibia) and New York.

Our 3rd-generation Quazer™ 3 green-laser system, integrated with our planning systems by way of the Strategist™ setup station, is the industry’s most cost-effective high-end solution for the laser cutting and shaping of rough diamonds as well as for the processing of CVD-type lab-grown (so called “synthetic”) diamonds for industrial purposes. The new Quazer™ 3’s main advantage is its ability to perform complicated cutting like pie sawing with a single setup (single gluing), giving more accurate results and time savings. Rough diamond cutting and shaping services are also offered as a per-carat service at various locations in India, Israel and southern Africa, in wholly-owned or third-party service centres.

The combination of these technologies has redefined the art of diamond polishing. It has not only raised the optimally achievable yield of polished stone(s) weight from typically under 40% of the rough stone’s weight to over 50%, a 25% benefit, but also allows the manufacturer to select planning options which best suit the actual markets at any given time, e.g., trading off between weight (size – more sought in US markets) and quality (Clarity – more sought in Far Eastern markets).

Similarly, the Allegro™ system does much the same as the above-described systems, using appropriately adapted technology, for non-diamond gemstones. The system models the rough gemstone, plans the optimal shaped polished stone and cuts it as well. As clarity is less critical for coloured gemstones, there is no inclusion mapping stage, and the actual cutting uses non-laser technology, as it is more affordable and equally amenable to the softer gemstones.

We also aid in key aspects of the polished diamond trade. Having pioneered the automated grading of a polished diamond’s Cut in 1992, and having introduced the industry’s most accurate system for measuring a polished diamond’s actual light performance in 2013, we are currently in large-scale testing of automated systems for grading Clarity, a world first, and Color.

Our DiaMension™ family of products launched in 1992 for the accurate measurement of a polished diamond’s proportions in order to derive the Cut and Symmetry grades, is used in all major gemmological institutes worldwide. The DiaMension™ HD (High Definition) is generally accepted as the industry’s leading and best-selling solution for measuring proportions and Cut grading worldwide. The newest DiaMension™, the Axiom, is based on completely new technology with micron level accuracy and was developed to meet and exceed Tiffany & Company’s most stringent requirements. It is also becoming the standard for Cut and Symmetry grading at leading manufacturers and gem labs worldwide.

CORPORATE PROFILE

Our polished stone proportion measuring and Cut/Symmetry grading systems operate using the Instructor™ software package. Our original DiaVision™ software (discontinued in 2015 with the release of Instructor™ 3.5) was the first proportion and Cut grading software which was thoroughly evaluated by the Gemological Institute of America (GIA) in an extensive testing program and was qualified as being accurate in excess of 98% of the tested cases. It, and the subsequently introduced Instructor™, have been adopted by the GIA as one of their standard software packages for use in their Cut grading systems.

Our Instructor™ software also assists in real-time quality control and optimisation of diamond faceting by proposing corrections to deviations from the optimal polishing solution, including unique asymmetrical solutions, in order to optimise weight (Carat) vs. proportion (Cut) trade-offs.

In today's changing retail world, channel and product branding and differentiation, as well as providing an online portal and captivating digital experience, are key to a retailer's success. Thus, digital imaging technologies have become essential marketing and sale tools. The ability to "show and tell" the polished gem online, as well as demonstrate its unique features in-store, and the means of differentiating it from the near-commoditised standard cuts and stones are becoming universal goals amongst e-tailers and retailers alike. Dry tabular non-intuitive data, as formulated in the historic four C's, no longer appeal to, nor convince, the younger generation of internet-savvy buyers. We have thus pioneered Sarine Profile™, which provides succinct multi-level and multi-faceted image and video information pertaining to the offered diamonds' quality and beauty. A toolbox of various technologies, as detailed below, Sarine Profile™ allows the wholesaler and retailer to showcase their inventory, both real and virtual, regardless of a specific stone physically being in a specific outlet or not, according to their own specific branding goals, as best suited to the merchandise being sold and the market in which it is sold. Doing so enables online transactions with a completely new level of confidence and enhances the in-store buying experience by empowering the consumer to make a truly informed decision. Sarine Profile™ is unique in that it offers each user, whether wholesaler or retailer, online or brick and mortar, to create its unique branding message by utilising various levels of imagery, light performance grading, hearts and arrows graphics, Cut proportions graphics and grading, laser inscription viewing, etc., all as derived from our diverse cutting-edge systems described below, along with other user-provided data, such as the stone's gemmological laboratory report, retailer promotional material, etc.

The systems that have been developed to provide these varied capabilities are:

- The Sarine Light™, a system that enables the automatic, accurate, consistent and quantified measurement of a polished diamond's appearance (light performance), in order to add other characteristics by which to value the diamond and its consumer appeal:
  Brilliance - the intense bright light that shines from the diamond.
  Sparkle - the dramatic flashes that burst out of the diamond as it moves.
  Fire - the vivid colours of the rainbow that radiate from within the diamond.
  Light symmetry - the equal distribution of light that reflects from the diamond.

- The Sarine Loupe™ imaging system, which creates high-quality multi-level video imagery, so that a potential buyer of a polished diamond, whether a qualified wholesale trader or a consumer, can truly assess both its beauty and internal features without having the polished diamond physically in hand. At the highest level, Real View, the buyer sees the stone under 3-5 times magnification (depending on the stone's actual size), allowing him/her to assess its true appearance and beauty, while also verifying, by observing its inclusions, just how eye-clean the stone is. At the next level, Top Inspection, imaged at 5-10 times magnification, the buyer can accurately assess the stone's Cut and Clarity by inspecting the stone in detail, as viewed through its table. Finally, using 3-D Inspection, with optional virtual zoom, the buyer can inspect the stone at up to 40 times magnification, from virtually 360 degrees in all axes, even better than through a conventional loupe, and truly scrutinise even its minutest details.

- The Sarine Connect™ app, which provides mobile device (tablet, smartphone, etc.) ability to display an inventory of loose stones or set jewellery, including the unique capability to create virtual inventory by linking into suppliers' inventories and allowing a buyer to create his/her own unique piece by selecting from available settings and stones.

- The DiaScribe™ system for inscribing polished diamonds with distinct marks such as text, numerals and symbols, whether for branding, personalisation or simply recording the stone's grading report's serial number.

As announced on 10 November 2016, we are currently in large scale testing of groundbreaking technology for the automated and objective computerised grading of a polished stone's Clarity and Color. Though Color grading has been accomplished before by computerised means (including our own discontinued Colibri), thus enabling more objective and consistent grading, Clarity grading has always been and is still done manually. As it is a very complex four-dimensional classification, based on the number of inclusions, their sizes, types and locations, the judgment call is complex. Thus each stone is always graded by at least two graders, and it is not unusual for a third vote to be required. Even so, Clarity grading is not always consistent, and it is not uncommon to get unexpected variations in grading, resulting in the grading being contested as often as in 10% of the cases. We also expect to enable fine-sorting of a diamond's Clarity in accordance with industry-accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table"). We believe that being able to provide the industry with automated consistent and objective Clarity grading will augment the industry's transparency and enhance consumer confidence. It is our aim to commercialise this technology in 2017.

Additional capabilities, which will provide supplementary data pertaining to polished diamonds are in development, including, for example, polished diamond "fingerprinting", which can help resolve issues pertaining to supposed diamond swapping, insurance, etc.

OUR MILESTONES

2016

Shining House, a leading jewellery retailer in China based in Shanghai, launches its new premium cut diamond, the octagonal Shining Star, underpinned by Sarine's uniquely accurate and consistent light performance grading and Sarine Profile™ digital sales solution, to provide an all-new level of customer experience and value, in-store and online.

Sarine's wholly owned subsidiary, Sarine Color Technologies Ltd., announces that it acquired the technology and assets of DiaMining Ltd., an established developer of Point of Sale (POS) applications for diamonds, gemstones and jewellery, and renames it Sarine Connect™.

The Soo Kee Group, Singapore's leading established jeweller, also listed on the Singapore Exchange, announces that they have adopted the Sarine Profile™ diamond display paradigm, including Sarine's unique light performance grading, for Love & Co., their bridal specialist brand, and will launch the Sarine Profile™ as a cornerstone of their in-store and online customer experience.

Sarine announces that it has developed new and groundbreaking technology that will provide automated, objective and consistent inclusion mapping in polished diamonds and Clarity grading – a first for the diamond industry, as well as a system for automated objective and consistent Color grading, both of which are in large scale testing for commercialisation in Q3 2017.

Sarine ends the year with record deliveries of 84 Galaxy™ family inclusion mapping systems, bringing its Galaxy™ installed base, as of 31 December 2016, to 299.

2015

Sarine shares held by founding entities distributed vertically to next level, without effecting any change in beneficial holdings. Similarly, no change in directors' beneficial holdings was effected.

HRD Antwerp, the leading Belgian gemmological laboratory owned and operated by the Antwerp World Diamond Center (AWDC), and Sarine announce plans to facilitate interoperability between Sarine's Advisor™ diamond planning software and HRD Antwerp's EOS Fancy bruting and girdling (i.e., shaping) systems.

Gemological Science International (GSI) adopts Sarine's DiaMension™ Axiom as a high-end proportion measuring system. Gemological Institute of America (GIA) verifies Sarine's DiaMension™ Axiom's unmatched accuracy as per announced specifications and adopts Instructor™ as a standard software package for polished diamond proportion measuring and Cut grade derivation.

Sarine pioneers the Sarine Profile™, offering succinct image and video information of a diamond's quality and beauty, to enable online transactions with a completely new level of confidence and cost effectiveness and enhancing the in-store buying experience by empowering the consumer to make a truly informed decision. Sarine Profile™ allows jewellery chains to offer any stone from their entire (virtual) inventory, regardless of its availability in a specific outlet. The Sarine Profile™ is unique in that it offers each retailer, whether online or brick and mortar, to select its preferred imagery from a toolbox of options including the various levels of imagery produced by the Sarine Loupe™, light performance grading and video generated by the Sarine Light™, hearts and arrows graphics, Cut proportions graphics, laser inscription viewing and the like.

Sarine Loupe™ service centres open in Los Angeles and Hong Kong in collaboration with Brink's Global Services.

Rosy Blue, a leading international manufacturer of high quality polished diamonds and finished jewellery, announces the upgrading of its worldwide manufacturing facilities to Sarine systems only, replacing all inclusion mapping, rough planning, proportion measurement and grading equipment of other equipment vendors.

OUR MILESTONES

Sarine celebrates 10 million stones being scanned by its Galaxy™ inclusion mapping solution since the system's introduction in 2009.

Sarine releases the Advisor™ 6.0 planning software, with additional features and a new level of intellectual property protection based on the utilisation of cloud architecture, constituting an additional layer in the penetration barrier to would-be competition to our industry-leading rough diamond processing solutions.

Sarine launches the Meteor™ small stone inclusion mapping system, for stones ranging from 20 to 89 points, an addressable segment of some 50 million stones annually, capable of almost double the throughput of previously introduced inclusion mapping systems of the Galaxy™ family, thus further narrowing the window of opportunity for our would-be competition.

Sarine India opens the first Allegro™ service centre in Jaipur, India. The Allegro™ highly accurate system processes non-diamond gemstones, transforming the rough stone directly into a fully-shaped (un-faceted) gem, at a lower cost to the manufacturer, with significant added yield in polished gem weight, higher accuracy in adherence to standard gem sizes and essentially no human error.

2014

The English spelling of the Company's name is corrected to Sarine Technologies Limited.

Sarine launches the Instructor™ 3.0, a new and significantly enhanced version of its polished-diamond quality assurance and polishing process control software. The new software runs on Sarine's rough and polished diamond modeling platforms and significantly improves the accuracy of polished diamond modeling, in particular for fancy-shaped diamonds, and the tools provided for in-process polishing decisions.

Sarine launches the Quazer™ 3, offering a completely new control system with unique advantages, including an enhanced fully automated pie cutting feature, facilitating accurate sawing of highly advanced sawing profiles. The Quazer™ 3 supersedes the original Quazer™ and second generation Quazer™ II, introduced in 2005 and 2010 respectively, both based on green laser technology, which themselves pioneered multiple breakthroughs in the sawing, cutting and shaping of rough diamonds and became the de-facto standard high-end market-leading solutions.

Rapaport's RapNet® industry-leading web-based platform selects our subsidiary's Sarine Loupe™ as first de facto standard imaging system and provides enhanced seamless integration to the Sarine Loupe™ imagery to empower online trade.

DiaMension™ Axiom's accuracy is verified by Tiffany & Co, and selected to formalise Tiffany's new and more robust standards of Symmetry. In 2012 Tiffany challenged Sarine to measure the facet symmetry features of a polished diamond with unprecedented high accuracy, as previously these features could not be determined by any existing device and were manually evaluated by gemologists using microscopes. Sarine's DiaMension™ Axiom thus sets a new bar for polished diamond analysis and grading.

Sarine Color Technologies Limited launches Real View, an upgrade to the Sarine Loupe™, adding a stunning rendition of the polished diamond's actual appearance. The enhanced Sarine Loupe™ comprises three complementary layers of imaging. The first provides a dazzling presentation of the diamond's appearance (Real View), the second a table-only view of the diamond, as inspected when using an actual physical loupe (Top Inspection), and the third shows minute details of the diamond's Cut workmanship and internal Clarity characteristics (3-D Inspection).

Sarine North America Inc., Sarine's wholly owned US subsidiary, opens a Sarine Loupe™ service centre for diamond imaging at its offices in New York's Diamond District on 47th Street.

2013

Sarine launches the DiaExpert™ Atom rough planning and marking system for the smallest of rough diamonds – 0.01 through 0.27 carats in size, which offers higher processing speeds and more competitive pricing than the DiaExpert™ Nano system, launched in late 2007.

Sarine's wholly-owned US-based subsidiaries close on the purchase of approximately 500 square meters of office in the new International Gem Tower in New York City (on 47th Street - Diamond Way) for the Group's North American base.

Sarine Color Technologies Limited, a wholly owned subsidiary of Sarine, launches the Sarine Light™ with launch customer CIMA, one of Japan's leading bridal diamond jewellery chains with nearly 60 outlets nationwide, for certification of all its solitaire diamonds measuring one quarter carat and up.

Galatea introduces the Galaxy™ Ultra system for the inclusion scanning of a rough diamond at microscope level magnification. The Ultra enables the detection of inclusions with single-micron resolution, including the detection of clouds of inclusions of single micron size, to determine whether a user can achieve an Internally Flawless (IF) Clarity grade.

2012

Sarine launches the Diamond Assay Service (DAS), an online subscription service for diamond wholesalers, retailers and appraisers, to automatically appraise polished diamonds and their potential for re-cutting and re-polishing so as to derive greater value.

OUR MILESTONES

Galatea launches the Galaxy™ XL system, doubling the size of rough diamonds that can be scanned for internal inclusion mapping purposes to 32mm, allowing rough diamonds weighing up to 200+ (record 220) carats to be processed.

The Gemological Institute of America (GIA) concludes that the DiaMension™ HD (High Definition) has the necessary accuracy and repeatability to be used to evaluate symmetry. The GIA found that "[the] DiaMension™ HD tested by GIA, demonstrated an apt capacity to deliver accurate and repeatable symmetry results" and that "improvements in the operation and accuracy … now enable us to also measure … symmetry parameters during the grading process".

Sarin Technologies India Private Limited purchases land measuring approximately 2,400 square meters in Surat, Gujarat, India for its new facilities for customer service and technical support and training, as well as its service centres and other logistics infrastructure.

Sarine launches the Advisor™ 5.0 version of its best-selling rough-diamond planning software to further improve the value of the polished diamonds derivable from the rough raw material and the software's productivity and ease of operation.

2011

The American Gem Society Laboratory ("AGSL") concludes an evaluation of the DiaMension™ HD and, based on the system's superior performance in 3D modeling of polished diamonds, decides to augment its existing DiaMension™ systems with the newer HD model.

Sarine Color Technologies Limited, a wholly-owned subsidiary of Sarine, debuts its light performance system, the Sarine Light™, which quantifies a polished diamond's appearance by accurately measuring its light performance characteristics.

Sarine launches the DiaMark™HD system, equipped with a super-fine laser, complementing the DiaMension™HD and Instructor™.

Sarine Color Technologies Limited, a wholly owned subsidiary of Sarine, acquires the D-See technology, a revolutionary imaging method to capture realistic, accurate and objective imagery of a polished diamond, including its internal features. Derived from this technology, the Sarine Loupe™ system enables the electronic transmission of comprehensive imagery from seller to buyer, providing a means to truly assess a polished diamond from a multitude of angles and at various magnifications without having it physically in hand.

2010

The Gemological Institute of America (GIA) concludes an in-depth comparative evaluation between their internal methods of round brilliant diamond Cut grade determination and Sarine's implementation of the Facetware® database in Sarine's measuring systems, which shows highly compatible results between the two methods. Following on this achievement, GIA also concluded an initial evaluation of the DiaMension™ HD system and commenced the phased upgrading of their existing DiaMension™ systems to the newer HD product.

Sarine launches the DiaExpert™ Nano 6.5 for the fast processing of small rough diamonds from 0.15 to 0.70 carats in weight, an enhanced model of the DiaExpert™ Nano, introduced in 2007, for slightly larger small stones.

Galatea, a wholly owned subsidiary of Sarine, launches the Solaris™ 100 inclusion mapping system for smaller rough diamonds, based on the same technology utilised in the Galaxy™ 1000 system, to offer customers who specialise in smaller sized rough diamonds the same benefits of the Galaxy™ system in a more cost- effective package.

Sarine launches the Strategist™ saw-plane planning system, which integrates the rough planning, and, specifically, its saw-plane planning process, and the actual Quazer™ sawing process, into a computer controlled and coordinated process, to help avoid sawing perils such as cracks, fissures and bubbles, and allowing for a safer and higher yield laser cutting plan.

Sarine Color Technologies Limited, a wholly owned subsidiary of Sarine, acquires light performance technology (LPT) from Overseas Diamonds Technology.

2009

Galatea, a wholly-owned subsidiary of Sarine, launches the Galaxy™ 1000 and 2000 systems for the automated inclusion mapping of rough diamonds. These systems revolutionise the planning and production of diamonds by allowing complete optimisation based on Clarity as well as Carat weight and Cut, a leap forward from the DiaExpert™ Eye. Service centres are opened in India and Israel, in which the technology is offered for use at a low carat-based fee. An initial system is delivered to a launch customer towards year's end.

Sarine launches the Instructor™, a new software package that runs on our polished diamond measuring equipment (DiaMension™, DiaMension™ Lab Edition, DiaMension™ HD and DiaScan™ S+), for improving the yield and assuring the quality manufacturers can attain while polishing diamonds.

Sarine launches the DiaMension™ HD, an advanced high-precision system, offering even more accurate 3D modelling for the measurement of polished and semi-polished diamonds. The precise 3D model allows users to evaluate not only the diamond's proportions, but also the stone's symmetry – including "naturals", facet misalignments, facet junctures, extra facets, and other fine cut and symmetry parameters.

2008

Sarine acquires 100% of the issued share capital of Galatea Limited, which then becomes a wholly-owned subsidiary of the Company. At the time of the acquisition, Galatea was in the final testing stages of an automatic inclusion (Clarity) mapping system for rough diamonds, which is later known as the Galaxy™ system.

Sarine acquires 23% of IDEX Online SA, an operator of a B2B polished diamond traders' network, a web portal for news, analyses and polished diamond price indices and publisher of a leading trade magazine. Shortly after the acquisition, IDEX Online launches an attempt to create a polished diamond spot market.

OUR MILESTONES

2007

Sarine introduces DiaExpert™ Eye for the semi-automated inclusion charting of rough diamonds, supporting the need for considering inclusions (Clarity) in the planning and production of diamonds.

After Sarine evaluates the important market niche of small stone manufacturers, the DiaExpert™ Nano, a unique product for the planning and marking of small stones, is launched.

2006

Sarine Color Technologies Limited, a wholly owned subsidiary of Sarine, introduces Colibri™. Colibri™ is a state-of-the-art colour grading product for polished diamonds, which calculates and grades the colour of the diamond as well as its fluorescence.

The Group's subsidiaries, GCI and Romedix, are renamed Sarine Color Technologies Limited and Sarine Polishing Technologies Limited, respectively. New subsidiaries, Sarin Hong Kong Limited and SUSNY LLC, are established.

2005

Sarine launches the Quazer™ advanced green-laser system for sawing, cutting and shaping diamonds, establishing a new product line and climbing another rung on the ladder towards being a one-stop shop for the diamond manufacturing industry.

We introduce Facetware®, a software upgrade product for the Company's DiaMension™ and DiaExpert™ product lines (and installed base), for the analysis of a polished stone's Cut grade, in cooperation with the Gemological Institute of America (GIA).

8 April 2005

Sarine Technologies Limited is listed on the Mainboard of the Singapore Exchange.

2004

Sarine Polishing Technologies Limited (formerly known as Romedix) purchases third-party know how and technology used in the development and manufacture of disposable polishing discs for diamonds and gemstones.

Sarin Technologies India Private Limited is incorporated as a wholly owned subsidiary in India. Sarin India provides pre-sale, post-sale and technical support services to our Group's customers in India, Sri Lanka, and neighbouring countries.

2001

Sarine acquires the entire share capital of Gran Computer Industries (subsequently renamed to Sarine Color Technologies Limited), a private company incorporated in Israel. The company develops, manufactures and markets devices for the identification and classification of a diamond's colour.

2000

Sarine introduces the DiaMark™. This product allows the DiaExpert™ product to automatically inscribe, using laser markings on the rough stone's surface, the optimal sawing plane suggested by the DiaExpert™ and accepted by the user.

1996

Sarine introduces the use of laser scanning in order to create three-dimensional concave modelling of rough stones. The ability to accurately complement our modelling with the rough stone's concavities provides the user with a complete and accurate model of the rough stone. This feature is complementary to, and increases the effectiveness of, the DiaExpert™.

1995

Sarine develops the DiaExpert™, an automated computerised planning system for the maximum utilisation of rough stones. The diamond manufacturing industry is revolutionised by the introduction of this computer-based technology which substitutes person-based expertise, and thus contributes to the geographic shift of the diamond industry to new centres of manufacture such as India, PRC and Africa.

1994

The Company is renamed Sarin Technologies Limited.

1992

The DiaMension™, a pioneering grading product for assessing the Cut of polished diamonds, is introduced – an automated computerised product for assessing a diamond's proportions, the key parameter in the grading of a diamond's Cut. A significant advancement for the diamond industry, the DiaMension™ has changed the way polished diamonds are bought and sold by providing accurate means of measuring the proportion, thereby deriving the Cut grade.

1989

Our Company changes its name to Sarin Research, Development and Manufacture (1988) Limited.

1988

Our first product, the Robogem™, an automated production system for producing polished gemstones from rough gemstones, is launched. Robogem™ was sold in limited numbers to semi-precious gemstone manufacturers in Israel, Europe and the Far East (India and Myanmar).

8 November 1988 Our Company is incorporated in Israel as a private company limited by shares under the Companies Ordinance (New Version) 1983 of Israel, under the name of Borimer Limited.

CHAIRMAN'S STATEMENT

"The Group's revenues and operating performance showed significant improvement throughout 2016, with both increased diamond manufacturing equipment sales, including delivery of a record 84 Galaxy™ family systems, and increased recurring revenues."

CHAIRMAN'S STATEMENT

Dear Fellow Shareholders,

Following a very challenging 2015, the Group benefited in 2016 from positive macroeconomics, continued positive and renewed consumer demand for polished diamonds in key markets, a robust supply of rough diamonds at economically viable prices and no inventory overhang. The Group's revenues and operating performance showed significant improvement throughout 2016, with both increased diamond manufacturing equipment sales, including delivery of a record 84 Galaxy™ family systems, and increased recurring revenues.

During 2016 rough diamond sales showed a marked recovery over 2015, as pricing of rough diamonds remained stable at significantly lower (20 – 25% less) levels than in 2015 and polished diamonds' prices remained overall stable, as well. De Beers' first two sights for 2017 were in excess of US$ 720 million in January, almost a third higher than at the corresponding sight in 2016, and US$ 545 million in February, in line with February 2016's corresponding sight of US$ 550 million, which further indicates the overall positive industry sentiment. We expect rough diamond sales and the consequent polishing activity to continue robustly for the rest of the year, as there are no significant negatives impairing profitability throughout the diamond industry value chain, as well as no known polished diamond inventory issues of substance at this time. This healthy midstream industry activity should underpin robust Group sales in 2017. Incidentally, we have had no substantial negative impact from India's demonetisation program, as evidenced by our record fourth quarter for Q4 2016.

Sales programs utilising Sarine Profile™ by retailers in the U.S and the Asia Pacific (APAC) region continue to expand. Programs with retailers in the U.S. are gaining momentum slower than those in the APAC region due to various reasons, including the average quality of stones sold and other corporate and consumer cultural issues. Notwithstanding this, we are seeing a significant growth in interest in the Sarine Profile™ compared to a year ago, with growing momentum both with large regional and national chains and high-end independents. We hope to double the number of stones scanned for the Sarine Profile™ in 2017 and expect its contribution to overall Group sales to be around 5%.

Group Performance - Year in Review

Revenues for FY2016 increased by 49.7% to US$ 72.5 million, as compared to US$ 48.5 million for FY2015. This increase in revenues stemmed primarily from increased diamond manufacturing equipment sales, including Galaxy™ family systems, as well as increased recurring revenues from the broader installed base of inclusion mapping systems. With deliveries in FY2016 of a record 84 Galaxy™ family systems to customers and service centres, significantly more than the previous record of 48 systems delivered in 2014, the Group had an installed base of 299 Galaxy™ family systems as of 31 December 2016. However, looking forward to 2017 we do not necessarily expect to repeat this record (or exceed it). Some of the demand may have come from our launch of the Meteor™ under attractive introductory terms throughout 2016, which are no longer offered. Additionally, as of 1 January 2017 we have updated our pricing of the various models' ongoing use fees, and, as to be expected, this has slowed new orders – we believe this is a short–term issue, as the market adapts to our new terms. The Group's recurring revenue (including Galaxy™-related, Quazer™ services, annual maintenance contracts, and the Sarine Profile™) constituted approximately 40% of overall FY2016 revenues.

Gross profit for FY2016 increased by 54.5% to US$ 50.3 million, as compared to US$ 32.5 million for FY2015. For FY2016 the Group recorded a gross profit margin of 69%, compared to 67% as in FY2015, due, primarily, to overall increased revenues. Profit from operations for FY2015 surged by 286% to US$ 21.2 million, as compared to US$ 5.5 million in FY2015. For FY2016 the Group's operating margin nearly tripled to 29% as compared to 11% for FY2015. The increase in our operating margin was due primarily to our increased revenues, offset somewhat by our ongoing strategic expenditures on new products and services, primarily for our downstream markets. EBITDA expanded by 163% to US$ 25 million as compared to US$ 9.5 million for FY2015. For FY2016 the Group reported a net profit of US$ 18.0 million, fivefold the net profit of US$ 3.6 million realised in FY2015. For FY2016, the Group recorded a net profit margin of 25%, pointedly more than the net profit margin of 7% of FY2015. During FY2016 the Company earned US$ 18.0 million, equivalent to basic earnings per share of US cents 5.14 (1.03 in FY2015) and fully diluted earnings per share of US cents 5.14 (1.02 in FY2015).

As at 31 December 2016, cash, cash equivalents and short-term investments (bank deposits) ("Cash Balances") increased to US$ 38.0 million from the US$ 32.6 million reported as of 31 December 2015. The primary reason for increased cash flow was the Group's improved operating results, lower inventory levels and higher payables. This was offset by the US$ 1.2 million purchase of DiaMining's app-based point of sale technology for diamonds,

CHAIRMAN'S STATEMENT

Revenues for FY2016 increased by 49.7% to US$ 72.5 million, as compared to US$ 48.5 million for FY2015. EBITDA expanded by 163% to US$ 25 million as compared to US$ 9.5 million for FY2015. Net profit for FY2016 was US$ 18 million, fivefold the net profit of US$ 3.6 million in FY2015.

Galaxy™ 1000

gemstones and jewellery (resulting in an equivalent increase in intangible assets), higher trade receivables (on higher recurring revenues and credit to certain customers) and increased fixed assets, primarily due to the Group's construction of its new facilities in Surat,India. In addition, the Group paid US$ 12.2 million in dividends in 2016 – the US$ 5.2 million final dividend paid in May 2016 for the fiscal year 2015 and the US$ 7.0 million interim H1 2016 dividend paid in September 2016.

Significant Events in 2016

Sarine's wholly owned subsidiary, Sarine Color Technologies Ltd., acquired the technology and assets of DiaMining Ltd., an established developer of Point of Sale (POS) applications for diamonds, gemstones and jewellery. Having renamed it Sarine Connect™, the integration of this technology enhances the Sarine Profile™ with mobile device capabilities as well as virtual inventory functionalities. The Sarine Connect™ provides a virtual inventory ability by linking into suppliers' inventories and allowing a retailer (or online buyer) to create a unique jewellery piece by selecting from available settings and stones.

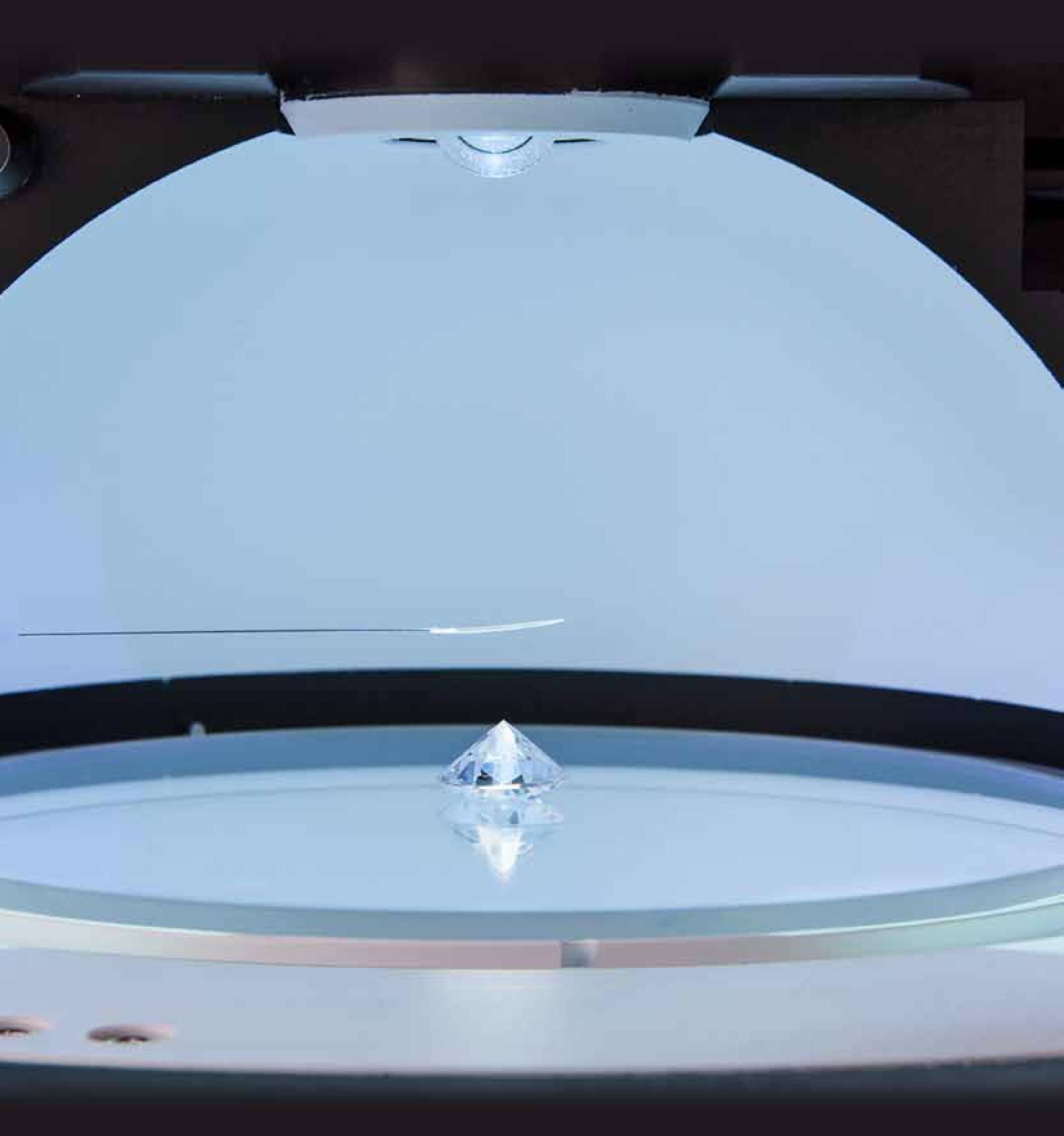
Sarine announced towards the end of 2016 that it has developed new and groundbreaking technology that will provide automated, objective and consistent inclusion mapping in polished diamonds and Clarity grading – a first for the diamond industry, as well as a system for automated objective and consistent Color grading, both of which are in large scale testing with commercialisation slated for Q3 2017.

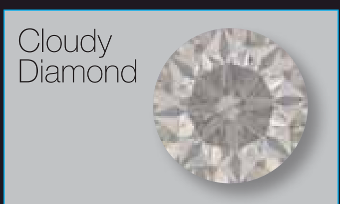
Looking Ahead to 2017

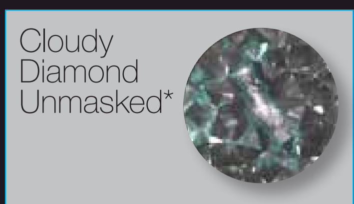
The Group's main objectives for 2017 are:

- Continue the market penetration of our Galaxy™ family of inclusion mapping systems;
- Maintain our dominant market lead and the overall value proposition embodied in our DiaExpert™ planning systems and Advisor™ software, with which the inclusion mapping systems and Quazer 3 high-end green laser cutting and shaping tools interface, so as to sustain the entry barrier for our competition;
- Double the adoption of our unique Sarine Profile™ and Sarine Connect™ by the polished diamond trade; and

CHAIRMAN'S STATEMENT







* Clouded polished diamond with invisible micron-sized inclusions mapped

CHAIRMAN'S STATEMENT

- Commercialise our new automated and objective Clarity and Color grading of polished diamonds; typical customers could be existing players in this domain – gemmological laboratories, large chain retailers with existing in-house gem labs, large manufacturers who already prefer self-certification, etc.

The latter two will both increase our recurrent revenue stream and balance our business more evenly between the midstream manufacturing segment, mostly in India, and downstream trading segment, mostly in the U.S. and APAC region, so as to create an inherent buffer against a downturn in any single segment, as was experienced in 2015 in the midstream.

To these ends, we will focus the Group's research and development initiatives as follows:

- Midstream products: Implement ongoing improvements to our Advisor™ rough planning software to continue to enhance its capabilities and productivity along with refined IP protection. We have completed development of the ability to predict the planned polished diamond's light performance during its planning stage. We are now working on the capability to plan a polished diamond to meet desired light performance grades in general (e.g., Ultimate) or specific grades of specific sub-parameters of light performance (e.g., Ultimate Fire). Completion of the integration of these new capabilities with Advisor™ and our faceting quality control software (Instructor™), so as to allow manufacturers to incorporate light performance into their manufacturing criteria and develop enhanced Cuts based on light performance as well as proportions and symmetry, will be released in Advisor™ 7.0, scheduled for mid-2017.

- Downstream products and services:
  - Expansion of our operational infrastructure for Sarine Profile™;
  - Continued enhancement of Sarine Profile™ in order to provide additional capabilities for customer programs, as required, mainly additional shapes – current work continues on less ubiquitous shapes, such as Ovals, Pears, Marquises and Hearts.
  - Further integration of the recently acquired Sarine Connect™ (previously known as DiaMining) technology to enhance Sarine Profile™ with mobile device capabilities, as well as virtual inventory functionalities, while also augmenting Sarine Connect™'s interface with more retail-oriented features.
  - Enhancement of Sarine Profile™ to support the display of jewellery pieces and not only loose polished diamonds. As retail businesses display set jewellery by far more often than loose stones, this will significantly broaden the appeal and applicability of Sarine Profile™.
  - Complete the development of the Clarity and Color grading capabilities, which are in testing, including the software infrastructure necessary for process management, data security, etc.

We also see bolstering our enforcement of our intellectual property (IP) rights to preclude unauthorised use of our inclusion mapping technology a key objective in 2017. We intend to seek remedies against those who illegally compete with us by violating our IP rights, by making, selling, renting, buying, using or using the output from infringing products and pirated software. We shall leverage the patents granted us, as well as the inherent copyright of our software, to protect our IP aggressively.

Dividend

The Board of Directors has recommended that a final ordinary dividend of US 2.5 cents per ordinary share (approximately US$ 8.8 million) be distributed for FY2016, comprising a dividend of US cents 2.0 per ordinary share as per the dividend policy and a special bonus dividend of US cents 0.5 per ordinary share. This will bring total dividends for FY2016 to US 4.5 cents per share, 50% more than for FY2015, approximately US$ 15.8 million. This sum constitutes over 87% of our net earnings for the year and demonstrates Management's and the Board's belief that 2017 will continue to show robust activity with the commensurate revenues and profitability demonstrated by the Group in 2016.

Acknowledgements

On behalf of the Board of Directors, I would like to again thank our ever- growing circle of customers, conscientious suppliers and business partners, and devoted management team and employees for their ongoing support of and dedication to the Group. We believe that these long-term relationships will continue to foster the means by which we will bring innovation and value to the global rough and polished diamond trade in 2017 and beyond, as we inspire confidence in the industry's players, its global consumers and in our loyal shareholders.

Respectfully Yours,

Daniel Glinert

Daniel Benjamin Glinert
Executive Chairman

YOUR DIAMOND STORY


DIAMOND IMAGING
INSCRIPTION VIEWING
3D VIEWING
LOUPE
CUT & CRAFTSMANSHIP
4.02 MM
55%
33.0°
14.0%
0.57 MM
6%
.23 MM
41.8°
64.3%
2.58 MM
44%
1.78 MM
.52%
HEARTS & ARROWS

BOARD OF DIRECTORS

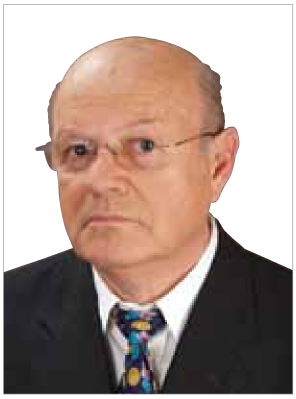
Daniel Benjamin Glinert

Uzi Levami

Eyal Mashiah

Avraham Eshed

Ehud Harel



Hanoh Stark

Chan Kam Loon

Yehezkel Pinhas Blum

Valerie Ong Choo Lin

DANIEL BENJAMIN GLINERT
Executive Director and Chairman of the Board

Daniel Benjamin Glinert has been an Executive Director and the Chairman of the Board of the Group since 1999. He is also a Director in the Group's subsidiary, Sarin Hong Kong. Mr. Glinert holds a Bachelor's degree in Computer Sciences (cum laude) from the Technion - Israel Institute of Technology. He has over 40 years of experience in various high-technology industries (military, semiconductor, medical and industrial applications) in research, development and management positions in Israel and the USA. Mr. Glinert founded Interhightech Ltd. (then named TICI Software Systems, Ltd.) in 1982 and was its CEO and then Chairman since its inception. Prior to that, from 1977 through 1982 Mr. Glinert worked for E-Systems Inc. (now a division of Raytheon) on a development program for the Israel Air Force, which was awarded the prestigious Israel Defence Award. From 1972 to 1977 Mr. Glinert served in the Israel Air Force and was honourably discharged with the rank of Major.

UZI LEVAMI
Executive Director and CEO

Uzi Levami has been CEO of the Group since February 2009 and an Executive Director since December 2008. He is also a Director in the Group's subsidiaries, Galatea, Sarin India, Sarine Color Technologies, Sarine Polishing Technologies, Sarin Hong Kong, Sarine Holdings USA, Sarine North America, Sarine IGT H, Sarine IGT I and Sarine IGT JKL. Mr. Levami completed his studies towards a Master's degree in Computer Sciences from the Weizmann Institute of Science and holds a Bachelor's degree in Electrical Engineering (cum laude) from the Technion - Israel Institute of Technology. He is one of the original founders of Sarine and has a long history of founding high-tech companies (Compulite Ltd., Shalev Computer Systems Ltd. and EquipNet Ltd., a start-up spin-off of Interhightech (1982) Ltd.). Prior to becoming CEO of the Group, Mr. Levami held the position of Director of Business Development at MKS Instruments Inc., a publicly-traded US company supplying in excess of $700M of capital equipment to the semiconductor industry, after the company he founded, EquipNet Ltd., was acquired by MKS. In 1992, while at Shalev Computer Systems, Mr. Levami was personally awarded the prestigious Israel Defence Award by then President Chaim Herzog for his endeavours on a development project for the Israel Defence Forces. From 1973 to 1980 Mr. Levami served in the Israel Defence Forces and attained the rank of Major.

NOTE: Mr Levami has decided to step down as Chief Executive Officer of the Group, effective 1 May 2017.

EYAL MASHIAH
Executive Director

Eyal Mashiah is an Executive Director of the Group, appointed to the Board in 1994. He was appointed an Executive Director in December 2008. He is also a Director in the Group's subsidiary, Sarin Hong Kong. He has over 30 years of experience in the diamond and gemstone industries. Mr. Mashiah is the founder and Chairman of Novel Collection Limited (formerly Biram Diamonds Limited), a global leading fancy coloured diamond manufacturer and dealer with offices worldwide in Israel, New York and Los Angeles in the USA, Hong Kong, Beijing and Shanghai in China, Belgium and Thailand. Prior to that, he was involved in the manufacturing, marketing and trading of precious gemstones at Icam-Gems Limited (1982 - 1983), at Algem Limited (1983 - 1987) and at Ramgem

BOARD OF DIRECTORS

Limited (1987 - 2006). Mr. Mashiah also initiated, and is a director in, a unique investment fund, the Novel Fund based in Hong Kong, which allows accredited investors to invest in and benefit from the appreciation in price of unique high-value specially selected polished diamonds. In addition to these industry-related activities, Mr. Mashiah has also been promoting, executing and operating real-estate projects in Israel for more than 20 years.

AVRAHAM ESHED
Non-Executive Director

Avraham Eshed is a Non-Executive Director of the Group, having been appointed to the Board in April 2006. Between 2010 and 2014 Mr. Eshed was an Executive Director of the Group. Mr. Eshed has over 40 years of experience in the diamond and gemstone industries. He is the founder of Gemstar Ltd. and Eshed Diam Ltd., and serves as the President of both companies. Mr. Eshed is also a founding member of the International Colored Gemstone Association (ICA) where he served as a Director. He is President of the Israel Emerald Cutters Association and the Vice President of the Israel Diamond Manufacturers Association (IsDMA) as well as a member of its Executive Committee. Mr. Eshed has been recognised as an outstanding exporter by the State of Israel and was presented with awards by President Ephraim Katzir in 1977 and again in 1989 by President Chaim Herzog. In 2011 he was recognised and cited as an outstanding exporter to Asia.

EHUD HAREL
Non-Executive Director

Ehud Harel is a Non-Executive Director of the Group, appointed to the Board in 2004. He has over 30 years of experience in the gemstone industry, having dealt with the evaluation and purchase of rough stones as well as the wholesale and worldwide distribution of polished gemstones, branching into the manufacturing and dealing of polished diamonds since 2008. Mr. Harel is a member of the Israel Precious Stones and Diamonds Exchange Ltd., as well as a member and acting director in the International Colored Gemstone Association (ICA).

HANOH STARK
Non-Executive Director

Hanoh Stark has served on our Board since 1989 and was an Executive Director of the Group until January 2009. He studied Electrical Engineering at the Technion in Milan, Italy. Mr. Stark is a member of the Israeli Diamond & Coloured Stone Bourse and also a member of ICA, the International Colored Gemstone Association. He has over 40 years of experience in the gemstone mining, manufacturing and trading industries, including in the development of technology-based aids and systems.

CHAN KAM LOON
Lead Independent Director

Chan Kam Loon is an Independent Director of the Group and was appointed to the Board in March 2005. He holds a degree in Accountancy from the London School of Economics and is a qualified Chartered Accountant with the Institute of Chartered Accountants in England and Wales. From July 2001 to July 2004, Mr. Chan headed the Listings Function of the Markets Group at the Singapore Exchange. Before that he spent 10 years in investment banking and in private equity funding within the ASEAN region. Mr. Chan was a member of the Singapore's Accounting Standards Committee, Singapore Zhejiang Business Council and also Singapore Shandong Business Council. Aside from serving on Sarine's board, he is a Non-Executive Independent Director of several other companies listed on the Singapore Exchange.

YEHEZKEL PINHAS BLUM
Independent Director

Yehezkel Pinhas Blum is an Independent Director of the Group and was appointed to the Board in March 2005. He holds a Bachelor's degree in Economics and Business Administration from the Bar-Ilan University in Ramat Gan, Israel. As of the end of 2015, in continuation to his having served from 2003 until 2011 for four terms and from 2013 to 2015 for an additional term (between 2011 and 2013 Mr. Blum was subject to a mandatory two-year hiatus), Mr. Blum is a Member of the Board and the Executive Vice President of the Israel Diamond Exchange in Ramat Gan, Israel. He is Chairman of the Banking and Tax committees, responsible for liaison with the various banks operating in the exchange and with the tax authorities pertaining to issues of concern to exchange members (during previous Board memberships he served as a Vice President and the Chairman of various committees, including Budget, Finance and Legal). Prior to that Mr. Blum was Chairman of the Exchange's Audit Committee and a lead Arbitrator in various mediations. He has 30 years of diamond and gemstone manufacturing and trading experience. Prior to that, from 1980 to 1983, he was an economist with the United Mizrachi Bank Ltd and was responsible for managing the bank's economic research unit and advising the bank's management with regard to new investments and business opportunities.

VALERIE ONG CHOO LIN
Independent Director

Valerie Ong Choo Lin is an Independent Director of the Group and was appointed to the Board in March 2005. She graduated with a Bachelor of Law (Honours) from the National University of Singapore in 1987 and obtained a Master's in Law (with Distinction) from the London School of Economics in 1991. Ms. Ong heads the Corporate Finance Practice at Dentons Rodyk & Davidson and has been a practicing lawyer since 1988, specialising in corporate finance (including initial public offerings) and mergers and acquisitions. She is ranked in Chambers Asia Pacific 2017 and has been cited in numerous lawyers' publications, including IFLR1000 Leading Lawyer 2016 for Mergers and Acquisitions. Valerie served on the Singapore Income Tax Board of Review until 2013 and is an Independent Director of Chemical Industries (Far East) Limited (a company listed on the Mainboard of the Singapore Exchange).

KEY MANAGEMENT

Uzi Levami

David Sydney Block

William ("Bill") Kessler

Abraham Meir Kerner

Uzi Levami has been CEO of the Group since February 2009 and an Executive Director since December 2008. He is also a Director in the Group's subsidiaries, Galatea, Sarin India, Sarine Color Technologies, Sarine Polishing Technologies, Sarin Hong Kong, Sarine Holdings USA, Sarine North America, Sarine IGT H, Sarine IGT I and Sarine IGT JKL. Mr. Levami completed his studies towards a Master's degree in Computer Sciences from the Weizmann Institute of Science and holds a Bachelor's degree in Electrical Engineering (cum laude) from the Technion - Israel Institute of Technology. He is one of the original founders of Sarine and has a long history of founding high-tech companies (Compulite Ltd., Shalev Computer Systems Ltd. and EquipNet Ltd., a start-up spin-off of Interhightech (1982) Ltd.). Prior to becoming CEO of the Group Mr. Levami held the position of Director of Business Development at MKS Instruments Inc., a publicly-traded US company supplying in excess of $700M of capital equipment to the semiconductor industry, after the most recent company he founded, EquipNet Ltd., was acquired by MKS. In 1992, while at Shalev Computer Systems, Mr. Levami was personally awarded the prestigious Israel Defence Award by then President Herzog for his endeavours on a development project for the Israel Defence Forces. From 1973 to 1980, Mr. Levami served in the Israel Defence Forces and attained the rank of Major.

NOTE: Mr Levami has decided to step down as Chief Executive Officer of the Group, effective 1 May 2017.

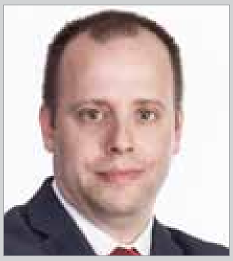
David Sydney Block has been the Group's Deputy CEO and Chief Operating Officer (COO) since 2012, with responsibility for worldwide operations, worldwide sales, including the network of subsidiaries and distributors/resellers, and customer care. He is also a Director in the Group's subsidiaries, Galatea, Sarin India, Sarine Color Technologies, Sarine Polishing Technologies, Sarine Holdings USA, Sarine North America, Sarine IGT H, Sarine IGT I and Sarine IGT JKL. Prior to this appointment, from June 2009, Mr. Block was Deputy CEO and VP of Sales responsible for overseeing the Group's worldwide sales, including its network of distributors/resellers and subsidiaries. Prior to that, beginning January 2006, Mr. Block was the CEO of Sarin India in charge of the overall management of the operations and business in India, responsible for over 70% of the Group's revenues and the supervision of over 200 employees. Before being assigned to Sarin India, Mr. Block was a Product Manager responsible for all the products aimed at the diamond manufacturing market, commencing 2001. Prior to joining the Group, Mr. Block worked at several major Israeli high technology companies in the management of large-scale development projects, computer programming, quality assurance and technical writing positions.Mr. Block holds an MBA from the Kellogg-Recanati School of Business, a joint degree from Northwestern University in the USA and Tel Aviv University in Israel, and a Bachelor's degree in Computer Science from the Tel Aviv-Jaffa Academic College in Israel.

NOTE: Mr Block has been appointed Chief Executive Officer of the Group, effective 1 May 2017.

William Kessler has served as the Group's Chief Financial Officer since May 2009. He is also a Director in the Group's subsidiaries, Galatea, Sarin India, Sarine Color Technologies, Sarine Polishing Technologies, Sarine Holdings USA, Sarine North America, Sarine IGT H, Sarine IGT I and Sarine IGT JKL. He has over 25 years of corporate and Wall Street experience, working with publicly-traded and private companies in Israel and the United States. From July 2006 until May 2009, Mr. Kessler served as the Principal Finance and Accounting Officer (CFO) of XTL Biopharmaceuticals Ltd. (Nasdaq: XTLB; LSE: XTL and TASE: XTL) and was previously its Director of Finance as of January 2006, having served as a financial consultant to XTL during 2005, when he spearheaded the process of listing XTL for trading on the Nasdaq. From October 2003 until December 2005, he served as a financial consultant to Keryx Biopharmaceuticals, Inc. (Nasdaq: KERX), following the relocation of its headquarters to New York, after having served as their Controller in Israel from 2001 until September 2003. From 1996 to 2000, Mr. Kessler served as Chief Financial Officer for Interhightech (1982) Ltd. While on Wall Street, he worked as a research analyst at Wertheim Schroder & Co., covering media and entertainment companies. Mr. Kessler holds a Bachelor's degree (magna cum laude) in Economics and Mathematics from Yeshiva University, and a Masters of Business Administration from Columbia University, both in NY, USA.

Abraham Meir Kerner has served as the Group's Vice President of Research and Development since March 2009 and as Chief Technological Officer since 2004. He is primarily responsible for developing our technological base and the development of new products. Prior to 2004, Mr. Kerner was our R&D manager for nearly a decade, having joined the Group in 1995. Prior to joining the Group, Mr. Kerner worked for companies related to the Group, where he accumulated 15 years of engineering experience and was involved for 10 of those years in the development of precision motion control systems and accurate measuring machines for diamonds. Between 1989 and 1995 Mr. Kerner worked for Shalev (founded by Mr. Levami, the Group's current CEO) and then Interhightech (founded by Mr. Glinert, the Group's current Chairman, into which

KEY MANAGEMENT



Ron Ben–Ari

Tzafrir Yehuda Engelhard

Yosef Vax

William Weisel

Shalev was merged in 1993) on the original DiaMension™ and the DiaCenter™, the first automated computerised centering system for rough diamonds for bruting (a now discontinued product of the Group). From 1986 through 1989 while at Shalev, Mr. Kerner participated in the Group's original development project – the Robogem™, an automated system for planning and shaping non-diamond gemstones. Before that, from 1980 through 1986 Mr. Kerner worked for another of Mr. Levami's start-ups – Compulite. Mr. Kerner holds a Bachelor's degree in Electrical Engineering from the Technion - Israel Institute of Technology.

Ron Ben-Ari is the Vice President of Product Management, responsible for all of the company's products. From 2013 through 2016 he was first the Director, and then Vice President, of Diamond Manufacturing Activities for the diamond industry midstream, including the Galaxy™ family of inclusion scanning solutions, rough diamond planning products, laser sawing and shaping systems, polishing quality aids and polished diamond Cut finishing and grading solutions. From 2005 to 2013, Mr. Ben-Ari acted as the Product Manager of the rough diamond planning group of products (the DiaExpert™ and Advisor™ product lines) and managed the Galaxy™ family of products during their first two years and participated in their launch, initial marketing drive and acceptance, ongoing development, etc. Prior to that, since joining Sarine in 2003, Ron Ben-Ari managed the Quality Assurance team in Sarine, responsible for testing all of Sarine's products. Mr. Ben-Ari holds an MBA from the Kellog-Recanati School of Business, a joint degree from Northwestern University in the USA and Tel Aviv University, and a Bachelor's degree in Computer Science from the IDC College in Israel.

Tzafrir Yehuda Engelhard is the Group's Vice President of New Business Development. Tzafrir earlier served as the Group's Vice President of Business Development Polished Diamonds Trade from 2013 through 2016, and the Director of Business Development since 2010. During 2009 (cut short for personal reasons), Mr. Engelhard was the CEO of Sarin India in charge of the overall management of the operations and business in Sarin India, and, specifically, the launch of Sarine's first Galaxy™ inclusion mapping service centre in India. Prior to that, Mr. Engelhard served as a Product Manager, responsible for several of the Group's products. Prior to joining Sarine, from 2007 to 2008, Mr. Engelhard worked at eTouchware, a software company that provides solutions for secure and efficient file transfers over the Internet, and, from 2004 to 2007, at Cognitens Ltd. (later purchased by Hexagon Metrology Inc.), a company that developed and sold high precision non-contact measurement devices to the worldwide automotive market. Mr. Engelhard holds an MBA from the Hebrew University of Jerusalem, with specialisation in marketing strategy, and a Bachelor's degree in Optomechanics Engineering from the Technion – Israel Institute of Technology.

Yosef Vax has served as the Group's Vice President for Operations since 2001 and was Chief Operating Officer from March 2009 through 2011. He is responsible for production, purchasing, logistics and quality control at the Israeli parent company. He is an Electronics Practical Engineer, holding a degree from Tel Aviv College in Israel and is also a Certified Quality Manager from the A.L.D College for Certified Managers for Quality in Israel. Prior to joining the Group, Mr. Vax spent over 15 years in various quality control management and inspection positions, in charge of quality control processes, inspection of electronics, electro-optics, optics and mechanical sub-assemblies and components manufacturing and customer care.

William Weisel has served as the Group's general counsel since August 2016. In this role, Mr. Weisel is responsible for the Group's legal matters, with an emphasis on its core business transactions, new business development, intellectual property protection and employment issues. Prior to his employment by Sarine, among other legal services and business development activities, Mr. Weisel served from 2007 to 2014 as VP & General Counsel of Lumenis Ltd. (Nasdaq: LMNS), a global medical device manufacturing company; from 2001 to 2004 as VP & General Counsel of Gilat Satellite Networks Ltd. (Nasdaq: GILT), a global satellite telecommunications company; from 1999 to 2001 as General Counsel of ADC Teledata Israel Ltd., a telecommunications hardware manufacturer; from 1992 to 1999 as General Counsel of Scitex Corporation Ltd. (Nasdaq: SCIX), an innovator and manufacturer of digital printing graphics equipment; and from 1982 to 1986 practiced law as a litigator in Los Angeles, California at the firm of Jeffer, Mangels, Butler & Marmaro. In addition, since 2013 Mr. Weisel has been a lecturer at the Haifa University Graduate School of Management and teaches a course called, "Business & Law Convergence" to MBA students. Mr. Weisel is the author of an article entitled, "Deal Breaker to Deal Maker" published in 2015 by The Legal 500 in its publication, GC–General Counsel Magazine. Mr. Weisel holds a Bachelor of Arts degree in political science from the University of California, Los Angeles (UCLA) and a Juris Doctor degree from Loyola University School of Law in Los Angeles and is admitted to practice law in California and Israel.

KEY MANAGEMENT

Ran Ziskind

Rajesh Rasiklal Kothari

Beenita Ritesh Chaurasia

Sudhir Narasinga Rao

Ran Ziskind has been the General Manager of Galatea Ltd. since 2004, being one of its founding entrepreneurs. Mr. Ziskind is in charge of the ongoing development and manufacturing at Galatea as well as the operation of the Group's service centre activities. Prior to founding Galatea, he accumulated 12 years of experience in high-tech industries at various positions, from design engineer to management. Between 2001 and 2003 Mr. Ziskind served as the General Manager of Atomic Hydrogen Technologies Ltd., a company which develops equipment for the semiconductor industry. Prior to that, from 1997 through 2001, Mr. Ziskind worked for Eureka, a company that did subcontracting of mechanical design services. At Eureka he held a plurality of positions, from Design Engineer to Project Manager. Mr. Ziskind is a graduate of the Mechanical Engineering program from Zur Teffen, an academic institute founded by the world-renowned industrialist, Mr. Stef Wertheimer, and holds a Bachelor's degree in Chemistry and Management from the Open University of Israel.

Rajesh Rasiklal Kothari has been the General Manager of Sarin India since 2013. He is in charge of the overall management of the operations and business in India, with emphasis on the launch of polished diamond products and services, continued aggressive promotion of the Galaxy™ family of inclusion mapping products and services to an even broader range of players in the manufacturing industry, along with, and leveraged on, the consolidation of the Group's planning products' dominant position. Mr. Kothari has over 25 years of experience working in the diamond industry. Prior to joining Sarin, Mr. Kothari was Head of Global Manufacturing (diamond division) for Shrenuj & Co. Ltd. for 3.5 years. He was responsible for overseeing the Group's worldwide manufacturing of polished diamonds and in this role, through integration of new technologies and other skill level improvements, he achieved new benchmarks in quality, productivity and cycle time reductions. From mid-1988 through mid-2009 Mr. Kothari served as Head of Manufacturing at R. Kantilal & Co. During this period he specialised in the procurement of rough diamonds from mining companies through tenders, as well as in the open market. From May 2000 until May 2003 Mr. Kothari was Head of Operations at the Munic Gems Group and was tasked with establishing an export oriented jewellery unit. He was also instrumental in getting BEM certification (a Rio Tinto initiative) for the company. Mr. Kothari holds a first class Bachelor's degree in Commerce from Lala Lajpatrai College of Commerce and Economics, Mumbai University and certificates from the GIA and IGI labs for successfully completing Diamond Grading and other courses. He has been actively involved in the development of technology, testing of machine prototypes and process improvement initiatives with grading laboratories and equipment manufacturers and has addressed various industry forums and seminars as a speaker on these and other issues.

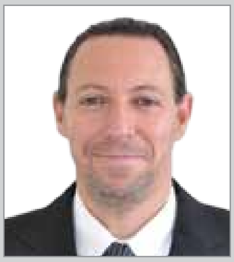
Beenita Ritesh Chaurasia has been the Vice President of Sales, Sarin India, since 2010. Ms. Chaurasia is responsible for all pre- and post-sale activities relating to the Group's products in India. Prior to this appointment, Ms. Chaurasia had been employed by Sarin India since 2004, initially as a junior sales person and over time with ever increasing managerial responsibilities. Prior to her employment with Sarin India, from 2001 through 2003 she was employed by Pyramid Exports in various positions pertaining to business administration, manufacturing administration and exports of cosmetics, skin care and personal care and perfumery products to international markets. She holds a Master's of Business Administration degree (MBA) with distinction, having finished first in her class, from the Jamnalal Bajaj Institute of Management Studies (Mumbai University), with a specialisation in marketing. She also holds a Master's degree in Commerce from Mumbai University, also with distinction. Ms. Chaurasia holds a Bachelor's degree in Commerce from K.P.B Hinduja College in Mumbai.

Sudhir Narasinga Rao has been Vice President of Finance, Sarin India, since July 2012. He has over 25 years of corporate finance experience, working with local conglomerates and multinational companies in India. From January 2000 through June 2012, Mr. Rao served as Director of Finance (and on the Board of Directors) of Firmenich Aromatics (India) Private Limited, an Indian subsidiary of a Swiss multinational company in the flavour and fragrance industry, where he led the finance and accounting team. He was part of the core team which set up the first chemical plant in India for the Firmeinch group in the special export zone in the state of Gujarat (where Surat, India's primary diamond manufacturing industry hub, is also located). Prior to that, from 1998 through 1999 he served as General Manager of Finance for Mphasis (India) Limited, a software development company, now a part of the Hewlett Packard group, where he was also part of the core team which set up the start-up company in India. From mid-1987 through 1998 Mr. Rao served as Divisional Manager of Finance for KEC International Limited, a tower manufacturer and transmission line turnkey project contractor, where he began his career as a management trainee. Mr. Rao is a qualified Chartered Accountant from the Institute of Chartered Accountants of India and holds a Bachelor's degree in Commerce from Mumbai University.

KEY MANAGEMENT

Rajeshwari Homi Mehta

Michael Goren



Alon Shafir

Brad Campbell

Rajeshwari Homi Mehta has been Vice President of Business Development Polished Diamond Trade of Sarin India, since 2013. Ms. Mehta is responsible for all activities relating to the Group's new polished diamond products and services in India. Prior to this appointment, during 2010 Ms. Mehta took personal leave and then, from 2011 through 2012 she consulted for the Group on its conceptualisation of its polished diamond strategies, doing market research and product testing in India, the U.S. and Hong Kong. Prior to 2009, Ms. Mehta served as Vice President of Sales at Sarin India from 2004, when the Group's Indian subsidiary was established. Prior to joining the newly established Sarin India, she was employed by the Company for two years doing various market surveys in India. From 1999 to 2002, Ms. Mehta was the Vice President of Marketing at Sahajanand Technologies P. Limited, at that time our Indian distributor, where she led the marketing team tasked with the sales of our Group's products in India. Ms. Mehta holds a Master's degree in Organic Chemistry and a Masters in Business Administration (MBA) from the South Gujarat University, India.

Michael Goren has been the Managing Director of Sarin Hong Kong Limited (responsible for the Asia-Pacific region excluding India) since early 2015, with his emphasis being on expanding the penetration of Sarine's polished diamond solutions for retailers and suppliers in his area of responsibility. Michael has more than 20 years of global experience in various industries and geographies, in operations and business development. Prior to joining Sarine, from April 2012 until March 2015, Michael was based in Singapore while managing a Hewlett Packard (Nasdaq:HPQ) Asia-Pacific business unit comprising 120 managers and professionals across the region. From January 2011 until April 2012, Michael was employed by Orbotech (Nasdaq:ORBK) as a Business Processes Manager, implementing corporate initiatives and processes in the Asia-Pacific region to better cater to this important market. Michael also spent many years working in Israel, the USA and Australia in various customer interfacing leadership roles, mainly at Elbit Systems (Nasdaq: ESLT) between 1995 to 1997 and Orbotech (Nasdaq: ORBK) from 1997 through 2004, where he was sent from its regional California office to manage the New York facility and later assumed an operations management role in their corporate U.S. headquarters in Boston. From 1991 until 1995 Michael served in a special technological unit in the Israeli Air Force. Michael participated in an Executive Leadership program at Stanford University, focusing on business innovation and transformation, holds an MBA in International Business (focus on the Asia-Pacific region) from Flinders University, Australia, a Bachelor's degree in Computer Information Systems from Southern New Hampshire University, USA, and an Associate degree in Electronic Engineering from the Technion - Israel Institute of Technology.

Alon Shafir was appointed General Manager of Sarine North America in 2016. Mr. Shafir joined the Sarine Group in 2014, as a Diamond Research Expert and was part of Sarine's research team working on the automated solutions for Color and Clarity grading. Before joining Sarine, Alon spent four years in New Zealand as an independent dealer of fancy colour diamonds. Prior to that Mr. Shafir served as the General Manager of the European Gemmological Center (EGC) in Israel for almost 10 years, responsible for the definition and introduction to the international market of Gemewizard, patented software for online definition and communication of colour in gemstones and fancy coloured diamonds. Mr. Shafir also served in Business Development for the College of Gemmology for two years establishing consumer service protocols and formalising quality control procedures. Mr. Shafir holds a Bachelor's degree in Law (LLB) from the Shaari-Mishpat College in Israel (and was admitted to the Israeli Bar Association in 2007) and a Gemmology Diploma GG from the Gemological Institute of America (GIA).

Brad Campbell has been the VP Sales of Sarine North America since April 2015 with responsibility for all polished diamond products and services sales in the region, with emphasis on Sarine Profile™ and its related products (i.e, DiaMension™HD, Sarine Light™, Sarine Loupe™, Sarine Connect™, etc.). Mr. Campbell came to Sarine with over 35 years of experience in the U.S. retail jewelry business in sales, administration, management and business development. Prior to joining Sarine, in 2013 he established the consulting firm Innovative Core Solutions that provided a wide range of services to both jewelry retailers and wholesalers. From 1995 to 2013 Mr. Campbell served as the President and Vice President of Merchandising of Mountain West Jewellery, a chain of retail jewelry stores in the western United States, having worked his way up through positions such as General Manager, special events coordinator and diamond buyer. From 2001 through 2013 he served, the only non-owner ever to do so, on the Buying Committee for the Leading Jewelers Guild where he built brands and developed market strategies and support organisations. From 1985 to 1995 Brad worked as a regional supervisor for Barry Jewelers, where he managed 18 stores in different capacities, and was also responsible for merchandising and marketing. From 1981 to 1985 Mr. Campbell was a store manager for the same Mountain West Jewelry chain in which he would later serve as President after working as an assistant manager and a salesman there. From 1980 to 1981 he worked as a regional trouble shooter and store manager rebuilding stores for Chess King, a division of the Melville Corporation. From 1979 to 1980 Mr. Campbell attended Central Oregon Community College and Eastern Oregon State College studying Business Management.

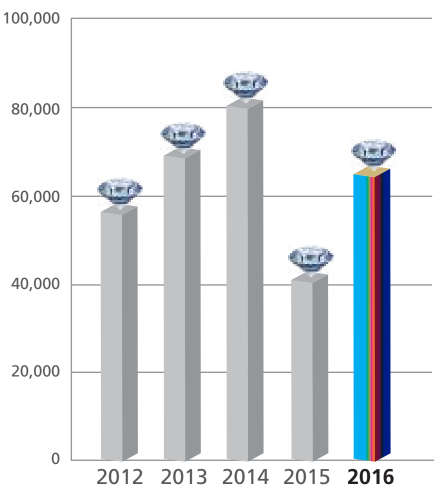
FINANCIAL HIGHLIGHTS

Financial Year Ended 31 December

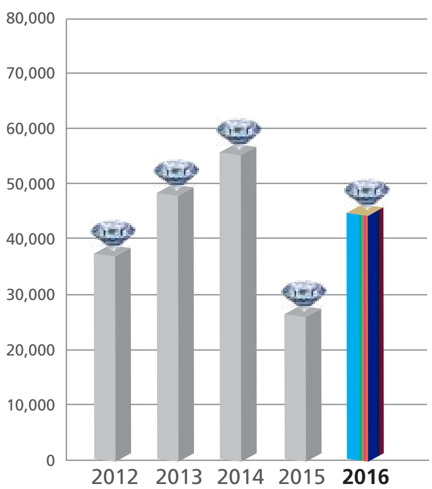
(US$ '000)	2012	2013	2014	2015	2016
Revenues	63,750	76,369	87,770	48,453	72,524
Gross Profit	43,388	54,583	61,903	32,549	50,289
Net Profit	20,755	23,888	27,230	3,587	17,980
Gross Profit Margin	68.1%	71.5%	70.5%	67.2%	69.3%
Net Profit Margin	32.6%	31.3%	31.0%	7.4%	24.8%
Cash and Investments (no debt)	36,787	33,059	45,497	32,596	37,987
EPS (US cents, fully diluted)*	6.03	6.87	7.70	1.02	5.14
Dividend Per Share (US cents)*	4.50	6.00	5.00	3.00	4.50
EBITDA	27,968	33,881	37,854	9,539	25,070

* Adjusted for bonus issue in May 2012

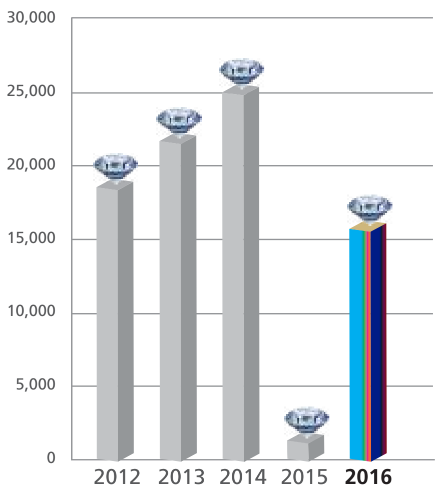
Revenues (US$ '000)



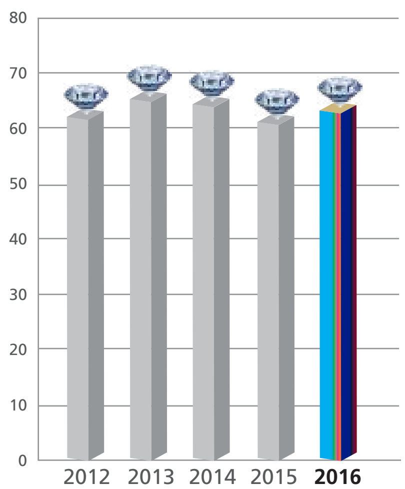
Gross Profit (US$ '000)



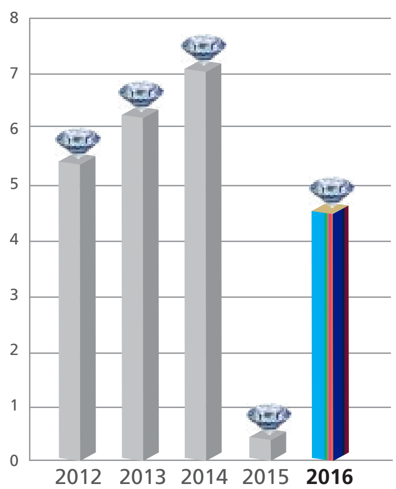
Net Profit (US$ '000)



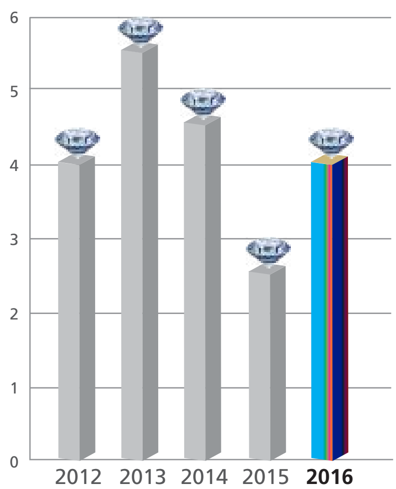
Gross Profit Margin (%)



EPS (US cents)



Dividend Per Share (US cents)



MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

THE DIAMOND INDUSTRY

Diamonds have long been entwined in culture as symbols of love, commitment and eternity. Consistent advertising campaigns by the diamond industry have historically reinforced these notions among consumers. This consumer demand drives an extensive industry of mining, polishing, certification and wholesale and retail trading, on which our Group capitalises.

Rough diamonds go through a series of inspection, planning, sawing (cutting), shaping (sometimes, if round, referred to as "bruting"), polishing (faceting) and fine-polishing processes to turn them into retail-ready polished diamonds. Traditionally, rough diamonds were processed into polished ones manually by an elite group of skilled experts, mostly within families.

We believe Sarine has revolutionised the diamond polishing/manufacturing industry by introducing computer-based technology to automate many of the processes of this highly specialised expertise. This has, in turn, contributed to the migration of the manufacturing from historic polishing centres in developed countries (e.g., Antwerp, Amsterdam, New York, Ramat Gan) to lower labour-cost centres, primarily India, and, to a lesser extent, China and the southern African countries (mainly Botswana, Namibia and South Africa). The diamond cutting industry's turnover was valued at approximately US$ 19.2 billion in 2015 (the latest full year for which data are available), with added value of some US$ 4 billion.

MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

The cost of rough diamonds is extremely high and the polishers' typical margins very low. Hence even single-digit percentage yield increases or cost savings translate into a significant impact on their profits. Sustained by this basic constraint, the Group has been successful, over the years, in introducing reliable and efficient yield-increasing and cost-saving technologies, which the global diamond industry has proven eager to adopt. The combination of these technologies has redefined the art of polishing diamonds. They have pushed the optimally achieved yield of the polished stone(s) weight from some 40% of the rough stone's weight to over 50%, an approximate 25% benefit. They also actually allow the manufacturer to select planning options which best suit the actual markets at any given time, trading off between weight (size – more sought in US markets) and quality (Clarity – more sought in Asia Pacific markets).

Similarly, because of the high value of polished diamonds, adhering to the established standards of quality, as measured by a diamond's four Cs (Carat, Colour, Clarity and Cut) is important. The results typically obtained from the manual grading inspection of a diamond can often vary, depending on the expert conducting the evaluation. As a result of the subjectivity inherent in manual inspections, technology has evolved as a major contributor to the standardisation of a diamond's grading, and the Group has been at the forefront of introducing polished diamond grading technologies for more than two decades.

Our Markets

Historically, the Group has focused on products and services for the assessment, optimal planning, sawing, cutting, shaping and polishing of rough diamonds for the manufacturing and wholesale trade segments of the diamond industry, often referred to as the "midstream":

- The unmatched Galaxy™ family for internal inclusions scanning and mapping in rough diamonds – the Galaxy™ 1000 / 2000 systems for diamonds 2.5 to 20+ carats in size, the Galaxy™ Ultra for high resolution microscopic-level inspection, the Galaxy™ XL for large stones up to 200+ carats, the Solaris™ for stones of 0.9 to 2.5 carats in weight and the Meteor™ for even smaller stones of 0.2 – 0.9 carats;

- The DiaExpert™ family of platforms and the Advisor™ software for planning the optimal utilisation of rough diamonds - DiaExpert™, DiaExpert™ Atom, DiaExpert™ Nano 6.5, DiaExpert™ XL, DiaExpert-Eye™, DiaScan™ S+, DiaMobile™ XL and DiaMark™ Z for varying sizes of rough stones from 100 carats down to several points; and

- The 3rd-generation Quazer™ 3 green-laser system and the Strategist™ setup station, the industry's most cost-effective high-end solution for the laser cutting and shaping of rough diamonds.

India is by far the leading diamond manufacturing centre, accounting for some 90% of all stones polished worldwide by stone count (80% by value). China is the second most important polishing centre globally. Though many resources have been invested in the development of an indigenous polishing industry, the southern African countries have yet to emerge as significant rough diamond processing centres.

Sarine has a market presence in both established and emerging diamond manufacturing centres. A key development for us in 2004 was the establishment of Sarin Technologies India Private Limited, our wholly-owned subsidiary. With pre- and post-sales operations in the key diamond processing centres of Mumbai and Surat, we now have direct control over the business direction and marketing of our products in the key Indian market. In 2009, we inaugurated a service centre in Surat, India which provides our customers in India with Galaxy™ internal inclusion detection and mapping and Quazer™ laser cutting services. A second service centre in India was opened in Mumbai in the beginning of 2012. These service centres generate a recurring revenue stream, as do the bulk of the Galaxy™ systems acquired by customers, due to the unique business model we have implemented based on an ongoing per-carat use charge.

The diamond manufacturing centres of southern Africa also have potential for expanding our product sales. Sarine has taken steps to strengthen its market presence in these markets. The appointment of an agent in South Africa initially in 2005 was followed by expansion in 2008 into the strategic Botswana market (whose importance has grown markedly since DeBeers relocated its activities there from London) and the appointment of a dedicated agent in Namibia in early 2012. During 2011 and 2012 service centres for automated internal inclusion detection and mapping, planning and sawing services were opened in all these countries, as well.

A strategic decision taken in 2010 was to expand our product and service offerings into the wholesale and retail trade of polished diamonds, the "downstream", targeting this industry segment as our primary market for strategic expansion. While as the midstream typically adds US$ 4-6 billion in value, the downstream portion of the industry holds significant growth potential for the Group because its added value is ten times that figure – more than US$ 56 billion in 2015. And, whereas the average profit margin in the midstream is single-digit percentages, the margins realised by high-end retailers start with low double-digits and are often substantially higher, with the downstream overall generating about half of the profits realised in the entire industry value-chain.

The global personal luxury goods retail trade exceeded US$ 275 billion in 2015 with real growth of some 2% year over year. Chinese consumers (many of them buying overseas, primarily in Japan and Europe) are the single largest market for personal luxury goods (31%), followed by the U.S. (24%) and Europe (18%), where sales are, in fact, largely to tourists. The luxury diamond jewellery trade in 2015 was some US$ 17.5 billion, with real growth of 6% year over year.

MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

Overall, the global diamond jewellery trade in 2015 amounted to some US$ 75 billion, with the U.S. (some 40% of global sales) and China the two key markets.

In 2014 we opened an office in the U.S. on Diamond Way (47th St. between 5th and 6th Avenues) in midtown Manhattan, the heart of the U.S.'s polished diamond trade. In 2015 we opened an office in Hong Kong, the primary hub of the polished diamond trade in the Asia Pacific region.

The Polished Diamond Trade

The challenges faced by the wholesale and retail diamond trade are multiple:

- "Grading" – current grading criteria are not sufficiently definitive (primarily Clarity) – diamonds need to be manually inspected even by experts in the B2B wholesale trade.

- "Transparency" – again, current grading criteria are not sufficiently definitive and surely not intuitive to the average consumer.

- "Branding" – a growing trend in retail to differentiate high-end products from commoditised standard cuts and stones, and even from mine to consumer (e.g., the Dominion brand in Canada and Alrosa in Russia).

- The "Experience" – today's internet-savvy consumers surf and query social media before buying, though actual sales are still predominately in stores.

- The "Sale" – What a retailer needs to do to actually close the sale of a specific stone (jewellery piece) at a specific price.

Dry tabular non-intuitive data, as formulated in the historic four C's, no longer appeal to, nor convince, the younger generation of internet-savvy buyers. Digital imaging technologies are already recognised by e-tailers and retailers alike as essential marketing and sale tools for polished diamond jewellery and loose stones. Both as a means of branding and for creating the necessary experience, emotions and trust necessary for closing the sale. We thus launched the Sarine Profile™ in 2015, which provides accurate and expansive image and video information pertaining to the offered diamonds' quality and beauty. Using the Sarine Profile™ enables significantly more informative online searches, both B2B and B2C, with a completely new level of transparency, creating the confidence necessary to go forward to the next level in the buying experience.

The Sarine Profile™ subsequently enhances the in-store buying experience by empowering the consumer to make a truly informed decision on the various offered stones, as each stone is shown with detailed intuitive information. With the addition of Sarine Connect™ chains can offer any stone from their entire inventory, regardless of its physically being in the specific outlet or not, as well as create virtual inventory, by reaching back to their suppliers' inventories of stones and settings, pursuant to the necessary authorisations. The Sarine Profile™ is unique in that it allows each retailer, whether online or brick and mortar, to select its preferred imagery from a toolbox of options including various levels of imagery produced by the Sarine Loupe™, light performance grading and video generated by the Sarine Light™, hearts and arrows graphics, Cut proportions graphics, laser inscription viewing, etc., all as derived from our diverse cutting-edge systems described below, along with other user-provided data, such as the stone's gemmological laboratory report, retailer promotional material, etc.

The systems that have been developed to provide these varied data and assist in the sale of diamonds and jewellery both in stores and online are:

The DiaMension™ HD/Axiom proportion and symmetry measuring systems provide geometrical proportions and Hearts and Arrows depictions;

The DiaScribe™ system inscribes polished diamonds with distinct marks such as text, numerals and symbols, whether for branding, personalisation or simply recording the stone's certificate number;

The Sarine Light™, enables the accurate, consistent and quantified measurement of a polished diamond's actual appearance (light performance), in order to add another means by which to value the diamond and its consumer appeal:

- **Brilliance -** the intense bright light that shines from the diamond;
- **Sparkle -** the dramatic flashes that burst out of the diamond as it moves;
- **Fire -** the vivid colours of the rainbow that radiate from within the diamond; and
- **Light symmetry -** the equal distribution of light that reflects from the diamond.

The Sarine Loupe™ imaging system creates high-quality multi-level video imagery, so that a potential buyer of a polished diamond, whether a qualified wholesale trader or a consumer, can truly assess both its beauty and internal features without having the polished diamond physically in hand. At the highest level, Real View, the buyer sees the stone under 3-5 times magnification (depending on the stone's actual size), allowing him/her to assess its true appearance

MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

and beauty, while also verifying, by observing its inclusions, just how eye-clean the stone is. At the next level, Top Inspection, imaged at 5-10 times magnification, the buyer can accurately assess the stone's Cut and Clarity by inspecting the stone in detail, as viewed through its table, exactly as if held up to a traditional loupe. Finally, using 3-D Inspection, with optional virtual zoom, the buyer can inspect the stone at up to 40 times magnification, from virtually 360 degrees in all axes, even better than through a conventional loupe, and truly scrutinise even its minutest details.

Additional capabilities, which will further enhance the polished diamond trade's transparency and provide key objective data are in final testing, to be commercialised in 2017. These include:

- The unique automated mapping of the inclusions in a polished diamond and the objective grading of its Clarity grade, including the fine-sorting of its Clarity in accordance with industry accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table"); and

- The automated and objective grading of a polished diamond's Color grade.

We have also successfully proven that, based on our uniquely accurate and patented light analysis process, as embodied in the Sarine Light™, we can, in fact, fingerprint a loose diamond, which we will offer as an additional capability in the future.

Finally, we also provide retailers with the unique Diamond Assay Service (DAS). DAS is an online service that enables them to verify whether a diamond, typically estate jewellery being offered for trade-in, is really a diamond (albeit without differentiating between natural or synthetic/treated stones) and to ascertain estimated value. It also has the ability to project its maximum potential value, thus allowing the retailers to offer a fair price to their customers wishing to "trade up" their older/inherited jewellery to a modern piece more to their liking.

The commercialisation of all the aforementioned products and services for the polished diamond trade, is based on recurrent revenue models, which has been so successfully adopted for the Galaxy™ family of inclusion mapping systems for rough diamonds.

Sarine Products by Use and Client Type

RELATED ACTIVITY	TARGET CLIENT	SARINE PRODUCTS
Rough diamond evaluation	Rough Wholesaler/ Manufacturer	Galaxy™, Galaxy™ Ultra, Galaxy™ XL, Solaris™, Meteor™, DiaExpert™, DiaExpert™ Atom, DiaExpert™ Nano 6.5, DiaExpert™ XL, DiaExpert™ Eye, DiaScan™ S+, DiaMobile™ XL, Advisor™
Planning optimal cutting of rough diamonds into polished ones	Manufacturer	Galaxy™, Galaxy™ Ultra, Galaxy™ XL, Solaris™, Meteor™, DiaExpert™, DiaExpert™ Atom, DiaExpert™ Nano 6.5, DiaExpert™ XL, DiaExpert™ Eye, DiaScan™ S+,DiaMark™ Z, Advisor™
Cutting rough diamonds	Manufacturer	Quazer™ 3, Strategist™
Shaping rough diamonds	Manufacturer	Quazer™ 3
Optimal polishing of diamonds for best Carat/Cut trade-offs	Manufacturer	DiaMension™ HD, DiaMension™ Axiom, DiaMark™ HD, Instructor™
Diamond finishing optimisation	Manufacturer	DiaMension™ HD, DiaMension™ Axiom, DiaScan™ S+, Instructor™
Polished diamond evaluation according to the 4 Cs and light performance	Manufacturer/ Gemmological Laboratory / Polished Wholesaler and Retailer	DiaMension™ HD, DiaMension™ Axiom, DiaScan™ S+, Sarine Light™, DAS
Polished diamond branding	Manufacturer/ Gemmological Laboratory / Polished Wholesaler and Retailer	DiaScribe™, Sarine Light™, Sarine Loupe™, Sarine Profile™
Polished diamond wholesale and retail trade, online and in-store	Manufacturer/Wholesaler/ Retailer	Sarine Light™, Sarine Loupe™, Sarine Profile™, DAS

MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

Intellectual Property

The products we develop are proprietary in nature. Hence, our ability to remain competitive in the market is also dependent on our ability to protect our intellectual property (IP), in general, and our software, in particular. To facilitate the protection of these intellectual property rights, we have registered numerous patents and trademarks in countries key to our business and several additional patent and trademark applications are pending in various phases. As is normal, several of our patents and trademarks have been disputed by other, competing, players in the industry (just as we dispute patent applications filed by our competitors). Subsequent to having been granted key patents in India for our laser marking and inclusion mapping technologies, we initiated litigation against certain competitors, whom we believed had infringed those patents. We have prevailed in one of these disputes and that competitor now indicates on its relevant products that they contain Sarine licensed technology and an agreed license fee is paid. Similarly, protected under inherent copyrights, we aggressively pursue infringements and pirating of our software packages, primarily the Advisor™ rough planning software. This is a key strategy, as without infringing on the Advisor™'s copyright, it is impossible to utilise any inclusion mapping data other than that provided by our family of inclusion mapping systems. In addition to our assertive intellectual property copyright protection and patent enforcement activities, we have designed and are continuing to design protective technological features into our systems, based on cloud computing technology. Thus, the key image processing software of our Galaxy™ family of inclusion scanning systems, as well as key software components of our newer Advisor™ rough planning software releases, our Sarine Light™ and Sarine Loupe™ imaging systems, the Sarine Profile™ and Sarine Connect™ as well as the new Clarity and Color grading technologies, are all protected from unauthorised use by having key components remotely located on cloud servers rather than installed on the systems.

Objectives

The Group's main objectives for 2017 are:

Continue the market penetration of our Galaxy™ family of inclusion mapping systems, having very successfully launched the Meteor™ system for smaller stone sizes (0.20 - 0.89 carats) commencing Q4 2015 and in 2016;

Maintain our dominant market lead and the overall value proposition embodied in our DiaExpert™ planning systems and Advisor™ software, with which the inclusion mapping systems and Quazer 3 high-end green laser cutting and shaping tools interface, so as to sustain the entry barrier for our competition;

Accelerate (double) the adoption of our cutting-edge imaging technologies (i.e., the Sarine Light™ and Sarine Loupe™) and unique Sarine Profile™ and Sarine Connect™ by the polished diamond trade; and

Commercialise our new automated and objective Clarity and Color grading of polished diamonds.

The latter two will both increase our recurrent revenue stream and balance our business more evenly between the midstream manufacturing segment, mostly in India, and downstream trading segment, mostly in the U.S. and APAC region, so as to create an inherent buffer against a downturn in any single segment, as was experienced in 2015 in the midstream.

Strategy

To realise these objectives, the Group plans to execute these strategies:

Focus the Group's research and development initiatives as follows:

- **Midstream products:** Implement ongoing improvements to our Advisor™ rough planning software to continue to enhance its capabilities and productivity along with refined IP protection. We have completed development of the ability to predict the planned polished diamond's light performance during its planning stage. We are now working on the capability to plan a polished diamond to meet desired light performance grades in general (e.g., Ultimate) or specific grades of specific sub-parameters of light performance (e.g., Ultimate Fire). Completion of the integration of these new capabilities with Advisor™ and our faceting quality control software (Instructor™), so as to allow manufacturers to incorporate light performance into their manufacturing criteria and develop enhanced Cuts based on light performance as well as proportions and symmetry, will be released in Advisor™ 7.0, scheduled for mid-2017.

- **Downstream products and services:**
  - Expansion of our operational infrastructure for Sarine Profile™;
  - Continued enhancement of Sarine Profile™ in order to provide additional capabilities for customer programs, as required, mainly additional shapes – current work continues on less ubiquitous shapes, such as Ovals, Pears, Marquises and Hearts.
  - Further integration of the recently acquired Sarine Connect™ (previously known as DiaMining) technology to enhance Sarine Profile™ with mobile device capabilities, as well as virtual inventory functionalities, while also augmenting Sarine Connect™'s interface with more retail-oriented features.

MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

- – Enhancement of Sarine Profile™ to support the display of jewellery pieces and not only loose polished diamonds. As retail businesses display set jewellery by far more often than loose stones, this will significantly broaden the appeal and applicability of Sarine Profile™.
- – Complete the development of the Clarity and Color grading capabilities, which are in testing, including the software infrastructure necessary for process management, data security, etc.

Focus the Group's marketing efforts on:

- The broadened adoption of the Group's Sarine Profile™ and Sarine Connect™ (with the varied options provided by the Sarine Light™, Sarine Loupe™ and polished diamond proportion analysis systems of the DiaMension™ family) by the wholesale and retail online and in-store polished diamond and jewellery trade; and

- The commercialisation of the new automated and objective Clarity and Color grading capabilities.

Performance Indicators

Non-financial Indicators

We use the following non-financial indicators to assess our Group's performance year-on-year and against our competition's performance:

INDICATOR	PERFORMANCE
Technological Leadership	Our technological leadership, as measured by the innovation embodied in our new and enhanced products and services, as well as by our existing and pending patents worldwide, remains strong. No other company in our field holds a broader portfolio of products and intellectual property for the rough and polished diamond industries.
Estimated Market Share	Given the synergy between the Group's rough diamond planning systems and our unique Galaxy™ family of inclusion mapping products and services, we have clear indications that we have not only managed to retain a dominating market share in 2016, but have actually increased same in all our markets by selling the new Meteor™ system for smaller stones to a new tier of users hitherto not users of Sarine products and services. We have also significantly gained traction for our Sarine Profile™ in the Asia Pacific region while starting to do so in North America, as well.*
Product & Service Offerings	During the year in review we continued work on new products and enhancements for existing products, across all our product lines. We have plans to continue this strategy into 2017 and beyond, with the emphasis being in the midstream on the continued enhancement of the rough diamond inclusion scanning and planning processes for the manufacturing industry. At the intersection between midstream and downstream we aim to be instrumental in the setting of new standards for polished diamond Clarity, Color, Cut and Symmetry grading at gem labs and throughout the trade. In the downstream we plan on enhancing the capabilities embodied in the Sarine Profile™, along with the newly integrated Sarine Connect™ to additional types of polished loose stones and, even more importantly, to set jewellery pieces, so as to broaden these services' appeal to the polished diamond trade.
Brand Strength	Our brand strength allows us to command premium prices for our products in a competitive market. Our brand strength also allows us to leverage our distribution channels to market and sell complementary products to our existing customers, as well as to seek out new ones. We believe our brand continued to strengthen during the year in review. We intend to continue strengthening our brand in 2017, with the broadened commercialisation of our Sarine Profile™ and the commercialisation of our new automated and objective Clarity and Color grading, which will boost consumer recognition of our brand.

* Note: The fact that all other players in our industry are privately-held companies hampers our ability to collect and collate accurate sales data; additionally, no well-known international analysts regularly cover our market for technological tools for the diamond industry, making accurate assessments hard to substantiate.

MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

Financial Indicators

We use the following financial indicators to assess our Group's performance year-on-year. Due to the industry's recovery from extremely negative industry-specific conditions and sentiment in 2015, as elaborated upon in our Annual Report for that year, we are pleased to be able to report on a return to substantial sales levels and robust profitability, as had been the norm in the years before.

INDICATOR	PERFORMANCE
Revenues	Revenues for FY2016 increased by 49.7% to US$ 72.5 million, as compared to US$ 48.5 million for FY2015. This increase in revenues stemmed primarily from increased diamond manufacturing equipment sales, including Galaxy™ family systems, as well as increased recurring revenues from the broader installed base of inclusion mapping systems, underpinned by positive macroeconomics, continued positive and renewed consumer demand for polished diamonds in key markets, a robust supply of rough diamonds at economically viable prices and no inventory overhang. With deliveries in FY2016 of a record 84 Galaxy™ family systems to customers and service centres, significantly more than the previous record of 48 systems delivered in 2014, the Group had an installed base of 299 Galaxy™ family systems as of 31 December 2016. The Group's recurring revenue (including Galaxy™-related, Quazer™ services, annual maintenance contracts, and the Sarine Profile™) constituted approximately 40% of overall FY2016 revenues.
Gross Profit	Gross profit for FY2016 increased by 54.5% to US$ 50.3 million, as compared to US$ 32.5 million for FY2015. For FY2016 the Group recorded a gross profit margin of 69%, compared to 67% in FY2015, due, primarily, to our overall increased revenues.
Operational Profit	Profit from operations for FY2016 surged by 286% to US$ 21.2 million, as compared to US$ 5.5 million in FY2015. For FY2016 the Group's operating margin nearly tripled to 29% as compared to 11% for FY2015. The increase in our operating margin was due primarily to our increased revenues, offset somewhat by our ongoing strategic expenditures on new products and services, primarily for our downstream markets.
Net Profit	For FY2016 the Group reported a net profit of US$ 18.0 million, fivefold the net profit of US$ 3.6 million realised in FY2015. For FY2016, the Group recorded a net profit margin of 25% pointedly more than the net profit margin of 7% in FY2015.

Operating Review

Opportunities

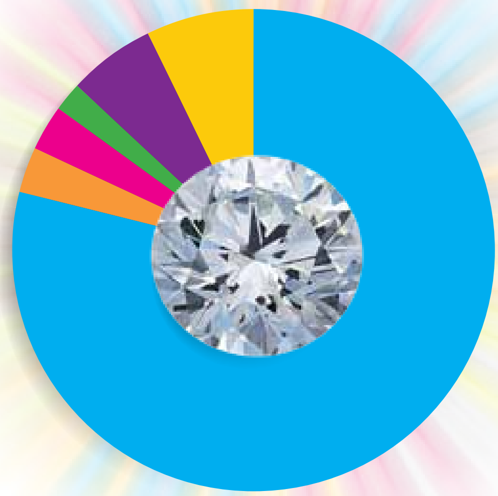
Market-driven Opportunities:

Fundamental global economic indicators continue to be overall positive. In the U.S. diamond jewellery sales during the key Fall 2016 holiday season were slightly weaker than expected, but industry sentiment is, overall, optimistic and positive for 2017. In the second largest market for polished diamond jewellery, China, year-end results were not conclusive, with both positive and negative quarterly results reported by major retailers. Interestingly, Hong Kong's jewellery and luxury sales rose for the first time in more than two years in December 2016, as tourist numbers increased and consumer sentiment improved. Mainland Chinese New Year sales were improved over last year's and sentiment is, again, overall optimistic and positive in China as in the U.S. In other key Asia Pacific (APAC) markets sales remain on a positive track.

Revenue by Geographic Segment

2016 REVENUE BY GEOGRAPHIC SEGMENT

AFRICA **3%**
EUROPE **3%**
INDIA **79%**
ISRAEL **6%**
NORTH AMERICA **2%**
OTHER **7%**



MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

Company-driven Opportunities:

With deliveries in 2016 of a record 84 Galaxy™ family systems to customers and our service centres, the Group had an installed base of 299 Galaxy™ family systems as of 31 December 2016. We delivered a record number of systems in 2016, but looking forward to 2017 we do not necessarily expect that record to be replicated (or broken). Some of the demand may have come from our launch of the Meteor™ under attractive introductory terms, which are no longer offered. Additionally, as of 1 January 2017 we have also updated our pricing of the various models' ongoing use fees, and, as to be expected, this has slowed new orders in the short term, as the market adapts to our new terms.

Sales programs utilising Sarine Profile™ by retailers in the U.S. and the APAC region continue to expand. Programs with retailers in the U.S. are gaining momentum slower than those in the APAC region, due to various reasons including the average quality of stones sold and other corporate and consumer cultural issues. Notwithstanding this, we are seeing a significant growth in interest in the Sarine Profile™ compared to a year ago, with growing momentum both with large regional and national chains and high-end independents. We hope to double the number of stones scanned for the Sarine Profile™ in 2017 and expect its contribution to overall Group sales to be around 5%.

Our new technology for the automated, objective and consistent mapping and identification of a polished diamond's inclusions and the subsequent derivation of its Clarity grade continues in large-scale testing in India, and is on track for commercialisation in Q3 2017. Likewise for the Color grading technology, which is in parallel testing. We are considering various commercialisation avenues based on a recurring revenue model per carat weight of each stone graded. Typical customers could be existing players in this domain – gemmological laboratories, large chain retailers with existing in-house gem labs, large manufacturers who already prefer self-certification, etc.

The Allegro™ system has demonstrated yield benefits for both high-end sophisticated manufacturers and lower-end manufacturing of standard sized stones, where the emphasis is more on accurate dimensions with maximal weight and less on perfection. However, given the significantly longer processing time required by the Allegro™ and the hands-on approach preferred by many cutters, actual market potential is still in question. We have decided to de-emphasise this program in 2017 and focus on our new polished diamond offerings, Clarity and Color grading, as detailed above, which have more immediate upside potential for the Group.

Risk Factors

Notably, positive macroeconomics, continued positive consumer demand for polished diamonds in key markets, a robust supply of rough diamonds at favourable prices and no inventory overhang, reduce the significance of historic industry-specific risk factors for 2017. We have also had no substantial negative impact to date from India's demonetisation program and do not view it as a significant risk factor.

Our success and ability to compete are substantially dependent on our proprietary technology. The steps that we have taken to protect our proprietary rights may not be adequate, and we might not be able to prevent others from using what we regard as our technology. If we have to resort to legal proceedings to enforce our proprietary rights, the proceedings could be costly, and we may not be able to recover our expenses. We may be subject to claims by others regarding infringement of their proprietary technology. Litigation over intellectual property rights exists in the industry. In addition to outstanding legal proceedings, we may in the future be subject to other claims.

We provide reports and depictions of certain diamond qualities and parameters to clients. If a client or another third party, even if we are not contractually bound to such third party, alleges that our report is incorrect or is improperly relied upon, and we are held responsible, we could be subject to monetary damages.

We may be subject to product liability and/or other claims, if people or properties are harmed by the products we sell or the services we offer.

Disruptions, failures or breaches of our information technology and cloud computing infrastructure could have a negative impact on our operations and sales.

As part of our business plan, we intend to develop new product lines for new industry segments and new products in existing product lines, and to expand our marketing and sales efforts in new and existing market segments and geographical areas. There is no assurance that such expansion plans will be commercially successful. If we fail to achieve a sufficient level of revenue or if we fail to manage our production costs effectively, we will not be able to recover our costs, and our future financial position and performance may be materially and adversely affected.

The location of the Company in Israel, and the concentration of its research and development and manufacturing activities there, remains a geopolitical risk factor.

Risk Management & Internal Control

The Audit Committee and Management have analysed these and many more risk factors and have compiled a matrix of risks pertaining to the Company's business and performance, financial management, information technology (IT) and regulatory compliance issues, delineating the severity of their potential negative impairment to the Company and their probability of being realised. Thus, a comprehensive weighted prioritised risk factor list has been derived. The

MANAGEMENT'S BUSINESS, OPERATIONS & FINANCIAL REVIEW

Audit Committee has reviewed the Company's internal controls and their adequacy at addressing the aforementioned risks in general, and has engaged the services of the Internal Auditor for in-depth analyses of key issues on a routine basis. The primary areas that have been so audited in FY2016, and the internal controls fine-tuned appropriately as per the findings of said audits, have been the review of the implementation of the ERP system and payment to vendors in our Indian subsidiary, the building project in Surat India and IP protection in general. A review of collection of trade receivables is in process. In previous years the areas audited were quality control, customer service, inventory purchasing, sales cycle, payment security and information security in Israel, the new building project in Surat, India pre- and post-sale standard operating procedures, payment to vendors, IT information security, purchasing, spare parts inventory, service centre operations, collection of receivables, customer credits, attendance and payroll in India, as well as information control and integration between Sarin India and Sarine Israel. All the findings of said audits have been reviewed by the Board, with appropriate enhancements to the internal controls agreed upon with Management. In many instances (e.g., the building project in Surat, India, service centre operations, IT information security, information control and integration, purchasing, inventory and attendance and payroll), repeat reviews have been executed to verify the necessary corrective actions' due implementation.

The Board of Directors of the Company with the concurrence of the Audit Committee is of the opinion that the current internal controls and risk management system are adequate and effective in addressing the financial, operational, compliance and IT risks, while noting that no system of internal control could provide absolute assurance against the occurrence of errors, cyber-attacks, fraud or other irregularities.

Financial Review

Cash Flow

As at 31 December 2016, cash, cash equivalents and short-term investments (bank deposits) ("Cash Balances") increased to US$ 38.0 million from the US$ 32.6 million reported as of 31 December 2015, following the Group's improved operating results, lower inventory levels and higher payables, offset by the payment of US$ 12.2 million in dividends in 2016 – the US$ 5.2 million final dividend paid in May 2016 for the fiscal year 2015 and the US$ 7.0 million interim H1 2016 dividend paid in September 2016, the US$ 1.2 million purchase in Q2 2016 of DiaMining's app-based point of sale technology for diamonds, gemstones and jewellery (resulting in an equivalent increase in intangible assets), higher trade receivables (on higher recurring revenues and credit to certain customers) and increased fixed assets, primarily due to the Group's soon to be completed construction of its new facilities in Surat, India.

Cash Management and Liquidity

Throughout 2016 the Group maintained cash reserves higher than needed for the financing of ongoing operating activities. The policy dictated by the Board of Directors for the management of these cash surpluses is to invest them in low-risk short-term interest-bearing accounts and instruments with high liquidity, in our working currencies – primarily US Dollars, but also New Israeli Shekels and Indian Rupees. Financial instruments held are classified as current assets. When the cash and investment (short-term deposits) balances are analysed and compared to the annual cash requirements needed for the financing of the ongoing business activities of the Group, it is apparent that the Group has strong liquidity.

Accounting Policies

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards - IFRS. The preparation of financial statements, in conformity with the IFRS, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The financial statements are presented in United States Dollars, which is the Company's functional currency, rounded to the nearest thousand. The accounting policies set out in our yearly financial reports have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently to all Group entities.

For more detailed information on our accounting policies and related explanations, please refer to our Consolidated Financial Statements.

Shareholder Return

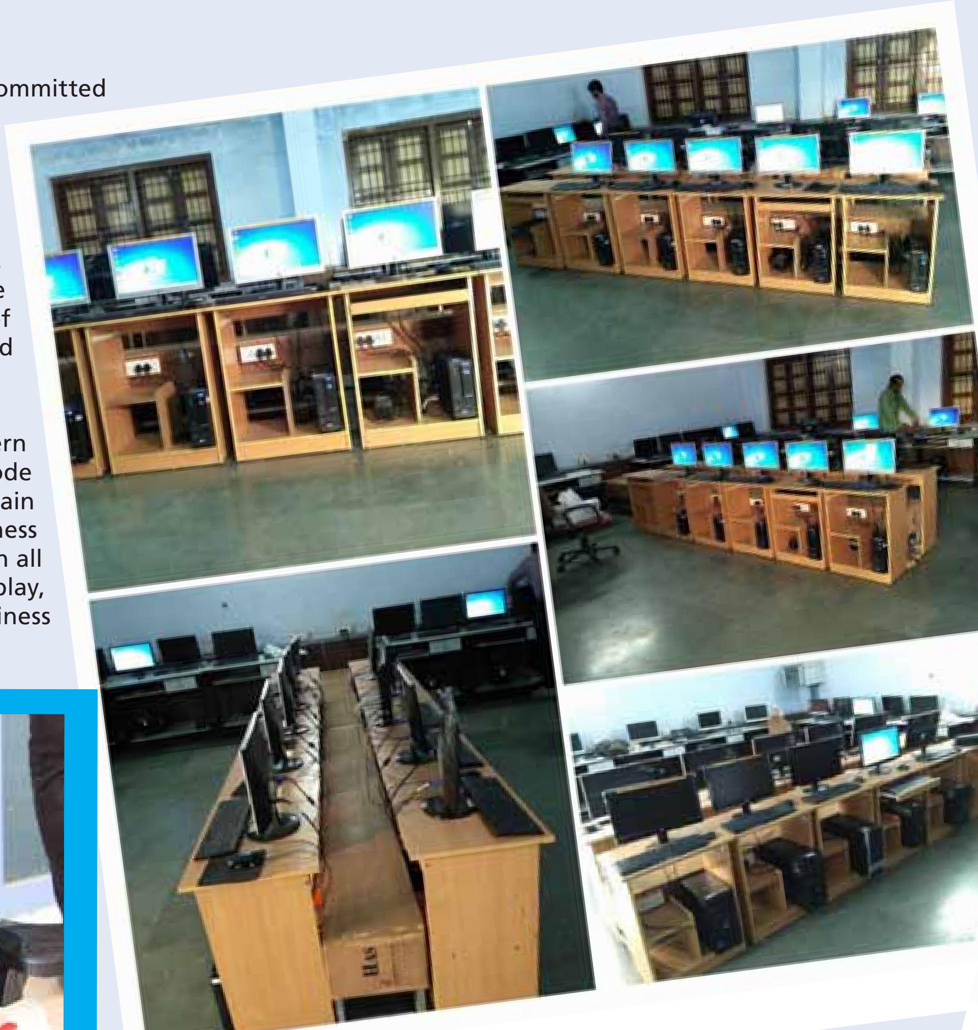
Sarine is a profitable company. During FY2016 the Company earned US$ 18.0 million, equivalent to basic earnings per share of US cents 5.14 (1.03 in FY2015) and fully diluted earnings per share of US cents 5.14 (1.02 in FY2015).

For FY2016, the Group's dividend policy provided for the distribution of US cents 2.0 on a semi-annual basis as a dividend to its shareholders. As per the policy, the Company paid an interim dividend of US cents 2.0, approximately US$ 7.0 million in total, in September 2016, and will pay (subject to approval at the Annual General Meeting on 25 April 2017) a final dividend of US cents 2.5 per share, 25% more than the stated policy, an estimated US$ 8.8 million, amounting to approximately US$ 15.8 million in total for the year. This sum constitutes over 87% of our net earnings for the year and demonstrates Management's and the Board's belief that FY2017 will continue to show robust activity with the commensurate revenues and profitability demonstrated by the Group in FY2016.

CORPORATE SOCIAL RESPONSIBILITY

Being a global leader in our field, Sarine is committed to excellence and leadership in research and development, in quality manufacturing, in sales ethics and in customer service and support. It is our sincerest belief that we can and do contribute to the industry, by offering products and services that inspire confidence, both in our client manufacturers and in the consumer public, in the quality and value of the polished diamonds produced and offered for sale.

As a respectable member of the modern business environment, we have adopted a Code of Ethics to guarantee we create and maintain appropriate relationships with our business partners, customers and employees, based on all relevant legal statutes, mutual respect, fair play, transparency and sustainable long-term business practices.



Redone computer lab

Following are the key tenets of our Code of Ethics on which we base our everyday business execution:

- We treat our business partners, customers and employees with fairness and dignity.
- To the best of our ability, we create a safe and protective work environment for our employees, and we offer our customers safe products, with which to similarly create a safe work environment for their employees.
- In order to ensure operator safety, our products and services undergo strict tests, which are constantly revisited by our own engineers and by third-party experts. Operating instructions and/or training are provided, as applicable, with regard to the proper and safe use of our products and, where necessary, built-in safeguards are provided to prevent inadvertent unsafe operation.
- Wherever applicable, we ourselves employ, and we instruct our customers as to how to similarly take, all necessary measures for the safe and environmentally friendly use and disposal of even marginally hazardous materials, as per directions from appropriately authorised expert consultants.
- We believe our business does not impact the ecological balance of our environment and does not have any influence on the sustainability of the industry or the human/natural fabric in which we operate.
- Our human resources policies protect the rights and interests of the Group's employees, as dictated by all applicable laws. Moreover, we go beyond statutory requirements to ensure a beneficial employment environment for our employees. In India, for example, the Group's Indian subsidiary actively ensures that all its employees and their immediate families receive an annual expansive medical checkup, on the company's premises and in lieu of working time, with a view to promote their healthcare.
- We maintain strict policies with regard to equality in the workplace, regardless of sex, age, religion, ethnicity, disability or other personal traits or beliefs, including the strict and swift treatment of any sexual harassment incidents, so as to provide a fair, safe and amicable workplace.
- We actively seek to employ employees living with various disabilities in order to promote equal opportunity in the workplace.
- We strive to offer our employees engaging career paths, advancing them professionally with appropriate training.
- We maintain open communication lines between all our employees and the various levels of management, encouraging our employees to comment on, improve and critique the Company's activities. We have put in place a formal whistleblower policy, encouraging employees and business partners to report on any illegal, improper or unfair practices they may encounter in their dealings with Sarine.

CORPORATE SOCIAL RESPONSIBILITY

Train station beautification project

- We reward our employees for their contribution to the Group's success, either by cash bonuses, grants of options or otherwise.
- The Group organises multiple annual sports and leisure activities for the employees and their families, so as to enhance the team spirit of our employees and reward them for their performance.

The Group and its employees believe giving back to the community is an important facet of who we are. In recent years we have participated in local and national programs for the support of the disadvantaged and less privileged segments of our society in Israel. Projects included employees volunteering in a student mentoring program sponsored by the Kfar Saba Municipality, participation in activities sponsored by the Israel Centre for Assistive Devices and Transportation for the Disabled, and Leket Israel, the country's largest food bank and food rescue network. Sarine annually enrolls in the Israel nationally-sponsored "Day of Good Deeds", and in 2016 our employees participated in the "GoBabyGo" activity sponsored on the Company's premises where miniature electric vehicles were customised for small children with motor-skill disabilities under the guidance of physiotherapists together with the childrens' families. To demonstrate our commitment to these important functions, the Group underwrites these activities by permitting staff to participate at the expense of normal working hours.

In India, our most significant market, we have also adopted and implemented a corporate social responsibility policy. In 2016 this included the continuation of our program whereby we have 'adopted' two primary schools from the Gujarat government, serving over 2,000 children in Surat, India's diamond manufacturing centre. In the past, Sarine installed a new water purification plant, installed cabinets and carpeting and arranged for special housekeeping staff. Recent initiatives included the funding of five new teachers to fill vacancies and support lacking subjects, sponsoring creative arts and crafts activities, providing scholarships to promising eighth-grade students, rebuilding obsolete computer labs, donating classroom furniture and eating utensils and general repair, maintenance and painting of

facilities. In addition, employees of Sarin India volunteered at the school, providing informal teaching, enrichment programs and extracurricular activities to the children.

The Company also created, organised and sponsored the Surat Railway Station Beautification Project where nearly all the employees, along with more than 50 other artists and 150 additional volunteers, as well as various other organisations and suppliers of materials, were brought together to transform the Surat railway station by cleaning, painting murals and creating other artwork to beautify the train station.

GROUP STRUCTURE

The following chart accurately depicts the Group's structure at the time of this report.

SARINE TECHNOLOGIES LTD.

- **100%** Galatea Ltd[1]
- **100%** Sarin Technologies India Pvt Ltd[2]
- **100%** Sarine Color Technologies Ltd[3]
- **100%** Sarine Polishing Technologies Ltd[4]
- **100%** Sarin Hong Kong Ltd[5]
- **100%** Sarine Holdings USA Ltd[6]
  - Sarine North America Inc.[7]
  - Sarine IGT 10I Inc.[9]
  - Sarine IGT 10H Inc.[8]
  - Sarine IGT 10JKL Inc.[10]
- **23%** IDEX Online SA[11]

1 **Galatea Limited** – The developer of proprietary technology for the fully automated detecting and mapping of internal inclusions in rough diamonds (the Galaxy™, Galaxy™ Ultra, Galaxy™ XL, Solaris™ and Meteor™ products). The developer of proprietary technology for the fully automated analysis, planning and cutting of non-diamond gemstones to their final non-faceted shape (the Allegro™ product).

2 **Sarin Technologies India Private Limited** – The provision of pre- and post-sales and technical support for our Group's products in India and Sri Lanka and such other territories as may be agreed by our Company and Sarin India from time to time. The operation of the service centres in India providing customers with inclusion detection and mapping for rough diamonds, laser sawing/cutting services and light performance grading and online visualisation of polished diamonds.

3 **Sarine Color Technologies Limited** – The development, manufacture and marketing of instruments for assessing the light performance and for the on-line visualisation of polished diamonds.

4 **Sarine Polishing Technologies Limited** – The operation of service centres in Israel providing customers with inclusion detection and mapping for rough diamonds, and light performance grading and online visualisation of polished diamonds.

5 **Sarin Hong Kong Limited** – The provision of pre- and post-sales and technical support for our Group's products in the Asia-Pacific region, including China, HK, Japan, Korea, Taiwan, Singapore and Australia.

6 **Sarine Holdings USA Limited** – An Israeli holding company for the Group's North American subsidiaries.

7 **Sarine North America Inc.** – The Group's operating company for Sarine's North American operations

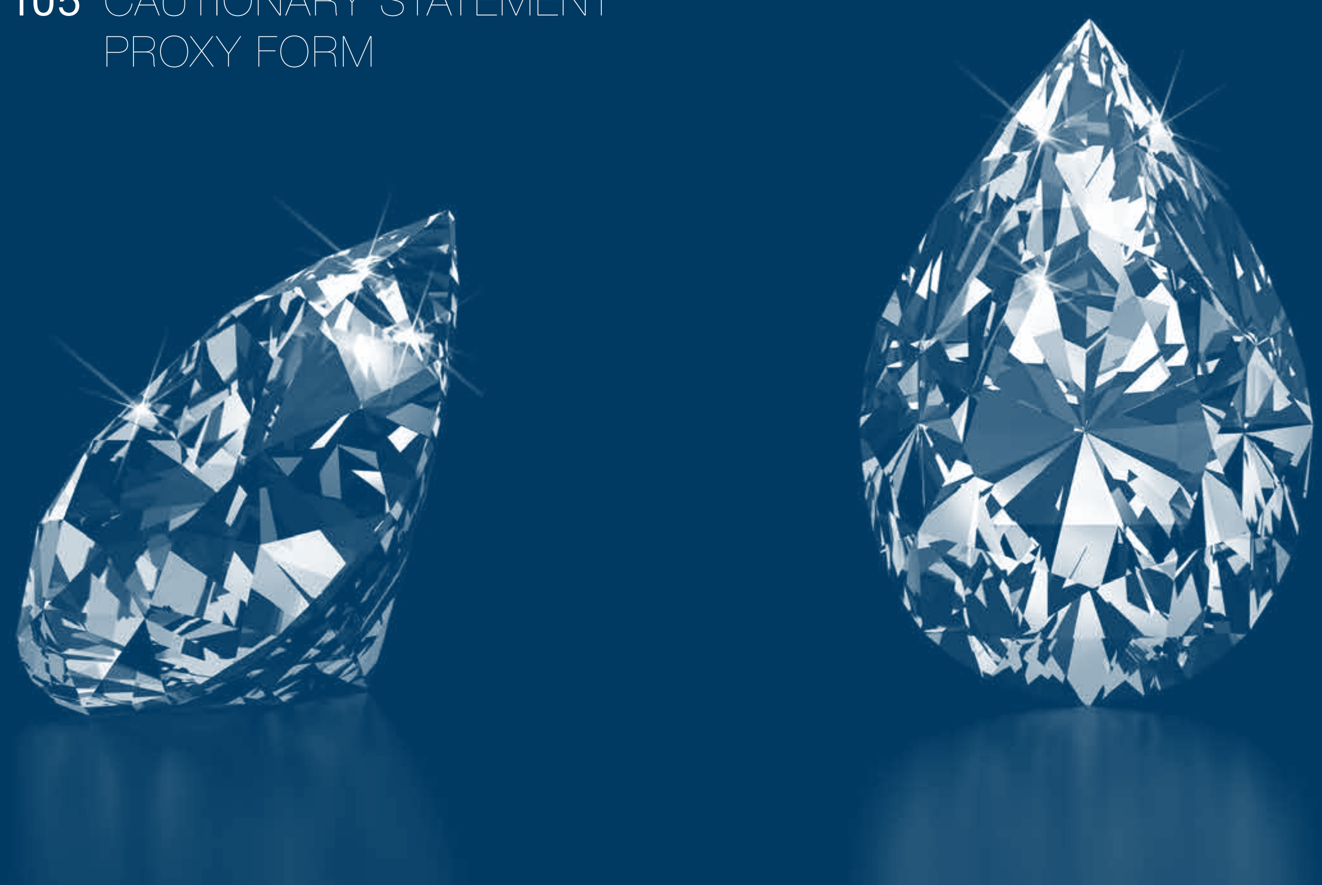
8 **Sarine IGT 10H Inc.** – A real estate holding company for one of the three office units in the International Gem Tower

9 **Sarine IGT 10I Inc.** – A real estate holding company for one of the three office units in the International Gem Tower

10 **Sarine IGT 10JKL Inc.** – A real estate holding company for one of the three office units in the International Gem Tower

11 **IDEX Online SA** – A publisher of a leading trade magazine and an operator of a web portal for news, analyses and polished diamond price indexes, including a business-to-business (B2B) polished diamond trading e-commerce platform and a business-to-consumer (B2C) polished diamond web site.

FINANCIAL CONTENTS



CORPORATE GOVERNANCE REPORT

Sarine's shares were listed for trade in the SGX-ST on the 8th of April 2005.

The Company's corporate governance practices are described with specific reference to the Code. The Company has exercised its best efforts to adhere with the principles and guidelines of the Code. In the few cases, where the Company did not do so, the Company has explicitly specified the respective background, circumstances and reasons.

BOARD OF DIRECTORS

Principle 1: Board's Conduct of its Affairs

The Board of Directors of the Company (the "Board") is entrusted with the responsibility for the overall management of our Company. The Board's primary roles are: (i) to set the Company's values and standards and ensure the obligations to shareholders and other stakeholders are duly met; (ii) to establish a framework of prudent and effective controls, so to facilitate risk assessment and risk management and to safeguard the shareholders' interest and the Company's assets; (iii) to supervise and evaluate the performance of the Company's management (the "Management") in general and of the CEO in particular; (iv) to identify the key stakeholder groups and their effect on the Company's performance and standing; (v) to consider sustainability issues; and (vi) based on items (i), (ii), (iv) and (v) – to set the Company's goals, strategies and polices and assure that such are being properly implemented.

All directors are well aware of their professional and fiduciary duties and responsibilities as officers of the Company (including their duties of care and duties of trust).

The Board is authorised to delegate some of its authorities to permanent or ad-hoc Board committees. The Board has thus established the Audit Committee, the Remuneration Committee, the Nominating Committee and the Executive Committee, described in the following paragraph (see below in subsequent sections discussions with regard to the powers and authorities of the Audit Committee, the Remuneration Committee and the Nominating Committee). The Board has also authorised its executive directors to issue shares issuable upon the exercise of options under the Company's share option plans. Notwithstanding any delegation of powers as aforesaid, the Board remains responsible, at all times, to any acts or omissions of any of the Board committees.

The Executive Committee was authorised by the Board to instruct the Company's CEO with regard to the implementation of the Board's policies and with regard to the strategic aspects of the Company's activities. Thus, the Company's CEO reports to the Executive Committee of the Board on a continuous and frequent basis and seeks the Executive Committee's advice and consent.

In line with applicable law, the Board is entrusted with all issues related to the Company's share capital, assumes the responsibility for the approval of the Company's financial statements and sets the Company's goals and policies. The Board also appoints the CEO and oversees the performance of his duties (directly and through the Executive Committee of the Board).

Within this framework, the Board discusses and resolves any matters, which require the Board's approval under any applicable law (including, without limitation, interested persons' transactions) and/or any activities conducted pursuant to the guidelines set by the Board. In general, any material issue concerning Sarine (e.g. strategic planning, material research and development milestones, material market and/or business development issues, potential material transactions, substantial capital investments, etc.) is brought to the attention of the Executive Directors and to the Board in its entirety.

The Board meets regularly and in any event no less frequently than four times every calendar year. The Company's Articles of Association (the "Articles") and the Israeli Companies law allow the convening of meetings of the Board using conference calls or any other device allowing each director participating in such meeting to hear all the other directors participating in such meeting.

CORPORATE GOVERNANCE REPORT

As of the date of this Annual Report, all (but one) of the directors have been serving on the Board more than eight years (most of them have been serving more than ten years). Therefore, the Board members have been instructed and trained, on many occasions, with regard to their roles, responsibilities, powers and duties. Such orientation included dissemination of written materials, prepared by the Company and its counsels, periodical updates with regard to legal and corporate governance developments affecting the Board and the directors, personal communication with the Company's secretary and ongoing discussions at Board meetings.

Any new member of the Board is provided with the required guidance, taking into account his or her background, experience and expertise. Such guidance refers, among others, to: (i) the Group's structure and activities; (ii) the director's powers and duties; (iii) accounting, legal and other industry-specifics aspects (as required).

Principle 2: Board Composition and Guidance

As of the date of this report, the Board comprises nine directors, three of whom are independent (two of those directors, namely Ms. Valerie Ong Choo Lin and Mr. Yehezkel Pinhas Blum also qualify as "External Directors", under Israeli law).

Mr. Chan Kam Loon has been appointed by the Annual General Meeting as the Lead Iindependent Director.

With the exception of Mr. Avraham Eshed (who joined the Board on 24 April, 2006) and Mr. Uzi Levami (who joined the Board on 11 December, 2008) all of the directors joined the Board of Directors in March 2005, prior to the listing of the Company.

Three directors (namely Messrs. Ehud Harel, Eyal Mashiah and Hanoh Stark) notified the Company that they do not wish to be nominated for re-election at the Annual General Meeting scheduled for 25 April 2017. All the other directors of the Company shall stand for re-election at this Annual General Meeting.

Upon and subject to the re-election of all directors proposed by the Company for re-election and subject to the election of a new director proposed by the Board (Ms. Varda Shine), the Board shall be comprised of seven directors. The Board is of the opinion that such number of directors is adequate. However the Board is considering the addition of up to two additional directors in the future, optimally from the retail polished diamond trade or other relevant fields of expertise, taking into account the optimal Board's size on the one hand, and the benefits of diversity and complementary expertise on the Board on the other hand.

The Nominating Committee reviews the independence of each director annually and applies the Code's definition (as well as the definitions of Israeli law) of Independent Director qualifications in its review.

Upon and subject to the re-election of all directors proposed by the Company for re-election and subject to the election of a new director proposed by the Board (Ms. Varda Shine), at least half of the directors shall be independent. Thus the Board will be able to exercise objective judgment, independently from Management and no individual or small group of individuals will dominate the decisions of the Board.

Key information about the directors is detailed in the "Board of Directors" section of the Annual Report.

The directors of the Company in office at the date of this report are:

Executive	Non-Executive	Independent
Mr. Daniel Benjamin Glinert	Mr. Avraham Eshed	Mr. Chan Kam Loon (Lead)
Mr. Uzi Levami	Mr. Ehud Harel*	Mr. Yehezkel Pinhas Blum**
Mr. Eyal Mashiah*	Mr. Hanoh Stark*	Ms. Valerie Ong Choo Lin

* Messrs. Harel. Mashiah and Stark's tenure will terminate effective as of the Annual General Meeting scheduled for 25 April 2017.

** As per the requirements of the Israeli Companies' law, each Board Committee which was delegated executive powers should include at least one External Director. Therefore, Mr. Blum also serves as a member of the Executive Committee of the Board.

CORPORATE GOVERNANCE REPORT

There are no permanent alternate directors (in the past alternate directors have been appointed in very few cases and only for specific meetings; during 2016 an alternate director was appointed only once).

The Board draws from a broad spectrum of competencies and disciplines: from the diamond and gemstones industry, the high-tech industry, the business community, capital markets, legal practice and management. Further, in view of the Company's strategic plans and as part as an overall succession plan implemented by the Company, three of the directors retire in 2017 and one new director (Ms. Varda Shine, a renowned executive from the diamond industry; her resume may be found in Appendix I to the Notice of the Annual General Meeting) is to be brought to election for the shareholders' consideration at the upcoming Annual General Meeting. The Company is also considering seeking additional directors who will enrich and diversify the Board.

The members of the Board are informed periodically (whether at Board meetings or otherwise) of any developments and updates, concerning their powers and duties under applicable laws. Directors also consult with the Company's General Counsel and Company Secretary on an ongoing basis, with regard to the performance of their duties.

The Non-Executive Directors participate actively in developing strategy and in reviewing the performance of the Company.

The Independent Directors may meet without the presence of the Management of the Company, to the extent necessary or advisable.

Principle 3: Chairman and Chief Executive Officer

The Executive Chairman and the CEO of the Company are separate individuals. They are not related.

According to the resolution of the Board:

"The Company is of the view that a distinct separation of responsibilities between the Chairman and the CEO will indeed ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

As the most senior executive in the Company, the CEO bears executive responsibility for the Company's day-to-day business according to the policies set by the Board and subject to the Board's directives, and works with the Board on strategic planning, business development and generally charting the growth of the Company.

The CEO shall report to the Executive Committee of the Board (comprised of the Executive Directors and of Mr. Yehezkel Pinhas Blum, an External Director) on a continuous and frequent basis and shall seek the Executive Committee's advice and consent. The Executive Committee may instruct the CEO with regard to the implementation of the Board's policies and with regard to the strategic aspects of the Company's activities and such instructions shall be deemed as given by the Board.

The Chairman bears responsibility for the proper functioning of the Board and the Board's committees (and of the Non-Executive Directors in particular), maintains on-going supervision over the Management of the Company and over the flow of information from the Company's Management to the Board, and assists in promoting high standards of corporate governance and ensuring compliance with the Company's guidelines of corporate governance.

The Chairman ensures that Board meetings are held when necessary and sets the Board meetings agenda in consultation with the CEO.

The Chairman ensures effective communication between the Board and the Company's shareholders."

Principle 4: Board Membership

According to the Articles, each director shall serve, unless the Annual General Meeting appointing him or her provides otherwise, until the third Annual General Meeting following the Annual General Meeting at which such director was appointed, or his earlier resignation or removal pursuant to the provisions of the Articles. A director who has completed his or her term of service or has been removed as aforesaid shall be eligible for re-election. The directors who qualify as "External Directors" may be removed from office only if they no longer qualify to serve as such.

The Nominating Committee comprises five directors, a majority of whom, including the Chairman, is independent. As at the date of this Report, the Nominating Committee members are:

Ms. Valerie Ong Choo Lin	(Chairperson and Independent Director)
Mr. Yehezkel Pinhas Blum	(Independent Director)
Mr. Chan Kam Loon	(Lead Independent Director)
Mr. Daniel Benjamin Glinert	(Executive Director)
Mr. Eyal Mashiah*	(Executive Director)

* Mr. Mashiah's tenure will terminate effective as of the Annual General Meeting scheduled for 25 April 2017.

Our Nominating Committee is responsible for the:

(a) the review of board succession plans for directors and ensure ongoing succession and progressive renewal of the Board;

(b) evaluation of the performance of the Board and its Board committees;

(c) re-nomination of directors (including Independent Directors of our Company) taking into consideration each director's contribution and performance;

(d) determining on an annual basis whether or not a director is independent (according to applicable law and to the Code of Corporate Governance and based on commonly accepted standards); and

(e) deciding whether or not the Board in general and each member of the Board in particular are able to and have been adequately carrying out their duties as directors

The Nominating Committee considers potential nominees presented by the Company's Management or by other directors, based, among others, on their qualifications, potential contribution to the Board, their independence, etc. In doing so the Nominating Committee also weighs stability and continuity versus diversification and progressive renewal.

As of the date of this Annual Report, there are only two directors (Mr. Chan Kam Loon and Ms. Valerie Ong Choo Lin) who serve as a director in other publicly traded companies (further details are provided in the "Board of Directors" section of the Annual Report). The Nominating Committee is of the view that there are currently no compelling reasons to impose a cap on the number of board representations each director may hold since Mr. Chan and Ms. Ong are able to and have adequately carried out their duties as directors of the Company, notwithstanding such other directorships.

Principle 5: Board Performance

Our Nominating Committee decides how the Board's performance is to be evaluated and proposes objective performance criteria, subject to the approval of the Board, which are used to assess the degree to which the Board enhances long-term shareholder value. The Board has implemented a process to be carried out by our Nominating Committee for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual director to the effectiveness of the Board. The performance evaluation takes into consideration, among other issues, our share price performance over a five-year period vis-à-vis the Straits Times Index, the achievement of the Company's strategic goals, and the actual participation and contribution of each director.

CORPORATE GOVERNANCE REPORT

The Nominating Committee's findings and recommendations are brought before the Chairman of the Board, who, when applicable, may initiate the nomination of new directors or the resignation of existing directors.

Throughout 2016, the Board was convened 5 times.

The attendance (in person) of the directors in the Board meetings held in 2016 was as follows (in addition, a written resolution was passed on one occasion):

	Board of Directors – 2015	
Name of Director	**No. of Meetings Held**	**Attendance**
Mr. Daniel Benjamin Glinert	5	5
Mr. Uzi Levami	5	5
Mr. Eyal Mashiah	5	5
Mr. Avraham Eshed	5	4
Mr. Ehud Harel	5	5
Mr. Hanoh Stark	5	5
Mr. Yehezkel Pinhas Blum	5	5
Mr. Chan Kam Loon	5	5
Ms. Valerie Ong Choo Lin	5	4

The attendance of the directors in the Audit Committee meetings held in 2016 is as follows (in addition, a written resolution was passed on one occasion):

	Audit Committee – 2016	
Name of Director	**No. of Meetings Held**	**Attendance**
Mr. Chan Kam Loon	5	5
Mr. Yehezkel Pinhas Blum	5	5
Ms. Valerie Ong Choo Lin	5	4

The attendance of the directors in the Remuneration Committee meetings held in 2016 is as follows:

	Remuneration Committee – 2016	
	No. of Meetings Held	**Attendance**
Mr. Yehezkel Pinhas Blum	1	1
Mr. Chan Kam Loon	1	1
Ms. Valerie Ong Choo Lin	1	1
Mr. Hanoh Stark	1	1

CORPORATE GOVERNANCE REPORT

Principle 6: Access to Information

The Management of the Company provides the Board with interim and periodical (quarterly/annual) financial reports, budget control reports and additional financial and operational information. The Board has separate and independent access to senior Management of the Company. Requests for information from the Board are dealt with promptly. The Board, acting through its Executive Committee, is informed on all material events and transactions as and when they occur. Professional advisors (e.g. with regard to securities-related matters, compliance, insurance, audit, etc.) may be appointed to advise the Board, or (in special circumstances – as provided by Israeli law) any of its members, if the Board or any individual member thereof needs independent professional advice (under Israeli law, the retention of an independent counsel by a director is subject to the Board or the court's approval, as applicable. When considering a director's request in this regard, the court will consider the adequacy of the advice rendered by the Board's counsel/s and the fees charged by an independent counsel, in view of the matter in question and the Company's financial situation).

The Board is involved in the appointment and removal of the Company Secretary. The Company Secretary (who also serves as an external legal counsel to the Company) attends all Board and Board committees' meetings and is responsible for ensuring that Board procedures are followed and for the recording of the minutes. Together with the Chairman and the Management staff of the Company, the Company Secretary is responsible for compliance with the applicable laws, rules and regulations in this regard.

Principles 7, 8 & 9: Procedures for Developing Remuneration Policies, Level and Mix of Remuneration, and Disclosure of Remuneration

The Remuneration Committee comprises 4 directors, a majority of whom, including the Chairman, is independent. As at the date of this report, the Remuneration Committee members are:

Mr. Yehezkel Pinhas Blum	(Chairman and Independent Director)
Mr. Chan Kam Loon	(Lead Independent Director)
Ms. Valerie Ong Choo Lin	(Independent Director)
Mr. Hanoh Stark*	(Non-Executive Director)

* Mr. Stark's tenure will terminate effective as of the Annual General Meeting scheduled for 25 April 2017.

Our Remuneration Committee recommends to our Board of Directors a framework of remuneration for our directors and key executives, and recommends specific remuneration packages for each Executive Director. All aspects of directors' and key executives' remuneration, including but not limited to directors' fees, salaries, allowances and bonuses, options and benefits in kind are dealt with by our Remuneration Committee. The Remuneration Committee and the Board rely, among other things, on periodical remuneration surveys conducted by independent Israeli remuneration experts (such as Zviran Compensation and Benefits Solutions). Each member of our Remuneration Committee shall abstain from voting on any resolutions in respect of his/her remuneration package. The remuneration of our independent Directors, who are deemed also as "External Directors" according to the provisions of the Israeli Companies, is also subject to the limitations set by Israeli law.

The Company's overall three-year remuneration policy and specific remuneration packages for the directors and key executives were presented to the General Meeting and approved by it at the Annual General Meeting held on 19 April 2016.

Our Non-Executive Directors received for their services during 2016 participation fees – based on their actual participation in the meetings of the Board of Directors, the Audit Committee and the Remuneration Committee - amounting in the aggregate (for the three Non-Executive directors) to less than S$ 22,000 (excluding non-cash option compensation). The participation fees paid to our Non-Executive directors are equal to the fees paid to our Independent Directors per meeting (which participation fees are subject to the limitations set by Israeli law - as aforesaid). Our Independent Directors received (in the aggregate) less than S$ 189,000 (excluding non-cash option compensation) for their services in 2016 (the cash remuneration of our Independent Directors is comprised of annual fees and participation fees).

CORPORATE GOVERNANCE REPORT

During 2016 the Executive Directors, one of whom was also remunerated as Chief Executive Officer received (together) approximately S$ 1,731,000 for their services (the fees payable to the Executive Directors, excluding the Executive Director who is also the Company's Chief Executive Officer, were approximately S$ 891,000). The remuneration arrangements of our Executive Directors include performance based incentives, including non-cash option compensation.

The remuneration (including performance cash-based incentives and non-cash option compensation) paid and accrued by us and our subsidiaries to each of our directors and our top five (in terms of amount of remuneration) employees (not being directors) for services rendered to us in all capacities during 2016, were as follows:

Directors:

Name	Position	Remuneration (in S$)[1]	Breakdown between Fixed Income and Performance Based Incentives (%)		
			Fixed Income	Cash Performance Based Incentives	Options (Non-Cash, Based on Fair Value)
Mr. Daniel Benjamin Glinert	Executive Director and Chairman	S$ 522,000	39%	33%	28%
Mr. Uzi Levami	Executive Director and CEO	S$ 840,000	47%	22%	31%
Mr. Eyal Mashiah	Executive Director (until 26 March 2017)	S$ 369,000	40%	27%	33%
Mr. Yehezkel Pinhas Blum	Independent Director	S$ 155,000	46%	--	54%
Chan Kam Loon	Independent Director	S$ 143,000	41%	--	49%
Ms. Valerie Ong Choo Lin	Independent Director	S$ 143,000	41%	--	49%
Mr. Avraham Eshed	Non- Executive Director	S$ 9,000	71%	--	29%
Mr. Ehud Harel	Non- Executive Director	S$ 8,000	100%	--	--
Mr. Hanoh Stark	Non- Executive Director	S$ 8,000	100%	--	--

Top Five Key Management Personnel:

Name	Position	Remuneration (in bands)	Breakdown between Fixed Income and Performance Based Incentives (%)		
			Fixed Income	Cash Performance Based Incentives	Options (Non-Cash, Based on Fair Value)
Mr. David Block	COO	Band 2	64%	14%	22%
Mr. William Kessler	CFO	Band 3	67%	14%	19%
Mr. Roni Ben Ari	VP, Product Management	Band 2	81%	9%	10%
Mr. Abraham Kerner	VP Research & Development	Band 2	82%	4%	14%
Mr. Rajesh Kothari	General Manager, Sarin India	Band 2	80%	--	20%

Notes:
Band 1: remuneration of up to S$ 250,000 per annum.
Band 2: remuneration of between S$ 250,001 to S$ 500,000 per annum.
Band 3: remuneration of between S$ 500,001 to S$ 750,000 per annum.

CORPORATE GOVERNANCE REPORT

The aggregate remuneration paid to the top five key Management personnel (who are not directors or the CEO) for the year ended 31 December 2016 was S$ 2,091,000 (including the aggregate fair value of non-cash option compensation).

Any future arrangements concerning the remuneration of our directors and CEO shall be brought to the approval of our Remuneration Committee, Board of Directors and General Meeting.

Any future arrangements concerning the remuneration of our key executives shall be brought to the review of the Remuneration Committee and Board of Directors.

Incentive-based compensation which is linked to the Company's business results, is based on audited financial results and may be corrected after the fact (and duly reimbursed by the beneficiary), if subsequent audits find errors which call for restatements of results.

Since its listing on the SGX-ST, the Company had been granting share options to its employees under its 2005 Share Option Plan (the "2005 Plan"). The 2005 Plan is described in the Company's prospectus and a copy thereof is attached to the said prospectus. Given the expiry of the Plan, following the lapse of its ten-year term, the Company's General Meeting, held on 20 April, 2015 approved a new Share Option Plan, substantially similar to the 2005 Plan (the "2015 Plan"). The Board of Directors has set guidelines concerning, among other things, eligibility to receive share options (based on performance and time of service with the Company), vesting periods (typically over four years from the date of grant; three years for Executive Directors, the CEO and senior officers) and the minimum and maximum amounts of share options to be granted (based on seniority and expertise). Executive Directors, senior officers and key employees are also granted performance-based options, to be vested over three years, based upon the achievement of business goals – as discussed in greater detail in the Company's remuneration policy – which was approved by the Company's Annual General Meeting held on 19 April 2016. During 2016, all share options granted under the 2015 Plan were granted at the Market Price (as such term is defined in the Plan). Further details with regard to the options granted by the Company may be found in the "Directors Report" section of the annual report.

The Company has no employees who are immediate family members of a director or the CEO, and whose remuneration exceeded S$ 50,000 during the year.

None of the Company's agreements with its Executive Directors and/or key employees include any overly generous termination-related clauses. Except as required by law, the Company does not grant long termination notice periods and/or any other termination-related benefits

No directors participate in decisions on their own remuneration.

Principle 8: Level and Mix of Remuneration

Executive Directors' remuneration package and key Management personnel's remuneration framework are structured in a way that links rewards to corporate and individual performance. Cash bonuses and share options are linked, to a great extent, to the achievement of the Company's strategic goals.

The review of remuneration packages also takes into consideration the pay and employment conditions within the industry and the long-term interests of the Group. The review covers all aspects of remuneration including salaries, fees, allowances, cash bonuses and share options

The Remuneration Committee's recommendations are submitted for endorsement by the entire Board, and, where required under law, are also brought for the shareholders' approval.

The Company has in place an Employee Share Option Plan that serves to provide a longer term incentive better aligned with long term performance of the Company and of the directors, officers and employees.

CORPORATE GOVERNANCE REPORT

Remuneration of Independent Directors is set according to the applicable laws and regulations and at a level commensurate with their prior experience and level of responsibility, and after taking into account industry benchmarks.

The Company believes that the current remuneration of Independent Directors is at a level that will not compromise the independence of the directors.

It should be noted, that all Non-Executive Directors are also shareholders of the Company (holding 4%-7% of the Company's shares each).

The Company's option agreements include contractual provisions allowing the Company to reclaim performance-based incentives, in case that such incentives were granted based on inaccurate data.

Principle 10: Accountability

The Board is accountable to the Company's shareholders. The Board provides the shareholders with periodical, and to the extent necessary and/or required – immediate, reports with regard to the business, financial and other aspects of the Company's activities.

The Board takes adequate steps to ensure compliance with legislative and regulatory requirements, including requirements under the listing rules of the securities exchange.

The Management of the Company provides the Board in general, and the Executive Directors in particular, with management accounts regarding the Company's performance. Such accounts are provided to the Executive Directors on an ongoing basis and to the directors on a periodical basis (and when needed - as warranted by the circumstances), to enable the Board to make a balanced and informed assessment of the company's performance, position and prospects

Principles 11, 12 & 13: Audit Committee, Internal Controls and Internal Audits

The Audit Committee comprises three directors, all of whom, including the Chairman, are independent. As at the date of this Report, the Audit Committee members are:

Mr. Chan Kam Loon	(Chairman and Lead Independent Director)
Mr. Yehezkel Pinhas Blum	(Independent Director)
Ms. Valerie Ong Choo Lin	(Independent Director)

The members of our Audit Committee possess vast and diverse accounting, financial, commercial and legal expertise and experience. Mr. Chan Kam Loon has a degree in accountancy and is qualified as a chartered accountant with the Institute of Chartered Accountants in England and Wales, Mr. Yehezkel Pinhas Blum has a degree in economics and business administration and Ms. Ong heads the Corporate Finance practice in the Singapore law firm of Dentons Rodyk and Davidson. Each of them has more than twenty years' financial/business experience. Further details with regard to expertise and experience of the members of our Audit Committee may be found in the "Board of Directors" section of the Annual Report.

CORPORATE GOVERNANCE REPORT

Our Audit Committee assists our Board in discharging its responsibility to safeguard our assets, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that our Management creates and maintains an effective control environment in our Company, in consultation with the Internal Auditor. Under its terms of reference, our Audit Committee may seek any information it requires from any employee, and all employees are directed to co-operate with any requests made by our Audit Committee. Our Audit Committee also provides a channel of communications between our Board, our Management and our Internal and External Auditors on matters relating to audit.

The Audit Committee meets periodically and performs the following functions:

(a) reviews the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the External Auditors.

(b) reviews with the Internal and External Auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to Management and the Management's response;

(c) reviews the quarterly and annual financial statements and statement of financial position and statements of comprehensive income and the Appendix 7.2 report thereon before submission to our Board for approval, ensuring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;

(d) reviews the internal control procedures and recommends to the Board ways and means to ensure the adequacy of the Group's Internal Control Procedures (including financial, operational, compliance and information technology controls, and risk management systems); indeed, the Audit Committee and Board are of the opinion, upon consultation with the Company's External Auditors and the Internal Auditor of the Company (who conducted a follow up review, based on previous findings) and based on ongoing discussions with the Management of the Company, that the Internal Control procedures of the Group are adequate.

(e) Ensures co-ordination between the External Auditors and our Management, and reviews the assistance given by our Management to the Auditors, and discusses problems and concerns, if any, arising from the interim and final audits, and any matters which the Auditors may wish to discuss (in the absence of our Management, where necessary);

(f) reviews and discusses with the External Auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Company's operating results or financial position, and our Management's response;

(g) considers and recommends to the Board to appoint and re-appoint the Internal and External Auditors and matters relating to the resignation or dismissal of the Auditors; consider and recommends to the Board with regard to the fees of the Internal and External Auditors;

Indeed, based on the review of the External Auditors' credentials and their registration with and reporting to the Public Company Accounting Oversight Board (PCAOB), a member of the International Forum of Independent Audit Regulators, independent of the accounting profession and directly responsible for the system of recurring inspection of accounting firms, the Board and the Audit Committee have confirmed the External Auditors' suitability and their ability to meet their audit obligations. The Board and the Audit Committee further satisfied themselves that the external audit firms possess the adequate resources, experience and expertise and that the audit engagement partners and the supervisory and professional staff assigned to the particular audit possess the necessary skills and experience required for such task;

CORPORATE GOVERNANCE REPORT

(h) reviews interested person transactions (if any) falling within the scope of Chapter 9 of the Listing Manual or within the scope of those interested persons transactions that require the approval of the Audit Committee pursuant to Israeli Companies Law;

(i) reviews potential conflicts of interest, if any;

(j) reviews the remuneration packages of employees who are related to our directors and/or substantial shareholders, if any;

(k) undertakes such other reviews and projects as may be requested by our Board, and reports to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee;

(l) generally undertakes such other functions and duties as may be required by statute or the Listing Manual, or by such amendments as may be made thereto from time to time; and

(m) sets an arrangement by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Apart from the duties listed above, our Audit Committee communicates and reviews the findings of internal investigation into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on our Company's operating units and/or financial position.

The Audit Committee has the authority to investigate any matters within its terms of reference and the discretion to invite any director to attend its meetings. The Management fully cooperates with the Audit Committee and provides it resources to enable it to discharge its functions properly.

The Audit Committee meets with the Internal and External Auditors annually to review the adequacy of audit arrangements, with particular emphasis on the scope and quality of their audits, and the independence and objectivity of the Internal and External Auditors. Where necessary, the Audit Committee may meet the External or the Internal Auditors without presence of Management.

The Company supports whistle blowing. Employees may raise concerns about possible improprieties in financial reporting or other matters. Upon receipt of a concern, independent investigation and appropriate follow up action will be taken.

The Group's internal controls and systems are designed to provide reasonable assurance to the integrity and reliability of the financial information.

The Audit Committee and Management have mapped and analysed the Group's risks and have compiled a matrix of risks pertaining to the Group's business and performance, financial management, information technology (IT) and regulatory compliance issues, delineating the severity of their potential negative impairment to the Group and their probability of being realised. Thus, a comprehensive weighted prioritised risk factor list has been derived. The Audit Committee has reviewed the Company's internal controls and their adequacy at addressing the aforementioned risks in general, and has engaged the services of the Internal Auditor for in-depth analyses of key issues on a routine basis. The primary areas that have been so audited in 2016, and the internal controls fine-tuned appropriately as per the findings of said audits, have been the review of the implementation of the ERP system and payment to vendors in our Indian subsidiary, the building project in Surat India and IP protection in general. A review of collection of trade receivables is in process. In previous years the areas audited were quality control, customer service, inventory purchasing, sales cycle, payment security and information security in Israel, the new building project in Surat, pre and post-sale standard operating procedures, payment to vendors, IT information security, purchasing, spare parts inventory, service centre operations, collection of receivables, customer credits, attendance and payroll in India, as well as information control and integration between Sarin India and Sarine Israel. All the findings of said audits have been reviewed by the Board, with appropriate enhancements to the internal controls agreed upon with Management. In many instances (e.g., the building project in Surat, India, service centre operations, IT information security, information control and integration, purchasing, inventory and attendance and payroll), repeat reviews have been executed to verify the necessary corrective actions' due implementation.

The Board has received assurance from the Company's CEO and CFO:

1. that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finance; and
2. regarding the effectiveness of the company's risk management and internal control systems.

Based on the recommendations of the Audit Committee, the Board of Directors appointed, in August 2009, Mr. Doron Cohen, CPA, CIA, of Fahn Kanne Control Management, Ltd., subsidiary of Fahn Kanne and Co., Certified Public Accountants (Isr.) (Member firm of Grant Thornton International) – a reputable auditing firm, as the Internal Auditor of the Company. The Internal Auditor carries out its function according to the standards set by internationally recognised professional bodies. The role of the Internal Auditor is to independently examine, among other things, whether our activities comply with the law and orderly business procedures. Our Internal Auditor submits his work plans to the prior approval of the Audit Committee and presents his findings to the Audit Committee and to the Board of Directors. The Internal Auditor reports to the Chairman of the Audit Committee and the Chief Executive Officer of the Company. According to Israeli law, the Board appoints and removes the Internal Auditor, based on the Audit Committee's recommendations. The Internal Auditor's compensation is set by the Audit Committee. The Company cooperates fully with the Internal Auditor in terms of allowing access to documents and information and the Internal Auditor has unfettered access to all the company's documents, records, properties and personnel, including access to the Audit Committee.

The Audit Committee reviews annually the adequacy and effectiveness of the internal audit function.

The External Auditors of the Group are Somekh Chaikin Certifed Public Accountants (Isr.), member firm of KPMG International (partner in charge, Lior Caspi, appointed with effect 1 January 2016) and Chaikin, Cohen, Rubin and Company (partner in charge, Ilan Chaikin, appointed with effect 1 January, 2012). The Group engages a suitable auditing firm, BSR & Co., member firm of the KPMG network of independent member firms affiliated with KPMG International, for the statutory audit of its significant foreign-incorporated subsidiary, namely Sarin Technologies India Private Limited.

The Audit Committee is updated periodically (and at least annually) on any changes in accounting standards by the External Auditor.

No former partner or director of the Company's auditing firm has acted as a member of the Company's Audit Committee.

The Company has complied with Rule 712 and Rules 715/716 of the Listing Manual.

The Company has paid to its External Auditors an aggregate amount of US$ 341,000 for services rendered in 2016, out of which amount, US$ 235,000 (approximately 69%) were paid as audit fees, US$ 96,000 (approximately 28%) were paid as tax fees and US$ 10,000 (approximately 3%) were paid for other audit related services.

The Audit Committee confirms that it has undertaken a review of all non-audit services provided by the External Auditors and is satisfied that given the scope and nature of the non-audit related services, such services should not, in the Audit Committee's opinion, affect the independence of the External Auditors.

Principles 14 & 15: Communication with Shareholders and Greater Shareholder Participation

The Company treats all shareholders fairly and equitably, and recognises, protects and facilitates the exercise of shareholders' rights, and continually reviews and updates such governance arrangements.

The Company's results are published through the SGXNET and news releases. The Company does not practice selective disclosure. Price-sensitive information is first publicly released, either before the Company meets with any group of

CORPORATE GOVERNANCE REPORT

analysts or simultaneously with such meetings. Results and annual reports are announced or issued within the mandatory period.

The Company's Chairman and senior Management meet and discuss frequently with analysts and investors, and presentations made by the Company in such events are generally shared with the public at large.

The Company has a dedicated investor relations team, composed of an in-house team and of consultants and service providers in Israel, Singapore and the USA.

All shareholders of the Company are provided with the Annual Report and notice of the convening of the Annual General Meeting. At the Annual General Meeting shareholders are given the opportunity to air their views and ask directors or Management questions regarding the Company. The Company's announcements and policies ensure that shareholders are informed of the rules, including voting procedures, that govern general meetings of shareholders and have the opportunity to participate effectively in and vote at general meetings of shareholders. The Company uses audio conference and video conference facilities in order to enable and encourage greater participation in its meetings.

The Articles were amended in 2015, so to allow a member of the Company to appoint more than two proxies to attend and vote instead of such member.

Through its meetings with investors, analysts and shareholders, the Company gathers information, views and inputs and address shareholders' concerns.

Principles 16: Conduct of Shareholder Meetings

General meetings are held in Singapore. At such meetings, shareholders of the Company are given the opportunity to air their views and ask the directors and Management questions regarding the Company.

Resolutions at general meetings are on each substantially separate issue. The Company avoids bundling resolutions unless they are interdependent and linked.

Directors of the Company are present at general meetings (whether personally in Singapore, or over video conference) to address any questions that shareholders may have. The External Auditors are also present (over video conference) to assist the Board in addressing queries by shareholders relating to the conduct of the audit and the preparation of and content of the Auditors' Report.

Minutes of general meeting are available to shareholders upon their request.

The Company applies voting by poll for all resolutions.

DEALINGS IN SECURITIES

The Company has complied with the following best practices on dealings in securities:—

(a) The Company has adopted its own internal compliance code to provide guidance to its officers with regard to dealing by the Company and its officers in its securities;

(b) According to such code an officer of the Company should not deal in the Company's securities on short-term considerations; and

(c) According to such code the Company and its officers and employees do not deal in the Company's securities during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and one month before the announcement of the Company's full year financial statements.

MATERIAL CONTRACTS

Throughout the financial year under review the Company was not a party to any Material Contracts involving the Chief Executive Officer, directors or controlling shareholders.

INTERESTED PERSON TRANSACTIONS

All interested person transactions are considered and reviewed by the Board of Directors, and to the extent required by the Listing Manual and/or the Israeli Companies Law, also by the Audit Committee and the General Meeting

Our internal control procedures are designed to ensure that all interested person transactions, including interested person transactions involving companies related to our Company, are conducted at arm's length and on commercial terms.

Throughout the financial year under review the Company was not a party to any interested party transaction the financial scope of which exceeded S$100,000, except as noted below:

On 15 September, 2013, and later on in 2015, the Company extended the lease of 224 square meters of office space in the Israeli Diamond Exchange building, from a company controlled by Mr. Avraham Eshed, a director of the Company, through 31 December 2015. The Company paid in 2016, approximately US$ 10,000 for repairs and restoration upon conclusion of the lease period.

DIRECTORS' REPORT
for the year ended 31 December 2016

Directors' Report

We are pleased to submit this annual report to the shareholders of the Company together with the audited statements for the financial year ended 31 December 2016.

Directors

The Directors in office at the date of this report are as follows:

Daniel Benjamin Glinert, Chairman of the Board and Executive Director
Uzi Levami, Executive Director and Chief Executive Officer (CEO)
Eyal Mashiah, Executive Director

Avraham Eshed, Non-Executive Director
Ehud Harel, Non-Executive Director
Hanoh Stark, Non-Executive Director

Chan Kam Loon, Lead Independent Director
Yehezkel Pinhas Blum, Independent Director
Valerie Ong Choo Lin, Independent Director

Directors' Interests

According to the share register kept by the Company for the purposes of Sections 127 and 128 of the Israeli Companies Law, 5759-1999 (the "Law"), and according to the information provided to the Company by our directors, particulars of interests of directors who held office at the end of the financial year 2016 (the "Year") in shares in the Company are as detailed below. Except as listed hereunder, none of our directors who held office at the end of the Year had any direct interest in the Company's shares – neither at the beginning of the Year, nor at the end of the Year, nor as at 21 January 2017.

The Company	**As at 1 January 2016**	**As at 31 December 2016**	**As at 21 January 2017**
Ordinary Shares of the Company of no par value each			
Daniel Benjamin Glinert[1]	12,299,156	12,379,156	12,379,156
Avraham Eshed[2]	15,098,022	15,482,022	15,482,022
Ehud Harel[3]	25,796,348	25,796,348	25,796,348
Uzi Levami[4]	12,235,406	12,335,406	12,335,406
Chan Kam Loon[5]	563,000	563,000	563,000
Eyal Mashiah[6]	16,325,096	16,325,096	16,325,096
Valerie Ong Choo Lin[7]	575,000	575,000	575,000
Hanoh Stark[8]	24,590,524	24,590,524	24,590,524

[1] Daniel Benjamin Glinert is deemed a shareholder of the Company by virtue of his indirect ownership through Glinert Projects Initiation and Execution, Ltd. of 5,633,953 shares held on his and his wife's (Michal Haya Glinert) behalf by Bank Hapoalim (Israel) through HSBC Singapore custodians, by virtue of his and his wife's indirect ownership through Glinert Projects Initiation and Execution, Ltd. of 5,423,953 shares held on his behalf by UOB Kay Hian Pte. Ltd., by virtue of his indirect ownership of 300,500 shares held on his behalf by Eyal Khayat, Option Plan 2005 trustee, through UOB Kay Hian Pte. Ltd., pursuant to the Plan, and by virtue of the indirect ownership of 1,000,750 Shares held on his wife's behalf by UOB Kay Hian Pte. Ltd.

[2] Avraham Eshed is deemed a shareholder of the Company by virtue of his indirect ownership through Gemstar, Ltd. of 14,731,772 shares held on his behalf by the Israel Discount Bank through Citibank N.A. Singapore custodians, 571,500 shares held on his behalf by Eyal Khayat, Option Plan 2005 trustee, through UOB Kay Hian Pte. Ltd., pursuant to the Plan, and by virtue of his indirect ownership of 178,750 shares held on his behalf by Union Bank of Israel Ltd.

DIRECTORS' REPORT
for the year ended 31 December 2016

[3] Ehud Harel is deemed a shareholder of the Company by virtue of his indirect ownership through Hargem, Ltd. of 25,608,848 shares held on his behalf by the Israel Discount Bank through Citibank N.A. Singapore custodians and, by virtue of his indirect ownership of 187,500 shares held on his behalf by Eyal Khayat, Option Plan 2005 trustee, through UOB Kay Hian Pte. Ltd., pursuant to the Plan.

[4] Uzi Levami is deemed a shareholder of the Company by virtue of his indirect ownership through U. Levami Holdings, Ltd. of 11,722,906 shares held on his behalf by Bank Hapoalim (Israel) through HSBC Singapore custodians and by virtue of his indirect ownership of 612,500 shares held on his behalf by Eyal Khayat, Option Plan 2005 trustee, through UOB Kay Hain Pte. Ltd., pursuant to the Plan.

[5] Chan Kam Loon is deemed a shareholder of the Company by virtue of his direct holdings of 539,000 shares and by virtue of the direct holdings of his wife (Au Yin Ling Patricia) of 24,000 shares.

[6] Eyal Mashiah is deemed a shareholder of the Company by virtue of his indirect ownership through Ramgem, Ltd. of 15,600,096 shares held on his behalf by the Israel Discount Bank through Citibank N.A. Singapore custodians and by his indirect ownership of 625,000 shares held on his behalf by UOB Kay Hian Pte. Ltd and 100,000 shares held on his behalf by Bank Leumi Ltd. through DBS Singapore custodians

[7] Valerie Ong Choo Lin is deemed a shareholder of the Company by virtue of her indirect ownership of 575,000 shares held on her behalf by Bank of Singapore Nominees

[8] Hanoh Stark is deemed a shareholder of the Company by virtue of his indirect ownership through Stark Hanoh Holdings, Ltd. of 24,590,524 shares held on his behalf by the Israel Discount Bank through Citibank N.A. Singapore custodians.

Outstanding options granted to directors under the Company's Option Plans (2015 Option Plan and 2005 Option Plan)[1]

Name of Director	Options Outstanding	2016 share-based payment expenses	Years granted
Daniel Benjamin Glinert	1,338,000[2]	US$ 100,000	2016 and 2013
Uzi Levami	2,357,000[3]	US$ 180,000	2016 and 2013
Eyal Mashiah	1,178,500[4]	US$ 85,000	2016 and 2013
Avraham Eshed	109,500	US$ 2,000	2013
Ehud Harel	--	--	--
Hanoh Stark	--	--	--
Yehezkel Pinhas Blum	400,000	US$ 58,000	2014
Chan Kam Loon	400,000	US$ 58,000	2014
Valerie Ong Choo	400,000	US$ 58,000	2014

[1] Note – Options which were granted to directors under the Company's Plans and which were exercised thereafter are not included in the above table.

[2] Note – in reference to the 1,338,000 options outstanding: 1) 1,000,000 options were granted on April 19, 2016 and vest over a three year period (333,000 are exclusively time based options and 667,000 are performance based options tied to sales and profitably goals) and 2) 338,000 options are fully vested and remain outstanding from the April 30, 2013 grant.

[3] Note – in reference to the 2,357,000 options outstanding: 1) 1,800,000 options were granted on April 19, 2016 and vest over a three year period (600,000 are exclusively time based options and 1,200,000 are performance based options tied to sales and profitably goals) and 2) 557,000 options are fully vested and remain outstanding from the April 30, 2013 grant.

[4] Note – in reference to the 1,178,500 options outstanding: 1) 850,000 options were granted on April 19, 2016 and vest over a three year period (283,000 are exclusively time based options and 567,000 are performance based options tied to sales and profitably goals) and 2) 328,500 options are fully vested and remain outstanding from the April 30, 2013 grant.

Except as disclosed in this report, no director who held office at the end of the Year had interests in shares or debentures of the Company or of related corporations, either at the later of the beginning of the Year or the commencement of his service as a director or at the end of the Year.

DIRECTORS' REPORT
for the year ended 31 December 2016

Except as disclosed in this report, the Company was not a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisitions of shares in or debentures of the Company or any other body corporate.

Since the end of the last financial year (2016), and except as disclosed in the Company's audited financial statements for the Year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial interest.

The Directors are of the opinion, in concurrence with and based on Audit Committee review that the internal control procedures addressing financial, operational and compliance risks of the Group are adequate.

Share Options

In 2015 the Company adopted a new share option plan (the "2015 Plan") and since then granted options to employees and directors at no consideration. As of 31 December 2016, a total of 10,120,000 options were granted under the 2015 Plan, with each option being exercisable into one ordinary share each (of no par value) in the capital of the Company. The options under the 2015 Plan were granted at an exercise price ranging between S$ 1.364 to S$ 1.692 per option (according to the date of grant). As of 31 December 2016, there were 9,840,000 options outstanding under the 2015 Plan, with no options having been exercised to date. The exercise period for options granted under 2015 Plan is six years from the date of grant, with a vesting period of up to four years.

In 2005 the Company adopted a share option plan (the "2005 Plan"), and since then granted options to employees and directors at no consideration. As of 31 December 2016, a total of 39,421,435 options were granted under the 2005 Plan, with each option being exercisable into one ordinary share each (of no par value) in the capital of the Company. The options under the 2005 Plan were granted at an exercise price ranging between S$ 0.087 to S$ 2.858 per option (according to the date of grant, and adjusted for the May 2012 bonus issue). As of 31 December 2016, there were 9,541,380 options outstanding under the 2005 Plan, and 21,556,541 options have been exercised under the 2005 Plan. The exercise period for options granted under 2005 Plan is six years from the date of grant, with a vesting period of up to four years.

SGXNET announcements have been made on the dates of the various grants including details of the grant in accordance with the Listing Manual.

Audit Committee

The Audit Committee of the Company was established on 8 March 2005 by the Board of Directors and comprises three independent directors. The members of the Audit Committee are Mr. Chan Kam Loon (Chairperson), Mr. Yehezkel Pinhas Blum and Ms. Valerie Ong Choo Lin. The Audit Committee assists the Board in discharging its responsibility to safeguard the Group's assets, maintain adequate accounting records and develop and maintain effective systems of internal control, with the overall objective of ensuring that the management creates and maintains an effective control environment in the Group, in consultation with the internal and external auditors.

DIRECTORS' REPORT
for the year ended 31 December 2016

Auditors

The auditors, Somekh Chaikin, Certified Public Accountants (Isr.), Member firm of KPMG International, and Chaikin, Cohen, Rubin & Co., Certified Public Accountants (Isr.), have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Daniel Benjamin Glinert
Executive Director, Chairman of the Board

Uzi Levami
Executive Director and Chief Executive Officer

Eyal Mashiah Executive
Director

Israel
6 April 2017

STATEMENT BY DIRECTORS

In the opinion of the directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 54 to 96 are drawn up so as to give a true and fair view of the Company and of the Group as at 31 December 2016 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and

(b) as at the date of this statement, there are reasonable grounds to assume that the Group will be able to pay its debts as and when they fall due.

On behalf of the directors

Daniel Benjamin Glinert
Executive Director, Chairman

Uzi Levami
Executive Director, CEO

Eyal Mashiah
Executive Director

6 April 2017

AUDITORS' REPORT

To the Shareholders of Sarine Technologies Ltd.

We have audited the accompanying statements of financial position of Sarine Technologies Ltd. (hereinafter the "Company") and subsidiaries (the Company and subsidiaries together referred to hereinafter as the "Group") as at December 31, 2016 and 2015 and the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group, for each of the years ended on such dates. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group and the Company as at December 31, 2016 and 2015 and the Group's results of operations, changes in its equity and cash flows, for each of the years ended on such dates, in accordance with International Financial Reporting Standards (IFRS).

Somekh Chaikin
Certified Public Accountants (Isr.)
Member firm of KPMG International

Tel-Aviv, Israel
March 26, 2017

Chaikin, Cohen, Rubin and Co.
Certified Public Accountants

Tel-Aviv, Israel
March 26, 2017

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

as of December 31

		Group		Company	
	Note	2016	2015	2016	2015
		US$ thousands			
Assets					
Property, plant and equipment	10	**14,064**	12,413	**2,255**	1,689
Intangible assets	11	**7,469**	7,812	**--**	--
Investment in subsidiaries*	28	**--**	--	**48,480**	47,141
Deferred tax assets	9	**2,527**	3,157	**1,318**	1,423
Total non-current assets		**24,060**	23,382	**52,053**	50,253
Inventories	12	**9,230**	10,146	**6,393**	6,673
Trade receivables	13	**16,955**	11,337	**2,559**	3,164
Other current assets	14	**3,488**	3,707	**2,029**	1,727
Short-term investments (bank deposits)	15	**18,520**	13,298	**11,835**	7,532
Cash and cash equivalents	16	**19,467**	19,298	**11,631**	9,268
Total current assets		**67,660**	57,786	**34,447**	28,364
Total assets		**91,720**	81,168	**86,500**	78,617
Equity					
Share capital**	17	**--**	--	**--**	--
Share premium and reserves		**27,769**	25,672	**27,769**	25,672
Dormant shares, at cost	17	**(2,413)**	(2,366)	**(2,413)**	(2,366)
Retained earnings*		**53,957**	48,225	**53,957**	48,225
Total equity		**79,313**	71,531	**79,313**	71,531
Liabilities					
Employee benefits	20	**144**	138	**138**	129
Total non-current liabilities		**144**	138	**138**	129
Trade payables		**3,725**	2,359	**2,258**	1,375
Other payables	19, 21	**7,971**	6,623	**4,541**	5,363
Current tax payable		**208**	211	**--**	--
Warranty provision	23	**359**	306	**250**	219
Total current liabilities		**12,263**	9,499	**7,049**	6,957
Total liabilities		**12,407**	9,637	**7,187**	7,086
Total equity and liabilities		**91,720**	81,168	**86,500**	78,617

* Retrospective application regarding initial application of Amendment to IAS 27: Equity Method in Separate Financial Statements
** No par value

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Years Ended December 31

	Note	Group 2016	Group 2015
		US$ thousands	
Revenue	6,7	**72,524**	48,453
Cost of sales		**(22,235)**	(15,904)
Gross profit		**50,289**	32,549
Research and development expenses		**(10,844)**	(10,564)
Sales and marketing expenses		**(13,578)**	(12,557)
General and administrative expenses		**(4,657)**	(3,929)
Profit from operations		**21,210**	5,499
Finance income		**868**	210
Finance expense		**(113)**	(407)
Net finance income (expense)	8	**755**	(197)
Profit before income tax		**21,965**	5,302
Income tax expense	9	**(3,985)**	(1,715)
Profit for the year		**17,980**	3,587
Other comprehensive income (loss)			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plan		**--**	17
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**(189)**	(339)
Total comprehensive income for the year		**17,791**	3,265
Earnings per share			
Basic earnings per share (US cents)	18	**5.14**	1.03
Diluted earnings per share (US cents)	18	**5.14**	1.02

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
	US$ thousands					
Group						
Balance at January 1, 2015	--	25,201	(1,391)	56,854	(1,033)	79,631
Profit for the year ended December 31, 2015	--	--	--	3,587	--	3,587
Other comprehensive income (loss) for the year ended December 31, 2015	--	17	(339)	--	--	(322)
Total comprehensive income	--	17	(339)	3,587	--	3,265
Share-based payment expenses	--	1,329	--	--	--	1,329
Exercise of options	--	855	--	--	--	855
Dividend paid	--	--	--	(12,216)	--	(12,216)
Dormant shares acquired, at cost (993,100 shares)	--	--	--	--	(1,333)	(1,333)
Balance at December 31, 2015	--	27,402	(1,730)	48,225	(2,366)	71,531
Profit for the year ended December 31, 2016	**--**	**--**	**--**	**17,980**	**--**	**17,980**
Other comprehensive loss for the year ended December 31, 2016	**--**	**--**	**(189)**	**--**	**--**	**(189)**
Total comprehensive income	**--**	**27,402**	**(1,919)**	**66,205**	**(2,366)**	**89,322**
Share-based payment expenses	**--**	**1,598**	**--**	**--**	**--**	**1,598**
Exercise of options	**--**	**688**	**--**	**--**	**--**	**688**
Dividend paid	**--**	**--**	**--**	**(12,248)**	**--**	**(12,248)**
Dormant shares acquired, at cost (40,000 shares)	**--**	**--**	**--**	**--**	**(47)**	**(47)**
Balance at December 31, 2016	**--**	**29,688**	**(1,919)**	**53,957**	**(2,413)**	**79,313**

* No par value

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the Years Ended December 31

	Group	
	2016	**2015***
	US$ thousands	
Cash flows from operating activities		
Profit for the year	**17,980**	3,587
Adjustments for:		
Share-based payment expenses	**1,598**	1,329
Income tax expense	**3,985**	1,715
Depreciation of property, plant and equipment	**2,313**	2,148
Amortisation of intangible assets	**1,547**	1,892
Net finance (income) expense	**(755)**	197
Changes in working capital		
Inventories	**1,199**	251
Trade receivables	**(5,618)**	2,149
Other current assets	**(1,028)**	(207)
Trade payables	**1,366**	(479)
Other liabilities	**1,308**	(2,738)
Employee benefits	**6**	(21)
Income tax paid	**(1,710)**	(3,617)
Net cash from operating activities	**22,191**	6,206
Cash flows (used in) from investing activities		
Acquisition of property, plant and equipment	**(4,337)**	(3,497)
Acquisition of intangible assets	**--**	(3,000)
Acquisition of activity	**(1,210)**	--
Short-terms investments, net	**(5,222)**	11,847
Interest received	**244**	101
Net cash (used in) from investing activities	**(10,525)**	5,451
Cash flows used in financing activities		
Proceeds from exercise of share options	**688**	855
Purchase of Company's shares by the Company	**(47)**	(1,333)
Dividends paid	**(12,248)**	(12,216)
Net cash used in financing activities	**(11,607)**	(12,694)
Net increase (decrease) in cash and cash equivalents	**59**	(1,037)
Cash and cash equivalents at beginning of year	**19,298**	20,352
Effect of exchange rate fluctuations on cash and cash equivalents	**110**	(17)
Cash and cash equivalents at end of year	**19,467**	19,298

* Certain amounts were reclassified to conform to the current year's presentation

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - General

A. Reporting Entity

Sarine Technologies Ltd. (hereinafter "Sarine" or the "Company") is a company domiciled in Israel. The address of the Company's registered office is 4 Haharash Street, Hod Hasharon 4524075, Israel. The consolidated financial statements of the Company, as at, and for the year ended December 31, 2016, comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") (see Note 28). The Company was incorporated on November 8, 1988. On April 8, 2005, the Company was admitted to the Main Board list of the Singapore Exchange Securities Trading Ltd.

B. Introduction

The Group is a worldwide leader in the development and manufacturing of advanced evaluation, planning, processing and grading systems for diamond and gemstone production. Sarine products include diamond Cut, Color and light performance grading tools, the Galaxy™ family of inclusion mapping systems, rough diamond planning optimisation systems, laser cutting and shaping systems, laser-marking and inscription machines and polished diamond visualisation systems. Sarine systems have become an essential gemology tool in every properly equipped gem lab, diamond appraisal business and manufacturing plant, and are today considered essential items by both diamond dealers and retailers. At the heart of these systems is computer software that implements three-dimensional modeling and volume / value optimisation using advanced mathematical algorithms, and overall system control (motion, image capture, laser functionality, etc.) paired with various proprietary hardware technologies, including electro-optics, electronics, precision mechanics and lasers.

These financial statements were authorised for issue by the Board of Directors on March 26, 2017.

Note 2 - Basis of Preparation

A. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – IFRS).

B. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- liabilities measured at fair value through profit or loss (see also Note 3);
- assets and liabilities relating to employee benefits;
- deferred tax assets and liabilities; and
- provisions.

C. Functional and presentation currency

These financial statements are presented in United States (US) dollars, or US$, which is the Company's functional currency. The US dollar is the currency that represents the principal economic environment in which the Company and most Group entities operate. All financial information presented in US dollars has been rounded to the nearest thousand, except where otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

Note 2 - Basis of Preparation (cont'd)

D. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Certain accounting estimates used in the preparation of the Group's financial statements may require management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management prepares these estimates on the basis of past experience, known facts, external circumstances, and reasonable assumptions. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 9 – Income Tax (deferred tax assets) – determination of profit forecast which will be offset by losses;
- Note 11 – Intangible Assets (measurement of amortisation of intangible assets) – assessment of estimated useful lives;
- Note 22 – Share-Based Payments (measurement of share-based payments) – assumptions used in valuation model; and
- Note 26 – Contingencies – probability of claims to have a material impact on the Group.

E. Changes in accounting policies

As of January 1, 2016, the Group, in accordance with IFRS, changed its accounting policies in relation to the accounting for investments in subsidiaries in the Company's (non-consolidated) financial statements -- Amendment to IAS 27: Equity Method in Separate Financial Statements. The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and was applied retrospectively. The amendment did not have any impact on the Group's consolidated financial statements.

F. Company Statements of Financial Position

The Company's statements of financial position have been prepared on the same basis as the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in Note 2E.

A. Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

In the reporting entity's separate financial statements, an investment in subsidiaries is accounted for on an equity basis. Impairment loss recognised in profit or loss for subsidiaries are reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

ii. Business combinations

The Group implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control. The Group recognises goodwill at acquisition according to the fair value of the consideration transferred less the net amount of the identifiable assets acquired and the liabilities assumed. On the acquisition date the Group recognises a contingent liability assumed in a business combination, if there is a present obligation resulting from past events and its fair value can be reliably measured. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognises changes in fair value of the contingent consideration classified as a financial liability in profit or loss. Changes in liabilities for contingent consideration in business combinations that occurred before January 1, 2010 will continue to be recognised in goodwill and will not be recognised in profit or loss.

iii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

B. Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates as at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in profit or loss.

ii. Foreign operations

The assets and liabilities of foreign operations are translated to US dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to US dollars at the average exchange rate for the period. Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve.

C. Financial instruments

i. Non-derivative financial assets

Initial recognition of financial assets

The Group initially recognises receivables and deposits on the date that they are originated. Non-derivative financial instruments comprise short-term investments, trade receivables, certain other current assets and cash and cash equivalents.

Derecognition of financial assets

Financial assets are derecognised when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. See (ii) hereunder regarding the offset of financial assets and financial liabilities.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at cost using the effective interest method (when the value of time is material), less any impairment losses. Receivables comprise trade and certain other current assets.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

i. Non-derivative financial assets (cont'd)

Cash and cash equivalents comprise cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly-liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

ii. Non-derivative financial liabilities

Initial recognition of financial liabilities

Financial liabilities include trade and other short-term liabilities. These liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled. Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

iii. Share capital

Ordinary shares. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dormant shares. When share capital recognised as equity is repurchased by the Group, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as dormant shares. When dormant shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus on the transaction is carried to share premium, whereas a deficit on the transaction is deducted from retained earnings.

D. Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

D. Property, plant and equipment (cont'd)

i. Recognition and measurement (cont'd)

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within operating expenses in profit or loss.

ii. Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

iii. Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Machinery and office equipment	6%-20%
Motor vehicles	15%
Demonstration equipment	20%-33%
Computers and computer equipment	15%-33%
Leasehold improvements	Lower of estimated useful lives and the lease term
Building and office improvements	Estimated useful lives

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

E. Intangible assets

i. Know-how and intellectual property

Acquired know-how and intellectual property are stated at cost less accumulated amortisation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible assets (cont'd)

ii. Goodwill

Goodwill that arises upon the acquisition of subsidiaries or activities is included in intangible assets. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Subsequently, goodwill is measured at cost less accumulated impairment losses. The Group examines the useful life of an intangible asset that is not periodically amortised (goodwill) at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

iii. Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group has the intention and sufficient resources to complete development and to use or sell the asset. Expenditures capitalised include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognised in profit or loss as incurred.

Capitalised development expenditures are measured at cost less accumulated amortisation and accumulated impairment losses.

iv. Other intangible assets

Other intangible assets, including in respect of trade names and customer relationships that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

v. Subsequent expenditure

Subsequent expenditures are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognised in profit or loss as incurred.

vi. Amortisation

Amortisation is a systematic allocation of the amortisable amount of an asset over its useful life. The amortisable amount is the cost of the asset less its residual value.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible assets (cont'd)

vi. Amortisation (cont'd)

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date they are available for use, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Goodwill is not systematically amortised but is tested for impairment at least once a year.

Internally generated intangible assets are not systematically amortised until they are available for use, meaning are brought to the working condition for their intended use. Accordingly, these intangible assets, such as development costs, are tested for impairment at least once a year, until such date as they are available for use.

The estimated useful lives for the current and comparative periods are approximately as follows:

• Acquired know-how and intellectual property	6-8 years
• Capitalized development costs	6 years
• Trade names	5 years
• Customer relationships	8 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

F. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is calculated based on the moving average costing method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and conditions. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overhead based on normal operating capacity. Inventories are written-down for estimated obsolescence, based on assumptions about future demand and market conditions.

G. Impairment

i. Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

i. Non-derivative financial assets (cont'd)

The Group considers evidence of impairment for receivables at a specific asset and collective levels. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest income on the impaired asset continues to be recognised using the interest rate that was used to discount the future cash flows. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii. Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The Group estimates the recoverable amount of a CGU that contains goodwill and other intangible assets that are not yet available for use, on an annual basis, or more frequently if there are indications of impairment.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects of the assessment of market participants regarding the time value of money and the risks specific to the asset or cash generating unit, for which the estimated future cash flows from the asset or cash generating unit were not adjusted.

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

ii. Non-financial assets (cont'd)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs that included goodwill are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of other assets in the unit (group of units) on a *pro rata* basis. An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

H. Employee benefits

i. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension and savings plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

ii. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset).

The discount rate is the yield at the reporting date on high quality New Israeli Shekels (NIS) denominated corporate debentures that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a net asset for the Group, an asset is recognised up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. An economic benefit in the form of refunds or reductions in future contributions is considered available when it can be realized over the life of the plan or after settlement of the obligation. This calculation will take into consideration any minimum funding requirements that apply to any plan. Furthermore, when as part of a minimum funding requirement, there is an obligation to pay additional amounts for services that were provided in the past, the Group recognises an additional obligation (increases the net liability or decreases the net asset), if such amounts are not available as an economic benefit in the form of a refund from the plan or the reduction of future contributions.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

H. Employee benefits (cont'd)

ii. Defined benefit plans (cont'd)

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses and the return on plan assets (excluding interest). Remeasurements are recognised directly in retained earnings through other comprehensive income. Interest costs on a defined benefit obligation and interest income on plan assets that were recognised in profit or loss are presented under financing income and expenses, respectively.

iii. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Group recognises a liability and an expense for bonuses, which are based on agreements with employees and according to management decisions based on Group performance goals and on individual employee performance. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

iv. Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees and directors are recognised as an expense, with a corresponding increase in equity, over the period that the grantee unconditionally become entitled to the awards. The amount recognised as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions is adjusted to reflect the number of awards that are expected to vest, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognises an expense in respect of the awards whether or not the conditions have been met.

I. Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability (without taking into consideration the Group's credit risk). The unwinding of the discount is recognised as a finance expense.

i. Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

I. Provisions (cont'd)

ii. Legal claims

A provision for claims is recognised if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably. When the value of time is material, the provision is measured at its present value.

J. Dividends

Dividends are recognised as a liability in the period in which they are approved.

K. Revenue

i. Goods sold

Revenue from the sale of goods in the course of ordinary business is measured at the fair value of the consideration received or receivable, net of returns and discounts. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. Revenue generated from the use of customer-owned machines is recognised in profit or loss in the period in which such use occurs.

ii. Services

Revenue from services rendered is recognised in profit or loss ratably over the contractual service period or in a fee for services arrangement, as services are performed.

L. Government grants

Grants from the Israeli Office of the Chief Scientist in the Ministry of Economy ("OCS") in respect of research and development projects are accounted for as forgivable loans according to IAS 20. Grants received from the OCS are recognised as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is reexamined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognised in profit or loss. The difference between the amount received and the fair value on the date of receiving the grant is recognised as a deduction of research and development expenses.

M. Lease payments

Payments made by the Group under operating leases are recognised as expenses in profit or loss on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

N. Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Interest income on bank deposits is accrued on a time apportioned basis on the principal outstanding and at the rate applicable.

Finance expenses comprise interest expense on contingent consideration from a business combination, interest expense on tax liabilities and bank fees recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis as either finance income or finance expenses depending on whether the foreign currency movement was in a net gain or net loss position. In the statements of cash flows, interest received and dividends received are presented as part of cash flows from investing activities. Interest paid and dividends paid are presented as part of cash flows used in financing activities.

O. Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted as at the reporting date, and any adjustment to tax payable in respect of prior years.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

A provision for uncertain tax positions, including additional tax and interest expenses, is recognised when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent they will probably not reverse in the foreseeable future.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

O. Income tax (cont'd)

Deferred tax assets that were not recognised are reevaluated at each reporting date and recognised if it has become probable that future taxable profits will be available against which they can be utilized.

The Group may be required to pay additional tax if a dividend is distributed by companies within the Group. This additional tax was not included in the financial statements, since it is the current practice of the Group companies not to distribute a dividend which creates an additional tax liability for the recipient in the foreseeable future.

P. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for dormant shares. Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding (after adjustment for dormant shares) for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees, directors or other eligible parties.

Q. New standards and interpretations not yet adopted

Other than those standards adopted as explained in Note 2E, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these financial statements.

1. IFRS 9 (2014), Financial Instruments, (hereinafter – IFRS 9 (2014)). IFRS 9 (2014) replaces the current guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 (2014) includes revised guidance on the classification and measurement of financial instruments, a new 'expected credit loss' model for calculating impairment for most financial assets, and new guidance and requirements with respect to hedge accounting. IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018 with early adoption being permitted. The Group has examined the effects of applying IFRS 9 (2014), and in its opinion the effect on the financial statements will be immaterial.

2. IFRS 15, Revenue from Contracts with Customers. (hereinafter – IFRS 15). IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognising revenue from contracts with customers. IFRS 15 provides two approaches for recognising revenue: at a point in time or over time. The model includes five steps for analysing transactions so as to determine when to recognise revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance. IFRS 15 is applicable for annual periods beginning on or after January 1, 2018 and earlier application is permitted. IFRS 15 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application, full retrospective application with practical expedients, or application as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date in respect of transactions that are not yet complete. The Group is examining the effects of IFRS 15 on the financial statements with no plans for early adoption.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

Q. New standards and interpretations not yet adopted (cont'd)

3. IFRS 16, Leases (hereinafter – IFRS 16) replaces IAS 17, Leases and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. The new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements. Similarly, the standard determines new and expanded disclosure requirements from those required at present. IFRS 16 is applicable for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the company has also early adopted IFRS 15, *Revenue from Contracts with Customers*. IFRS 16 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application or application (with the possibility of certain practical expedients) as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date. The Group is examining the effects of IFRS 16 on the financial statements with no plans for early adoption.

Note 4 - Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

A. Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property, plant and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

B. Intangible assets

The fair value used in impairment tests of development activities which were capitalised is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

NOTES TO THE FINANCIAL STATEMENTS

Note 4 - Determination of Fair Values (cont'd)

C. Trade receivables and other current assets

The fair value of trade receivables and certain other current assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Trade receivables and certain other current assets with no stated interest are measured at their original amount as the effect of discounting is immaterial.

D. Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

E. Share-based payment transactions

The fair value of the options granted is measured using a lattice-based valuation, taking into account the terms and conditions upon which the options were granted. Measurement inputs include share price on measurement date, expected volatility, expected employee turnover rate, employee exercise behaviour, risk free interest rate and expected dividend. Services and non-market performance conditions are not taken into account in determining fair value.

F. Contingent consideration in business combination

The fair value of contingent consideration is calculated at the time of the business combination using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). When the contingent consideration is long-term in nature, the liability is discounted to present value using the market interest rate at the reporting date. In subsequent periods, the fair value of contingent consideration classified as a financial liability is measured in the same manner at each reporting date.

Note 5 - Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board's policy is to maintain a strong capital base, so to maintain investor and market confidence and to sustain future development of the business. The Group has exposure to credit risk and market risk from its use of financial instruments. This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management complies with the Group's risk management policies and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

NOTES TO THE FINANCIAL STATEMENTS

Note 5 - Financial Risk Management (cont'd)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers (see also Note 24).

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group does not require collateral in respect of financial assets. The Group has established credit limits for customers and monitors their balances regularly. Cash and deposits are placed with banks and financial institutions, which are regulated.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in deteriorating economic circumstances.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables, certain other current assets and investments. The main components of this allowance are specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The Group employs reasonable measures to mitigate credit risk such as customer-specific enquiries prior to the extension of credit.

At the date of the statement of financial position, cash and cash equivalents and short-term investments were mainly held with two banks in Israel, thereby exposing the Group to significant concentrations of credit risk. However, management considers that the credit rating of the banks reduces the risk to the Group to an acceptable level.

In addition, the Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At December 31, 2016 and 2015, no guarantees were outstanding.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. This is achieved by not investing in equities and by investing in either US dollars, New Israeli Shekels (NIS) and Indian Rupees quoted financial assets only, in ratios which reflect the exposure of the Group to these currencies.

The Group is exposed to currency risk on sales and expenses that are denominated in a currency other than the respective functional currencies of Group entities. The Group is mainly exposed to movement in exchange rates of the US dollar in relation to the NIS with regard to salaries paid in NIS and to movement in exchange rates of the US dollar in relation to the Indian Rupee with respect to services provided in India by Sarin India.

NOTES TO THE FINANCIAL STATEMENTS

Note 6 - Operating Segments

The Group is a worldwide leader in the development, manufacturing, marketing and sale of precision technology products for the planning, processing, evaluation and measurement of diamonds and gems. India is the principal market for these products. In accordance with IFRS 8, the Group determines and presents operating segments based on the information that is provided internally to the CEO, who is the Group's chief operating decision maker. The measurement of operating segment results is generally consistent with the presentation of the Group's Consolidated Statements of Profit or Loss and Other Comprehensive Income. The Group operates in only one operating segment. Presented below are revenues broken out by geographic distribution (India, Africa, Europe, North America, Israel and Other).

	Group Revenues						
	India	Africa	Europe	North America	Israel	Other[1]	Consolidated
	US$ thousands						
2016	**57,063**	**2,420**	**2,459**	**1,586**	**4,016**	**4,980**	**72,524**
2015	34,217	2,234	2,280	1,370	3,480	4,872	48,453

Information on the assets of each geographical region is detailed below. The information includes non-current assets data, of which the depreciated cost of property, plant and equipment is allocated to each of the geographical regions. All of the Group's intangible assets are located in Israel.

	Group Property, plant and equipment						
	India	Africa	Europe	North America	Israel	Other[1]	Consolidated
	US$ thousands						
December 31, 2016	**5,522**	**86**	**36**	**5,603**	**2,733**	**84**	**14,064**
December 31, 2015	4,140	95	68	5,777	2,204	129	12,413

[1] Other territories represent sales to the rest of the world, primarily Asia, excluding India.

Note 7 - Revenue

Composition

	Group	
	Year ended December 31	
	2016	2015
	US$ thousands	
Revenue from sale of products[1]	**60,596**	36,766
Revenue from maintenance and services	**11,928**	11,687
	72,524	48,453

[1] Includes Galaxy™ family revenues associated with customer-owned machines.

For the year ended December 31, 2016, one customer accounted for approximately 17% of Group revenue. For the year ended December 31, 2015, one customer accounted for approximately 15% of Group revenue.

NOTES TO THE FINANCIAL STATEMENTS

Note 8 - Net Finance Income (Expense)

	Group	
	Year ended December 31	
	2016	**2015**
	US$ thousands	
Interest income on financial assets and bank deposits	**309**	210
Net interest income (expense) re income taxes*	**449**	(281)
Bank fees	**(113)**	(109)
Net foreign exchange gain (loss)	**110**	(17)
	755	(197)

* See also Note 9A.

Note 9 - Income Tax

A. Details regarding the tax environment of the Group

i. Israeli tax rates applicable to income not derived from approved enterprises

The statutory corporate tax rate in Israel in 2016 decreased to 25% from 26.5% in 2015. On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, *inter alia*, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016. Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, *inter alia*, the corporate tax rate would be reduced from 25% to 23% in two steps, a rate of 24% as from January 2017 and to a rate of 23% as from January 2018. As a result of the reduction in the tax rate to 25%, the deferred tax balances as at January 4, 2016 were calculated according to the new tax rate specified in the Law for the Amendment of the Income Tax Ordinance, at the tax rate expected to apply on the date of reversal. Current taxes for the reported periods are calculated according to the tax rates presented above.

According to various amendments to the Ordinance, IFRS shall not apply when determining the taxable income for the 2007 through 2016 tax years, even if IFRS was applied when preparing the financial statements.

ii. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company believes that it qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a public offering, and to amortise know-how acquired from third parties.

iii. Amendment to the Law for the Encouragement of Capital Investments – 1959

The Company is subject to Amendment No. 68 to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – "the Amendment to the Law"). The Amendment to the Law's provisions apply to Preferred Income derived or accrued in 2011 and thereafter by a Preferred Enterprise, per the definition of these terms in the Amendment to the Law. The Amendment to the Law provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, a Preferred Enterprise was introduced which mainly provides a uniform and reduced tax rate for all the company's income entitled to benefits. As part of the Law for Changes in National Priorities, as from the 2014 tax year the tax rate on preferred income was set to 9% for

NOTES TO THE FINANCIAL STATEMENTS

Note 9 - Income Tax (cont'd)

A. Details regarding the tax environment of the Group (cont'd)

iii. Amendment to the Law for the Encouragement of Capital Investments – 1959 (cont'd)

Development Area A and 16% for the rest of the country. The Amendment to the Law also provides that no tax will apply to a dividend distributed out of Preferred Income to a shareholder that is an Israeli company. A tax rate of 20% shall apply to a dividend distributed out of Preferred Income to an individual shareholder or foreign resident, subject to double taxation prevention treaties. The Company and one of its wholly owned subsidiaries met the conditions provided in the Amendment to the Law for inclusion in the scope of the tax benefits track. The Company and its subsidiary implemented the Amendment to the Law as from the 2011 tax year. Deferred taxes were computed accordingly.

On December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, as part of the Law the tax rate on preferred income was set to 7.5% for Development Area A and 16% for the rest of the country. Deferred taxes were computed accordingly.

iv. Final tax assessments

The Company has received final tax assessments (including assessments which are considered final under the tax laws) for all tax years up to December 31, 2014. The Company's wholly owned Israeli consolidated subsidiaries have received final tax assessments (including assessments which are considered final under the tax laws) for all tax years up to December 31, 2011.

v. Foreign tax

1. The foreign subsidiaries are taxed according to tax rules in their jurisdictions.
2. Sarin India received final tax assessments for all fiscal tax years through March 31, 2014. Other foreign subsidiaries have not been assessed since their incorporation.
3. Tax assessments related to Galatea Ltd. ("Galatea") in India.

A dispute has arisen between Galatea, an Israeli subsidiary of the Company, and the Indian Tax Authorities, over Galatea's classification of certain payments received from its Indian customers as business income, which is not liable for tax in India. The Indian Tax Authorities have notified Galatea of their position whereby the payments constitute royalties. The Indian Tax Authorities' position was upheld by the Indian Dispute Resolution Panel in 2015 for the Indian tax year ended March 31, 2011 and for the Indian tax year ended March 31, 2012.

In 2015, the Indian tax authorities passed the assessment orders for the respective years, thus creating an aggregate net tax liability (net of tax deducted at source) of approximately US$ 0.8 million and an additional interest liability of approximately US$ 0.4 million. Galatea had appealed against both these decisions to the Tribunal, a higher Indian tax authority. In 2016, the assessment order was deleted by the Tribunal and the issue of non-taxability of business income in India was decided in Galatea's favor and the aforementioned interest liability of approximately US$ 0.4 million was reversed. The Indian Tax Authorities have filed an appeal against the order of the Tribunal before the Bombay High Court for the financial years ended March 31, 2011 and 2012.

Galatea's legal tax counsel in Israel has opined that any tax payments made or withheld in India due to a classification of income as royalties may be offset in Galatea's domestic (Israeli) tax returns for a period of five years from the date of payment. Therefore, Galatea has not made a provision for the net tax liability and interest of financial year ended March 31, 2013. The Group believes that the potential exposure for the subsequent Indian tax years up to December 31, 2016 is also remote, due to the anticipated refunds during the said period.

NOTES TO THE FINANCIAL STATEMENTS

Note 9 - Income Tax (cont'd)

B. Composition of income tax expense

	Group	
	Year ended December 31	
	2016	2015
	US$ thousands	
Current tax expense	**3,462**	2,674
Taxes in respect of previous years	**(107)**	--
Deferred tax expense (credit)	**630**	(959)
Total income tax expense	**3,985**	1,715

C. Reconciliation between the theoretical tax on the profit before income tax and the tax expenses

	Group	
	Year ended December 31	
	2016	2015
	US$ thousands	
Profit before income tax expense	**21,965**	5,302
Income tax using Israel tax rate of 25% (26.5% -- 2015)	**5,491**	1,405
Non-deductible expenses	**279**	621
Effects of lower tax rates arising from "Approved and Beneficiary Enterprise" status	**(4,223)**	(2,742)
Current year tax losses and benefits for which deferred taxes were not created	**1,718**	1,948
Taxes in respect of previous years	**(107)**	--
Impairment of deferred tax asset	**657**	--
Different tax rate of foreign subsidiaries	**147**	250
Changes in tax rates used for computation of deferred taxes	**101**	--
Other differences	**(78)**	233
	3,985	1,715

NOTES TO THE FINANCIAL STATEMENTS

Note 9 - Income Tax (cont'd)

D. Deferred tax assets and liabilities

Deferred taxes are calculated according to the tax rate anticipated to be in effect on the date of reversal. Recognised deferred tax assets and liabilities are attributable to the following:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	US$ thousands			
Other payables and employee benefits	**372**	263	**137**	114
Allowance for doubtful receivables	**39**	39	**38**	37
Research and development expenses	**919**	1,012	**818**	864
Losses for tax purposes	**467**	1,167	**--**	60
Fixed assets	**719**	668	**316**	348
Other	**11**	8	**9**	--
	2,527	3,157	**1,318**	1,423

The deferred tax balances as at December 31, 2016 were calculated according to the new tax rates specified in the Law for Changes in National Priorities and the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, at the tax rate expected to apply on the date of reversal.

The effect of the aforesaid change in the tax rate was a decrease of US$ 101 thousand in deferred tax assets for the year ended December 31, 2016.

Unrecognised deferred tax assets

For the years ended December 31, 2016 and 2015, Group deferred tax assets in respect of tax losses in the amount of US$ 29.8 million and US$ 15.6 million, respectively, have not been recognised. Those tax losses are available for offsetting against future taxable income of the applicable Company's Israeli subsidiaries subject to compliance with the relevant tax regulations. Deferred tax assets have not been recognised in respect of these tax losses because currently it is not probable that future taxable profits will be available against which the Group can utilise the benefits. The tax losses do not expire under current tax legislation. As at December 31, 2016 and 2015 a deferred tax asset for temporary differences in the amount of US$ 3.5 million related to investments in an equity accounted investee were not recognised because the Group is satisfied that it will not be incurred in the foreseeable future.

Unrecognised deferred tax liabilities

As at December 31, 2016 a deferred tax liability for temporary differences in the amount of US$ 12.2 million (2015 - US$ 11.0 million) related to an investment in a subsidiary was not recognised because the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

Changes in deferred taxes from prior years were all recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

Note 10 - Property, Plant and Equipment

	Group					
	Computers and equipment	Demonstration equipment	Motor vehicles	Machinery and office equipment	Building, land, and leasehold improvements*	Total
	US$ thousands					
Cost						
Balance at January 1, 2015	2,234	2,694	243	5,196	9,033	19,400
Additions	412	1,200	--	915	1,028	3,555
Disposals	(91)	(695)	(7)	(135)	(52)	(980)
Effect of changes in exchange rates	(24)	--	(3)	(151)	(116)	(294)
Balance at December 31, 2015	2,531	3,199	233	5,825	9,893	21,681
Additions	**366**	**528**	**--**	**1,043**	**2,481**	**4,418**
Disposals	**(154)**	**(556)**	**(17)**	**(82)**	**(180)**	**(989)**
Effect of changes in exchange rates	**(13)**	--	**(1)**	**(87)**	**(81)**	**(182)**
Balance at December 31, 2016	**2,730**	**3,171**	**215**	**6,699**	**12,113**	**24,928**
Depreciation						
Balance at January 1, 2015	1,478	1,821	132	3,716	718	7,865
Depreciation	395	540	30	867	316	2,148
Disposals	(89)	(368)	(7)	(81)	(50)	(595)
Effect of changes in exchange rates	(20)	--	(2)	(111)	(17)	(150)
Balance at December 31, 2015	1,764	1,993	153	4,391	967	9,268
Depreciation	**448**	**553**	**24**	**933**	**355**	**2,313**
Disposals	**(152)**	**(273)**	**(17)**	**(56)**	**(133)**	**(631)**
Effect of changes in exchange rates	**(11)**	**--**	**(1)**	**(64)**	**(10)**	**(86)**
Balance at December 31, 2016	**2,049**	**2,273**	**159**	**5,204**	**1,179**	**10,864**
Carrying amounts						
At January 1, 2015	756	873	111	1,480	8,315	11,535
At December 31, 2015	767	1,206	80	1,434	8,926	12,413
At January 1, 2016	**767**	**1,206**	**80**	**1,434**	**8,926**	**12,413**
At December 31, 2016	**681**	**898**	**56**	**1,495**	**10,934**	**14,064**

* Includes Group's wholly owned facilities in New York, United States and in Surat, India. As at December 31, 2016, the expected cost to complete construction in Surat India and applicable internal furnishing is approximately US$ 1.2 million, of which US$ 0.6 million has been provided as an advance to the builder (see Note 14).

NOTES TO THE FINANCIAL STATEMENTS

Note 10 - Property, Plant and Equipment (cont'd)

	Company					
	Computers and equipment	Demonstration equipment	Motor vehicles	Machinery and office equipment	Building, land, and leasehold improvements*	Total
	US$ thousands					
Cost						
Balance at January 1, 2015	1,401	2,023	167	695	228	4,514
Additions	331	659	--	56	11	1,057
Disposals	(83)	(508)	--	(5)	(50)	(646)
Balance at December 31, 2015	1,649	2,174	167	746	189	4,925
Additions	**288**	**424**	**--**	**169**	**754**	**1,635**
Disposals	**(119)**	**(415)**	**(17)**	**(82)**	**(180)**	**(813)**
Balance at December 31, 2016	**1,818**	**2,183**	**150**	**833**	**763**	**5,747**
Depreciation						
Balance at January 1, 2015	905	1,469	87	403	116	2,980
Depreciation	243	320	23	62	43	691
Disposals	(82)	(299)	--	(5)	(49)	(435)
Balance at December 31, 2015	1,066	1,490	110	460	110	3,236
Depreciation	**316**	**317**	**19**	**69**	**70**	**791**
Disposals	**(119)**	**(210)**	**(17)**	**(56)**	**(133)**	**(535)**
Balance at December 31, 2016	**1,263**	**1,597**	**112**	**473**	**47**	**3,492**
Carrying amounts						
At January 1, 2015	496	554	80	292	112	1,534
At December 31, 2015	583	684	57	286	79	1,689
At January 1, 2016	**583**	**684**	**57**	**286**	**79**	**1,689**
At December 31, 2016	**555**	**586**	**38**	**360**	**716**	**2,255**

NOTES TO THE FINANCIAL STATEMENTS

Note 11 - Intangible Assets

	Group				
	Goodwill	**Development costs**	**Know-how and intellectual property**	**Other**	**Total**
	US$ thousands				
Cost					
Balance at January 1, 2015	1,250	6,223	14,197	--	21,670
Adjustment of goodwill[1]	(47)	--	--	--	(47)
Acquisition of intellectual property	--	--	3,000	--	3,000
Balance at December 31, 2015	1,203	6,223	17,197	--	24,623
Acquisition of intellectual property	**665**	**--**	**387**	**152**	**1,204**
Balance at December 31, 2016	**1,868**	**6,223**	**17,584**	**152**	**25,827**
Amortisation					
Balance at January 1, 2015	--	2,256	12,663	--	14,919
Amortisation for the year[2]	--	840	1,052	--	1,892
Balance at December 31, 2015	--	3,096	13,715	--	16,811
Amortisation for the year[2]	**--**	**777**	**757**	**13**	**1,547**
Balance at December 31, 2016	**--**	**3,873**	**14,472**	**13**	**18,358**
Carrying amount					
At January 1, 2015	1,250	3,967	1,534	--	6,751
At December 31, 2015	1,203	3,127	3,482	--	7,812
At January 1, 2016	**1,203**	**3,127**	**3,482**	--	**7,812**
At December 31, 2016	**1,868**	**2,350**	**3,112**	**139**	**7,469**

(1) The adjustment of goodwill derives from a change in the contingent liability in a business combination, which occurred before January 1, 2010. See also Note 21.

(2) See also Note 3E.

In April 2015, Galatea paid US$ 3.0 million to a licensor of software utilised in the Galaxy™ family of products enabling the cessation of ongoing license payments on our Galaxy™ family product sales.

In May 2016, Sarine Color Technologies Ltd. acquired virtually all of the assets of Diamining Ltd. a developer of an app-based point of sale technology for diamonds, gemstones and jewellery. Total consideration paid was US$ 1.2 million.

The amortisation of know-how, intellectual property, development costs and other intangible assets is recognised in cost of sales.

The cash-generating unit's recoverable amount was based on fair value less costs of disposal. The fair value less costs of disposal was estimated using the discounted cash flow method. The fair value measurements are classified at level 3 of the fair value hierarchy (for a definition of the various hierarchy levels, see Note 4).

NOTES TO THE FINANCIAL STATEMENTS

Note 12 – Inventories

	Group		Company	
	2016	**2015**	**2016**	**2015**
	US$ thousands			
Raw materials and consumables	**5,363**	6,499	**3,483**	4,026
Work in progress	**1,756**	1,774	**1,250**	1,213
Finished goods	**2,111**	1,873	**1,660**	1,434
	9,230	10,146	**6,393**	6,673

In 2016 the write-down of Group inventories to net realisable value amounted to US$ 458 thousand (2015 - US$ 161 thousand). In 2016 the write-down of Company inventories to net realisable value amounted to US$ 307 thousand (2015 - US$ 2 thousand).

Note 13 - Trade Receivables

	Group		Company	
	2016	**2015**	**2016**	**2015**
	US$ thousands			
Trade receivables	**17,301**	11,697	**2,793**	3,397
Allowance for doubtful receivables	**(346)**	(360)	**(234)**	(233)
	16,955	11,337	**2,559**	3,164

The Group's and Company's exposure to credit and currency risks and impairment losses related to trade receivables is disclosed in Note 24.

Note 14 - Other Current Assets

	Group		Company	
	2016	**2015**	**2016**	**2015**
	US$ thousands			
Institutions	**1,362**	2,317	**1,058**	1,224
Advances to suppliers	**919**	636	**217**	48
Prepaid expenses	**935**	650	**664**	446
Other	**272**	104	**90**	9
	3,488	3,707	**2,029**	1,727

The Group's and Company's exposure to credit and currency risks is disclosed in Note 24.

Note 15 - Short-Term Investments

Group short-term investments are comprised of bank deposits having weighted average interest rates of 1.16% at December 31, 2016 (December 31, 2015 – 0.94%). Company short-term investments are comprised of bank deposits having weighted average interest rates of 1.11% at December 31, 2016 (December 31, 2015 – 0.92%)(see also Note 24).

NOTES TO THE FINANCIAL STATEMENTS

Note 16 - Cash and Cash Equivalents

	Group		Company	
	2016	2015	2016	2015
	US$ thousands			
Bank balances	**18,116**	11,714	**10,629**	6,263
Bank deposits	**1,351**	7,584	**1,002**	3,005
	19,467	19,298	**11,631**	9,268

Group bank deposits denominated in US dollars have weighted average interest rates of 0.95% at December 31, 2016 (December 31, 2015 – 0.62%). Company bank deposits denominated in US dollars have weighted average interest rates of 1.05% at December 31, 2016 (December 31, 2015 – 0.59%). The Group's and the Company's exposure to interest rate risk is disclosed in Note 24.

Note 17 – Share Capital – The Company

	As at December 31	
	2016	2015
	Number of shares	
Authorised:		
Ordinary shares of no par value	**2,000,000,000**	2,000,000,000
Issued and fully paid:		
Ordinary shares of no par value	**351,916,813**	350,568,823
Dormant shares (out of the issued and fully paid share capital):		
Ordinary shares of no par value	**(1,623,100)**	(1,583,100)
Total number of issued shares:		
(excluding dormant shares)	**350,293,713**	348,985,723

The following are the changes in the issued shares of the Company for the years ended December 31, 2016 and 2015:

	2016	2015
	Number of shares	
Issued ordinary shares at January 1	**348,985,723**	348,081,205
Share options exercised	**1,347,990**	1,897,618
Dormant shares purchased	**(40,000)**	(993,100)
Issued ordinary shares at December 31	**350,293,713**	348,985,723

On October 21, 2010, the Company's shareholders approved a share buyback mandate of up to 10% of the Company's then issued and fully paid up shares. On April 20, 2015 and on April 19, 2016, the Company's shareholders renewed the share buyback mandate of up to 10% of the Company's then issued and fully paid up shares. Under the share buyback mandate, share buybacks may be made, at any time and from time to time up to the earliest of: (a) the date on which the next annual general meeting of the Company is held or required by law to be held; (b) the date on which the authority conferred by the share buyback mandate is revoked or varied by the Company in general meeting; or (c) the date on which share buybacks are carried out to the full extent mandated.

NOTES TO THE FINANCIAL STATEMENTS

Note 17 – Share Capital – The Company (cont'd)

For the years ended December 31, 2016 and 2015 the Company purchased 40,000 and 993,100 ordinary shares, respectively, at a cost of US$ 47 thousand and US$ 1,333 thousand, respectively. In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares as long as they are held by the Company, and as such they do not bear any rights until they are transferred to a third party. For the years ended December 31, 2016 and 2015, 1,347,990 and 1,897,618 shares were issued, respectively, upon the exercise of options for cash (see also Note 22).

For the years ended December 31, 2016 and 2015, the Company declared and paid dividends in the amount of US$ 12.2 million per year, respectively, amounting to US cents 3.5 per year, respectively.

Note 18 – Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share for the year ended December 31, 2016 was based on the profit attributable to ordinary shareholders of US$ 17,980 thousand (2015 – US$ 3,587 thousand) and a weighted average number of ordinary shares outstanding of 349,730,002 (2015 –348,889,726), calculated as follows:

	2016	2015
Issued ordinary shares at January 1	**348,985,723**	348,081,205
Effect of share options exercised	**748,760**	1,399,851
Effect dormant shares purchased	**(4,481)**	(591,330)
Weighted average number of ordinary shares at December 31	**349,730,002**	348,889,726

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2016 was based on profit attributable to ordinary shareholders of US$ 17,980 thousand (2015 - US$ 3,587 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 350,066,574 (2015 -350,431,581), calculated as follows:

	2016	2015
Weighted average number of ordinary shares (basic)	**349,730,002**	348,889,726
Effect of share options on issue	**336,572**	1,541,855
Weighted average number of ordinary shares (diluted) at December 31	**350,066,574**	350,431,581

The average market value of the Company's ordinary shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

NOTES TO THE FINANCIAL STATEMENTS

Note 19 – Other Payables

	Group		Company	
	2016	**2015**	**2016**	**2015**
	US$ thousands			
Employees and related institutions	**3,886**	3,301	**2,063**	1,543
Prepaid income	**1,205**	1,577	**220**	283
Advances from customers	**1,018**	621	**553**	604
Accrued expenses	**1,398**	1,055	**958**	636
Subsidiaries	**--**	--	**382**	2,261
Related parties	**365**	36	**365**	36
Other	**99**	33	**--**	--
	7,971	6,623	**4,541**	5,363

The Group's and the Company's exposure to currency risk related to other payables are disclosed in Note 24. See also Note 27 – Related Parties.

Note 20 – Employee Benefits

A. Defined benefit plan

Israeli labour laws and agreements require the Company and its Israeli subsidiaries to pay severance pay to dismissed or retiring employees (and those leaving their employment under certain other circumstances). The calculation of the severance pay liability was made in accordance with labour agreements in force and based on salary components, which, in management's opinion, create entitlement to severance pay.

The Group's severance pay liabilities to its Israeli employees are funded partially by regular deposits with recognised pension and severance pay funds in the employees' names and by purchase of insurance policies.

Employee benefits consist of the following:

	Group	
	As at December 31	
	2016	**2015**
	US$ thousands	
Present value of the obligation	**1,168**	1,233
Less fair value of assets	**1,024**	1,095
Recognised liability for defined benefit obligation	**144**	138

The Group makes contributions to defined benefit plans that provide pension benefits for employees upon retirement or post-employment. Most of the above assets and obligations relate to the employees of the Company.

NOTES TO THE FINANCIAL STATEMENTS

Note 20 - Employee Benefits (cont'd)

A. Defined benefit plan (cont'd)

Movement in net defined benefit liabilities (assets) and in their components:

	Defined benefit obligation		Less Fair value of plan assets		Net defined benefit liability	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	US$ thousands					
Balance as at January 1	**1,233**	1,342	**1,095**	1,183	**138**	159
Included in profit or loss	**17**	35	**(8)**	30	**25**	5
Included in other comprehensive income	**--**	(79)	**--**	(62)	**--**	(17)
Other movements	**(82)**	(65)	**(63)**	(56)	**(19)**	(9)
Balance as at December 31	**1,168**	1,233	**1,024**	1,095	**144**	138

Principal actuarial assumptions:

	2016	**2015**
Discount rate (1)	**1.74%**	1.35%
Future salary nominal increases (2)	**3.00%**	3.00%

Assumptions regarding future mortality are based on published statistics and mortality tables.

(1) The discount rate used in 2016 and 2015 is based on the yield of fixed-interest NIS high quality corporate bonds with duration approximating the duration of the gross liabilities.

(2) Based on management assessment.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	As at December 31, 2016	
	One percentage point increase	One percentage point decrease
	US$ thousands	
Future salary growth	**45**	**(32)**
Discount rate	**(29)**	**36**

B. Defined contribution plan

The Group provides post-employment benefits under which it pays fixed sums into a provident fund in respect of employee savings plans. The amounts deposited in the year ended December 31, 2016 amounted to US$ 563 thousand (2015 - US$ 545 thousand) and are recognised as personnel expenses in profit or loss. In addition, the Group has a defined contribution plan for employees who are subject to Section 14 of the Severance Pay Law – 1963.

NOTES TO THE FINANCIAL STATEMENTS

Note 21 – Galatea Contingent Consideration

The liability representing contingent consideration to former shareholders of Galatea Ltd. (acquired in 2008) was paid off as at December 31, 2015 (see also Note 19). The business combination agreement allows for adjustments to the cost of the combination that are contingent on one or more future events, and are adjusted accordingly based on actual results and interim updated forecasts. The liability representing contingent consideration to former shareholders of Galatea was decreased during the year ended December 31, 2015 by approximately US$ 47 thousand, as a result of actual Group revenues derived from owned Galaxy™ service centres. Therefore, for the year ended December 31, 2015, goodwill was adjusted accordingly (see Note 3A(ii)) and there was no impact on the consolidated statement of profit or loss and other comprehensive income (see also Note 11 and Note 19).

Note 22 - Share-Based Payments

In April 2015 the Company adopted a share option plan to allot options to directors and employees of the Company and its subsidiaries (the "2015 Plan"). The aggregate number of ordinary shares which may be granted as options on any date, when added to the number of shares issued and issuable in respect of all options granted under all of the Company's Plans then in force shall not exceed 15% of the issued share capital of the Company on the date preceding the date of the relevant grant. As at December 31, 2016, 10,120,000 options have been granted under the 2015 Plan, of which 9,840,000 options are currently outstanding, with no options having been exercised to date (with the balance having been forfeited). Currently, the vesting periods of the options granted under the 2015 Plan range from one year following the date of grant (as such term is defined in the 2015 Plan) and up to four years following the date of grant.

In March 2005 the Company adopted a share option plan to allot options to directors and employees of the Company and its subsidiaries (the "2005 Plan"). As at December 31, 2015, no new options may be granted under the 2005 Plan. Currently, the vesting periods of the options granted under the 2005 Plan range from one year following the date of grant (as such term is defined in the 2005 Plan) and up to four years following the date of grant. As at December 31, 2016, a total of 39,421,435 options have been granted under the 2005 Plan of which 9,541,380 options are currently outstanding and 21,556,541 options have been exercised to date (with the balance having been forfeited).

Under the terms of the 2005 Plan and the 2015 Plan (hereinafter the "Plans"), options shall expire at the end of six years commencing on the date of grant (or any earlier date, if such was mentioned in the grant instrument) or on cessation of employment, at the earlier of the two. Unexercised vested options can generally be exercised within 90 days of cessation of employment.

The Income Tax Authorities have recognised the Plans as a "share allotment through a trustee" plan according to Section 102 to the Tax Ordinance using the "capital gain track." As a result, the benefit to the Israeli employee from the option plan shall be either classified as ordinary income or capital gain, all in accordance with the provisions of Section 102(b)(3) to the Tax Ordinance.

Ordinary shares which shall be issued by the Company pursuant to exercise of options granted under the Plans, entitle their holders with any and all rights attached to the Company's ordinary shares, *inter alia*, the right to receive dividends, the right to participate in the distribution of the Company's assets upon liquidation, voting rights in the Company's General Meetings (provided that as long as the ordinary shares are being held by the trustee, such voting rights will be exercised by the trustee, according to instructions provided by the holders, and if no such instructions are provided – as per the trustee's discretion).

NOTES TO THE FINANCIAL STATEMENTS

Note 22 - Share-Based Payments (cont'd)

During the year ended December 31, 2016, the Company granted 10,120,000 options to employees and directors under the 2015 Plan, with vesting conditions of one to four years and a contractual life of six years. The options will vest subject to service based conditions and performance based conditions, including, sales and profitability targets. During the year ended December 31, 2015, the Company granted 600,000 options under the 2005 Plan to employees with vesting conditions of two to four years and a contractual life of six years. The options will vest subject to service based conditions and performance based conditions, related to the market price of the Company's shares (also see Note 27). Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		**2015**	
	Weighted average exercise price in US$ per share	**Options**	**Weighted average exercise price in US$ per share**	**Options**
Outstanding at January 1	**1.13**	**11,248,399**	1.05	15,753,142
Granted	**1.09**	**10,120,000**	1.98	600,000
Forfeited	**1.30**	**(639,029)**	0.94	(3,207,125)
Exercised	**0.51**	**(1,347,990)**	0.45	(1,897,618)
Outstanding at December 31	**1.11**	**19,381,380**	1.13	11,248,399

The number of share options vested at December 31, 2016 and 2015 was 6,833,880 and 4,103,124, respectively. The weighted average share price at the date of exercise for share options exercised in 2016 was US$ 1.28 (2015 – US$ 1.82).

The Company measured the fair value of the share options granted using a lattice-based valuation model and a Monte-Carlo model for options that included a market price condition. The following assumptions under this method were used for the share options granted during the years ended December 31, 2016 and 2015: weighted average expected volatility of: 40.92% and 55.8%, respectively; weighted average risk-free interest rates (in US dollar terms) of 1.8% and 1.4%, respectively; dividend yield of 2.89% and 2.5%, respectively. The weighted average fair value of the share options granted during the years ended December 31, 2016 and 2015 using the model was US$ 0.34 and US$ 0.84 per share option, respectively.

The average share price in 2016 was US$ 1.17 (2015 – US$ 1.44).

The following table summarizes information about share options outstanding at December 31, 2016:

	Options outstanding			**Options exercisable**	
Range of exercise prices US$ per share	**Number outstanding**	**Weighted-average remaining contractual life (years)**	**Weighted-average exercise price US$**	**Number Exercisable**	**Weighted-average exercise price US$**
0.243-0.365	1,265,313	0.9	0.34	1,265,313	0.34
0.854-1.170	13,956,067	4.3	0.99	4,116,067	0.89
1.535-1.976	4,160,000	3.3	1.72	1,452,500	1.82
	19,381,380	3.9	1.11	6,833,880	0.98

NOTES TO THE FINANCIAL STATEMENTS

Note 22 - Share-Based Payments (cont'd)

The expenses derived from share-based payment transactions are as follows:

	Year ended December 31	
	2016	**2015**
	US$ thousands	
Cost of sales	**96**	99
Research and development expenses	**218**	194
Sales and marketing expenses	**638**	651
General and administrative expenses	**646**	385
	1,598	1,329

Note 23 - Warranty Provision

The provision for warranty relates mainly to product sales during the years ended December 31, 2016 and 2015. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to incur the liability over the next year.

The movement in the warranty provision is as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	US$ thousands			
Balance at the beginning of the year	**306**	434	**219**	319
Provisions made during the year	**444**	299	**288**	194
Provisions used during the year	**(391)**	(427)	**(257)**	(294)
Balance at the end of the year	**359**	306	**250**	219

Note 24 - Financial Instruments

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group		Company	
	Carrying amount			
	2016	**2015**	**2016**	**2015**
	US$ thousands			
Cash and cash equivalents	**19,467**	19,298	**11,631**	9,268
Short-term investments (bank deposits)	**18,520**	13,298	**11,835**	7,532
Trade receivables	**16,955**	11,337	**2,559**	3,164
	54,942	43,933	**26,025**	19,964

The majority of the Group's and Company's cash, cash equivalents and short-term investments are in Israel-based banks.

NOTES TO THE FINANCIAL STATEMENTS

Note 24 - Financial Instruments (cont'd)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Group		Company	
	Carrying amount			
	2016	2015	2016	2015
	US$ thousands			
India	**14,169**	8,631	**1,974**	2,322
Europe	**138**	208	**5**	13
North America	**118**	153	**55**	107
Africa	**652**	703	**21**	209
Israel	**994**	1,112	**284**	383
Other	**884**	530	**220**	130
	16,955	11,337	**2,559**	3,164

For the years ended December 31, 2016 and 2015, a single customer comprised approximately 29% and 26%, respectively, of the Group's outstanding trade receivables. For the year ended December 31, 2016, a single customer comprised approximately 58% and 66%, respectively, of the Company's outstanding trade receivables.

Impairment losses

The aging of trade receivables at the reporting date was:

	Group			
	Gross	Impairment	Gross	Impairment
	2016		2015	
	US$ thousands			
Not past due	**14,371**	**--**	9,513	--
Past due 0-30 days	**1,055**	**--**	877	--
Past due 31-90 days	**1,191**	**--**	540	--
More than 90 days	**684**	**(346)**	767	(360)
	17,301	**(346)**	11,697	(360)

	Company			
	Gross	Impairment	Gross	Impairment
	2016		2015	
	US$ thousands			
Not past due	**2,209**	**--**	2,476	--
Past due 0-30 days	**239**	**--**	610	--
Past due 31-90 days	**84**	**--**	66	--
More than 90 days	**261**	**(234)**	245	(233)
	2,793	**(234)**	3,397	(233)

NOTES TO THE FINANCIAL STATEMENTS

Note 24 - Financial Instruments (cont'd)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group		Company	
	2016	**2015**	**2016**	**2015**
	US$ thousands			
Balance at January 1	**360**	359	**233**	234
Movement	**(14)**	1	**1**	(1)
Balance at December 31	**346**	360	**234**	233

Exposure to currency risk

The Group's and Company's exposure to foreign currency risk was as follows based on notional amounts translated into US$ thousands as at December 31, 2016 and 2015:

	Group			
	December 31, 2016		December 31, 2015	
	NIS	**Rupee**	**NIS**	**Rupee**
Cash and cash equivalents	**5,212**	**1,424**	5,078	3,085
Trade receivables	**15**	**1,481**	--	1,118
Other current assets	**2,103**	**838**	2,780	748
Trade payables	**(3,261)**	**--**	(1,589)	(117)
Income tax payable	**--**	**(201)**	--	(211)
Other payables	**(3,102)**	**(1,815)**	(2,578)	(2,283)
Net balance sheet exposure	**967**	**1,727**	3,691	2,340

	Company			
	December 31, 2016		December 31, 2015	
	NIS	**Rupee**	**NIS**	**Rupee**
Cash and cash equivalents	**3,460**	**--**	1,983	--
Trade receivables	**15**	**--**	114	--
Other current assets	**1,845**	**--**	1,725	--
Trade payables	**(1,965)**	**--**	(1,022)	--
Other payables	**(2,186)**	**--**	(3,740)	--
Net balance sheet exposure	**1,169**	**--**	(940)	--

The following significant US dollar exchange rates applied during the year:

	Average rate		As at December 31	
	2016	**2015**	**2016**	**2015**
NIS 1	**3.841**	3.887	**3.845**	3.578
Rupee 1	**67.35**	64.30	**67.95**	61.10

The Group is mainly exposed to changes in the exchange rates of the US dollar in relation to the NIS with regards to employee compensation and other expenses paid in NIS. For the year ended December 31, 2016, the Group maintained its portion of cash and cash equivalents held in NIS (equivalent to US$ 5.2 million at December 31, 2016 (US$ 5.1 million in 2015)) to match anticipated NIS linked expenses. An appreciation/depreciation of 10% of the NIS and Rupee relative to the US dollar will not result in any material loss/gain in the Statement of Profit and Loss and Other Comprehensive Income.

Note 24 - Financial Instruments (cont'd)

Fair values

The fair values of cash and cash equivalents, trade receivables, certain other current assets, short-term investments, trade and other payables are not materially different from their carrying amounts because of the immediate or short-term maturity of these instruments.

Note 25 – Commitments

A. Operating lease commitments

The total future minimum lease payments of the Group, under non-cancellable operating leases in respect of properties and motor vehicles, are payable as follows:

	As at December 31	
	2016	**2015**
	US$ thousands	
Payable within:		
1 year	**2,119**	1,727
2 to 3 years	**3,007**	3,392
4 to 5 years	**1,722**	2,524
More than 5 years	**22**	418
	6,870	8,061

During the year ended December 31, 2016, approximately US$ 2.3 million was recognised as an expense in the statement of comprehensive income in respect of operating leases (2015 – US$ 1.7 million).

B. The Group is committed to pay royalties at the rate of 3%-3.5% to the OCS on sales proceeds from products for which it received grants up to an amount not exceeding the grants received (linked to the exchange rate of the US dollar). The total grants received, net of royalties paid to the OCS, excluding Galatea, which was repaid in 2013, was approximately US$1.1 million through December 31, 2016. As the technology related to these grants was not commercially successful, future sales connected to the research and development of this technology are still dependent on the result of further successful research and development and market acceptance.

C. On December 2, 2010, a subsidiary of the Company acquired light performance technology. Under the terms of the agreement, the subsidiary may be required to pay additional contingent consideration due in the form of royalties of approximately 5% on certain revenue for a period of up to 14 years following the date of such acquisition, based on 'net sales' as defined in the agreement.

D. On November 9, 2011, a subsidiary of the Company acquired polished diamond imaging technology. Under the terms of the agreement, the subsidiary may be required to pay additional contingent consideration due in the form of royalties of approximately 5% on sales for a period of not less than 7 years following the date of acquisition and up to the life of the patents, capped at US$10 million. Under the terms of the agreement, no royalties were due for the period ended December 31, 2016 and 2015.

E. See Note 27 for contractual obligations to related parties.

F. See Note 10 for contractual obligations related to the ongoing construction of Sarin India's facility.

NOTES TO THE FINANCIAL STATEMENTS

Note 26 – Contingencies

The Group is currently a party to a number of civil litigation proceedings in various jurisdictions in which it does business. The various proceedings include patent and intellectual property infringement litigation, initiated either by us or third parties, a previous distributor litigation and a previous supplier claim. Based on the opinions of the Group's legal advisors, the Group believes that the claims mentioned above are without merit and its exposure to these disputed claims will not have a material impact on its business nor on its financial position or results of operation. Accordingly, no provision has been made in the Group's financial statements for such claims. As to tax disputes, see Note 9.

Note 27 – Related Parties

The following significant related party transactions between the Group and related parties were carried out in the normal course of business on terms agreed between the parties:

Remuneration of key management personnel

	Year ended December 31	
	2016	**2015**
	US$ thousands	
Remuneration of key management personnel and directors		
Fixed income-based	**664**	623
Share-based payments	**541**	321
Other performance based incentives	**313**	--
	1,518	944

Pursuant to an Annual General Meeting and an Extraordinary General Meeting of the Company's shareholders held on April 19, 2016, three executive directors (including the CEO) were granted 3,650,000 options to purchase ordinary shares of the Company, exercisable upon the payment of S$1.692 per share (at no discount of the then Market Price – as such term is defined in the 2015 Plan), with vesting conditions of one to three years and a contractual life of six years. The options will vest subject to service based conditions and performance based conditions, including, sales and profitability targets. The fair value of the options granted was US$ 0.383 per share at the grant date.

Other related party transactions

In September 2009, the Group leased 224 square meters of office space in the Israeli Diamond Exchange building, from a company controlled by Mr. Avraham Eshed, a Director of the Company. As amended in 2015, the lease was extended through December 31, 2015. For the year ended December 31, 2015, the annual rent paid was approximately US$ 131,000. In addition the Company paid in 2016, approximately US$ 10,000 for repairs and restoration upon conclusion of the lease period.

NOTES TO THE FINANCIAL STATEMENTS

Note 28 – Group Entities

A. Details in respect of subsidiaries

The following subsidiaries have been included in the consolidated financial statements:

	Place of Incorporation	Effective equity interest held by the Group as at December 31, 2016 and 2015 %
Galatea Ltd.	Israel	100%
Sarine Color Technologies Ltd.	Israel	100%
Sarine Polishing Technologies Ltd.	Israel	100%
Sarine Holdings USA Ltd.	Israel	100%
Sarin Technologies India Pvt. Ltd.	India	100%
Sarin Hong Kong Ltd.	Hong Kong	100%
Sarine North America Inc.	Delaware, USA	100%
Sarine IGT 10H Inc.	Delaware, USA	100%
Sarine IGT 10I Inc.	Delaware, USA	100%
Sarine IGT 10JKL Inc.	Delaware, USA	100%

B. Movements in investments in subsidiaries:

	Company	
	2016	2015*
	US$ thousands	
Balance at beginning of year	**47,141**	53,447
Movements during the year:		
Investments in equity	**3,822**	7,947
Loans and credit granted to subsidiaries	**7,397**	3,101
The Company's share of profits	**15,120**	6,646
Dividend	**(25,000)**	(24,000)
Balance at end of year	**48,480**	47,141

* Retrospective application regarding initial application of Amendment to IAS 27: Equity Method in Separate Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 29 – Subsequent Events

On February 26, 2017, the Board of Directors recommended the Annual General Meeting approve a final dividend of US 2.5 cents per ordinary share for the full year ended December 31, 2016. Pursuant to the approval of the annual general meeting of the Company's shareholders to be held in April 2016, the Company expects to pay a US$ 8.8 million dividend on May 11, 2017, with Books Closure Date on May 3, 2017.

On January 24, 2017, the Company announced that it has appointed Mr. David Block as Chief Executive Officer (CEO), effective 1 May 2017, following Mr. Uzi Levami's decision to step down. Mr. Levami will continue serving as an Executive Director of Sarine. Mr. Block has been the Group's Deputy CEO and Chief Operating Officer (COO) since 2012, with responsibility for worldwide operations, worldwide sales, including its network of subsidiaries and distributors / resellers and customer care. He is also a Director of many of the Group's subsidiaries, including, primarily, Galatea, Sarin India, Sarine Color Technologies, Sarine Polishing Technologies and Sarine North America.

On January 23, 2017, the Company granted 334,000 options to employees to purchase ordinary shares at an exercise price of S$ 1.78, with vesting periods of approximately two years and a contractual life of six years. The option grants will vest subject to service based conditions and/or performance based conditions, including, sales targets and profitability.

SHAREHOLDING STATISTICS
As at 13 March 2017

Issued and fully paid-up	-	352,367,438
No. of Treasury Shares	-	1,623,100
Class of shares	-	ordinary shares of no par value
Voting rights	-	on a show of hands, by written ballot or by any other means : 1 vote for each ordinary share

ANALYSIS OF SHAREHOLDINGS

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 99	14	1.55	359	0.00
100 – 1,000	115	12.71	86,169	0.02
1,001 - 10,000	514	56.79	2,414,548	0.69
10,001 - 1,000,000	253	27.96	14,940,654	4.24
1,000,001 and above	9	0.99	334,925,708	95.05
	905	100.00	352,367,438	100.00

Shareholdings Held in Hands of Public

Based on information available to the Company as at 13 March 2017, approximately 45 % of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by Singapore Exchange Securities Trading Limited is complied with.

TOP 20 SHAREHOLDERS

No.	Name of Shareholder	No. of Shares	%*
1	Citibank Nominees Singapore Pte Ltd	133,797,788	38.15
2	DBS Nominees Pte Ltd	73,544,791	20.97
3	HSBC (Singapore) Nominees Pte Ltd	53,136,718	15.15
4	Raffles Nominees (Pte) Ltd	23,810,189	6.79
5	UOB Kay Hian Pte Ltd	21,661,975	6.18
6	DBSN Services Pte Ltd	13,984,858	3.99
7	Eyal Avraham Khayat	7,422,889	2.12
8	United Overseas Bank Nominees Pte Ltd	5,707,100	1.63
9	Khoo Wooi Chee	1,859,400	0.53
10	Soh Cheng Lin	800,000	0.23
11	Merrill Lynch (S) Pte Ltd	761,112	0.22
12	DB Nominees (S) Pte Ltd	754,000	0.21
13	BNP Paribas Securities Services	732,595	0.21
14	Chan Kam Loon	530,000	0.15
15	Kwok Yan Hoe	375,000	0.11
16	Chow Kwok Hong	350,000	0.10
17	Maybank Kim Eng Securities Pte Ltd	320,678	0.09
18	Cheong Shuek Mui	300,000	0.09
19	Lim Mui Swan	262,500	0.07
20	Khoo Shi-Tien	229,500	0.07
		340,341,093	97.06

* The percentage of shareholdings was computed based on the issued share capital of the Company as at 13 March 2017 of 350,744,338 shares (which excludes 1,623,100 shares which are held as treasury shares representing approximately 0.46% of the total number of issued shares excluding treasury shares).

SHAREHOLDING STATISTICS
As at 13 March 2017

SUBSTANTIAL SHAREHOLDERS

	Direct Interest		Deemed Interest	
Name	No. of Shares	%*	No. of Shares	%*
Mondrian Investments Partners Ltd.	--	--	31,461,100	8.97
Ehud Harel[1]	--	--	25,796,348	7.35
Hanoh Stark[2]	--	--	24,590,524	7.01
FIL Limited.	--	--	23,060,350	6.57
Pandanus Partners L.P.[3]	--	--	24.060,350	6.57

* The percentage of issued ordinary shares is calculated based on the number 350,744,338 of issued ordinary shares of the company as at 13 March 2017 (excluding 1,623,100 treasury shares).

1 Ehud Harel is deemed a shareholder of the Company by virtue of his indirect ownership through Hargem, Ltd. of 25,608,848 shares held on his behalf by the Israel Discount Bank through Citibank N.A. Singapore custodians and, by virtue of his indirect ownership of 187,500 shares held on his behalf by Eyal Khayat, Option Plan 2005 trustee, through UOB Kay Hian Pte. Ltd.,pursuant to the Plan.

2 Hanoh Stark is deemed a shareholder of the Company by virtue of his indirect ownership through Stark Hanoh Holdings Ltd. of 24,590,524 shares held on his behalf by the Israel Discount Bank through Citibank N.A. Singapore custodians.

3 FIL Limited notified the Company that Pandanus Partners L.P. is deemed interested in the shares held by FIL Limited

Directors' Interests in Shares of the Company

Name of Director	Shareholdings in the name of the Director			Shareholdings in which the Director is deemed to have an interest		
	As at 1 January 2016	As at 31 December 2016	As at 21 January 2017	As at 1 January 2016	As at 31 December 2016	As at 21 January 2017
Daniel Benjamin Glinert	--	--	--	12,299,156	12,379,156	12,379,156
Yehezkel Pinhas Blum	--	--	--	--	--	--
Chan Kam Loon	539,000	539,000	539,000	24,000	24,000	24,000
Avraham Eshed	--	--	--	15,098,022	15,482,022	15,482,022
Ehud Harel	--	--	--	25,796,348	25,796,348	25,796,348
Uzi Levami	--	--	--	12,235,406	12,335,406	12,335,406
Eyal Mashiah	--	--	--	16,325,096	16,325,096	16,325,096
Valerie Ong Choo Lin	--	--	--	575,000	575,000	575,000
Hanoh Stark	--	--	--	24,590,524	24,590,524	24,590,524

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at the Maxwell Chambers, 32 Maxwell Road, Level 3 (Stamford Room), #03-01, Singapore 069115 [See Explanatory Note (a)] on the 25th day of April 2017 at 3:00 PM Singapore time (10:00 AM Israel time) to transact the following business:

Ordinary Business

1. To receive and consider the audited accounts for the year ended 31 December 2016 and the reports of the Directors and Auditors thereon.

2. To declare a final dividend of US cents 2.50 (gross) per share less tax (as applicable) for the year ended 31 December 2016.

3. To re-elect the following retiring Directors of the Company [see Explanatory Note (b)]:

   a. Avraham Eshed
   b. Daniel Benjamin Glinert
   c. Uzi Levami
   d. Yehezkel Pinhas Blum [see Explanatory Note (c)]
   e. Valerie Ong Choo Lin [see Explanatory Note (c)]
   f. Chan Kam Loon [see Explanatory Note (c)]

4. a. To appoint Ms. Varda Shine as a Director of the Company; and
   b. To approve Ms. Varda Shine's remuneration [see Explanatory Note (d)].

5. To appoint Mr. Chan Kam Loon, an Independent Director, as Lead Independent Director. [see Explanatory Note (e)].

6. To approve the grant of up to 1,050,000 options to Independent Directors, under the Company's 2015 Share Option Plan. [See Explanatory Note (f)].

7. To approve Directors' participation fees [see Explanatory Note (g)].

8. To approve the new CEO's, Mr. David Sydney Block, remuneration [see Explanatory Note (h)].

9. To approve the remuneration of Mr. Uzi Levami, the retiring CEO, in his capacity as an Executive Director of the Company [see Explanatory Note (i)].

10. To approve the appointment and remuneration of Mr. Eyal Mashiah, a retiring Executive Director, as a consultant to the Company [see Explanatory Note (j)].

11. To approve the engagement of Messrs. Ilan Weisman and Aharon (Rony) Shapira in the Allegro™ Project and to approve their remuneration [see Explanatory Note (k)].

12. To re-appoint Somekh Chaikin Certified Public Accountants (Isr.), member firm of KPMG International and Chaikin, Cohen & Rubin & Co., Certified Public Accountants (Isr.) as external auditors and to authorise the Directors to fix their remuneration.

NOTICE OF ANNUAL GENERAL MEETING

Special Business

13. To consider and, if thought fit, to pass the following shareholders' resolutions with or without amendments [see Explanatory Note (l)]:

13.1 Authority to issue shares

That authority be given to the Directors of the Company to issue and allot shares in the Company whether by way of rights, bonus or otherwise (including but not limited to the issue and allotment of shares at any time, whether during the continuance of such authority or thereafter, pursuant to offers, agreements or options made or granted by the Company while this authority remains in force) by the Directors, or otherwise disposal of shares (including making and granting offers, agreements and options which would or might require shares to be issued, allotted or otherwise disposed of, whether during the continuance of such authority or thereafter) by the Directors of the Company at any time to such persons (whether or not such persons are shareholders), upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit PROVIDED THAT:

(i) the aggregate number of shares to be issued pursuant to such authority shall not exceed 50% of the issued shares in the capital of the Company excluding treasury shares and subsidiary holdings (as calculated in accordance with paragraph (ii) below), of which the aggregate number of shares and convertible securities issued other than on a *pro rata* basis to existing shareholders must not be more than 20% of the total issued shares in the capital of the Company excluding treasury shares and subsidiary holdings;

(ii) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of shares that may be issued under paragraph (i) above, the total number of issued shares excluding treasury shares and subsidiary holdings shall be based on the number of issued shares in the capital of the Company excluding treasury shares and subsidiary holdings at the time this resolution is passed after adjusting for new shares arising from the conversion or exercise of convertible securities or new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed and any subsequent bonus issue, consolidation or subdivision of the Company's shares;

unless revoked or varied by the Company in a general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. [See Explanatory Note (m)]

13.2 Authority to offer and grant options and issue shares pursuant to the Sarine Technologies Ltd 2015 Share Option Plan (the "Plan")

That the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the provisions of the Plan and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options under the Plan, provided always that the aggregate number of such shares to be issued pursuant to the Plan and any other share option schemes of the Company for the time being in force shall not exceed 15% of the issued shares in the capital of the Company excluding treasury shares and subsidiary holdings from time to time; and offer and grant options with exercise price (as defined in the Plan) set at a discount to the market price (as defined in the Plan) provided that such discount shall not exceed the maximum discount allowed under the Plan. [See Explanatory Note (n)]

14. To transact any other business which may properly be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

AMIR JACOB ZOLTY
Company Secretary

Israel,
6 April 2017

NOTICE OF ANNUAL GENERAL MEETING

Proxies:-
A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company.

An instrument appointing a proxy must be deposited at the office of the Company's main offices at 4 Haharash St., Hod Hasharon, Israel (third floor) or at the Singapore Share Transfer Agent at 112 Robinson Road #05-01 The Corporate Office Singapore 068902 not less than 24 hours before the time fixed for the meeting.

Explanatory notes:-

(a) Please note that the Maxwell Chambers building has a business attire dress code policy - no slippers, sandals, shorts and bermudas are allowed within the premises. Israeli shareholders who wish to take part in the Annual General Meeting from Israel may do so by attending at the Company's main offices in the Diamond meeting room (level 3), 4 Haharash St., Hod Hasharon 4524075, Israel at 10:00 AM, Israel time on said day (25 April 2017). The persons attending the said audio/video conference will be able to pose questions to the Company and to comment on the Company's reports. It should be noted, however, that only persons who shall actually attend the Annual General Meeting in Singapore (whether in person or via proxy) may vote in the Annual General Meeting.

(b) Article 37(c) of the Company's Articles of Association provides that:
"Each Director shall serve, subject to Articles 39 and 40 hereof, and unless the Annual General Meeting appointing him provides otherwise, until the third Annual General Meeting following the Annual General Meeting at which such Director was appointed, or his earlier removal pursuant to this Article 37. A Director who has completed his term of service or has been removed as aforesaid (a "Retiring Director") shall be eligible for re-election."

All of the Company's Directors were appointed by the Annual General Meeting held on 29 April, 2014. It is proposed to re-appoint some of the current Directors of the Company. The proposed (current) Directors' CVs may be found in the Company's Annual Report.

(c) Mr. Chan Kam Loon, if re-elected, will remain as Chairperson of the Audit Committee and member of the Nominating Committee and the Remuneration Committee and will be regarded as an Independent Director. Ms Valerie Ong Choo Lin, if re-elected, will remain as Chairperson of the Nominating Committee and member of the Audit Committee and the Remuneration Committee and Mr. Yehezkel Pinhas Blum, if re-elected, will remain as Chairperson of the Remuneration Committee and member of the Audit Committee and the Nominating Committee. All three Directors will be considered as Independent Directors. Ms. Ong and Mr. Blum are also considered as "External Directors" under the Israeli Companies Law, 1999 (the "**Companies Law**").

The Audit Committee and the Board have rigorously reviewed the independence and the contribution of the three Independent Directors (who were first elected in 2005) and resolved that all three Independent Directors have maintained their independence and that each of them provides to the Company invaluable service and advice. Moreover, given the Company's unique activities on the one hand, and it being a company incorporated and managed in Israel and listed in Singapore, on the other hand, the specific expertise and understanding expected from and provided by its Independent Directors are quite unique and are the result of the mixture of the personal capabilities and skills of the Directors in question, on the one hand, and their actual experience and expertise, gained through their years of service. Therefore, the Board is of the opinion that the Company and its shareholders shall benefit from the continued service of these Directors.

NOTICE OF ANNUAL GENERAL MEETING

More particularly:

Mr. Yehezkel Pinhas Blum brings with him a unique mixture of business skills and business experience, along with prolonged and deep involvement in the diamond industry. Specifically, Mr. Blum's senior positions in the various institutions of the Israel Diamond Exchange in Ramat Gan, and his resulting interaction with international correspondents, grant him unique in-depth understanding of the diamond industry, industry trends and opinion leaders, in general, and as these pertain to the trading of polished diamonds, in particular. Therefore, Mr. Blum's services, inputs and insights are highly appreciated by the Board, given the Company's strategic expansion to the polished diamond trade. The Board is further of the opinion that Mr. Blum has always expressed his independent and impartial opinions at the Board meetings and has successfully maintained his independence.

Mr. Chan Kam Loon holds a degree in Accountancy from the London School of Economics and is a qualified Chartered Accountant with the Institute of Chartered Accountants in England and Wales. Thanks to his formal education married with extensive experience in the fields of investment banking and private equity funding, and especially given his past position in the Singapore Exchange, Mr. Chan has been able to contribute greatly to the Board, in all aspects related to auditing of the financials, strategic decision-making and prioritizing, investors' relations and general ongoing business development. Throughout his years of service, Mr. Chan has maintained his independent position in the Company and has voiced independent opinions.

Ms. Valerie Ong Choo Lin's senior position at Dentons International, as well as her extensive practice in the fields of corporate and commercial law, enable her to voice a learned and well-founded opinion at the Board and to share her vast knowledge and insights with the Company on all issues pertaining to being a publicly listed company in Singapore, Listing Manual issues, proper Board functioning, etc.. Throughout her years of service, Ms. Ong has maintained her independent position in the Company, has voiced independent opinions and has always been able to provide added value to Board discussions.

(d) Ms. Varda Shine is a CEOs mentor and Diamond Industry & Business Advisor, with a career spanning over 30 years in the diamond industry at De Beers, culminating with her serving as the CEO of De Beers' Diamond Trading Company, the arm of De Beers which is responsible for the sale of the majority of its rough diamonds (US$ 6 billion) through the sightholder paradigm. She currently serves as a non-executive Director at Lonmin PLC; as a Board member of the Mineral Development Company of the Government of Botswana and of the Diamond Empowerment Fund; as a Trustee of the Teenage Cancer Trust; as an executive mentor at Merryck & Co. and Duke CE; and as CEO of her own company, Sky Ink, which helps take businesses from concept development through to execution and commercialisation.

The Board is of the opinion that, given Ms. Shine's invaluable experience and expertise in the diamond industry, as well as her international standing, she will greatly contribute to the Board and to the Company.

It is therefore proposed that Ms. Shine be elected as an Independent Director, and (further to the approval of the Company's Remuneration Committee and the Board) that her remuneration shall be as follows:

- An annual fixed fee of US$ 50,000;
- Participation fees per meeting (US$ 1,000 for attendance in person, US$ 600 for attendance via video/audio conference, US$ 500 for written resolutions);
- Grant of 350,000 options to purchase ordinary shares of the Company of no par value ("Ordinary Shares"), under the Company's 2015 Share Option Plan (the "Plan"), with an exercise price which is equal to the Market Price (as such term is defined in the Plan), vested over three years (100,000 options shall vest upon the first anniversary of the date of grant and 125,000 additional options shall vest upon the second and third anniversary of the date of grant (respectively).

It should be noted that the annual fixed fee proposed with regard to Ms. Shine exceeds the amount specified in the Company's Remuneration Policy (as approved by the shareholders meeting held on 19 April 2016) – US$ 33,000. However, the Companies Law allows, under special circumstances and subject to a "Special Majority" (as such term is defined below), the approval of remuneration which exceeds the criteria set by the Company's Remuneration Policy. The Remuneration Committee and the Board are of the opinion, that given Ms. Shine's qualifications, expertise, experience, and standing in the diamond industry, the proposed remuneration is more than justified.

NOTICE OF ANNUAL GENERAL MEETING

(e) According to Guideline 3.3 of the 2012 Code of Corporate Governance:

"Every company should appoint an independent director to be the lead independent director where:
(a) the Chairman and the CEO is the same person;
(b) the Chairman and the CEO are immediate family members;
(c) the Chairman is part of the management team; or
(d) the Chairman is not an independent director."

As the Chairman of the Company is part of the management team and is not an Independent Director, it is proposed to appoint Mr. Chan Kam Loon, an Independent Director (once re-elected, as aforesaid), as the lead Independent Director.

(f) The Company's Remuneration Committee and Board of Directors have resolved, subject to the AGM's approval, to grant options, under the Plan to certain Directors of the Company, as follows:

350,000 options to purchase Ordinary Shares under the Plan to each of Messrs. Yehezkel Pinhas Blum, Chan Kam Loon, and Ms. Valerie Ong Choo Lin.

It was further resolved that the exercise price of these options shall be the Market Price (as such term is defined in the Plan) and that the aforementioned options shall vest over a three-year period: 100,000 options upon the lapse of one year and 125,000 options upon the lapse of each of the second and third years from the date of grant. Under the Companies Law, the grant of options to Directors requires the approval of the Company's General Meeting.

(g) The Company's Remuneration Committee and Board of Directors have resolved, subject to the AGM's approval, to increase the participation fees payable to Non-Executive Directors to US$ 1,000 per participation in person, US$ 600 per participation over a video conference or teleconference and US$ 500 per a written resolution (from US$ 800, US$ 480 and US$ 400, respectively).

(h) As announced by the Company on 24 January 2017, Mr. David Sydney Block will assume the position of the Company's CEO effective 1 May 2017. The Remuneration Committee and the Board recommend that:
a. Mr. Block's monthly salary shall be NIS 55,000 (~ US$ 15,150, according to the currency conversion rate as of 1 March 2017) effective 1 January 2017.
b. Mr. Block shall be granted 400,000 options to purchase Ordinary Shares under the Plan, with an exercise price equal to Market Price (as such term is defined in the Plan), vested over a two-year period (200,000 options shall vest upon the lapse of each year).

(i) As announced by the Company on 24 January 2017, Mr. Uzi Levami will retire as the Company's CEO effective 1 May 2017 and shall, once re-elected, as aforesaid, remain an Executive Director of the Company for a period of 8 months (until 31 December 2017) to facilitate his succession (following such period Mr. Levami will continue as a Non-Executive Director for the duration of his elected tenure, as detailed in Explanatory Note (b) above). The Remuneration Committee and the Board recommend that Mr. Levami shall be paid a monthly compensation of US$ 9,000 for his services as an Executive Director, commencing as of 1 May 2017 (which amount is equal to the monthly payment which was payable to Mr. Eyal Mashiah, when he also served as an Executive Director of the Company; see Explanatory Note (j) below).

(j) Mr. Eyal Mashiah is retiring as an Executive Director. Given Mr. Mashiah's wealth of experience in the diamond industry and having served as an Executive Director since 2009, it is the Board's opinion that his continued contribution to the Company's Executive Committee as a consultant, based on the current scope of his activities in the Company, is highly desirable (especially with regard to the Company's Trade-related services). As such it was approved by the Audit Committee and the Board and it is now proposed that he be appointed a consultant and be granted a monthly remuneration of US$ 9,000, which amount is equal to the monthly sum which was payable to him, when he served as an Executive Director of the Company. Such amount shall be payable for a 12-month period commencing as of 1 May 2017 (which period may be extended by an additional 12-month period – subject to the Audit Committee and Board approval).

NOTICE OF ANNUAL GENERAL MEETING

(k) Messrs. Ilan Weisman and Aharon Shapira, both engineers and shareholders of the Company, parties to the shareholders' agreement executed by certain shareholders of the Company in 2005 (as further detailed in the Company's prospectus; this agreement stands terminated as of 1 April 2017) and parties to the shareholders' agreements executed by certain shareholders of the Company on 15 March 2017 (as further detailed in the Company's announcement of 16 March 2017), have been involved in the development of the first generation of the Group's Allegro™ machine (the Robogem™ machine). The Company would like to retain project management and technical services from Messrs. Weisman and Shapira in connection with the current Allegro™ project. The Audit Committee and the Board have approved a budget of up to US$ 40,000 for each of Messrs. Weisman and Shapira (based on the actual scope of the services which shall be rendered by them) and the Board recommends that the shareholders approve such terms of engagement.

(l) A shareholders' resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon. Notwithstanding the aforesaid, according to the Israeli Companies Law, the re-election of the External Directors (Ms. Valerie Ong Choo Lin and Mr. Yehezkel Pinhas Blum (resolution No. 3, items (d) and (e)), the approval of resolution No. 4 b. (approval of Ms. Varda Shine's remuneration, notwithstanding the guidelines set by the Company's Remuneration Policy), resolution No. 7 (approval of Non-Executive Directors' participation fees), resolution No. 8 (approval of CEO resolution),resolution No. 9 (approval of Uzi Levami's compensation in his capacity as an Executive Director), resolution no. 10 (approval of Mr. Eyal Mashiah's fees as a consultant) and resolution No. 11 (approval of the remuneration of Messrs. Ilan Weisman and Aharon Shapira, in connection with their involvement in the Allegro™ project) on the agenda of this Annual General Meeting requires a majority of the shareholders attending and voting (abstaining votes notwithstanding), provided that: (i) such majority shall consist of the majority of the participating and voting shareholders who are not the controlling shareholders of the company, or otherwise having a personal interest in such appointment; or (ii) the non-interested shareholders who voted against such appointment hold not more than 2% of the company's share capital (a "Special Majority"). According to the Israeli Companies Law, a personal interest" is: "a personal interest of any person in an act or transaction of a company, including a personal interest of his relative or of a corporate body in which such person or a relative of such person has a personal interest, but excluding a personal interest stemming from the fact of a shareholding in the company, including a personal interest of the person voting according to a proxy given to him by another person, even if the appointer does not have a personal interest, and including a personal interest of the appointer, even if the appointee does not have a personal interest, all whether or not the appointee is granted any discretion with regard to the subject matter of the voting.

Please note: according to the recent Israeli court ruling, a shareholder must positively inform the Company whether or not such shareholder has a personal interest in a proposal which is subject to approval by a majority vote of disinterested shareholders, as in the case of resolutions 3 d, 3 e. 4 b., 7, 8, 9, 10 and 11. Your failure to check the box on the proxy form indicating that you have no personal interest will therefore require the Company to assume that you have a personal interest in resolutions 3 d., 3e., 4b, 7, 8, 9, 10 and 11 and disqualify your vote on such proposals.

We may no longer assume that a shareholder who signs and returns a proxy form without a specific indication as to the lack of personal interest of such shareholder has no personal interest with respect to resolutions 3 d., 3 e. 4 b., 7, 8, 9, 10 and 11. If you believe that you, or a related party of yours, is a controlling shareholder or possesses a personal interest and you wish to participate in the vote on resolutions 3 d., 3 e. 4 b., 7, 8, 9, 10 and 11, you should not indicate in the appropriate box that there exists no personal interest on the enclosed proxy form. If you hold your shares through a bank, broker or other nominee and believe that you possess a personal interest in the approval of either resolution, you may also contact the representative managing your account, who could then contact us on your behalf.

(m) The shareholders' resolution set out in item 13.1 above, if passed, will empower the Directors from the date of the above meeting until the date of the next Annual General Meeting, to issue shares in the Company. The maximum number of shares which the Directors may issue under this resolution shall not exceed the quantum set out in this resolution.

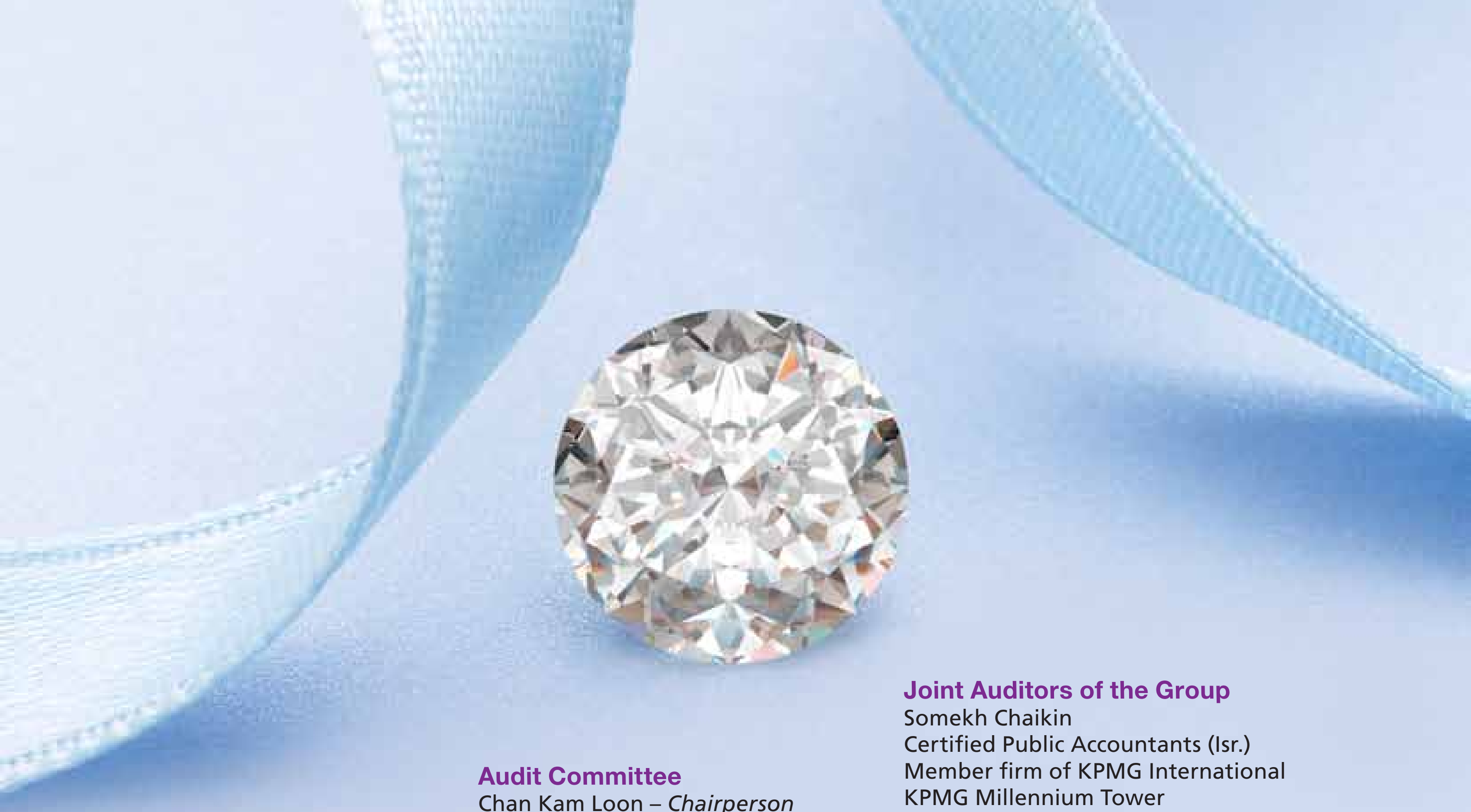
(n) The shareholders' resolution set out in item 13.2 above, if passed, will empower the Directors to offer and grant options and to allot and issue shares in the capital of the Company pursuant to the exercise of the options under the Plan.

CAUTIONARY STATEMENT

This Annual Report may contain "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target." Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as expected revenues; margins; cash flows; return on capital; capital expenditures, capital allocation or capital structure; and dividends. Actual results could differ materially. Particular uncertainties that could cause our actual results to be materially different than those expressed in our forward-looking statements include: changes in law, economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets; the impact of conditions in the financial and credit markets on the industry in which we operate, and our exposure to counterparties; the adequacy of our cash flows and earnings and other conditions which may affect our ability to pay dividend at the planned level or to repurchase shares at planned levels; the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks; our capital allocation plans, as such plans may change including with respect to the timing and size of share repurchases, acquisitions, joint ventures, dispositions and other strategic actions; our success in integrating acquired businesses and operating joint ventures; our ability to realise anticipated earnings and savings from announced transactions, acquired businesses and joint ventures; the impact of potential information technology or data security breaches; and the other factors that are described in "Risk Factors" in our Annual Report for the year ended December 31, 2016. These or other uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

This page has been intentionally left blank.

CORPORATE INFORMATION



Board of Directors

Daniel Benjamin Glinert
Executive Director and Chairman of the Board

Uzi Levami
Executive Director and Chief Executive Officer

Eyal Mashiah
Executive Director

Avraham Eshed
Non-Executive Director

Ehud Harel
Non-Executive Director

Hanoh Stark
Non-Executive Director

Chan Kam Loon
Lead Independent Director

Yehezkel Pinhas Blum
Independent Director

Valerie Ong Choo Lin
Independent Director

Audit Committee

Chan Kam Loon – *Chairperson*
Yehezkel Pinhas Blum
Valerie Ong Choo Lin

Nominating Committee

Valerie Ong Choo Lin - *Chairperson*
Yehezkel Pinhas Blum
Chan Kam Loon
Daniel Benjamin Glinert
Eyal Mashiah

Remuneration Committee

Yehezkel Pinhas Blum - *Chairperson*
Chan Kam Loon
Valerie Ong Choo Lin
Hanoh Stark

Registered Office

Sarine Technologies Ltd.
4 Haharash Street
Hod Hasharon 4524075
Israel
Tel: +972-9-7903500
Fax: +972-9-7903501
www.sarine.com
Israel Registration Number:
51-133220-7

Company Secretary

Amir Jacob Zolty (Adv.)

Share Registrar

M&C Services Private Limited 112
Robinson Road #05-01,
The Corporate Office
Singapore 068902
Singapore

Joint Auditors of the Group

Somekh Chaikin
Certified Public Accountants (Isr.)
Member firm of KPMG International
KPMG Millennium Tower
17 Ha'arba'a Street
Tel Aviv 6473917 Israel
Partner-in-charge: Lior Caspi
(appointed with effect from 1 January, 2016)

Chaikin, Cohen, Rubin and Co.
Certified Public Accountants (Isr.)
Kiryat Atidim Building No. 4
Tel Aviv 6158002 Israel
Partner-in-charge: Ilan Chaikin
(appointed with effect from 1 January, 2012)

Internal Auditor

Doron Cohen (CPA, CIA)
Fahn Kanne Control Management Ltd.
Subsidiary of Fahn Kanne and Co.
Certified Public Accountants (Isr.)
Member firm of Grant Thornton International
Hamasger 32
Tel Aviv 6721118 Israel

Principal Bankers

Bank Leumi Le-Israel Ltd.
Habursa Business Branch
7 Menachem Begin Street
Ramat Gan 5268102
Israel

Bank Hapoalim Ltd.
Raanana Business Branch
14 Hatidhar Street
Raanana 4366516
Israel

SARINE TECHNOLOGIES LTD.

4 Haharash Street
Hod Hasharon 4524075
Israel
T +972 - 9 - 7903500
F +972 - 9 - 7903501

www.sarine.com

IMPACT