# Sarine Technologies Ltd.
# and its Subsidiaries

(Incorporated in Israel)

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

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

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

| | Group Quarter ended December 31, | | | Group Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | Change % | 2019 | 2018 | Change % |
| **Revenue** | **14,639** | **12,182** | **20.2** | **51,323** | **58,504** | **(12.3)** |
| Cost of sales | 6,140 | 4,692 | 30.9 | 21,739 | 19,936 | 9.0 |
| **Gross profit** | **8,499** | **7,490** | **13.5** | **29,584** | **38,568** | **(23.3)** |
| Research and development expenses | 1,923 | 1,964 | (2.1) | 8,184 | 9,280 | (11.8) |
| Sales and marketing expenses | 3,292 | 3,110 | 5.9 | 13,535 | 13,263 | 2.1 |
| General and administrative expenses | 1,490 | 1,408 | 5.8 | 6,764 | 6,019 | 12.4 |
| **Profit from operations** | **1,794** | **1,008** | **78.0** | **1,101** | **10,006** | **(89.0)** |
| Net finance (expense) income | (152) | 8 | NM | (662) | 143 | NM |
| **Profit before income tax** | **1,642** | **1,016** | **61.6** | **439** | **10,149** | **(95.7)** |
| Income tax expense | 432 | 923 | (53.2) | 1,811 | 2,547 | (28.9) |
| **Profit (loss) for the period** | **1,210** | **93** | **1201.1** | **(1,372)** | **7,602** | **NM** |
| Remeasurement of defined benefit plan | (22) | 10 | NM | (22) | 10 | NM |
| Foreign currency translation differences from foreign operations | (89) | 364 | NM | (225) | (826) | (72.8) |
| **Total comprehensive income (loss) for the period** | **1,099** | **467** | **135.3** | **(1,619)** | **6,786** | **NM** |

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

Profit (loss) before income tax is stated after charging the following:

| | Group Quarter ended December 31, | | | Group Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | Change % | 2019 | 2018 | Change % |
| Allowance for doubtful trade receivables | (8) | 109 | NM | (48) | 209 | NM |
| Depreciation and amortisation | 1,084 | 802 | 35.2 | 4,395 | 3,655 | 20.2 |
| Interest (expense) income, net | (55) | 95 | NM | (195) | 331 | NM |
| Exchange rate differences | (97) | (87) | 11.5 | (467) | (188) | 148.4 |
| Warranty provision | 42 | 10 | 320.0 | 53 | 21 | 152.4 |

NM- Not meaningful

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2019 | December 31, 2018 | December 31, 2019 | December 31, 2018 |
| **Assets** | | | | |
| Property, plant and equipment | 13,474 | 14,641 | 1,241 | 1,381 |
| Right-of-use assets | 6,170 | -- | 5,403 | -- |
| Intangible assets | 3,625 | 4,944 | 274 | 342 |
| Long-term trade receivables | 756 | -- | 686 | -- |
| Investment in equity accounted investee and subsidiaries | -- | -- | 39,648 | 44,437 |
| Long-term income tax receivable | 916 | -- | -- | -- |
| Deferred tax assets | 874 | 998 | -- | -- |
| **Total non-current assets** | 25,815 | 20,583 | 47,252 | 46,160 |
| Inventories | 5,452 | 7,032 | 3,276 | 5,297 |
| Trade receivables | 14,595 | 16,406 | 4,813 | 3,980 |
| Other receivables | 1,799 | 3,037 | 840 | 835 |
| Short-term investments (bank deposits) | 11,190 | 12,021 | 9,179 | 7,787 |
| Cash and cash equivalents | 18,284 | 16,832 | 7,433 | 7,271 |
| **Total current assets** | 51,320 | 55,328 | 25,541 | 25,170 |
| **Total assets** | 77,135 | 75,911 | 72,793 | 71,330 |
| **Equity** | | | | |
| Share capital* | -- | -- | -- | -- |
| Dormant shares, at cost | (3,576) | (3,576) | (3,576) | (3,576) |
| Share premium, reserves and retained earnings | 62,996 | 69,232 | 62,996 | 69,232 |
| **Total equity** | 59,420 | 65,656 | 59,420 | 65,656 |
| **Liabilities** | | | | |
| Long-term lease liabilities | 5,716 | -- | 5,218 | -- |
| Employee benefits | 234 | 192 | 223 | 182 |
| **Total non-current liabilities** | 5,950 | 192 | 5,441 | 182 |
| Trade payables | 3,907 | 2,328 | 2,306 | 1,377 |
| Other payables | 6,076 | 6,831 | 4,425 | 3,889 |
| Current lease liabilities | 1,311 | -- | 972 | -- |
| Current tax payable | 103 | 589 | -- | -- |
| Warranty provision | 368 | 315 | 229 | 226 |
| **Total current liabilities** | 11,765 | 10,063 | 7,932 | 5,492 |
| **Total liabilities** | 17,715 | 10,255 | 13,373 | 5,674 |
| **Total equity and liabilities** | 77,135 | 75,911 | 72,793 | 71,330 |

* No par value

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

Zero borrowings from banks as at December 31, 2019 and 2018

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

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

| | Group Year ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Cash flows from operating activities** | | |
| Profit (loss) for the year | (1,372) | 7,602 |
| **Adjustments for:** | | |
| Share-based payment expenses | 642 | 874 |
| Income tax expense | 1,811 | 2,547 |
| Depreciation of property, plant and equipment | 3,076 | 1,951 |
| Amortisation of intangible assets | 1,319 | 1,704 |
| Net finance expense (income) | 6 | (143) |
| Revaluation of lease liabilities | 536 | -- |
| **Changes in working capital** | | |
| Inventories | 1,580 | 168 |
| Trade receivables | 1,055 | 863 |
| Other receivables | 229 | 58 |
| Trade payables | 1,579 | 578 |
| Other liabilities | (502) | (21) |
| Employee benefits | 42 | (16) |
| Income tax paid, net | (2,080) | (2,288) |
| **Net cash from operating activities** | 7,921 | 13,877 |
| **Cash flows used in investing activities** | | |
| Acquisition of property, plant and equipment | (834) | (1,810) |
| Proceeds from realization of property, plant and equipment | 63 | 248 |
| Short-term investments, net | 831 | 360 |
| Interest received | 422 | 331 |
| **Net cash from (used in) investing activities** | 482 | (871) |
| **Cash flows used in financing activities** | | |
| Proceeds from exercise of share options | -- | 80 |
| Purchase of Company's shares by the Company | -- | (521) |
| Dividend paid | (5,259) | (12,281) |
| Payment of lease liabilities | (1,264) | -- |
| Interest paid | (497) | -- |
| **Net cash used in financing activities** | (7,020) | (12,722) |
| **Net increase in cash and cash equivalents** | 1,383 | 284 |
| **Cash and cash equivalents at beginning of the year** | 16,832 | 16,736 |
| **Exchange rate differences** | 69 | (188) |
| **Cash and cash equivalents at end of the year** | 18,284 | 16,832 |

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

**Statement of Changes in Shareholders' Equity**

**Group (US$'000)**

| | Share Capital* | Share premium and reserves | Translation reserve | Retained earnings | Dormant shares | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2018** | -- | 31,235 | (1,386) | 43,924 | (3,055) | 70,718 |
| Profit for the year ended December 31, 2018 | -- | -- | -- | 7,602 | -- | 7,602 |
| Other comprehensive loss for the year ended December 31, 2018 | -- | 10 | (826) | -- | -- | (816) |
| Share-based payment expenses | -- | 874 | -- | -- | -- | 874 |
| Exercise of options | -- | 80 | -- | -- | -- | 80 |
| Dormant shares, acquired at cost (746,400) | -- | -- | -- | -- | (521) | (521) |
| Dividend paid | -- | -- | -- | (12,281) | -- | (12,281) |
| **Balance at December 31, 2018** | -- | 32,199 | (2,212) | 39,245 | (3,576) | 65,656 |
| | | | | | | |
| **Balance at January 1, 2019** | -- | 32,199 | (2,212) | 39,245 | (3,576) | 65,656 |
| Loss for the year ended December 31, 2019 | -- | -- | -- | (1,372) | -- | (1,372) |
| Other comprehensive loss for the year ended December 31, 2019 | -- | (22) | (225) | -- | -- | (247) |
| Share-based payment expenses | -- | 642 | -- | -- | -- | 642 |
| Dividend paid | -- | -- | -- | (5,259) | -- | (5,259) |
| **Balance at December 31, 2019** | -- | 32,819 | (2,437) | 32,614 | (3,576) | 59,420 |

* No par value

**Statement of Changes in Shareholders' Equity**

**Company (US$'000)**

| | Share Capital* | Share premium and reserves | Translation reserve | Retained earnings | Dormant shares | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2018** | -- | 31,235 | (1,386) | 43,924 | (3,055) | 70,718 |
| Profit for the year ended December 31, 2018 | -- | -- | -- | 7,602 | -- | 7,602 |
| Other comprehensive loss for the year ended December 31, 2018 | -- | 10 | (826) | -- | -- | (816) |
| Share-based payment expenses | -- | 874 | -- | -- | -- | 874 |
| Exercise of options | -- | 80 | -- | -- | -- | 80 |
| Dormant shares, acquired at cost (746,400) | -- | -- | -- | -- | (521) | (521) |
| Dividend paid | -- | -- | -- | (12,281) | -- | (12,281) |
| **Balance at December 31, 2018** | -- | 32,199 | (2,212) | 39,245 | (3,576) | 65,656 |
| | | | | | | |
| **Balance at January 1, 2019** | -- | 32,199 | (2,212) | 39,245 | (3,576) | 65,656 |
| Loss for the year ended December 31, 2019 | -- | -- | -- | (1,372) | -- | (1,372) |
| Other comprehensive loss for the year ended December 31, 2019 | -- | (22) | (225) | -- | -- | (247) |
| Share-based payment expenses | -- | 642 | -- | -- | -- | 642 |
| Dividend paid | -- | -- | -- | (5,259) | -- | (5,259) |
| **Balance at December 31, 2019** | -- | 32,819 | (2,437) | 32,614 | (3,576) | 59,420 |

* No par value

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

| | December 31, 2019 | September 30, 2019 | December 31, 2018 |
|---|---|---|---|
| | **No. of shares** | **No. of shares** | **No. of shares** |
| **Authorised:** | | | |
| Ordinary shares of no par value | 2,000,000,000 | 2,000,000,000 | 2,000,000,000 |
| **Issued and fully paid:** | | | |
| Ordinary shares of no par value | 353,672,126 | 353,672,126 | 353,672,126 |
| **Dormant shares** (out of the issued and fully paid share capital)**:** | | | |
| Ordinary shares of no par value | 3,076,400 | 3,076,400 | 3,076,400 |
| **Total number of issued shares** (excluding dormant shares) | 350,595,726 | 350,595,726 | 350,595,726 |

For the three months and year ended December 31, 2019, no share options were exercised into ordinary shares. For the three months and year ended December 31, 2019, the Company did not purchase any of its ordinary shares.

In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares (treasury shares in Singaporean terms) as long as the Company holds them, and, as such, they do not bear any rights until they are transferred to a third party. The issued and fully paid shares as at December 31, 2019, September 30, 2019 and December 31, 2018 included 3,076,400 dormant shares, respectively.

**Details of changes in share options:**

| | Average exercise price in US$ per share | Options |
|---|---|---|
| At January 1, 2019 | 1.107 | 19,876,884 |
| Granted | 0.265 | 7,070,000 |
| Cancelled | 0.961 | (4,514,892) |
| Exercised | -- | -- |
| At December 31, 2019 | 0.879 | 22,431,992 |

At December 31, 2019, the average exercise price in Singapore dollars per share was S$ 1.185, based on an exchange rate of US$ 1 = S$ 1.3472.

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

As at December 31, the total number of issued shares excluding dormant shares was 350,595,726 (as at December 31, 2018- 350,595,726). As at December 31, 2019, the total number of dormant shares was 3,076,400 (as at December 31, 2018- 3,076,400).

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

For the three months and year ended December 31, 2019, the Company did not purchase any of its ordinary shares, and there was no sale, transfer, disposal, cancellation and/or use of treasury shares by the Company.

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

These figures have not been audited or reviewed.

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

Not applicable.

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

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended December 31, 2018 have been applied in the preparation for the financial statements for year ended December 31, 2019, except for the adoption of IFRS 16, Leases.

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

The adoption of IFRS 16 had a material effect on our consolidated financial statements from January 1, 2019, and has had no impact on the presented comparable period. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead, IFRS 16 presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements (with two exceptions whereby a lessee may elect to not apply the requirements for recognizing a right-of-use asset and a liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value). Therefore, from January 1, 2019, depreciation expenses and financing expenses will be recognized instead of operating lease expenses relating to assets leased under an operating lease. The adoption of IFRS 16 resulted in an increase of approximately $7.0 million in the balance of right-of-use assets and an increase of approximately of $7.3 million in the balance of lease liabilities, as at January 1, 2019. For the year ended December 31, 2019, the Group recorded deprecation of US$ 1.3 million, interest expense of US$ 0.4 million and exchange rate differences related to the revaluation lease liabilities of US$ 0.5 million.

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

| | **Quarter ended December 31,** | | **Year ended December 31,** | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| US cents | | | | |
| Basic earnings (loss) per share | 0.35 | 0.03 | (0.39) | 2.17 |
| Diluted earnings (loss) per share | 0.35 | 0.03 | (0.39) | 2.17 |
| Singapore cents* | | | | |
| Basic earnings (loss) per share | 0.47 | 0.04 | (0.53) | 2.92 |
| Diluted earnings (loss) per share | 0.47 | 0.04 | (0.53) | 2.92 |

Basic earnings per share for the three months ended December 31, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares issued during the current period and the equivalent of 350,595,726 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended December 31, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares and outstanding options and the equivalent of 350,595,726 ordinary shares and outstanding options during the preceding period.

Basic earnings (loss) per share for the year ended December 31, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares issued during the current period and the equivalent of 350,919,208 ordinary shares during the preceding period.

Diluted earnings (loss) per share for the year ended December 31, 2019 are calculated based on weighted average number of 350,595,726 ordinary shares and outstanding options and the equivalent of 350,921,294 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US$ 1= S$ 1.3472 at December 31, 2019.

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

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2019 | December 31, 2018 | December 31, 2019 | December 31, 2018 |
| Net asset value (US$ thousands) | 59,420 | 65,656 | 59,420 | 65,656 |
| Net asset value per ordinary share (US cents) | 16.95 | 18.73 | 16.95 | 18.73 |
| Net asset value per ordinary share (Singapore cents*) | 22.84 | 25.23 | 22.84 | 25.23 |

At December 31, 2019 and 2018, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2019 and 2018 of 350,595,726 (not including 3,076,400 dormant ordinary shares).

* Convenience translation based on exchange rate of US$ 1=S$ 1.3472 at December 31, 2019.

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

***Overview***

The Group continued quarterly profitability in Q4 2019, expanding its operational and net profits over Q3 2019's return to quarterly profitability. The Group reported revenues of US$ 14.6 million, profit from operations of US$ 1.8 million, and a net profit of US$ 1.2 million in Q4 2019, as compared to revenues of US$ 14.2 million, profit from operations of US$ 1.0 million and net profit of US$ 0.2 million reported in Q3 2019 and as compared to revenues of US$ 12.2 million, profit from operations of US$ 1.0 million and net profit of US$ 0.1 million in Q4 2018.

During Q4 2019, there were signs of a return to a more balanced market, as excess inventories in the mid-stream eased. This was also evidenced by a lower drop in the quantities of rough stones entering the production pipeline. In the last two sights of 2019 the decrease in sight volumes was only some 10% less y-o-y, as compared to an approximate 40% drop y-o-y reported during the prior 4 sights and an aggregate drop of 25-30% during the first 10 months of FY2019, as evidenced by sales volumes reported by DeBeers and other mining producers. Reduced bloated midstream inventories also alleviated somewhat the issue of working capital, at least for the short term. Continued civil unrest in Hong Kong significantly impaired retail sales of luxury items there, with most retailers reporting decreases of 40-50% in sales. Sales to Chinese consumers seem to have moved into mainland China, with most jewellery chains there reporting single digit increases. Lab-Grown Diamonds continue to be a disturbance, though still a small percentage of the total diamond value chain.

Wrapping up a very challenging FY2019, the Group reported revenues of US$ 51.3 million for the year ended December 31, 2019, profit from operations of US$ 1.1 million, and a net loss of 1.4 million, as compared to revenues of US$ 58.5 million, profit from operations of US$ 10.0 million, and net profit of US$ 7.6 million for the year ended December 31, 2018. The over 25% decline in polishing activity, due to the reduced quantities of rough stones entering the pipeline, resulted in reduced revenues and profitability in FY2019, with a 15% year-over-year decrease in the Group's recurring revenue from Galaxy scanning activities (notably less than the drop in polishing activity, also due to an expanded installed base), and also resulted in an approximate 12% decline in capital equipment sales.

It is interesting to analyse the first and second halves of FY2019. H2 2019 over H1 2019 shows an increase in revenues of 27.9% from US$ 22.5 million to US$ 28.8 million and accordingly a conversion from a loss of US$2.8 million to a profit of US$ 1.4 million. Strikingly, while as H1 2019 as compared to H1 2018 shows a significant drop in revenues of 35% to US$ 22.5 million from US$ 34.6 million and a resulting net loss of US$2.8 million versus a net profit of US$ 7.2 million, H2 2019 as compared to H2 2018 shows the opposite – an increase of 20.6%, in revenues to US$28.8 million from US$ 23.9 million and a commensurate increase in profit of 299% to US$1.4 million from US$0.4 million. We believe this is indicative of the return to more normal conditions in the second half of the year.

Notwithstanding challenging industry conditions, the Group delivered in Q4 2019 39 Galaxy®-family inclusion mapping systems, matching Q3's 2019 record deliveries, bringing total deliveries in FY2019 to a record 145 systems and bringing our installed base to 555 systems as of December 31, 2019. Just over half of the delivered systems were of the Meteorite™ model (21), with the remaining being of the Meteor™ model (18). Just under a third of these systems were sold under the one-off paradigm with no follow-on per-use revenues.

Overall recurring revenues for the year ended December 31, 2019 (including Galaxy®-related scanning, Quazer® services, polished diamond related ("Trade") services, annual maintenance contracts, etc.) were approximately 50% of our overall revenue. Overall polished diamond retail-related revenues, currently mostly still from the Sarine Profile™ and its various components (mostly Sarine Light™), with initial contributions from the Sarine Diamond Journey™, rose about 27% in Q4 2019 over Q3 2019 and were just under 3% of our overall revenue for FY2019.

***Balance Sheet and Cash Flow Highlights***

As at December 31, 2019, cash, cash equivalents and short-term investments (bank deposits) (“**Cash Balances**”) increased to US$ 29.5 million as compared to US$ 28.9 million as of December 31, 2018. The increase in Cash Balances despite the FY2019 net loss of US$ 1.4 million, was primarily due to operating cash flow of US$7.9 million (which included non-cash operating expenses of US$ 5.0 million (depreciation, amortisation and share-based options compensation), along with lower inventories and higher trade payables, mainly offset by the payment of US$ 5.3 million in dividends in 2019 (a US$ 3.5 million final dividend for 2018 paid in Q2 2019 and the US$ 1.8 million interim 2019 dividend paid in August 2019).

***Revenues***

Revenue by geographic segments -- (US$ ‘000)

| Q4 2019 versus Q4 2018 | | | | |
|---|---|---|---|---|
| **Region** | **Q4 2019** | **Q4 2018** | **$ change** | **% change** |
| **India** | 10,388 | 5,919 | 4,469 | 75.5 |
| **Africa** | 704 | 2,306 | (1,602) | (69.5) |
| **Europe** | 386 | 630 | (244) | (38.7) |
| **North America** | 1,065 | 222 | 843 | 379.7 |
| **Israel** | 837 | 786 | 51 | 6.5 |
| **Other*** | 1,259 | 2,319 | (1,060) | (45.7) |
| **Total** | 14,639 | 12,182 | 2,457 | 20.2 |

| Q4 2019 versus Q3 2019 | | | | |
|---|---|---|---|---|
| **Region** | **Q4 2019** | **Q3 2019** | **$ change** | **% change** |
| **India** | 10,388 | 10,415 | (27) | (0.3) |
| **Africa** | 704 | 837 | (133) | (15.9) |
| **Europe** | 386 | 231 | 155 | 67.1 |
| **North America** | 1,065 | 792 | 273 | 34.5 |
| **Israel** | 837 | 587 | 250 | 42.6 |
| **Other*** | 1,259 | 1,303 | (44) | (3.4) |
| **Total** | 14,639 | 14,165 | 474 | 3.3 |

| 2019 versus 2018 | | | | |
|---|---|---|---|---|
| **Region** | **2019** | **2018** | **$ change** | **% change** |
| **India** | 35,980 | 38,889 | (2,909) | (7.5) |
| **Africa** | 3,850 | 7,029 | (3,179) | (45.2) |
| **Europe** | 1,300 | 2,258 | (958) | (42.4) |
| **North America** | 2,433 | 1,043 | 1,390 | 133.3 |
| **Israel** | 2,930 | 3,399 | (469) | (13.8) |
| **Other*** | 4,830 | 5,886 | (1,056) | (17.9) |
| **Total** | 51,323 | 58,504 | (7,181) | (12.3) |

* Primarily Asia, excluding India

Revenues for Q4 2019 increased to US$ 14.6 million as compared to revenues of US$ 14.2 million in Q3 2019 and US$ 12.2 million in Q4 2018. The sequential increase in revenues resulted from higher capital equipment sales offset somewhat by lower recurring revenues, which resulted, characteristically for Q4, from the Diwali holiday break in India. The increase in Q4 2019 revenues on a year-over-year basis, mainly in India and North America, resulted from markedly higher capital equipment sales, including a record number of Galaxy®-family inclusion mapping systems, a significant portion of which were sold under the one-off paradigm, and the sale of Quazer systems for the processing of lab-grown diamonds, offset by reduced recurring revenues from inclusion mapping activities due to the aforementioned decrease in the quantities of rough diamonds entering the pipeline.

Revenues for the year ended December 31, 2019 decreased to US$ 51.3 million as compared to US$ 58.5 million for the year ended December 31, 2018. The decrease in revenues on a year-over-year basis, across most geographies, resulted from significantly lower capital equipment sales, due to the negative sentiment in the midstream, and reduced recurring revenues from inclusion mapping activities, due to the decline in the number of rough diamonds entering the pipeline, as discussed above.

***Cost of sales and gross profit***

Cost of sales in Q4 2019 increased to US$ 6.1 million, as compared to US$ 4.7 million in Q4 2018, and as compared to US$ 5.7 million in Q3 2019, with a gross profit margin of 58% in Q4 2019, versus 61% in Q4 2018 and versus 60% in Q3 2019. The increase in quarterly cost of sales on both year-over-year and sequential bases was primarily due to increased sales volumes in Q4 2019 versus the comparable periods. The decline in the Q4 2019 gross profit margin was primarily due to product mix - lower recurring revenues from inclusion scanning and the higher incidence of lower priced Meteor™/Meteorite™ models in the sales mix.

Cost of sales for the year ended December 31, 2019 increased to US$ 21.7 million as compared to US$ 19.9 million for the year ended December 31, 2018, with gross profit margins of 58% in FY2019 and 66% in FY2018. The increase in cost of sales for FY2019 was mainly due to product mix, which along with the significantly reduced sales volume also impacted the gross profit margins – as already noted, lower recurring revenues from inclusion scanning compared to FY2018 and a significantly higher proportion of lower-end Meteor™/Meteorite™ models in the product mix.

### *Research and development expenses*

Research and development (R&D) expenses for Q4 2019 of US$ 1.9 million decreased as compared to US$ 2.0 million in Q4 2018 and as compared with US$ 2.1 million in Q3 2019. Research and development expenses for the year ended December 31, 2019 decreased to US$ 8.2 million as compared to US$ 9.3 million for the year ended December 31, 2018. The quarterly and annual decreases in research and development expenses were primarily due to lower employee compensation expenses, as we continue to focus our R&D on key core technologies.

### *Sales and marketing expenses*

Sales and marketing expenses for Q4 2019 increased to US$ 3.3 million as compared to US$ 3.1 million in Q4 2018, and decreased as compared to US$ 3.6 million in Q3 2019. Sales and marketing expenses for the year ended December 31, 2019 increased to US$ 13.5 million, as compared to US$ 13.3 million for the year ended December 31, 2018. The year-over-year increase in sales and marketing expenses, both on quarterly and annual bases was mainly due to higher personnel compensation expenses in the Asia Pacific (APAC) region, as a result of bolstering our sales teams in line with the Group's focus on gaining traction in its retail-related services business in this market, and from increased social networking and digital marketing activities. The sequential quarterly decrease in sales and marketing expenses was due to reduced trade show related expenditures, less advertising expenses, lower recruitment fees and the reversal of certain sales compensation accruals.

### *General and administrative expenses*

General and administrative expenses for Q4 2019 increased to US$ 1.5 million as compared to US$ 1.4 million in Q4 2018, and decreased as compared to US$ 1.7 million in Q3 2019. General and administrative expenses for the year ended December 31, 2019 increased to US$ 6.8 million as compared to US$ 6.0 million for the year ended December 31, 2018. The year-over-year increase in general and administrative expenses on both quarterly and annual bases was primarily due to higher third-party professional fees associated with our IP protection and litigation. The sequential quarterly decrease in general and administrative expenses was mainly due to lower third-party professional fees associated with IP protection and litigation during the Diwali holiday break in India.

### *Profit from operations*

The Group reported profit from operations of US$ 1.8 million for Q4 2019, as compared to US$ 1.0 million in Q4 2018, and 1.0 million in Q3 2019. The quarterly year-over-year increase in profitability was primarily due to higher revenues offset somewhat by increased operating expenses - higher sales & marketing and general & administrative expenses offset by lower research & development expenses, as detailed above. The quarterly sequential increase in profit from operations was mainly due to lower operating expenses in all categories, as noted above. The Group reported profit from operations of US$ 1.1 million for the year ended December 31, 2019 as compared to US$ 10.0 million for the year ended December 31, 2018. The decrease in profit from operations in FY2019 was primarily due to lower revenues and gross profitability margins, as detailed above.

### *Net finance (expense) income*

Net finance expense for Q4 2019 was US$ 152,000, as compared to net finance income of US$ 8,000 in Q4 2018. Net finance expense for the year ended December 31, 2019 was US$ 662,000 as compared to net finance income of US$ 143,000 for the year ended December 31, 2018. The increase in net finance expense was primarily due to the recording of interest expenses and exchange rate differences associated with the new application of IFRS 16 on our leases (see Section 4 and Section 5).

***Income tax expense***

The Group recorded an income tax expense of US$ 0.4 million for Q4 2019 as compared to an expense of US$ 0.9 million for Q4 2018, and as compared to US$ 0.6 million in Q3 2019. The quarterly year-over-year decrease in income tax expenses was primarily due to the write down in Q4 2018 of US$ 0.5 million of certain deferred and other tax assets. The quarterly sequential decrease in income tax expenses was due to lower subsidiary profitably associated with product mix. The Group recorded an income tax expense of US$ 1.8 million for the year ended December 31, 2019 versus US$ 2.5 million for the year ended December 31, 2018, primarily due to lower pre-tax profitability and income tax expenses associated with subsidiaries' profitability during the applicable periods and the aforementioned write down in 2018 of certain deferred and other tax assets.

***Profit (loss) for the period***

The Group reported a net profit US$ 1.2 million for Q4 2019, as compared to US$ 0.1 million in Q4 2018, and US$ 0.2 million in Q3 2019. The quarterly year-over-year increase in profitability was primarily due to higher revenues and lower income taxes offset by increased operating expenses (mainly higher sales & marketing expenses, as detailed above) and increased finance expenses associated with IFRS 16, as detailed above. The quarterly sequential increase in profitability was primarily due to lower operating expenses, and lower income taxes, as noted above. The Group reported a net loss of US$ 1.4 million (primarily composed of non-cash expenses) for the year ended December 31, 2019, as compared to net profit of US$ 7.6 million for the year ended December 31, 2018. The year-over-year loss of profitability was primarily due to lower revenues and gross profitability margins, as detailed above.

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

Not applicable.

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

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

a. Positive macroeconomics in general, and expanding consumer appetite for luxury goods including diamond jewellery, in particular, provide a firm underpinning for the diamond industry in 2020 and beyond.

b. The civil unrest in Hong Kong continues to severely impair retail sales volumes in that important trade hub, with jewellery sales there down 40% to 45%, and some high-end retailers are shuttering outlets (e.g., Louis Vuitton and Chow Tai Fook). Chinese retail diamond jewellery sales actually increased by high single-digit percentages in the second half of 2019, also possibly due to Chinese consumers opting to stay home rather than travel to Hong Kong, which had been the norm in years past. The U.S. economy remains strong with record low unemployment, average wage increases and overall generally positive economic news. As the U.S. and China have signed a preliminary agreement relating to their trade dispute, this issue may now be of lesser concern.

c. The effects of the Novel Coronavirus outbreak in China, a potentially significant impediment to its economy, in general, and to retail luxury sales, in particular, are still not clear. Currently, initial estimates have cut Chinese economic growth in 2020 by half a percent due to the outbreak, and immediate impacts have been the extension of the Lunar New Year break in most urban centres, very atypical mall and retail store closures over the holiday period and the implementation of extensive travel restrictions to and from China (including the postponement of the Hong Kong International Jewellery Show from March to May). If the outbreak is exacerbated, short-term implications could be significant to the diamond industry (and many others). China is the second largest market for polished diamonds, accounting for almost a fifth of global demand both in China proper and the contribution of Chinese tourism abroad, now curtailed due to the aforementioned travel restrictions. A significant slowdown in this key market would have a meaningful negative impact on our polishing customers in the midstream (as well as a ripple effect up to the upstream producers). From a more focused perspective, we see two areas of possible negative impact on the Group. Though our assembly is all done in Israel, if manufacturing centres in China reduce activity and as transportation/shipping restrictions are put in place, the Group will have direct and indirect sourcing problems, as China-produced components are used directly by us and indirectly by our suppliers of subsystems. Secondly, as the APAC market is key to the continued expansion of our polished diamond retail services, if the retail trade there is significantly impaired, appetite for our new paradigms may wane and our growth will be delayed.

d. Banks in India continue to implement their restrictive credit policies. However, as polished diamond inventories have eased due to the significant reductions in the quantities of rough diamonds entering the midstream pipeline (over 25% on an annual basis and over 40% in the second half of 2019; see section [f] below), the impact on manufacturers' working capital has eased somewhat for now.

e. Lab-grown diamonds (LGD) continue to generate uncertainties as to the future dynamics of the natural diamond industry, in general, and particularly so for very small natural stones. The acceptance of LGD will ultimately be driven by the consumers and will be influenced by many issues including basic economics, but also other considerations, such as retained value, sustainability concerns, cultural backgrounds and even psychological and emotional perceptions pertaining to the significance associated with a much less valuable LGD engagement ring, where the solitaire carat center stone may cost only several hundred US dollars. Clearly, manufacturers and retailers alike are pondering the longer-term issues LGD pose, and growing numbers, mainly in the U.S., are venturing into the LGD market with parallel separate offerings. We believe that there will be a market for both types of stones, but that they need to be distinctively marketed, as indeed mandated by the U.S. Federal Trade Commission.

f. The aggregate dollar-value of DeBeers' 2019 sights was down over 25% year over year. The initial January sight in 2020 was some 10% higher than that of January 2019, but the supply in the comparable period last year was already dampened by some 25%, due to inventory overhang at the end of 2018. The average price per carat of rough stones sold by DeBeers' during 2019 was down 5-7%, with anecdotal information indicating significantly deeper cuts in certain categories of weak-selling stones. The prices at the January 2020 sight were up 3-4% across most categories. Alrosa's sales during 2019 decreased even more – in excess of 30% year over year. Responsible supply strategies by key producers will ensure a reasonable balance between supply and demand and preclude the repetition of industry imbalances and eventual disruption, as occurred in 2015 and 2019. The possible effects of the virus outbreak notwithstanding, as noted above, we are cautiously optimistic that 2020 will be a more equitably balanced year for the industry.

g. Our expenses continue to be prudently managed, with a slight sequential reduction in research and development costs offset by slight increases in sales and marketing and general and administrative expenditures, as amplified upon in Section 8 above.

h. We delivered 39 inclusion mapping systems in Q4 2019, 28 of the Meteorite™ model and 11 of the Meteor™ model, matching our Q3 record. This continues to indicate our ongoing success at negating the effects of the illicit competition, especially in the small stones segments. These deliveries bring our installed base to 555 as of end-of-year 2019. Aggregate deliveries for 2019 were a record 145 systems, 29 of the Meteor™ model and 116 Meteorites™. In 2019 we scanned over 17 million stones, as compared to 12 million stones scanned in 2018, an over 40% increase. It should be noted that the increase in stones being scanned is mostly due to accelerated adoption of our Meteor™ and Meteorite™ systems for small and very small stones. For the use of these machines, we collect a flat fee per machine per month commensurate with the exponentially lower value of these stone sizes, as compared to those scanned by our Galaxy® models. Thus, our revenues collected do not increase proportionately to the expansion in the number of stones scanned. Overall in 2019, the revenues realised from scanning actually decreased due to the mix of sizes of stones scanned and the absolute reduction in the number of larger stones entering the pipeline.

i. Based on our continued setting of new records of rough stones being scanned by our inclusion mapping systems and the record quarterly sales of inclusion mapping systems to Indian manufacturers, we believe we are significantly constraining the illicit competition in India mostly to stones in the Solaris™ size segment of rough stones. We continue to counter all illicit competition with legal, technological and commercial means. Our planning technology, as embodied in our Advisor® planning software continues to be the leading industry standard. Over 60 million stones were planned utilising our online versions of the Advisor® package (releases 6.0 and 7.0) and many tens of millions more on our older offline versions, from which no direct data is available. We estimate that close to a hundred million stones are processed annually on our planning solutions. Commercially, the expanding adoption of our Sarine Profile™ and Sarine Diamond Journey™ paradigms, is creating more opportunities for midstream suppliers, who are thus further incentivised to forego the possible short-term cost benefits of utilising illicit scanning solutions.

j. Our Sarine Profile™, our umbrella term for our digital paradigm providing "profiling" data pertaining to a polished diamond to a consumer, comprising the Sarine Light™, Sarine Loupe™, Sarine Diamond Journey™, AI-derived 4Cs and other data such as Hearts and Arrows representations, third party diamond reports, retailer promotional material, etc., all as opted for by the retailer, continues to gain traction in the APAC market, with multiple new additional retailers now adopting the Sarine Profile™ reports in China and Japan. In Australia a specialised wholesaler is now offering the Sarine Profile™ reports including the Sarine Diamond Journey™ and AI-derived 4Cs grading components

k. We are continuing to see very strong interest in our Sarine Diamond Journey™ traceability solution from several leading global brands and from key U.S. retailers, as well as from miners (producers). We have launched trial pilot programs with several of these industry-leading players. In China, Japan and Australia the story-telling aspect of the Sarine Diamond Journey™ offering is gaining traction rapidly and at the last International Jewellery Tokyo (IJT) trade show, this paradigm was showcased by multiple polished diamond wholesalers. As the midstream manufacturers participating in our Journey Official Partners Program are seeing tangible results of their adoption of our paradigm, we are seeing steady growth in the number of Journey-ready stones that are being polished with their data appropriately uploaded to our cloud based repository. We have surpassed a 60,000 stone inventory, having nearly doubled it in the last quarter of 2019, as the Journey-associated processes become an integral part of operations for most of our official partners' manufacturing. As the number of partners in the program grows, and as their inventory of Journey-ready stones grows, it is easier for retailers to adopt the Journey without a long lead curve finding relevant suppliers and waiting for their new stones to be manufactured with the applicable Journey data. It is to be noted that we are remunerated when retailers buy the Journey-ready stones from our Journey partners and opt for the related Sarine Diamond Journey™ Report.

We continue to focus our initiatives on the following objectives:

- **Industry-wide propositions:**
  - **Sarine Diamond Journey™ -** Continue refining our provenance offering and implement pilot programs with leading industry producers and high-end retailers while adjusting the system to meet actual operational and business use cases based on the retailers' needs, including their possible need to develop online sales capabilities, in lieu of possibly reduced tourism.

- **Midstream manufacturing products**:
  - **Advisor® 8.0** – Continue developing our next generation Advisor® 8.0 software package slated for launch mid-2020, and enhance it with functionality relating to our tension analysis feature and comprehensive provenance (traceability) solution, as well as further-bolstered IP protection features.
  - **DiaMobile XXL** – Launched in Q1 2020, a new configuration of our mobile tender rough diamond evaluation system, that can handle stones up to 37mm (instead of 32mm), which has scanned stones up to 260 carats in weight during testing (previously limit was around 150 carats).

- **Downstream polished diamond services**:
  - **Sarine AI-Based 4Cs Grading** - Continue refining the AI-based grading capabilities, such as enhanced fluorescence grading and milky stones detection.
  - **Sorting** - Continue developing our abilities to fine-sort a diamond by its Clarity, in accordance with customer-specific industry-accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table", "milky", etc.), as well as by its Color in accordance with tinting criteria (brownish, greenish, etc.).

## 11. Dividend

### *(a) Current Financial Period Reported*
**Any dividend declared/recommended for the current financial period reported on?**

On 23 February 2020, the Board of Directors recommended the Annual General Meeting (AGM) approve a final dividend of US 0.5 cents per ordinary share for the financial year ended 31 December 2019. This will bring our total payout for 2019 to some US$ 3.5 million, if approved at the AGM and approximately equal to our free cash flow for the year, despite the very challenging year in the midstream. As compared to the final dividend declared in the preceding financial year of US 1.0 cent per share, as noted in (b) below, this year's final dividend is less than the previous year's dividend due to the loss of profitability for the year.

### *(b) Corresponding Period of the Immediately Preceding Financial Year*
**Any dividend declared for the corresponding period of the immediately preceding financial year?**

On 24 February 2019, the Board of Directors recommended the Annual General Meeting approve a final dividend of US 1.0 cents per ordinary share for the financial year ended 31 December 2018.

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

| | Amount before tax US$'000 | Tax rate applicable to shareholders % |
|---|---|---|
| 2019 | 1,753 | 20%/0%[1] / 10%[2,3] |
| 2018 | 3,506 | 20%/0%[1] / 10%[2,3] |

[1] The tax rate will be 20% (20% in 2018) for individual Israeli shareholders and 0% (0% in 2018) for Israeli corporate shareholders.

[2] The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2018).

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

### *(d) Date Payable*

| | Amount US$'000 |
|---|---|
| 15 May 2020*** | 1,753 |
| 17 May 2019 | 3,506 |

### *(e) Record Date*

5:00 PM on:

| | Amount US$'000 |
|---|---|
| 06 May 2020*** | 1,753 |
| 08 May 2019 | 3,506 |

***Pending Annual General Meeting Approval

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

Not applicable.

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

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

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

Not applicable.

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

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

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

| | India | Africa | Europe | North America | Israel | Others | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | 2019 | | | |
| | | | | US$'000 | | | |
| External revenues | 35,980 | 3,850 | 1,300 | 2,433 | 2,930 | 4,830 | 51,323 |
| Unallocated expenses | | | | | | | 50,222 |
| Profit from operations | | | | | | | 1,101 |
| Net finance expense | | | | | | | (662) |
| Income tax expense | | | | | | | 1,811 |
| Loss for the year | | | | | | | (1,372) |

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

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

See section 8 above.

**17. Breakdown of sales.**

| | 2019<br>US$'000 | 2018<br>US$'000 |
|---|---|---|
| Revenue reported for: | | |
| First half-year ended 30 June | 22,519 | 34,620 |
| Second half-year ended 31 December | 28,804 | 23,884 |
| | 51,323 | 58,504 |
| | | |
| Profit (loss) for the period: | | |
| First half-year ended 30 June | (2,816) | 7,240 |
| Second half-year ended 31 December | 1,444 | 362 |
| | (1,372) | 7,602 |

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

| | Latest Full Year<br>US$'000 | Previous Full Year<br>US$'000 |
|---|---|---|
| Ordinary | 3,506* | 10,519 |

*Pending Annual General Meeting Approval.

**19. Interested Person Transactions**

The Company confirms that, during the year ended December 31, 2019, there was no person occupying any managerial position in the Company or any of its subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the Company.

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

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

On behalf of the Directors

Daniel Benjamin Glinert
Executive Chairman

23 February 2020