# 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 for the (US$'000):**

| | Group Quarter ended September 30, | | | Group Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change % | 2016 | 2015 | Change % |
| **Revenue** | **17,250** | **9,479** | **82.0** | **53,607** | **36,056** | **48.7** |
| Cost of sales | 5,424 | 3,487 | 55.5 | 16,889 | 11,624 | 45.3 |
| **Gross profit** | **11,826** | **5,992** | **97.4** | **36,718** | **24,432** | **50.3** |
| Research and development expenses | 2,834 | 2,634 | 7.6 | 8,130 | 8,042 | 1.1 |
| Sales and marketing expenses | 3,341 | 3,281 | 1.8 | 10,109 | 9,831 | 2.8 |
| General and administrative expenses | 1,149 | 782 | 46.9 | 3,547 | 3,092 | 14.7 |
| **Profit (loss) from operations** | **4,502** | **(705)** | **NM** | **14,932** | **3,467** | **330.7** |
| Net finance income (expense) | 403 | (193) | NM | 757 | (154) | NM |
| **Profit (loss) before income tax** | **4,905** | **(898)** | **NM** | **15,689** | **3,313** | **373.6** |
| Income tax expense | (918) | (539) | 70.3 | (2,698) | (1,200) | 124.8 |
| **Profit (loss) for the period** | **3,987** | **(1,437)** | **NM** | **12,991** | **2,113** | **514.8** |
| Foreign currency translation differences from foreign operations | 117 | (230) | NM | (30) | (285) | (89.5) |
| **Total comprehensive income (loss) for the period** | **4,104** | **(1,667)** | **NM** | **12,961** | **1,828** | **609.0** |

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

Profit before income tax is stated after charging the following:

| | Group Quarter ended September 30, | | | Group Nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | Change % | 2016 | 2015 | Change % |
| Allowance (write back) for doubtful trade receivables | 12 | (28) | NM | (12) | 8 | NM |
| Depreciation and amortization | 974 | 970 | 0.4 | 2,865 | 3,094 | (7.4) |
| Interest income, net | 458 | (227) | NM | 617 | (168) | NM |
| Exchange rate differences | (55) | 34 | NM | 140 | 14 | 900.0 |
| Warranty provision | 13 | (86) | NM | 56 | (115) | NM |

NM- Not meaningful

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | September 30, 2016 | December 31, 2015 | September 30, 2016 | December 31, 2015 |
| **Assets** | | | | |
| Property, plant and equipment | 13,967 | 12,413 | 2,381 | 1,689 |
| Intangible assets | 7,847 | 7,812 | -- | -- |
| Investment in equity accounted investee and subsidiaries | -- | -- | 52,052 | 47,141** |
| Deferred tax assets | 3,137 | 3,157 | 1,344 | 1,423 |
| **Total non-current assets** | 24,951 | 23,382 | 55,777 | 50,253 |
| Inventories | 9,060 | 10,146 | 6,084 | 6,673 |
| Trade receivables | 14,625 | 11,337 | 3,273 | 3,164 |
| Other receivables | 3,764 | 3,707 | 1,918 | 1,727 |
| Short-term investments (bank deposits) | 13,948 | 13,298 | 6,023 | 7,532 |
| Cash and cash equivalents | 20,903 | 19,298 | 8,638 | 9,268 |
| **Total current assets** | 62,300 | 57,786 | 25,936 | 28,364 |
| **Total assets** | 87,251 | 81,168 | 81,713 | 78,617 |
| **Equity** | | | | |
| Share capital* | -- | -- | -- | -- |
| Dormant shares, at cost | (2,366) | (2,366) | (2,366) | (2,366) |
| Share premium, reserves and retained earnings | 76,568 | 73,897 | 76,568 | 73,897** |
| **Total equity** | 74,202 | 71,531 | 74,202 | 71,531 |
| **Liabilities** | | | | |
| Employee benefits | 143 | 138 | 135 | 129 |
| **Total non-current liabilities** | 143 | 138 | 135 | 129 |
| Trade payables | 4,696 | 2,359 | 3,125 | 1,375 |
| Other payables | 7,679 | 6,623 | 3,992 | 5,363 |
| Current tax payable | 169 | 211 | -- | -- |
| Warranty provision | 362 | 306 | 259 | 219 |
| **Total current liabilities** | 12,906 | 9,499 | 7,376 | 6,957 |
| **Total liabilities** | 13,049 | 9,637 | 7,511 | 7,086 |
| **Total equity and liabilities** | 87,251 | 81,168 | 81,713 | 78,617 |

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

**1(b)(ii) Aggregate amount of Group's borrowings and debt securities.**
Zero borrowings from banks as at September 30, 2016 and December 31, 2015.

**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 Quarter ended September 30, | | Group Nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Cash flows from operating activities** | | | | |
| Profit (loss) for the period | 3,987 | (1,437) | 12,991 | 2,113 |
| **Adjustments for:** | | | | |
| Share-based payment expenses | 424 | 100 | 1,293 | 1,152 |
| Income tax expense | 918 | 539 | 2698 | 1,200 |
| Depreciation of property, plant and equipment | 583 | 594 | 1,706 | 1,578 |
| Amortisation of intangible assets | 391 | 376 | 1,159 | 1,516 |
| Net finance (income) expense | (403) | 193 | (757) | 154 |
| **Changes in working capital** | | | | |
| Inventories | (809) | (154) | 1,278 | (644) |
| Trade receivables | 697 | 2,323 | (3,288) | 3,009 |
| Other receivables | (802) | 108 | (1,204) | (545) |
| Trade payables | 244 | (312) | 2,337 | (847) |
| Other liabilities | (304) | (356) | 1,112 | (1,546) |
| Employee benefits | 3 | (6) | 5 | (1) |
| Income tax received (paid), net | 363 | (849) | (1,573) | (2,612) |
| **Net cash from operating activities** | 5,292 | 1,119 | 17,757 | 4,527 |
| **Cash flows (used in) from investing activities** | | | | |
| Acquisition of property, plant and equipment | (1,505) | (987) | (3,466) | (2,411) |
| Acquisition of intellectual property | -- | -- | -- | (3,000) |
| Acquisition of activity | -- | -- | (1,210) | -- |
| Short-term investments, net | (2,101) | 5,598 | (650) | 12,482 |
| Interest received | 458 | 38 | 617 | 165 |
| **Net cash (used in) from investing activities** | (3,148) | 4,649 | (4,709) | 7,236 |
| **Cash flows used in financing activities** | | | | |
| Proceeds from exercise of share options | 231 | 37 | 665 | 840 |
| Purchase of Company's shares by the Company | -- | (385) | -- | (1,333) |
| Dividend paid | (7,004) | (5,234) | (12,248) | (12,216) |
| Interest paid | -- | (265) | -- | (333) |
| **Net cash used in financing activities** | (6,773) | (5,847) | (11,583) | (13,042) |
| **Net (decrease) increase in cash and cash equivalents** | (4,629) | (79) | 1,465 | (1,279) |
| **Cash and cash equivalents at beginning of the period** | 25,587 | 19,132 | 19,298 | 20,352 |
| **Exchange rate differences** | (55) | 34 | 140 | 14 |
| **Cash and cash equivalents at end of the period** | 20,903 | 19,087 | 20,903 | 19,087 |

**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, 2015** | -- | 25,201 | (1,391) | 56,854 | (1,033) | 79,631 |
| Profit for the period ended September 30, 2015 | -- | -- | -- | 2,113 | -- | 2,113 |
| Other comprehensive loss for the period ended September 30, 2015 | -- | -- | (285) | -- | -- | (285) |
| Share-based payment expenses | -- | 1,152 | -- | -- | -- | 1,152 |
| Exercise of options | -- | 840 | -- | -- | -- | 840 |
| Dormant shares, acquired at cost (663,100) | -- | -- | -- | -- | (1,333) | (1,333) |
| Dividend paid | -- | -- | -- | (12,216) | -- | (12,216) |
| **Balance at September 30, 2015** | -- | 27,193 | (1,676) | 46,751 | (2,366) | 69,902 |
| | | | | | | |
| **Balance at January 1, 2016** | -- | 27,402 | (1,730) | 48,225 | (2,366) | 71,531 |
| Profit for the period ended September 30, 2016 | -- | -- | -- | 12,991 | -- | 12,991 |
| Other comprehensive loss for the period ended September 30, 2016 | -- | -- | (30) | -- | -- | (30) |
| Share-based payment expenses | -- | 1,293 | -- | -- | -- | 1,293 |
| Exercise of options | -- | 665 | -- | -- | -- | 665 |
| Dividend paid | -- | -- | -- | (12,248) | -- | (12,248) |
| **Balance at September 30, 2016** | -- | 29,360 | (1,760) | 48,968 | (2,366) | 74,202 |

* 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, 2015 before retrospective application of amended IAS 27**** | -- | 25,201 | (1,391) | 28,515 | (1,033) | 51,292 |
| Effect of retrospective application IAS 27** | -- | -- | -- | 28,339 | -- | 28,339 |
| Revised balance at January 1, 2015** | -- | 25,201 | (1,391) | 56,854 | (1,033) | 79,631 |
| Profit for the period ended September 30, 2015, as reported | -- | -- | -- | 19,664 | -- | 19,664 |
| Effect of retrospective application IAS 27** | -- | -- | -- | (17,551) | -- | (17,551) |
| | -- | -- | -- | 2,113 | -- | 2,113 |
| Other comprehensive loss for the period ended September 30, 2015 | -- | -- | (285) | -- | -- | (285) |
| Share-based payment expenses | -- | 1,152 | -- | -- | -- | 1,152 |
| Exercise of options | -- | 840 | -- | -- | -- | 840 |
| Dormant shares, acquired at cost (663,100) | -- | -- | -- | -- | (1,333) | (1,333) |
| Dividend paid | -- | -- | -- | (12,216) | -- | (12,216) |
| **Balance at September 30, 2015 after retrospective application**** | -- | 27,193 | (1,676) | 46,751 | (2,366) | 69,902 |
| **Balance at January 1, 2016 before retrospective application of amended IAS 27**** | -- | 27,402 | (1,730) | 37,175 | (2,366) | 60,481 |
| Effect of retrospective application IAS 27** | -- | -- | -- | 11,050 | -- | 11,050 |
| Revised balance at January 1, 2016** | -- | 27,402 | (1,730) | 48,225 | (2,366) | 71,531 |
| Profit for the period ended September 30, 2016 | -- | -- | -- | 12,991 | -- | 12,991 |
| Other comprehensive loss for the period ended September 30, 2016 | -- | -- | (30) | -- | -- | (30) |
| Share-based payment expenses | -- | 1,293 | -- | -- | -- | 1,293 |
| Exercise of options | -- | 665 | -- | -- | -- | 665 |
| Dividend paid | -- | -- | -- | (12,248) | -- | (12,248) |
| **Balance at September 30, 2016 after retrospective application**** | -- | 29,360 | (1,760) | 48,968 | (2,366) | 74,202 |

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

**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.**

| | September 30, 2016<br>No. of shares | June 30, 2016<br>No. of shares | September 30, 2015<br>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 | 351,829,313 | 351,196,254 | 350,521,948 |
| **Dormant shares** (out of the issued and fully paid share capital): | | | |
| Ordinary shares of no par value | 1,583,100 | 1,583,100 | 1,583,100 |
| **Total number of issued shares** (excluding dormant shares) | 350,246,213 | 349,613,154 | 348,938,848 |

For the three months ended September 30, 2016, 633,059 share options were exercised into ordinary shares. For the three months ended September 30, 2016, 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 they are held by the Company, 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 September 30, 2016, June 30, 2016 and September 30, 2015 included 1,583,100 dormant shares, respectively.

**Details of changes in share options:**

| | Average exercise price in US$ per share | Options |
|---|---|---|
| At January 1, 2016 | 1.129 | 11,248,399 |
| Granted | 1.085 | 10,120,000 |
| Cancelled | 1.308 | (564,029) |
| Exercised | 0.528 | (1,260,490) |
| At September 30, 2016 | 1.168 | 19,543,880 |

At September 30, 2016, the average exercise price in Singapore dollars per share was S$ 1.595, based on an exchange rate of US$ 1 = S$ 1.366.

**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 September 30, 2016, the total number of issued shares excluding dormant shares was 350,246,213 (as at December 31, 2015- 348,985,723). As at September 30, 2016, the total number of dormant shares was 1,583,100 (as at December 31, 2015- 1,583,100).

**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 and nine months ended September 30, 2016, 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, 2015 have been applied in the preparation for the financial statements for period ended September 30, 2016, except for the adoption of an Amendment to IAS 27: Equity Method in Separate Financial Statements.

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 amendment to IAS 27 allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate Company financial statements, applied retrospectively. This amendment does not have any impact on the Group's consolidated financial statements. The adoption will result in the Company's shareholders equity being equal with the Group's shareholders equity.

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

| | **For the Quarter ended September 30,** | | **For the nine months ended September 30,** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| US cents | | | | |
| Basic earnings per share | 1.14 | (0.41) | 3.72 | 0.61 |
| Diluted earnings per share | 1.14 | (0.41) | 3.71 | 0.60 |
| Singapore cents* | | | | |
| Basic earnings per share | 1.56 | (0.56) | 5.08 | 0.83 |
| Diluted earnings per share | 1.56 | (0.56) | 5.07 | 0.82 |

Basic earnings per share for the three months ended September 30, 2016 are calculated based on the weighted average number of 349,983,516 ordinary shares issued during the current period and the equivalent of 349,041,202 ordinary shares during the preceding period.

Diluted earnings per share for the three month ended September 30, 2016 are calculated based on the weighted average number of 350,173,778 ordinary shares and outstanding options and the equivalent of 349,041,202 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the nine months ended September 30, 2016 are calculated based on the weighted average number of 349,555,955 ordinary shares issued during the current period and the equivalent of 348,859,436 ordinary shares during the preceding period.

Diluted earnings per share for the nine months ended September 30, 2016 are calculated based on weighted average number of 349,950,866 ordinary shares and outstanding options and the equivalent of 351,452,508 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US$ 1= S$ 1.366 at September 30, 2016.

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** | |
|---|---|---|---|---|
| | September 30, 2016 | December 31, 2015 | September 30, 2016 | December 31, 2015 |
| Net asset value (US$ thousands) | 74,202 | 71,531 | 74,202 | 71,531 |
| Net asset value per ordinary share (US cents) | 21.19 | 20.50 | 21.19 | 20.50 |
| Net asset value per ordinary share (Singapore cents*) | 28.94 | 28.00 | 28.94 | 28.00 |

At September 30, 2016, net asset value per share is calculated based on the number of ordinary shares in issue at September 30, 2016 of 350,246,213 (not including 1,583,100 dormant ordinary shares at September 30, 2016). At December 31, 2015, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2015 of 348,985,723 (not including 1,583,100 dormant ordinary shares at December 31, 2015).

* Convenience translation based on exchange rate of US$ 1=S$ 1.366 at September 30, 2016.
** Retrospective application regarding initial application of Amendment to IAS 27: Equity Method in Separate Financial Statements.

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's revenues and operating performance continue to show significant improvement on a year-over-year basis in Q3 2016 and for the nine months ended September 30, 2016. The Group reported in Q3 2016 revenues of US$ 17.3 million, profit from operations of US$ 4.5 million, and net profit of US$ 4.0 million, as compared to revenues in Q3 2015 of US$ 9.5 million, loss from operations of US$ 0.7 million and a net loss of US$ 1.4 million. The Group reported for the nine months ended September 30, 2016 revenues of US$ 53.6 million, profit from operations of US$ 14.9 million and net profit of US$ 13.0 million versus revenues of US$ 36.1 million, profit from operations of US$ 3.5 million and net profit of US$ 2.1 million.

The continued improvement in our business, as further elaborated on in section 10, was primarily due to 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.

Despite overall positive sentiment a degree of uncertainty did hang over the industry midstream activity in anticipation of the key Hong Kong Jewellery & Gem Fair show in the second half of September. As the show evidenced markedly improved sentiment and business activity (buyers from China indicated stronger demand for polished diamonds, including larger stones up to 5 carats in weight), sentiment and manufacturing improved further at the tail end of the quarter.

With record deliveries in Q3 2016 of 22 Galaxy™ family systems (21 to customers and one additional Galaxy™ Ultra to our Indian service centre due to continued strong demand for these high-end services), comprising twelve of the new Meteor™ small stone machines, seven Solaris™ machines two Galaxy™ Ultra systems and one Galaxy™ system, up from 20 in Q2 2016 and only one system in Q3 2015, the Group had an installed base of 275 Galaxy™ family systems as of September 30, 2016. Overall recurring revenues for the nine months ended September 30, 2016 (including Galaxy™-related, Quazer services, annual maintenance contracts, etc.) represented about 40% of our overall revenue.

### *Balance Sheet and Cash Flow Highlights*

As at September 30, 2016, cash and cash equivalents and short-term investments (bank deposits) ("**Cash Balances**") increased to US$ 34.9 million as compared to US$ 32.6 million as of December 31, 2015. The increase in Cash Balances was primarily due to 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 Q2 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.

### *Revenues*

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

| **Q3 2016 versus Q3 2015** | | | | |
|---|---|---|---|---|
| **Region** | **Q3 2016** | **Q3 2015** | **$ change** | **% change** |
| **India** | 12,805 | 5,951 | 6,854 | 115.2 |
| **Africa** | 764 | 547 | 217 | 39.7 |
| **Europe** | 957 | 394 | 563 | 142.9 |
| **North America** | 300 | 265 | 35 | 13.2 |
| **Israel** | 877 | 768 | 109 | 14.2 |
| **Other*** | 1,547 | 1,554 | (7) | (0.5) |
| **Total** | 17,250 | 9,479 | 7,771 | 82.0 |

| **1-9.2016 versus 1-9.2015** | | | | |
|---|---|---|---|---|
| **Region** | **2016** | **2015** | **$ change** | **% change** |
| **India** | 41,840 | 25,399 | 16,441 | 64.7 |
| **Africa** | 1,793 | 1,675 | 118 | 7.0 |
| **Europe** | 1,865 | 1,882 | (17) | (0.9) |
| **North America** | 1,335 | 1,110 | 225 | 20.3 |
| **Israel** | 3,104 | 2,401 | 703 | 29.3 |
| **Other*** | 3,670 | 3,589 | 81 | 2.3 |
| **Total** | 53,607 | 36,056 | 17,551 | 48.7 |

| **Q3 2016 versus Q2 2016** | | | | |
|---|---|---|---|---|
| **Region** | **Q3 2016** | **Q2 2016** | **$ change** | **% change** |
| **India** | 12,805 | 16,789 | (3,984) | (23.7) |
| **Africa** | 764 | 466 | 298 | 63.9 |
| **Europe** | 957 | 432 | 525 | 121.5 |
| **North America** | 300 | 612 | (312) | (51.0) |
| **Israel** | 877 | 1,169 | (292) | (25.0) |
| **Other*** | 1,547 | 1,402 | 145 | 10.3 |
| **Total** | 17,250 | 20,870 | (3,620) | (17.3) |

*primarily Asia, excluding India

Revenues in Q3 2016 were US$ 17.3 million, as compared to US$ 9.5 million in Q3 2015 and as compared to US$ 20.9 million in Q2 2016. Revenues for the nine months ended September 30, 2016 were US$ 53.6 million as compared to US$ 36.1 million for the comparable period in 2015. The increase in revenues on a year-over-year basis in most geographies, but mainly in India, was primarily due to increased diamond manufacturing equipment sales, including Galaxy™ family systems, as well as due to increased recurring revenues, as noted above. On a sequential basis, there was a certain decline in revenues, due to uncertainty leading up to the key Hong Kong Jewellery & Gem Fair show in September, as noted above.

### *Cost of sales and gross profit*

Cost of sales for Q3 2016 was US$ 5.4 million as compared to US$ 3.5 million for Q3 2015 and US$ 6.4 million in Q2 2016, with gross profit margins of 69% in Q3 2016 as in Q2 2016 and versus 63% in Q3 2015. Cost of sales for the nine months ended September 30, 2016 increased to US$ 16.9 million as compared to US$ 11.6 million for the comparable period in 2015, with gross profit margins of 68% for the respective periods. The year over year and quarterly variances in the cost of sales were linked to the relevant increase or decrease in sales volumes.

### *Research and development expenses*

Research and development expenses in Q3 2016 of US$ 2.8 million were virtually flat with US$ 2.6 million in Q3 2015 and US$ 2.7 million in Q2 2016. For the nine months ended September 30, 2016, research and development expenses of US$ 8.1 were virtually flat with US$ 8.0 million for the comparable period in 2015. The Group continues to focus its research and development expenditures on the development of future growth products and services, primarily as related to its new polished diamond offerings, as expanded upon in Section 10.

### *Sales and marketing expenses*

Sales and marketing expenses for Q3 2016 were US$ 3.3 million, virtually flat with Q3 2015 and down from US$ 3.7 million in Q2 2016. Sales and marketing expenses for the nine months ended September 30, 2016 increased by a modest 3% to US$ 10.1 million versus US$ 9.8 million for the comparable period in 2015. The increase in sales and marketing expenses on a year-over-basis was primarily due to higher sales commissions and incentive-based compensation. The sequential decrease in sales and marketing expenses for Q3 2016 as compared to Q2 2016 was primarily due to lower expenses associated with trade shows.

### *General and administrative expenses*

General and administrative expenses for Q3 2016 were US$ 1.1 million as compared to US$ 0.8 million in Q3 2015 and US$ 1.3 million in Q2 2016. General and administrative expenses for the nine months ended September 30, 2016 increased to US$ 3.5 million versus US$ 3.1 million for the comparable period in 2015. The increase in general and administrative expenses on a year-over year basis was due to higher incentive-based compensation (versus negative incentive based compensation in Q3 2015). The sequential decrease in quarterly general and administrative expenses was primarily due to lower legal expenses in Q3 2016.

### *Profit (loss) from operations*

Profit from operations for Q3 2016 was US$ 4.5 million as compared to a loss from operations of US$ 0.7 million in Q3 2015 and profit from operations of US$ 6.7 million in Q2 2016. Profit from operations for the nine months ended September 30, 2016 increased to US$ 14.9 million versus US$ 3.5 million for the comparable period in 2015. The increase in profit from operations on a year-over-year basis was primarily due to increased revenues, as detailed above. The decrease in profit from operations on a sequential basis was primarily due to lower revenues, as detailed above.

### *Net finance income (expense)*

Net finance income for Q3 2016 was US$ 0.4 million as compared to an expense US$ 0.2 million in Q3 2015. Net finance income for the nine months ended September 30, 2016 was US$ 0.8 million versus an expense US$ 0.2 million for the comparable period in 2015. Net finance income in Q3 2016 was primarily due to a reversal of US$ 0.4 million in interest charges relating to prior period tax assessments under dispute in India.

*Income tax expense*

The statutory corporate tax rate in Israel in FY2016 decreased to 25% (from 26.5% in FY2015). The Group's effective tax rate is a blend of the statutory tax rate in Israel reduced by substantial tax benefits, in accordance with tax directives enacted in Israel as of 2011, accorded to our export-oriented revenue mix (taxed at between 9%-16%), offset by the higher statutory tax rate in India (34%).

Income tax expense was US$ 0.9 million for Q3 2016 as compared to an expense of US$ 0.5 million for Q3 2015. Income tax expense was US$ 2.7 million for the nine months ended September 30, 2016 versus US$ 1.2 million for the comparable period in 2015. The increase in income tax expense was primarily due to higher pre-tax profitability, as discussed above.

*Profit for the period*

Net profit for Q3 2016 was US$ 4.0 million as compared to a net loss of US$ 1.4 million in Q3 2015 and net profit US$ 6.0 million in Q2 2016. Net profit for the nine months ended September 30, 2016 increased to US$ 13.0 million versus US$ 2.1 million for the comparable period in 2015. The increase in net profit was primarily due to increased revenues, 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. Fundamental global economic indicators continue to be overall positive.

b. In the U.S., still the largest single market for polished diamonds, diamond jewellery sales continue to indicate a positive trend. At the key Hong Kong Jewellery & Gem Fair in the second half of September, sentiment was markedly improved, business was more robust and buyers from China were more active with stronger demand for polished diamonds, including larger stones up to 5 carats in weight. This renewed stronger demand from China, which became manifest at the show (too late to mitigate a degree of uncertainty which prevailed for much of Q3 regarding the market in China), has had a positive effect on the overall industry sentiment and should positively influence activity going into the last quarter of 2016 and the first quarter of 2017 through to the Chinese New Year.

c. During the third quarter of the year rough diamond sales continued to show a marked recovery over 2015. Even with sights realising volumes less than those in the first six months of the year, DeBeers reported sales 77% higher than in the corresponding period of 2015. We expect rough diamond sales and the consequent polishing activity to continue robustly for the rest of the year, as concerns regarding the demand in China have been mitigated somewhat, as mentioned above, and there are no significant negatives impairing profitability throughout the diamond industry value chain.

d. There are no known polished diamond inventory issues of substance at this time.

e. The trends noted above, 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, should underpin continued healthy industry activity, and, by extension, Group sales.

f. With deliveries in Q3 2016 of a new record 22 Galaxy™ family systems, 21 to customers and one additional Galaxy™ Ultra to our service centre in Surat, comprising twelve Meteor™ systems, seven Solaris™ systems, one Galaxy™ and two Galaxy™ Ultra systems, the Group had an installed base of

275 Galaxy™ family systems as of 30 September 2016. We have now delivered a record 60 systems in the first nine months of 2016 and expect to expand substantially upon the previous annual record of 48 deliveries realised in 2014. To the best of our knowledge, there have been no material developments from potential competitors to date.

g. Sales programs utilising the Sarine Profile™ by leading retailers in the U.S and the Asia Pacific (APAC) region continue to expand with Meidie of China and Mariage, Verite (also under Maharaja brand) and Grace Fujimi (also under Garden brand) from Japan having adopted the Sarine Profile™ of late. We are seeing significant growth in the volume of stones processed monthly. Additional programs with retailers in the U.S. and Australia are launching in Q4, with stones already being scanned and their personnel trained in preparation for these launches.

h. The Allegro™ system has demonstrated clear benefit using optimal yield and cut perfection as the criteria in the production of high-end stones by sophisticated manufacturers. Additional software has been written to enable the Allegro™ to also compete favourably with lower-end manufacturing of standard sized stones, where the emphasis is on given dimensions with maximal weight and less focus on cut perfection. The new software version has completed testing in Israel and will now be installed at the Jaipur service centre after the Divali holiday, to demonstrate its benefits to Indian manufacturers of standard sized stones. This has been the major issue holding back more widespread adoption of the Allegro™ in India. We are continuing to plan for rollout in additional territories, Thailand initially, in 2017.

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

- **Polished diamond trade systems**:
  - Expansion of our operational infrastructure for the Sarine Profile™;
  - Enhancement of our Sarine Profile™ in order to provide additional capabilities for customer programs, as required, mainly additional shapes – current work is on Oval shaped diamonds to be followed by Pear and Heart shapes (having concluded work on Radiant, Cushion, Ascher, Princess, Emerald and other program-specific shapes, such as Shining House's octagon).
  - Integration of the recently acquired Sarine Connect™ (previously known as DiaMining) technology to enhance our Sarine Profile™ with significantly better in-store capabilities, as well as advanced inventory management functionalities.
  - Enhancement of the Sarine Profile™ integrated with the Sarine Connect™ to support the display of jewellery pieces and not just loose polished diamonds. As retail businesses showcase set jewellery by far more often than loose stones, this will significantly broaden the appeal and applicability of the Sarine Profile™. Furthermore, it will allow a retail business to showcase all their inventory on one unified platform, not only the high-end programs with high-quality diamonds, for which the Sarine Profile™ is increasingly becoming the preferred sales vehicle, but also the more ubiquitous jewellery lines.
  - As recently reported (10 November 2016), the development of new hardware and services complementary to our Sarine Light™ and Sarine Loupe™ platforms has reached the advanced high-volume testing phase. The key development has been a very sophisticated device, which provides automated, objective and consistent Clarity grading with in-grade sub-sorting capabilities, as well.
  - A second platform which has been developed, is a system which performs automated, objective and consistent Colour grading.

- **Manufacturing products**: Overall ongoing improvements to our Advisor™ rough planning software 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 the Advisor™ and our faceting quality control software (the 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.

- **Non-diamond gemstones:** See paragraph [h] above.

**11. Dividend**

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

No

*(b) Corresponding Period of the Immediately Preceding Financial Year*

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

No

*(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.*

Not applicable.

*(d) Date Payable*

Not applicable.

*(e) Books Closure Date*

Not applicable.

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

No dividend has been declared or recommended for the current financial period.

**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).**

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited financial results of the Group for the period ended September 30, 2016, to be false or misleading, in any material aspect.

**15. 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

Uzi Levami
Executive Director and CEO

Eyal Mashiah
Executive Director