



SARINE ANNUAL REPORT 2018

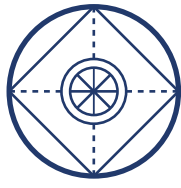


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Sarine Technologies Ltd. develops, manufactures, markets and sells precision technology products for the processing, grading and trade of diamonds and gemstones.

Rough Stone Polishing (the "Midstream")

Our products and services provide industry-leading automated solutions for every stage of the rough diamond polishing process, from high-precision geometrical modelling and internal inclusion and tension 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, detailed in the Business Review section, and the copyrighted 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 to achieve polished gems with the highest possible values based on optimisation of the four "C" parameters (Carat, Clarity, Color and Cut) and light performance in accordance with market trends and prices.

The revolutionary Galaxy® family of internal inclusion mapping systems for rough diamonds, based on unique patented technology, provides high resolution (optionally at microscopic level), fully automated, fast and comprehensive identification and mapping of internal inclusions in rough diamonds, allowing for the optimisation of the Clarity grade of the resultant polished stones. To allow the industry to fully benefit from this cutting edge technology, various models (see Business Review section) offer inclusion mapping of rough stones across the entire spectrum of sizes – from 10 points (0.10 carats) through 200+ carats. We also offer per-use inclusion scanning services at wholly-owned or affiliated service centres in all the major diamond polishing and trading centres – Mumbai and Surat (India), Antwerp (Belgium), Gaborone (Botswana), Guangzhou (China), Johannesburg (South Africa), Moscow, New York, Ramat-Gan (Israel) and Windhoek (Namibia). Commencing 2019, our Galaxy® systems can be upgraded with an add-on hardware kit, which enables the mapping of the internal tension (stress) of the rough stone's crystal structure, reducing the risk of damage or breakage during the subsequent cutting and polishing stages.

Our third-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 stones, as well as for the processing of CVD-type lab-grown (so called "synthetic") diamonds. The Quazer® 3's main advantage is its ability to perform complicated non-linear cutting, like pie sawing, with a single setup, giving more accurate results and saving significant time. Rough diamond cutting and shaping services are also offered on a per-use basis at various locations in wholly-owned service centres in India, or by independent third-party service centres elsewhere (e.g., Israel and southern Africa).

Finally, our Instructor® software assists in real-time quality control and optimisation of the actual diamond faceting processes. It can provide for corrective polishing, when deviations from the original planned optimal polishing solution are discerned, by re-analysing the semi-polished stone and proposing alternative solutions, including utilisation of unique asymmetrical methods. Here too, as in planning, conventional 4Cs optimisation can be enhanced by light performance optimisation for ultimate polishing results.

The combination of these technologies has redefined the art of diamond polishing. It has raised the optimally achievable yield of the polished stones combined weights from typically under 40% of the rough stone's weight to over 50%, a 25% benefit. But no less important, it allows the manufacturer to select planning options which best suit actual demand at any given time for any specific geographic market (e.g., trading off between weight, typically key criterion in US markets, and quality, more emphasised in Asia Pacific (APAC) markets).

Polished Diamond Grading and Trade (the "Downstream")

We also provide technologically advanced standard-setting solutions for 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, the Sarine Light™, we now provide automated grading of the polished diamond's Clarity, a world first, and Color. Our Sarine Technology Lab provides the world's first (and currently only) artificial intelligence (AI) based, technology derived objective and consistent grading of a polished diamond's 4Cs and light performance, as well as authentication of the diamond's source (natural or lab-grown) and identification of any treatments to which it has been submitted.

We launched the DiaMension® family of products in 1992 for the accurate measurement of a polished diamond's proportions, in order to derive its Cut and Symmetry grades. The DiaMension® HD (High Definition) and the Instructor® software are today the industry's de-facto standard for measuring proportions and Cut grading worldwide. The newest model, the DiaMension® Axiom, based on revolutionary technology with micron level accuracy, was originally developed to meet and exceed Tiffany & Company's most stringent requirements for extra-fine diamond quality assessment including symmetry grading. Our polished stone proportion measuring and Cut/Symmetry grading systems operate using the Instructor® software package, the first to be thoroughly evaluated by the Gemological Institute of America (GIA) and qualified as being accurate in excess of 98%.

The Sarine Light™ introduced in 2013 has today become the most widely used system of its class in the Asia Pacific (APAC) market and is all but the fifth "C" in Japan. Its services are offered independently or as a key element in the Sarine Profile™, detailed below.

Commencing 2018, we provide comprehensive polished diamond 4Cs grading, utilising our groundbreaking AI based technology and two new devices, the Sarine Clarity™ and Sarine Color™, for the first-ever automated grading of a polished stone's Clarity and Color. Clarity grading is a very complex four-dimensional classification, derived from the number of inclusions, their sizes, types and locations, and has always been a subjective manual labor-intensive process. At least two manual graders grade each stone, and it is not unusual for a third opinion to be required. Even so, Clarity grading is not consistent, and it is not uncommon to get significant variations in grading, often resulting in the grading being contested. Our tests have shown that a statistically significant reference team of proficiently trained graders assesses the same stone's Clarity assigning it up to three different grades. Utilising technology enables much more consistent grading, and, as the AI-based algorithms are self-teaching, consistency continuously improves over time. Ultimately, it is our aim to enable the fine-sorting of a diamond's Clarity in accordance with customer-specific industry-accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table"), etc.

In today's changing retail world, channel and product branding and differentiation, as well as providing a captivating digital experience on an online portal, are key to a retailer's success. The ability to tell the polished gem's "story" online, and demonstrate its unique features in-store, 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 4Cs, no longer appeal to, nor convince, the younger generation of internet-savvy buyers.

Our pioneering Sarine Profile™ provides engaging imagery and video information pertaining to the offered diamond's appearance, beauty and quality. A toolbox of various technologies, Sarine Profile™ allows the wholesaler and retailer to display their inventory, both real and virtual, regardless of a specific stone

CORPORATE PROFILE

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. Sarine Profile™ is also unique in that it caters to the new generation of buyers' engrossment with their mobile devices and their enthusiasm for social media, allowing retailers to connect with them and engage them on their media of choice. Doing so enables online transactions with a completely new level of confidence and also enhances the in-store buying experience by empowering the consumer to make a truly informed decision.

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

- The Sarine Light™ enables the automatic, accurate, consistent and quantified measurement of a polished diamond's light performance, in order to provide additional criteria by which to appreciate the diamond's quality:
 - o **Brilliance** – the intense bright light that shines from the diamond.
 - o **Sparkle** – the dramatic flashes that burst out of the diamond.
 - o **Fire** – the vivid colours of the rainbow that radiate from within the diamond.
 - o **Light symmetry** – the equal distribution of light that reflects from the diamond.
- The Sarine Loupe™ imaging system creates high-quality video imagery at various levels of 3 to 40 times magnification and from various simulated distances and perspectives. The potential buyer can assess the polished stone's true appearance and beauty, observe its inclusions and truly scrutinise even its minutest details from virtually 360 degrees in all axes, actually better than through a conventional loupe.
- The Sarine Connect™ app, which provides mobile device (tablet, smartphone, etc.) compatibility 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.

Sarine Profile™ is unique in that it allows each customer, whether wholesaler or retailer, online or brick and mortar, to create its unique branding message by utilising the various technologies detailed above, along with other imagery and video presentations, such as – hearts and arrows graphics, Cut proportions graphics in 2D or 3D, laser inscription viewing, etc. It also supports the importation of other customer-provided data, such as the stone's gemmological laboratory report, if from a third party, the retailer's promotional branding material, and even the buyer's personalisation message (e.g., proposal) to the ultimate recipient of the jewellery.

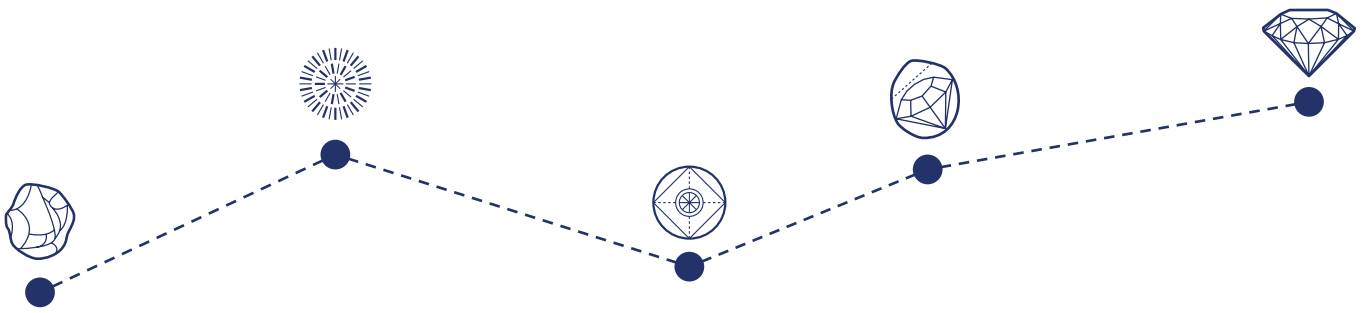
In today's conscientious marketplace, responsible and sustainable sourcing and manufacturing are also key to a retailer's success. The rough diamond's provenance and the accurate documentation of its journey from rough stone to polished jewel are increasingly cardinal to its appeal to today's consumers. The Sarine Diamond Journey™ serves exactly this purpose. Critical to a provenance solution is its access to actual verifiable data from end to end. We have a unique and extensive presence in the diamond industry's midstream, wherein the critical transition from rough to polish occurs. In 2018 over twelve million stones were scanned for inclusion mapping using our systems and many tens of millions of rough stones were planned using our platforms. Of these over 45 million stones were planned using our latest Advisor® software which, optionally, records the actual planning stages. Thus, we can uniquely provide a conclusive certified testimonial of the polished stone's derivation. The mined rough stone's source data is optionally provided by the producer (miner), or, if not, key data pertaining to its weight, form, inclusions, etc. can be derived independently by our technologies, as it is accurately modelled for the analysis and planning processes. Its form is retained in true video format for presentation to the consumer and, as an option, it can also be provided as a real 3D-printed model for the consumer's fascination – the just-announced 3D-Origin™. Subsequently through various stages of the stone's processing, to the level desired, authentic graphic/video data are collated - as the rough was scanned for inclusions, as it was planned, as cut, as "blocked" and as faceted, culminating in its final polished form. Beyond offering consumers insight into the sophisticated technology and painstaking craftsmanship that went into creating their gem in an engaging visual format, the Sarine Diamond Journey™ verifies for the consumer where their diamond was mined and how and by whom it was fashioned, reinforcing their confidence in the value of their unique natural jewel. Augmented by our proprietary technologies for "fingerprinting" the polished stone, which can be subsequently ascertained in the retail outlet, whether the diamond is loose or set, a definitive demonstrable history of the purchased item is created, which can also be utilised by insurers or to resolve issues pertaining to supposed diamond swapping.



3D-ORIGIN™

TRUE 3D-PRINTED MODEL OF ROUGH STONE





OUR MILESTONES

2018

Sarine sets a new standard in rough diamond planning accuracy, efficiency and yield with its introduction of an added-value upgrade for existing or new DiaExpert® platforms – the DiaExpert Edge™. The DiaExpert Edge™, uses advanced LED technology to achieve radically more accurate modelling, capturing even the most minute surface features and texture with incredible precision, allowing for much faster and efficient planning and increasing the yield and beauty of the polished stone with reduced risk.

Sarine's wholly owned subsidiary, Sarine Polishing Technologies Ltd., opens first Sarine Technology Laboratory in Ramat Gan, Israel, utilising Sarine's breakthrough artificial intelligence based technological solutions for the automated, accurate, consistent and objective grading of a polished diamond's Clarity and Color.

Sarine's wholly owned subsidiary Galatea Ltd. launches the Meteorite™ system for the cost-effective inclusion mapping of very small rough stones, under 0.40 carats.

Dominion Diamond Mines ULC ("Dominion"), Canada's largest independent diamond producer, introduces an enhanced CanadaMark™ website incorporating the new Sarine Diamond Journey™. The CanadaMark™ hallmark program is Dominion's strategic initiative to assure the integrity of the supply chain of Canadian diamonds from mine to retail. Leveraging Sarine's extensive presence in the diamond industry's midstream (with tens of millions of rough stones polished annually utilising its rough planning platforms), Sarine has launched the Sarine Diamond Journey™, a paradigm highlighting the provenance of the diamond. The rough stone is traced through all its stages from unique rough stone to one-of-a-kind jewel, and can be depicted as mined, as scanned, as modelled, as planned and as cut and polished, culminating in its final polished form. Dominion's new CanadaMark™ documents the polished stone's audited journey from mine to retail and also includes Sarine Profile™ imagery and light performance data.

K-Uno, renowned Japanese retailer of bespoke made-to-order diamond jewellery becomes the first retailer in the world to adopt the new Sarine 4Cs diamond report – the world's first artificial intelligence-based, technology driven, automated grading report.

Berkshire Hathaway's Borsheims selects the Sarine Profile™ to accompany each of Mr. Warren Buffett's very limited series of Signature Diamonds sold at their flagship store during the annual Berkshire Hathaway Shareholders Meeting in Omaha, Nebraska. Each stone was engraved on-site by Sarine's DiaScribe™ system with Mr. Buffett's signature, its certificate number and a personalised commemoration or message of affection of the buyers' choice.

Sarine's wholly-owned Indian subsidiary, Sarin Technologies India Pvt. Ltd., opens second Sarine Technology Laboratory in Mumbai, India, servicing a key Indian polishing centre. The Sarine Technology Laboratory offers reports on the broadest range of a polished diamond's parameters, including AI-based, technology-driven, automated 4Cs grading, diamond authentication, treatments verification, light performance, the Sarine Diamond Journey™ rough to polish provenance documentation, as well as advanced interactive diamond imaging of various magnifications and perspectives.

Sarine opens a new Galaxy® service centre for the scanning and mapping of internal inclusions in rough diamonds in the Sha Wan Jewellery Park, in the Panyu District of Guangzhou, servicing the rough diamond trade and diamond manufacturers there and in China, in general.

Sarine opens a new service centre for the issuing of Sarine Profile™ reports for polished diamonds in Tokyo, servicing retailers and the polished diamond trade in Japan.

Sarine enters into an agreement with Clara Diamond Solutions Corporation ("Clara"), a subsidiary of Lucara Diamond Corp. ("Lucara"), a Vancouver-based diamond mining producer which aims to change the way rough diamonds are sold. Clara proposes to sell diamonds directly to jewellery manufacturers via a digital platform backed by secure blockchain technology developed by Clara. Sarine's Galaxy® inclusion mapping technology and its Advisor® rough planning will then be applied to the rough stone to generate possible cutting and polishing solutions as per polished diamond manufacturers' retail customers' pre-defined orders. Optimisation of the sorting process in this manner will match available rough material with manufacturers' and retailers' current market demand, allowing them to search for the exact stone(s) they need at the price they want, thus optimising the process, to both seller's and buyer's benefit.

2017

Sarine and GGTL Laboratories (Switzerland) sign a cooperation agreement to address the detection of lab-grown diamonds of all sizes.

Sarine's wholly-owned Indian subsidiary, Sarin Technologies India Pvt. Ltd., opens a self-owned new facility in Surat, India, "Sarin House", consolidating all the Group's Surat-based activities for the Indian diamond manufacturing industry under one roof. Located in India's primary diamond manufacturing hub, the new facility comprises 55,000 square feet (5,100 square meters) over six floors, and houses approximately 400 staff members. Sarin House is the new home for our pre- and post-sales Customer Care and Support as well as for the Galaxy®, Quazer® and Sarine Profile™ service centres.

K-Uno, renowned Japanese retailer of bespoke made-to-order diamond jewellery becomes first retailer in Japan to adopt the complete Sarine Profile™ solution.

Aurora Group, an established jewellery chain in Thailand with over 200 retail stores nationwide, becomes the first customer in Thailand to adopt Sarine's light performance report to enhance customers' experience and confidence.

Sarine releases the seventh generation of its industry-leading rough planning software tool. Advisor® 7.0 includes numerous innovations that advance rough planning to further streamline the process and optimise the yield. Advisor® 7.0 includes Centralised Automated Planning (CAP), enabling the definition of automated planning paradigms (by shapes, proportions, cut grades, lab specifications, etc.) set to run in the background, so staff can quickly filter hundreds and even thousands of planning solutions according to market demand. Advisor® 7.0 supports customised pricing, directly integrating with the manufacturer's proprietary criteria, so that pricing of the polished stones adheres to the manufacturer's own internal controls. Another

key feature analyses the planned stone using various criteria, including Sarine Light™, Hearts and Arrows and Photo Real, modifiable on a per facet basis, to meet retailers' most stringent demands, beyond the traditional 4C's. Advisor® 7.0 also provides graphic indications of any internal stress in the rough diamond, enabling the planning process to avoid danger during subsequent processes, which could endanger the stone's integrity.

Golden Dew, becomes our South Korean launch customer for the Sarine Profile™ in its 72 stores and adopts the Sarine Connect™ diamond/jewellery search and display app.

Singapore Exchange Mainboard-listed Soo Kee Group Ltd. (42G:SI), extends its adoption of the Sarine Profile™ to China for its Love & Co.'s brand's Lovemarque diamond collection, introducing the first fully digital diamond report entirely in Chinese with a powerful visual and experiential 'story' of the diamond. The brand aims to establish 550 points-of-sale in China and Hong Kong by the end of its fifth year of operation.

Our Galaxy® family of inclusion mapping systems scan ten million stones in aggregate worldwide, in a single year, in 2017.

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 affected.

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.

Gemmological 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.

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.

2014

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

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

OUR MILESTONES

manually evaluated by gemologists using microscopes. Sarine's DiaMension® Axiom thus sets a new bar for polished diamond analysis and grading.

Sarine Color Technologies Ltd. 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 Ltd. 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.

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

2009

Galatea Ltd., 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 Ltd., 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.

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 Ltd, is listed on the Mainboard of the Singapore Exchange.

2004

Sarine Polishing Technologies Ltd. (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 Ltd.), 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 Ltd.

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) Ltd.

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

“Notwithstanding challenging industry conditions, we scanned a new record of over 12 million stones, 20% more than our record performance in 2017.”



DEAR FELLOW SHAREHOLDERS

2018 in Perspective

The diamond industry again encountered significant headwinds in 2018, particularly so in the second half of the year. From the geopolitical perspective, uncertainty as to the impact of mutual trade tariffs imposed by two of the world's largest economies, the U.S. and China, sapped equity markets' performances and weakened consumer sentiments, particularly in China, the world's second most important consumer market for polished diamonds. In India, currency devaluation and, more significantly, increased demand by the banking system for transparency in the manufacturers' business practices, as well as the decision by some banks to unilaterally reduce their exposure to the diamond industry, constrained polishers' access to working capital, impairing operations and impeding ability for expansion. Lastly, DeBeers disruptive launch of their Lightbox line of jewellery based on lab-grown diamonds, as well as the pertinent decision by the U.S. Federal Trade Commission (FTC), caused distinct uncertainties as to the future dynamics of the natural diamond industry, in general, and particularly so for very small natural stones, with the relevant midstream players pausing to rethink their business models. All these factors negatively impacted our business results for the third and fourth quarters of the year and, indeed, continue to affect us going into 2019.

Notwithstanding challenging industry conditions, we scanned a new record of over 12 million stones with our Galaxy® family of inclusion mapping systems in 2018 (including at our tenth service centre in Guangzhou, China, opened this year), 20% more than our record performance in 2017, this despite the ongoing illicit IP-infringing competition discussed below. We estimate that throughout 2018 upwards of 80 million stones were planned utilising our DiaExpert® family of planning platforms and our Advisor® software – some 45 million stones having been planned using our latest Advisor® 7.0 software alone. As of the end of Q1 2019, Advisor® 7.0 is in use at some 16,000 of our total 24,000 worldwide installations and around 5 million unique stones are planned on these systems monthly – setting the pace for some 55 million stones to be processed on Advisor® 7.0 and its successor Advisor® 8.0 (see below) this year, an increase of over 20% over 2018's 45 million. We sold just under 2,000 new Advisor® 6.0/7.0 stations in each of 2017 and 2018, itself a notable achievement and evidence of the perceived advantage of our technology, and upgraded some 3,000 "seats" in 2018. In 2018 we delivered 65 Galaxy® family systems to customers and service centres (notably 51 of these systems for small and very small rough stones sold into India), significantly higher than the previous year's delivery of 46 systems. The Group had an installed base of 410 Galaxy® family systems as of 31 December 2018.

This year we celebrated 30 years of industry leading innovations leading to better efficiencies, higher yields and lower risks in the midstream diamond polishing segment. Not content with resting on our laurels, this year too saw the continued launch of innovative solutions for the midstream. In 2018 we set a new standard in rough diamond planning accuracy, efficiency and yield with the introduction of an upgrade for existing or new DiaExpert® platforms – the DiaExpert Edge™. The DiaExpert Edge™ uses advanced LED technology to achieve radically more accurate modelling, capturing even the most minute surface features and texture of the rough stone with incredible precision, allowing for more efficient planning and increased yield with reduced risk. Additionally, Sarine's wholly owned subsidiary Galatea Ltd. launched the Meteorite™ system for the cost-effective inclusion mapping of very small rough stones, under 0.40 carats, bringing the benefit of our unmatched technology to even the smallest rough diamonds. Finally, towards year's end we announced the ability to automatically scan a diamond's crystal for internal tension, which will reduce midstream manufacturers' risks in the sawing and cutting stages. This technology will be commercially launched in 2019.

We also established a presence this year in the mining/producing upstream of the diamond industry. Dominion Diamond Mines ULC ("Dominion"), Canada's largest independent diamond producer, introduced an enhanced CanadaMark™ website incorporating the new Sarine Diamond Journey™. The CanadaMark™ hallmark program is Dominion's strategic initiative to assure the integrity of the supply chain of Canadian diamonds from mine to retail. Leveraging Sarine's pervasive presence in the diamond industry's midstream the Sarine Diamond Journey™ provides actual documentary evidence of the provenance of the diamond. Additionally, we entered into an agreement with Clara, an initiative of Lucara, another miner operating in Botswana. Clara's aim is to enhance the value of Lucara's mined rough diamonds. Scanning the rough stones at source on our Galaxy® systems and subsequently planning them with a special version of our Advisor® planning software, Lucara matches their mined rough output with midstream and downstream industry players' specific needs for polished stones as per retail demand. This enables Lucara to realise a premium on their mined inventory. Our unique abilities to both boost a producer's return from their mined output, as well as provide an unmatched level of provenance (sourcing) traceability, may very well lead to similar initiatives with other producers.

But the most exciting developments in 2018 were in our offerings for the downstream wholesale and retail trade of polished diamonds. Branding, differentiation and the consumer's

experience are the main challenges facing retailers today. As reported in the 17th edition of Bain & Company's Annual Global Luxury Study (November 2018), online sales of luxury items continue to expand dramatically, at an impressive 22%, all of said expansion driven by the younger Generations Y and Z - willing to shop in physical stores but expecting a digitally enhanced experience. Federica Levato, a Bain partner and co-author of the study, opined "New technologies are at once enriching online and mobile shopping experiences, while potentially putting the role of physical channels at risk... Brands must therefore rethink their physical channels and evolve from point-of-sale to point-of-touch, and use technology to enhance customers' in-store experiences." Bain expects online sales to comprise 25% of all the luxury market value by 2025 (up from 10% today). More importantly, they expect all luxury purchases will be influenced by online experiences, with 50% of future luxury purchases digitally enabled. Luxury brands will need to "be proactive in developing approaches to serve new customers... and be next-gen minded. The underpinning of all these strategies is the emergence of new technologies... a fundamental enabler for brands through 2025". Our various offerings, AI-based 4Cs objective grading, light performance grading, the Sarine Profile™ and the Sarine Diamond Journey™ are specifically designed to fulfill these needs.

Indeed, 2018 saw the fruition of years of research and development efforts. We formally opened our new Sarine Technology Labs in Israel and India, enabled by our automated, consistent and objective AI-based Clarity and Color grading of polished diamonds. Along with our industry-leading technology for Cut and Symmetry grading, derived from our third generation standard-setting Axiom™ system for the ultra-accurate (better than 10 micron accuracy) proportions measurement of a polished diamond, and technology acquired for the authentication of the graded polished diamonds, we can now provide the first-ever technology-driven 4Cs diamond reports.

Also launched in 2018, the Sarine Diamond Journey™ is the industry's most robust solution for polished diamonds provenance documentation. Leveraging on our industry-leading technologies utilisation in the diamond industry's midstream, wherein the critical transition from rough to polished stone occurs, we have the unique ability to provide a conclusive certified testimonial of the polished stone's derivation. The Sarine Diamond Journey™ provides a captivating paradigm for documenting and showing the consumer the entire actual process that his/her very own diamond underwent. The mined stone's data is provided by the producer (miner) or can be derived independently by our modelling processes. It is accurately depicted in video format and can optionally be provided as a real 3D-printed model for the consumer's fascination – the just-announced 3D-Origin™. Subsequently through various stages of the stone's processing, to the level desired, authentic graphic/video data is collated - as the rough stone was scanned for inclusions, as it was planned, as cut, as "blocked" and as faceted, culminating in its final polished form. Beyond offering consumers insight into the sophisticated technology and painstaking craftsmanship that went into creating their gem in an engaging visual format, the Sarine Diamond Journey™ verifies for the consumer where their diamond was mined and how (and by whom) it was fashioned, reinforcing their confidence in the value of their unique natural jewel. Augmented by our proprietary technologies for "fingerprinting" the polished stone, which can be ascertained in the retail outlet, a definitive demonstrable history of the purchased item is created, which can also be utilised by insurers for documentation or to resolve issues pertaining to supposed diamond swapping.

Intellectual Property (IP) Infringement

Intellectual property infringement is still, regrettably, an unfortunate reality of our doing business in India. Most illicit IP infringements continue to be centred on our industry-leading inclusion mapping and rough planning systems. The primary infringing parties are Diyora & Bhandari Corporation and a number of their related entities (hereinafter collectively, "DBC")

“Bain expects 'all luxury purchases will be influenced by online experiences, with 50% of future luxury purchases digitally enabled. Luxury brands will need to be proactive in developing approaches to serve new customers... and be next-gen minded. The underpinning of all these strategies is the emergence of new technologies... a fundamental enabler for brands through 2025.' The Sarine Profile™ and the Sarine Diamond Journey™ are specifically designed to fulfill these needs.”

in Surat, India. We continue to litigate these issues, claiming that DBC have essentially copied Sarine's patented Galaxy® inclusion mapping technology and are using pirated and manipulated versions of Sarine's proprietary and copyrighted Advisor® software for rough diamond planning, to operate an illicit rough diamond scanning service centre. DBC are, of course, disputing this.

However, we are not only relying on judicial recourse. We are also leveraging the numerous technological and commercial advantages we have. The Advisor® version that the infringing parties are using is a version over four years old. The newest Advisor® 7.0, soon to be replaced by Advisor® 8.0, is protected by proprietary cloud-based cyber security and has many enhanced features, including those innovations launched and announced in 2018 – the DiaExpert Edge™ and tension mapping. Comparative testing between Advisor® 7.0 and the older versions used by dishonest players shows the newer software has a significant tangible added value in actual dollar terms. We are also leveraging our new relationships with major retailers launching programs enhanced by our polished diamond retail-supporting services noted above, to initiate same only with suppliers who have migrated to Advisor® 7.0. Again, this creates another strong incentive to migrate upwards. All these initiatives are clearly bearing fruit as we see continued adoption of our Advisor® 7.0, as noted above – 16,000 out of a total 24,000 installed base. It should be noted that, realistically, probably no more than 20,000 are convertible/upgradeable, due to the number of users on the DiaExpert® Atom and DiaExpert® Nano platforms for small and very small rough stones, where the benefits of the newer Advisor® versions are less tangible, or on mobile systems, which cannot always be connected to the Internet. To further drive adoption of our industry-leading solutions, we have successfully launched very aggressive sales promotions of the Meteor™ and Meteorite™ systems, for small and very small rough stones under 0.9 and 0.4 carats, respectively, to essentially offer our superior technology at pricing comparative to that offered by DBC. Finally, very importantly, major U.S. retailers have gone on record publicly that they will not tolerate IP infringement in their supply chain.

Looking Ahead to 2019

The Midstream Sector

We will continue to leverage our technological lead and widen the gap between the older planning paradigms used by infringing parties, which we will no longer support in 2019, and the new Advisor® 8.0, including tension mapping utilisation, to be launched in Q2. Furthermore, we will continue leveraging the growing adoption by retailers of our polished diamond trade supporting technologies, the Sarine Profile™ and the Sarine Diamond Journey™ in particular, to induce midstream players to abandon their use of the illicit solutions. These strategies, along with the noted aggressive pricing promotions we have implemented on the Meteorite and Meteor, to be possibly followed by a promotion on the Solaris model at a later date, are clearly generating positive results vis-à-vis the illicit competition. We expect our installed base of our Galaxy® family of inclusion mapping systems to continue to expand, possibly passing the 500 mark by year's end, and the number of stones scanned to correspondingly continue to set records. Our recurring revenues generated from these services will also continue to increase, albeit at a slower rate, as the additional stones scanned are mostly of smaller and very small sizes, with commensurately less revenue generated per scan.

The Downstream Sector

In 2019 we will continue refining the Sarine Clarity™ and Sarine Color™ AI-based grading capabilities, as well as our provenance solution, the Sarine Diamond Journey™, and related (e.g., fingerprinting) capabilities. We are also continuing our longer-term effort to be able to provide advanced fine-sorting of Clarity per varied retailer-specific requirements. Marketing-wise, this year we are significantly expanding our sales staff in the key

APAC market, in China, Hong Kong, India, Japan and Singapore, and investing in end-market retailer and consumer recognition of our Sarine brand. We expect that our bolstered presence in the APAC market across key geographies will enable us to capitalise on the ongoing retail trends of branding, differentiation and enhanced consumer digital experiences. We believe we will realise accelerated traction and the broader adoption of the Group's Sarine Profile™, Sarine Diamond Journey™ and Sarine Technology Lab AI-based 4Cs grading offerings for the retail online and in-store polished diamond trade. Our Sarine Profile™ continues to gain traction in the APAC market and continues to expand into new geographies with footholds in Australia, India, the United Kingdom and Poland. In addition to CIMA, our launch customer for the Sarine Diamond Journey™ in Japan, additional retailers there, as well as in China and Thailand, are moving forward with the necessary logistics vis-a-vis their suppliers for its adoption. Also as announced, Israel's Namdar is an early trendsetter, being a supplier adopting it for their Brilliant Rose® and Proudly South African® brands distributed throughout the APAC region in China, Taiwan, Singapore, Malaysia, etc. Indeed, an important positive development is that leading midstream suppliers of polished diamonds are joining the Sarine Diamond Journey™ paradigm. They have opted to enable our solution to collect the appropriate data and imagery during the various stages of polishing and to store same in our database. Their aim is to be "Journey-ready", so as to be able to offer their retail customers this option and to allow the retailers to handily subscribe to the Sarine Diamond Journey™ service based on data already existing in our cloud repository. Following K-Uno, our launch customer in Japan for our groundbreaking AI-based 4Cs grading, we have customers in various phases of preparation for launch in Australia, China, Hong Kong and Israel. We are also targeting focused strategic opportunities in the key U.S. market.

Dividend

The Board of Directors has recommended that a final ordinary dividend of US1.0 cent per ordinary share (approximately US\$ 3.5 million) be distributed for FY2018. This will bring total dividends for FY2018 to US 3.0 cents per share, approximately US\$ 10.5 million. This sum is in line with our free cash flow generated this year and demonstrates the Board's and Management's continued faith in the Group's ongoing sustainable business.

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 our 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 2019 and beyond, as we inspire confidence in the industry's players, its global consumers and in our loyal shareholders.

Respectfully Yours,



Daniel Benjamin Glinert
Executive Chairman



30 YEARS OF ADVANCED TECHNOLOGICAL BREAKTHROUGHS

1992

AUTOMATED CUT GRADING

DiaMension®



1995

DIAMOND PLANNING

DiaExpert®



2000

MANUFACTURING INSTRUCTIONS

DiaMark®



FROM THE MINE TO THE JEWELRY STORE

For over a generation, Sarine has developed and supplied breakthrough technologies covering the entire diamond pipeline. Sarine products are known and loved worldwide, used in leading diamond manufacturing plants, wholesalers' offices, all main gem labs, and jewelry retail stores.

2009

INCLUSION SCANNING

Galaxy®



2013

LIGHT PERFORMANCE

Sarine Light™



2016

Sarine Profile™



2018

AI Clarity & Color Grading
Sarine Diamond Journey™



THE WORLD'S FIRST AI-BASED DIAMOND LAB

Sarine Technology Lab is the first ever technology driven, automated, artificial intelligence-based diamond grading lab. Sarine Profile™ reports, available at Sarine Labs, offer the world's most accurate, reliable diamond grading information in interactive digital display.

BOARD OF DIRECTORS



1. 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 subsidiaries Galatea, Sarin India, Sarine Color Technologies, Sarine Polishing Technologies and Sarine Holdings USA. Mr. Glinert holds a Bachelor's degree in Computer Sciences (cum laude) from the Technion - Israel Institute of Technology. He has over 45 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.), a founding shareholder of the Sarine Group, 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 attained the rank of Major.

2. 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 was 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.

3. UZI LEVAMI

Non-Executive Director

Uzi Levami is a Non-Executive Director of the Group, as of January 2018. Prior to that he had been an Executive Director since December 2008 and was CEO of the Group from February 2009 through April 2017. He is also a Director in the Group's subsidiaries Sarin Hong Kong, 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.

4. 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.

5. 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). Mr. Blum has also served as Chairman of the Exchange's Audit Committee and a lead Arbitrator in various mediations. Mr. Blum is also a Director in the Israeli Diamond Institute. 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 Mizrahi 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. In 2018, Mr. Blum was appointed to the "Directors' Pool" – a pool of eligible directors administered by the Israeli Ministry of Finance from which individuals are appointed as Independent Directors in Israeli governmental companies, and he is the Vice President for Economic Affairs at Lahav – the Organisation of Independent and Small Businesses.

6. VALERIE ONG CHOO LIN

Independent Director

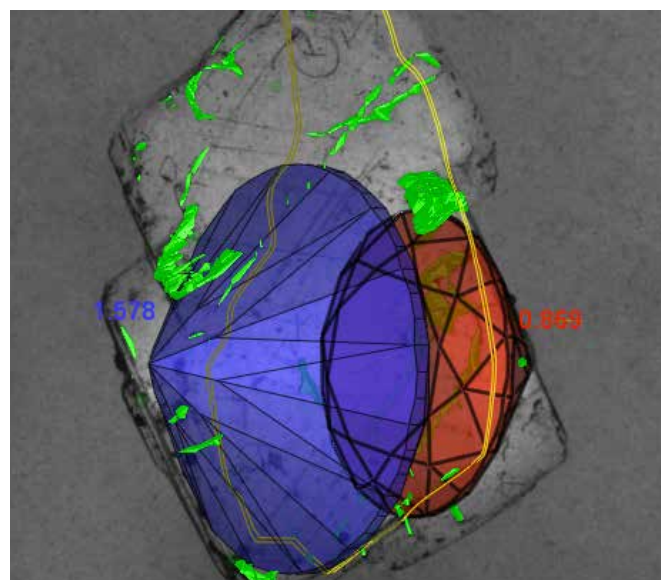
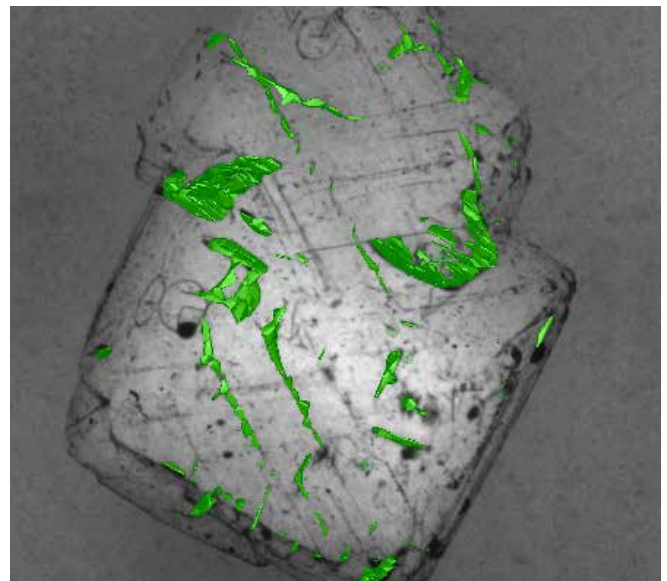
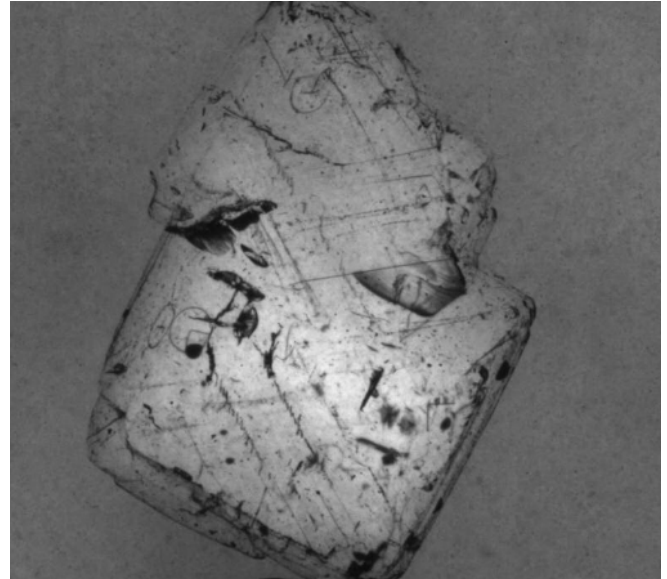
Valerie Ong Choo Lin is an Independent Director of the Group and was appointed to the Board in March 2005. She graduated with a Bachelor of Law (Honours) from the National University of Singapore in 1987 and obtained a Master's degree in Law (with Distinction) from the London School of Economics in 1991. Ms. Ong is a capital markets and mergers & acquisitions Senior Partner at Dentons Rodyk & Davidson. She is ranked in Chambers Asia Pacific 2019 and has been cited in numerous lawyers' publications, including IFLR1000 Leading Lawyer 2019 for Mergers and Acquisitions. Valerie served on the Singapore Income Tax Board of Review until 2013. She is a member of the ASEAN Committee of the Singapore International Chamber of Commerce and serves on the Government Parliamentary Committee for Finance Trade and Industry Resource Panel.

7. VARD A SHINE

Independent Director

Ms. Varda Shine is an Independent Director of the Group, having been appointed to the Board April 2017. Ms. Shine has had 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 annually) through the sightholder paradigm, from 2006 through 2014. During her tenure at DeBeers, she attended courses in Advanced Management at Templeton, Oxford, and Marketing Channels at Insead. Ms. Shine currently serves as a Board member of the Mineral Development Company of the Government of Botswana and as a non-executive Director on the Boards of Petra Diamonds PLC and Lonmin PLC. In addition, Ms. Shine is a Trustee of the Teenage Cancer Trust (UK) and of the Diamond Empowerment Fund. She is also an executive mentor at Merryck & Co. working with C-suit executives of listed companies and is the CEO of her own company, Sky Ink, which helps take businesses from concept development through to execution and commercialisation.

ROUGH DIAMOND SCANNING AND PLANNING SEQUENCE



KEY MANAGEMENT



1. DAVID BLOCK is the Group's CEO as of May 2017. Prior to that he was Deputy CEO and Chief Operating Officer (COO) since 2012, with responsibility for worldwide operations, worldwide sales, including the network of distributors/resellers and customer care. He is 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. Prior to that 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. Beginning January 2006, for a period of three years, 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 a Master of Business Administration (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.

2. RON BEN-ARI is the Group's Deputy CEO (as of 2018) and Vice President of Product Management, responsible for all of the Group's products' definition, marketing and timely development since 2016. 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 Kellogg-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.

3. WILLIAM KESSLER has served as the Group's Chief Financial Officer (CFO) 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 an MBA from Columbia University, both in NY, USA.

4. ABRAHAM MEIR KERNER is the Group's Vice President of Research and Development since March 2009 and Chief Technological Officer since 2004. He is primarily responsible for developing our technological base, as well as overseeing 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 ten 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 non-executive director) and then Interhightech (founded by Mr. Glinert, the Group's current Chairman, into which 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.

5. MICHAEL GOREN is the Vice President for Global Sales and Marketing, having been appointed mid-2018. Prior to that appointment, he was 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, has 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.

6. OREN BEN-KOCHAV joined Sarine in 2017 as the Group's Vice President for Global Operations. He is responsible for Sarine's procurement, production, customer care, Information Technology (IT), including the Management Information Systems (MIS), and the operation of the global service centres. In this role, Oren is focusing on improving and optimising the services the Group provides its customers, along with implementing customer-centric paradigms. Prior to joining Sarine, from 2010 through 2017, Oren served as the Executive Director of Customer Operations and the Israeli branch COO for McKesson (Nasdaq:MCK), supporting McKesson's customer services for its digital imaging and diagnostic solutions, used by cardiologists and IT professionals working for hundreds of healthcare

providers and imaging centres worldwide. From 2002 to 2010, he served as a Director of Product Operations at Medcon, an Israeli healthcare IT company, responsible for customer support and implementation teams, providing services globally to their customers and resellers. From 1999 to 2002 Oren led the project management and information services groups in Gamatronic, a publicly traded Israeli company (TASE:GAMT) and was responsible for executing large scale projects for governmental customers, both military and civilian. Oren holds a Bachelor's degree in Business Management, with specialisation in information systems, from Touro College in New York.

7. TZAFRIR YEHUDA ENGELHARD was appointed the Group's Vice President of Business Development in 2017, responsible for development of new business lines and strategic cooperation with other parties. Tzafir 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.

8. WILLIAM WEISEL is 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 (JD) degree from Loyola University School of Law in Los Angeles. Mr. Weisel is admitted to practice law in California and Israel.

KEY MANAGEMENT



9. RAN ZISKIND General Manager of Sarine's subsidiary, Galatea Ltd., since 2004, being one of its founding entrepreneurs. Mr. Ziskind is in charge of the ongoing development and manufacturing activities at Galatea on the Galaxy® family of inclusion mapping and tension detection systems. 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.

10. YOAV EFRAT has been the Managing Director of Sarin India since mid-2017. Prior to his relocation to India, Mr. Efrat served for two years as the group's Director of Program Management & Delivery, responsible for global operations of Sarine's trade and retail solutions. From 2011 through 2015, Mr. Efrat was the Product Manager responsible for Sarine's line of diamond manufacturing products, working closely with manufacturers and gemmological labs. During these two periods, Mr. Efrat garnered a wealth of knowledge relating to polished diamonds and their retail branding as well as to the Indian manufacturing market and its processes, economies, etc. Prior to joining Sarine, from 2008 to 2011, Mr. Efrat led national communications projects at R.T.Com, including development and set-up of national satellite networks for governmental agencies. Mr. Efrat also possesses extensive experience in software development, having worked at Paieon Medical Inc. as the lead software system architect from 2005 to 2008. Mr. Efrat holds a Bachelor's degree in Computer Science from Ben Gurion University, and an MBA from Bar-Ilan University, with specialisation in marketing.

11. 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 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.

12. 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.

13. 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 an MBA from the South Gujarat University, India.

14. GILAD HASSID was appointed Vice President Operations of Sarin India in June 2018. Prior to that Mr. Hassid was Head of Operations of Sarin India commencing March 2013. In these roles he is and was responsible for post-sales services provided to the customers in India as well as the operation of Sarin India's Galaxy and Quazer service centres. During 2018 Mr. Hassid was responsible for the establishment of the Sarine Technology Lab in Mumbai, which became operational in May 2018. From 2015 through 2017, he led the "Sarin House Surat" building project to completion, which shifted all the activities in Surat to one location in the Sarin House in March 2017. Prior to joining Sarin India, Mr. Hassid served in several sales and marketing executive/management positions in Europe, India and Israel. From 2011 to 2013, he was the CEO of Yes Imported Solutions India, importing architectural solutions from Italy and Switzerland to India. From 2008 to 2011, he was the CEO of Barkan Mounts Italy and Europe Division Manager, distributing in Europe branded mounting solutions for TV and other consumers electronics. From 2005 till 2008, Mr. Hassid managed the regional sales teams in Israel for Motorola Israel Mirs Communications division. From 1999 through 2005 he held sales and marketing positions in Tnuva Israel. Mr. Hassid holds a Bachelor's degree in Marketing and Economics from the Academic Institute Rishon Le-Zion, Israel.

15. NOY ELRAM was appointed the Managing Director of Sarin Hong Kong Limited (responsible for the Asia-Pacific region excluding India) in June 2018, with responsibility for expanding the penetration of Sarine's polished diamond solutions for retailers and suppliers in his expansive territory. Mr. Elram has 17 years of experience in development, integration and providing customer support and service for complex solutions in various industries in various territories globally. Between 2014 and 2018 Noy served as Head of Professional Services for Verint (Nasdaq:VRNT), stationed in Singapore, providing pre- and post-sales support to the Singaporean law enforcement authorities, while building and training the local teams to provide on-site services. Prior to that, from 2012 to 2014, Noy worked in Israel as Lead Software Engineer analysing and implementing security protocols at Verint. From 2006 to 2011, Noy managed the R&D at Marvell Semi-Conductors (Nasdaq: MRVL), developing full system solutions for the mobile cellular industry. Noy started his career at Intel Corporation (Nasdaq: INTC) in 2001, as a real-time, embedded, mobile network protocol developer. Noy holds a Bachelor's degree in Computer Science from the Academic College of Tel Aviv-Yafo in Israel.

16. ALON SHAFIR has been the General Manager of Sarine North America as of 2016 and is Sarine's Lead Gemmologist, responsible for global standards. 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 coloured diamonds. Prior to that Mr. Shafir served as the General Manager of the European Gemmological Center (EGC) in Israel for almost ten 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 is admitted to practice law in Israel) and a Gemmology Diploma GG from the Gemological Institute of America (GIA).



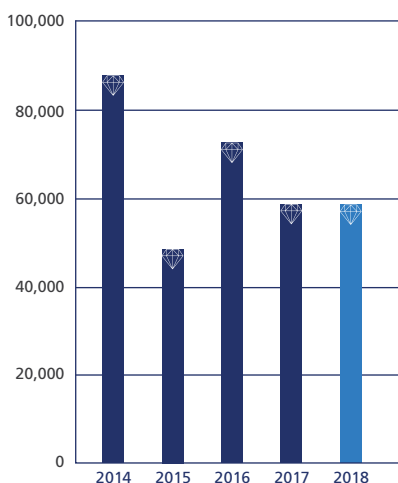
FINANCIAL HIGHLIGHTS

PERFORMANCE AT GLANCE

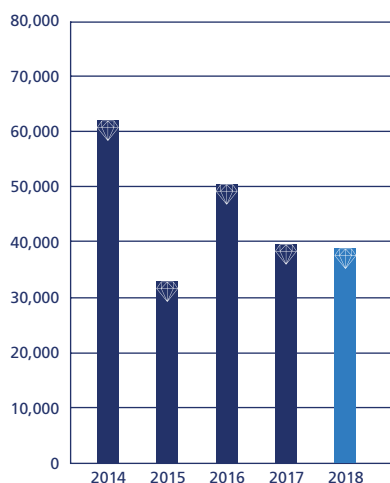
Financial Year Ended 31 December

(US\$ '000)	2014	2015	2016	2017	2018
Revenues	87,770	48,453	72,524	58,644	58,504
Gross Profit	61,903	32,549	50,289	39,346	38,568
Net Profit	27,230	3,587	17,980	5,764	7,602
Gross Profit Margin	70.5%	67.2%	69.3%	67.1%	65.9%
Net Profit Margin	31.0%	7.4%	24.8%	9.8%	13.0%
Cash and Investments (no debt)	45,497	32,596	37,987	29,117	28,853
EPS (US cents, fully diluted)	7.70	1.02	5.14	1.64	2.17
Dividend Per Share (US cents)	5.00	3.00	4.50	3.50	3.00
EBITDA	37,854	9,539	25,070	12,931	13,661

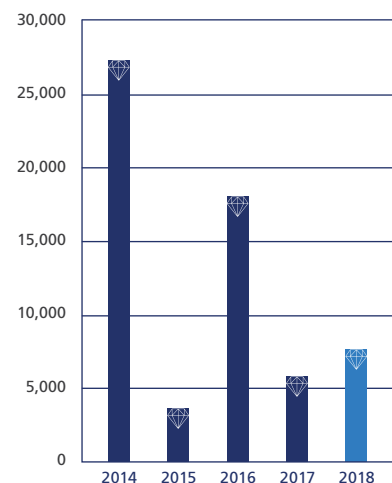
Revenues
(US\$ '000)



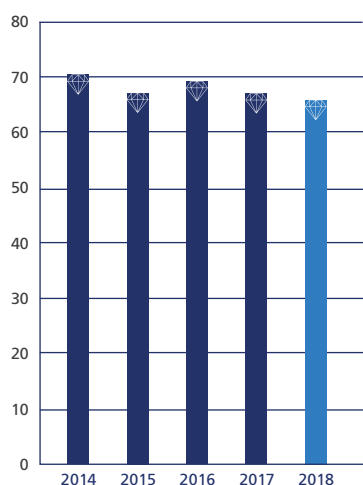
Gross Profit
(US\$ '000)



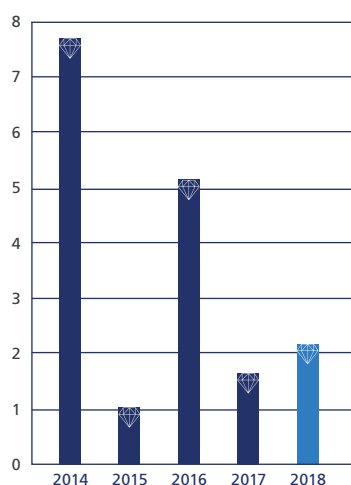
Net Profit
(US\$ '000)



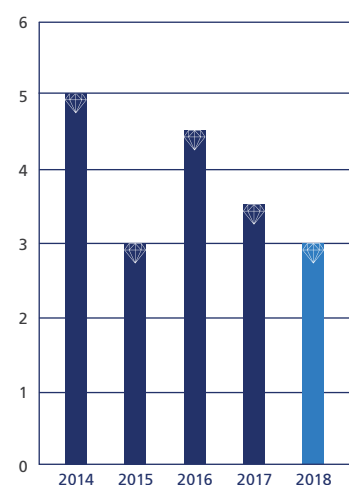
Gross Profit Margin
(%)



EPS
(US cents)



Dividend Per Share
(US cents)



MANAGEMENT'S BUSINESS, OPERATION & FINANCIAL REVIEW

The Diamond Industry

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

Rough Stone Polishing (the "Midstream")

Rough diamonds go through a series of processes, commencing with their external and internal inspection, through planning, sawing (cutting), shaping (sometimes, if round, referred to as "bruting"), polishing (faceting) and fine-polishing to turn them into retail-ready polished gems. Traditionally, an elite group of artisans, mostly within families, executed these processes manually.

Sarine has revolutionised the diamond polishing/manufacturing industry, often referred to as the "midstream", by introducing computer-based technologies to automate many of the processes of this highly specialised expertise.

The cost of rough diamonds is high. They are typically paid for upon receipt. Yet it often takes six to twelve months to sell the polished output, often on credit terms. The cost of financing this cycle adds to the direct expense incurred by the complexity of the process, and the errors and accidents incurred along the way, driving polishers to normally realise only single digit margins. Hence, any yield increases, cost savings, cycle shortening or risk reduction benefits are critical and have significant impact on the manufacturers' profits. The diamond industry's midstream's turnover was valued at approximately US\$ 20.2 billion in 2017 (the latest full year for which data are available), with added value of some US\$ 5.5 billion.

Sustained by these basic industry value-chain economics, the Group has been successful over the years in introducing reliable and efficient yield-increasing, cost-cutting, time-saving and risk-reducing technologies. The global diamond industry has readily adopted these technologies, many of which have become de-facto industry standards. The combination of these technologies, as described below, has redefined the art of polishing diamonds. They have pushed the optimally achieved yield of the polished stone(s) weight from under 40% of the rough stone's weight to over 50%, a 25% benefit. Our solutions also allow the manufacturer to produce goods which best suit actual market trends at any given time, e.g., trading off between Carat weight and Clarity grade quality, to best respond to North American or Asia Pacific demand.

Historically, the Group has focused on the following products and services for the analysis, assessment, optimal planning, sawing, shaping and polishing of rough diamonds for the midstream manufacturing segment of the diamond industry:

- The Galaxy® family of internal inclusion identification and mapping of rough diamonds - the Galaxy® 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 from 20 to over 200 carats, the Solaris™ for stones of 0.9 to 2.5 carats, the Meteor™ for smaller stones of 0.40 to 0.9 carats and the Meteorite™ for even smaller stones weighing from only 0.05 to 0.40 carats. Commencing 2019, the Galaxy® systems can also be equipped with an add-on kit allowing the mapping of the internal stress ("tension") of a rough diamond, allowing for safer planning, cutting and polishing;
- The Advisor® software and the DiaExpert® family of platforms for planning the optimal utilisation of rough diamonds - DiaExpert®, DiaExpert® Atom, DiaExpert® Nano 6.5, DiaExpert® XL, DiaExpert® Eye®, DiaExpert® Edge, DiaScan® S+, DiaMobile® XL and DiaMark® Z for varying sizes and qualities of rough stones from 1000 carats down to several points;
- The third-generation Quazer® 3 green-laser system and its Strategist® setup station, the industry's most cost-effective high-end solution for the laser cutting and shaping of rough diamonds; and
- Our Instructor® software and DiaMension® family of platforms which assists in real-time quality control and optimisation of the actual diamond faceting. It also provides for corrective polishing, when deviations from the original planned optimal polishing solution are discerned, by re-analysing the semi-polished stone and proposing alternative solutions, including utilisation of unique asymmetrical resolutions.

We believe that our introduction of technology to the diamond polishing industry, and its conversion from an artisan-based industry to a technology-driven one, has contributed to the migration of the manufacturing from historic polishing centres in developed countries (e.g., Belgium, Holland, Israel and the United States) to lower cost centres. Today, the diamond industry midstream is concentrated in India. Though polishing facilities can also be found in China, Vietnam and the southern African countries (mainly Botswana, Namibia and South Africa), India is by far the leading diamond manufacturing centre, accounting for some 90% of all stones polished worldwide by stone count and some 80% by value. Though many resources have been invested in the development of domestic polishing industries, most of the southern African countries have yet to emerge as significant rough diamond processing centres, with the exception of Botswana which has, in fact, become the second most important polishing centre globally.

Sarine has a market presence in both established and emerging diamond manufacturing centres. A key development was the establishment in 2004 of Sarin Technologies India Private Limited, our wholly-owned Indian subsidiary. Having taken direct responsibility for the pre- and post-sales operations in the diamond industry centres of Mumbai and Surat, we now have control over the marketing of our products in the key Indian market. In 2009, we opened a service centre in Surat, India, which provides our customers in India with Galaxy® inclusion mapping and Quazer® laser cutting services. In the beginning of 2012 we opened a second service centre in India - in Mumbai. These service centres generate a recurring revenue stream. So do also the majority of the Galaxy® systems acquired by customers, due to the unique business model we have implemented based on an ongoing per-carat use charge. In 2017 we opened "Sarin House", a self-owned new facility in Surat, India, consolidating all the Group's Surat-based activities for the Indian diamond industry under one roof. Located in India's diamond manufacturing hub, the new facility comprises 55,000 square feet (5,100 square metres) over 6 floors, and houses approximately 400 staff members.

The diamond manufacturing centres of southern Africa also have potential for expanding our product sales. Sarine has taken the requisite steps to strengthen its market presence in these markets. The appointment of an agent in South Africa 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 inclusion mapping and planning services were opened in all these countries, as well.

MANAGEMENT'S BUSINESS, OPERATION & FINANCIAL REVIEW

Diamond Grading

Because of the high value of polished diamonds, adhering to the established standards of quality, as measured by a diamond's 4Cs (Carat, Clarity, Color 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 twenty-five years.

We pioneered the first technology ever for grading a polished diamond in 1992, with the launch of the DiaMension®. This system introduced automated grading of a polished diamond's Cut, and two subsequent upgrades, the DiaMension® HD (High Definition) and the Axiom™ have kept us at the forefront of Cut and Symmetry grading. Next, in 2013, we introduced the Sarine Light™, the industry's most accurate system for measuring a polished diamond's actual light performance. This system is becoming the accepted standard in the Asia Pacific (APAC) market, and has all but become the fifth C in Japan. Commencing in 2018, we launched automated grading of a polished diamond's Clarity, a world first, as well as Color. Our newly opened Sarine Technology Labs in Israel and India provide the world's first technology-based, artificial-intelligence (AI) driven, objective and consistent grading of a polished diamond's 4Cs, as well as authentication of the diamond's source (natural or lab-grown) and identification of any treatments to which it has been submitted. Optionally, light performance grading and other consumer-oriented imaging and presentation aids are also provided by these labs.

Following on the launch of the DiaMension® product in 1992, for the world-first actual accurate measurement of a polished diamond's proportions, in order to scientifically derive its Cut grade, the DiaMension® HD (High Definition), introduced in 2009, and the Instructor® software are today the industry's standard for measuring proportions and Cut grading worldwide. The newest DiaMension®, the Axiom™, based on revolutionary technology with micron level accuracy, was developed in 2015 to meet and exceed Tiffany & Company's most stringent requirements for Cut and Symmetry grading. Our polished stone proportion measuring and Cut/Symmetry grading systems operate using our proprietary Instructor® software, which was the first proportion and Cut grading software to be evaluated by the Gemological Institute of America (GIA). It has been certified as being accurate in excess of 98% of tested cases.

Our automated grading of a polished diamond, utilising our groundbreaking AI-based technology, is realised on two new devices, the Sarine Clarity™ and Sarine Color™. 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 within the polished stone, the judgment call is complex. The norm is that at least two graders grade each stone, and it is not unusual for a third opinion to be required. Even so, Clarity grading is not consistent, and it is not uncommon to get significant variations in grading, often resulting in the grading being contested. Our tests have shown that a statistically significant reference team of proficiently trained graders assesses the same stone's Clarity across up to three different grades. Utilising technology enables much more consistent grading, and, as the AI-based algorithms are self-teaching, consistency improves over time. It is our aim to augment our Clarity grading with the fine-sorting a diamond's Clarity in accordance with various industry-accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table"), etc.

Polished Diamond Trade (the "Downstream")

A key 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 and growth. While as the midstream typically adds US\$ 4-5 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\$ 55 billion in 2017. And, whereas the average profit margin in the midstream is single-digit percentages, the margins realised by retailers start in the low double-digits and are often substantially higher for high-end exclusive jewelers. The downstream overall generates over half of the profits realised in the entire industry value-chain.

Courtesy the 17th edition of Bain & Company's Annual Global Luxury Study (November 2018), the global personal luxury goods retail trade exceeded €260 billion in 2018 with real growth of some 5% year over year in constant exchange rate terms. It is projected to continue growing at 3-5% annually through 2025 to reach €320-365 billion annually, though short term socio-political and commercial trade issues may disrupt this trend temporarily. Sales in 2018 were again driven by "flourishing luxury demand from Chinese consumers, the continued rise of online channels and increasing influence of younger generations of consumers," stated Claudia D'Arpizio, a Bain partner and lead author of the study. Chinese consumers are the single largest market for personal luxury goods (33%, up from 32% in 2017; forecast to be 45% in 2025). Personal luxury goods sales grew in Mainland China in 2018 by a whopping 20% in constant exchange rates to €23 billion, driven by rising demand and not price increases. Europe remains the top region for sales of luxury goods by value, €84 billion, mostly due to tourist spending, which was actually negatively impacted in 2018 by a strong Euro. The Americas remain the second highest regional market for luxury goods, having grown by 5% in 2018 to €80 billion, primarily due to a positive U.S. economy, along with strength in Canada and Mexico, offset by weakness in Brazil stemming from political uncertainties. Online sales of luxury items continue to expand dramatically, at an impressive 22% (down from 24% in 2017), all of said expansion driven by the younger Generations Y and Z (the latter willing to shop in physical stores but expecting a digitally enhanced experience). The U.S. market continues to account for nearly half (44%) of all global online sales, with Asia emerging as the new growth engine for online sales, ahead of Europe. Brands continue to account for 31% online sales (e-tailers 39% and retailers 30%). Federica Levato, a Bain partner and co-author of the study, said, "New technologies are at once enriching online and mobile shopping experiences, while potentially putting the role of physical channels at risk... Brands must therefore rethink their physical channels and evolve from point-of-sale to point-of-touch, and use technology to enhance customers' in-store experiences." Bain expects online sales to comprise 25% of all the luxury market value by 2025 (up from 10% today). More importantly, 100% of luxury purchases will be influenced by online experiences, with 50% of future luxury purchases digitally enabled. Ms. D'Arpizio opined that luxury brands will need to "be proactive in developing approaches to serve new customers... and be next-gen minded. The underpinning of all these strategies is the emergence of new technologies... a fundamental enabler for brands through 2025." The global diamond jewellery trade in 2017 amounted to some US\$ 77 billion, with the U.S. (some 38% of global sales) and China the two key markets.

As noted in the previous paragraph, retail chains today must adapt themselves and use technology to enhance customers' in-store experiences and create an ongoing engagement with their customers. The challenges faced by the retail diamond trade are:

- "Branding" – a growing trend in retail to differentiate one's products from other commoditised ones. Typically, in the retail diamond environment this is proffered either by introducing non-standard cuts and shapes or otherwise creating an engaging story around the offered stones, e.g., by emphasising their strong light performance, tracing them from mine to consumer, noting their exceptional manufacture, the jewellery's renown designer, etc.

MANAGEMENT'S BUSINESS, OPERATION & FINANCIAL REVIEW

- The “Experience” – today’s internet-savvy consumers surf the internet and query social media before buying, though actual sales are still predominately in stores. By using sophisticated technologies, retailers must create a more exciting experience both on their website and subsequently in their stores.
- The “Sale” – what a retailer needs to do to actually close the sale of a specific stone (jewellery piece) at a specific price. Today, the branding and the experience, and the confidence inspired by these, are often no less important than the quality of the goods offered and their pricing.

Dry, cryptic non-intuitive data, as formulated in the historic 4C’s, no longer appeal to, nor convince, the new generations of internet-savvy buyers. Digitally enhanced experiences based on imaging and connectivity technologies, as discussed in the Bain report noted above, are already being adopted by e-tailers and retailers alike as essential marketing and sale tools, as a means of branding and of generating the necessary attention, engagement and passion necessary for closing the sale.

To support this developing trend, we launched the Sarine Profile™ in 2015. Utilising an assortment of various technologies, further detailed below, the Sarine Profile™ provides precise and expansive image and video information pertaining to the offered diamond’s origin, manufacture, quality, beauty and other unique characteristics. Initially, the Sarine Profile™ enables significantly more informative online searches, both B2B and B2C, at a completely new level of transparency, creating the confidence necessary to go forward to the next level in the buying experience. Subsequently, the Sarine Profile™ enhances the in-store buying experience and empowers the consumer to make a truly informed decision on the offered stone, as the varied information is presented in an intuitive and engaging visual format. Sarine Profile™ is specifically designed to cater to the “millennial mindset”, their engrossment with their mobile devices and their enthusiasm for social media, allowing retailers to connect with them and engage them on their media of choice.

The Sarine Profile™ is unique in that it allows each retailer, whether online or brick and mortar, to select its preferred imagery/video presentations from a toolbox of options. These options include the various levels of imagery produced by the Sarine Loupe™, provenance certification provided by Sarine Diamond Journey™, 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. Of course, our Sarine Technology Lab AI-based 4Cs grading report can also be incorporated into the Sarine Profile™ package. We further allow the importation of retailer-provided data, such as retailer promotional material, the customer’s personalisation message and the stone’s gemmological laboratory report, if by a third party.

The technologies that provide these varied data are:

- The DiaMension® HD/Axiom™ proportion and symmetry measuring systems provide geometrical proportions, Cut grade and Hearts and Arrows depictions;
- The Sarine Light™ enables the accurate, consistent and quantified measurement of a polished diamond’s actual light performance (appearance), as a new more intuitively meaningful means by which to assess the diamond’s beauty:
 - » 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 due to its prismatic effect;
 - » 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 and beauty and to verify it is “eye-clean”. At the next level, Top Inspection, imaged at 10 times magnification, the buyer can even more 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.
- The Sarine Diamond Journey™ – Leveraging on our extensive presence in the diamond industry’s midstream, wherein the critical transition from rough to polished stone occurs, having scanned over twelve million stones in 2018 for inclusion mapping and having planned many tens of millions of rough stones (over 45 million stones using our latest Advisor® 7.0 software alone), we have launched a new captivating paradigm providing a conclusive certified testimonial of the polished stone’s derivation. We provide an unmatched solution for documenting and showing the consumer the entire actual process that his/her very own diamond underwent. The mined rough stone’s source data is optionally provided by the producer (miner), or, if not, key data pertaining to its weight, form, inclusions, etc. can be derived independently by our technologies, as it is subsequently accurately modelled for the analysis and planning processes. Its form is retained in true video format for presentation to the consumer and, as an option, it can also be provided as a real 3D-printed model for the consumer’s fascination – the just-announced 3D-Origin™. Subsequently through various stages of the stone’s processing, to the level desired, authentic graphic data is collated - as the rough was scanned for inclusions, as it was planned, as cut, as “blocked” and as faceted, culminating in its final polished form. Beyond offering consumers insight into the sophisticated technology and painstaking craftsmanship that went into creating their unique gem in an engaging visual format, the Sarine Diamond Journey™ verifies for the consumer where their diamond was mined and how and (by whom) it was fashioned, reinforcing their confidence in the value of their unique natural jewel. Augmented by our proprietary technologies for “fingerprinting” the polished stone, which can be ascertained in the retail outlet whether the diamond is loose or set, a definitive demonstrable history of the purchased item is created (which can also be utilised by insurers or to resolve issues pertaining to supposed diamond swapping).

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- The Sarine Connect™ - allows retail chains to showcase any stone from their entire inventory, regardless of its physically being in a 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.
- Sarine's Clarity and Color AI-based grading solutions.

The commercialisation of all the aforementioned services for the polished diamond trade is based on recurrent revenue models, based on the size of the stone profiled and the selected options of provenance, grading, imagery, video and graphics, as is the norm in the industry.

To facilitate the marketing and sales of our polished diamond trade offerings, we opened an office in North America in 2014 on New York's co-called Diamond Way (47th St. between 5th and 6th Avenues), 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 APAC market. We are expanding our regional presence in the APAC market this year, and will be appointing representative agents in Beijing, Shanghai, Shenzhen and Chengdu in China, as well as adding staff in India (vis-a-vis both midstream and retail segments) and establishing a sales presence in Japan and Singapore (covering neighbouring countries, as well) through third parties.

Sarine Products by Application and Customer Type

ACTIVITY	TARGET CUSTOMER	SARINE PRODUCTS
Rough diamond evaluation	Rough Wholesaler/ Manufacturer	Galaxy® 2000, Galaxy® XL, Galaxy® Tension, DiaScan® S+, DiaMobile® XL and Advisor®
Planning optimal cutting of rough diamonds into polished ones	Manufacturer	Galaxy® 1000, Galaxy® Ultra, Galaxy® XL, Galaxy® Tension, Solaris™, Meteor™, Meteorite™, DiaExpert®, DiaExpert® Atom, DiaExpert® Nano 6.5, DiaExpert® XL, DiaExpert® Eye, DiaExpert® Edge, DiaScan®
Cutting rough diamonds	Manufacturer	Quazer® 3 and Strategist®
Shaping rough diamonds	Manufacturer	Quazer® 3
Optimal polishing of diamonds for best Carat/Cut trade-offs	Manufacturer	DiaMension® HD, DiaMension® Axiom, DiaMark® HD and Instructor®
Diamond finishing optimisation	Manufacturer	DiaMension® HD, DiaMension® Axiom, DiaScan® S+ and Instructor®
Polished diamond grading according to the 4 Cs and light performance	Manufacturer/ Gemmological Laboratory/Polished Wholesaler and Retailer	DiaMension® HD, DiaMension® Axiom, DiaScan® S+, Sarine Light™, Sarine Clarity™, Sarine Color™
Polished diamond branding	Manufacturer/ Gemmological Laboratory/Polished Wholesaler and Retailer	DiaScribe®, Sarine Light™, Sarine Loupe™, Sarine Profile™ and Sarine Diamond Journey™
Polished diamond wholesale and retail trade, online and in-store	Manufacturer/ Wholesaler/Retailer	Sarine Light™, Sarine Loupe™, Sarine Profile™, Sarine Diamond Journey™ and Sarine Connect™



**Galaxy® 1000 Inclusion
Mapping System**

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), both hardware and software. To facilitate the protection of our IP rights, we have registered numerous patents and trademarks in countries key to our business and additional patent and trademark applications are pending in various phases. As is normal, several of our patents and trademarks have been disputed by competing players in the industry, just as we dispute patent applications filed by our competitors. We have initiated litigation in India against certain competitors, whom we believe infringe our patents on laser marking (as used in the rough planning process), as well as against those who have infringed on or fraudulently made use of our Galaxy® inclusion mapping patents and Advisor® 5.x planning software copyright.

In addition to our IP copyright and patent applications and enforcement actions, we have designed and are continuing to design protective technological features into our systems, based on cloud computing technology. The image processing software of our Galaxy® family of inclusion scanning systems and components of our newer Advisor® rough planning software releases (Advisor® 6.0 and 7.0), our Sarine Light™, Sarine Loupe™, Sarine Profile™, Sarine Connect™, Sarine Clarity™ and Sarine Color™, are all protected from unauthorised use by having key components remotely located on cloud servers. Using proprietary in-house developed cyber protection creates a higher level of defense than that provided by using off-the-shelf commercially available protection, which is targeted per se by professional hackers. For this reason our Advisor® 6.0 and 7.0 planning software releases have to date not been hacked successfully, though attempts have been made.

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As mentioned, we are aggressively pursuing legal actions against infringements, primarily in India. In addition, and more importantly, we are leveraging our technological advantages, as manifested in our newest Advisor® versions and other new developments (e.g., the Galaxy® Tension), as well as other commercial benefits (e.g., participation in programs with our retail customers for the Sarine Profile™ and Sarine Diamond Journey™) to incentivise customers to decline said infringing technologies. This strategy is being proven, overall, quite successful, as evidenced by the 16,000 users who have now converted to or directly adopted our Advisor® 7.0 - we sold just under 2,000 new Advisor® 6.0/7.0 stations in each of 2017 and 2018, itself a notable achievement and evidence of the perceived advantage of our technology, and upgraded some 3,000 users in 2018. This process has accelerated subsequent to our having announced the end-of-life and support of all earlier versions of our Advisor® preceding version 6.0 as of year-end 2018 (the infringing parties utilise versions 4.7 and 5.3, primarily). It should be noted that, realistically, probably no more than 20,000 are convertible/upgradeable, due to the number of users on the DiaExpert® Atom and DiaExpert® Nano platforms for small and very small rough stones, where the benefits of the newer Advisor® versions are less tangible, or on mobile systems, which cannot always be connected to the Internet.

Objectives

The Group's main objectives for 2019 are:

- Continue the aggressive campaign against IP infringement and assertively drive the continued market penetration of our Galaxy® family of inclusion and tension mapping systems, by all means at our disposal – legal, technological and commercial;
- Continue developing advanced features and thus maintain the overall value proposition and our market share of rough diamond planning solutions, as embodied in the DiaExpert® platforms and Advisor® software. Together with our Galaxy® family of inclusion and tension mapping systems and our Quazer® 3 high-end green laser systems for cutting and shaping, we will continue to set the industry standard for rough diamond manufacturing technology;
- Accelerate the market adoption of our unique polished diamond trade supporting services – the Sarine Profile™, Sarine Diamond Journey™ and Sarine Technology Lab AI-based 4Cs grading, with primary focus on the APAC market.

The latter 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 regions.

Strategy

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

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

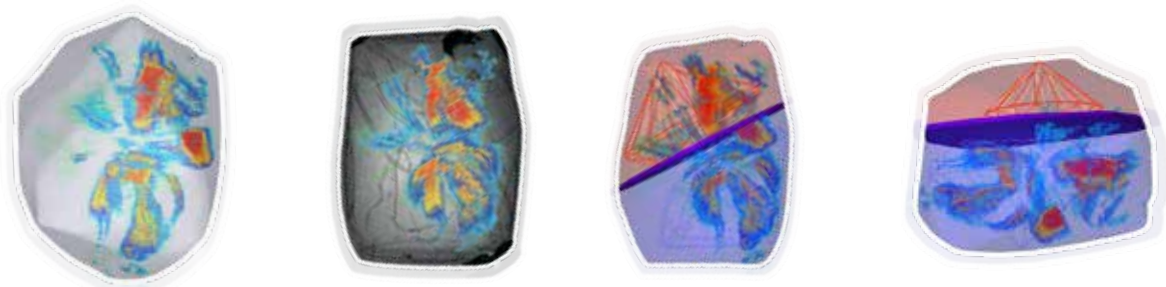
- Midstream products:
 - » Continue refining the added-value tension mapping capability of the Galaxy® family of systems and integrate same into our Advisor® planning proposition along with other advanced planning features (Advisor® 8.0).
- Downstream products and services:
 - » Continue refining the Sarine Clarity™ and Sarine Color™ AI-based grading capabilities;
 - » Continue refining our provenance (Sarine Diamond Journey™) and related (e.g., fingerprinting) capabilities;
 - » Continue developing our ability to fine-sort a diamond's Clarity in accordance with customer-specific industry-accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table"), etc.

Focus the Group's marketing efforts on:

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

GALAXY® TENSION MAPPING

ROUGH STONE SCANNED AND PLANNED ACCORDING TO INTERNAL TENSION MAPPING DETECTED BY GALAXY® SYSTEM.



MANAGEMENT'S BUSINESS, OPERATION & FINANCIAL REVIEW

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	We have clear indications that we have expanded our market share in the midstream manufacturing segment of the diamond industry in 2018 - we have scanned over 12 million (10 million in 2017) stones with our inclusion mapping family of systems, despite illicit IP-infringing competition and over 45 million (40 million in 2017) stones have been planned by our Advisor® 7.0 software installations alone. We have increased by almost 50% the number of users using our Advisor® 7.0 package to close to 15,000 at year-end 2018. We have gained traction for our Sarine Profile™ in the APAC region. Notably, our Sarine Light™ has become the most widely accepted light performance analysis and grading system in use in the APAC market. We are seeing extensive interest in our Sarine Diamond Journey™ provenance offering and expanding awareness of the potential benefits of our AI-based Sarine Technology Lab.
Product and Service Offerings	During the year in review we continued research and development of new products and services and enhancements of existing ones, across all our product lines. We will continue this strategy into 2019 and beyond. The thrust in the midstream will be the continued enhancement of the rough diamond inclusion and tension scanning and planning processes for the manufacturing industry. At the junction of the midstream and downstream segments ongoing R&D will enhance the AI capabilities of our unique Clarity and Color grading solutions. In the downstream, we will continue enhancing our provenance capability, the Sarine Diamond Journey™, and continue development of our Clarity fine sorting capability.
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 customers. We believe our brand continued to strengthen during the year in review, primarily in the downstream industry sector. We intend to continue strengthening our brand in 2019, with specific initiatives in social media and other means to boost end-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.

Financial Indicators

We use the following financial indicators to assess our Group's performance year-on-year. During the second half of 2018 the midstream of the diamond industry again experienced disruptive headwinds. On the geopolitical front, uncertainty as to the impact of mutual trade tariffs imposed by two of the world's largest economies, the U.S. and China, impaired equity markets' performances, negatively impacting consumer sentiments, primarily in China. In India, significant currency devaluation and increased caution in the banking system constrained the midstream's access to working capital. Lastly, DeBeers launch of their Lightbox line of jewellery based on lab-grown diamonds caused distinct uncertainty as to the future viability of primarily very small natural stones, with the relevant midstream players pausing to rethink their business models. These conditions continued to affect the industry midstream going into 2019.

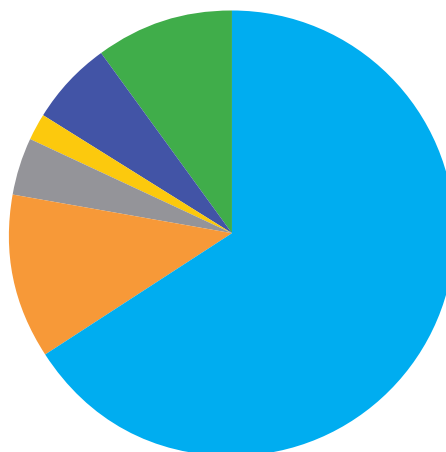
INDICATOR	PERFORMANCE
Revenues	Revenues for FY2018 remained essentially flat at US\$ 58.5 million, as compared to US\$ 58.6 million for FY2017. Galaxy® family related revenues from equipment sales were down, in line with the reality of sales being mostly of less expensive models for small stone scanning (Meteors™ and Meteorites™). With deliveries in FY2018 of 65 Galaxy® family systems to customers and service centres (51 of these Meteors™ and Meteorites™), significantly higher than the previous year's delivery of 46 systems, the Group had an installed base of 410 Galaxy® family systems as of 31 December 2018. This increase in deliveries is significant as we are confident it indicates that our efforts to curtail the impact of the illicit competition are bearing fruit. The Group's recurring revenues from Galaxy®-related services increased by 3%, as we continue to scan ever more stones – over 12 million in FY2018 as compared to 10 million in FY2017. Revenues did not, of course, increase proportionately, as the increase is generally in the small stones segment. Overall recurring revenues, including also Quazer® services, annual maintenance contracts and the Sarine Profile™, constituted approximately half of overall FY2018 revenues (just under half in FY2017). Sarine Profile™ revenues increased by just under 15% to 2% of overall revenues, less than had been anticipated. Having opened our Sarine Technology Lab in India in mid-year 2018, with the continued refinement of our Sarine Diamond Journey™, and with the planned significant expansion of our sales teams in the APAC market along with investment in broader Sarine brand retail and consumer recognition, we believe that these revenues can expand significantly in FY2019.
Gross Profit	Gross profit for FY2018 decreased less than 2% to US\$ 38.6 million, as compared to US\$ 39.3 million for FY2017. For FY2018 the Group recorded a gross profit margin of 66%, one percent less than in FY2017.

MANAGEMENT'S BUSINESS, OPERATION & FINANCIAL REVIEW

INDICATOR	PERFORMANCE
Operational Profit	Profit from operations for FY2018 increased by 6% to US\$ 10.0 million, as compared to US\$ 9.4 million in FY2017. For FY2018 the Group's operating margin inched up to 17% as compared to 16% for FY2017. The increases in our operating profits and margin were due primarily to our reduced Research and Development (R&D) expenses, as planned. In FY2019 we expect a significant increase in Sales and Marketing expenditures.
Net Profit	For FY2018 the Group reported a net profit of US\$ 7.6 million, an increase of 32% over the net profit of US\$ 5.8 million realised in FY2017, on essentially flat revenues. For FY2018, the Group recorded a net profit margin of 13%, better than the net profit margin of 10% in FY2017. This was due primarily to lower operational expenses and a lower write-down of deferred and other tax assets.

NOTE: The Notes to our Financial Statements provide additional detail.

REVENUE by GEOGRAPHIC SEGMENT



Operating Review

Opportunities

Market-driven Opportunities:

Fundamental global demand for diamond jewellery continues to be overall positive. In the U.S. diamond jewellery sales during the key 2018 holiday season were 3.8% higher than 2017 figures, indicating, however, slower growth than 2017's very strong 5.8% increase year over year, and less than the overall retail spending increase of 5.1%. In the second largest market for polished diamond jewellery, China, luxury spending jumped significantly in 2018, as noted above, however the second half of the year was weaker than the first half due to uncertainties relating to trade tariff issues pending between the U.S. and China. In other key Asia Pacific (APAC) markets, sales remain on a positive track.

As quoted above in the excerpts from the 17th edition of Bain & Company's Annual Global Luxury Study, Claudia D'Arpizio, a Bain partner and lead author of the study noted that luxury brands will need to "be proactive in developing approaches to serve new customers... and be next-gen minded. The underpinning of all these strategies is the emergence of new technologies... a fundamental enabler for brands through 2025". Our Sarine Profile™, Sarine Diamond Journey™ and Sarine Connect™ specifically address this strategy. Our AI-based 4Cs report is also generated digitally and uniquely provides interactive displays to present the derived information, in general, and Clarity specifically, intuitively. We intend to leverage this trend, and its forecasted growth throughout the upcoming years through 2025, to accelerate our market penetration and broaden our market share. Next year we are significantly expanding our sales staff in the key APAC market and investing in end-market retailer and consumer recognition of our Sarine brand.

Company-driven Opportunities:

With deliveries in 2018 of 65 Galaxy® family systems to customers and our service centres, the Group had an installed base of 410 Galaxy® family systems as of 31 December 2018. We delivered significantly more systems than in 2017, mostly of the models for smaller stones - the Meteor and Meteorite (12 and 39, respectively). We believe this is indicative of our aggressive efforts against the illicit IP-infringing competition bearing results. Looking forward to 2019 we expect even stronger sales, as we continue to leverage our technological lead and widen the gap between the older planning paradigms used by the infringing party, which we will no longer support in 2019, and the new Advisor® 8.0, including tension mapping utilisation, to be launched in Q2. In addition, we are leveraging our polished diamond trade supporting technologies, the Sarine Profile™ and the Sarine Diamond Journey™ in particular, and their growing adoption by retailers, to induce midstream players to abandon their use of the illicit solutions. These strategies, along with aggressive pricing promotions, on the Meteorite and Meteor currently, are clearly generating positive results, as we have seen even very small players, previously not our customers, opt to buy our equipment and adopt our technology. Today we have 16,000 users who have now converted to or directly adopted our Advisor® 7.0 (in 2018 we sold just under 2,000 new Advisor® 7.0 stations and upgraded a further 3,000) out of a total installed base of some 24,000 and out of a realistically convertible/upgradeable number probably not exceeding 20,000 (due to the number of users of our planning software on our DiaExpert® Atom and DiaExpert® Nano systems for small and very small rough stones, where the benefits of the newer Advisor® versions are less tangible, or on mobile systems, which cannot always be connected to the Internet). This process has accelerated subsequent to our having announced the end-of-life and support of all earlier versions of our Advisor® preceding version 6.0 as of year-end 2018 (the infringing parties utilise versions 4.7 and 5.3, primarily). We estimate that only a small fraction of our installed base are still using the no-longer supported Advisor® versions predating release 6.0.

MANAGEMENT'S BUSINESS, OPERATION & FINANCIAL REVIEW

Marketing programs utilising the Sarine Profile™ and Sarine Light™ by retailers in the APAC region primarily continue to expand, in line with the expanding trend of branding, merchandise and experience differentiation. Concurrently, we continue to expand into additional geographies (e.g., Australia, India, the United Kingdom and Poland). Our Sarine Diamond Journey™ provenance solution is generating new channels of penetration into the retail markets in APAC, and we expect it will also gain traction in North America as well. In addition to CIMA, our launch customer for the Sarine Diamond Journey™ in Japan, we have other customers there, as well as in China and Thailand, finalising logistics vis-à-vis their suppliers prior to adopting and launching it. Importantly, Israeli supplier Namdar has launched the Diamond Journey™ for their Brilliant Rose® and Proudly South African® brands distributed throughout the APAC region in China, Taiwan, Singapore, Malaysia, etc. Similarly, a positive development is that leading midstream Indian suppliers of polished diamonds are also joining the Sarine Diamond Journey™ paradigm. They have opted to enable our solution to collect the appropriate data and imagery during the various stages of manufacture and to store same in our database. Their aim is to be “Journey-ready”, so as to be able to offer their retail customers this option and to allow the retailers to handily subscribe to the Sarine Diamond Journey™ service based on data already existing in our cloud repository. Following K-Uno, our launch customer in Japan, imminent launches of our groundbreaking AI-based 4Cs grading are in various phases of preparation with customers in Australia, China, Hong Kong and Israel (a supplier whose products are sold primarily in China but also in the U.S.). Based on market feedback and our perception that we now have a fully rounded uniquely broad offering, we are expanding our sales staff in APAC dramatically, primarily in China, in Beijing, Shanghai, Shenzhen and Chengdu, and also adding staff in Hong Kong in 2019. We will also be adding staff in India (vis-a-vis both midstream and retail segments). In Japan we will be strengthening our sales presence and will also be establishing a new presence in Singapore (covering neighbouring countries, as well) through third parties. We will also be investing in a targeted branding campaign, aimed at increasing retail and consumer awareness of the unique Sarine Technology Lab, Sarine Profile™ and Sarine Diamond Journey™ brands.

Risk Factors

Positive macroeconomics in general, and expanding consumer appetite for luxury goods including diamond jewellery, in particular, in almost all key markets, provide a strong underpinning for the diamond industry in 2019 and beyond. Having said that, the current near-term effect of trade tariffs between the U.S. and China remains a concern.

In India, increased requirements by the banking system for transparency in the midstream's business practises, as well as the injection of capital by the entities' owners, as preconditions for their continued issuing of business credit, continue to constrain the midstream's access to working capital. Notwithstanding said expectations from their customers, some Indian banks have unilaterally decided to reduce their exposure to the diamond industry in general, and have reduced their credit lines to midstream manufacturers by some 20-30%. This has clearly created a shortage of working capital and created cash-flow problems for some midstream entities, impairing their ongoing operations.

An inventory overhang, primarily in lower-quality smaller goods affected by the launch of the Lightbox lab-grown diamonds line (see below), exists as of the start of 2019. As manufacturing activities and rough stones entering the pipeline have been reduced substantially (DeBeers sales in January were down 25% and Alrosa's sales were down over 40%) due to working capital shortages, as noted above, we believe this issue will resolve itself within a matter of months, but is, as always, a risk factor to be considered.

DeBeers' disruptive launch of their Lightbox line of jewellery based on lab-grown diamonds (LGD) caused distinct uncertainties as to the future dynamics of the natural diamond industry, in general, and particularly so for very small natural stones. Various studies published by various industry analysts portray significantly diverging opinions as to the future. Some (<http://www.paulzimnisky.com/lab-grown-diamond-jewelry-market-forecast>) claim LGD will grow almost tenfold by 2035, at 9% CAGR, but still only account even then for some 15% of the market, as overall demand almost doubles in parallel, due to growing middle class populations in developing economies. Others (<https://insights.abnamro.nl/en/2019/01/diamond-sector-outlook-entering-a-growth-and-disruption-phase/>) strike a more extreme tone, all but eulogising natural diamonds and urging miners to stop spending money on exploration as it will not be recoverable. We believe both studies have valid points but also significant flaws. The acceptance of LGD will ultimately be driven by the consumers and will be influenced by many issues including basic economics, but also other considerations, such as sustainability concerns, cultural backgrounds and even psychological perceptions (e.g., will couples associate LGD engagement rings, where the solitaire carat center stone costs only several hundred US dollars with eternal commitment?). Clearly, some polishers of very small diamonds are rethinking the viability of their business models.

Our success and ability to compete are substantially dependent on our intellectual property (IP), proprietary patented technology and copyrighted software. The steps that we have taken and are taking to protect our IP rights may not be adequate, and we might not prevail and be able to prevent others from using what we regard as our technology. If we have to resort to more extensive legal proceedings to enforce our IP rights, for instance in the U.S., the proceedings could be significantly more 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. In addition to ongoing legal proceedings, as noted above under Intellectual Property, we may in the future be involved in additional proceedings, initiated either by us or in response to claims by third parties.

We provide retail customers with reports and depictions of certain diamond qualities and parameters, including, but not limited to, the 4Cs, light performance, Hearts and Arrows, etc. If a retail customer's end customer, or another third party, even if we are not contractually bound to such end customer or 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 are and may continue to be subject to product liability and/or other claims, if people are harmed or their properties damaged 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 are developing new product lines for new industry segments and new products in existing product lines, and are expanding 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.

MANAGEMENT'S BUSINESS, OPERATION & FINANCIAL REVIEW

The location of the Company in Israel, and the concentration of its research and development and manufacturing activities there, is 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 Group'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 Audit Committee has reviewed the Group'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 FY2018, and the internal controls fine-tuned appropriately as per the findings of said audits, have been payroll in Israel, Sarine Technology Lab procedures, work place safety, follow up in India on pre- and post-sale standard operating procedures and collection of receivables. In previous years the areas audited were IP protection, quality control, customer service, inventory management and purchasing, the sales cycle, payment security and information security in Israel, and the Surat building project, pre- and post-sale standard operating procedures, payment to vendors, information security, spare parts inventory, service centre operations, collection of receivables, customer credits, attendance and payroll and the implementation of the ERP system 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., service centre operations, IT information security 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 can provide absolute assurance against the occurrence of errors, cyber-attacks, fraud or other irregularities.

The Board of Directors has engaged KPMG to analyse issues pertaining to the sustainability of our business and the Group appropriately issued and posted a Sustainability Report pertaining to 2017 on November 13, 2018. Said report is now being updated for 2018 and enhanced with additional information and will be issued and posted by May 31, 2019, as required by the Listing Rules.

Financial Review

Cash Flow

As at 31 December 2018, cash and cash equivalents and short-term investments (bank deposits) ("Cash Balances") decreased to US\$ 27.4 million as compared to US\$ 29.1 million as of December 31, 2017. The decrease in Cash Balances was primarily due to the payment of US\$ 12.3 million in dividends in 2018 (US\$ 5.3 million final dividend paid in Q2 2018 for 2017 and the US\$ 7.0 million interim 2018 dividend paid in September 2018) and the repurchase of US\$ 0.5 million of Sarine shares in the open market, offset by the Group's operating results and lower inventory levels.

Cash Management and Liquidity

Throughout 2018 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 FY2018 the Company earned US\$ 7.6 million, equivalent to basic earnings per share of US cents 2.17 (1.64 in FY2017) and fully diluted earnings per share of US cents 2.17 (1.64 in FY2017).

For FY2018 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. The Company paid an interim dividend of US cents 2.0, approximately US\$ 7.0 million, in September 2018, and will pay (subject to approval at the Annual General Meeting on 30 April 2019) a final dividend of US cent 1.0 per share, an estimated US\$ 3.5 million, totalling approximately US\$ 10.5 million for the year. This sum is in line with our free cash flow generation for the year.

As per the Board of Directors' decision of 24 February 2019, in light of the escalated return of 10% which would currently be realised by the previous dividend policy given current share prices, the uncertainties still facing the industry and the expanding outlays in sales and marketing planned for the upcoming year, in order to meet long-term growth targets, the dividend policy for 2019 will be reduced temporarily to US cent 1.0 every six months (subject to market conditions and to the Board of Directors' discretion).

CORPORATE SOCIAL RESPONSIBILITY



Day of Good Deeds 2018, Ben Shemen Park, Israel.

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 conceiving and producing systems and services that inspire confidence in the quality and value of the polished diamonds produced and offered for sale, both for our midstream manufacturer and downstream retail customers as well as for the consumer public.

As a responsible 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.

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 inspections, 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 in all the jurisdictions in which we have a permanent established presence. 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 expanded medical checkup, on the company's premises and at its expense, 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 individuals 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.
- We reward our employees for their contribution to the Group's success, either with cash bonuses, grants of stock options or otherwise.



Chairman of Surat Education Board visiting Adopted School under CSR.



Hanukkah gift packages to be distributed in Children's Cardiology Department, Tel Hashomer Hospital.



Education Mural Painting in Adopted School Classroom.

- 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 see great importance in giving back to the community. In recent years we have participated in local and national programs for the support of the disadvantaged and less privileged segments of our society.

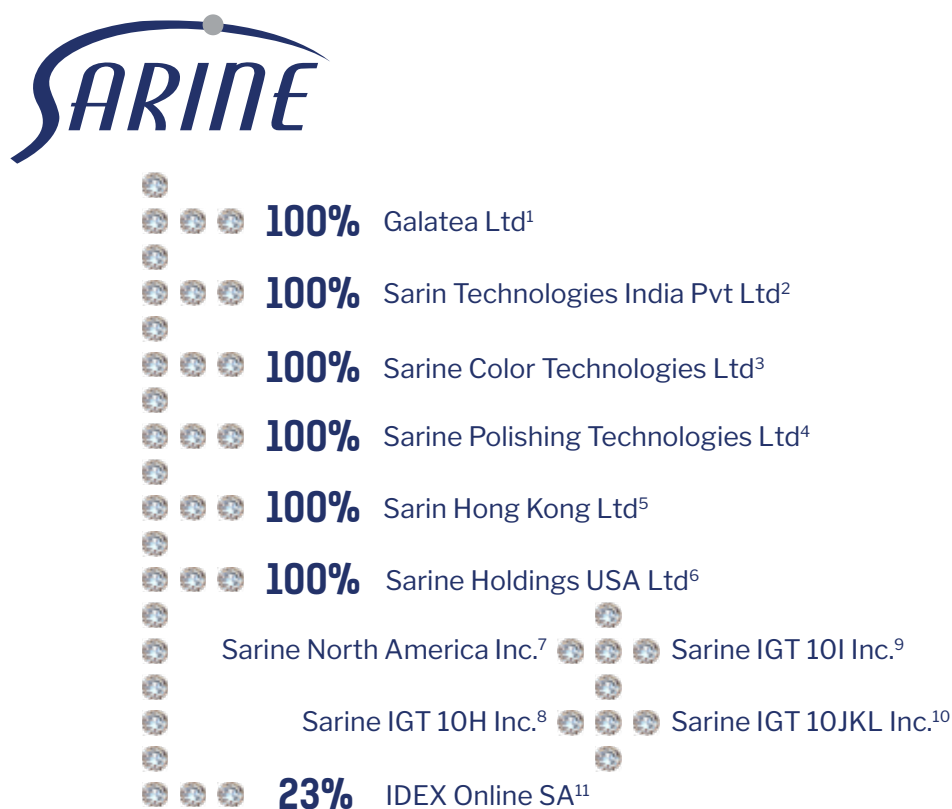
In Israel during 2018, projects undertaken included volunteering to assist Leket Israel, the country's largest food bank and food rescue network; the collection of toys and other items for needy children and their families through the auspices of the Hod Hasharon municipality; enrollment in the "Day of Good Deeds" sponsored by the Enosh Israel association where participants provide painting and maintenance services for mentally disabled citizens; the purchase by the company of employee holiday gift packages, the proceeds of which were donated to assist children with cancer; sponsorship of a winter trip for a special Olympics team, comprised of participants with disabilities, by way of providing them with suitable warm clothing; purchasing of Hanukkah gift packages and the distribution of said packages at the children's cardiology department in Tel Hashomer

Hospital; and cooperation with Amal Sharonim High School for the establishment of a program consisting of lectures and workshops intended to promote active and proactive social involvement among the students. To demonstrate our commitment to these important functions, the Sarine Group underwrites these activities by permitting staff to participate at the expense of regular working hours.

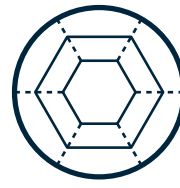
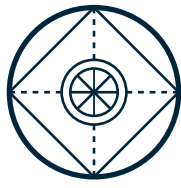
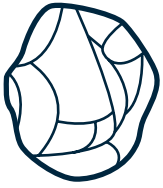
In India, our most significant market, we have also adopted and implemented an active corporate social responsibility policy. In 2018 we continued our ongoing program in Lalita Chokadi and Katargam localities in Surat, India's diamond manufacturing center, where we have 'adopted' two government primary schools serving over 3,950 children. This past year, Sarine participated in the upkeep and improvement of the schools by performing electrical work, replacement of ceilings fans, recruitment of a teacher in the field of computer science, purchasing of housekeeping materials, computer tables, chairs, file racks, seating benches and other items. In addition, the company was involved in distributing gifts to the students on Republic Day, providing school bags to top achieving students in grades 1-8, and providing printed birthday cards for all the students. Further, the company painted two kindergarten classrooms with nice acrylic colours to make them colourful and cheerful.

GROUP STRUCTURE

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



- 1.. **Galatea Ltd.** – The developer of proprietary technology for the automated detecting and mapping of internal inclusions and tension in rough diamonds (the Galaxy®, Galaxy® Ultra, Galaxy® XL, Solaris™, Meteor™ and Meteorite™ products).
- 2.. **Sarin Technologies India Private Ltd.** – 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 and tension detection and mapping for rough diamonds, laser sawing/cutting services and the grading of the 4Cs and light performance as well as various methods of visualisation of polished diamonds.
- 3.. **Sarine Color Technologies Ltd.** – The development, manufacture and marketing of instruments for assessing and grading the light performance and for various methods of visualisation of polished diamonds. The development of artificial intelligence algorithms for the grading of Clarity and Color of polished diamonds.
- 4.. **Sarine Polishing Technologies Ltd.** – The operation of service centres in Israel providing customers with inclusion and tension detection and mapping for rough diamonds, and 4Cs and light performance grading and various methods of visualisation of polished diamonds.
- 5.. **Sarin Hong Kong Ltd.** – 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, Thailand, Singapore and Australia.
- 6.. **Sarine Holdings USA Ltd.** – 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 IGT10H 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.



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CORPORATE GOVERNANCE REPORT

Sarine's shares were listed for trade on 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 as 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 policies 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 and the Nominating Committee (see below in subsequent sections discussions with regard to their powers and authorities). The Board has also authorised its senior officers (during the period commencing as of January 1st, 2018) to issue shares 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.

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.

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 Board.

The Board meets regularly and in any event no less frequently than five 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.

As of the date of this Annual Report, all (but one) of the directors have been serving on the Board more than nine 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 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-specific aspects (as required).

Principle 2: Board Composition and Guidance

As of the date of this report, the Board comprises seven directors, the majority 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). Thus the Board is able to exercise objective judgment, independently from Management and no individual or small group of individuals can dominate the decisions of the Board.

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

The Board is of the opinion that its current size is adequate. However the Board may consider 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.

Three of the Company's independent directors (Messrs. Chan Kam Loon (Lead Independent Director), Yehezkel Pinhas Blum and Ms. Valerie Ong Choo Lin) have served on the Board beyond nine years from the date of their first appointment. Two of those directors, namely Ms. Valerie Ong Choo Lin and Mr. Yehezkel Pinhas Blum, are also designated as External Directors under the Israeli Companies Law, 5799-1999 (the "**Israeli Companies Law**"). The Israeli Companies Law provides that External Directors are to be elected for

three-year terms, and that the Company may not terminate them during such three-year term except where, according to information made available to the company, such External Directors no longer qualify to serve as External Directors (e.g. if they or their relatives become employees, service providers or business partners of the controlling shareholder/s of the Company or if there is a conflict of interest between their position as directors and any other position that they may hold, etc.) and/or where it is suspected that they have breached their duty of trust towards the Company, or where a competent court has so ordered.

All Independent Directors were elected on April 25, 2017 for a three-year term and the Company's Nominating Committee and the Board conducted a rigorous review of their Independence prior to their re-election.

Since said Annual General Meeting held on April 24, 2018, the Company has not become aware of any information which may reflect on the qualifications and/or independence of the abovementioned Independent Directors. Moreover, the Company acknowledges the continuing impartial and invaluable contribution of such Independent Directors.

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 (Chairman)	Mr. Avraham Eshed Mr. Uzi Levami	Mr. Chan Kam Loon (Lead) Mr. Yehezkel Pinhas Blum Ms. Valerie Ong Choo Lin Ms. Varda Shine

There are no permanent alternate directors (in the past alternate directors have been appointed in very few cases and only for specific meetings; during 2018 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. As noted above, the Company may consider seeking additional directors who will enrich and diversify the Board.

The Company has further established an Advisory Committee, in order to draw on additional expertise from non-Board members. As of the date of this writing, the Advisory Board comprises the Executive Chairman, Daniel Benjamin Glinert, Ms. Varda Shine, an Independent Director and Mr. James N. Fernandez, who worked at Tiffany for over 30 years, including 22 years as Chief Financial Officer, and retired in 2014 as its Chief Operating Officer.

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, 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 Board on a periodic basis and shall seek the Board's advice and consent.

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."

CORPORATE GOVERNANCE REPORT

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 or her 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 four 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 Chairman of the Board)

Our Nominating Committee is responsible for the:

- review of board succession plans for directors and ensure ongoing succession and progressive renewal of the Board;
- evaluation of the performance of the Board and its Board committees;
- re-nomination of directors (including Independent Directors of our Company) taking into consideration each director's contribution and performance;
- 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
- 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 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 three directors (Mr. Chan Kam Loon, Ms. Valerie Ong Choo Lin and Ms. Varda Shine) who serve as directors 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, Ms. Ong and Ms. Shine 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, the achievement of the Company's strategic goals and the actual participation and contribution of each director.

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 2018, the Board was convened 5 times.

The attendance (in person or via video teleconference) of the directors in the Board meetings held in 2018 was as follows (in addition, a written resolution was passed on one occasion):

Name of Director	Board of Directors – 2018	
	No. of Meetings Held	Attendance
Mr. Daniel Benjamin Glinert	5	5
Mr. Yehezkel Pinhas Blum	5	5
Mr. Chan Kam Loon	5	5
Mr. Avraham Eshed	5	5
Mr. Uzi Levami	5	5
Ms. Valerie Ong Choo Lin	5	5
Ms. Varda Shine	5	4

CORPORATE GOVERNANCE REPORT

The attendance of the directors in the Audit Committee meetings held in 2018 is as follows (in addition, a written resolution was passed on one occasion):

	Audit Committee – 2018	
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	5

The attendance of the directors in the Remuneration Committee meetings held in 2018 is as follows (in addition, a written resolution was passed on one occasion):

	Remuneration Committee – 2018	
	No. of Meetings Held	Attendance
Mr. Yehezkel Pinhas Blum	2	2
Mr. Chan Kam Loon	2	2
Ms. Valerie Ong Choo Lin	2	2

The attendance of the directors in the Nominating Committee meetings held in 2018 is as follows (in addition, a written resolution was passed on one occasion):

	Nominating Committee – 2018	
	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. Daniel Benjamin Glinert	1	1

Principle 6: Access to Information

The Management provides the Board with interim and periodical (quarterly/annual) financial reports, budget control reports and additional financial and operational information. The Board has a separate and independent access to senior members of the Management. Requests for information from the Board are dealt with promptly. The Board 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, the Company Secretary is responsible for compliance with the applicable laws, rules and regulations in this regard.

Principles 7 & 9: Procedures for Developing Remuneration Policies and Disclosure of Remuneration

The Remuneration Committee comprises 5 directors, the majority of whom are independent. Ms. Varda Shine and Mr. Uzi Levami were appointed as additional members in 2019. 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)
Ms. Varda Shine	(Independent Director)
Mr. Uzi Levami	(Non-Executive Director)

CORPORATE GOVERNANCE REPORT

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 and the CEO. 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 April 19, 2016. The 2019 Annual General Meeting will be requested to approve a new remuneration policy (as required under Israeli law) and updated compensation packages.

Our Non-Executive Directors (i.e. Mr. Eshed and Mr. Levami) received for their services during 2018 participation fees based on their actual participation in the meetings of the Board of Directors and the Board committees, amounting in the aggregate (for the two Non-Executive directors) to S\$ 18,000 (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\$ 269,000 (excluding non-cash option compensation) for their services in 2018 (the cash remuneration of our Independent Directors is comprised of annual fees and participation fees). During 2018 our Chairman and Executive Director received approximately S\$ 215,000 for his services (including non-cash option compensation). The remuneration arrangements of our Chairman and Executive Director 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, our CEO and our top six (in terms of amount of remuneration) employees (not being directors) for services rendered to us in all capacities during 2018, were as follows:

Directors and the CEO:

Name	Position	Remuneration (in S\$'000)	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	215	98%	--	2%
Mr. Yehezkel Pinhas Blum	Independent Director	148	47%	--	53%
Mr. Chan Kam Loon	Independent Director	138	43%	--	57%
Mr. Avraham Eshed	Non- Executive Director	11	78%	--	22%
Mr. Uzi Levami	Non-Executive Director	17	51%	--	49%
Ms. Valerie Ong Choo Lin	Independent Director	138	43%	--	57%
Ms. Varda Shine	Independent Director	159	51%	--	49%
Mr. David Block	CEO	545	66%	4%*	30%

* subject to shareholder approval at the 2019 AGM to be held on April 30, 2019

Key Management Personnel (Corporate Vice Presidents):

Name	Position	Remuneration (in S\$'000)	Breakdown between Fixed Income and Performance Based Incentives		
			Fixed In- come	Cash Performance Based Incentives	Options (Non-Cash, Based on Fair Value)
Mr. Roni Ben Ari	Deputy CEO and Executive VP Product Management	Band 2	83%	4%	13%
Mr. William Kessler	CFO	Band 2	81%	5%	15%
Mr. Oren Ben- Kohav	VP Global Operations	Band 2	79%	4%	17%
Mr. Tzafrir Engelhard	VP New Business Development	Band 2	80%	4%	16%
Mr. Michael Goren	VP Global Sales & Marketing	Band 2	83%	4%	13%
Mr. Abraham Kerner	VP Research & Development	Band 2	88%	4%	8%

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.

The aggregate remuneration paid to the top five key Management personnel (who are not directors or the CEO) for the year ended 31 December 2018 was S\$1,865,000 (including the aggregate fair value of non-cash option compensation). The total aggregate remuneration paid to the Group's six Corporate Vice Presidents was for the year ended 31 December 2018 was S\$2,221,000 (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 2005 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) 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 two to four years, based upon the achievement of business goals – as discussed in greater detail in the Company's new remuneration policy – which is submitted to the approval of the Company's Annual General Meeting to be held on 30 April 2019. During 2018, 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.

CORPORATE GOVERNANCE REPORT

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.

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, 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 the two Non-Executive Directors are also shareholders of the Company (holding between 3% to 4% of the Company's shares each).

The Company's option agreements include contractual provisions allowing the Company to reclaim performance-based incentives, in cases 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 Company also invests substantial efforts in maintaining and securing sustainable growth and operations, while serving the interests of its Shareholders. The Company integrates sustainability considerations into its strategy and its operations by actively engaging with the local communities in which it operated, taking responsibility for the life cycle of the Company's products and putting its people at the heart of its priorities.

On 13 November 2018 the Company released its first Sustainability Report (for the year 2017) and within the next two months it shall release a Sustainability Report for the year 2018. Given the short term between the release of these two reports we do not expect any material changes between these reports (except for a somewhat more extensive discussion)

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 provides the Board with management accounts regarding the Company's performance. Such accounts are provided 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 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. 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.

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, 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; considers 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;

- (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

CORPORATE GOVERNANCE REPORT

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 several times 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 2018, and the internal controls fine-tuned appropriately as per the findings of said audits, have been purchasing, collection process, the finalisation of the Surat building, and follow up in India on service centre operations, pre- and post-sale standard operating procedures, spare part inventory management and payment to vendors. A review of the Group's payroll process in Israel is currently 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 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 his 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 Certified 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, Dani Aviram, appointed with effect 1 January, 2017). The Group engages a suitable auditing firm, BSR & Co. LLP, 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\$ 324,000 for services rendered in 2018, out of which amount, US\$ 232,000 (approximately 72%) were paid as audit fees, US\$ 58,000 (approximately 18%) were paid for other audit related services, US\$ 26,000 (approximately 8%) were paid as tax fees and US\$ 8,000 (approximately 2%) were paid for travel expense reimbursement.

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, before the Company meets with any group of analysts. Results and annual reports are announced or issued within the mandatory period.

The Company's Chairman and senior Management meet and discuss results, business conditions, prospects, etc. 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 in Israel and of consultants and service providers in 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 Articles were amended in 2015, so as 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 addresses 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 meetings 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.

DIRECTORS' REPORT

for the year end 31 December 2018

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 2018.

Directors

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

Daniel Benjamin Glinert, Chairman of the Board and Executive Director
 Avraham Eshed, Non-Executive Director
 Uzi Levami, Non-Executive Director
 Chan Kam Loon, Lead Independent Director
 Yehezkel Pinhas Blum, Independent Director
 Valerie Ong Choo Lin, Independent Director
 Varda Shine, 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 2018 (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 2019.

Ordinary Shares of the Company of no par value each	As at 1 January 2018	As at 1 January 2018	As at 21 January 2019
Daniel Benjamin Glinert ¹	12,379,156	12,379,156	12,379,156
Chan Kam Loon ²	593,000	593,000	593,000
Avraham Eshed ³	15,126,922	15,126,922	15,126,922
Uzi Levami ⁴	12,335,406	12,335,406	12,335,406
Valerie Ong Choo Lin ⁵	575,000	575,000	575,000

Note:

- Daniel Benjamin Glinert is deemed a shareholder of the Company by virtue of his indirect ownership through Glinert Projects Initiation and Execution, Ltd. of 653,953 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 10,423,953 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. [Note: The above number excludes shares held in trust by his wife, through UOB Kay Hian Pte. Ltd., for his son (an adult, who maintains a separate household, who bought such shares with his own resources)].
- Chan Kam Loon is deemed a shareholder of the Company by virtue of his direct holdings of 569,000 shares, and by virtue of the direct holdings of his wife (Au Yin Ling Patricia) of 24,000 shares.
- Avraham Eshed is deemed a shareholder of the Company by virtue of his indirect ownership through Gemstar, Ltd. of 14,335,672 shares held on his behalf by the Israel Discount Bank through Citibank N.A. Singapore custodians, 562,500 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 228,750 shares held on his behalf by Union Bank of Israel Ltd.
- 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.
- 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.

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

Name of Director	Options outstanding	Options vested	2018 share-based payment expenses	Years granted
Daniel Benjamin Glinert ¹	684,340	560,000	US\$ 3,000	2013 and 2016
Avraham Eshed ²	109,500	109,500	US\$ 2,000	2013
Uzi Levami ³	1,181,000	957,000	US\$ 6,000	2013 and 2016
Yehezkel Pinhas Blum	750,000	500,000	US\$ 58,000	2014 and 2017
Chan Kam Loon	750,000	500,000	US\$ 58,000	2014 and 2017
Valerie Ong Choo	750,000	500,000	US\$ 58,000	2014 and 2017
Varda Shine	350,000	100,000	US\$ 58,000	2017

Note:

- 1 There are 338,000 options outstanding and vested, which will expire on April 30, 2019
- 2 There are 109,500 options outstanding and vested, which will expire on April 30, 2019
- 3 There are 557,000 options outstanding and vested, which will expire on April 30, 2019

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.

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 (2018), 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 2018, a total of 21,079,000 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\$1.096 to S\$1.878 per option (according to the date of grant). As of 31 December 2018, there were 13,762,207 options outstanding under the 2015 Plan, with no options having been exercised to date (the balance, 7,316,793, were forfeited). 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 2018, 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 and S\$2.858 per option (according to the date of grant, and adjusted for the May 2012 bonus issue). As of 31 December 2018, there were 6,114,677 options outstanding under the 2005 Plan, and 23,311,854 options have been exercised under the 2005 Plan (with the balance, 9,994,904, having been forfeited). 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.

DIRECTORS' REPORT

for the year end 31 December 2018

Audit Committee

The Audit Committee of the Company 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.

Auditors

The auditors, Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity, 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

Israel
12 April 2019

STATEMENT BY DIRECTORS

for the year end 31 December 2018

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 ___ to ___ are drawn up so as to give a true and fair view of the Company and of the Group as at 31 December 2018 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 of the Board

12 April 2019

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, 2018 and 2017 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, 2018 and 2017 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

Chaikin, Cohen, Rubin and Co.
Certified Public Accountants

Tel-Aviv, Israel
March 31, 2019

Tel-Aviv, Israel
March 31, 2019

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

as of December 31

	Note	Group		Company	
		2018	2017	2018	2017
US\$ thousands					
Assets					
Property, plant and equipment	10	14,641	15,646	1,381	1,961
Intangible assets	11	4,944	6,648	342	411
Investment in subsidiaries	27	--	--	44,437	47,200
Deferred tax assets	9	998	1,595	--	400
Total non-current assets		20,583	23,889	46,160	49,972
Inventories	12	7,032	7,200	5,297	4,285
Trade receivables	13	16,406	17,269	3,980	2,566
Other current assets	14	3,037	2,888	835	1,507
Short-term investments (bank deposits)	15	12,021	12,381	7,787	9,165
Cash and cash equivalents	16	16,832	16,736	7,271	8,792
Total current assets		55,328	56,474	25,170	26,315
Total assets		75,911	80,363	71,330	76,287
Equity					
Share capital*	17	--	--	--	--
Share premium and reserves		32,199	31,235	32,199	31,235
Translation reserve		(2,212)	(1,386)	(2,212)	(1,386)
Dormant shares, at cost	17	(3,576)	(3,055)	(3,576)	(3,055)
Retained earnings		39,245	43,924	39,245	43,924
Total equity		65,656	70,718	65,656	70,718
Liabilities					
Employee benefits	20	192	208	182	197
Total non-current liabilities		192	208	182	197
Trade payables		2,328	1,750	1,377	1,167
Other payables	19	6,831	6,673	3,889	3,987
Current tax payable		589	720	--	--
Warranty provision	22	315	294	226	218
Total current liabilities		10,063	9,437	5,492	5,372
Total liabilities		10,255	9,645	5,674	5,569
Total equity and liabilities		75,911	80,363	71,330	76,287

* 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	
		2018	2017
US\$ thousands			
Revenue	6,7	58,504	58,644
Cost of sales		(19,936)	(19,298)
Gross profit		38,568	39,346
Research and development expenses		(9,280)	(10,519)
Sales and marketing expenses		(13,263)	(13,592)
General and administrative expenses		(6,019)	(5,819)
Profit from operations		10,006	9,416
Finance income		455	328
Finance expense		(312)	(311)
Net finance income	8	143	17
Profit before income tax		10,149	9,433
Income tax expense	9	(2,547)	(3,669)
Profit for the year		7,602	5,764
Other comprehensive income (loss)			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plan		10	(42)
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(826)	533
Total comprehensive income for the year		6,786	6,255
Earnings per share			
Basic earnings per share (US cents)	18	2.17	1.64
Diluted earnings per share (US cents)	18	2.17	1.64

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 and Company						
Balance at January 1, 2017	--	29,688	(1,919)	53,957	(2,413)	79,313
Profit for the year ended December 31, 2017	--	--	--	5,764	--	5,764
Other comprehensive income for the year ended December 31, 2017	--	(42)	533	--	--	491
Total comprehensive income	--	29,646	(1,386)	59,721	(2,413)	85,568
Share-based payment expenses	--	785	--	--	--	785
Exercise of options	--	804	--	--	--	804
Dividend paid	--	--	--	(15,797)	--	(15,797)
Dormant shares acquired, at cost (706,900 shares)	--	--	--	--	(642)	(642)
Balance at December 31, 2017	--	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)
Total comprehensive income	--	31,245	(2,212)	51,526	(3,055)	77,504
Share-based payment expenses	--	874	--	--	--	874
Exercise of options	--	80	--	--	--	80
Dividend paid	--	--	--	(12,281)	--	(12,281)
Dormant shares acquired, at cost (746,400 shares)	--	--	--	--	(521)	(521)
Balance at December 31, 2018	--	32,199	(2,212)	39,245	(3,576)	65,656

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

The accompanying notes are an integral part of 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, 2018, comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") (see Note 27). 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 finishing systems for diamond and gemstone production. Sarine products include 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 Clarity, Color, Cut and light performance grading tools and visualisation systems. Sarine systems have become standard tools in every modern manufacturing plant, properly equipped gemmology lab and diamond appraisal business, and are essential aids for diamond polishers, 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.

Note 2 - Basis of Preparation

A. Statement of compliance

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

The consolidated financial statements were authorised for issue by the Company's Board of Directors on March 31, 2019.

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 21 – Share-Based Payments (measurement of share-based payments) – assumptions used in valuation model; and
- Note 25 – Contingent Liabilities – probability of claims to have a material impact on the Group.

E. Changes in accounting policies

(i) IFRS 9 (2014), *Financial Instruments*

As from January 1, 2018 the Group applies IFRS 9, *Financial Instruments* (hereinafter - IFRS 9), which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (hereinafter - IAS 39). Furthermore, as from that date the Group applies the amendment to IFRS 9, *Financial Instruments: Prepayment Features with "Negative Compensation"*.

The Group has chosen to apply the standard and the amendment to the standard as from January 1, 2018 (in this item: "date of initial application") without amendment of the comparative data. Upon examination, there was no material impact to the consolidated financial statements as result of these adjustments (see also Note 3C).

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through profit or loss and fair value through other comprehensive income. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

According to the standard, the basis of classification for financial assets that are debt instruments is the Group's business model for managing financial assets as well as the contractual cash flow characteristics of the financial asset. Therefore:

- (a) debt assets that are held within a business model whose objective is to hold financial assets so as to collect contractual cash flows, and include solely payments of principal and interest, are measured according to the standard at amortized cost;
- (b) debt assets whose contractual cash flow characteristics do not include solely payments of principal and interest are measured according to the standard at fair value through profit or loss;
- (c) debt assets whose contractual cash flow characteristics include solely payments of principal and interest, but are held within a business model whose objective is to both sell and collect contractual cash flows, are measured according to the standard at fair value through other comprehensive income; and
- (d) debt assets whose contractual cash flow characteristics include solely payments of principal and interest, but are held within a business model whose objective is only to sell, are measured according to the standard at fair value through profit or loss.

IFRS 9 replaces the impairment model of IAS 39 with an 'expected credit loss' (ECL) model. The model applies to financial assets measured at amortized cost, investments in debt instruments measured at fair value through other comprehensive income, contract assets (as defined in IFRS 15) and lease receivables, but not to investments in equity instruments.

Note 2 - Basis of Preparation (cont'd)

E. Changes in accounting policies (cont'd)

(ii) IFRS 15, Revenue from Contracts with Customers

As from January 1, 2018 the Group applies International Financial Reporting Standard 15 (hereinafter IFRS 15) which provides new guidance on revenue recognition. The Group elected to apply the standard using the cumulative effect approach, with an adjustment to the balance of retained earnings as at January 1, 2018 and without a restatement of comparative data.

The standard introduces a new five step model for recognizing revenue from contracts with customers:

- (a) identifying the contract with the customer;
- (b) identifying distinct performance obligations in the contract;
- (c) determining the transaction price;
- (d) allocating the transaction price to distinct performance obligations; and
- (e) recognizing revenue when the performance obligations are satisfied.

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

For further information on how the Group recognizes revenue under IFRS 15, see Note 3K.

Upon examination, there was no material impact to the consolidated financial statements as result of these adjustments.

F. Company Statements of Financial Position

The Company's statements of financial position for the years ended December 31, 2018 and 2017 have been prepared on the same basis as the consolidated 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.

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 – policy applicable as from January 1, 2018

Initial recognition and measurement of financial assets

The Group initially recognizes trade receivables [and debt instruments] issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price.

Derecognition of financial assets

Financial assets are derecognized 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. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost; fair value through other comprehensive income or fair value through profit or loss.

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above, as well as financial assets designated at fair value through profit or loss, are measured at fair value through profit or loss. On initial recognition, the Group designates financial assets at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss (other than certain derivatives designated as hedging instruments).

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

ii. Non-derivative financial assets – policy applicable before January 1, 2018

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.

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.

iii. 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 on the trade date at which the Group becomes a party to the contractual provisions of the instrument. 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.

iv. 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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

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

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.

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, during the respective reporting periods.

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible assets (cont'd)

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.

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 – policy applicable as from January 1, 2018

Financial assets, contract assets and lease receivables

The Group recognizes a provision for expected credit losses in respect of financial assets at amortized cost. The Group has elected to measure the provision for expected credit losses in respect of trade receivables at an amount equal to the full lifetime credit losses of the instrument.

With respect to other debt assets, the Group measures the provision for expected credit losses at an amount equal to the full lifetime expected credit losses, other than the provisions hereunder that are measured at an amount equal to the 12-month expected credit losses:

- debt instruments that are determined to have low credit risk at the reporting date; and
- other debt instruments and deposits, for which credit risk has not increased significantly since initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

i. Non-derivative financial assets – policy applicable as from January 1, 2018 (cont'd)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group's past experience and informed credit assessment, and it includes forward looking information. The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost at fair value through other comprehensive income are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract such as a default or payments being past due;
- the restructuring of a loan or payment due to the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of provision for expected credit losses in the statement of financial position

Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group does not have reasonable expectations of recovering a financial asset at its entirety or a portion thereof. This is usually the case when the Group determines that the debtor does not have assets or sources of income that may generate sufficient cash flows for paying the amounts being written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-off constitutes a de-recognition event.

ii. Non-derivative financial assets - policy applicable before January 1, 2018

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

ii. Non-derivative financial assets - policy applicable before January 1, 2018 (cont'd)

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.

iii. 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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

H. Employee benefits (cont'd)

ii. Defined benefit plans (cont'd)

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.

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

K. Revenue

i. Policy applicable as from January 1, 2018

Initial recognition and measurement of financial assets

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

- the parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- the Group can identify the rights of each party in relation to the goods or services that will be transferred;
- the Group can identify the payment terms for the goods or services that will be transferred;
- the contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- it is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Group has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Identifying performance obligations

On the contract's inception date the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

- goods or services (or a bundle of goods or services) that are distinct; or
- a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

Determining the transaction price

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of all the following elements when determining the transaction price: variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

Satisfaction of performance obligations

Revenue is recognized when the Group satisfies a performance obligation by transferring control over promised goods or services to the customer.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

K. Revenue (cont'd)

ii. Policy applicable before January 1, 2018

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.

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

O. Income tax (cont'd)

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 it is no longer probable that the related tax benefit will be realised.

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

There are a number of new standards, amendments to standards and interpretations which are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these financial statements.

i. IFRS 16, Leases (hereinafter – IFRS 16)

IFRS 16 replaces IAS 17, *Leases* and its related interpretations. IFRS 16 is applicable for annual periods as of January 1, 2019. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead of this, for lessees, the new standard 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. Nonetheless, IFRS 16 includes two exceptions to the general model 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.

In addition, IFRS 16 permits the lessee to apply the definition of the term lease according to one of the following two alternatives consistently for all leases: retrospective application for all the lease agreements, which means reassessing the existence of a lease for each separate contract, or alternatively to apply a practical expedient that permits continuing with the assessment made regarding existence of a lease based on the guidance in IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*, with respect to leases entered into before the date of initial application. Furthermore, the standard determines new and expanded disclosure requirements from those required at present.

IFRS 16 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application consistently for all leases: full retrospective application or recognizing a cumulative effect, which means 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 plans to adopt IFRS 16 as from January 1, 2019 using the cumulative effect method.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 - Significant Accounting Policies (cont'd)

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

i. IFRS 16, Leases (hereinafter – IFRS 16) (cont'd)

Expedients available for group of essentially similar assets

- (1) Not applying the requirement to recognize a right-of-use asset and a lease liability in respect of short-term leases of up to one year.
- (2) Not separating non-lease components from lease components and instead accounting for all the lease components and related non-lease components as a single lease component.
- (3) Not applying the requirement to recognize a right-of-use asset and a lease liability for leases that end within 12 months from the date of initial application.

Expedients for each separate lease

- (1) Relying on a previous assessment of whether an arrangement contains a lease in accordance with current guidance with respect to agreements that exist at the date of initial application.
- (2) Not applying the requirement to recognize a right-of-use asset and a lease liability in respect of leases where the underlying asset has a low value.
- (3) Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- (4) Excluding initial direct costs from measurement of the asset at the transition date.
- (5) Using hindsight when determining the lease term, meaning data presently available that may not have been available at the original date of entering into the agreement.

The Group plans to elect to apply the transitional provision of recognizing a lease liability at the date of initial application, for all the leases that award it control over the use of identified assets for a specified period of time, and except for when the Group has elected to apply the standard's expedients as aforesaid, according to the present value of the future lease payments discounted at the incremental borrowing rate of the lessee at that date, and concurrently recognizing a right-of-use asset at the same amount of the liability, adjusted for any prepaid or accrued lease payments that were recognized as an asset or liability before the date of initial application. Therefore, application of the standard is not expected to have an effect on the balance of retained earnings at the date of initial application. These changes are expected to result in an increase of approximately \$ 7 million in the balance of right-of-use assets at the date of initial application and an increase of approximately of \$ 7 million in the balance of the lease liability at the date of initial application.

Accordingly, depreciation and amortization expenses will be recognized in subsequent periods in respect of the right-of-use asset, and the need for recognizing impairment of the right-of-use asset will be examined in accordance with IAS 36. Furthermore, financing expenses will be recognized in respect of the lease liability. Therefore, as from the date of initial application and in subsequent periods, depreciation expenses and financing expenses will be recognized instead of lease expenses relating to assets leased under an operating lease, which were presented the consolidated statements of financial position.

In addition, the nominal discount rates used for measuring the lease liability are in the range of 1.5% to 10.0%. This range is affected by differences in the length of the lease term, differences between the various groups of assets, different discount rates of Group companies, and so forth.

ii. Amendment to IFRS 3, Business Combinations (hereinafter – Amendment to IFRS 3)

The Amendment to IFRS 3 clarifies whether a transaction to acquire an operation is the acquisition of a "business" or an asset. For the purpose of this examination, the Amendment to IFRS 3 added an optional concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as for example the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the amendment narrows the reference to the outputs element required in order to meet the definition of a business and added examples illustrating the aforesaid examination. The Group has not yet commenced examining the effects of adopting the amendment on the financial statements.

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.

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.

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 (con'td)

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 23).

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, 2018 and 2017, 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.

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						Consolidated
	India	Africa	Europe	North America	Israel	Other ¹	
	US\$ thousands						
2018	38,889	7,029	2,258	1,043	3,399	5,886	58,504
2017	40,441	5,200	2,787	1,048	3,883	5,285	58,644

NOTES TO THE FINANCIAL STATEMENTS

Note 6 - Operating Segments (cont'd)

For the year ended December 31, 2018, one customer accounted for approximately 11% of Group revenue. For the year ended December 31, 2017, one customer accounted for approximately 16% of Group revenue.

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						Consolidated
	India	Africa	Europe	North America	Israel	Other ¹	
	US\$ thousands						
December 31, 2018	6,722	19	--	5,261	2,601	38	14,641
December 31, 2017	7,253	61	12	5,517	2,764	39	15,646

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

Note 7 - Revenue

Composition

	Group	
	Year ended December 31	
	2018	2017
	US\$ thousands	
Revenue from sale of products ¹	48,130	47,006
Revenue from maintenance and services	10,374	11,638
	58,504	58,644

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

Note 8 - Net Finance Income

	Group	
	Year ended December 31	
	2018	2017
	US\$ thousands	
Interest income on financial assets and bank deposits	382	328
Net interest income (expense) re income taxes*	64	(76)
Bank charges	(115)	(144)
Net foreign exchange gain (loss)	(188)	(91)
	143	17

* See also Note 9A.

NOTES TO THE FINANCIAL STATEMENTS

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 2018 decreased to 23% from 24% in 2017. 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. Current taxes for the reported periods are calculated according to the tax rates presented above. Deferred taxes were calculated at the tax rate expected to apply on the date of reversal.

According to various amendments to the Ordinance, IFRS shall not apply when determining the taxable income for the 2007 through 2018 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 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 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.

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. The Amendment added new tax benefit tracks for a “preferred technological enterprise” and a “special preferred technological enterprise” that awards reduced tax rates to a technological industrial enterprise for the purpose of encouraging activity relating to the development of qualifying intangible assets.

The benefits will be awarded to a “preferred company” that has a “preferred technological enterprise” or a “special preferred technological enterprise” with respect to taxable “preferred technological income” per its definition in the Encouragement Law.

Preferred technological income that meets the conditions required in the law, will be subject to a reduced corporate tax rate of 12%, and if the preferred technological enterprise is located in Development Area A to a tax rate of 7.5%. The Amendment is effective as from January 1, 2017. 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. Galatea Ltd. (“Galatea”), an Israeli subsidiary of the Company, has final tax assessments (including assessments which are considered final under the tax laws) for all tax years up to December 31, 2015. The Company's other 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, 2013.

Note 9 - Income Tax (cont'd)

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

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, 2016. Sarin Hong Kong Ltd. received final tax assessments for all fiscal tax years through December 31, 2017. Other foreign subsidiaries have not been assessed since their incorporation.
- 3) Tax assessments related to Galatea in India.

A dispute has arisen between Galatea and the Indian tax authorities, over Galatea's classification of certain payments received from its Indian customers as being not liable for tax in India.

In 2015, the Indian tax authorities passed the assessment orders for the years ended March 31, 2011 and March 31, 2012, 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 for both the years was deleted by the Tribunal, and the issue of non-taxability of business income in India was decided in Galatea's favor. The Indian tax authorities have filed an appeal against the order of the Tribunal before the Bombay High Court for the respective years.

In the years 2017 and 2018, assessment orders for the Indian tax year ended March 31, 2013, 2014 and 2015 of approximately US\$ 0.2 million thousand (net of tax deducted at source) was passed. Galatea has appealed against these assessment orders before the next level of appellate authority. Based on the Tribunal's prior decisions for the financial years ended March 31, 2011 and 2012, respectively, the Group believes that it is likely that the demands made in the assessment orders will be reversed.

Similarly, in December 2018, for the Indian tax year ended March 31, 2016, Galatea received draft assessment orders of approximately US\$ 0.1 million (net of tax deducted at source). Galatea will contest the assessment order before the next level of appellate authority. Based on the said Tribunal's prior decisions, the Group believes that it is likely that the demand made in the draft assessment order will be reversed.

Galatea's legal tax counsel in Israel has opined that any tax payments made or withheld in India may be offset in Galatea's 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 years ended March 31, 2013 to March 31, 2016.

B. Composition of income tax expense

	Group	
	Year ended December 31	
	2018	2017
	US\$ thousands	
Current tax expense	1,860	2,195
Taxes in respect of previous years	90	543
Deferred tax expense	597	931
Total income tax expense	2,547	3,669

NOTES TO THE FINANCIAL STATEMENTS

Note 9 - Income Tax (cont'd)

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

	Group	
	Year ended December 31	
	2018	2017
	US\$ thousands	
Profit before income tax expense	10,149	9,433
Income tax using Israel tax rate of 23% (24% -- 2017)	2,334	2,264
Non-deductible expenses	240	138
Effects of lower tax rates arising from "Approved and Beneficiary Enterprise" status	(2,827)	(3,324)
Current year tax losses and benefits for which deferred taxes were not created	2,117	3,003
Taxes in respect of previous years	90	543
Reassessment of utilisation of deferred asset	495	472
Different tax rate of foreign subsidiaries	76	302
Changes in tax rates used for computation of deferred taxes	--	330
Other differences	22	(59)
	2,547	3,669

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	
	2018	2017	2018	2017
	US\$ thousands			
Other payables and employee benefits	166	308	--	101
Allowance for doubtful receivables	30	34	--	31
Know-how	35	88	--	--
Research and development expenses	98	376	--	268
Losses for tax purposes	370	465	--	--
Fixed assets	240	256	--	--
Other	59	68	--	--
	998	1,595	--	400

The deferred tax balances as at December 31, 2018 and 2017 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\$ 330 thousand in deferred tax assets, for the years ended December 31, 2017.

Unrecognised deferred tax assets

For the years ended December 31, 2018 and 2017, Group deferred tax assets in respect of tax losses in the amount of US\$ 49.8 million and US\$ 42.6 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.

Unrecognised deferred tax liabilities

As at December 31, 2018 a deferred tax liability for temporary differences in the amount of US\$ 23.9 million (2017 - US\$ 24.4 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					Total
	Computers and equipment	Demonstration equipment	Motor vehicle	Machinery and office equipment	Building, land, and leasehold improvements*	
	US\$ thousands					
Cost						
Balance at January 1, 2017	2,730	3,171	215	6,699	12,113	24,928
Additions	315	428	16	477	2,043	3,279
Disposals	(129)	(284)	(64)	(282)	--	(759)
Effect of changes in exchange rates	34	--	4	282	314	634
Balance at December 31, 2017	2,950	3,315	171	7,176	14,470	28,082
Additions	292	252	7	754	505	1,810
Disposals	(123)	(491)	(28)	(81)	(62)	(785)
Effect of changes in exchange rates	(50)	--	(7)	(359)	(601)	(1,017)
Balance at December 31, 2018	3,069	3,076	143	7,490	14,312	28,090
Depreciation						
Balance at January 1, 2017	2,049	2,273	159	5,204	1,179	10,864
Depreciation	421	461	15	523	518	1,938
Disposals	(128)	(166)	(64)	(260)	--	(618)
Effect of changes in exchange rates	32	--	3	187	30	252
Balance at December 31, 2017	2,374	2,568	113	5,654	1,727	12,436
Depreciation	364	445	17	491	634	1,951
Disposals	(117)	(297)	(28)	(33)	(62)	(537)
Effect of changes in exchange rates	(48)	--	(4)	(288)	(61)	(401)
Balance at December 31, 2018	2,573	2,716	98	5,824	2,238	13,449
Carrying amounts						
At December 31, 2017	576	747	58	1,522	12,743	15,646
At December 31, 2018	496	360	45	1,666	12,074	14,641

* Includes Group's wholly owned facilities in New York, United States and in Surat, India.

NOTES TO THE FINANCIAL STATEMENTS

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

	Company					Total
	Computers and equipment	Demonstration equipment	Motor vehicle	Machinery and office equipment	Building, land, and leasehold improvements	
	US\$ thousands					
Cost						
Balance at January 1, 2017	1,818	2,183	150	833	763	5,747
Additions	118	316	--	100	4	538
Disposals	(121)	(176)	(64)	(93)	--	(454)
Balance at December 31, 2017	1,815	2,323	86	840	767	5,831
Additions	109	136	--	35	--	280
Disposals	(92)	(252)	(16)	(32)	--	(392)
Balance at December 31, 2018	1,832	2,207	70	843	767	5,719
Depreciation						
Balance at January 1, 2017	1,263	1,597	112	473	47	3,492
Depreciation	291	271	11	125	77	775
Disposals	(119)	(121)	(64)	(93)	--	(397)
Balance at December 31, 2017	1,435	1,747	59	505	124	3,870
Depreciation	233	286	10	72	77	678
Disposals	(92)	(80)	(16)	(22)	--	(210)
Balance at December 31, 2018	1,576	1,953	53	555	201	4,338
Carrying amounts						
At December 31, 2017	380	576	27	335	643	1,961
At December 31, 2018	256	254	17	288	566	1,381

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, 2017	1,868	6,223	17,584	152	25,827
Additions	--	756	--	--	756
Balance at December 31, 2017	1,868	6,979	17,584	152	26,583
Additions	--	--	--	--	--
Balance at December 31, 2018	1,868	6,979	17,584	152	26,583
Amortisation					
Balance at January 1, 2017	--	3,873	14,472	13	18,358
Amortisation for the year	--	777	778	22	1,577
Balance at December 31, 2017	--	4,650	15,250	35	19,935
Amortisation for the year	--	904	778	22	1,704
Balance at December 31, 2018	--	5,554	16,028	57	21,639
Carrying amount					
At December 31, 2017	1,868	2,329	2,334	117	6,648
At December 31, 2018	1,868	1,425	1,556	95	4,944
	Company				
	Goodwill	Development costs	Know-how and intellectual property	Other	Total
	US\$ thousands				
Cost					
Balance at January 1, 2017	--	--	--	--	--
Additions	--	411	--	--	411
Balance at December 31, 2017	--	411	--	--	411
Additions	--	--	--	--	--
Balance at December 31, 2018	--	411	--	--	411
Amortisation					
Balance at January 1, 2017	--	--	--	--	--
Amortisation for the year	--	--	--	--	--
Balance at December 31, 2017	--	--	--	--	--
Amortisation for the year	--	69	--	--	69
Balance at December 31, 2018	--	69	--	--	69
Carrying amount					
At December 31, 2017	--	411	--	--	411
At December 31, 2018	--	342	--	--	342

* In 2017, Sarine capitalised development costs of Sarine Clarity™ and Sarine Color™ devices, for the automated, consistent and objective grading of a polished stone's Clarity and Color.

The amortisation of know-how, intellectual property, development costs and other intangible assets is recognised in cost of sale (see also Note 3E). 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	
	2018	2017	2018	2017
	US\$ thousands			
Raw materials and consumables	4,286	4,900	3,218	2,669
Work in progress	1,765	1,126	1,431	933
Finished goods	981	1,174	648	683
	7,032	7,200	5,297	4,285

In 2018 the write-down of Group inventories to net realisable value amounted to US\$ 549 thousand (2017 - US\$ 558 thousand). In 2018 the write-down of Company inventories to net realisable value amounted to US\$ 326 thousand (2017 - US\$ 456 thousand) (see also Note 3F).

Note 13 - Trade Receivables

	Group		Company	
	2018	2017	2018	2017
	US\$ thousands			
Trade receivables	17,083	17,722	4,211	2,827
Allowance for doubtful receivables	(677)	(453)	(231)	(261)
	16,406	17,269	3,980	2,566

The Group's and Company's exposure to credit and currency risks and impairment losses related to trade receivables is disclosed in Note 23.

Note 14 - Other Current Assets

	Group		Company	
	2018	2017	2018	2017
	US\$ thousands			
Institutions	1,512	929	284	561
Advances to suppliers	102	222	28	125
Prepaid expenses	1,112	1,461	519	816
Other	311	276	4	5
	3,037	2,888	835	1,507

The Group's and Company's exposure to credit and currency risks is disclosed in Note 23.

Note 15 - Short-Term Investments

Group short-term investments are comprised of bank deposits having weighted average interest rates of 2.78% at December 31, 2018 (December 31, 2017 - 1.55%). Company short-term investments are comprised of bank deposits having weighted average interest rates of 2.77% at December 31, 2018 (December 31, 2017 - 1.54%)(see also Note 23).

NOTES TO THE FINANCIAL STATEMENTS

Note 16 - Cash and Cash Equivalents

	Group		Company	
	2018	2017	2018	2017
	US\$ thousands			
Bank balances	10,630	13,209	3,529	6,290
Bank deposits	6,202	3,527	3,742	2,502
	16,832	16,736	7,271	8,792

Group bank deposits denominated in US dollars have weighted average interest rates of 2.17% at December 31, 2018 (December 31, 2017 – 1.43%). Company bank deposits denominated in US dollars have weighted average interest rates of 0.86% at December 31, 2018 (December 31, 2017 – 1.47%). The Group's and the Company's exposure to interest rate risk is disclosed in Note 23.

Note 17 – Share Capital – The Company

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

The following are the changes in the issued shares of the Company for the years ended December 31, 2018 and 2017:

	2018	2017
	Number of shares	
Issued ordinary shares at January 1	351,140,626	350,293,713
Share options exercised	201,500	1,553,813
Dormant shares purchased	(746,400)	(706,900)
Issued ordinary shares at December 31	350,595,726	351,140,626

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 24, 2018 and on April 25, 2017, 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, 2018 and 2017, the Company purchased 746,400 and 706,900 ordinary shares, respectively, at a cost of US\$ 521 thousand and US\$ 642 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, 2018 and 2017, 201,500 and 1,553,813 shares were issued, respectively, upon the exercise of options for cash (see also Note 21).

For the years ended December 31, 2018 and 2017, the Company declared and paid dividends in the amount of US\$ \$12.3 million and US\$ 15.8 million per year, respectively, amounting to US cents 3.5 and US cents 4.5 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, 2018 was based on the profit attributable to ordinary shareholders of US\$ 7,602 thousand (2017 - US\$ 5,764 thousand) and a weighted average number of ordinary shares outstanding of 350,919,208 (2017 - 350,846,747), calculated as follows:

	2018	2017
Issued ordinary shares at January 1	351,140,626	350,293,713
Effect of share options exercised	196,014	787,493
Effect dormant shares purchased	(417,432)	(234,459)
Weighted average number of ordinary shares at December 31	350,919,208	350,846,747

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2018 was based on profit attributable to ordinary shareholders of US\$ 7,602 thousand (2017 - US\$ 5,764 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 350,921,294 (2017 - 351,258,604), calculated as follows:

	2018	2017
Weighted average number of ordinary shares (basic)	350,919,208	350,846,747
Effect of share options on issue	2,086	411,857
Weighted average number of ordinary shares (diluted) at December 31	350,921,294	351,258,604

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	
	2018	2017	2018	2017
	US\$ thousands			
Employees and institutions	3,271	2,989	1,564	1,474
Deferred revenue	1,455	1,347	208	203
Advances from customers	387	502	246	360
Accrued expenses	1,638	1,449	1,056	1,019
Subsidiaries	--	--	758	744
Related parties	57	187	57	187
Other	23	199	--	--
	6,831	6,673	3,889	3,987

The Group's and the Company's exposure to currency risk related to other payables are disclosed in Note 23. See also Note 26 – 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	
	2018	2017
	US\$ thousands	
Present value of the obligation	1,118	1,361
Less fair value of assets	926	1,153
Recognised liability for defined benefit obligation	192	208

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	
	2018	2017	2018	2017	2018	2017
	US\$ thousands					
Balance as at January 1	1,361	1,168	1,153	1,024	208	144
Included in profit or loss	(109)	47	35	25	(144)	22
Included in other comprehensive income	(134)	146	(262)	104	128	42
Balance as at December 31	1,118	1,361	926	1,153	192	208

Principal actuarial assumptions:

	2018	2017
Discount rate ⁽¹⁾	1.91%	1.37%
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 2018 and 2017 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, 2018	
	One percentage point increase	One percentage point increase
	US\$ thousands	
Future salary growth	43	(36)
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, 2018 amounted to US\$ 563 thousand (2017 - US\$ 671 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 - 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, 2018, 21,079,000 options have been granted under the 2015 Plan, of which 13,762,207 options are currently outstanding, with no options having been exercised to date (with the balance having been forfeited). 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. 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, 2018, a total of 39,421,435 options have been granted under the 2005 Plan of which 6,114,677 options are currently outstanding and 23,311,854 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).

During the year ended December 31, 2018, the Company granted 7,970,000 options to employees under the 2015 Plan, 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, including, sales targets. During the year ended December 31, 2017, the Company granted 2,989,000 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 (also see Note 26). Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2018		2017	
	Weighted average exercise price in US\$ per share	Options	Weighted average exercise price in US\$ per share	Options
Outstanding at January 1	1.25	19,833,650	1.11	19,381,380
Granted	0.87	7,970,000	1.26	2,989,000
Forfeited	1.16	(7,725,266)	1.52	(982,917)
Exercised	0.40	(201,500)	0.52	(1,553,813)
Outstanding at December 31	1.11	19,876,884	1.25	19,833,650

The number of share options vested at December 31, 2018 and 2017 was 8,648,340 and 6,709,060, respectively. The weighted average share price at the date of exercise for share options exercised in 2018 was US\$ 0.85 (2017 – US\$ 1.08).

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, 2018 and 2017: weighted average expected volatility of: 36.84% and 38.89%, respectively; weighted average risk-free interest rates (in US dollar terms) of 2.19% and 1.76%, respectively; dividend yield of 2.32% and 2.50%, respectively. The weighted average fair value of the share options granted during the years ended December 31, 2018 and 2017 using the model was US\$ 0.27 and US\$ 0.39 per share option, respectively.

The average share price in 2018 was US\$ 0.64 (2017 – US\$ 1.12).

NOTES TO THE FINANCIAL STATEMENTS

Note 21 - Share-Based Payments (cont'd)

The following table summarizes information about share options outstanding at December 31, 2018:

Range of exercise prices US\$ per share	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price US\$	Number Exercisable	Weighted-average exercise price US\$
0.80 - 0.85	7,810,000	5.2	0.84	--	--
0.90 - 1.02	5,256,954	1.2	0.97	4,528,731	0.96
1.10 - 1.38	4,166,320	4.0	1.28	1,725,999	1.28
1.63 - 2.09	2,643,610	1.4	1.88	2,393,610	1.88
	<u>19,876,884</u>	3.4	1.11	<u>8,648,340</u>	1.28

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

	Year ended December 31	
	2018	2017
	US\$ thousands	
Cost of sales	43	57
Research and development expenses	109	30
Sales and marketing expenses	236	149
General and administrative expenses	486	549
	<u>874</u>	<u>785</u>

Note 22 - Warranty Provision

The provision for warranty relates mainly to product sales during the years ended December 31, 2018 and 2017. 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	
	2018	2017	2018	2017
	US\$ thousands			
Balance at the beginning of the year	294	359	218	250
Provisions made during the year	315	295	221	203
Provisions used during the year	(294)	(360)	(213)	(235)
Balance at the end of the year	<u>315</u>	<u>294</u>	<u>226</u>	<u>218</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 23 - 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			
	2018	2017	2018	2017
	US\$ thousands			
Cash and cash equivalents	16,832	16,736	7,271	8,792
Short-term investments (bank deposits)	12,021	12,381	7,787	9,165
Trade receivables	16,406	17,269	3,980	2,566
	45,259	46,386	19,038	20,523

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

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

	Group		Company	
	Carrying amount			
	2018	2017	2018	2017
	US\$ thousands			
India	10,672	12,804	1,273	1,799
Europe	176	339	87	37
North America	147	79	250	24
Africa	2,085	1,404	693	117
Israel	799	1,566	428	426
Other	2,527	1,077	1,249	163
	16,406	17,269	3,980	2,566

For the years ended December 31, 2018 and 2017, a single customer comprised approximately 22% and 27%, respectively, of the Group's outstanding trade receivables. For the year ended December 31, 2018, three customers comprised 14%, 19% and 24%, respectively of the Company's outstanding trade receivables. For the year ended December 31, 2017, a single customer comprised approximately 40% of the Company's outstanding trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

Note 23 - Financial Instruments (cont'd)

Impairment losses

The aging of trade receivables at the reporting date was:

	Group			
	Gross	Impairment	Gross	Impairment
	2018		2017	
US\$ thousands				
Not past due	10,494	--	12,212	--
Past due 0-30 days	1,194	--	1,872	--
Past due 31-90 days	2,400	--	2,017	--
More than 90 days*	2,995	(677)	1,621	(453)
	17,083	(677)	17,722	(453)

	Company			
	Gross	Impairment	Gross	Impairment
	2018		2017	
US\$ thousands				
Not past due	2,680	--	1,865	--
Past due 0-30 days	245	--	159	--
Past due 31-90 days	771	--	488	--
More than 90 days*	515	(231)	315	(261)
	4,211	(231)	2,827	(261)

* The majority of the non-impaired balances over 90 days as at December 31, 2018 were paid subsequent to December 31, 2018.

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

	Group		Company	
	2018	2017	2018	2017
US\$ thousands				
Balance at January 1	453	346	261	234
Movement	224	107	(30)	27
Balance at December 31	677	453	231	261

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, 2018 and 2017:

NOTES TO THE FINANCIAL STATEMENTS

Note 23 - Financial Instruments (cont'd)

	Group			
	December 31, 2018		December 31, 2017	
	NIS	Rupee	NIS	Rupee
Cash and cash equivalents	4,334	2,906	3,237	849
Trade receivables	--	1,191	--	1,671
Other current assets	2,159	733	1,875	783
Trade payables	(2,086)	--	(1,184)	--
Income tax payable	--	(589)	--	(720)
Other payables	(2,484)	(2,015)	(3,257)	(1,924)
Net balance sheet exposure	1,923	2,226	671	659

	Company			
	December 31, 2018		December 31, 2017	
	NIS	Rupee	NIS	Rupee
Cash and cash equivalents	2,090	--	1,407	--
Trade receivables	--	--	--	--
Other current assets	822	--	1,390	--
Trade payables	(1,053)	--	(808)	--
Other payables	(1,658)	--	(2,270)	--
Net balance sheet exposure	201	--	(281)	--

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

	Average rate		As at December 31	
	2018	2017	2018	2017
NIS 1	3.595	3.600	3.748	3.467
Rupee 1	68.51	64.96	69.79	63.93

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, 2018, the Group maintained its portion of cash and cash equivalents held in NIS (equivalent to US\$ 4.3 million at December 31, 2018 (US\$ 3.2 million in 2017)) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Note 24 – 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	
	2018	2017
	US\$ thousands	
Payable within:		
1 year	1,861	2,094
2 to 3 years	1,954	3,053
4 to 5 years	--	497
More than 5 years	--	67
	3,815	5,711

During the year ended December 31, 2018, approximately US\$ 2.6 million was recognised as an expense in the statement of comprehensive income in respect of operating leases (2017 – US\$ 2.5 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, 2018. 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, 2018 and 2017.

Note 25 – Contingent Liabilities

The Group is currently a party to various civil litigation proceedings in different jurisdictions in which it does business. These proceedings include, among other matters, patent and intellectual property infringement litigation in India which were initiated either by us or third parties, a dispute with a previous distributor in India, and a claim for damage to goods in the United States. 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.

NOTES TO THE FINANCIAL STATEMENTS

Note 26 – 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:

	Year ended December 31	
	2018	2017
US\$ thousands		
Remuneration of key management personnel and directors		
Fixed income-based	629	925
Share-based payments	359	495
Other performance based incentives	17	--
	1,005	1,420

Pursuant to an Annual General Meeting and an Extraordinary General Meeting of the Company's shareholders held on April 24, 2018, the CEO was granted 1,200,000 options to purchase ordinary shares of the Company, exercisable upon the payment of S\$1.096 per share (at no discount of the then Market Price – as such term is defined in the 2005 Plan), with vesting conditions of two to four years and a contractual life of six years. The options will vest subject to service based conditions. The fair value of the options granted was US\$ 0.247 per share at the grant date.

Pursuant to an Annual General Meeting and an Extraordinary General Meeting of the Company's shareholders held on April 25, 2017, the CEO and the four independent directors were granted 1,800,000 options to purchase ordinary shares of the Company, exercisable upon the payment of S\$1.878 per share (at no discount of the then Market Price – as such term is defined in the 2005 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. The fair value of the options granted was US\$ 0.424 per share at the grant date.

Note 27 – 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, 2018 and 2017 %
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%

NOTES TO THE FINANCIAL STATEMENTS

Note 27 – Group Entities (cont'd)

B. Movements in investments in subsidiaries:

	Company	
	2018	2017
	US\$ thousands	
Balance at beginning of year	47,200	48,480
Movements during the year:		
Loans and credit granted to subsidiaries	7,782	10,634
The Company's share of profits	6,955	8,086
Dividend	(17,500)	(20,000)
Balance at end of year	44,437	47,200

Note 28 – Subsequent Events

On February 24, 2019, the Board of Directors recommended the Annual General Meeting approve a final dividend of US 1.0 cent per ordinary share for the full year ended December 31, 2018. Pursuant to the approval of the Annual General Meeting of the Company's shareholders to be held in April 2018, the Company expects to pay a US\$ 3.5 million dividend on May 17, 2019, with Books Closure Date on May 8, 2019.



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SHAREHOLDING STATISTICS

As at March 12 2019

Issued and fully paid-up - 353,672,126
 No. of Treasury Shares - 3,076,400
 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	15	1.08	409	0.00
100 - 1,000	124	8.92	90,473	0.03
1,001 - 10,000	694	49.93	3,682,128	1.04
10,001 - 1,000,000	543	39.06	28,945,137	8.18
1,000,001 and above	14	1.01	320,953,979	90.75
	<u>1,390</u>	<u>100.00</u>	<u>353,672,126</u>	<u>100.00</u>

Shareholdings Held in Hands of Public

Based on information available to the Company as at 12 March 2019, approximately 53.24% 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	DBS Nominees Pte Ltd	110,314,932	31.46
2	Citibank Nominees Singapore Pte Ltd	90,375,771	25.78
3	HSBC (Singapore) Nominees Pte Ltd	41,771,042	11.91
4	DBSN Services Pte Ltd	21,229,742	6.06
5	UOB Kay Hian Pte Ltd	19,581,875	5.59
6	Raffles Nominees(Pte) Limited	10,698,100	3.05
7	Eyal Avraham Khayat	7,986,227	2.28
8	BPSS Nominees Singapore (Pte.) Ltd.	5,482,490	1.56
9	OCBC Securities Private Ltd	3,717,100	1.06
10	Phillip Securities Pte Ltd	3,021,900	0.86
11	Khoo Wooi Chee	2,069,800	0.59
12	BNP Paribas Nominees Singapore Pte Ltd	2,000,000	0.57
13	Soh Cheng Lin	1,400,000	0.40
14	Cheng Heng Seng	1,305,000	0.37
15	ABN Amro Clearing Bank N.V.	933,850	0.27
16	OCBC Nominees Singapore Pte Ltd	636,750	0.18
17	Low Geok Lin Judith	620,000	0.18
18	Chan Kam Loon	560,000	0.16
19	Chow Kwok Hong	550,000	0.16
20	Cheong Shuek Mui	450,000	0.13
		<u>324,704,579</u>	<u>92.62</u>

* The percentage of shareholdings was computed based on the issued share capital of the Company as at 12 March 2019 of 350,595,726 shares (which excludes 3,076,400 shares which are held as treasury shares representing approximately 0.88% of the total number of issued shares excluding treasury shares).

SUBSTANTIAL SHAREHOLDERS

Name	Direct Interest		Deemed Interest	
	No. of Shares	%*	No. of Shares	%*
Axxion S.A	--	--	32,193,900	9.18
Ehud Harel ¹	--	--	25,796,348	7.36
Hanoh Stark ²	--	--	24,590,524	7.00

*The percentage of issued ordinary shares is calculated based on the number 350,595,726 of issued ordinary shares of the company as at 12 March 2019 (excluding 3,076,400 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.

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 2018	As at 31 December 2018	As at 21 January 2019	As at 1 January 2018	As at 31 December 2018	As at 21 January 2019
Daniel Benjamin Glinert	--	--	--	12,379,156	12,379,156	12,379,156
Yehezkel Pinhas Blum	--	--	--	--	--	--
Chan Kam Loon	569,000	569,000	569,000	24,000	24,000	24,000
Avraham Eshed	--	--	--	15,126,922	15,126,922	15,126,922
Uzi Levami	--	--	--	12,335,406	12,335,406	12,335,406
Valerie Ong Choo Lin	--	--	--	575,000	575,000	575,000
Varda Shine	--	--	--	--	--	--

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at the Wangz Business Centre, The Penthouse #44-01, Suntec Tower One, 7 Temasek Blvd., Singapore 038987 on the 30th day of April 2019 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 2018 and the reports of the directors and auditors thereon.
2. To declare a final dividend of US cent 1.0 (gross) per share less tax (as applicable) for the year ended 31 December 2018.
3. To re-appoint Somekh Chaikin Certified Public Accountants (Isr.), Member firm of KPMG International and Chaikin, Cohen, Rubin and Co., Certified Public Accountants (Isr.) as external auditors and to authorise the Board of Directors to fix their remuneration.
4. To approve the Remuneration Policy [see Explanatory Notes (a), (b) and (c) and Appendix A]
5. To approve the CEO's remuneration [see Explanatory Note (c) and Appendix B]
6. To approve the Chairman's and Directors' remuneration [see Explanatory Note (c) and Appendix B]

Special Business

7. To consider and, if thought fit, to pass the following shareholders' resolutions with or without amendments:-

7.1 Authority to issue shares [see Explanatory Note (d)]

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 30% of the issued shares in the capital of the Company (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 10% of the total issued shares in the capital of the Company;
 - (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 shall be based on the number of issued shares in the capital of the Company 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;
 - (iii) 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.
- 7.2 Authority to offer and grant options and issue shares pursuant to the Sarine Technologies Ltd 2015 Share Option Plan and to issue shares upon the exercise of options, which were previously granted under the Sarin Technologies Ltd 2005 Share Option Plan. [See Explanatory Note (e)]

That the directors of the Company be and are hereby authorised to offer and grant options in accordance with the provisions of the Sarine Technologies Ltd 2015 Share Option Plan (the "2015 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 2015 Plan and/or under the Sarin Technologies Ltd 2005 Share Option Plan (the "2005 Plan"), provided always that the aggregate number of such shares to be issued pursuant to the 2015 Plan and the 2005 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) from time to time.

8. 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,
12 April 2019

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 Ha'Harash St., Hod Hasharon 4524075, Israel 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) Pursuant to the Israeli Companies Law, 5759-1999 (the "**Israeli Companies Law**") (for more details, please see the Company's announcement No. 144 of 3 January 2013, titled: "Recent Changes Introduced to the Israeli Companies Law"), each publicly-traded Israeli company is required to set a remuneration policy addressing issues such as actual remuneration, in cash and in kind, retirement terms, indemnification, insurance and exemption from liability (the "**Remuneration Policy**").

The Remuneration Policy should create clear guidelines for personalised, fixed and incentive-based, remuneration of officers, in line with the company's goals, plans, long-term policy and risk management policy. The Remuneration Policy should also set measurable corporate and personal targets, set a cap on variable remuneration and provide for return of variable remuneration, in case such was paid based on inaccurate data.

Such Remuneration Policy should be adopted by the Board of Directors of the company, at least every three years, based on the recommendations of the Remuneration Committee, and be further approved by the general meeting of the shareholders of the company.

The Company's most recent Remuneration Policy has been approved by the Company (in the manner specified above) in the general meeting of the shareholders of the Company which was held on 19 April 2016. Therefore, the Company is required to either ratify such Remuneration Policy or adopt a new one.

The Company's Remuneration Committee and the Company's Board of Directors discussed and approved the Remuneration Policy detailed in Appendix A, and summarised in Note (b) on 31 March 2019.

- (b) Remuneration Policy - Summary

General

- The Remuneration Policy incorporates the Company's vision and major (business, social and sustainability) goals.
- The Remuneration Policy is intended to align the Company's objectives and work plans with appropriate goals and objectives of its office holders and directors, and ensure that the overall financial and strategic objectives of the Company and its shareholders are met.
- The actual proposed packages will take into account the executive's knowledge, skills, expertise, experience and past accomplishments in and prior to joining the Group, comparable salaries in the Group and comparable remuneration of officers holding similar positions.
- The actual proposed packages will take into account existing remuneration agreements and will not decrease from those.
- The fixed compensation (salary / pay) is not dependent on actual results.
- The variable compensation (bonuses) should take into account the Group's short-term, mid-term and long-term goals. The variable compensation may be zero, but may not be negative.
- Equity based compensation is all at market price and is to be aimed at falling within guidelines set in the Remuneration Policy based on cost, estimated using a lattice-based valuation model applying management assumptions, at time of grant.
- All target based compensation will be based on audited (or otherwise verified) financial / business results and may be corrected (and reimbursed, if necessary, by the beneficiary), if subsequent audits find cause for restatements of results.
- We believe the proposed policies will not create disparities which will impair labour relations, as will be eminent from the actual proposed packages, which will provide appropriate metrics.
- Severance compensation will be solely as prescribed by the relevant statutory requirements (no so-called "golden parachutes").
- Officers shall be entitled to benefits (such as vacation days, sick days, pension fund, education fund, company car, etc., in line with the requirements of the applicable laws and/ or in line with common practice (as applicable).
- Specific exemptions from ceilings of standard Israeli benefits may be approved as appropriate, e.g., additional health and disability insurance for individuals with special requirements.

NOTICE OF ANNUAL GENERAL MEETING

- The Company shall maintain, at all times, Directors' and Officers' liability insurance for the directors and officers of the Company and of its direct and indirect subsidiaries, subject to the provisions of applicable laws and of each company's Articles of Association. The maximum amount covered by such insurance shall not exceed US\$30 million, its annual cost to the company shall not exceed US\$100,000.
 - The Company shall grant its directors and the directors of its (direct and indirect) subsidiaries letters of exculpation and indemnification, in line with the Company's existing practice and subject to the provisions of applicable laws and of each company's Articles of Association.
 - See also Appendix B for details of the proposed packages for the Directors and CEO.
- (c) 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 approval of resolution No. 4 (approval of the Company's Remuneration Policy), resolution No. 5 (approval of the CEO's remuneration) and resolution No. 6 (the Chairman's and directors' remuneration) 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 resolution; or (ii) the non-interested shareholders who voted against such resolution hold not more than 2% of the company's share capital. 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 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 4, 5, & 6. 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 4, 5, & 6 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 4, 5 & 6. 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 4, 5 & 6, 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.

- (d) The shareholders' resolution set out in item 7.1 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.
- (e) The shareholders' resolution set out in item 7.2 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 granted under the 2005 Plan and the 2015 Plan.

NOTICE OF ANNUAL GENERAL MEETING

Appendix A - Remuneration Policy (2019 – 2021) for Officers and Directors (“the Policy”) Sarine Technologies Ltd. and Subsidiaries (“Sarine” or the “Company”)

1. Background and General Provisions

Amendment No. 20 to the Israeli Companies Law, 1999 (the “Israeli Companies Law”) was enacted on December 12th, 2012. This amendment mandates the adoption of a remuneration policy for officers (“Nosei Misra” – as such term is defined in the Israeli Companies Law: i.e. any member of the board of directors, a general manager, a Chief Executive Officer, a deputy Chief Executive Officer, any person effectively holding such position in the company, irrespective of his or her title, and also any manager who reports directly to the Chief Executive Officer) in publicly-traded companies, and defines a special procedure for authorizing employment terms for office holders.

The purpose of this remuneration policy (the “Remuneration Policy” or the “Policy”) is to describe Sarine’s overall remuneration strategy for Officers and Directors (as such terms are defined hereinbelow) and to provide guidelines for setting remuneration of its Officers and Directors.

The Remuneration Policy is a multi-year policy which shall be in effect for a period of three from the date of its approval.

This Policy is not intended to affect current agreements nor affect obligating customs (if applicable) between the Company and its Officers or Directors as such may exist prior to the approval of this Remuneration Policy.

Nothing in this Remuneration Policy shall obligate the Company to grant any particular type or amount of remuneration to any Officer or Director, unless expressly stated otherwise, nor shall it derogate from approval procedures mandated by the Israeli Companies Law.

In the event that the appropriate decision makers of the Company determine that a certain Officer of the Company is entitled to compensation lesser than such specified in this Policy, such lesser compensation shall not be deemed a deviation from this Policy.

Any amendment to this Remuneration Policy shall require the approvals as set forth in the Israeli Companies Law.

The Company has constituted and established a Remuneration Committee (the “Remuneration Committee”) with the authority, responsibility and specific duties described in a Remuneration Committee Charter that was approved by the Company’s Board of Directors (the “Board”). Pursuant to the Remuneration Committee Charter, the Remuneration Committee shall be composed of at least three directors, all of the External Directors (as such term is defined in the Israeli Companies Law) shall be members of the Remuneration Committee and such External Directors shall form the majority in such committee. The Remuneration Committee will be chaired by an External Director.

The Remuneration Committee and the Board shall review this Remuneration Policy from time to time, as required by the Israeli Companies Law. This Remuneration Policy shall be brought for reconsideration as required (currently, every three years) by the Israeli Companies Law.

2. The Company

Sarine Technologies Ltd. is a worldwide leader in the development and manufacturing of advanced evaluation, planning, processing finishing and grading systems for diamond and gemstone production, as well as products and services aimed at assisting the retail trade of same. Sarine products include 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 Clarity, Color, Cut and light performance grading tools and visualisation systems. Sarine systems have become standard tools in every modern manufacturing plant, properly equipped gemmology lab and diamond appraisal business, and are essential aids for diamond polishers, dealers and retailers.

3. Sarine’s Vision and Major Goals

Sarine believes in growth and expansion through innovation by developing and introducing revolutionary technologies and products aimed at redefining the gold standard of the diamonds and gemstones industry. Company goals:

- To constantly increase the value for its shareholders.
- To maintain its leadership position in the diamond industry, as a technological and impartial innovator, providing value and adding certainty and visibility to all stakeholders in the industry (miners, manufacturers, retailers, customers, etc.).
- To participate in formalizing the diamond language, set the standards, inspire confidence, and optimize the diamond life cycle to benefit the public and our customers.
- To keep growing at high industry standard growth rates and to meet its business objectives.

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- To provide its employees a rewarding, challenging and dynamic working environments with continuous learning and improvement processes.
- To improve our business while contributing to the betterment of our people and communities, based on the Company's four point vision on which our business is based; Innovation, Value, Employees and Community.

4. Definitions

For purposes of this Policy:

"Chairman" shall mean the chairman of the Board.

"Director" shall mean any member of the Board.

"Officers" or **"Office Holders"** shall mean: Director, CEO, and any senior executive subordinate to the CEO all as defined in section 1 of the Israeli Companies Law.

"US\$" shall mean US Dollars

5. Remuneration Objectives

Strong and effective leadership is fundamental to Sarine's continued growth and success in the future. This requires the ability to attract, retain, reward and motivate highly-skilled Officers and Directors in competitive labour markets.

The Remuneration Policy is intended to align the Company's objectives and work plans with appropriate goals and objectives of Officers and Directors and ensure that the overall financial and strategic objectives of the company and its shareholders are met.

In support of this goal, remuneration practices for Sarine's Officers and Directors are designed to meet the following objectives:

- Improve business results and strategy implementation, and support the Company's work-plans, with a long-term perspective.
- Create a clear correlation between Officers' and Directors' remuneration and both Company and individual performance.
- Align Officers' and Directors' interests with those of the Company and its shareholders and incentivize Officers and Directors to create long-term economic value for the Company.
- Create fair and reasonable incentives, considering the Company's size, characteristics, and business activities, in relation to the positions held by the Officers.
- Create an appropriate remuneration plan for Officers and Directors taking into account, inter alia, the Company's risk management policy.
- Create the right balance between fixed and variable pay components and balance rewards for both short-term and long-term results to ensure sustained business performance over time.
- Utilize market benchmark remuneration tools to ensure our Officers and Directors are compensated fairly and best practices are implemented.

6. General Considerations

The compensation of Officers shall be set (or updated, as the case may be) with reference to the following considerations:

- Role and business responsibilities.
- Professional experience, education, expertise and qualifications.
- Previous compensation paid to the Officer.
- The Company's financial situation.
- Internal comparables: (a) total compensation packages of comparable Company's Officers; (b) the relationship between the Officer's compensation package and the salaries of the Company's other employees and specifically the median and average salaries of the Company and the effect of such relationship on work relations in the Company.
- External comparables: Market value based on a comparative salary survey, taking into account relevant market practice as a benchmark for the specific role using a peer-group of companies. The peer-group companies will be selected to provide an appropriate comparative model and will be selected based on appropriate similarities taking into account factors such as market capitalization, type of industry, location of listing, level of revenues, number of employees, location of operations, relevance of such factors to the particular executive role being compared and any other factors that may be deemed appropriate by the Company.

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- When deciding on increasing an Officer's Base Salary, the following considerations, in addition to the above mentioned, may be applied: changes to the Officer's scope of responsibilities and business challenges, the need to retain the Officer, inflation since the last remuneration update and updated market rate (based on a comparative salary survey). In addition, his or her full compensation package including any bonus and options will be discussed to provide full view.
- Adjustments to Base Salary may be periodically reviewed, considered and approved by the Remuneration Committee and the Board

7. Remuneration Policy

7.1. Officers' Remuneration Package Components

Officers' remuneration packages will generally be composed of the following elements:

- a. Base Salary** – a fixed monetary remuneration paid on a monthly basis.
- b. Benefits and Perquisites** – programs designed to supplement cash remuneration, based on local market practice for comparable positions.
- c. Cash Bonus** (Short-to-Medium Term Incentive) – variable monetary bonus paid annually or at the end of such longer periods for which targets may have been set as part of a multi-year plan, designed to reward Officers based on both the Company's and individually defined results.
- d. Equity-based Remuneration** (Medium-to-Long Term Incentive) – variable equity-based remuneration designed to retain Officers, align Officers' and shareholders' interests and incentivize achievement of medium range and long-term goals.
- e. Termination Payments** - retirement and termination of service arrangements.

The "mix" of the elements that will be provided to each Officer will be structured in order to support the Company's philosophy of compensating Officers for Company and individual performance and aligning their interests with shareholders' interests, while recognizing that the mix may vary from period to period and from Officer to Officer. Further details about the remuneration structure of the Company's Officers may be found in Sections 7.4 & 7.5 below.

7.2. Base Salary

Base salary is a fixed remuneration element which provides remuneration to an Officer for performance of his or her standard duties and responsibilities and reflects the Officer's role, skills, qualifications, experience and market value (the "**Base Salary**").

The Base Salary for newly hired Officers will be set based on the following considerations:

- Role and business responsibilities.
- Professional experience, education, expertise and qualifications.
- The Company's financial state and cash position.
- Internal equity: (a) Base Salary and the total remuneration package of comparable Sarine Officers; (b) The relationship between the Officer's remuneration package and the salaries of the Company's other employees and specifically the median and average salaries and the effect of such relationship on work relations in the Company.
- The size of the Company and the nature of its operations. In connection with the determination of the Base Salary of each Officer and its ongoing reassessment, appropriate attention should be given to the particular circumstances and challenges which such Officer faces, given the dynamic and fluctuating environment in which he or she operates.
- Any requirements or restrictions prescribed by the Israeli Companies Law, the SGX Listing Rules, and any other applicable law from time to time, and evolving best practices among shareholder advisory and institutional investor groups.

When deciding on increasing an Officer's Base Salary, the following considerations, in addition to the abovementioned, shall be applied: changes to the Officer's scope of responsibilities and business challenges, the need to retain the Officer, inflation since the last Base Salary update and updated market rate (based on a comparative salary survey).

Adjustments to Base Salary may be periodically reviewed, considered and approved by the Remuneration Committee and the Board.

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In the event that the services of the Officer are provided via a personal management company and not by the Officer directly as an employee of Sarine, the fees paid to such personal management company (or unincorporated legal person) shall reflect, to the extent determined by Sarine in the applicable service agreement, the base salary and the benefits and perquisites (plus applicable taxes such as Value Added Tax), in accordance with the guidelines of the Remuneration Policy.

The Base Salaries of the Company's Officers shall not exceed:

Title	Maximum Base Salary¹
CEO	US\$ 30,000
EVP/CFO/Chairman of the Board/Executive Directors	US\$ 18,000
VPs	US\$ 15,000

¹ As the payments to the CEO and to other senior officers of the Company may be effected (in whole or in part) in New Israeli Shekels (NIS), the amounts specified herein were computed based on the applicable exchange rate as of the Last Practicable Date (LPD), being 22 February 2019 (being 3.613 NIS to US\$1), and may be subject to increase in case of fluctuations in the applicable exchange rate.

7.3. Benefits and Perquisites

The following benefits and perquisites may be granted to the Officers in order, among other things, to comply with legal requirements under Israeli law:

- Pension and savings – subject to applicable law, Officers can choose between any combinations of executive insurance, a pension fund, or any other program, permitted under applicable law.
- Disability insurance – the Company will purchase disability insurance for Officers; except in special cases, premium will not exceed 2.5% of the monthly salary, or as may be required by applicable law.
- Study fund – Officers are entitled to a study fund provision at the expense of the Company at a rate of 7.5% of the monthly salary, or as may be required by applicable law.
- Convalescence pay - Officers are entitled to convalescence pay according to applicable law.
- Vacation – Officers are entitled to annual vacation days pursuant to their employment agreement, up to a cap of 26 days per annum.
- Sick days – Officers are entitled to paid sick days, according to applicable law. However, the Company may cover sick days from the first day.
- The Company may offer additional benefits and perquisites to the Officers, which will be comparable to customary market practices, such as, but not limited to: Company car benefits, including tax payments incurred in connection with the car; Company cellular phone; reimbursement of business travel expenses (according to seniority and length of flight), including a daily payment (per-diem) and other business related expenses; meals; etc.; provided however, that such additional benefits and perquisites shall be determined in accordance with the Company's policies and procedures.

Non-Israeli Officers may receive similar, comparable or customary benefits and perquisites as applicable in the jurisdiction in which they are employed.

7.4. Cash Bonus

Sarine's short-to-medium term incentive scheme will be based on a variable monetary bonus paid either upon the achievement of pre-designated milestones (set either annually or for a longer, multi-year period) designed to reward Officers based on the Company and his/her individually-defined results or based on measurement of the Officer's and the Group's performance by the Remuneration Committee and the Board, based on a list of quantifiable and measurable targets (the "Target Bonus").

Target Bonus and maximum bonus: The Target Bonus is the amount an Officer will be entitled to receive upon achievement of such pre-designated milestones.

Title	Maximum Cash Target Bonus (up to)
CEO	12 Months' Salary
EVP/CFO/Chairman of the Board/Executive Directors	12 Months' Salary
VPs	4 Months' Salary

During the fourth calendar quarter of each calendar year, the Remuneration Committee and the Board will determine the following for each Officer as well as the formula for calculating the Target Bonus payment upon the achievement of such pre-designated milestones, for the following year or the relevant target period.

During the first quarter of each calendar year, the Remuneration Committee and the Board will consider the performance of the Company and the Officers and shall set the actual Target Bonuses payable (if and to the extent payable) to the Officers.

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The Remuneration Committee may set targets for a period of more than one year, in which case the Officer will be entitled to the Target Bonus (per each year included in such multi-year period) only upon achieving such targets at the end of such period.

Objectives: The Company objectives and individual objectives will be determined based on pre-defined measurable and quantifiable considerations.

These objectives may include (but are not limited to) any one or more of the following criteria:

- Innovation objectives such as: introducing new products, and developing future pipeline products.
- Operating plan targets such as: manage corporate operations to the approved annual budget and meet human resources objectives.
- Financials objectives such as: Revenue, EBITDA, Cash balance, Net profit, etc.
- Business development objectives such as: maintaining and expanding market share, entrance into new fields.

Both Company objectives and individual objectives may combine quantitative and qualitative goals, provided that, there is a clear and measurable index for each goal.

The Remuneration Committee may, on an annual basis, delegate to the CEO the power to set the Target Bonus objectives for some or all the Officers.

Thresholds: The Remuneration Committee and the Board may, with respect to any period or Officer, determine one or more thresholds for the payment of the annual cash Target Bonus or any components thereof, in such manner that if the threshold is not achieved, the annual Target Bonus or the particular component thereof, with respect to which the threshold was not achieved, will not be paid.

The Company may determine that with respect to any specific year, all or any particular Officer or Officers shall not be entitled to a Target Bonus.

7.5. Equity-based Remuneration

Sarine's medium-to-long term incentive includes variable, equity-based remuneration that is designed to retain Officers, align Officers and shareholders' interests and incentivize the achievement of medium-to-long term goals.

The Company shall be entitled to grant to Officers share options, or any other securities-based or securities-related grants which are duly approved by the Company (collectively: "**Equity-Based Awards**").

Title	Time-Based Awards	Performance-Based Awards	Cost to the Company (over a Three-Year Period) (up to)
CEO	Up to 75% of the grant	At least 25% of the grant	US\$ 1,000,000
EVP/CFO/Chairman of the Board/Executive Directors	Up to 75% of the grant	At least 25% of the grant	US\$ 500,000 (per person)
VPs	Up to 75% of the grant	At least 25% of the grant	US\$ 300,000 (per person)

General guidelines for the grant of Equity-Based Awards:

- The Equity-Based Award shall be granted from time to time and be individually determined and awarded according to the performance, skills, qualifications, experience, role and the personal responsibilities of the Officer.
- **Vesting schedule** - the Equity-Based Awards will vest and, if applicable, become exercisable annually over a period of between 2 to 4 years, in equal parts.

In case of termination not-for-cause, non-elective resignation or change in the Company's control, prior to vesting, a pro-rated portion of the Equity-Based Awards shall be automatically vested.

- **Exercise price** - if applicable, the exercise price shall be determined according to the average closing price of the Company's share on the five (5) days of trade before the grant date (the "Market Price").
- **Expiry date** - this period shall not exceed six (6) years from the date of the issuance.

NOTICE OF ANNUAL GENERAL MEETING

7.6 Remuneration Recovery:

Cash and Equity Bonuses to Officers shall be subject to claw-back provisions that allow for the recovery of any bonus payment(s) made to an Officer if such bonus payment was based on incorrect financial statements which were later corrected (i.e. a restatement). The claw-back limit will be applied only in respect of restatements made up to three years from the applicable bonus payment, and will not exceed, for any Officer, the amount of the bonus payment received by such Officer. Notwithstanding the aforesaid, the remuneration recovery will not be triggered in the event of a financial restatement required due to changes in the applicable financial reporting standards. The Officer shall repay to the Company the balance between the original bonus and any bonus due to the Officer based on the restated financial statements, pursuant to terms that shall be determined by the Remuneration Committee and the Board.

7.7. Termination of Service Arrangements; Severance

Unless approved otherwise by the Remuneration Committee and the Board (and where applicable – the shareholders' meeting) and defined in the Officer's employment agreement, he or she shall be entitled to an advance notice prior to termination for a period of up to 30 days (the "Notice Period").

During the Notice Period, the Officer is required to keep performing his or her duties pursuant to his or her agreement with the Company, unless the Company has released the Officer from such obligation. During the Notice Period, Officers will be entitled to full payment of compensation (unless the Company has waived his or her services, in which case he or she shall be paid an amount equivalent to his/her salary).

7.8. Inter-Company Remuneration Ratio

In determining the remuneration terms of each Officer and of the Officers as a group, the Remuneration Committee and the Board will examine, among other things, the ratio between overall remuneration of Officers and the average and median remuneration of other employees in Sarine, as well as the possible ramifications of such ratio on the work environment in Sarine.

The possible ramifications of the ratio on the work environment will continue to be examined from time to time.

The following table indicates the ratio between total cash remuneration of Officers and the average and median remuneration of other employees as of December 31, 2018:

Position	Average	Median
CEO / CFO	3.0	3.4
VPs	2.6	3.0

These ratios may fluctuate, and the Company is not committed to maintaining or reducing them, but the Remuneration Committee will continue monitoring them annually as an additional parameter assisting it in the evaluation of Officers' overall and individual remuneration.

7.9. Non-Executive Directors' Remuneration

The remuneration packages of Non-Executive Directors will generally be composed of a balanced mix of cash and equity to allow Directors to align their interests with those of the Company and its shareholders while discouraging high-risk strategies that drive short-term performance.

Non-Executive Directors (who are not Independent Directors)

The cash remuneration shall be paid based on actual participation in Board and committee meetings, not to exceed US\$1,100 (per meeting) for participation in person, 60% of same, i.e., US\$660, for participation over the phone and 50% of same, i.e., US\$550, for a written resolution.

The equity remunerations shall consist of grant of long-term (three year) options to purchase the Company's shares at the Market Price. The estimated cost to the Company of such grant shall not exceed US\$150,000 (per each Non-Executive Director) over three years, granted. Such grants may be made no more frequently than once every three years.

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Non-Executive Directors (who are Independent Directors)

1. Maximum annual fixed remuneration of US\$50,000, provided that the annual fees of the Independent Directors, who were also designated as External Directors shall not exceed the maximum amount allowed under the Israeli Companies Law and under the applicable Israeli regulations (currently NIS 133,770).
2. Additional remuneration based on actual participation in Board and committee meetings, not to exceed US\$1,100 (per meeting) for participation in person, 60% of same, i.e., US\$660, for participation over the phone and 50% of same, i.e., US\$550, for a written resolution, provided that the participation fees of the Independent Directors, who were also designated as External Directors shall not exceed the maximum amount allowed under the Israeli Companies Law and under the applicable Israeli regulations (currently NIS 4,240).
3. Long term (three year) options to purchase the Company's shares at the Market Price (on day of grant) with estimated cost to company of up to US\$150,000 (per Independent Director) over three years, granted no more frequently than once every three years, subject to the provisions of the Israeli Companies Law [according to the Israeli Companies Law and the applicable regulations, Independent Directors, who are also External Directors, are appointed for a three-year term and their remuneration, as well as the grant of options to such External Directors, should be defined upon their appointment and remain in effect throughout such three-year period, and may be subject to certain other restrictions].

The Company shall also bear the Directors' travel-related expenses (including flights, accommodation, etc.) incurred in the performance of their duties, based on the Company's general policy.

Directors' remuneration shall be reviewed by the Remuneration Committee and the Board on an annual basis to ensure that it aligns with the "Remuneration Objectives" described in Section 5 of this Policy and conforms to local and industry best practices.

7.10 Insurance, Indemnification and Release

The Company will release all current and future Directors and Officers from liability for actions taken in the performance of or related to the Director's or Officer's duties and provide each of them with indemnification to the fullest extent permitted by law and its Articles of Association.

In addition, subject to any applicable laws, until otherwise determined, the Company will purchase and periodically renew, at the Company's expense, insurance coverage in respect of the liability of its Directors and Officers to the amount reasonably determined by the Board (US\$ 30 (thirty) million as of LPD).

The annual premium payable by the Company for such insurance policy is (as of LPD) shall not exceed US\$ 100,000 (as of LPD – less than US\$80,000) and the Company's deductibles (as of LPD) are US\$ 50,000 (US\$ 150,000 for claims made in North America).

The Company, may from time to time, increase the coverage of such insurance policy (and the premium paid therefor) if the Remuneration Committee and the Board are of the opinion that such increase is required, in view of any expansion and/or change in the Company's activities, its business environment or due to any other relevant considerations.

In addition, such insurance coverage may include "run-off" provisions covering the Directors' and Officers' liability following termination of service or employment.

The Company shall award, and shall continue to award, indemnification undertakings to Directors and Officers, subject to the approvals required in accordance with the provisions of the Israeli Companies Law.

8. Supervision, Reporting and Amendments

- 8.1 The Board is responsible for the management and implementation of the Policy in the Company, and it shall be entitled to take all action necessary to achieve such purpose, including interpreting the provisions of the Policy, as may be required.
- 8.2 Subject to the provisions of the Israeli Companies Law, any deviation from the Policy shall be brought to discussion in the Remuneration Committee and shall be approved by the Board of the Company.
- 8.3 Every year, before the approval of the Company's annual financial reports, the Remuneration Committee will review the Policy and its compatibility to the status of the Company and the manner in which the Policy is implemented by Company.
- 8.4 The CFO of the Company will be responsible for the implementation of the Policy and shall alert the Remuneration Committee and the Board upon any deviation and/or non-compliance in the implementation of the Policy.
- 8.5 During the term of the Policy an internal audit shall be performed at least once, with respect to the manner of its implementation.

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Appendix B - Remuneration packages for Directors and CEO

- All costs are given in annualised terms.
- Illustrative options costs are estimated as per share price (S\$0.405) and currency conversion rates (US\$1 = NIS 3.613 and US\$1 = S\$1.3543) as per the Last Practicable Date (LPD) being 22 February 2019, and are based on IFRS guidelines using a lattice-based valuation model applying management assumptions (e.g., share volatility).

1. Directors

- a. Daniel Benjamin Glinert – Executive Chairman of the Board
 - o Monthly compensation US\$14,200 + out-of-pocket expenses according to current practice (~ US\$715 a month in 2018). Estimated monthly cost to Sarine - US\$14,915.
 - o Annual bonus as derived by the Remuneration Committee and the Board of Directors, as per criteria enumerated below, capped at 12 monthly salaries annually (US\$170,400).
 - o Annual bonus of US\$1,000 per every S\$0.01 added to share price (at end of year), capped at US\$100,000 annually.
 - o Time based options – 750,000 options to be vested over 4 years. 50% cliff after year 2 and 25% after each of subsequent two years (years 3 and 4). Estimated total four year cost - US\$76,000. Estimated average annual cost (actual accounting rules frontload costs to earlier years) - US\$19,000.
 - o Target based options - 250,000 vested after two years, contingent upon cumulative two-year trade/polished diamond products and services sales targets. Estimated total two year cost assuming ALL targets are met - US\$26,000. Estimated average annual cost - US\$13,000.
 - o Estimated average annual expense, excluding cash bonus, if any - US\$211,000.
 - o Comparatives:
 - To Israeli benchmark (Tzviran Israeli Public Company Remuneration Survey) – 25–30%, below par
 - To Sarine median compensation – N/A
 - To Sarine average compensation – N/A
- b. Non-Executive Directors –
 - Payment for participation in person in meeting – US\$1,100 (60% for participation over the phone – US\$ 660, 50% for signing a written resolution – US\$550).
- c. Chan Kam Loon, Yehezkel Pinhas Blum, Valerie Ong Choo Lin and Varda Shine – Independent Directors –
 - Payment for participation in person in meeting – similar to the payment to Non-Executive Directors.
 - No change in the fixed annual payment (as set in 2017)[according to the Israeli Companies Law and the applicable regulations, Independent Directors, who are also External Directors, are appointed for a three-year term and their remuneration, as well as the grant of options to such External Directors, should be defined upon their appointment and remain in effect throughout such three-year period. Ms. Ong and Mr. Blum are considered both Independent Directors and External Directors].

2. CEO - David Block

- o Monthly salary NIS 64,350 (~US\$18,000 as of LPD currency conversion rates) plus benefits as per the Policy. Estimated cost to Sarine in 2019 - US\$325,000.
- o Annual Bonus for the year 2018 – NIS 64,000 (~US\$17,000 as of LPD currency conversion rates).
- o Annual bonus as decided by the Remuneration Committee and the Board of Directors, as per criteria enumerated in Policy, capped at 12 monthly salaries annually. Estimated cost of cap as of LPD currency conversion rates - US\$216,000.
- o Time based options – 1,125,000 options to be vested over 4 years. 50% cliff after year 2, and 25% after each of subsequent two years (years 3 and 4). Estimated total four year cost - US\$112,000. Estimated average annual cost (actual accounting rules frontload costs to earlier years) - US\$28,000.
- o Target based options - 375,000 vested after two years, contingent upon cumulative two-year trade/polished diamond products and services sales target. Estimated total two year cost assuming ALL targets are met - US\$38,000. Estimated average annual cost - US\$19,000.
- o Estimated average annual expense, excluding cash bonus, if any - US\$458,000.
- o Comparatives on salaries, benefits and non-cash option compensation:
 - To Israeli benchmark (Tzviran Israeli Public Company Remuneration Survey) – less than 25th percentile, below par
 - To Sarine median compensation – 5.5
 - To Sarine average compensation – 4.7

3. Cash bonuses criteria

The Remuneration Committee and the Board of Directors will calculate and approve an annual bonus not to exceed 12 monthly salaries (with regard to the Executive Director, the CEO, the CFO and the EVPs) or 4 monthly salaries (with regard to VPs) as derived from performance vis-à-vis the following quantitative and qualitative criteria:

1. Revenues – a significant increase in annual revenues, year over year, on a rolling basis – an increase in absolute or relative percentage terms from the previous year’s revenues [up to 2 monthly salaries or one third of such figure - with regard to VPs].
2. Profitability – an increase in profitability as measured by the Group’s Gross Margin, Operating Margin and/or Net Margin, or any combination of the above, or in absolute terms [up to 2 monthly salaries or one third of such figure - with regard to VPs].
3. Cash Flow – an increase in operating or free cash flow [up to 2 monthly salaries or one third of such figure - with regard to VPs].
4. Strategic Goals:
 - a. Legacy Products Line [up to 1 monthly salary or one third of such figure - with regard to VPs]:
 - i. Retaining or increasing of revenues from sales.
 - ii. Establishment of recurring revenue streams from new applications of existing or new products.
 - iii. Launch of significant new products (e.g., tension analysis system).
 - b. Galaxy Family Products Line [up to 2 monthly salaries or one third of such figure - with regard to VPs]:
 - i. Increase in sales or in numbers of systems delivered.
 - ii. Increase in recurring revenues from PPC and/or increase in number of diamonds scanned.
 - iii. Successful containment, reduction or eradication of IP infringement.
 - c. Polished diamond offerings for wholesale/retail trade [up to 3 monthly salaries or one third of such figure - with regard to VPs]:
 - i. Significant increase in sales.
 - ii. Significant increase in number of reports issued.
 - iii. Increase in number of or significance of customers and/or numbers of retail outlets (“doors”) adopting our reports.
 - iv. Launch of significant new products or services.
 - v. Strategic achievements:
 1. Geographic expansion
 2. Strategic cooperations with key players in industry (e.g., producers, suppliers, wholesalers, retailers, labs, others)

Note: A discretionary bonus equivalent to up to one quarter of the maximum cash bonus (as applicable) may be payable based on the general evaluation of the Company’s and Officer’s performance by the Remuneration Committee and the Board of Directors.

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 typically contain words such as "anticipate", "believe", "expect", "foresee", "hope", "intend", "may", "might", "plan", "seek", "target", "will" or "would". Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as expected revenues, margins, expenses and profits; cash flows, return on capital, capital expenditures, capital allocation or capital structure; and dividends. Actual results can 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, regulations and regulatory requirements; global economic and financial conditions, including interest and exchange rate volatility, commodity and equity prices and the value of financial assets; diamond industry conditions including rough and polished diamond prices and conditions in the financial and credit markets for the industry in which we operate; the impact of potential information technology or data security breaches and our exposure to counterparties; the impact of investigative and legal proceedings and legal compliance risks; 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; 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; and the other factors that are described in "Risk Factors" in our Annual Report for the year ended December 31, 2018. 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.



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SARINE TECHNOLOGIES LTD.

(Incorporated in Israel)
Israel Registration No. 511332207

PROXY FORM

I/We _____, NRIC/Passport no. _____

of _____

being a member/members of Sarine Technologies Ltd. (the "Company"), hereby appoint

Name	Address	NRIC/Passport No.	No. of Shares

and/or (delete as appropriate)

Name	Address	NRIC/Passport No.	No. of Shares

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and, if necessary, to demand a poll at the Annual General Meeting of the Company to be held at the Wangz Business Centre, The Penthouse #44-01, Suntec Tower One, 7 Temasek Blvd., Singapore 038987 on 30 April 2019 at 3:00 PM Singapore time and at any adjournment thereof.

Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the resolutions as set out in the Notice of Annual General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matters arising at the Annual General Meeting.

No.	Resolution	For	Against
1	Adoption of reports and accounts		
2	Declaration of final dividend for the year ended 31 December 2018		
3	Re-appointment of Somekh Chaikin Certified Public Accountants (Isr.), Member firm of KPMG International and Chaikin, Cohen, Rubin and Co., Certified Public Accountants (Isr.) as external auditors		
4	Adoption of Remuneration Policy *I hereby declare that (check the applicable circle): o I have a personal interest in the approval of Resolution No. 4 (Adoption of Remuneration Policy) o I do not have a personal interest in the approval of Resolution No. 4 (Adoption of Remuneration Policy)		
5	Approval of CEO's Remuneration *I hereby declare that (check the applicable circle): o I have a personal interest in the approval of Resolution No. 5 (Adoption of CEO Remuneration) o I do not have a personal interest in the approval of Resolution No. 5 (Adoption of CEO Remuneration)		
6	Approval of Directors' Remuneration *I hereby declare that (check the applicable circle): o I have a personal interest in the approval of Resolution No. 6 (Adoption of Directors Remuneration) o I do not have a personal interest in the approval of Resolution No. 6 (Adoption of Directors Remuneration)		
6a	Daniel Benjamin Glinert – Executive Chairman of the Board		
6b	Non-Executive Directors		
7.1	Authority to issue shares		
7.2	Authority to grant options pursuant to the Sarine Technologies Ltd 2015 Share Option Plan and issue shares pursuant to the Sarine Technologies Ltd 2005 and Sarine Technologies Ltd 2015 Share Option Plans		

Please Note: according to the 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 4, 5, & 6. 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 4, 5, & 6. 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 4, 5, & 6. 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 4, 5, & 6, 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.

Dated this _____ day of _____ 2019

Total Number of Shares Held

Signature(s) of Member(s) or Common Seal

Important: Please Read Notes Overleaf

Notes

- 1 Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register, you should insert that number. If you have shares registered in your name in the Register of Members of the Company, you should insert that number. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
- 2 A member entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
- 3 The instrument appointing a proxy or proxies must be deposited either at the offices of the Company at 4 Ha'Harash St. (3rd floor), Hod Hasharon 4524075, Israel or at the office of the Company's Singapore Share Transfer Agent at 112 Robinson Road #05-01 The Corporate Office Singapore 068902 not less than 24 hours before the time appointed for holding the meeting.
- 4 Where a member appoints more than one proxy, he shall specify the number of shares to be represented by each proxy, failing which, the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.
- 5 The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a company or other body corporate, it must be executed under its common seal or stamp or under the hand of its duly authorised agent or attorney on behalf of the corporation.
- 6 Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney or other authority, the power of attorney or authority or a notarially certified copy thereof must be lodged with the instrument of proxy, failing which the instrument of proxy may be treated as invalid.
- 7 A company or other body corporate which is a member may authorise, by resolution of its directors or any other managing body, such person as it thinks fit to act as its representative at the meeting.
- 8 The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 24 hours before the time appointed for holding the meeting, as certified by The Central Depository (Pte) Limited to the Company.
9. According to the Israeli Companies Law, 5759-1999, 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Daniel Benjamin Glinert

Executive Director and Chairman of the Board

Avraham Eshed

Non-Executive Director

Uzi Levami

Non-Executive Director

Chan Kam Loon

Lead Independent Director

Yehezkel Pinhas Blum

Independent Director

Valerie Ong Choo Lin

Independent Director

Varda Shine

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

REMUNERATION COMMITTEE

Yehezkel Pinhas Blum - Chairperson

Chan Kam Loon

Uzi Levami

Valerie Ong Choo Lin

Varda Shine

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: Dani Aviram

(appointed with effect from 1 January, 2017)

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 Hapoalim Ltd.

Ra'anana Business Branch

14 Hatidhar Street

Ra'anana 4366516

Israel

Bank Leumi Le-Israel Ltd.

Habursa Business Branch

7 Menachem Begin Street

Ramat Gan 5268102

Israel



THE DIAMOND INDUSTRY, REIMAGINED™

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