

Sarine Technologies Ltd. and its Subsidiaries

(Incorporated in Israel)

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

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

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

	<u>Group</u> <u>Quarter ended</u> <u>December 31,</u>			<u>Group</u> <u>Year ended</u> <u>December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
			<u>%</u>			<u>%</u>
Revenue	18,917	12,397	52.6	72,524	48,453	49.7
Cost of sales	5,346	4,280	24.9	22,235	15,904	39.8
Gross profit	13,571	8,117	67.2	50,289	32,549	54.5
Research and development expenses	2,714	2,522	7.6	10,844	10,564	2.7
Sales and marketing expenses	3,469	2,726	27.3	13,578	12,557	8.1
General and administrative expenses	1,110	837	32.6	4,657	3,929	18.5
Profit from operations	6,278	2,032	209.0	21,210	5,499	285.7
Net finance (expense) income	(2)	(43)	(95.3)	755	(197)	NM
Profit before income tax	6,276	1,989	215.5	21,965	5,302	314.3
Income tax expense	1,287	515	149.9	3,985	1,715	132.4
Profit for the period	4,989	1,474	238.5	17,980	3,587	401.3
Remeasurement of defined benefit plan	--	17	NM	--	17	NM
Foreign currency translation differences from foreign operations	(159)	(54)	194.4	(189)	(339)	(44.2)
Total comprehensive income for the period	4,830	1,437	236.1	17,791	3,265	444.9

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

Profit before income tax is stated after charging the following:

	<u>Group</u> <u>Quarter ended</u> <u>December 31,</u>			<u>Group</u> <u>Year ended</u> <u>December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
			<u>%</u>			<u>%</u>
Allowance (write back) for doubtful trade receivables	2	(7)	NM	(14)	1	NM
Depreciation and amortization	995	946	5.2	3,860	4,040	(4.5)
Interest income, net	28	(12)	NM	645	(180)	NM
Exchange rate differences	(30)	(31)	(3.2)	110	(17)	NM
Warranty provision	(3)	(11)	(72.7)	53	(126)	NM

NM- Not meaningful

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

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

	<u>Group</u>		<u>Company</u>	
	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Assets				
Property, plant and equipment	14,064	12,413	2,255	1,689
Intangible assets	7,469	7,812	--	--
Investment in equity accounted investee and subsidiaries	--	--	48,480	47,141**
Deferred tax assets	2,527	3,157	1,318	1,423
Total non-current assets	<u>24,060</u>	<u>23,382</u>	<u>52,053</u>	<u>50,253</u>
Inventories	9,230	10,146	6,393	6,673
Trade receivables	16,955	11,337	2,559	3,164
Other receivables	3,488	3,707	2,029	1,727
Short-term investments (bank deposits)	18,520	13,298	11,835	7,532
Cash and cash equivalents	19,467	19,298	11,631	9,268
Total current assets	<u>67,660</u>	<u>57,786</u>	<u>34,447</u>	<u>28,364</u>
Total assets	<u>91,720</u>	<u>81,168</u>	<u>86,500</u>	<u>78,617</u>
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(2,413)	(2,366)	(2,413)	(2,366)
Share premium, reserves and retained earnings	81,726	73,897	81,726	73,897**
Total equity	<u>79,313</u>	<u>71,531</u>	<u>79,313</u>	<u>71,531</u>
Liabilities				
Employee benefits	144	138	138	129
Total non-current liabilities	<u>144</u>	<u>138</u>	<u>138</u>	<u>129</u>
Trade payables	3,725	2,359	2,258	1,375
Other payables	7,971	6,623	4,541	5,363
Current tax payable	208	211	--	--
Warranty provision	359	306	250	219
Total current liabilities	<u>12,263</u>	<u>9,499</u>	<u>7,049</u>	<u>6,957</u>
Total liabilities	<u>12,407</u>	<u>9,637</u>	<u>7,187</u>	<u>7,086</u>
Total equity and liabilities	<u>91,720</u>	<u>81,168</u>	<u>86,500</u>	<u>78,617</u>

* No par value

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

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

Zero borrowings from banks as at December 31, 2016 and 2015.

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

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

	<u>Group</u>	
	<u>Year ended</u>	
	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Profit for the year	17,980	3,587
Adjustments for:		
Share-based payment expenses	1,598	1,329
Income tax expense	3,985	1,715
Depreciation of property, plant and equipment	2,313	2,148
Amortisation of intangible assets	1,547	1,892
Net finance (income) expense	(755)	197
Changes in working capital		
Inventories	1,199	251
Trade receivables	(5,618)	2,149
Other receivables	(1,028)	(207)
Trade payables	1,366	(479)
Other liabilities	1,308	(2,457)
Employee benefits	6	(21)
Income tax paid, net	(1,710)	(3,617)
Net cash from operating activities	<u>22,191</u>	<u>6,487</u>
Cash flows (used in) from investing activities		
Acquisition of property, plant and equipment	(4,337)	(3,497)
Acquisition of intellectual property	--	(3,000)
Acquisition of activity	(1,210)	--
Short-term investments, net	(5,222)	11,847
Interest received	244	210
Net cash (used in) from investing activities	<u>(10,525)</u>	<u>5,560</u>
Cash flows used in financing activities		
Proceeds from exercise of share options	688	855
Purchase of Company's shares by the Company	(47)	(1,333)
Dividend paid	(12,248)	(12,216)
Interest paid	--	(390)
Net cash used in financing activities	<u>(11,607)</u>	<u>(13,084)</u>
Net increase (decrease) in cash and cash equivalents	<u>59</u>	<u>(1,037)</u>
Cash and cash equivalents at beginning of the period	<u>19,298</u>	<u>20,352</u>
Exchange rate differences	<u>110</u>	<u>(17)</u>
Cash and cash equivalents at end of the period	<u>19,467</u>	<u>19,298</u>

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

Statement of Changes in Shareholders' Equity

Group (US\$'000)

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

* No par value

Statement of Changes in Shareholders' Equity

Company (US\$'000)

	Share capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2015						
before retrospective application of						
amended IAS 27**	--	25,201	(1,391)	28,515	(1,033)	51,292
Effect of retrospective application IAS 27**	--	--	--	28,339	--	28,339
Revised balance at January 1, 2015**	--	25,201	(1,391)	56,854	(1,033)	79,631
 Profit for the year ended						
December31, 2015, as reported	--	--	--	20,876	--	20,876
Effect of retrospective application IAS 27**	--	--	--	(17,289)	--	(17,289)
	--	--	--	3,587	--	3,587
 Other comprehensive income (loss) for						
the year ended December31, 2015	--	17	(339)	--	--	(322)
 Share-based payment expenses	--	1,329	--	--	--	1,329
 Exercise of options	--	855	--	--	--	855
 Dormant shares, acquired at cost (993,100)	--	--	--	--	(1,333)	(1,333)
 Dividend paid	--	--	--	(12,216)	--	(12,216)
 Balance at December31, 2015 after						
retrospective application**	--	27,402	(1,730)	48,225	(2,366)	71,531
 Balance at January 1, 2016	--	27,402	(1,730)	48,225	(2,366)	71,531
 Profit for the year ended December31, 2016	--	--	--	17,980	--	17,980
 Other comprehensive loss for						
the year ended December 31, 2016	--	--	(189)	--	--	(189)
 Share-based payment expenses	--	1,598	--	--	--	1,598
 Exercise of options	--	688	--	--	--	688
 Dormant shares, acquired at cost (40,000)	--	--	--	--	(47)	(47)
 Dividend paid	--	--	--	(12,248)	--	(12,248)
 Balance at December 31, 2016	--	29,688	(1,919)	53,957	(2,413)	79,313

* No par value

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

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

	December 31, 2016	September 30, 2016	December 31, 2015
	No. of shares	No. of shares	No. of shares
Authorised:			
Ordinary shares of no par value	2,000,000,000	2,000,000,000	2,000,000,000
Issued and fully paid:			
Ordinary shares of no par value	351,916,813	351,829,313	350,568,823
Dormant shares (out of the issued and fully paid share capital):			
Ordinary shares of no par value	1,623,100	1,583,100	1,583,100
Total number of issued shares (excluding dormant shares)	350,293,713	350,246,213	348,985,723

For the three months ended December 31, 2016, 87,500 share options were exercised into ordinary shares. For the three months ended December 31, 2016, the Company purchased 40,000 of its ordinary shares at an aggregate cost of US\$ 47,000.

In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares (treasury shares in Singaporean terms) as long as they are held by the Company, and as such they do not bear any rights until they are transferred to a third party. The issued and fully paid shares as at December 31, 2016, September 30, 2016 and December 31, 2015 included 1,623,100, 1,583,100 and 1,583,100 dormant shares, respectively.

Details of changes in share options:

	Average exercise price in US\$ per share	Options
At January 1, 2016	1.129	11,248,399
Granted	1.085	10,120,000
Cancelled	1.297	(639,029)
Exercised	0.512	(1,347,990)
At December 31, 2016	1.106	19,381,380

At December 31, 2016, the average exercise price in Singapore dollars per share was S\$ 1.599, based on an exchange rate of US\$ 1 = S\$ 1.4463.

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

As at December 31, 2016, the total number of issued shares excluding dormant shares was 350,293,713 (as at December 31, 2015- 348,985,723). As at December 31, 2016, the total number of dormant shares was 1,623,100 (as at December 31, 2015- 1,583,100).

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

For the three months and year ended December 31, 2016, the Company purchased 40,000 of its ordinary shares, and there was no sale, transfer, disposal, cancellation and/or use of treasury shares by the Company.

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

These figures have not been audited or reviewed.

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

Not applicable.

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

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended December 31, 2015 have been applied in the preparation for the financial statements for year ended December 31, 2016, except for the adoption of an Amendment to IAS 27: Equity Method in Separate Financial Statements.

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

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

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

	For the Quarter ended December 31,		For the year ended December 31,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>US cents</u>				
Basic earnings per share	1.42	0.42	5.14	1.03
Diluted earnings per share	1.42	0.42	5.14	1.02
<u>Singapore cents*</u>				
Basic earnings per share	2.05	0.61	7.43	1.49
Diluted earnings per share	2.05	0.61	7.43	1.48

Basic earnings per share for the three months ended December 31, 2016 are calculated based on the weighted average number of 350,248,360 ordinary shares issued during the current period and the equivalent of 348,979,609 ordinary shares during the preceding period.

Diluted earnings per share for the three month ended December 31, 2016 are calculated based on the weighted average number of 350,299,794 ordinary shares and outstanding options and the equivalent of 348,983,768 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the year ended December 31, 2016 are calculated based on the weighted average number of 349,730,002 ordinary shares issued during the current period and the equivalent of 348,889,726 ordinary shares during the preceding period.

Diluted earnings per share for the year ended December 31, 2016 are calculated based on weighted average number of 350,066,574 ordinary shares and outstanding options and the equivalent of 350,431,581 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US\$ 1= S\$ 1.4463 at December 31, 2016.

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

	Group		Company**	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net asset value (US\$ thousands)	79,313	71,531	79,313	71,531
Net asset value per ordinary share (US cents)	22.64	20.50	22.64	20.50
Net asset value per ordinary share (Singapore cents*)	32.75	29.64	32.75	29.64

At December 31, 2016, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2016 of 350,293,713 (not including 1,623,100 dormant ordinary shares at December 31, 2016). At December 31, 2015, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2015 of 348,985,723 (not including 1,583,100 dormant ordinary shares at December 31, 2015).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.4463 at December 31, 2016.

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

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

Overview

The Group's revenues and operating performance showed significant improvement throughout 2016, and was further manifested in Q4 2016 with record revenues for our fourth quarter.

For the year ended December 31, 2016, the Group reported revenues of US\$ 72.5 million, profit from operations of US\$ 21.2 million, and net profit of US\$ 18.0 million, as compared to revenues of US\$ 48.5 million, profit from operations of US\$ 5.5 million, and net profit of US\$ 3.6 million for the year ended December 31, 2015. The Group reported revenues in Q4 2016 of US\$ 18.9 million, profit from operations of US\$ 6.3 million and net profit of US\$ 5.0 million, as compared to revenues of US\$ 12.4 million, profit from operations of US\$ 2.0 million and net profit of US\$ 1.5 million reported in Q4 2015, and as compared to revenues in Q3 2016 of US\$ 17.3 million, profit from operations of US\$ 4.5 million, and net profit of US\$ 4.0 million.

The ongoing improvement in our business throughout 2016, as further elaborated on in section 10, was primarily due to increased diamond manufacturing equipment sales, including Galaxy™ family systems, as well as due to increased recurring revenues.

Following the challenging FY2015, the Group benefited in FY2016 from positive macroeconomics, continued positive and renewed consumer demand for polished diamonds in key markets, a robust supply of rough diamonds at economically viable prices and no inventory overhang.

The Group delivered a record 84 Galaxy™ family systems in 2016. With record quarterly deliveries in Q4 2016 of 24 Galaxy™ family systems, all to customers, comprising 15 of the new Meteor™ small stone machines, seven Solaris™ machines, one Galaxy™ and one Galaxy™ Ultra system, the Group had an installed base of 299 Galaxy™ family systems as of December 31, 2016. Overall recurring revenues for FY 2016 (including Galaxy™-related, Quazer services, annual maintenance contracts, etc.) represented about 40% of our overall revenue. Overall revenues from our new polished diamond line of products and services,

the Sarine Profile and its various components (Sarine Light, Sarine Loupe, Sarine Connect, etc.), hereafter referred to as Trade revenues, represented about 2% of our overall revenue for FY2016.

Balance Sheet and Cash Flow Highlights

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

Revenues

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

2016 versus 2015				
Region	2016	2015	\$ change	% change
India	57,063	34,217	22,846	66.8
Africa	2,420	2,234	186	8.3
Europe	2,459	2,280	179	7.9
North America	1,586	1,370	216	15.8
Israel	4,016	3,480	536	15.4
Other*	4,980	4,872	108	2.2
Total	72,524	48,453	24,071	49.7

Q4 2016 versus Q3 2016				
Region	Q4 2016	Q3 2016	\$ change	% change
India	15,223	12,805	2,418	18.9
Africa	627	764	(137)	(17.9)
Europe	594	957	(363)	(37.9)
North America	251	300	(49)	(16.3)
Israel	912	877	35	4.0
Other*	1,310	1,547	(237)	(15.3)
Total	18,917	17,250	1,667	9.7

Q4 2016 versus Q4 2015				
Region	Q4 2016	Q4 2015	\$ change	% change
India	15,223	8,818	6,405	72.6
Africa	627	558	69	12.4
Europe	594	399	195	48.9
North America	251	260	(9)	(3.5)
Israel	912	1,079	(167)	(15.5)
Other*	1,310	1,283	27	2.1
Total	18,917	12,397	6,520	52.6

*primarily Asia, excluding India

The Group reported revenues for the year ended December 31, 2016 of US\$ 72.5 million, as compared to revenues of US\$ 48.5 million for the year ended December 31, 2015. The Group reported revenues in Q4 2016 of US\$ 18.9 million, as compared to revenues of US\$ 12.4 million in Q4 2015, and as compared to

revenues in Q3 2016 of US\$ 17.3 million. The increase in revenues on a year-over-year basis in all geographies, but mainly in India, was primarily due to increased diamond manufacturing equipment sales, including Galaxy™ family systems, as well as due to increased recurring revenues, as noted above. Year-over-year sales in FY2016 of capital equipment increased by approximately 150%, while recurring revenues also increased by some 50%, as compared to FY2015. On a quarterly sequential basis, the increase in revenue was primarily due to higher diamond manufacturing equipment sales, offset somewhat by lower recurring revenues, which resulted, characteristically of Q4, from the Diwali holiday in India.

Cost of sales and gross profit

Cost of sales for the year ended December 31, 2016 increased to US\$ 22.2 million, versus US\$ 15.9 million for the year ended December 31, 2015, with gross profit margins of 69% in 2016 versus 67% in 2015. Cost of sales in Q4 2016 increased to US\$ 5.3 million, as compared to US\$ 4.3 million in Q4 2015, with a gross profit margin of 72% in Q4 2016 versus 65% in Q4 2015. The increase in cost of sales on a year-over-year basis, and the increased gross profit margin was primarily due to significantly higher sales volumes in FY2016 as compared to FY2015. On a sequential basis, cost of sales decreased in Q4 2016 to US\$ 5.3 million, as compared to US\$ 5.4 million in Q3 2016, with a gross profit margin of 72% in Q4 2016 versus 69% in Q3 2016. The decrease in cost of sales on a sequential basis, and the improved gross profit margin, was primarily due to higher sales volumes and product mix.

Research and development expenses

Research and development expenses for the year ended December 31, 2016 were US\$ 10.8 million as compared to US\$ 10.6 million for the year ended December 31, 2015. Research and development expenses for Q4 2016 were US\$ 2.7 million, as compared to US\$ 2.5 million in Q4 2015 and US\$ 2.8 million in Q3 2016. Research and development expenses for FY2016 and for Q4 2016 increased on a year-over-year basis primarily on higher employee-related expenses, mainly higher incentive-based compensation expenses. Research and development expenses in Q4 2016 decreased minimally on a sequential basis as compared to Q3 2016, primarily due to lower outsourcing-related expenses. The Group continues to focus its research and development expenditures on the development of future growth products and services, primarily as related to its new Trade offerings, as expanded upon in Section 10.

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2016 were US\$ 13.6 million as compared to US\$ 12.6 million for the year ended December 31, 2015. Sales and marketing expenses for Q4 2016 were US\$ 3.5 million, as compared to US\$ 2.7 million in Q4 2015 and US\$ 3.3 million in Q3 2016. The increase in sales and marketing expenses on a year-over-basis was primarily due to higher incentive-based compensation, higher sales commissions, increased marketing expenses and the absence of a reversal of certain miscellaneous accruals in the comparable period last year. The sequential increase in sales and marketing expenses for Q4 2016 as compared to Q3 2016 was primarily due to higher incentive-based compensation and sales commissions.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2016 were US\$ 4.7 million as compared to US\$ 3.9 million for the year ended December 31, 2015. General and administrative expenses for Q4 2016 were US\$ 1.1 million, as compared to US\$ 0.8 million in Q4 2015 and US\$ 1.1 million in Q3 2016. The increase in general and administrative expenses on a year-over year basis was due to higher incentive-based compensation and increased third-party professional fees. The sequential increase in quarterly general and administrative expenses for Q4 2016 was primarily due to increased third-party professional fees.

Profit from operations

Profit from operations for the year ended December 31, 2016 was US\$ 21.2 million as compared to US\$ 5.5 million for the year ended December 31, 2015. Profit from operations for Q4 2016 was US\$ 6.3 million as compared to US\$ 2.0 million in Q4 2015 and US\$ 4.5 million in Q3 2016. The increase in profit from operations on a year-over-year and sequential bases was primarily due to increased revenues, as detailed above.

Net finance income (expense)

Net finance income for the year ended December 31, 2016 was US\$ 0.8 million versus an expense of US\$ 0.2 million for the year ended December 31, 2015. Net finance expense for Q4 2016 was US\$ 2 thousand as compared to an expense of US\$ 43 thousand in Q4 2015. Net finance income in FY 2016 included a reversal of US\$ 0.4 million in interest charges relating to prior period tax assessments under dispute in India.

Income tax expense

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

Income tax expense was US\$ 4.0 million for the year ended December 31, 2016 versus US\$ 1.7 million for the year ended December 31, 2015. Income tax expense was US\$ 1.3 million for Q4 2016 as compared to an expense of US\$ 0.5 million for Q4 2015 and US\$ 0.9 million in Q3 2016. The increase in income tax expense was primarily due to higher pre-tax profitability, as discussed above, and was also due to the write down of certain deferred tax assets.

Profit for the period

Net profit for the year ended December 31, 2016 was US\$ 18.0 million as compared to US\$ 3.6 million for the year ended December 31, 2015. Net profit for Q4 2016 was US\$ 5.0 million as compared to US\$ 1.5 million in Q4 2015 and US\$ 4.0 million in Q3 2016. The increase in net profit on a year-over-year and sequential bases was primarily due to increased revenues, as detailed above.

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

Not applicable.

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

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

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

sentiment is overall optimistic and positive in China as in the U.S. In other key APAC markets sales remain on a positive track.

- c. During the fourth quarter of the year rough diamond sales continued to show a marked recovery over 2015, as pricing remained stable (for both rough and polished diamonds) and no inventory issues hampered sales, even as sights continued, as in the third quarter, to realise volumes less than those in the first six months of the year. De Beers' first sight for 2017 was in excess of US\$ 720 million, almost a third higher than at the corresponding sight in 2016. The second sight for the year ended just Friday of last week, with formal data not yet available. We believe, based on preliminary anecdotal information, that the sight was in line with January's sight, both as far as quantities sold and the prices at which they were sold, which would further indicate an overall positive industry sentiment. We expect rough diamond sales and the consequent polishing activity to continue similarly for the rest of the year, as there are no significant negatives impairing profitability throughout the diamond industry value chain.
- d. There are no known polished diamond inventory issues of substance at this time.
- e. The trends noted above, positive macroeconomics, continued positive consumer demand for polished diamonds in key markets, a robust supply of rough diamonds at favourable prices and no inventory overhang, should underpin continued healthy industry activity in 2017, and, by extension, Group sales. Incidentally, we have had no substantial negative impact from India's demonetization program, as evidenced by our record fourth quarter.
- f. With deliveries in Q4 2016 of a new record 24 GalaxyTM family systems to customers, comprising 15 MeteorTM systems, 7 SolarisTM systems, one GalaxyTM and one GalaxyTM Ultra system, the Group had an installed base of 299 GalaxyTM family systems as of 31 December 2016. We delivered a record 84 systems in 2016, but looking forward to 2017 we do not necessarily expect that record to be replicated (or broken). Some of the demand may have come from our launch of the MeteorTM under attractive introductory terms, which are no longer offered. Additionally, as of 1 January 2017 we have also updated our pricing of the various models' ongoing use fees, and, as to be expected, this has slowed new orders in the short term, as the market adapts to our new terms.
- g. We are bolstering our enforcement of our intellectual property (IP) rights to preclude unauthorised use of our inclusion mapping technology. We intend to seek remedies against those who illegally compete with us by violating our IP rights, by making, selling, renting, buying, using or using the output from infringing products and pirated software. In particular, but not only, with respect to the operator in India, who, as reported upon in our Q1 2016 announcement of 8 May 2016, was and is suspected to be operating (and now is attempting to sell) a number of devices, which we believe are infringing upon the core patented (including in India) processes of our inclusion mapping. We shall leverage the patent granted us in India, as well as the inherent copyright of the AdvisorTM planning software, which without infringing upon said copyright (a criminal offense in India) the inclusion mapping results cannot be input into the planning process, to protect our IP aggressively.
- h. Sales programs utilising Sarine ProfileTM by retailers in the U.S and the Asia Pacific (APAC) region continue to expand. Programs with retailers in the U.S. are gaining momentum slower than those in the APAC region, due to various reasons including the average quality of stones sold and other corporate and consumer cultural issues. Notwithstanding this, we are seeing a significant growth in interest in the Sarine ProfileTM compared to a year ago, with growing momentum both with large regional and national chains and high-end independents. We hope to double the number of stones scanned for the Sarine ProfileTM in 2017 and expect its contribution to overall Group sales to be around 5%.
- i. Our new technology for the automated, objective and consistent mapping and identification of a polished diamond's inclusions and the subsequent derivation of its Clarity grade continues in large-scale testing in India, and is on track for commercialisation in Q3 2017. Likewise for the Color grading technology, which is in parallel testing. We are considering various commercialisation avenues based on a recurring revenue model per carat weight of each stone graded. Typical customers could be existing players in this domain – gemmological laboratories, large chain retailers with existing in-house gem labs, large manufacturers who already prefer self-certification, etc.
- j. The AllegroTM system has demonstrated yield benefits for both high-end sophisticated manufacturers and lower-end manufacturing of standard sized stones, where the emphasis is more on accurate dimensions

with maximal weight and less on perfection. However, given the significantly longer processing time required by the Allegro™ and the hands-on approach preferred by many cutters, market potential is still an issue. We have decided to de-emphasise this program in 2017 and focus on our new polished diamond offerings, Clarity and Color grading, as detailed above, which have more immediate upside potential for the Group.

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

- **Polished diamond oriented systems:**
 - Expansion of our operational infrastructure for Sarine Profile™;
 - Continued enhancement of Sarine Profile™ in order to provide additional capabilities for customer programs, as required, mainly additional shapes – current work continues on less ubiquitous shapes, such as Ovals, Pears, Marquises and Hearts.
 - Integration of the recently acquired Sarine Connect™ (previously known as DiaMining) technology to enhance Sarine Profile™ with mobile device capabilities, as well as virtual inventory functionalities, while also augmenting Sarine Connect™'s interface with more retail-oriented features.
 - Enhancement of Sarine Profile™ to support the display of jewellery pieces and not just loose polished diamonds. As retail businesses display set jewellery by far more often than loose stones, this will significantly broaden the appeal and applicability of Sarine Profile™.
 - Development of the software infrastructure for the Clarity and Color grading capabilities in testing, including process management, data security, etc.
- **Manufacturing products:** Overall ongoing improvements to our Advisor™ rough planning software continue to enhance its capabilities and productivity along with refined IP protection. We have completed development of the ability to predict the planned polished diamond's light performance during its planning stage. We are now working on the capability to plan a polished diamond to meet desired light performance grades in general (e.g., Ultimate) or specific grades of specific sub-parameters of light performance (e.g., Ultimate Fire). Completion of the integration of these new capabilities with Advisor™ and our faceting quality control software (Instructor™), so as to allow manufacturers to incorporate light performance into their manufacturing criteria and develop enhanced Cuts based on light performance as well as proportions and symmetry, will be released in Advisor™ 7.0, scheduled for mid-2017.
- **Non-diamond gemstones:** Possibly work on increasing the Allegro's throughput, so as to increase its market viability, as a back-burner endeavour.

11. Dividend

(a) Current Financial Period Reported

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

On 26 February 2017, the Board of Directors recommended the Annual General Meeting approve a final dividend of US 2.5 cents per ordinary share for the full year ended 31 December 2016, comprising the regular six month dividend of US 2.0 cents per ordinary share and a bonus dividend of US 0.5 cent per ordinary share.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

On 28 February 2016, the Board of Directors recommended the Annual General Meeting approve a final dividend of US 1.5 cents per ordinary share for the full year ended 31 December 2015.

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

	<u>Amount before tax US\$'000</u>	<u>Tax rate applicable to shareholders %</u>
2016	8,757	20%/0% ¹ / 10% ^{2,3}
2015	5,244	20%/10% ¹ / 10% ²

¹ The tax rate will be 20% (20% in 2015) for individual Israeli shareholders and 0% (0% in 2015) for Israeli corporate shareholders.

² The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2015).

³ Commencing with payments made in 2017, payment to shareholders of dividends distributed by the Company will be subject to a tax deduction at source at the rate of 20%, in compliance with Israeli tax directives. Tax amounts deducted from dividend payments will be deposited with a trustee. A shareholder claiming eligibility for preferential tax treatment on dividend payments pursuant to Israeli tax laws or international tax treaties may apply to the trustee within 30 days of the distribution date providing all necessary details and documents, for reimbursement of excess deduction, subject to verification of such eligibility. Further details regarding the application procedure shall be provided by the Company shortly.

(d) Date Payable

	<u>Amount US\$'000</u>
11 May 2017***	8,757
13 May 2016	5,244

(e) Books Closure Date

5:00 PM on:

	<u>Amount US\$'000</u>
03 May 2017***	8,757
29 April 2016***	5,244

***Pending Annual General Meeting Approval

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

Not applicable.

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

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

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

Not applicable.

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

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

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

	<u>India</u>	<u>Africa</u>	<u>Europe</u>	<u>North America</u>	<u>Israel</u>	<u>Others</u>	<u>Consolidated</u>
	<u>2016</u>						
	<u>US\$'000</u>						
External revenues	<u>57,063</u>	<u>2,420</u>	<u>2,459</u>	<u>1,586</u>	<u>4,016</u>	<u>4,980</u>	<u>72,524</u>
Unallocated expenses							<u>51,314</u>
Profit from operations							21,210
Net finance income							755
Income tax expense							<u>(3,985)</u>
Profit for the year							<u>17,980</u>

	<u>India</u>	<u>Africa</u>	<u>Europe</u>	<u>North America</u>	<u>Israel</u>	<u>Others</u>	<u>Consolidated</u>
	<u>2015</u>						
	<u>US\$'000</u>						
External revenues	<u>34,217</u>	<u>2,234</u>	<u>2,280</u>	<u>1,370</u>	<u>3,480</u>	<u>4,872</u>	<u>48,453</u>
Unallocated expenses							<u>42,954</u>
Profit from operations							5,499
Net finance expense							(197)
Income tax expense							<u>(1,715)</u>
Profit for the year							<u>3,587</u>

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

See section 8 above.

17. Breakdown of sales.

	2016 <u>US\$'000</u>	2015 <u>US\$'000</u>
Revenue reported for:		
First half-year ended 30 June	36,357	26,577
Second half-year ended 31 December	36,167	21,876
	<u>72,524</u>	<u>48,453</u>
Profit for the period:		
First half-year ended 30 June	9,004	3,550
Second half-year ended 31 December	8,976	37
	<u>17,980</u>	<u>3,587</u>

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

	<u>Latest Full Year</u> <u>US\$'000</u>	<u>Previous Full Year</u> <u>US\$'000</u>
Ordinary	15,761*	10,478

*Pending Annual General Meeting Approval.

19. Interested Person Transactions

The Company confirms that, during the year ended December 31, 2016, there was no person occupying any managerial position in the Company or any of its subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the Company.

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

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

On behalf of the Directors

Daniel Benjamin Glinert
Executive Chairman

Uzi Levami
Executive Director and CEO

Eyal Mashiah
Executive Director

26 February 2017