

Sarine Technologies Ltd.
and its Subsidiaries
(Incorporated in Israel)

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

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

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

	Group		
	Quarter ended		
	March 31,		
	2016	2015	Change
			%
Revenue	15,487	12,156	27.4
Cost of sales	5,023	4,148	21.1
Gross profit	10,464	8,008	30.7
Research and development expenses	2,552	2,676	(4.6)
Sales and marketing expenses	3,110	3,213	(3.2)
General and administrative expenses	1,118	1,313	(14.9)
Profit from operations	3,684	806	357.1
Net finance income/(expense)	146	(27)	NM
Profit before income tax	3,830	779	391.7
Income tax (expense)/income	868	(92)	NM
Profit for the period	2,962	871	240.1
Foreign currency translation differences from foreign operations	6	76	(92.1)
Total comprehensive income for the period	2,968	947	213.4

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

Profit before income tax is stated after charging the following:

	Group		
	Quarter ended		
	March 31,		
	2016	2015	Change
			%
Allowance (write back) for doubtful trade receivables	20	(11)	NM
Depreciation and amortization	937	1,269	(26.2)
Interest income, net	104	23	352.2
Exchange rate differences	42	(50)	NM
Warranty provision	9	(62)	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>March 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>March 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Assets				
Property, plant and equipment	12,389	12,413	1,636	1,689
Intangible assets	7,436	7,812	--	--
Investment in equity accounted investee and subsidiaries	--	--	51,610	47,141**
Deferred tax assets	3,185	3,157	1,427	1,423
Total non-current assets	<u>23,010</u>	<u>23,382</u>	<u>54,673</u>	<u>50,253</u>
Inventories	8,951	10,146	6,117	6,673
Trade receivables	13,698	11,337	3,751	3,164
Other receivables	2,906	3,707	1,890	1,727
Short-term investments (bank deposits)	7,326	13,298	3,010	7,532
Cash and cash equivalents	29,205	19,298	12,893	9,268
Total current assets	<u>62,086</u>	<u>57,786</u>	<u>27,661</u>	<u>28,364</u>
Total assets	<u>85,096</u>	<u>81,168</u>	<u>82,334</u>	<u>78,617</u>
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(2,366)	(2,366)	(2,366)	(2,366)
Share premium, reserves and retained earnings	77,686	73,897	77,686	73,897**
Total equity	<u>75,320</u>	<u>71,531</u>	<u>75,320</u>	<u>71,531</u>
Liabilities				
Employee benefits	143	138	134	129
Total non-current liabilities	<u>143</u>	<u>138</u>	<u>134</u>	<u>129</u>
Trade payables	2,732	2,359	1,805	1,375
Other payables	6,510	6,623	4,853	5,363
Current tax payable	76	211	--	--
Warranty provision	315	306	222	219
Total current liabilities	<u>9,633</u>	<u>9,499</u>	<u>6,880</u>	<u>6,957</u>
Total liabilities	<u>9,776</u>	<u>9,637</u>	<u>7,014</u>	<u>7,086</u>
Total equity and liabilities	<u>85,096</u>	<u>81,168</u>	<u>82,334</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 March 31, 2016 and December 31, 2015.

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

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

	Group	
	Quarter ended	
	March 31,	
	2016	2015
Cash flows from operating activities		
Profit for the period	2,962	871
Adjustments for:		
Share-based payment expenses	397	720
Income tax expense/(income)	868	(92)
Depreciation of property, plant and equipment	561	505
Amortisation of intangible assets	376	764
Net finance (income)/expense	(146)	27
Changes in working capital		
Inventories	1,311	(842)
Trade receivables	(2,361)	3,810
Other receivables	(540)	29
Trade payables	373	(664)
Other liabilities	(96)	(1,216)
Employee benefits	5	(3)
Income tax received (paid), net	310	(2,412)
Net cash from operating activities	4,020	1,497
Cash flows from (used in) investing activities		
Acquisition of property, plant and equipment	(655)	(310)
Short-term investments, net	5,972	(102)
Interest received	104	60
Net cash from (used in) investing activities	5,421	(352)
Cash flows from financing activities		
Proceeds from exercise of share options	424	620
Interest paid	--	(37)
Net cash from financing activities	424	583
Net increase in cash and cash equivalents	9,865	1,728
Cash and cash equivalents at beginning of the period	19,298	20,352
Exchange rate differences	42	(50)
Cash and cash equivalents at end of the period	29,205	22,030

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

Statement of Changes in Shareholders' Equity

Group (US\$'000)

	Share capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2015	--	25,201	(1,391)	56,854	(1,033)	79,631
Profit for the period ended March 31, 2015	--	--	--	871	--	871
Other comprehensive income for the period ended March 31, 2015	--	--	76	--	--	76
Share-based payment expenses	--	720	--	--	--	720
Exercise of options	--	620	--	--	--	620
Balance at March 31, 2015	--	26,541	(1,315)	57,725	(1,033)	81,918
Balance at January 1, 2016	--	27,402	(1,730)	48,225	(2,366)	71,531
Profit for the period ended March 31, 2016	--	--	--	2,962	--	2,962
Other comprehensive income for the period ended March 31, 2016	--	--	6	--	--	6
Share-based payment expenses	--	397	--	--	--	397
Exercise of options	--	424	--	--	--	424
Balance at March 31, 2016	--	28,223	(1,724)	51,187	(2,366)	75,320

* No par value

Statement of Changes in Shareholders' Equity

Company (US\$'000)

	Share capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2015 before retrospective application of amended IAS 27**	--	25,201	(1,391)	28,515	(1,033)	51,292
Effect of retrospective application IAS 27**	--	--	--	28,339	--	28,339
Revised balance at January 1, 2015**	--	25,201	(1,391)	56,854	(1,033)	79,631
Profit for the period ended March 31, 2015, as reported	--	--	--	18,524	--	18,524
Effect of retrospective application IAS 27**	--	--	--	(17,653)	--	(17,653)
	--	--	--	871	--	871
Other comprehensive income for the period ended March 31, 2015	--	--	76	--	--	76
Share-based payment expenses	--	720	--	--	--	720
Exercise of options	--	620	--	--	--	620
Balance at March 31, 2015 after retrospective application**	--	26,541	(1,315)	57,725	(1,033)	81,918
Balance at January 1, 2016 before retrospective application of amended IAS 27**	--	27,402	(1,730)	37,175	(2,366)	60,481
Effect of retrospective application IAS 27**	--	--	--	11,050	--	11,050
Revised balance at January 1, 2016**	--	27,402	(1,730)	48,225	(2,366)	71,531
Profit for the period ended March 31, 2016	--	--	--	2,962	--	2,962
Other comprehensive income for the period ended March 31, 2016	--	--	6	--	--	6
Share-based payment expenses	--	397	--	--	--	397
Exercise of options	--	424	--	--	--	424
Balance at March 31, 2016 after retrospective application**	--	28,223	(1,724)	51,187	(2,366)	75,320

* 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.

	March 31, 2016	December 31, 2015	March 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	351,169,691	350,568,823	349,873,512
Dormant shares (out of the issued and fully paid share capital):			
Ordinary shares of no par value	1,583,100	1,583,100	590,000
Total number of issued shares (excluding dormant shares)	349,586,591	348,985,723	349,283,512

For the three months ended March 31, 2016, 600,868 share options were exercised into ordinary shares. For the three months ended March 31, 2016, the Company did not purchase any of its ordinary shares.

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

Details of changes in share options:

	Average exercise price in US\$ per share	Options
At January 1, 2016	1.129	11,248,399
Granted	0.974	6,080,000
Cancelled	1.300	(209,029)
Exercised	0.705	(600,868)
At March 31, 2016	1.134	16,518,502

At March 31, 2016, the average exercise price in Singapore dollars per share was S\$ 1.532, based on an exchange rate of US\$ 1 = S\$ 1.3511.

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 March 31, 2016, the total number of issued shares excluding dormant shares was 349,586,591 (as at December 31, 2015- 348,985,723). As at March 31, 2016, the total number of dormant shares was 1,583,100 (as at December 31, 2015- 1,583,100).

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

For the three months ended March 31, 2016, the Company did not purchase any of its ordinary shares and there was no sale, transfer, disposal, cancellation and/or use of treasury shares by the Company.

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

These figures have not been audited or reviewed.

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

Not applicable.

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

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended December 31, 2015 have been applied in the preparation for the financial statements for period ended March 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 March 31,	
	2016	2015
<u>US cents</u>		
Basic earnings per share	0.85	0.25
Diluted earnings per share	0.85	0.25
<u>Singapore cents*</u>		
Basic earnings per share	1.15	0.34
Diluted earnings per share	1.15	0.34

Basic earnings per share for the three months ended March 31, 2016 are calculated based on the weighted average number of 349,080,198 ordinary shares issued during the current period and the equivalent of 348,451,622 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended March 31, 2016 are calculated based on the weighted average number of 349,278,620 ordinary shares and outstanding options and the equivalent of 353,845,564 ordinary shares and outstanding options during the preceding period.

* Convenience translation based on exchange rate of US\$ 1=SG\$ 1.3511 at March 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:
- current financial period reported on; and
 - immediately preceding financial year.

	Group		Company**	
	<u>March 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>March 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Net asset value (US\$ thousands)	75,320	71,531	75,320	71,531
Net asset value per ordinary share (US cents)	21.55	20.50	21.55	20.50
Net asset value per ordinary share (Singapore cents*)	29.11	27.69	29.11	27.69

At March 31, 2016, net asset value per share is calculated based on the number of ordinary shares in issue at March 31, 2016 of 349,586,591 (not including 1,583,100 dormant ordinary shares at March 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\$ 1.3511 at March 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:-
- 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
 - 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 continued improvement in Q1 2016 following the improvement already manifested late in 2015, essentially after the Indian Diwali holiday in November. The Group reported in Q1 2016 revenues of US\$ 15.5 million, profit from operations of US\$ 3.7 million, and net profit of US\$ 3.0 million, as compared to revenues in Q1 2015 of US\$ 12.2 million, profit from operations of US\$ 0.8 million and net profit of US\$ 0.9 million, and as compared to revenues in Q4 2015 of US\$ 12.4 million, profit from operations of US\$ 2.0 million and net profit of US\$ 1.5 million.

The continued improvement in our business on both year-over-year and sequential bases, as elaborated on in section 10, was primarily due to more positive sentiment in the midstream of the diamond industry driven by:

- renewed manufacturer profitability and margins following increased sales and prices of polished diamond jewellery (both up in U.S, 5%- y-o-y) and lower rough diamond prices (down 20% – 25% y-o-y);
- increased or stable consumer demand from most markets except Hong Kong;
- the downstream need to replenish depleted inventories of polished diamonds; and
- improved midstream liquidity following the 2015 destocking.

With deliveries in Q1 2016 of 18 GalaxyTM family systems to customers, comprising ten of the new MeteorTM small stone machines, four SolarisTM machines and four GalaxyTM and GalaxyTM Ultra systems, the Group had an installed base of 233 GalaxyTM family systems as of March 31, 2016. Overall recurring revenues for Q1 2016 (including GalaxyTM-related, Quazer services, annual maintenance contracts, etc.) represented over 40% of our overall revenue. Our recurring revenues saw an approximate 30% sequential increase over Q4 2015.

Balance Sheet and Cash Flow Highlights

As at March 31, 2016, cash and cash equivalents and short-term investments (bank deposits) (“Cash Balances”) increased to US\$ 36.5 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 and lower inventory levels, offset somewhat by higher trade receivables (on credit to certain customers and higher recurring revenues).

Revenues

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

Q1 2016 versus Q1 2015				
Region	2016	2015	\$ change	% change
India	12,246	8,837	3,409	38.6
Africa	563	437	126	28.8
Europe	476	771	(295)	(38.3)
North America	424	287	137	47.7
Israel	1,058	817	241	29.5
Other*	720	1,007	(287)	(28.5)
Total	15,487	12,156	3,331	27.4

Q1 2016 versus Q4 2015				
Region	Q1 2016	Q4 2015	\$ change	% change
India	12,246	8,818	3,428	38.9
Africa	563	558	5	0.9
Europe	476	399	77	19.3
North America	424	260	164	63.1
Israel	1,058	1,079	(21)	(1.9)
Other*	720	1,283	(563)	(43.9)
Total	15,487	12,397	3,090	24.9

*primarily Asia, excluding India

The Group reported increased revenues in Q1 2016 of US\$ 15.5 million as compared to revenues of US\$ 12.2 million reported in Q1 2015 and US\$ 12.4 million in Q4 2015. The increase in revenues on a year-over-year basis was primarily due to an approximate 50% increase in diamond manufacturing equipment sales, primarily Galaxy™ family systems, especially in India. The increase in revenues on a sequential basis was primarily due to increased diamond manufacturing equipment sales of approximately 20% as well as to an approximate 30% sequential increase in recurring revenues, as noted above.

Cost of sales and gross profit

Cost of sales for Q1 2016 increased to US\$ 5.0 million as compared to US\$ 4.1 million for Q1 2015 and US\$ 4.3 million in Q4 2015, with gross profit margins of 68% in Q1 2016 versus 66% in both Q1 2015 and Q4 2015. The increase in the cost of sales was due primarily to higher sales volumes in Q1 2016. Gross margins benefitted from the higher sales volumes, albeit Q1 2015 included the final US\$ 0.5 million of the Galatea acquisition amortisation.

Research and development expenses

Research and development expenses for Q1 2016 decreased to US\$ 2.6 million as compared to US\$ 2.7 million in Q1 2015, and were virtually flat with Q4 2015. The decrease in research and development on a year-over-year basis was primarily due to lower employee-related expenses. The Group continues to focus

its research and development expenditures on the development of future growth products and services, as expanded upon in Section 10.

Sales and marketing expenses

Sales and marketing expenses for Q1 2016 decreased to US\$ 3.1 million as compared to US\$3.2 million in Q1 2015, but increased from the US\$ 2.7 million in Q4 2015. On a year over year basis, sales and marketing expenses decreased on lower compensation expenses, primarily non-cash incentive-based compensation. Q4 2015 expenses included the reversal of certain incentive-based compensation expenses and miscellaneous accruals, which lowered the comparative expenses recorded in that quarter.

General and administrative expenses

General and administrative expenses for Q1 2016 decreased to US\$ 1.1 million as compared to US\$ 1.3 million in Q1 2015, but increased from the US\$ 0.8 million in Q4 2015. On a year-over-year basis general and administrative expenses decreased primarily on lower non-cash incentive based compensation. The sequential increase in general and administrative expenses is primarily due to increased incentive based-compensation (primarily non-cash), legal and administrative fees. Q4 2015 expenses included the reversal of certain incentive-based compensation expenses and miscellaneous accruals, which lowered the comparative expenses recorded in that quarter.

Profit from operations

Profit from operations for Q1 2016 increased to US\$ 3.7 million as compared to US\$ 0.8 million in Q1 2015 and US\$ 2.0 million in Q4 2015. The increase in profit from operations was primarily due to increased revenues against essentially flat expenses, as detailed above.

Net finance income (expense)

Net finance income for Q1 2016 was US\$ 146,000 as compared to an expense of US\$ 27,000 in Q1 2015 and an expense of US\$ 43,000 in Q4 2015. Net finance income in Q1 2016 was primarily due to higher exchange rate differences on our NIS linked accounts.

Income tax expense / credit

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%).

The Group recorded an income tax expense of US\$ 0.9 million for Q1 2016 as compared to an income tax credit (income) of US\$ 0.1 million for Q1 2015 and an expense of US\$ 0.5 million in Q4 2015. The increase in income tax expense was primarily due to higher pre-tax profitability, as discussed above.

Profit for the period

Net profit for Q1 2016 increased to US\$ 3.0 million as compared to US\$ 0.9 million in Q1 2015 and US\$ 1.5 million in Q4 2015. The increase in net profit was primarily due to increased profit from operations, 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 appear overall stable, despite continuing uncertainties in the global commodities markets, in general, and oil specifically.
- b. In the U.S., still the largest single market for polished diamonds, diamond jewellery sales data show year-on-year increases for all three months of the quarter, with February Valentine's Day sales up 4.5% over 2015, which was itself a record year for Valentine's Day sales. The market in Japan has seen an increase in demand (possibly due to increased tourism from China), and in Europe overall demand is stable, though demand for larger polished stones has slowed, as indicated by demand at the Baselworld show in March. Mainland China experienced a minor drop in diamond jewellery sales in the first quarter of this year (typically in single digit percentages, as reported by major chains there), as compared to much more significant decreases (typically 25%) in sales in Hong Kong and Macau. The latter two regions have been impacted by Chinese government restrictions on tourism and by the taxation of imports upon returning to the mainland.
- c. Following the downward correction primarily in the second half of 2015 and in the initial sight of January 2016, rough diamond prices have largely remained flat, with a minimal (~2%) increase in prices at the De Beers April sight (primarily an adjustment of box sortings) offset by a concurrent similar reduction of prices by Alrosa. The estimated \$1 billion combined volume of sales by DeBeers and Alrosa in April 2016 (as compared to \$2.4 billion for the entire first quarter) evidences the continued positive trends seen since the beginning of the year - DeBeers sights of approximately \$575 million, \$620 million and \$660 million in January, February and April, respectively. Data also show increased buying of smaller rough stones, even as overall carat weight transacted grows (meaning more stones overall), indicating that this segment too has joined the industry recovery.
- d. Inventory levels of polished diamonds remain relatively low, following the 2015 destocking, despite indications that the midstream manufacturing segment has started to replenish depleted inventories in recent months. This has led to a series of monthly increases in polished diamond prices throughout Q4 2015 and Q1 2016, averaging some 5%. Prudence, following the difficult time experienced during the second half of 2014 and most of 2015, has led manufacturers to refrain from returning to the overly ebullient inventory levels of early 2014, which could sustain the current positive conditions (see [e] below) over a longer period. The inventory reduction in 2015 has, in turn, lowered the need for credit, by some reports by as much as US\$ 5 billion – US\$ 6 billion. While this has translated into credit being more readily available for manufacturing activities, the banks too are circumspect of their midstream customers again overstocking aggressively. Having said that, the continued reduced inventory levels could contribute to increased volatility of wholesale polished diamond prices, driven by retailers' fluctuating needs for specific sizes and qualities of stones.
- e. These positive trends, namely reduced rough prices on the backdrop of modestly increased polished prices, reduced polished inventories and overall stable demand for polished diamonds (excepting Hong Kong and Macau), have created the necessary price variances for midstream profitability. These trends need to be tracked, as always, and should be further verifiable following the key Las Vegas JCK and Hong Kong trade shows to be held in June, at which U.S. domestic and China demand, leading into the key Fall holiday buying season, will be apparent.
- f. Our extensive Galaxy-family of inclusion mapping systems are now capable of processing stones from 20 points (a fifth of a carat) rough up to 200 carats (the Meteor™, Solaris™, Galaxy™ and Galaxy™ XL products), addressing a market segment from which 65 million polished stones are derived annually. We expect that the current trade favouring smaller stones (see above) will continue to contribute to the sale of

Galaxy™ family products for the inclusion mapping of smaller stones, namely the Solaris™ and Meteor™ systems. We also expect to see greater customer demand for our high-resolution inclusion mapping system, the Galaxy™ Ultra. With deliveries in Q1 2016 of 18 Galaxy™ family systems to customers, comprising ten Meteor™ systems, four Solaris™ systems and four Galaxy™ and Galaxy™ Ultra systems, the Group had an installed base of 233 Galaxy™ family systems as of 31 March 2016. We continue to monitor our would-be competitors from among the other technology suppliers to the industry, and, to the best of our knowledge, there have been no material developments throughout the first quarter of this year. We also continue to pursue legal means for the protection of our intellectual rights, including with respect to apparent violations of our proprietary rights by a lone player in India operating a number of devices, which seemingly replicate, in whole or in part, the core processes of our inclusion mapping. These devices reportedly lack the high-level performance of our own systems, being unable to replicate some of our more advanced technologies, e.g. our cloud-protected image processing software, high-resolution scanning performed by the Galaxy™ Ultra systems and the ability to interface with our latest cloud-protected Advisor™ 6.0 highly advanced planning software.

On a related note, we are often asked as to the possible effects on our present and future inclusion mapping (recurring revenue generating) business with the advent of lab grown (aka "synthetic" or "man-made") diamonds. We would thus like to bring to our investing public's attention an article published on April 19, 2016 by Mr. Edahn Golan's Diamond Research and Data titled – "The Lab-Grown Consumer Numbers You Need to Know" (see <http://edahngolan.com/the-lab-grown-consumer-numbers-you-need-to-know/>). Two conclusions, which we believe to be of interest, are as follows:

- The data appear to indicate that the consuming public, while starting to adopt lab-grown diamonds in limited quantities as a less costly (~ -30%) alternative to natural diamonds, largely refrains from doing so for bridal (engagement) jewellery. This would seem to imply that current trends indicate the demand for natural diamonds will most likely not be replaced by demand for lab-grown ones, but rather augmented by these products, when acquired for lesser emotionally-important occasions; and
 - The data also indicate that many lab-grown diamonds, manufactured by currently available technologies, are of SI Clarity grade, which are fully suitable for, and would presumably glean additional yield by, the application of our inclusion mapping technologies.
- g. Initial programs utilising the Sarine Profile™, with leading brick and mortar and online retailers in the U.S and the Asia Pacific (APAC) region, continue to proceed well and proliferate with new enquiries. We believe this trend will continue and gain momentum as the year progresses in both these currently targeted key markets. In fact, uptake in the APAC region is progressing more rapidly than initially anticipated, as the capabilities of the system are extremely well attuned to the demand for higher quality polished diamonds in this market. We anticipate expanding our marketing staff in our newly established Hong Kong regional sales headquarters this year, along with requisite expansion in the U.S to support growing interest.
- h. The Allegro™ service centres in Jaipur, India, and Ramat Gan, Israel are increasing their operations, educating potential customers on the system's capabilities and generating initial revenues. We have already added a second system and anticipate adding additional systems in Jaipur as the year progresses, as well as opening in additional territories later in the year. We anticipate that the demand for gemstones will also continue to grow as consumers continue to seek to augment natural diamond jewellery with less costly alternatives.

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

- **Polished diamond trade systems:**
 - Expansion of our cloud-based infrastructure for the Sarine Profile™, in order to facilitate enhanced downloading of the imagery and provide for the efficient information management requisite to the continued worldwide rollout of the service.
 - Enhancement of our Sarine Profile™ in order to provide additional optional imagery, video and other relevant information for enhanced customer branding of their jewellery lines (frequently termed "programs"); and
 - Enhancement of the Sarine Loupe™ platform, and development of complementary hardware, to add additional shapes and sizes and develop additional capabilities relating to the derivation of key characteristics of the polished diamond;

- **Manufacturing products:** Integration of our rough planning software (the Advisor™) and our faceting quality control software (the Instructor™) with our light performance grading technology, so as to allow manufacturers to incorporate light performance (i.e., brilliance, fire and sparkle) into their manufacturing criteria;
- **Non-diamond gemstones:** Continue upgrading the Allegro™ system with additional accuracy and higher throughput.

11. Dividend

(a) Current Financial Period Reported

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

No

(b) Corresponding Period of the Immediately Preceding Financial Year

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

No

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

Not applicable.

(d) Date Payable

Not applicable.

(e) Books Closure Date

Not applicable.

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

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

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

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

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

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited financial results of the Group for the period ended March 31, 2016, to be false or misleading, in any material aspect.

On behalf of the Directors



Daniel Benjamin Glinert
Executive Chairman



Uzi Levami
Executive Director and CEO



Eyal Mashiah
Executive Director