

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>2015</u>	<u>2014</u>	<u>Change</u> <u>%</u>	<u>2015</u>	<u>2014</u>	<u>Change</u> <u>%</u>
Revenue	12,397	18,320	(32.3)	48,453	87,770	(44.8)
Cost of sales	4,280	6,118	(30.0)	15,904	25,867	(38.5)
Gross profit	8,117	12,202	(33.5)	32,549	61,903	(47.4)
Research and development expenses	2,522	2,694	(6.4)	10,564	10,616	(0.5)
Sales and marketing expenses	2,726	3,052	(10.7)	12,557	12,610	(0.4)
General and administrative expenses	837	1,301	(35.7)	3,929	5,730	(31.4)
Profit from operations	2,032	5,155	(60.6)	5,499	32,947	(83.3)
Net finance expense	(43)	(375)	(88.5)	(197)	(207)	(4.8)
Profit before income tax	1,989	4,780	(58.4)	5,302	32,740	(83.8)
Income tax expense	515	888	(42.0)	1,715	5,510	(68.9)
Profit for the period	1,474	3,892	(62.1)	3,587	27,230	(86.8)
Other comprehensive income (expense)						
Remeasurement of defined benefit plan	17	3	466.7	17	3	466.7
Foreign currency translation differences from foreign operations	(54)	(178)	(69.7)	(339)	(178)	90.4
Total comprehensive income for the period	1,437	3,717	(61.3)	3,265	27,055	(87.9)

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>2015</u>	<u>2014</u>	<u>Change</u> <u>%</u>	<u>2015</u>	<u>2014</u>	<u>Change</u> <u>%</u>
(Write back) allowance for doubtful trade receivables	(7)	(35)	(80.0)	1	(30)	NM
Depreciation and amortization	946	1,372	(31.0)	4,040	4,907	(17.7)
Interest (expense) income, net	(12)	(56)	(78.6)	(180)	44	NM
Exchange rate differences	(31)	(319)	(90.3)	(17)	(251)	(93.2)
Warranty provision	(11)	5	NM	(126)	47	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>2015</u>	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Assets				
Property, plant and equipment	12,413	11,535	1,689	1,534
Intangible assets	7,812	6,751	--	--
Investment in equity accounted investee and subsidiaries	--	--	36,091	25,465
Deferred tax assets	3,157	2,198	1,423	1,290
Total non-current assets	<u>23,382</u>	<u>20,484</u>	<u>39,203</u>	<u>28,289</u>
Inventories	10,146	10,070	6,673	6,212
Trade receivables	11,337	13,486	3,164	4,080
Other receivables	3,707	2,522	1,727	1,025
Short-term investments (bank deposits)	13,298	25,145	7,532	17,382
Cash and cash equivalents	19,298	20,352	9,268	7,834
Total current assets	<u>57,786</u>	<u>71,575</u>	<u>28,364</u>	<u>36,533</u>
Total assets	<u>81,168</u>	<u>92,059</u>	<u>67,567</u>	<u>64,822</u>
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(2,366)	(1,033)	(2,366)	(1,033)
Share premium, reserves and retained earnings	73,897	80,664	62,847	52,325
Total equity	<u>71,531</u>	<u>79,631</u>	<u>60,481</u>	<u>51,292</u>
Liabilities				
Employee benefits	138	159	129	143
Total non-current liabilities	<u>138</u>	<u>159</u>	<u>129</u>	<u>143</u>
Trade payables	2,359	2,838	1,375	1,949
Other payables	6,623	8,821	5,363	11,119
Current tax payable	211	176	--	--
Warranty provision	306	434	219	319
Total current liabilities	<u>9,499</u>	<u>12,269</u>	<u>6,957</u>	<u>13,387</u>
Total liabilities	<u>9,637</u>	<u>12,428</u>	<u>7,086</u>	<u>13,530</u>
Total equity and liabilities	<u>81,168</u>	<u>92,059</u>	<u>67,567</u>	<u>64,822</u>

* No par value

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

Zero borrowings from banks as at December 31, 2015 and 2014.

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

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

	Group	
	Year ended	
	December 31,	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Profit for the period	3,587	27,230
Adjustments for:		
Share-based payment expenses	1,329	2,707
Income tax expense	1,715	5,510
Depreciation of property, plant and equipment	2,148	2,219
Amortisation of intangible assets	1,892	2,688
Net finance expense	197	207
Changes in working capital		
Inventories	251	(1,522)
Trade receivables	2,149	2,352
Other receivables	(207)	(392)
Trade payables	(479)	(648)
Other liabilities	(2,457)	(1,083)
Employee benefits	(21)	(22)
Income tax paid, net	(3,617)	(4,963)
Net cash from operating activities	<u>6,487</u>	<u>34,283</u>
Cash flows from (used in) investing activities		
Acquisition of property, plant and equipment	(3,497)	(3,144)
Acquisition of intellectual property	(3,000)	--
Short-term investments, net	11,847	(12,097)
Capitalisation of development expenses	--	(1,029)
Interest received	210	370
Net cash from (used in) investing activities	<u>5,560</u>	<u>(15,900)</u>
Cash flows used in financing activities		
Proceeds from exercise of share options	855	966
Purchase of Company's shares by the Company	(1,333)	(1,033)
Dividend paid	(12,216)	(17,398)
Interest paid	(390)	(326)
Net cash used in financing activities	<u>(13,084)</u>	<u>(17,791)</u>
Net (decrease) increase in cash and cash equivalents	(1,037)	592
Cash and cash equivalents at beginning of the period	20,352	20,011
Exchange rate differences	(17)	(251)
Cash and cash equivalents at end of the period	<u>19,298</u>	<u>20,352</u>
Non-cash activities		
(Decrease) increase in intangible assets (goodwill) due to change in contingent consideration with respect to Galatea Ltd. acquisition	<u>(47)</u>	<u>35</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)

	<u>Share capital*</u>	<u>Share premium and reserves</u>	<u>Translation reserve</u>	<u>Retained earnings</u>	<u>Dormant shares</u>	<u>Total</u>
Balance at January 1, 2014	--	21,525	(1,213)	47,022	--	67,334
Profit for the year ended December 31, 2014	--	--	--	27,230	--	27,230
Other comprehensive income (expense) for the year ended December 31, 2014	--	3	(178)	--	--	(175)
Share-based payment expenses	--	2,707	--	--	--	2,707
Exercise of options	--	966	--	--	--	966
Dormant shares, acquired at cost (590,000)	--	--	--	--	(1,033)	(1,033)
Dividend paid	--	--	--	(17,398)	--	(17,398)
Balance at December 31, 2014	<u>--</u>	<u>25,201</u>	<u>(1,391)</u>	<u>56,854</u>	<u>(1,033)</u>	<u>79,631</u>
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 income (expense) 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	<u>--</u>	<u>27,402</u>	<u>(1,730)</u>	<u>48,225</u>	<u>(2,366)</u>	<u>71,531</u>

* No par value

Statement of Changes in Shareholders' Equity

Company (US\$'000)

	<u>Share capital*</u>	<u>Share premium and reserves</u>	<u>Translation reserve</u>	<u>Retained earnings</u>	<u>Dormant shares</u>	<u>Total</u>
Balance at January 1, 2014	--	21,525	(1,213)	23,344	--	43,656
Profit for the year ended December 31, 2014	--	--	--	22,569	--	22,569
Other comprehensive income (expense) for the year ended December 31, 2014	--	3	(178)	--	--	(175)
Share-based payment expenses	--	2,707	--	--	--	2,707
Exercise of options	--	966	--	--	--	966
Dormant shares, acquired at cost (590,000)	--	--	--	--	(1,033)	(1,033)
Dividend paid	--	--	--	(17,398)	--	(17,398)
Balance at December 31, 2014	<u>--</u>	<u>25,201</u>	<u>(1,391)</u>	<u>28,515</u>	<u>(1,033)</u>	<u>51,292</u>
Balance at January 1, 2015	--	25,201	(1,391)	28,515	(1,033)	51,292
Profit for the year ended December 31, 2015	--	--	--	20,876	--	20,876
Other comprehensive income (expense) 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	<u>--</u>	<u>27,402</u>	<u>(1,730)</u>	<u>37,175</u>	<u>(2,366)</u>	<u>60,481</u>

* No par value

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

	<u>December 31, 2015</u>	<u>September 30, 2015</u>	<u>December 31, 2014</u>
	<u>No. of shares</u>	<u>No. of shares</u>	<u>No. of shares</u>
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	350,568,823	350,521,948	348,671,205
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)	<u>348,985,723</u>	<u>348,938,848</u>	<u>348,081,205</u>

For the three months ended December 31, 2015, 46,875 employee share options were exercised into ordinary shares. For the three months ended December 31, 2015, 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 December 31, 2015 and September 30, 2015 included 1,583,100 dormant shares, respectively.

Details of changes in share options:

	<u>Average exercise price in US\$ per share</u>	<u>Options</u>
At January 1, 2015	1.048	15,753,142
Granted	1.981	600,000
Cancelled	0.939	(3,207,125)
Exercised	0.451	(1,897,618)
At December 31, 2015	1.129	<u>11,248,399</u>

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, 2015, the total number of issued shares excluding dormant shares was 348,985,723 (as at December 31, 2014: 348,081,205). As at December 31, 2015 the total number of dormant shares was 1,583,100 (as at December 31, 2014: 590,000).

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 December 31, 2015, the Company did not purchase any of its ordinary shares. For the year ended December 31, 2015, the Company purchased 993,100 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, 2014 have been applied in the preparation for the financial statements for year ended December 31, 2015.

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.

Not applicable.

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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<u>US cents</u>				
Basic earnings per share	0.42	1.12	1.03	7.83
Diluted earnings per share	0.42	1.10	1.02	7.70
<u>Singapore cents*</u>				
Basic earnings per share	0.59	1.58	1.46	11.07
Diluted earnings per share	0.59	1.56	1.44	10.89

Basic earnings per share for the three months ended December 31, 2015 are calculated based on the weighted average number of 348,979,609 ordinary shares issued during the current period and the equivalent of 348,471,214 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended December 31, 2015 are calculated based on weighted average number of 348,983,768 ordinary shares and outstanding options and the equivalent of 354,725,636 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the year ended December 31, 2015 are calculated based on the weighted average number of 348,889,726 ordinary shares issued during the current period and the equivalent of 347,802,133 ordinary shares during the preceding period.

Diluted earnings per share for the year ended December 31, 2015 are calculated based on weighted average number of 350,431,581 ordinary shares and outstanding options and the equivalent of 353,827,610 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.4139 at December 31, 2015.

- 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.**

	<u>Group</u>		<u>Company</u>	
	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Net asset value (US\$ thousands)	71,531	79,631	60,481	51,292
Net asset value per ordinary share (US cents)	20.50	22.88	17.33	14.74
Net asset value per ordinary share (Singapore cents*)	28.98	32.35	24.50	20.84

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). At December 31, 2014, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2014 of 348,081,205 (not including 590,000 dormant ordinary shares at December 31, 2014).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.4139 at December 31, 2015.

- 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

For the year ended December 31, 2015, the Group reported revenues of US\$ 48.5 million, profit from operations of US\$ 5.5 million, and net profit of US\$ 3.6 million, as compared to revenues of US\$ 87.8 million, profit from operations of US\$ 32.9 million, and net profit of US\$ 27.2 million for the year ended December 31, 2014. The Group reported 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, as compared to revenues of US\$ 18.3 million, profit from operations of US\$ 5.2 million and net profit of US\$ 3.9 million reported in Q4 2014, and as compared to revenues in Q3 2015 of US\$ 9.5 million, a loss from operations of US\$ 0.7 million and a net loss of US\$ 1.4 million.

The decrease in overall revenues year-over-year and the consequential decline in Group profitability stemmed primarily from the extremely challenging industry conditions throughout 2015. The negative sentiment, primarily in the midstream, still our main customer base, started to manifest itself in the last four months of 2014. The combination of overly aggressive rough diamond pricing and stagnant polished diamond prices, mostly due to restrained demand from markets ex-U.S. in general, and China in particular, resulted in unsustainably low manufacturer margins. The much higher than normal polished inventory levels at 2014 year's end, mainly due to pipeline skewing driven by extended certification times and the aforementioned unsustainable margins, complicated further by reduced working capital credit lines available to our customers, led to polished diamond manufacturing activity dropping significantly by some 30%, in the first half of 2015. As a result of ongoing lack of profitability, with rough diamond pricing remaining too high, conditions in the midstream further deteriorated mid-year with DeBeers' sightholders refusing unprecedented quantities of offered diamonds (at some sights up to 80%) and manufacturing activity dropping further to below 50% of normal. Given this background, with little to no incentive for manufacturers to acquire new technology, our sales of new equipment dropped by some 55% year-over-year. Galaxy™ family inclusion mapping systems sales, one of our primary growth drivers in the preceding years, faltered for the first three quarters of 2015, but recovered in the fourth quarter to 13 systems with the introduction of the Meteor™ system. With deliveries in FY2015 of 25 Galaxy™ family systems to customers and service centres, over half of which were delivered in Q4 2015, but still just over half of the number delivered in FY2014, the Group had an installed base of 215 Galaxy™ family systems as of

December 31, 2015. The Group's recurring revenue (including Galaxy™-related, Quazer™ services, annual maintenance contracts, etc.) also dropped in FY2015, but only by some 25% and constituted over 45% of overall 2015 revenues. The sequential increase in revenues and return to profitability in Q4 2015 was primarily due to improved sentiment in the Indian diamond manufacturing industry, post the November Diwali holiday, as solid holiday season sales (an estimated 3% increase year-over-year in the U.S.) and reduced inventory of polished diamonds, as the result of the aforementioned subdued manufacturing activity throughout 2015, gave rise to 3%-5% increases in polished diamond prices. This, together with rough prices having been discounted some 15%-20% throughout the year, reinjected profitability into polishing activities.

It is to be noted that, despite the very challenging industry conditions, the Group's strategy was to continue with its ongoing research and development, marketing and business development expenditures, so as to accomplish its long-term goals across all product lines as planned.

Balance Sheet and Cash Flow Highlights

As at December 31, 2015, *cash and cash equivalents* and *short-term investments (bank deposits)* (“**Cash Balances**”) decreased to US\$ 32.6 million as compared to US\$ 45.5 million as of December 31, 2014. The decrease in Cash Balances for year ended December 31, 2015 was primarily due to the payment of US\$ 12.2 million in dividends in 2015 - the US\$ 7.0 million final dividend for the fiscal year 2014, paid in May 2015 and the US\$ 5.2 million interim 2015 dividend paid in September 2015, and the Group’s US\$ 1.3 million buy-back of its shares in the open market in FY2015. An additional factor affecting our Cash Balances was the payment of US\$ 3.0 million in Q2 2015 to a licensor of software utilised in the Galaxy™ family of products (resulting in an equivalent increase in intangible assets on the Group’s balance sheet). Finally, the Cash Balances were also affected by paying down of payables (trade payables and 2014 accrued cash-based incentive compensation), offset by lower trade receivables. On a sequential basis, Cash Balances increased to US\$ 32.6 million as compared to US\$ 31.8 million as at September 30, 2015.

Revenues

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

2015 versus 2014				
Region	2015	2014	\$ change	% change
India	34,217	69,595	(35,378)	(50.8)
Africa	2,234	4,011	(1,777)	(44.3)
Europe	2,280	2,381	(101)	(4.2)
North America	1,370	1,210	160	13.2
Israel	3,480	5,060	(1,580)	(31.2)
Other*	4,872	5,513	(641)	(11.6)
Total	48,453	87,770	(39,317)	(44.8)

Q4 2015 versus Q3 2015				
Region	Q4 2015	Q3 2015	\$ change	% change
India	8,818	5,951	2,867	48.2
Africa	558	547	11	2.0
Europe	399	394	5	1.3
North America	260	265	(5)	(1.9)
Israel	1,079	768	311	40.5
Other*	1,283	1,554	(271)	(17.4)
Total	12,397	9,479	2,918	30.8

Q4 2015 versus Q4 2014				
Region	Q4 2015	Q4 2014	\$ change	% change
India	8,818	13,507	(4,689)	(34.7)
Africa	558	1,139	(581)	(51.0)
Europe	399	1,041	(642)	(61.7)
North America	260	203	57	28.1
Israel	1,079	1,094	(15)	(1.4)
Other*	1,283	1,336	(53)	(4.0)
Total	12,397	18,320	(5,923)	(32.3)

*primarily Asia, excluding India

The Group reported revenues for the year ended December 31, 2015 of US\$ 48.5 million, as compared to revenues of US\$ 87.8 million for the year ended December 31, 2014. The Group reported revenues in Q4 2015 of US\$ 12.4 million, as compared to revenues of US\$ 18.3 million in Q4 2014, and as compared to revenues in Q3 2015 of US\$ 9.5 million. The decrease in revenues on a year-over-year basis was across most geographies (with the exception of North America, where revenues from pilot Sarine Profile™ programs and related equipment sales had positive impact) and was primarily due to decreased capital equipment sales in virtually all geographies, especially in India, and on lower Galaxy™ processing revenues, stemming primarily from the reduced manufacturing activity in the midstream throughout 2015. Year-over-year sales in FY2015 of capital equipment declined by approximately 55%, while recurring revenues also declined, but only by some 25%, as compared to FY2014. Similarly, Q4 2015 capital equipment sales declined by just under 40%, while recurring revenues declined by just under 25% in Q4 2015 as compared to Q4 2014. On a sequential basis, Q4 2015 revenues increased by 31%, as compared to Q3 2015, and were driven by increased capital equipment sales, especially of the Galaxy™ family systems, with the launch of the small stone Meteor™ system, due to improved sentiment in the Indian diamond manufacturing industry at year's end, as noted above, 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, 2015 decreased to US\$ 15.9 million, versus US\$ 25.9 million for the year ended December 31, 2014, with gross profit margins of 67% in 2015 versus 71% in 2014. Cost of sales in Q4 2015 decreased to US\$ 4.3 million, as compared to US\$ 6.1 million in Q4 2014, with a gross profit margin of 65% in Q4 2015 versus 67% in Q4 2014. The decrease in cost of sales on a year-over-year basis, and the decline of the gross profit margin was primarily due to significantly lower sales volumes in FY2015, offset somewhat by the cessation of Galatea-related acquisition costs amortisation as of Q2 2015 of US\$ 0.5 million per quarter. On a sequential basis, cost of sales increased in Q4 2015 to US\$ 4.3 million, as compared to US\$ 3.5 million in Q3 2015, with a gross profit margin of 65% in Q4 2015 versus 63% in Q3 2015. The increase in cost of sales on a sequential basis, and the improved gross profit margin, was primarily due to higher sales volumes.

Research and development expenses

Research and development expenses for FY2015, Q4 2015, Q3 2015, and the comparable periods in 2014 are shown in the table below. Sarine Loupe™ system development-related expenditures were capitalised through September 30, 2014 in compliance with IFRS.

<u>US\$ (thousands)</u>	<u>2015</u>	<u>2014</u>	<u>Q4 2015</u>	<u>Q4 2014</u>	<u>Q3 2015</u>
R&D expenses as reported	10,564	10,616	2,522	2,694	2,634
Capitalised development	--	<u>1,029</u>	--	--	--
Total R&D costs incurred	10,564	11,645	2,522	2,694	2,634

Research and development costs for the year ended December 31, 2015 and for Q4 2015 decreased marginally on a year-over-year basis primarily due to lower employee-related expenses, including lower

incentive-based compensation expenses. Research and development costs in Q4 2015 decreased minimally on a sequential basis as compared to Q3 2015 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, as expanded upon in Section 10.

Sales and marketing expenses

Sales and marketing expenses for the year ended December 31, 2015 were US\$ 12.56 million, down marginally as compared to US\$ 12.61 million in FY2014. Sales and marketing expenses for Q4 2015 decreased by 11% to US\$ 2.7 million, as compared to US\$ 3.1 million in Q4 2014. The decrease in sales and marketing expenses on a year-over-year basis was primarily due to lower incentive-based compensation expenses, offset by increased expenditures related to the establishment and expansion of the necessary sales and marketing infrastructures, associated with the Sarine Profile™ and other polished diamond services and products. Sequentially, sales and marketing expenses for Q4 2015 decreased by 17%, as compared to US\$ 3.3 million in Q3 2015 on lower marketing related expenditures, the reversal of certain incentive-based compensation expenses and miscellaneous accruals.

General and administrative expenses

General and administrative expenses decreased to US\$ 3.9 million for the year ended December 31, 2015 versus US\$ 5.7 million as compared to FY2014. General and administrative expenses decreased to US\$ 0.8 million for Q4 2015 as compared to US\$ 1.3 million for Q4 2014. The decrease in general and administrative expenses on a year-over-year basis was primarily due to lower incentive-based compensation expenses and decreased third-party professional fees. On a sequential basis, Q4 2015 general and administrative expenses were essentially flat as compared with Q3 2015.

Profit from operations

For the year ended December 31, 2015, profit from operations decreased to US\$ 5.5 million versus US\$ 32.9 million for FY2014. Profit from operations for Q4 2015 decreased to US\$ 2.0 million as compared to US\$ 5.2 million in Q4 2014, and improved substantially sequentially from a loss from operations of US\$ 0.7 million in Q3 2015. The decrease in profitability on a year-over-year basis was primarily due to significantly lower sales due to the challenging industry conditions in FY2015, as detailed above. The return to profitability in Q4 2015 was primarily due to the initial recovery post the Diwali holiday, with improved sentiment in the Indian diamond manufacturing industry, as detailed above.

Net finance expense

Net finance expense for the year ended December 31, 2015 was US\$ 0.2 million, the same as FY2014. The results for FY2015 include a US\$ 0.27 million interest charge relating to a prior year's tax assessment under dispute in India (US\$ 0.13 million in 2014). Net finance expense for Q4 2015 decreased to US\$ 0.04 million as compared US\$ 0.4 million for Q4 2014, on lower exchange rate differences.

Income tax expense

The statutory corporate tax rate in Israel in FY2015 remained 26.5% (to decrease to 25% in FY2016). 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 somewhat by the higher statutory tax rate in India (34%).

The Group recorded an income tax expense of US\$ 1.7 million for the year ended December 31, 2015, versus an expense of US\$ 5.5 million in FY2014. For Q4 2015, the Group recorded an income tax expense of US\$

0.5 million, as compared to an expense of US\$ 0.9 million in Q4 2014 and an expense of US\$ 0.5 million in Q3 2015. The decrease in income tax expenses year-over-year was primarily due to lower pre-tax profitability, as discussed above, and income tax expenses associated with subsidiary profitability during FY2015.

Profit for the period

For the year ended December 31, 2015, net profit decreased to US\$ 3.6 million versus US\$ 27.2 million for FY2014. Net profit for Q4 2015 decreased to US\$ 1.5 million as compared to US\$ 3.9 million in Q4 2014, and improved sequentially from a net loss of US\$ 1.4 million in Q3 2015. The decrease in net profit on a year-over-year basis was primarily due to significantly lower sales due to the challenging industry conditions in FY2015, as detailed above. The return to profitability in Q4 2015 was primarily due to the initial recovery post the Diwali holiday, with improved sentiment in the Indian diamond manufacturing industry, 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, though uncertainties in the global commodities markets, in general, and oil specifically, and their fallout on global currencies and equity markets may impair the demand for diamond jewellery in the short term.
- b. In the U.S. specifically, still the largest single market for polished diamonds, there have been positive developments with diamond jewellery sales having expanded in 2015 (1%-2%) driven by the best Valentine's Day sales on record and a 3% increase in sales year-over-year for the Christmas holiday season. Markets in Japan and Europe remain stable. The polished diamond trade is mostly concerned with renewed demand from the Chinese market, where uncertainty persists. Initial sales data from the Chinese New Lunar Year buying season are, in fact, as expected, weaker than the preceding year. However, Valentine's Day sales in the U.S. were not only strong, but Census Bureau data show diamond jewellery prices jumped by 7% in January.
- c. Rough diamond prices, which ended 2014 at unsustainably high levels, having corrected throughout 2015 by an estimated aggregate 15% – 20%, were further reduced at the initial sight of 2016 by some 7-10%. Furthermore, driven by shortages in a broad range of polished goods, polished diamond prices firmed and increased in the last quarter of 2015 by an estimated 3%-5%, with additional substantial price expansion evidenced in the first months of 2016 (as noted above). These positive trends have created the necessary price variance to allow a return to profitable diamond polishing in the midstream, conditions not seen since early 2014. Still, the variance in trends between rough diamond prices and polished diamond prices is always a factor to be watched.
- d. The oversupply of polished diamonds, which manifested itself at year-end 2014, has been worked through the pipeline, with some analysts pointing to the reduction of more than US\$ 5 billion in working capital credit to the industry as a key indicator of this process. The positive Christmas buying season in the U.S. further depleted inventories, giving rise to further firming of polished diamond prices. We have, in fact, witnessed, starting December 2015, a return to more normal polishing activity in the midstream. DeBeers lowering their rough diamond prices by an estimated 5%-10% at the January 2016 sight and good Valentine's Day sales, offset somewhat by the expected weaker sales in China during the New Lunar Year festival, provided further positive impetus to this trend. We believe that the industry is over the

worst of the downturn and, barring macro-economic shocks or other industry-specific unforeseen developments, production should continue to improve as the year progresses. Further evidence seemingly bolstering this trend was observed at DeBeers' February sight. Rough diamond in-plan demand, also driven by the fact that the next sight is only in April, was nearly US\$ 1 billion, with an estimated US\$ 600 million actually supplied by DeBeers, through its various channels. Other mining companies are reportedly also enjoying successful tenders of their rough stones, and the secondary market for rough boxes is strong. All indications are that the midstream manufacturing segment is now striving to meet demand and replenish its depleted inventories of polished diamonds.

- e. Liquidity in the industry mid-stream is always a risk factor. However, data indicate that inventory levels have dropped significantly, due to reduced polishing activity throughout 2015 along with overall solid consumer demand during the key year-end holiday buying season. In fact, throughout 2015 overall working capital credit to the diamond industry has dropped by an estimated 25%. Indian banks have reportedly softened their approach to midstream polishers. We thus expect this factor to be less acute in 2016 than it was in 2015.
- f. We have now successfully introduced systems 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), an addressable market of some 65 million stones annually. We have also successfully addressed the need for high-resolution scanning (the Galaxy™ Ultra). We believe, industry conditions permitting, that given our fully integrative solution with our extensive installed base of planning systems, the Group should realise significant deliveries of Galaxy™ family systems in FY2016. With deliveries in Q4-2015 of 13 Galaxy™ family systems to customers, including five new Meteor™ systems, the Group had an installed base of 215 Galaxy™ family systems as of 31 December 2015. We continue to closely 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 2015 or in the initial months of this year. We have become aware of clandestine efforts by a lone player in India who operates a number of devices, which seemingly replicate, in whole or in part, the core processes of our inclusion-mapping for Galaxy™-sized stones, without our crucial cloud-protected image processing, without high resolution scanning and without the ability to interface with our latest cloud-protected Advisor™ planning software. We estimate that the throughput of these devices is, in aggregate, less than 5% of the stone quantities regularly scanned by our Galaxy™ systems and have been led to understand that the results are of inferior quality. The Group is pursuing the various legal channels available to it to enforce its intellectual property rights in this regard. Together with our expansive installed base of industry-leading planning systems, we believe our competitive edge has, in fact, improved over the past year, having introduced the Meteor™ and the cloud protection for the Advisor™.
- g. Initial trial programs with leading brick and mortar and online retailers in the U.S and the Far East have commenced, utilising the Sarine Profile™, in whole or in part, as per the modular design and intent of the offering. Feedback has been generally positive. Additional programs have commenced during the first quarter of 2016, and we expect more to commence in the upcoming quarters. As the trial period has proved satisfactory, we are also progressing with certain players beyond the pilot phase to additional "programs" and "SKUs" of imaged inventory (note: in most chains, retail planning and execution is "item-centric", with either specific pieces, so called "SKU"s, being in the focus or a "program" consisting of a family of related pieces being the objective of the sales strategy). We believe this trend will continue and gain momentum as the year progresses, both in the U.S and the Far East, in China and beyond.
- h. The Allegro™ service centres in Jaipur, India, and Ramat Gan, Israel have opened, and have started both educating customers on the system's capabilities (much like the initial Galaxy™ rollout) and generating initial revenues from gemstone processing.

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

- **Rough planning 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;

- **Polished diamond trade systems:**
 - Enhancement of the Sarine Loupe™ platform to add additional shapes and sizes and develop additional capabilities relating to key characteristics of the polished diamond;
 - 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; and
 - Expansion of our cloud-based infrastructure for the Sarine Profile™, in order to facilitate enhanced downloading and provide for the information management requisite to the continued worldwide rollout of the service.
- **Non-diamond gemstones:** Continue upgrading the Allegro™ system, launched in late 2015, for additional accuracy and higher throughput.

11. Dividend

(a) Current Financial Period Reported

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

On February 28, 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 December 31, 2015.

The Board believes the worst of the industry downturn is behind us. However, the extent and speed of the recovery are not yet clear, nor are the possible effects on our business results of current instabilities in the equity markets and the conversion rates of currencies in our primary markets. Therefore, for FY2016, the Board of Directors has decided to reduce the 2015 declared dividend policy of US cents 2.5 every six months, which was, regrettably, not paid, due to the very challenging industry conditions last year, back to the 2014 dividend policy of US cents 2.0 every six months, subject to semi-annual Board approval, the Annual General Meeting's approval of the final dividend and subject to business conditions, financial results, other pre-empting uses of funds, statutory and tax issues, etc. Further details regarding the application procedure shall be provided by the Company shortly.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

On February 22, 2015, the Board of Directors recommended the Annual General Meeting approve a final dividend of US 2.0 cents per ordinary share for the full year ended December 31, 2014.

(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</u> <u>US\$'000</u>	<u>Tax rate applicable to shareholders</u> <u>%</u>
2015	5,235	20%/0% ¹ / 10% ^{2,3}
2014	6,982	20%/10% ¹ / 10% ²

¹ The tax rate will be 20% (20% in 2014) for individual Israeli shareholders and 0% (10% in 2014) for Israeli corporate shareholders.

² The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2014).

³ Commencing with payments made in 2016, payment to shareholders of dividends distributed by the Company will be subject to tax deduction at source at the rate of 20% in 2016, 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.

(d) Date Payable

	<u>Amount</u> <u>US\$'000</u>
13 May 2016***	5,235
07 May 2015	6,982

(e) Books Closure Date

5:00 PM on:

	<u>Amount</u> <u>US\$'000</u>
29 April 2016***	5,235
27 April 2015	6,982

***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>
	2015						
	US\$'000						
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>

	<u>India</u>	<u>Africa</u>	<u>Europe</u>	<u>North America</u>	<u>Israel</u>	<u>Others</u>	<u>Consolidated</u>
	2014						
	US\$'000						
External revenues	<u>69,595</u>	<u>4,011</u>	<u>2,381</u>	<u>1,210</u>	<u>5,060</u>	<u>5,513</u>	<u>87,770</u>
Unallocated expenses							<u>54,823</u>
Profit from operations							32,947
Net finance income							(207)
Income tax expense							<u>(5,510)</u>
Profit for the year							<u>27,230</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.

	<u>2015</u> <u>US\$'000</u>	<u>2014</u> <u>US\$'000</u>
Revenue reported for:		
First half-year ended 30 June	26,577	49,088
Second half-year ended 31 December	<u>21,876</u>	<u>38,682</u>
	<u>48,453</u>	<u>87,770</u>
Profit for the period:		
First half-year ended 30 June	3,550	17,647
Second half-year ended 31 December	<u>37</u>	<u>9,583</u>
	<u>3,587</u>	<u>27,230</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>Previous Full Year</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Ordinary	10,469*	17,408

*Pending Annual General Meeting Approval.

19. Interested Person Transactions

The Company confirms that, during the year ended December 31, 2015, 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.

In September 2009, the Group leased 224 square meters of office space in the Israeli Diamond Exchange building, from a company controlled by Mr. Avraham Eshed, a Director of the Company. As of September 2013, and as amended in 2015, the lease was extended through December 31, 2015. The monthly rent for the first year period following renewal in 2013 was US\$ 10,069 per month, and thereafter was US\$ 10,875 per month. For the years ended December 31, 2015 and 2014, the annual rent paid was approximately US\$ 131,000 and US\$ 124,000 per year, respectively. In addition the Company paid in 2016, approximately US\$ \$10,000 for repairs and restoration upon conclusion of the lease period.

On behalf of the Directors

Daniel Benjamin Glinert
Executive Chairman

Uzi Levami
Executive Director and CEO

Eyal Mashiah
Executive Director