

# Sarin Technologies Ltd. and its Subsidiaries

(Incorporated in Israel)

1(a) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

## Consolidated Profit and Loss Accounts (US\$'000):

	<u>GROUP</u>			<u>GROUP</u>		
	<u>Nine months ended</u>			<u>Quarter ended</u>		
	<u>September 30,</u>			<u>September 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>2005</u>	<u>2004</u>	<u>Change</u>
	Unaudited	Unaudited	%	Unaudited	Unaudited	%
	<u>Restated (#)</u>			<u>Restated (#)</u>		
<b>Revenue</b>	23,369	12,857	81.8	9,069	5,810	56.1
Cost of sales	<u>7,040</u>	<u>4,472</u>	57.4	<u>2,673</u>	<u>1,996</u>	33.9
<b>Gross profit</b>	16,329	8,385	94.7	6,396	3,814	67.7
Research and development costs	1,962	1,051	86.7	695	318	118.6
Selling and marketing expenses	3,281	2,047	60.3	1,133	806	40.6
General and administrative expenses	1,631	1,463	11.5	693	495	40.0
Other expense	-	19	NM	-	-	NM
<b>Profit from operations</b>	9,455	3,805	148.5	3,875	2,195	76.5
Net finance income / (expense)	<u>306</u>	<u>(3)</u>	NM	<u>108</u>	<u>28</u>	285.7
<b>Profit from ordinary activities before income tax</b>	9,761	3,802	156.7	3,983	2,223	79.2
Income tax expense	<u>1,904</u>	<u>1,242</u>	53.3	<u>592</u>	<u>716</u>	(17.3)
<b>Net profit for the period</b>	<u>7,857</u>	<u>2,560</u>	206.9	<u>3,391</u>	<u>1,507</u>	125.0

# For comparative purposes, certain 2004 figures have been restated in accordance with the new and revised International Financial Reporting Standards (IFRS) adopted with effect from January 1, 2005 as explained in paragraphs 4 and 5.

### Note to income statement:

Profit before income tax is stated after (crediting)/charging the following:

	<u>GROUP</u>			<u>GROUP</u>		
	<u>Nine months ended</u>			<u>Quarter ended</u>		
	<u>September 30,</u>			<u>September 30,</u>		
	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>2005</u>	<u>2004</u>	<u>Change</u>
	US\$'000	US\$'000	%	US\$'000	US\$'000	%
Allowance for doubtful trade receivables	70	180	(61.1)	153	(11)	NM
Depreciation and amortization expense	219	150	46.0	120	40	200.0
Interest (income)/expense, net	(254)	26	NM	(137)	(19)	621.1
Foreign currency translation (gain)/loss	(52)	(23)	126.1	29	(9)	NM
Provision for warranty	106	7	1,414.3	49	-	NM

NM - Not Meaningful.

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

Balance Sheet (US\$'000) as at

	Group		Company	
	30.09.05	31.12.04	30.09.05	31.12.04
	Unaudited	Audited	Unaudited	Audited
				Restated (#)
<b>Non-current assets</b>				
Investment in subsidiaries	-	-	568	378
Property, plant and equipment	1,185	780	944	580
Intangible assets	722	111	654	-
Other receivables	300	100	300	100
Deferred tax assets	822	619	822	625
	<u>3,029</u>	<u>1,610</u>	<u>3,288</u>	<u>1,683</u>
<b>Current Assets</b>				
Inventories	3,223	2,212	2,918	1,985
Trade receivables	1,096	1,277	924	1,115
Other receivables	636	812	580	780
Short-term investments	1,656	617	1,656	617
Cash and cash equivalents	19,272	5,498	19,043	5,410
	<u>25,883</u>	<u>10,416</u>	<u>25,121</u>	<u>9,907</u>
<b>Current liabilities</b>				
Trade payables	2,077	1,466	2,036	1,423
Other payables	2,306	1,787	2,135	1,533
Current tax payable	1,526	1,352	1,457	1,323
Warranty provision	249	152	235	136
	<u>6,158</u>	<u>4,757</u>	<u>5,863</u>	<u>4,415</u>
<b>Net current assets</b>	<u>19,725</u>	<u>5,659</u>	<u>19,258</u>	<u>5,492</u>
<b>Non-current liabilities</b>				
Liability for employee severance benefits	137	83	139	81
	<u>137</u>	<u>83</u>	<u>139</u>	<u>81</u>
<b>Net assets</b>	<u>22,617</u>	<u>7,186</u>	<u>22,407</u>	<u>7,094</u>
<b>Capital and reserves</b>				
Share capital*	-	-	-	-
Reserves	22,617	7,186	22,407	7,094
	<u>22,617</u>	<u>7,186</u>	<u>22,407</u>	<u>7,094</u>
<b>Equity attributable to shareholders</b>	<u>22,617</u>	<u>7,186</u>	<u>22,407</u>	<u>7,094</u>

\*Less than one thousand US \$

# For comparative purpose, certain 2004 figures have been restated in accordance with the new and revised International Financial Reporting Standards (IFRS) adopted with effect from January 1, 2005 as explained in paragraphs 4 and 5.

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

Zero borrowings from banks.

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

Consolidated cash flow statement (US\$'000) as at:

	<u>GROUP</u> <u>Nine months ended</u> <u>September 30,</u>		<u>GROUP</u> <u>Quarter ended</u> <u>September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	<u>Unaudited</u>		<u>Unaudited</u>	
		<u>Restated (#)</u>		<u>Restated (#)</u>
Net profit for the period	7,857	2,560	3,391	1,507
<b>Adjustments for:</b>				
Amortization of deferred compensation	76	68	32	24
Income tax expense	1,904	1,242	592	716
Amortization and depreciation	219	150	120	40
Gain on sale of property, plant and equipment	-	-	-	-
Interest expense	67	27	23	-
Interest income	(279)	(37)	(132)	(17)
Operating profit before working capital changes	<u>9,844</u>	<u>4,010</u>	<u>4,026</u>	<u>2,270</u>
<b>Changes in working capital:</b>				
Inventories	(1,011)	(516)	(506)	(377)
Trade receivables	181	256	72	(259)
Other receivables	176	(501)	(106)	(311)
Short-term investments	(1,039)	-	(931)	(4)
Trade payables	611	1,367	(115)	422
Other payables and provision	519	(5)	(769)	(531)
Warranty Provision	97	-	40	-
Employee severance benefits	54	(6)	(2)	(44)
Cash generated from operations	<u>9,432</u>	<u>4,605</u>	<u>1,709</u>	<u>1,166</u>
Income taxes paid	<u>(1,933)</u>	<u>(1,035)</u>	<u>(507)</u>	<u>(440)</u>
<b>Cash flows generated from operating activities</b>	<u>7,499</u>	<u>3,570</u>	<u>1,202</u>	<u>726</u>
<b>Investing activities:</b>				
Purchase of property, plant and equipment	(550)	(518)	(283)	(136)
Acquisition of intangible asset	(585)	(150)	(185)	(100)
Other Receivables	(300)	-	(300)	-
Interest received	279	37	132	17
Acquisition of minority shares in a subsidiary	-	-	-	18
<b>Cash flows used in investing activities</b>	<u>(1,156)</u>	<u>(631)</u>	<u>(636)</u>	<u>(201)</u>
<b>Financing activities:</b>				
Proceeds from the IPO (net of expenses) and from issue of shares resulting from exercise of options	9,996	53	-	28
Interest paid	(67)	(27)	(23)	-
Dividends paid	<u>(2,498)</u>	<u>(3,077)</u>	<u>(2,498)</u>	<u>(1,727)</u>

<b>Cash flows used in financing activities</b>	<u>7,431</u>	<u>(3,051)</u>	<u>(2,521)</u>	<u>(1,699)</u>
<b>Net increase in cash and cash equivalents</b>	13,774	(112)	(1,955)	(1,174)
<b>Cash and cash equivalents at beginning of the period</b>	<u>5,498</u>	<u>3,929</u>	<u>21,227</u>	<u>4,991</u>
<b>Cash and cash equivalents at end of the period</b>	<u>19,272</u>	<u>3,817</u>	<u>19,272</u>	<u>3,817</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 Equity - Group (Restated #) -**

	<u>Share Capital*</u> US\$' 000	<u>Share Premium</u> US\$' 000	<u>Capital Reserve</u> US\$' 000	<u>Accumulated Profits</u> US\$' 000	<u>Total</u> US\$' 000
<b>Balance at January 1, 2004</b>	-	424	-	5,385	5,809
Issuance of shares	-	53	-	-	53
Amortization of deferred compensation	-	-	68	-	68
Net profit for the period ended September 30, 2004	-	-	-	2,560	2,560
Dividend paid	-	-	-	(3,249)	(3,249)
<b>Balance at September 30, 2004</b>	<u>-</u>	<u>477</u>	<u>68</u>	<u>4,696</u>	<u>5,241</u>
<b>Balance at January 1, 2005</b>	-	497	86	6,603	7,186
Issuance of shares - IPO	-	11,128	-	-	11,128
Amortization of deferred compensation	-	-	76	-	76
IPO expenses (net of deferred tax of US\$371,000)	-	(1,285)	-	-	(1,285)
Exercise of options	-	153	-	-	153
Dividend paid	-	-	-	(2,498)	(2,498)
Net profit for the period ended September 30, 2005	-	-	-	7,857	7,857
<b>Balance at September 30, 2005</b>	<u>-</u>	<u>10,493</u>	<u>162</u>	<u>11,962</u>	<u>22,617</u>

\* Less than one thousand dollars

Company (Restated #) -

	Share Capital*	Share Premium	Capital Reserve	Accumulated Profits	Total
	US\$' 000	US\$' 000	US\$' 000	US\$' 000	US\$' 000
<b>Balance at January 1, 2004</b>	-	424	-	5,385	5,809
Issuance of shares	-	53	-	-	53
Amortization of deferred compensation	-	-	68	-	68
Net profit for the period ended September 30, 2004	-	-	-	2,521	2,521
Dividend paid	-	-	-	(3,249)	(3,249)
<b>Balance at September 30, 2004</b>	<u>-</u>	<u>477</u>	<u>68</u>	<u>4,657</u>	<u>5,202</u>
<b>Balance at January 1, 2005</b>	-	497	86	6,511	7,094
Issuance of shares - IPO	-	11,128	-	-	11,128
Amortization of deferred compensation	-	-	76	-	76
IPO expenses (net of deferred tax of US\$371,000)	-	(1,285)	-	-	(1,285)
Exercise of options	-	153	-	-	153
Dividend paid	-	-	-	(2,498)	(2,498)
Net profit for the period ended September 30, 2005	-	-	-	7,739	7,739
<b>Balance at September 30, 2005</b>	<u>-</u>	<u>10,493</u>	<u>162</u>	<u>11,752</u>	<u>22,407</u>

\* Less than one thousand dollars

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.

	As of September 30	
	2005	2004
	No. of shares	No. of shares
<b>Authorized:</b>		
Ordinary Shares with no par value	2,000,000,000	2,000,000,000
<b>Issued and fully paid:</b>		
Ordinary Shares with no par value	249,849,250	191,132,000

**Details of changes in share options**

	Average Exercise Price in US\$ per share	Options
At January 1, 2005	0.0285	15,462,000
Granted	0.212	1,605,000
Cancelled		-
Exercised	0.0227	6,717,250
At September 30, 2005	0.061	10,349,750

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 31 December, 2004 have been applied in the preparation for the financial statements for nine month period ended September 30, 2005 except that the Group has adopted new and revised International Financial Reporting Standards (IFRS) which became effective on January 1, 2005. These new and revised standards include:

IFRS 2 (Issued 2004) – Share based payment.

IAS 27 (Revised 2003) – Consolidated and Separate Financial statements.

- The revised IAS 27 requires a company that prepared separate financial statements to account for its investments in subsidiaries that are not classified as held for sale (or included in a disposal group that is classified as held for

sale) in accordance with IFRS 5 as either at cost, or in accordance with IAS 39.

The Group accounted for its investment in subsidiaries using the cost method in its "Company" financial statement in accordance with the revised IAS 27.

2. According to IFRS 2, the fair value of the employee services received in exchange for the grant of options is recognized as an expense. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured using a binomial model. These expenses have been recorded in the Profit & Loss Account, with a corresponding increase in equity. Previously, the grant of share options to employees and directors did not result in recognition of expense in the Profit and Loss Account and the Group recognized an increase in share capital and share premium when the options were exercised. IFRS 2 is applied retrospectively and comparative figures for 2004 have been restated accordingly.

Apart from the above, the other new and revised IFRS are currently assessed to have no material impact to the Group 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 effect of the new and revised IFRS on net profit and opening retained earnings of the Group and the Company were as follows:

<b>Group (US\$ '000)</b>		<b>IFRS 2</b>	<b>Net Impact</b>
		<b>Decrease</b>	<b>Decrease</b>
<b><u>Net profit for the nine months ended September 30, 2005</u></b>		(76)	(76)
<b><u>Net profit for the nine months ended September 30, 2004</u></b>		(68)	(68)
<b>Opening Accumulated Profits as at January 1, 2005</b>		(86)	(86)
<b>Opening Accumulated Profits as at January 1, 2004</b>		-	-

<b>Company (US\$ '000)</b>	<b>IAS 27</b>	<b>IFRS 2</b>	<b>Net Impact</b>
	<b>Decrease</b>	<b>Decrease</b>	<b>Decrease</b>
<b><u>Net profit for the nine months ended September 30, 2005</u></b>	(118)	(76)	(194)
<b><u>Net profit for the nine months ended September 30, 2004</u></b>	(39)	(68)	(107)
<b>Opening Accumulated Profits as at January 1, 2005</b>	(92)	(86)	(178)
<b>Opening Accumulated Profits as at January 1, 2004</b>	-	-	-



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 nine months ended September 30	
	<u>2005</u>	<u>2004</u>
Basic profit per share (US\$)	0.0346	0.0136
Diluted profit per share (US\$)	0.0332	0.0126

Basic earnings per share are calculated based on the weighted average number of 227,098,102 ordinary shares issued during the current period and 188,122,818 during the preceding period.

Diluted earnings per share are calculated based on weighted average number of 236,519,512 ordinary shares issued and 203,271,314 during the preceding period.

	For the three months ended September 30	
	<u>2005</u>	<u>2004</u>
Basic profit per share (US\$)	0.0136	0.008
Diluted profit per share (US\$)	0.0132	0.0074

Basic earnings per share are calculated based on the weighted average number of 249,849,250 ordinary shares issued during the current period and 188,612,196 during the preceding period.

Diluted earnings per share are calculated based on weighted average number of 256,831,436 ordinary shares issued and 203,313,773 during the preceding period.

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>September 30, 2005</u>	<u>December 31, 2004</u> Restated (#)	<u>September 30, 2005</u>	<u>December 31, 2004</u> Restated (#)
Net asset value per ordinary share (US\$)	0.0905	0.0376	0.0897	0.0371

Net asset value per share is calculated based on the number of 249,849,250 ordinary shares in issue at September 30, 2005 and 191,132,000 at December 31, 2004.

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

## Nine months ended September 2005 vs. nine months ended September 2004

### Revenue

Revenue by geographic segment (US\$ '000)

Region	Nine months ended September 2005	Nine months ended September 2004	\$ change	% change
India	18,718	8,935	9,783	109.5
Europe	1,051	1,080	(29)	(2.7)
North America	1,155	1,025	130	12.7
Other	2,445	1,817	628	34.6
Total	23,369	12,857	10,512	81.8

Region	Q3 2005	Q3 2004	\$ change	% change
India	7,316	4,837	2,479	51.3
Europe	483	273	210	76.9
North America	450	340	110	32.4
Other	820	360	460	127.8
Total	9,069	5,810	3,259	56.1

For the nine months ended September 30, 2005, the Group experienced robust customer demand for its products and recorded strong revenue growth of 81.8% from US\$ 12.9 million in the nine months ended September 30, 2004 to US\$ 23.4 million in the nine months ended September 30, 2005. By region, India registered a 109.5% growth in revenues to US\$ 18.7 million and North America's revenue grew 12.7% to US\$ 1.2 million. Sales to Europe decreased by 2.7% to US\$ 1.1 million. Revenue from other regions registered revenue growth of 34.6% to US\$ 2.4 million. Substantial growth of US\$ 0.4 million was achieved in revenues from Russia.

For Q3 2005, the Group also recorded strong revenue growth of 56.1% from US\$ 5.8 million in Q3 2004 to US\$ 9.1 million in Q3 2005. By region, India registered a 51.3% jump in revenue to US\$ 7.3 million.

### *Cost of sales and gross profit*

In parallel with the substantial increase in revenues (81.8%), cost of sales increased relatively slower by 57.4% from US\$ 4.5 million in the nine months ended September 30, 2004 to US\$ 7.0 million in the nine months ended September 30, 2005. As a result, our gross profit margin in the nine months ended September 30, 2005 has increased to 69.9%. The increase in gross margin was derived from higher average selling prices for the product mix and productivity gains. Our gross profit margin in Q3 2005 was 70.5%, compared to 65.6% in the Q3 2004

### *Research and development costs*

The increase in research and development costs in nine months ended September 30, 2005 in comparison to nine months ended September 30, 2004 was 86.7% from US\$ 1.1 million to US\$ 2.0 million. The increase in research and development in Q3 2005 in comparison to Q3 2004 was 118.6%, from US\$ 0.3 million to US\$ 0.7 million. This is mainly due to an increase in our research and development manpower and sub-contractor costs due to increased R&D activities to support an active pipeline of new products.

### ***Selling and marketing expenses***

The increase in the selling and marketing expenses in nine months ended September, 30 2005 in comparison to nine months ended September 30, 2004 was 60.3% from US\$ 2.0 million to US\$ 3.3 million. The increase in the selling and marketing costs in Q3 2005 in comparison to Q3 2004 was 40.6% from US\$ 0.8 million to US\$ 1.1 million. These expenses comprised salaries of new employees, office rent, travelling and other expenses, in addition to higher sales performance payouts to our marketing team in support of the business growth.

### ***General and administrative expenses***

General and administrative expenses increased by 11.5% to US\$ 1.6 million during the nine months ended September 30, 2005 period from US\$ 1.5 million during the nine months ended September 30, 2004 period. This increase was mainly the result of higher compensation and rent expenses, and expenses related to the Company becoming a public company in Q2 2005. The increase was partially offset by lower doubtful debts allowances.

The increase in the general and administrative expenses in Q3 2005 in comparison to Q3 2004 was 40.0% from US\$ 0.5 million to US\$ 0.7 million.

### ***Finance income (net)***

Finance income increased in nine months ended September 30, 2005 to US\$ 0.3 million. Financial income in Q3 2005 increased to US\$ 0.1 million from about US\$ 28,000 in Q3 2004. The increase in the financial income resulted from higher cash levels maintained by the Company, mainly following the IPO, along with higher interest rates on the Company's US\$ deposits.

### ***Profit from ordinary activities before taxation***

As a result of higher revenue, higher gross profit margin and effective cost management, we recorded profit before tax of US\$ 9.8 million in nine months ended September 30, 2005 in comparison to US\$ 3.8 million in nine months ended September 30, 2004, representing an increase of 156.7% or US\$ 6.0 million. Similarly, for the quarter, we recorded US\$ 4.0 million in Q3 2005 in comparison to US\$ 2.2 million in Q3 2004, representing an increase of 79.2% or US\$ 1.8 million. As a result, our profit before tax margin expanded from 29.6% of revenue in nine months ended September 30, 2004 to 41.8% in nine months ended September 30, 2005, and from 38.3% of revenue in Q3 2004 to 43.9% in Q3 2005.

### ***Income tax expenses***

Income tax expense increased by US\$ 0.7 million or 53.3% from nine months ended September 30, 2004 to nine months ended September 30, 2005. Income tax expense decreased by US\$ 0.1 million or 17.3% from Q3 2004 to Q3 2005. The increase was mainly a result of higher profits. However, it should be noted that the effective income tax rate has decreased from 32.7% in nine months ended September 30, 2004 to 19.5% in nine months ended September 30, 2005, and from 32.2% in Q3 2004 to 14.9% in Q3 2005. This decrease is due to the approval granted by the Government of Israel in January 2005 for a new Approved Enterprise program. As a result of this new approval, the total effective tax rate is lower in the first two years following the approval, as revenues in comparison to the approved base year (which is 2004) increase. The program thus effectively reduces the effective income tax rate for the Group in financial year 2005 as compared to financial year 2004.

### *Net profit*

We recorded a net profit of US\$ 7.9 million in nine months ended September 30, 2005 in comparison to US\$ 2.6 million in nine months ended September 30, 2004, representing an increase of 206.9% or US\$ 5.3 million, and US\$ 3.4 million in Q3 2005 in comparison to US\$ 1.5 million in Q3 2004, representing an increase of 125.0% or US\$ 1.9 million. Our net profit margin expanded from 19.9% of revenue in nine months ended September 30, 2004 to 33.6% in nine months ended September 30, 2005, and 25.9% of revenue in Q3 2004 to 37.4% in Q3 2005.

- 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.**

As the results for Q3 demonstrate, the business conditions have remained favourable to the Group and we expect the same trend to continue into FY2006, as ongoing expected investments in automation in the diamond manufacturing industry in India and elsewhere (primarily in Russia and the southern African countries, but China as well) will continue in the drive to increase productivity. We expect this will increase demand for Sarin's products, as has been demonstrated by this quarter's growth in revenues.

Whilst business conditions are expected to remain favourable for the Group for the rest of FY2005, we expect the quarterly results for Q4 to weaken, as a result of the convergence of all the seasonal holidays (the Jewish New Year and related holidays in October, the Indian Deepavali holidays in November and the Christian holidays in the end of December) in this quarter. Overall, though Q4 will be weaker than Q3 due to the circumstances stated above, we still expect to show record results and exemplary growth for the year.

The Company plans to continue the following ongoing initiatives in Q4 FY2005:

- a. The sales of Facetware, the Gemological Institute of America's (GIA) new diamond cut grading system, based on Light Performance Evaluation, have commenced as expected and we expect the sales of this software upgrade to increase as the February 2006 target date for the adoption of the new grading system, as set by the GIA, draws nearer.
- b. Sarin's advanced green-laser diamond sawing, cutting and shaping system has moved into production and sales, as announced in September this year. Of the initial production batch planned for Q4 FY2005, all have already been ordered by customers, with delivery planned for this quarter. Order taking for delivery in FY2006 is already in progress.
- c. Testing of our disposable polishing discs at a selected industry players in India has continued. These tests are progressing well, with results showing overall satisfactory life expectancy of the discs in various polishing scenarios, along with additional intrinsic benefits, as expected (flexibility of operations, reduced materials handling, etc.). Additional tests are being carried out to verify other potential benefits that may be realized by the application of our innovative polishing discs, relating to polishing speed and quality.

Initial sales of the disposable discs have taken place in Israel. Beta tests have also been conducted successfully at specific sites in Thailand and S. Africa.

- d. In parallel, an application to the Israeli government for new tax benefits in relation to the manufacturing and sale of the disposable polishing discs has been submitted. If approved, this program, granted under new Israeli legislation, may provide for special low taxation for profits realized from this enterprise for a period of up to ten years from the initial production of full scale commercial quantities anticipated next year.
- e. Testing and refining of the inclusion mapping system prototype, based on commercially viable components is continuing. The schedule for the completion of the development and product introduction in the second half of FY2006 remains on target.
- f. The development of a new generation of products for the measurement and analysis of diamonds' colour parameter has commenced.

## 11. Dividend

### (a) Current Financial Period Reported On

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

The Board of Directors declared, on November 13, 2005, an interim dividend of US\$0.01 per share.

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

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

#### Name of Dividend

Cash dividend declared on February 2, 2004 and paid on February 15, 2004 - per share	US\$0.007
Cash dividend declared on August 4, 2004 and paid on September 23, 2004 - per share	US\$0.01

(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> US\$'000	<u>Tax rate applicable to shareholders</u> %
Interim Dividend declared on November 13, 2005 (see (a) above.	2,498	15%*/ 10%**

\* The tax rate on Israeli corporate and individual shareholders is 15%.

\*\* The new tax treaty between Israel and Singapore will take effect, in respect of taxes withheld at source from

dividends, to amounts of income derived on or after January 1 of the year following the year the treaty enters into force.

If the new tax treaty, signed in May 2005, is ratified by December 31, 2005, the Singapore-resident shareholders will be subject to tax of 10% of the gross amount. If the tax treaty will not be ratified by December 31, 2005, Singapore shareholders are subject to withholding as per the individual tax rate applicable to Israeli shareholders (15%). However, Singapore shareholders, who are subject to Singapore tax regarding this dividend, should be exempt from Israeli withholding tax on this dividend - according to the current tax treaty between Israel and Singapore.

**(d) Date payable**

January 3, 2006

**(e) Books closure date**

December 20, 2005

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

See 11 (a) above.

*The initial public offering of Sarin Technologies Ltd was sponsored by UOB Asia Limited.*