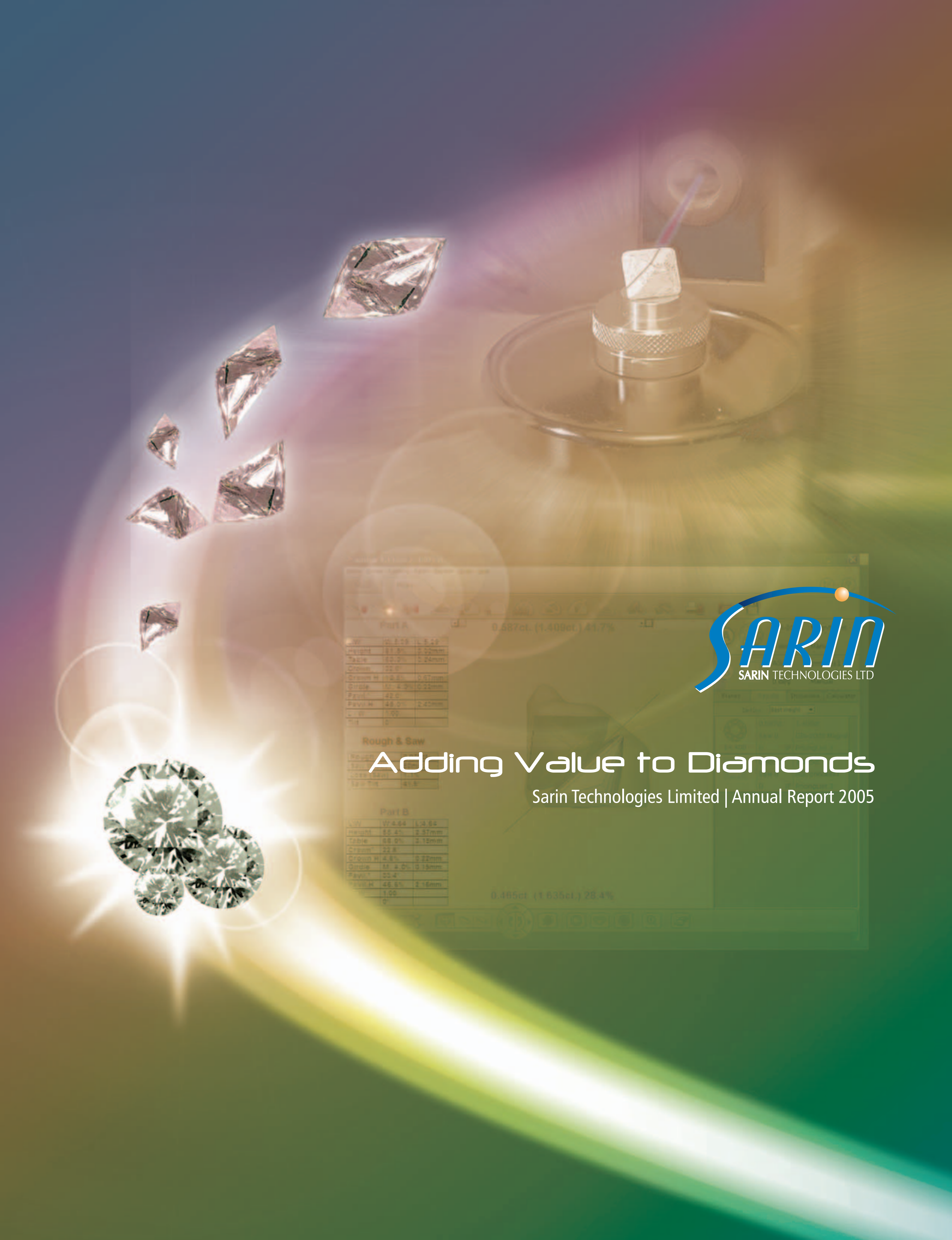


SARIN TECHNOLOGIES LTD

Adding Value to Diamonds

Sarin Technologies Limited | Annual Report 2005

contents

corporate **profile**

Sarin Technologies Limited is a world leader in the development, manufacture and sale of precision technology products based mainly on automated three-dimensional geometric measurement (metrology) for the processing of diamonds and gems. Our systems combine various hardware technologies, including electro-optics, electronics, precision mechanics and lasers. Key to these systems is the computer software that performs three-dimensional modelling and advanced mathematical algorithms for volume optimization, value maximization and similar functions.

Our products provide smart solutions for every stage and aspect of diamond design and manufacturing. These solutions include determining the optimal yield from a rough stone, engraving laser markings to allow the accurate cutting of the rough stones and our newest products - a cutting-edge green laser-based solution for sawing, cutting and shaping of rough stones and an innovative facet polishing solution for rough diamonds, transforming them into polished gems. In addition, we provide products for the measuring and analysis of polished diamonds and for inscribing on polished diamonds as well as other technology that assists sales in jewellery stores. In essence, our products increase the profit margins at all stages of the trade between the purchase price of rough stones and the sale price of polished diamonds.

We believe that over the years, our products have changed the manner in which rough stones are processed into polished ones and in which polished diamonds are bought and sold, and have established a brand name for ourselves in the diamond industry.

Our DiaMension™ and DiaVision™ products are used in most of the gemological institutes such as the Gemological Institute of America (GIA), the American Gem Society (AGS), the International Gemological Institute (IGI), the Hoge Raad voor Diamant or the Diamond High Council (HRD), the Central Gemological Laboratory (CGL) and the European Gemological Laboratory (EGL) for the qualification and grading of a polished diamond's cut.

Our products currently provide the diamond industry with technological solutions for five main areas:

(a) Planning the optimal utilization of the rough stones in order to cut the rough stones so as to achieve the maximum yield and value;

(b) Sawing, cutting and shaping of rough stones using advanced green laser technology, so as to significantly reduce the risk of stone breakage and reduce rough material waste;

(c) Polishing the facets on rough stones to transform them into polished gems, by using Sarin-developed disposable polishing discs, as source of recurring income for the Company;

(d) Measurement of two (Colour and Cut) of the four parameters of the polished diamond (Colour, Cut, Clarity and Carat) in order to help determine the value of the diamond, based on the quality grade of its colour and cut, as well as light performance measurement systems for enhancing a polished diamond's certification; and

(e) Inscribing on polished diamonds with distinct marks like text, numerals and symbols, so as to aid in the diamond's identification and personalisation.

Our business strategy is to consolidate our position as a market leader for the provision of high technology solutions in the diamond and gemstone industries. We intend to continue to enhance our market presence in existing and emerging markets, while striving to become truly a "one-stop-shop" for technology. To this end we have a pipeline of upgrades to existing products, enhancing even more their functionality and performance, as well as new products in various stages of development, which are aimed at additional aspects of the industry – advanced inclusion mapping systems which will enhance our rough stone planning systems as well as potentially permit the automated measurement of yet another of the four Cs, namely Clarity, and next-generation colour grading and assessment systems for rough and polished stones.

our milestones

1988

8 NOVEMBER 1988
Our Company was incorporated in Israel as a private company limited by shares under the Companies Ordinance (New Version) 1983 of Israel, under the name of Borimer Limited.

1988
Our first product, the Robogem™, an automated production system for producing polished gemstones from rough gemstones, was launched. Robogem™ was sold in limited numbers to semi-precious gemstone manufacturers in Israel, Europe and the Far East (namely India and Myanmar).

1989

21 SEPTEMBER 1989
We changed our name to Sarin Research, Development and Manufacture (1988) Limited.

1992

1992
The DiaMension™, a pioneering grading product for assessing the cut (proportion and symmetry) of polished diamonds, was introduced. The product was an automated computerised product for assessing a diamond's proportion and symmetry, key parameters in the grading of a diamond's cut. A significant advancement for the diamond industry, the DiaMension™ has changed the way polished diamonds are bought and sold in the diamond industry by providing accurate means of measuring the proportion and symmetry, thereby deriving the cut.

1994

31 DECEMBER 1994
The Group was named Sarin Technologies Limited.

1995

1995
Our Company developed the DiaExpert™, an automated computerised planning system for the maximum utilisation of rough stones. The introduction of this new technology in the DiaExpert™ revolutionized the diamond manufacturing industry by introducing computer-based technology to substitute person-based expertise, and has thus contributed to the geographic shift of the diamond industry to new centres of manufacture such as India, PRC and Russia.

21 DECEMBER 1995
Our Company, along with another company, Rodata Investments Limited, incorporated a private company subsidiary called Romedix to deal in the development, manufacture and marketing of devices for inspecting and documenting skin afflictions in general and in particular, the colour and size of skin lesions.

our milestones

1999

1999
We introduced the use of laser scanning in order to create three-dimensional concave modeling of rough stones. The ability to accurately complement our modelling with the rough stone's concavities provided the user with a complete and accurate model of the rough stone. This feature was complementary to, and increased the effectiveness of, the DiaExpert™.

2000

2000
The DiaMark™ was introduced. This product allows the DiaExpert™ product to automatically inscribe, using laser markings on the rough stone's surface, the optimal sawing plane that was suggested by the DiaExpert™ and accepted by the user.

2001

2001
We acquired the entire share capital of Gran Computer Industries (GCI), a private company incorporated in Israel. GCI develops, manufactures and markets devices for the identification and classification of a diamond's colour.

2004

22 MARCH 2004
Sarin India was incorporated as a wholly owned subsidiary in India. Sarin India deals in the provision of pre-sale, post-sale and technical support services to our Group's customers in India, Sri Lanka and such other territories as may be agreed upon by our Company and Sarin India.

2004
Romedix purchased from a third party know-how and technology used in the development and manufacture of disposable polishing discs for diamonds and gemstones.

2005

8 APRIL 2005
Sarin Technologies Limited was listed on the mainboard of the Singapore Exchange.

AUGUST 2005
We introduced Facetware™, a software upgrade product for the Company's DiaMension™, and DiaExpert™ product lines (and installed base), for the analysis of a polished stone's cut grade based on light performance parameters, in cooperation with the Gemological Institute of America (GIA).

SEPTEMBER 2005
Sarin launched the Quazer™ advanced green-laser system for sawing, cutting and shaping diamonds, establishing a new product line and climbing another rung on the ladder towards being a one-stop-shop for the diamond manufacturing industry.

chairman's **statement**

Dear Fellow Shareholders,

On behalf of the Board of Directors, I am very happy to report to you on what has definitely been a remarkable year for the Sarin Group.

The year 2005 has been noteworthy due to the following significant achievements:

- The successful listing of the Group on the main board of the Singapore Exchange on April 8th, 2005.
- The Group's moving into new facilities in the diamond-bourse region of Ramat-Gan, near Tel-Aviv, Israel. This effectively doubled our infrastructure to cater to our management, research and development and production needs. Further expansion by approximately another 25% has been concluded and the area has been renovated so as to provide ample production capacity for the Quazer™, green-laser sawing, cutting and shaping system.
- Introduction of the DiaExpert™-XL, the Group's measuring, grading, planning, and marking machine for extremely large diamonds of up to 65mm across (or up to 800 carats and more).
- Introduction of Facetware™, our software upgrade for the existing installed base and for new systems, supporting the Gemological Institute of America's (GIA) new diamond cut grading system, based on Light Performance Evaluation in Q3.
- Introduction of Sarin's Quazer™ advanced green-laser diamond sawing, cutting and shaping system in Q3, with sales and deliveries commencing in Q4.
- Initial delivery to beta-customers of our revolutionary disposable polishing discs and the ascertaining that these provide quantifiable tangible benefits to their users – significantly improved polishing throughput.

In FY2005, the Group's revenue increased by a robust 60.9%, to US$30.3 million. By region, India registered an impressive 79.3% growth in revenues to US$ 23.4 million. Revenue from emerging market regions, including China, Russia and southern Africa countries registered revenue growth of 47.6% to US$ 3.9 million.

Listing on the Singapore Exchange

Since the founding of the Group, Asia has developed into an increasingly important market for our business growth. Confirming our commitment to participate in the growth of this vibrant region, the Group made history in April 2005 as the first Israeli company to be listed on the Singapore Exchange. The offer to the public was over-subscribed, and the Group raised over US$10 million which will be used to establish the disposable discs full-scale production facilities and other expansion plans, including the possibility of acquisitions.

Group Performance - Year In Review

In FY2005, the Group's revenue increased by a robust 60.9%, to US$30.3 million. By region, India registered an impressive 79.3% growth in revenues to US$ 23.4 million. Revenue from emerging market regions, including China, Russia and southern Africa countries registered revenue growth of 47.6% to US$ 3.9 million. The increase in our revenues came mainly from the accelerated adoption of our existing planning products by the manufacturers in India, as well as in other manufacturing centres.

With revenue growth and our extensive ongoing research and product development programs, operating costs were correspondingly higher. Despite the increase in costs, the Group achieved a remarkable increase of 85.2% in profit before tax to US$11.7 million in FY2005.

Our effective corporate tax rate dropped from 29.4% in FY2004 to 20.1% in FY2005. This decrease was mainly due to the granting of a new approved enterprise and the associated zero-tax rate in the beginning of 2005. In addition, in early 2006, we were again awarded a fourth approved enterprise program, linked to the establishment of the full-scale disposable discs manufacturing facility, and with these, the Group's effective tax rate may be even lower in 2006.

Due to the increase in profit before tax and the lower tax expense, net profit grew dramatically by 109.3% to US$9.4 million in FY2005.

Dividend

In recognition of our shareholders' continued support and their right to share in the Group's success, and exceeding our stated dividend policy, the Board of Directors has recommended, subject to approval at the forthcoming Annual General Meeting, that a final dividend of US$0.00865 per share be distributed, in addition to the interim dividend of US$0.01 paid earlier this year (2006). Based on the current share price, this dividend will provide a yield of approximately 3.5% to shareholders.

Looking Ahead to 2006

We expect the following industry trends to favour our business in 2006:

a. The overall global demand for diamonds shows stability, despite seasonal fluctuations. Among key drivers of the market remain the emerging consumer markets in China and India, as the populations of these two countries become more affluent and more consumption minded.

b. Ongoing investments in automation in the manufacturing industry continue, as the overall drive to increase yield and productivity remains a key concern. Emphasis focuses on investing in the modernization of the manufacturing plants, in general, and in yield enhancing tools/systems, in particular.

c. De Beers has recently announced its review and possible revision of its Supplier of Choice program, which over the past few years has had the effect of diminishing the number of sight holders, which, in turn, has had the effect of increasing the prices of rough diamonds. We believe that changes to this policy, if they will increase the number of players in the industry, will benefit the industry as a whole and our business in particular.

d. Russia has become the world's second largest producer of rough diamonds. The existing legislative restrictions on domestic polishing in Russia are undergoing revision and the proportion of diamonds being released into the international market is rising. We view this as a positive development for the industry, as this will increase the supply side of rough stones, creating more opportunities for sale of our equipment.

e. As a result of the South African and neighbouring governments' policies, to give increased incentives to diamond polishing activities in that region of the world, there has been and is an ongoing shift of diamond polishing plants to the southern African countries. We believe this will create new opportunities for the sale of our products to this emerging market.

We plan to introduce the following new or enhanced products in 2006:

a. The disposable polishing discs. These discs are superior to current polishing scaifes in terms of quality, ease of operation and cost, and provide significantly increased polishing throughput, as well. The market potential for this product is estimated at more than US$75 million on an annual recurring basis. We expect this product to increasingly generate a stream of recurring income, with significant sales commencing in 2007, as the full scale production facility comes online.

b. Towards the second half of this year, two new products for the assessment and prediction of colour in polished and rough diamonds.

c. The development of our inclusion mapping system continues. It is expected to be completed by late 2006 with full commercialisation to begin in 2007. This system will provide the manufacturer with the means to exclude inclusions and significantly improve the realized yield from his rough stones. It is the Group's intention to generate recurring income from this innovative product by leasing it to the larger diamond manufacturers on a per-carat per use basis, as well as by opening service centres worldwide to cater to smaller manufacturers. In the interim period, prior to its introduction, the first quarter of 2006 will see the release of a new version of our rough planning Advisor software package. This enhanced software (upgrade) will assist the manufacturer in increasing the value of the planned stones by better taking into account the inclusions (types and locations), which will be indicated by the operator manually.

d. We intend to further enhance our Quazer™ green-laser diamond sawing and cutting system, with the introduction of additional software control features. These features will be designed to enable more rapid shaping of a diamond while retaining more material for reuse. We see these planned features, along with our ability to offer a seamless data link to our planning systems, as another differentiating factor between our products and competing products, increasing the product's appeal and value to our customers.

Sales and marketing efforts in 2006 will focus on retaining our market share in India, while increasing it in Russia, the southern African countries and China. It is our intent that we become a significant player in the laser sawing, cutting and shaping systems market, having introduced our Quazer™ for this segment the last quarter of last year.

We are excited that this year will be a significant stage in our corporate growth, as we continue to move forward to consolidate our global leadership as the brand name of choice for technological innovation spanning all phases of the diamond trade and industry - truly nearing our goal of being the "one-stop-shop" for cutting-edge technological products and solutions. We will continue adding value to diamonds worldwide as more and more manufacturers, wholesale and retail traders "Sarin their diamonds".

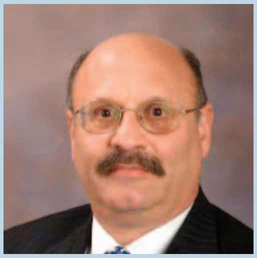
Acknowledgements

Together with my fellow directors, I would like to thank our customers, suppliers, business partners and most of all our management and employees for their ongoing dedication and support to the Group and to the revolutionizing of the diamond trade and manufacturing industry.

Daniel Glinert

DANIEL BENJAMIN GLINERT
Executive Chairman

board of **directors**

1. 
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1. **DANIEL BENJAMIN GLINERT**
Executive Director

Daniel Benjamin Glinert is our Executive Director and has been the Chairman of Board of the Group since 1999. He is also the Director of the Group's subsidiaries, Romedix, Sarin India and GCI. He holds a bachelor's degree in Computer Sciences (Cum Laude) from the Technion - Israel Institute of Technology. Mr. Glinert has over 30 years experience in various high-technology industries (software, military, semiconductor and medical applications) in research, development and management positions in Israel and the USA. From 1972 to 1977, he served in the Israeli Air Force and was honorably discharged with the rank of Major.

2. **HANOH STARK**
Executive Director

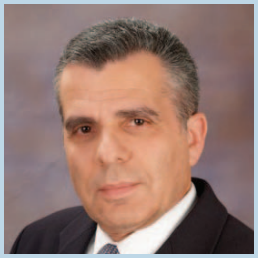
Hanoh Stark is an Executive Director of the Group and has been on our Board since 1989. He is also the director of the Group's subsidiaries, Romedix, GCI and Sarin India. Mr Stark studied Electrical Engineering at the Technion in Milan, Italy. He is a member of the Israeli Diamond & Colored Stone Bourse and also a member of I.C.A International Colored Gemstone Association. Mr. Stark has over 35 years of experience in the gemstone mining, manufacturing and trading industries, including in the development of technology-based aids and systems.

3. **EHUD HAREL**
Non-Executive Director

Ehud Harel is a Non-Executive Director of the Group and was appointed to the Board in July 2004. He has over 20 years experience in the gemstone industry, having dealt with the evaluation and purchase of rough stones as well as the wholesale and worldwide distribution of polished gemstones, since 1982. From 1979 to 1982, he was a mechanical engineer with the Israeli Navy.

4. **EYAL MASHIAH**
Non-Executive Director

Eyal Mashiah is a Non-Executive Director of the Group and was appointed to the Board in 1994. Mr. Mashiah has over 20 years of experience in the diamond and gemstone industries. He is currently an executive director of Novel Collection Limited. (formally Biram Diamonds Limited), a diamond manufacturer and dealer. Prior to that, he was involved in the manufacturing, marketing and trading of precious gemstones at Icam-Gems Limited (1982 - 1983), at Algem Limited (1983 - 1987) and at Ramgem Limited (1987 - 2006).

5.  6.  7. 

5. **ISRAEL ZEEV ELIEZRI**
Non-Executive Director

Israel Zeev Eliezri is a Non-Executive Director of the Group and was appointed to the Board in July 2004. He holds a Master's degree in Science (Geology) and a Master's degree in Business Administration, both from the Hebrew University, Israel. Mr. Eliezri has over 30 years experience in the gemstone and diamond industries. He is currently the President of Colgem El 97 Limited and Coldiam Limited, which cut and export diamonds and coloured gemstones. Mr Eliezri was the President of the International Colored Gemstones Association (ICA) from 1999 to 2003, was the President of the Israel Emerald Cutters Association from 1994 to 1999 and, concurrently, also from 1994 to 1999, he was the Chairman of the Gemological Institute of Colour Stones and Diamonds in Israel. Mr. Eliezri served as an officer in the Israel Defence Forces and holds the rank of Major in the reserves.

6. **AHARON SHAPIRA**
Non-Executive Director

Aharon Shapira is a Non-Executive Director of the Group and has served on our Board since 1989. Mr Shapira holds a Bachelor's degree in Electrical Engineering (Cum Laude) from the Technion - Israel Institute of Technology and a Master's degree in Computer Science from the Weizman Institute of Science in Rehovot, Israel. Mr. Shapira has over 30 years of experience in high-technology industries, spanning various applications ranging from military applications to automotive, industrial, medical and bio-engineering. Among others, he was the founder and Chief Technological Officer of Orsan Medical Equipment Limited, was previously the Chief Technological Officer of Voicesense, a company dealing in stress/emotion recognition through voice analysis, and was in charge of R&D at Shalev Limited, a software and systems engineering company. He was also a lecturer at Systematic Inventive Thinking, Limited., a company specialising in the training of organisations and individuals in a methodology for inventive thinking. From 1973 to 1980, he was a Captain in the Israel Defence Forces.

7. **YEHEZKEL PINHAS BLUM**
Independent Director

Yehezkel Pinhas Blum is an Independent Director of the Group and was appointed to the Board on 8 March 2005. Mr Blum holds a Bachelor's degree in Economics and Business Adminstration from the Bar-Ilan University in Ramat Gan, Israel. Mr. Blum is a Senior Member of the Israel Diamond Exchange and the Vice President of the Board of the Israel Diamond Exchange in Ramat Gan, Israel. Mr. Blum has over 20 years of diamond and gemstone manufacturing and trading experience. Prior to that, from 1980 to 1983, he was an economist with the United Mizrachi Bank Limited and was responsible for managing the bank's economic research unit and advising the bank's management with regard to new investments and business opportunities. From 1978 to 1980, he was an analyst engaged in economic research and analysis of financial reports. He is currently a Major (Reserve) in the Israel Defence Forces.

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8. CHAN KAM LOON
Independent Director

Chan Kam Loon is an Independent Director of the Group and was appointed to the Board on 8 March 2005. Mr. Chan holds a degree in Accountancy from the London School of Economics and is a qualified Chartered Accountant with the Institute of Chartered Accountants in England and Wales. He currently runs his own management and consulting firm, Philip Chan Consulting Pte Limited. From July 2001 to July 2004, he headed the Listings Function of the Markets Group at the Singapore Exchange. Before that Mr. Chan spent ten years in investment banking and in private equity within the ASEAN region. Mr. Chan was a member of the Singapore's Accounting Standards Committee, Singapore Zhejiang Business Council and also Singapore Shandong Business Council.

9. VALERIE ONG CHOO LIN
Independent Director

Valerie Ong Choo Lin is an Independent Director of the Group and was appointed to the Board on 8 March 2005. She graduated with a Bachelor of Law (Honours) from the National University of Singapore in 1987 and obtained a Masters in Law (with Distinction) from the London School of Economics in 1991. Ms Ong heads the Corporate Finance Practice in Rodyk & Davidson and is also a member of the firm's Executive Committee. She has been a practicing lawyer since 1988, specialising in corporate finance (including initial public offerings) and mergers and acquisitions. Ms. Ong is a member of the Singapore Income Tax Board of Review and an Independent Director of Chemical Industries (Far East) Limited (a company listed on the Main Board of the Singapore Exchange Securities Trading Limited).

10. AVRAHAM ESHED [a]
Non-Executive Director

Avraham Eshed is proposed to be elected as a Non-Executive Director of the Group. Mr. Eshed has over 35 years of experience in the diamond and gemstone industries. He was the founder of Gemstar Limited. and Eshed Diam Limited., and serves as the president of both companies. Mr. Eshed is a founding member of the International Colored Gemstones Association (ICA), where he currently serves as a director.

[a] Mr. Avraham Eshed is proposed to be elected as a director instead of Mr. Israel Zeev Eliezri, who submitted his resignation to the Board of Directors (effective 24 April 2006). Mr. Eliezri notified the Company that his resignation is due to personal reasons.

key management **executives**

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1. **ZEEV LESHEM**, our Chief Executive Officer, is in charge of overseeing the overall management and expansion of the Company's operations and business. He holds a bachelor's degree in Electrical Engineering from the Ben-Gurion University in Israel. He joined the Company as CEO in late 1994, having been a consultant with the Company from 1992 to 1994, involved in various project-oriented work. For five years before joining the Company, Mr. Leshem worked on various high-technology projects, including medical instrumentation, automated polishing of diamonds and projects relating to computerised signage.

2. **ZVI HALPERIN**, the Group's Chief Financial Officer, was appointed in 2004. He holds a bachelor's degree in Accounting and Economics from the Tel-Aviv University in Israel and is a member of the Institute of Certified Public Accountants in Israel. He is responsible for all the financial aspects of the Company. Prior to joining the Group, Mr. Halperin was Chief Financial Officer of Optibase Limited, an Israeli company traded on the NASDAQ, for ten years, and, before that, he spent 10 years as the comptroller and financial manager of Oshap Technologies Limited, also an Israeli company traded on the NASDAQ.

3. **ABRAHAM MEIR KERNER**, our Chief Technological Officer, is primarily responsible for developing the Group's technological base and the development of new products. Mr. Kerner has been with the Company since 1995 and holds a bachelor's degree in Electrical Engineering from the Technion - Israel Institute of Technology. Before his appointment as Chief Technological Officer in 2004, he was our R&D manager for nearly a decade. Prior to joining the Group, he accumulated 15 years of engineering experience and was involved for ten of those years in the development of precision motion control systems and accurate measuring machines for diamonds.

4. **DAN ILAN BAR-EL** Vice President for Research and Development (R&D), joined the Company in 2004 and is responsible for overseeing the research and development processes in the Company. He has a bachelor's degree in Electronics and Computer Engineering from the Technion-Israel Institute of Technology and also holds a diploma in business management from the Israeli Institute of Management. Prior to joining the Group, Mr. Bar-el was, from 2002 to 2004, a consultant in product management and operations and an academic manager at the Israeli Centre for Continuing Education where he developed courses and managed and lectured on project management. Prior to that, Mr. Bar-el accumulated 20 years of research and development experience, having held various R&D positions at Israeli high-technology companies.

5. **AKIVA CASPI** is the Group's Vice President and Manager of the Manufacturing Market Business Activity, established as of January 2006. Mr. Caspi joined Sarin this year to assume this position and is responsible for overseeing all aspects of the Manufacturing Market Business Activity operations including relevant product management, sales promotion, and pricing strategies. He holds a Bachelor's degree in Electronic Engineering from the Technion - Israel Institute of Technology. Prior to joining Sarin he served as Director of Research & Development at the Gemological Institute of America (GIA) where he was responsible for integrating the new GIA cut system into optical scanning devices, Director of Marketing at Dialit, an Israeli company that develops, manufactures, and sells automatic polishing equipment, and Director of Technology for the Israel Diamond Institute, where he led the introduction of new technologies, such as optical scanning devices and improved laser technologies, to the diamond cutting industry.

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6. **SHEMIAU CASSORLA** is the Group's Vice President and Manager of the Polishing Equipment and Disposables Business Activity as of January 2006. Prior to his latest appointment at Sarin, Mr. Cassorla was the Chief Executive Officer of Sarin India, appointed as of January 2004 to this position. Prior to being appointed to Sarin India, he worked in the Group's sales department for ten years, eventually being promoted to Vice President for Marketing in India. Before that he worked for five years in the Company's research and development department as a product manager. Prior to joining the Group, Mr. Cassorla accumulated 20 years of experience in developing and maintaining computerised industrial systems, automotive systems, control systems and military systems. He graduated in 1969 as a practical electronic engineer from Ort Singalovsky in Israel.

7. **AVRAHAM DALI**, Vice President for Sales and Customer Care, has been with the Group for three years. He is responsible for managing the Company's sales and marketing operations, outside of India. He holds a bachelor degree in Computer Engineering and Electronics Engineering (with a major in Computers) from the Ben Gurion University in Israel and also a Masters of Business Administration from the Northeastern University in Boston, Massachusetts, USA. Mr Dali has over 30 years of experience in the fields of marketing, sales, technical and operational support with various Israeli companies dealing in high-technology products.

8. **UDI LEDERER** is our Vice President for Marketing. He is primarily responsible for conducting market research, developing and executing the Company's marketing activities including advertising, corporate web site, seminars, exhibitions, conferences, public relations, and collateral material. He also manages the Company's intellectual property portfolio and overseas patent and trademark registration, protection, and litigation. His previous position in the Group was Product Manager for the Retail & Gem Lab Markets. He has been with the Group since 2001 and holds a bachelor's degree in Business (Summa Cum Laude) and a Masters of Business Administration (Cum Laude) from the College of Management in Israel. Prior to joining the Group, he was responsible for initiating and developing product prototypes, integrating diverse technologies and presenting recommendations to senior management while participating in multi-company technology development consortiums at various Israeli high-technology companies.

9. **YEHUDA NAIM** is the Group's Vice President and Manager of the Retail Market Business Activity as of January 2006. Mr. Naim, in this position, is responsible for overseeing all aspects of the Company's business with the wholesale trade, retail trade and gemological laboratories. Prior to assuming this new position, Mr. Naim was the Manager of the Software Development Department at Sarin, having joined the Company in 2001. Mr. Naim holds a bachelor's degree in Computer Science from the Ben-Gurion University in Israel. Mr. Naim has accumulated 10 years of software development experience. Prior to joining Sarin, he managed an R&D group at Zootech Inc. and prior to that he worked as a senior developer and team leader at SmarTeam, an Israeli subsidiary of Dassault Systèmes, France.

key management **executives**

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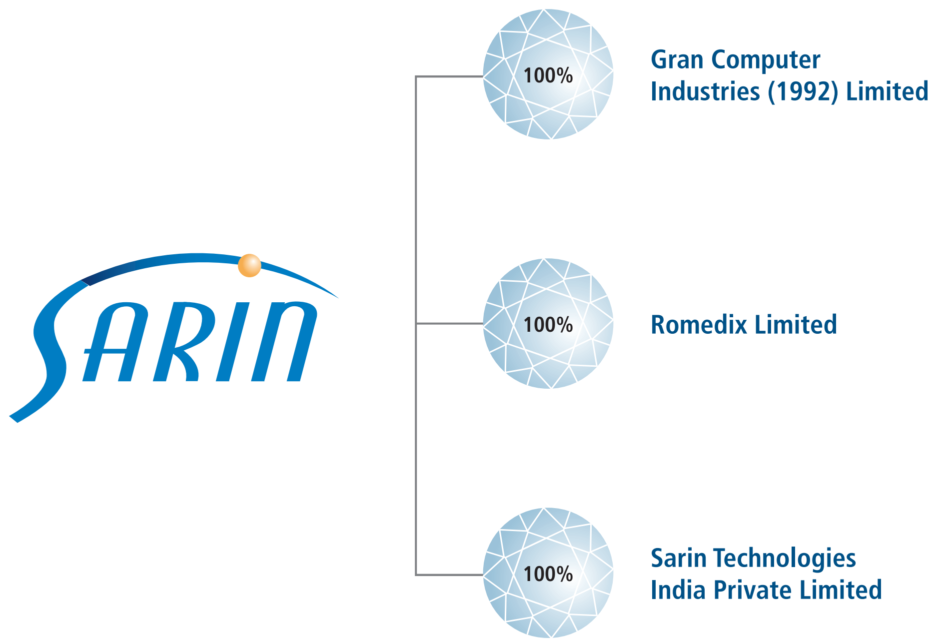
10. YOSEF VAX is the Group's Vice President for Operations, in charge of production, administration and quality control in the Company. He has been with the Group since 2001 and is responsible for product assembly lines, purchasing, logistics and ensuring the quality of the Group's products. He is an electronics practical engineer from the Tel-Aviv College in Israel and is also a Certified Quality Manager from the A.L.D College for Certified Managers for Quality in Israel. Prior to joining the Group, Mr. Vax spent over 15 years in various quality control management and inspection positions, in charge of quality control processes, inspection of electronics, electro-optics, optics and mechanical sub-assemblies and components and customer care.

11. DAVID SYDNEY BLOCK is the Chief Executive Officer of Sarin India, appointed as of January 2006 to this position, and is in charge of overall management of the operations and business in Sarin India. Prior to this appointment Mr. Block was the Group's Product Manager for the Manufacturing Market. Mr. Block holds a bachelor's degree in Computer Science from the Tel-Aviv-Jaffa Academic College in Israel. Prior to joining the Group, Mr. Block worked at several major Israeli high-technology companies in the management of large-scale development projects, computer programming, quality assurance and technical writing.

12. SARAF SAJJAN LAL, Chief Operating Officer of Sarin India, was appointed in 2004 and is responsible for administration, accounts and finance at Sarin India. He holds a bachelor degree in Commerce from the University of Rajasthan, India, and is a F.C.A. from the Institute of Chartered Accountants of India. Prior to joining the Group, he was practicing as an accountant in his own firm, S.L. Saraf & Co. from 1998 to 2003. Before establishing his own practice, Mr. Lal had nearly 25 years of experience in various management and finance positions at various companies in India.

13. RAJESHWARI H. MEHTA is Vice President of Sarin India, having been appointed in 2004. Ms. Mehta is responsible for all pre-sale and post-sale activities relating to the Group's products in India. She holds a Master degree in Organic Chemistry and a Masters in Business Administration from the South Gujarat University, India. Prior to joining Sarin India, she was employed by the Company for two years doing various market surveys in India. From 1999 to 2002, she was the Vice President of Marketing at Sahajanand Technologies P. Limited, at that time our Indian distributor, where she led the marketing team tasked with the sales of our Group's products in India.

group **structure**



* The issued and paid-up share capital of Sarin India is 10,001 shares of Rs10 each, of which 10,000 shares are held by our Company and 1 share is held by GCI as a nominee for our Company.

We currently have, as depicted above, three subsidiaries, whose areas of activity are as follows:

Romedix Limited – The development, manufacture and marketing of disposable polishing discs for diamonds.

Gran Computer Industries (1992) Limited – The development, manufacture and marketing of instruments for assessing the colour of rough and polished diamonds.

Sarin Technologies India Private Limited – The provision of pre- and post-sales and technical support for our Group's products in India and Sri Lanka and such other territories as may be agreed by our Company and Sarin India from time to time.

The Business: Adding Value to Diamonds

The Diamond Industry

Diamonds have long been regarded as symbols of love, commitment and eternity. Consistent advertising campaigns by the diamond industry have successfully reinforced the feelings among consumers that they are buying a precious item. Worldwide retail sales of diamonds have been growing consistently for the past 20 years and surpassed US$61 billion in 2004. This buoyant retail market drives a stable industry of mining, processing, certification and trading, on which we decided to capitalize.

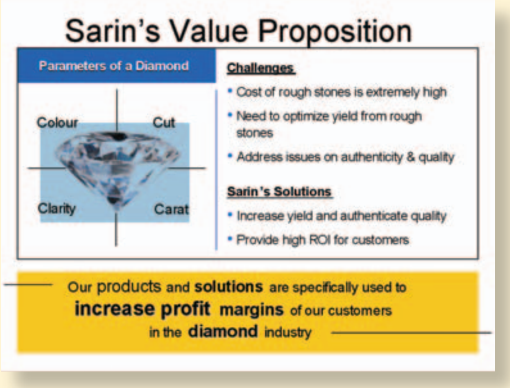
Unprocessed diamonds go through a series of planning, sawing (cutting), bruting, shaping and polishing processes to turn them into retail-ready polished diamonds. Traditionally, the manner in which diamonds are processed into polished ones was done manually by a small group of skilled experts. Historically, this led to diamond processing activity being concentrated in Belgium, Israel and the USA. We believe Sarin has revolutionized the diamond manufacturing industry by introducing computer-based technology to automate many of the processes in this highly concentrated expertise. This has contributed to the migration of the manufacturing to lower-cost areas, primarily India. China, Russia and the southern African countries are also emerging as centres for diamond processing due to government legislation and investment incentives, requiring domestically mined diamonds to be processed domestically. The diamond cutting industry was valued at approximately US$17 billion in 2004.

The cost of unprocessed diamonds is extremely high, hence even single digit percentage yield increases or cost savings translate into significant impact on profits. Thus, the global diamond industry has proven eager to invest in yield-increasing or cost-saving technologies that have proven to be reliable and efficient.

Since 1992, we have introduced several breakthrough products to automate many of the processes involved in the transformation of unpolished stones to polished diamonds. Our comprehensive suite of products has proven to be reliable and cost effective. As a result, our clients experience significant increases in raw material yield, production efficiency, uniform product quality and higher profit margins at various stages of the transformation process. Sarin has thus established its brand name as a leader in the global diamond industry.

Sarin's Value Proposition

Because of the high value of polished diamonds, adhering to established standards of quality as measured by the four Cs (Carat, Colour, Clarity and Cut) is important. The results obtained from manual inspection of the diamond can vary, depending on the expert conducting the evaluation.



Our products revolutionize the process by assisting the diamond expert in making these decisions in a repeatable manner that is objective, faster and more precise than historically possible. What used to take hours (or significant fractions thereof) is now accomplished in seconds. Clients use our products in making decisions when buying or selling diamonds, production planning, cutting and shaping diamonds, performing quality assurance or at the point of sale.

We will continue to invest in the research and development of promising technologies that will introduce revolutionary new products to the diamond industry. In turn, this will enable Sarin to maintain a competitive advantage over its competitors.

Our Products

Our products are used by four distinct groups of clients – gemological laboratories, diamond wholesalers, diamond manufacturers and retailers.

With an active research & development program, we have a full pipeline of new products that will be progressively introduced to the market throughout 2006.

The flowing table lists our current and future products, following the flow of the diamond manufacturing process.

Use	Client	Sarin products
Assist in evaluating rough diamond value according to two of 4 Cs	Wholesaler/ Manufacturer	Future colour grading system for rough diamonds and inclusion mapping system
Assist in the planning & production of unpolished diamonds	Manufacturer	DiaExpert, Advisor, DiaMark; future inclusion mapping system
Assist in cutting unpolished diamonds	Manufacturer	DiaExpert, Quazer
Assist in shaping unpolished diamonds	Manufacturer	DiaExpert, Quazer
Assist in polishing facets of unpolished diamonds	Manufacturer	Disposable polishing discs
Assist in evaluating diamond finishing	Manufacturer	DiaMension, DiaScan, DiaVision
Assist in evaluating polished diamond value according to three of the 4 Cs	Gemological Laboratory/ Wholesaler/ Manufacturer/ Retailer	DiaVision, DC3000, DiaScan, DiaMension; future second generation colour grading system for polished diamonds
Assist in polished diamond customization such as lettering or graphics on the diamonds (e.g., certificate numbers, company logos, personalisations)	Retailer	DiaScribe

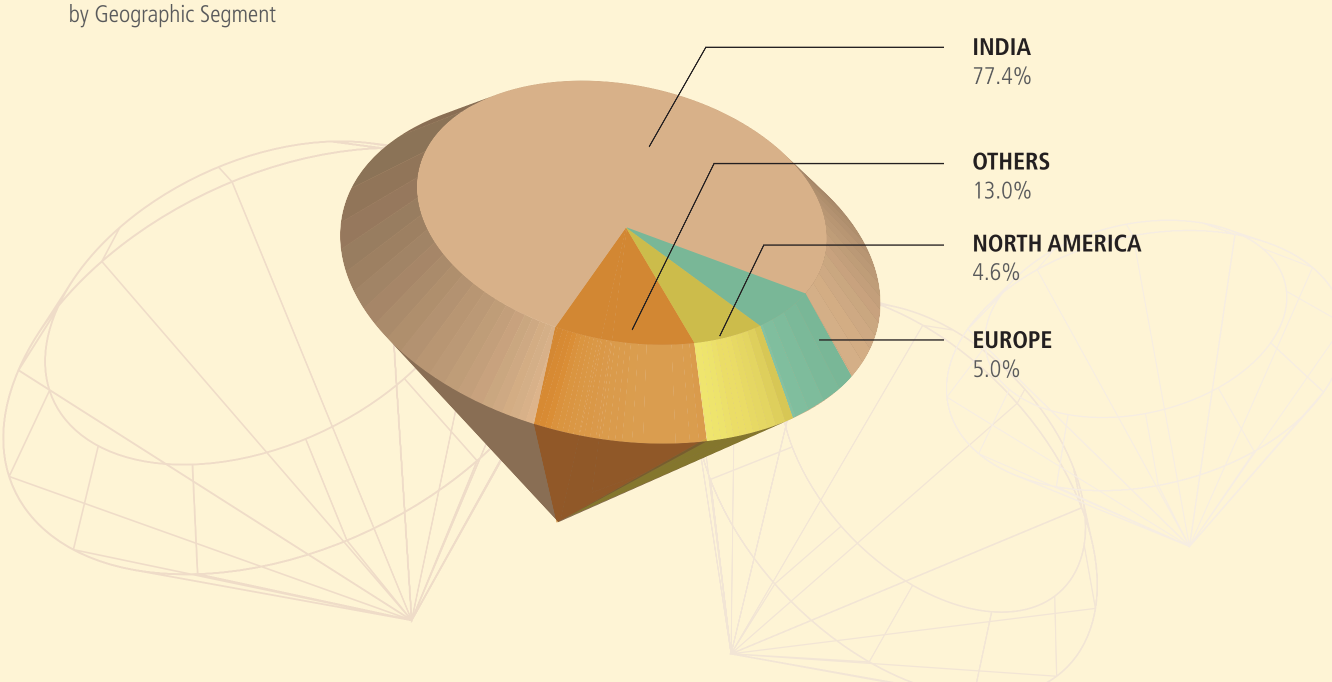
Our Markets

Traditionally, the major diamond manufacturing and trading centres in the world have been in Israel and Belgium. Today, India is by far the leading manufacturing centre, accounting for over 80% of all stones manufactured worldwide (on a per stone count basis). China is now the second most important manufacturing centre globally, with many new plants being set up by international players, primarily from Belgium, USA and India. Russia and the southern African countries are also emerging as major manufacturing centres due to legislation enacted to limit the export of unpolished diamonds and government incentives to develop the domestic polishing industry in these countries.

Sarin has a market presence in both established and emerging diamond manufacturing centres. A key development for us in 2004 was the establishment of Sarin India, our wholly-owned subsidiary. With operations in Mumbai and Surat, we now have full control over the business direction and marketing of our products in the Indian market. The emerging diamond manufacturing centres of China, Russia and southern Africa represent new strategic markets for our products and Sarin is taking steps to strengthen its market presence in these emerging markets.

Over the next few years, we expect our sales and profits to grow as we progressively introduce new products and upgrades to our existing product lines in these major markets. We will continue to monitor emerging markets closely in order to capitalise on new business opportunities.

2005 REVENUE
by Geographic Segment



corporate **information**

BOARD OF DIRECTORS

Daniel Benjamin Glinert	Chairman and Executive Director
Hanoh Stark	Executive Director
Ehud Harel	Non-Executive Director
Eyal Mashiah	Non-Executive Director
Israel Zeev Eliezri	Non-Executive Director
Aharon Shapira	Non-Executive Director
Yehezkel Pinhas Blum	Independent Director
Chan Kam Loon	Independent Director
Valerie Ong Choo Lin	Independent Director

AUDIT COMMITTEE

Yehezkel Pinhas Blum	Chairman
Chan Kam Loon	
Valerie Ong Choo Lin	

NOMINATING COMMITTEE

Chan Kam Loon	Chairman
Daniel Benjamin Glinert	
Hanoh Stark	
Yehezkel Pinhas Blum	
Valerie Ong Choo Lin	

REMUNERATION COMMITTEE

Yehezkel Pinhas Blum	Chairman
Eyal Mashiah	
Aharon Shapira	
Chan Kam Loon	
Valerie Ong Choo Lin	

JOINT COMPANY SECRETARIES

Amir Jacob Zolty (Adv.)
Chang Sow Kuen (ACIS)

REGISTERED OFFICE

Sarin Technologies Limited
4 Hahilazon Street,
Ramat Gan 52522
Israel
Tel: 972-3-7515490
Fax: 972-3-7515485
www.sarin.com

Israel Registration Number: 51 1332207

SHARE REGISTRAR

M & C Services Private Limited
138 Robinson Road
#17-00, The Corporate Office
Singapore 068906

JOINT AUDITORS

Somekh Chaikin
Certified Public Accountants (Isr.)
Member firm of KPMG International
KPMG Millennium Tower
17 Haarbaa Street
Tel-Aviv 64739, Israel
Partner-in-charge: Roger I Lavender
(appointed with effect from July 1, 2004)

Chaikin, Cohen, Rubin and Gilboa
Certified Public Accountants (Isr.)
Kiriat Atidim Building No. 4
P.O. Box 58143
Tel-Aviv 61580, Israel
Partner-in-charge: Ilan Chaikin
(appointed with effect from 1 January, 2000)

INTERNAL AUDITOR

Shmuel Rosenblum (CPA, CIA)
Rosenblum-Holzman
Certified Public Accountants (Isr.)
Member firm of KS International
111 Arlozorov St.
Tel-Aviv 62098, Israel

PRINCIPAL BANKERS

Bank Igud (Union Bank of Israel)
Ramat-Gan Branch
Elite Square, Diamond Exchange Building
P.O. Box 3006
Ramat-Gan 52130, Israel

Bank Leumi Le-Israel Limited.
Bursa Business Branch
Paz Towers
33 Bezalel Street
Ramat Gan 52521, Israel

financial **highlights**

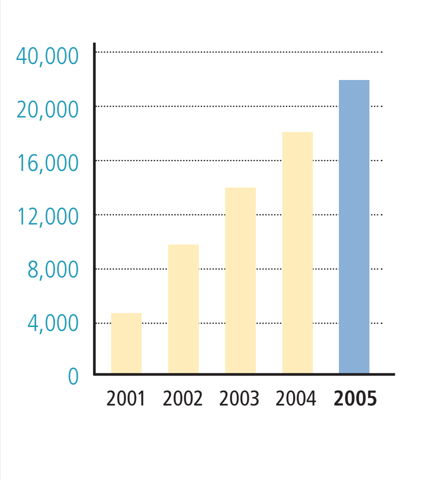
PERFORMANCE AT A GLANCE

Financial Year Ended December

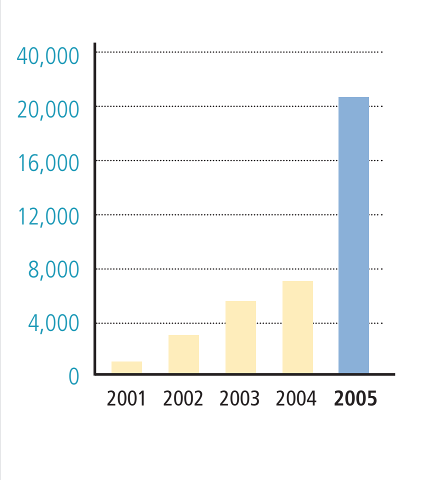
	FY2001	FY2002	FY2003	FY2004 Restated#	FY2005
Profit Statement (US$ 000)					
Revenues	4,376	8,909	14,694	18,822	30,291
Gross Profit	2,677	5,910	10,222	12,673	20,742
Profit before tax	609	2,654	5,919	6,323	11,709
Net profit	362	2,158	5,329	4,467	9,350
Balance Sheet (US$ 000)					
Shareholders' equity	59	1,315	5,809	7,186	21,693
Total assets	1,954	3,950	8,147	12,026	29,551
Total cash and cash equivalents	492	1,384	3,965	5,498	20,601
Short term loans and bank overdue	461	352	36	0	0
Financial Ratio (%)					
Gross profit margin	61.2%	66.3%	69.6%	67.3%	68.5%
Profit before tax margin	13.9%	29.8%	40.3%	33.6%	38.7%
Net profit margin	8.3%	24.2%	36.3%	23.7%	30.9%
Revenues from India (US$ 000)	2,190	6,178	9,878	13,080	23,447
Earning Per Share					
Basic					
Net profit (US$ cents)	0.20	1.20	2.90	2.40	4.01
Net profit (SGD cents)*	0.33	2.00	4.83	3.99	6.68
Diluted					
Net profit (US$ cents)	0.20	1.20	2.90	2.20	3.86
Net profit (SGD cents)*	0.33	2.00	4.83	3.66	6.42

* Based on exchange rate of US$1=SGD$1.6642 at end December 2005
# Refer to Note 1E of the Financials

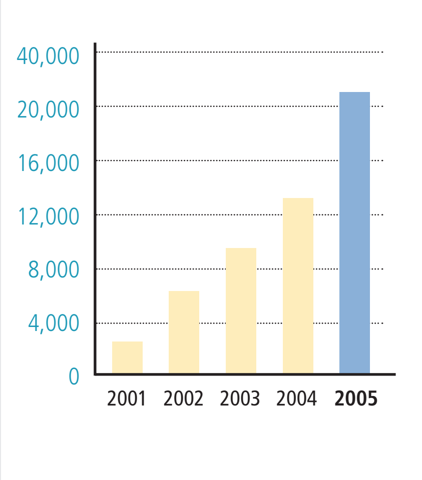
REVENUES (US$000)



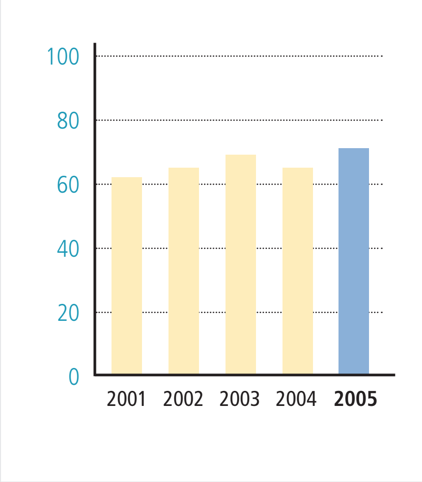
SHAREHOLDERS' EQUITY (US$000)



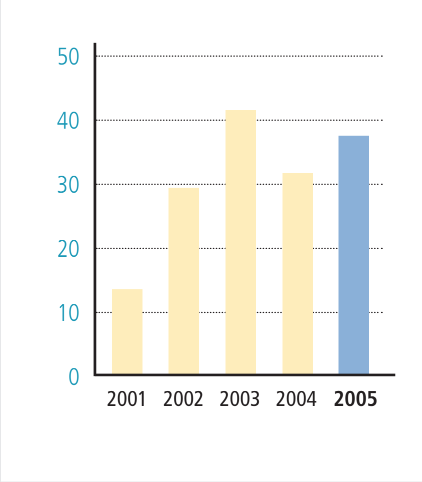
REVENUES FROM INDIA (US$000)



GROSS PROFIT MARGIN (%)



PROFIT BEFORE TAX MARGIN (%)



financial **contents**

Corporate **Governance Statement**

Sarin's shares were listed for trade in the SGX-ST in April 2005. Since Sarin's listing Sarin has made continuous and diligent efforts to adjust its corporate governance regime (being formerly a private company, incorporated in Israel) to its new status as a publicly traded company and to the Singaporean Code of Corporate Governance (the "Code"). Given the basic resemblance between the corporate laws of Singapore and Israel, the adjustments needed were rather limited in scope.

The Company's corporate governance practices are described with specific reference to the Code.

BOARD OF DIRECTORS

Principle 1: Board's Conduct of its Affairs

Our Board of Directors is entrusted with the responsibility for the overall management of our Company. The Board's primary roles are to set the Company's policies and supervise the performance of the CEO's duties. Among other things, the Board sets the Company's goals and approves the Company's action plans and budget (proposed by the Company's management), reports to the Annual General Meeting about the state of the Company's matters and about the Company's business results, and discusses and resolves any matters which require the Board's approval under any applicable law (including, without limitation, interested persons' transactions). Certain tasks and responsibilities of the Board of Directors are entrusted with the committees of the Board, namely the Audit Committee, the Nominating Committee and the Remuneration Committee. Further discussion with regard to the composure, responsibilities and actions of such committees may be found hereinbelow.

Principle 2: Board Composition and Balance

As of the date of this report, the Board of Directors comprises nine directors, three of who are independent (two out of the three also qualify as "external directors", under the Israeli law). The three independent directors joined the Board of Directors in March 2005, prior to the listing of the Company. All of the directors retired from office and were re-appointed by the Company's Annual General Meeting, held on 21 June, 2005. The Nominating Committee reviews the independence of each director annually and applies the Code's definition (as well as the definitions of the Israeli law) of what qualifies as an independent director in its review. Key information about the directors is detailed in the "Board of Directors" section of the annual report.

The directors of the Company in office at the date of this report are:

Executive	Non-Executive	Independent
Mr. Daniel Benjamin Glinert	Mr. Ehud Harel	Mr. Yehezkel Pinhas Blum
Mr. Hanoh Stark	Mr. Eyal Mashiah	Mr. Chan Kam Loon
	Mr. Israel Zeev Eliezri[1]	Ms. Valerie Ong Choo Lin
	Mr. Aharon Shapira	

There are no permanent alternate directors (alternate directors were appointed in the past only for specific meetings).

The Board draws from a broad spectrum of competencies and disciplines: from the diamond and gemstones industry, the high-tech industry, capital markets, legal, and management.

1 Mr. Israel Zeev Eliezri who served as a Director in the Company since July 2004, has submitted his resignation to the Board of Directors (effective 24 April 2006). Mr. Eliezri notified the Company that his resignation was due to personal reasons. Mr. Avraham Eshed is proposed to be elected as a Director in his stead. Mr. Eshed's CV may be found in the Company's Annual Report.

Principle 3: Chairman and CEO

The Executive Chairman and the CEO of the Company are separate individuals.

As the most senior executive in the Company, the CEO bears executive responsibility for the Company's business according to the policies set by the Board and subject to the Board's directives. The Chairman of the Board bears responsibility for the proper functioning of the Board, maintains on-going supervision over the management of the Company and over the flow of information from the Company's management to the Board.

The Chairman ensures that Board meetings are held when necessary and sets the Board meetings agenda in consultation with the CEO. As a general rule, Board papers are sent to directors in advance in order for directors to be adequately prepared for the meeting. Management staff, as well as external experts and observers who can provide additional insights with regard to the matters to be discussed, are invited as and when necessary, to attend at the relevant time during the Board meetings.

Principle 4: Board Membership

According to the Company's Articles of Association (the "**Articles**"), each director shall serve, unless the Annual General Meeting appointing him provides otherwise, until the third Annual General Meeting following the Annual General Meeting at which such director was appointed, or his earlier resignation or removal pursuant to the provisions of the Articles. A director who has completed his term of service or has been removed as aforesaid shall be eligible for re-election. The two directors who qualify as "external directors" may be removed from office only if they no longer qualify to serve as such, and may not serve more than 6 years in the aggregate. Mr. Israel Zeev Eliezri, a director of the Company, submitted his resignation from the Board (due to personal reasons) effective as of 24 April 2006. Mr. Avraham Eshed has been proposed as a director in Mr. Eliezri's stead.

In March 2005 the Company established its Nominating Committee.

The Nominating Committee comprises 5 directors, a majority of whom, including the Chairman, is independent. As at the date of this Report, the Nominating Committee members are:

Mr. Chan Kam Loon	(Chairman and Independent Director)
Mr. Yehezkel Pinhas Blum	(Independent Director)
Ms. Valerie Ong Choo Lin	(Independent Director)
Mr. Daniel Benjamin Glinert	(Executive Director)
Mr. Hanoh Stark	(Executive Director)

Our Nominating Committee is responsible for the:

(a) re-nomination of directors (including independent directors of our Company) taking into consideration each director's contribution and performance;

(b) determining on an annual basis whether or not a director is independent; and

(c) deciding whether or not a director is able to and has been adequately carrying out his duties as a director.

Principle 5: Board Performance

Our Nominating Committee decides how the Board's performance is to be evaluated and proposes objective performance criteria, subject to the approval of the Board, which address how the Board has enhanced long-term shareholder's value. The performance evaluation also includes consideration of our Share price performance over a five-year period (at present – since April 2005) vis-à-vis the Straits Times Index. The Board also implemented a process to be carried out by our Nominating Committee for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual director to the effectiveness of the Board.

Throughout 2005, the Board was convened 11 times (the Company's Audit Committee, Remuneration Committee and Nomination Committee were appointed only in March 2005, prior to the listing of the Company's shares on the SGX-XT).

The attendance of the directors in the Board meetings held in 2005 is as follows:

	Board of Directors – 2005	
Name of Director	**No. of Meetings Held**	**Attendance**
Mr. Daniel Benjamin Glinert	11	11
Mr. Hanoh Stark (Alternate Director: Ms. Talia Stark-Ronen[2])	11	11
Mr. Eyal Mashiah	11	11
Mr. Aharon Shapira	11	10
Mr. Israel Zeev Eliezri (Alternate Director: Mr. Oren Eliezri[3])	11	10
Mr. Ehud Harel	11	11
Mr. Yehezkel Pinhas Blum[4]	11	7
Mr. Chan Kam Loon[5]	11	7
Ms. Valerie Ong Choo Lin[6]	11	7

The attendance of the directors in the Audit Committee meetings held in 2005 is as follows:

	Audit Committee – 2005	
Name of Director	**No. of Meetings Held**	**Attendance**
Mr. Yehezkel Pinhas Blum	8	8
Mr. Chan Kam Loon	8	6
Ms. Valerie Ong Choo Lin	8	7

The attendance of the directors in the Remuneration Committee meetings held in 2005 is as follows:

	Remuneration Committee - 2005	
	No. of Meetings Held	**Attendance**
Mr. Yehezkel Pinhas Blum	2	2
Mr. Chan Kam Loon	2	2
Ms. Valerie Ong Choo Lin	2	1
Mr. Aharon Shapira	2	2
Mr. Eyal Mashiah	2	2

The attendance of the directors in the Nominating Committee meetings held in 2005 is as follows:

	Nominating Committee - 2005	
	No. of Meetings Held	**Attendance**
Mr. Chan Kam Loon	1	1
Mr. Yehezkel Pinhas Blum	1	1
Ms. Valerie Ong Choo Lin	1	1
Mr. Daniel Benjamin Glinert	1	1
Mr. Hanoh Stark	1	1

[2] Ms. Talia Stark-Ronen attended two meetings as an Alternate Director for Mr. Hanoh Stark.
[3] Mr. Oren Eliezri attended one meeting as an Alternate Director for Mr. Israel Zeev Eliezri.
[4] Mr. Yehezkel Pinhas Blum was appointed in March 2005.
[5] Mr. Chan Kam Loom was appointed in March 2005.
[6] Ms. Valerie Ong Choo Lin was appointed in March 2005

Principle 6: Access to Information

The Board has separate and independent access to senior management of the Company. Requests for information from the Board are dealt with promptly. The Board, acting through its Executive Committee (composed of Messrs. Daniel Benjamin Glinert and Hanoh Stark) is informed on all material events and transactions as and when they occur. Professional advisors may be appointed to advise the Board, or (in special circumstances – as provided by Israeli law) any of its members, if the Board or any individual member thereof needs independent professional advice.

The Company secretary (who also serves as the Company's legal counsel) attends all Board meetings and is responsible for ensuring that Board procedures are followed and for the recording of the minutes. Together with the management staff of the Company, the Company secretary is responsible for compliance with the applicable laws, rules and regulations in this regard.

Principles 7, 8 & 9: Procedures for Developing Remuneration Policies, Level and Mix of Remuneration, and Disclosure of Remuneration

In March 2005 the Company established its Remuneration Committee.

The Remuneration Committee comprises 5 directors, a majority of whom, including the Chairman, is independent. As at the date of this report, the Remuneration Committee members are:

Mr. Yehezkel Pinhas Blum	(Chairman and Independent Director)
Mr. Chan Kam Loon	(Independent Director)
Ms. Valerie Ong Choo Lin	(Independent Director)
Mr. Eyal Mashiah	(Non-Executive Director)
Mr. Aharon Shapira	(Non-Executive Director)

Our Remuneration Committee recommends to our Board of Directors a framework of remuneration for our directors and key executives, and recommends specific remuneration packages for each Executive Director. The recommendations of our Remuneration Committee are submitted for endorsement by our Audit Committee and afterwards, by the entire Board of Directors and by the General Meeting. All aspects of directors' remuneration, including but not limited to directors' fees, salaries, allowances and bonuses, options and benefits in kind, are dealt with by our Remuneration Committee. Each member of our Remuneration Committee shall abstain from voting on any resolutions in respect of his/her remuneration package. The remuneration of two of our Independent Directors, who are deemed also as "External Directors" according to the provisions of the Israeli Companies Law (Messrs. Yehezkel Pinhas Blum and Valerie Ong Choo Lin), is also subject to the limitations set by Israeli Law.

Our Non-Executive Directors received participation fees – based on their actual participation in the meetings of the Board of Directors, the Audit Committee, the Nominating Committee and the Remuneration Committee since March 2005 – amounting in the aggregate (for all four Non-Executive Directors) to less than S$40,000. Our Independent Directors received (in the aggregate) less than S$150,000 for their services since March 2005. Our two Executive Directors received (together) less than S$130,000 for their services during 2005. It is proposed (by the Remuneration Committee, the Audit Committee and the Board of Directors) that the Annual General Meeting approve the grant of performance bonuses to the Executive Directors (in recognition of their efforts and intensive work put in connection with the Company's listing in the SGX-ST) – in the aggregate amount of approximately S$120,000 (US$ 70,000).

The remuneration (including bonuses) paid by us and our subsidiaries to each of our top five (in terms of amount of remuneration) employees (not being directors) for services rendered to us in all capacities during 2005, were as follows:

Name	Remuneration	Breakdown between Fixed Income and Performance Based Incentives	
		Fixed Income	Performance Based Incentives
Mr. Zeev Leshem	Band 4	30%	70%
Mr. Shemiau Cassorla	Band 6	55%	45%
Mr. Zvi Halperin[7]	Band 1	100%	-
Mr. Abraham Meir Kerner	Band 1	97%	3%
Mr. Yossef Vax	Band 1	80.5%	19.5%

Notes:

Band 1: remuneration of up to S$ 250,000 per annum.
Band 2: remuneration of between S$ 250,001 to S$ 500,000 per annum.
Band 3: remuneration of between S$ 500,001 to S$ 750,000 per annum.
Band 4: remuneration of between S$ 750,001 to S$ 1,000,000 per annum.
Band 5: remuneration of between S$ 1,000,001 to S$ 1,250,000 per annum.
Band 6: remuneration of between S$ 1,250,001 to S$ 1,500,000 per annum.

[7] Mr. Halperin was also granted in 2005 200,000 options under the Company's 2005 Share Option Plan (the "Plan), the exercise price thereof is 80% of the Market Price (as such term is defined in the Plan).

Any future arrangements concerning the remuneration of our directors shall be brought to the approval of our Remuneration Committee, Audit Committee, Board of Directors and General Meeting.

Any future arrangements concerning the remuneration of our key executives shall be brought to the review of the Remuneration Committee and Board of Directors.

Further details with regard to the Company's share options schemes (the Company's 2003 Share Option Plan and 2005 Share Option Plan) may be found in the Directors' Report, included in the Company's Annual Report.

Principle 10: Accountability

The Board is accountable to the Company's shareholders. The Board provides the shareholders with periodical, and to the extent necessary and/or required – immediate, reports with regard to the business, financial and other aspects of the Company's activities.

Principles 11, 12 & 13: Audit Committee, Internal Controls and Internal Audits

In March 2005 the Company established its Audit Committee.

The Audit Committee comprises 3 directors, all of whom, including the Chairman, are independent. As at the date of this Report, the Audit Committee members are:

Mr. Yehezkel Pinhas Blum	(Chairman and Independent Director)
Mr. Chan Kam Loon	(Independent Director)
Ms. Valerie Ong Choo Lin	(Independent Director)

Our Audit Committee assists our Board in discharging its responsibility to safeguard our assets, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that our management creates and maintains an effective control environment in our Company, in consultation with the internal auditor. Our Audit Committee also provides a channel of communications between our Board, our management and our internal and external auditors on matters relating to audit.

The Audit Committee meets periodically and performs the following functions:

(a) review the quarterly and annual financial statements and balance sheet and profit and loss accounts before submission to our Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;

(b) review the internal control procedures and ensure co-ordination between the external auditors and our management, and review the assistance given by our management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of our management, where necessary);

(c) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Company's operating results or financial position, and our management's response;

(d) review with the internal and external auditors the audit plan;

(e) consider and recommend to the Board to appoint and re-appoint the internal and external auditors and matters relating to the resignation or dismissal of the auditors;

(f) review interested person transactions (if any) falling within the scope of Chapter 9 of the Listing Manual or within the scope of those interested persons transactions that require the approval of the audit committee pursuant to Israeli Companies Law;

(g) review potential conflicts of interest, if any;

(h) review the remuneration packages of employees who are related to our directors and/or substantial shareholders, if any;

(i) undertake such other reviews and projects as may be requested by our Board, and report to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee; and

(j) generally undertake such other functions and duties as may be required by statute or the Listing Manual, or by such amendments as may be made thereto from time to time.

Apart from the duties listed above, our Audit Committee communicates and reviews the findings of internal investigation into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any law, rule or regulation which has or is likely to have a material impact on our Company's operating units and/or financial position.

The Group's internal controls and systems are designed to provide reasonable assurance to the integrity and reliability of the financial information.

Based on the recommendations of the Audit Committee, the Board of Directors appointed, in August 2005, Shmuel Rosenblum of Rosenblum-Holzman, Certified Public Accountants (a member of KS International), as the Internal Auditor of the Company. The role of the internal auditor is to independently examine, among other things, whether our activities comply with the law and orderly business procedure. Our internal auditor submits his work plans to the prior approval of the Audit Committee and presents his findings to the Audit Committee and to the Board of Directors. During 2005 the internal auditor reviewed and evaluated the system of internal accounting controls in force at the Company and presented for review by the Audit Committee his letter to management and the management's response.

The Audit Committee confirms that it has undertaken a review of all non-audit services provided by the external auditors and is satisfied that such services should not, in the Audit Committee's opinion, affect the independence of the external auditors.

Principles 14 & 15: Communication with Shareholders and Greater Shareholder Participation

The Company's results are published through the SGXNET and news releases. The Company does not practice selective disclosure. Price sensitive information is first publicly released, either before the Company meets with any group of analysts or simultaneously with such meetings. Results and annual reports are announced or issued within the mandatory period.

All shareholders of the Company receive the annual report and notice of the convening of the AGM. At the AGM shareholders are given the opportunity to air their views and ask directors or management questions regarding the Company.

The Articles allow a member of the Company to appoint not more than two proxies to attend and vote instead of the member.

DEALINGS IN SECURITIES

The Company has adopted the recommendations of the SGX's Best Practices Guide on Dealing in Securities in relation to its policy on directors, officers and employees dealing in the Company's shares.

MATERIAL CONTRACTS

Throughout the financial year under review the Company was not a party to any Material Contracts involving the Chief Executive Officer, directors or controlling shareholders.

INTERESTED PERSON TRANSACTIONS

All interested person transactions are considered and reviewed by the Board of Directors, and to the extent required by the Listing Manual and/or the Israeli Companies Law, also by the Audit Committee and the General Meeting

Our internal control procedures are designed to ensure that all interested person transactions, including interested person transactions involving companies related to our Company are conducted at arm's length and on commercial terms.

Throughout the financial year under review the Company was not a party to any interested party transaction the financial scope of which exceeded S$100,000.

Directors' **Report**

Directors' Report

We are pleased to submit this annual report to the shareholders of the Company together with the audited statements for the financial year ended 31 December 2005.

Directors

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

Daniel Benjamin Glinert, Chairman of the Board and Executive Director
Hanoh Stark, Executive Director

Ehud Harel, Non-Executive Director
Eyal Mashiah, Non-Executive Director
Israel Zeev Eliezri, Non-Executive Director
Aharon Shapira, Non-Executive Director
Yehezkel Pinhas Blum, Independent Director
Valerie Ong Choo Lin, Independent Director
Chan Kam Loon, Independent Director

Directors' Interests

According to the share register kept by the Company for the purposes of Sections 127 and 128 of the Israeli Companies Law, 5759-1999 (the "Law"), and according to the information provided to the Company by our directors, particulars of interests of directors who held office at the end of the financial year 2005 (the "Year") in shares in the Company and in related corporations, other than wholly owned subsidiaries, are as follows:

Except as listed hereunder, none of our directors who held office at the end of the Year had any direct interest in the Company's shares – neither at the beginning of the Year, nor a the end of the year or as at 21 January 2006:

	Shareholdings in which the director has direct interest		
	As at 1 January 2005	As at 31 December 2005	As at 21 January 2006
Ordinary Shares of the Company of no par value each			
Chan Kam Loon	N/A	226,000	226,000

	Shareholdings in which the director is deemed to have an interest		
The Company	As at 1 January 2005[1]	As at 31 December 2005	As at 21 January 2006
Ordinary Shares of the Company of no par value each			
Daniel Benjamin Glinert[2]	27,548	48,621,000	48,621,000
Hanoh Stark[3]	59,821	105,155,500	105,155,500
Ehud Harel[4]	59,821	105,155,500	105,155,500
Aharon Shapira[5]	27,548	48,133,000	48,133,000
Chan Kam Loon[6]	N/A	18,000	18,000

Related Corporations	Shareholdings in which the director is deemed to have an interest		
	As at 1 January 2005	As at 31 December 2005	As at 21 January 2006
Sarin Research and Development Ltd. Ordinary Shares of NIS 0.01 par value each. Fully paid up			
Hanoh Stark (Shares registered in the name of Hanoh Stark Holdings Ltd.)	32,689	32,689	32,689
Ehud Harel (Shares registered in the name of Hargem Ltd.)	34,051	34,051	34,051
Eyal Mashiah (Shares registered in the name of Ramgem Ltd.)	19,522	19,522	19,522
Israel Zeev Eliezri (Shares registered in the name of Colgem El 97 Ltd.)	8,173	8,173	8,173
Interhightech (1982) Ltd. Ordinary Shares of NIS 0.01 par value each. Fully paid up			
Daniel Benjamin Glinert (shares registered in the name of D. Glinert Holdings Ltd.)	9,893	9,893	9,893
Aharon Shapira (shares registered in the name of A. Shapira 2000 Systems Ltd.	9,893	9,893	9,893

1 Prior to the pre-listing sub-division of the Company's shares (1/2,000), which occurred on 8 March 2005.
2 Daniel Benjamin Glinert is deemed as a shareholder of the Company by virtue of his holdings (through D. Glinert Holdings Ltd.) of more than 20% of the issued share capital of Interhightech (1982) Ltd. and by virtue of his indirect ownership of 488,000 shares held on his behalf by UOB Kay Hian Pte.
3 Hanoh Stark is deemed as a shareholder of the Company by virtue of his holdings (through Hanoh Stark Holdings Ltd.) of more than 20% of the issued share capital of Sarin Research and Development Ltd.
4 Ehud Harel is deemed as a shareholder of the Company by virtue of his holdings (through Hargem Ltd.) of more than 20% of the issued share capital of Sarin Research and Development Ltd.
5 Aharon Shpaira is deemed as a shareholder of the Company by virtue of his holdings (through A. Shapira 2000 Systems Ltd.) of more than 20% of the issued share capital of Interhightech (1982) Ltd.
6 Chan Kam Loon is also deemed as a shareholder of the Company by virtue of his wife's holdings of the Company's shares.

Except as disclosed in this report, no director who held office at the end of the Year had interests in shares or debentures of the Company or of related corporations, either at the later of the beginning of the Year or the commencement of his service as a director or at the end of the Year.

Neither at the end of, not any time during the Year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisitions of shares in or debentures of the Company or any other body corporate.

Since the end of the last financial year (2004), and except as disclosed in the Company's prospectus, dated 31 March 2005, no director has received or become entitled to receive a benefit by reason of a contract made by the company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial interest.

Directors' **Report**

Share Options

In 2003 the Company adopted a share option plan ("Sarin 2003 Share Option Plan") and granted options to 27 persons (including the Company's CEO) at no consideration. As of 31 December 2004, a total of 9,997 options (before the sub-division of the Company's shares which took place on March 8, 2005) exercisable into 9,997 ordinary B shares (before the said subdivision and the reclassification of the Company's shares) of par value NIS 0.01 each in the capital of the Company, at an exercise price of either NIS135 (approximately US$30), NIS270 (approximately US$60), or US$ 250 per option (before the said sub-division) (adjusted by the change in the Cost of Living Index in Israel from December 2003 or December 2004, as applicable, to the date of exercise) were granted under the Sarin 2003 Share Option Plan ("2003 Options"). As of the Year end 19,994,000 options (after the said sub-division) out of the 20,000,000 options allocated under the Sarin 2003 Share Option Plan were issued. The original vesting periods of the 2003 Options were between the date of grant to four years. As at the date of this report, 12,296,750 options have been exercised. The exercise period for the 2003 Options is six years from the date of grant.

In 2005 the Company adopted a new share option plan ("Sarin 2005 Share Option Plan") and granted options to 20 persons at no consideration. As of 31 December 2005, a total of 1,590,000 options exercisable into 1,590,000 ordinary shares of no par value each in the capital of the Company, at an exercise price of US$ 0.36 per option were granted under the Sarin 2005 Share Option Plan ("2005 Options"). The vesting periods of the 2005 Options are up to three years. As of the Year end, none of the 2005 Options were exercised. The exercise period for the 2005 Options is six years from the date of grant.

Audit Committee

The Audit Committee of the Company was established on 8 March 2005 by the Board of Directors and comprises three independent directors. The members of the Audit Committee are Mr. Yehezkel Pinhas Blum (Chairman), Mr. Chan Kam Loon and Ms. Valerie Ong Choo Lin. The Audit Committee assists the Board in discharging its responsibility to safeguard the Company's assets, maintains adequate accounting records, and develops and maintains effective systems of internal control, with the overall objective of ensuring that the management creates and maintains an effective control environment in the Company, in consultation with the internal and external auditors.

Auditors

The auditors, Somekh Chaikin, Certified Public Accountants (Isr.), Member firm of KPMG International, and Chaikin, Cohen, Rubin and Gilboa, Certified Public Accountants (Isr.), have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors

Daniel Benjamin Glinert

Executive Director, Chairman of the Board

Hanoh Stark

Executive Director

Israel
26 March 2006

Report of the **Independent Auditors**
to the Shareholders of Sarin Technologies Ltd.

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609 Tel Aviv 61006 Israel
Telephone: 972 3 684 8000
Fax: 972 3 684 8444
Internet www.kpmg.co.il
Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

Chaikin, Cohen, Rubin & Gilboa.
Atidim Technology Park, Bldg. 4,
P.O.B. 58143 Tel-Aviv 61580, Israel
Tel: 972-3-6489858
Fax: 972-3-6489946
E-mail: accounting@ccrcpa.co.il
Certified Public Accountants (Isr.)

We have audited the accompanying consolidated balance sheets of Sarin Technologies Ltd (the "Company") and its subsidiaries (the "Group") as of December 31, 2004 and 2005 and the related consolidated income statements, statements of changes in shareholders' equity and statements of cash flows for the two years ended December 31, 2004 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements of the Group, present fairly, in all material respects, the financial position of the Group as of December 31, 2004 and 2005, and the results of their operations, changes in shareholders' equity and cash flows of the Group for the two years ended December 31, 2004 and 2005 in accordance with International Financial Reporting Standards.

As discussed in Note 1 E, the Company restated its consolidated financial statements for the year ended December 31, 2004.

Somekh Chaikin
Certified Public Accountants
Tel Aviv, Israel
Member Firm of KPMG International
March 26, 2006

Chaikin, Cohen, Rubin and Gilboa
Certified Public Accountants
Tel Aviv, Israel

March 26, 2006

Consolidated **Income Statement**
for the Year Ended December 31

	Note	*2004 US$'000	2005 US$'000
Revenue		18,822	**30,291**
Cost of sales		(6,149)	**(9,549)**
Gross profit		12,673	**20,742**
Research and development costs		(1,687)	**(2,808)**
Selling and marketing expenses		(3,036)	**(4,611)**
General and administrative expenses		(1,614)	**(2,111)**
Other expenses		(18)	**-**
Profit from operations before financing	3	6,318	**11,212**
Net financing income	4	5	**497**
Profit before tax		6,323	**11,709**
Income tax expense	5	(1,856)	**(2,359)**
Profit for the year attributable to the equity holders of the parent		4,467	9,350
Earnings per share (in US$ per share)	6		
Basic		0.024	**0.040**
Diluted		0.022	**0.039**

* Restated following first application of IFRS 2 share-based payments - see Note 1E.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated **Balance Sheets**
as of December 31

	Note	*2004 US$'000	2005 US$'000
Non-current assets			
Property, plant and equipment	7	780	**1,236**
Intangible assets	8	111	**681**
Other long -term receivables		100	**281**
Deferred tax assets	9	619	**802**
Total non -current assets		1,610	**3,000**
Current Assets			
Inventories	10	2,212	**3,137**
Trade receivables	11	1,277	**1,200**
Other receivables	12	812	**514**
Short-term investments	13	617	**1,099**
Cash and cash equivalents	14	5,498	**20,601**
Total current assets		10,416	**26,551**
Total Assets		12,026	**29,551**
Current liabilities			
Trade payables		1,466	**1,045**
Other payables	15	1,787	**2,410**
Current tax payable		1,352	**1,576**
Dividend declared		-	**2,510**
Warranty provision	16	152	**249**
Total current liabilities		4,757	**7,790**
Non-current liabilities			
Liability for employee severance benefits	17	83	**68**
Equity			
Share capital		** -	** **-**
Share premium		497	**10,525**
Reserves		86	**223**
Retained earnings		6,603	**10,945**
Total equity attributable to the equity holders of the parent		7,186	**21,693**
Total Liabilities and Equity		12,026	**29,551**

* Restated following first application of IFRS 2 share-based payments - see Note 1E.
** Less than one thousand dollars

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated **Statements of Cash Flows**
for the Year Ended December 31

	*2004 US$'000	2005 US$'000
Operating activities		
Profit for the year	4,467	**9,350**
Adjustments for:		
Share-based payments expense	86	**137**
Income tax expense	1,856	**2,359**
Amortization and depreciation	232	**494**
Interest expenses	70	**88**
Interest income	(61)	**(494)**
Operating profit before working capital changes	6,650	**11,934**
Changes in working capital:		
Inventories	(726)	**(925)**
Trade receivables	307	**77**
Other receivables	(826)	**25**
Short-term investments	-	**(99)**
Trade payables	1,051	**(421)**
Other payables and warranty provision	665	**720**
Employee severance benefits, net	10	**(23)**
Cash generated from operations	7,131	**11,288**
Income taxes	(1,251)	**(1,947)**
Cash flows generated from operating activities	5,880	**9,341**
Investing activities		
Purchase of property, plant and equipment	(727)	**(835)**
Acquisition of short term investments	(349)	**(383)**
Acquisition of intangible asset	(50)	**(585)**
Interest received	61	**494**
Cash flows used in investing activities	(1,065)	**(1,309)**
Financing activities		
Proceeds from issue of share capital, net	-	**9,470**
Proceeds from exercise of share options, net	73	**187**
Interest paid	(70)	**(88)**
Dividends paid	(3,249)	**(2,498)**
Cash flows generated from (used in) financing activities	(3,246)	**7,071**
Net increase in cash and cash equivalents	1,569	**15,103**
Cash and cash equivalents at beginning of the year	3,929	**5,498**
Cash and cash equivalents at end of the year	5,498	**20,601**
Non cash investing and financing activities:		
Dividend		
Dividend declared and paid subsequent to the balance sheet date	-	**2,510**

* Restated following first application of IFRS 2 share-based payments - see Note 1E.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated **Statements of Changes in Shareholders' Equity**

for the Year Ended December 31

	Share capital US$' 000	Share premium US$' 000	Capital reserve US$' 000	Retained earnings US$' 000	Total US$' 000
Balance at January 1, 2004	** -	424	-	5,385	5,809
Profit for the year ended December 31, 2004	-	-	-	* 4,467	4,467
Shares based payments	-	-	* 86	-	86
Issue of shares resulting from exercise of options	** -	73	-	-	73
Dividends paid of US$ 0.017 per share	-	-	-	(3,249)	(3,249)
Balance at December 31, 2004	** -	497	86	6,603	7,186
Net profit for the year ended December 31, 2005	**-**	**-**	**-**	**9,350**	**9,350**
Issuance of shares – IPO	**-**	**11,128**	**-**	**-**	**11,128**
IPO expenses(net of deferred tax of US$371,000)	**-**	**(1,287)**	**-**	**-**	**(1,287)**
Share- based payments expense	**-**	**-**	**137**	**-**	**137**
Exercise of options	**-**	**187**	**-**	**-**	**187**
Dividend paid of US$ 0.01 per share	**-**	**-**	**-**	**(2,498)**	**(2,498)**
Dividend declared of US$ 0.01 per share	**-**	**-**	**-**	**(2,510)**	**(2,510)**
Balance at December 31, 2005	**** -**	**10,525**	**223**	**10,945**	**21,693**

* Restated following first application of IFRS 2 share-based payment - see Note 1E.

** Less than one thousand dollars.

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the **Consolidated Financial Statements**

These notes form an integral part of the consolidated financial statements.

These financial statements were authorized for issue by the directors on March 26, 2006.

Note 1 - General

A Introduction

Sarin Technologies Ltd ("Sarin", "The Company"), an Israeli corporation, was incorporated on 8 November 1988. The Company and a wholly-owned consolidated subsidiary, Gran Computer Industries (1992) Ltd. ("GCI") are engaged in the development, manufacturing and marketing of technology intensive products for the diamond, precious stone and associated industries. Romedix Ltd. ("Romedix"), a wholly owned consolidated subsidiary is engaged in the development and manufacture of disposable polishing discs for diamonds and gemstones. Sarin Technologies Sale India Private Sale Ltd. ("Sarin India") a wholly owned consolidated subsidiary is rendering services of pre-sale and post-sale to Sarin customers in India and Sri Lanka.

On 8 April 2005 the Company was admitted to the official list of the Singapore Exchange Securities Trading Ltd.

B Subsidiaries

The Group has the following subsidiaries:

	Place of Incorporation	Effective equity interest held by the Group as at December 31 2004 & 2005
		%
Gran Computer Industries (1992) Ltd.	**Israel**	100%
Romedix Ltd.	**Israel**	100%
Sarin Technologies India Private Ltd.	**India**	100%

C Auditors

The statutory audited financial statements of the Israeli companies in the Group as of and for the year ended 31 December 2004 and 2005 were audited jointly by Chaikin, Cohen, Rubin & Gilboa and Somekh Chaikin, firms of Israeli Certified Public Accountants, whose partners are registered with the Israel Auditor's Council. The statutory audited financial statements of the Group for the relevant years have been prepared in accordance with generally accepted accounting principles in Israel. The statutory financial statements of Sarin India for 2005 were audited by KPMG Mumbai India.

The audit reports on the statutory financial statements of Romedix for the financial years ended 31 December 2004 and 2005 included an emphasis of matter statement relating to a capital deficit and losses.

D. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations adopted by the International Accounting Standards Board (IASB).

Note 1 - General (cont'd)

E. Application of new IFRS

As of January 1, 2005 the Company complied with new standards, as well as with revised IAS's. These standards comprise in particular with IFRS 2 on share-based payments, IFRS 3 on business combinations together with the consequential changes of IAS 36 on impairment of assets and IAS 38 on intangible assets, IFRS 5 on non-current assets held for sale and discontinued operations as well as the revision of existing IAS such as the revisions of IAS 1 on presentation of financial statements, IAS 16 on property, plant and equipment, and IAS 32 and 39 on financial instruments. Some of these new standards include new presentation and disclosure requirements.

All changes in accounting policies have been made with the transition provisions in the respective standards. Many of these new standards adopted by the Group require retrospective application. Beside the application of IFRS 2 (as presented below), the adoption of these new standards did not result in any required adjustments as for the comparative year amounts or any substantial changes to the Group's accounting policies.

IFRS 2 – Share-based Payments

The charge for equity-settled share-based payments in the 2005 consolidated income statement is US$ 137 thousands. Comparative information has been restated for grants of share options (equity-settled) awarded after November 7, 2002 and not vested at January 1, 2005. The charge for equity-settled share-based payments in the 2004 consolidated income statement is US$ 86 thousands.

The following represents the effects of the restatement on the Consolidated Income Statement for the year ended December 31, 2004: (US$ in thousands)

	As reported	As restated
Cost of sales	6,125	6,149
Gross profit	12,697	12,673
Research and development costs	1,671	1,687
Selling and marketing expenses	2.997	3,036
General and administrative expenses	1,607	1,614
Profit from operations	6,404	6,318
Profit for the year	4,553	4,467
Diluted earnings per share (in US$ per share)	0.023	0.022

The following represents the effects of the restatements on the Consolidated Statement of Changes in Shareholders' Equity for the year ended December 31, 2004 ($ in thousands)

	As reported	As restated
Share-based payments and capital reserve	-	86
Retained earnings	6,689	6,603

Note 2 - Significant Accounting Policies

A. Basis of Preparation

The financial statements are presented in United States dollars, rounded to the nearest thousand. They are prepared on the historical cost basis except that short-term investments are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods in the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by Group entities.

B. Functional currency

Items included in the financial statements of each company in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that company (the "functional currency"). The financial statements of the Group are presented in United States dollars, which is the functional currency of the Group. For statutory reporting purposes the Israeli companies also maintain their records in New Israeli Shekels ("NIS"), the lawful currency of Israel.

C. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisitions of subsidiaries are accounted for using the purchase method of accounting.

(ii) Transactions eliminated on consolidation

Intra-group balances and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

D. Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into United States dollars at rates of exchange approximate to those ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities are measured in terms of historical cost in a foreign currency and are translated using the exchange rate at the date of the transaction.

Note 2 - Significant Accounting Policies (cont'd)

E. Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

(iii) Disposals

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statements on the date of retirement or disposal.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The annual rates of depreciation are as follows:

Machinery and office equipment	6-15%
Motor vehicles	15%
Demonstration equipment	12%-33%
Computers and computer equipment	15%-33%
Leasehold improvements	Lower of estimated useful lives and the lease term

F. Intangible assets

(i) Know-how

Know-how is stated at cost less accumulated amortization and impairment losses.

(ii) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is recognized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure recognized includes the cost of materials, direct labor and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses (see below).

In the event that the Group cannot distinguish a research phase from the development phase of an internal project, the Group treats the expenditure on that project as if it were incurred in the research phase only. No expenditure on development activities has been capitalized.

Note 2 - Significant Accounting Policies (cont'd)

F. Intangible assets

(iii) Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortization

Amortization is charged to the income statements on a straight-line basis over the estimated useful lives of intangible assets from the date the asset is available for use. The estimated useful life of the know-how is five to eight years.

G Investments in debt securities

(i) Financial instruments held to trading are classified as current assets and stated at fair value, with any resultant gain or loss recognized in the income statement. Financial instruments classified as held for trading are recognized/derecognized by the Group on the date it commits to purchase/sell the investments.

(ii) The fair of value of financial instruments classified as held for trading is their quoted bid price at the balance sheet date.

H. Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is calculated based on the moving average costing method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and conditions. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any allowance for write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any allowance for write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

I. Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful receivables. An allowance for doubtful receivables is provided based on a specific evaluation basis of the recoverability of these receivables at the balance sheet date.

The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

An impairment loss in respect of receivables carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

J. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statements of cash flows.

Note 2 - Significant Accounting Policies (cont'd)

K. Impairment

The carrying amounts of the Group's assets other than inventories, financial instruments and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statements.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment loss

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment losses are recognized in the income statement.

L. Dividends

Dividends are recognized as a liability in the period in which they are declared.

M. Trade and other payables and interest-bearing liabilities

Trade and other payables are stated cost while interest-bearing liabilities are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

N. Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Note 2 - Significant Accounting Policies (cont'd)

O. Employee benefits

(i) Post employment benefits

The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Valuations are carried out annually for the plan. Actuarial advice is provided by an external consultant.

Such a plan is externally funded, with the assets of the schemes held separately from those of the Group in independently administrated insurance policies.

Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognized in the income statements in their full amount in the periods they occur.

For defined benefit plans the actuarial cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets as well as actuarial gains or losses that are recognized.

(ii) Bonuses

The Group recognizes a liability and an expense for bonuses, which are based on agreements with employees or according to management decisions based on Group performance goals and on individual employee performance. The Group recognizes a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

(iii) Share – based payment transactions

The share option program allows Group employee to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

P. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor differences relating to the extent they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as liability to pay the related dividend.

Note 2 - Significant Accounting Policies (cont'd)

Q. Revenue recognition

(i) Sale of goods

Revenue from the sale of goods is recognized in the income statements when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or when the amount of revenue and costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Service revenues from product maintenance contracts and separately priced extended warranty contracts are generally recognized ratably over the contract period.

(ii) Interest income

Interest income on bank deposits is accrued on a time apportioned basis on the principal outstanding and at the rate applicable.

R. Operating lease payments

Payments made under operating leases are recognized in the income statements on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statements as an integral part of the total lease expense.

S. Finance costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange gains and losses that are expensed in the period in which they are incurred.

T. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

U. Changes in IFRS that may affect the Group after December 31, 2005

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 3 Emission Rights
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

The Group anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Note 3 - Profit from Operations

A. Staff costs

	Year ended December 31	
	2004	2005
	US$'000	US$'000
Salaries and allowances	* 3,912	**5,415**
Defined benefit retirement plan expense	133	**285**
	4,045	**5,700**
Number of staff at year end	109	**146**

* Restated following first application of IFRS 2 share-based payments - see Note 1E.

B. Other operating expenses

	Year ended December 31	
	2004	2005
	US$'000	US$'000
Amortization of intangible assets	55	**115**
Allowance for doubtful trade receivables	315	**56**
Depreciation of property, plant and equipment	177	**379**
Operating lease charges	228	**368**
Warranty provision, net	52	**97**

Note 4 - Net Finance Income

	Year ended December 31	
	2004	2005
	US$'000	US$'000
Interest income	58	**441**
Interest expenses	(68)	**(88)**
Net foreign exchange gain	5	**91**
Changes in fair values of trading investments	10	**53**
	5	**497**

Note 5 - Income Taxes

	Year ended December 31	
	2004	2005
	US$'000	US$'000
Current tax	2,063	**2,289**
Taxes related to prior years	-	**(117)**
Deferred tax -		
Origination and reversal of temporary differences	(207)	**187**
Total income tax expense in income statements	1,856	**2,359**
Reconciliation of effective tax rate		
Profit from ordinary activities before taxation	* 6,323	**11,709**
Income tax using Israel tax rate of 2005 - 34% (2004 - 35%)	2,213	**3,981**
Non-deductible expenses for tax purposes	36	**122**
Losses for which deferred tax assets were not recognized	68	**58**
Effects of lower tax rates arising from "Approved Enterprise" status	(417)	**(1,755)**
Taxes related to prior years	-	**(117)**
Others	(44)	**70**
	1,856	**2,359**

* Restated following first application of IFRS 2 share-based payments - see Note 1E.

A. Measurement of results for tax purposes under the Income Tax Law (Adjustments for Inflation) - 1985 (the "Adjustments Law")

(i) In accordance with the Adjustments Law, the results for tax purposes are measured in real terms, based on the changes in the Israeli Customer Price Index.

(ii) On August 10, 2005, the Knesset approved the Income Tax Ordinance Amendment (No. 147 and Temporary Order), 2005 ("the Amendment").

The Amendment prescribes a gradual reduction in the corporate tax rate, from 34% to 25%, in the following manner: in the 2006 tax year, a tax rate of 31% will be imposed, in 2007, a tax rate of 29% will be imposed, in 2008, a tax rate of 27% will be imposed, in the 2009 tax year, a tax rate of 26% will be imposed and from the 2010 tax year and thereafter, the tax rate will be 25%.

The deferred tax balances at December 31 2005 are calculated based on the new tax rates, as prescribed in the Amendment.

B. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company currently qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a public offering, and to amortize know-how acquired from third parties.

C. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter - "the Law")

The Company has been granted "Approved Enterprise" status in respect of part of its property, plant and equipment under the Law, according to programs that were approved in 1994 ("first program"), 2002 ("second program") and 2005 ('third program"). Income of the Company derived from the Approved Enterprise is tax-exempt for a period of two years and is subject to a reduced tax rate of 25% for an additional five years. The seven-year period of benefits commences in the year during which the Approved Enterprise first generates taxable income, provided that 14 years have not elapsed since the year in which the approval was granted, and 12 years have not elapsed since the year in which the Approved Enterprise was put into operation.

Note 5 - Income Taxes (cont'd)

C. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter - "the Law") (cont'd)

The first program was enacted in 1999, the second program was enacted in 2002 and the third program was enacted in 2005. Dividends distributed from the "Approved Enterprise" income will be liable to a 15% withholding tax rate. The last year of benefits relating to the first program is 2005, the second program is 2008 and the third program is 2011.

The Investment Center of the Ministry of Industry and Commerce confirmed the execution of the first investment program in August 2001 and the second program in November 2004. The third program has not yet been approved.

The Company, based on the opinion of its tax counsel, has calculated the income tax provision for 2005 based on certain changes in the Law, granting benefits to qualifying investments from 2004 onwards. The benefit period and tax rate are as described above.

The benefits from the Company's investment programs are dependent upon the Company fulfilling the conditions stipulated by the Law and the regulations published there under, as well as the criteria set forth in the approval for the specific investment in the Company's Approved Enterprise.

If the Company does not comply with these conditions, the tax benefits may be cancelled, and the Company may be required to refund the amount of the cancelled benefits, with the addition of linkage differences and interest.

In the event of distribution of cash dividends from tax-exempt income attributed to the "Approved Enterprise", the reduced tax rate of 25% in respect of the amount distributed would have to be paid.

D. Final tax assessments

The Company and its Israeli consolidated subsidiaries have received final tax assessments (including assessments which are considered final under the tax laws) for all tax years up to December 31, 2001. Sarin India has not received final tax assessments since incorporation.

Note 6 - Earnings per Share

Earnings per share is calculated on the profit attributable to shareholders of US$ 4,467,000 (restated following first application of IFRS 2 share-based payments – see Note 1E) and US$ 9,350,000 for the years ended 31 December 2004 and 2005 respectively, applied to the weighted average number of shares.

The weighted average number of shares during each of the years was calculated as follows:

	Number of shares (Thousands)	
	December 31 2004	**December 31 2005**
Issued ordinary shares at beginning of the year	186,600	**191,132**
Weighted average number of shares:		
Issuance of shares – IPO	-	**38,038**
Issue of new shares resulting from exercise of options	2,176	**3,741**
Weighted average number of shares issued used in calculation of basic earnings per share	188,776	**232,911**
Dilutive effect of stock options	13,408	**9,582**
Weighted average number of shares used in calculation of diluted earnings per share	202,184	**242,493**

The calculation of earnings per share for the year ended December 31 2004 takes into account the fact that in 2005 the Company converted all its ordinary shares of NIS 0.01 each into ordinary shares with no par value and sub-divided each such converted ordinary share with no par value into 2,000 ordinary shares with no par value prior to the IPO.

Note 7 - Property, Plant and Equipment

	Computers and equipment US$'000	Demonstration equipment US$'000	Motor vehicles US$'000	Machinery and office equipment US$'000	Leasehold improvements US$'000	Total US$'000
Cost						
At January 1, January 1, 2004	256	56	48	104	61	525
Additions	213	169	119	80	146	727
At December 31, 2004	469	225	167	184	207	1,252
Additions	145	351	-	132	180	835
Disposals	-	-	(23)	-	-	(23)
At December 31, 2005	641	576	144	316	387	2,064
Accumulated depreciation						
At January 1, January 1, 2004	181	-	37	29	48	295
Depreciation charge for the year	79	39	16	17	26	177
At December 31, 2004	260	39	53	46	74	472
Depreciation charge for the period	145	94	21	31	88	379
Disposals	-	-	(23)	-	-	(23)
At December 31, 2005	405	133	51	77	162	828
At December 31, 2005	236	443	93	239	225	1,236
At December 31, 2004	209	186	114	138	133	780

Note 8 - Intangible Assets

	As at December 31	
	2004	2005
	US$'000	US$'000
Acquisition of know-how		
Cost	290	**975**
Amortization		
At January 1	124	**179**
Amortization during the year	55	**115**
At December 31	179	**294**
Carrying amount	111	**681**

Note 9 - Deferred Tax

Recognized deferred tax assets are attributable to the following:

	As at December 31	
	2004	2005
	US$'000	US$'000
Deferred tax assets		
Research and development costs	429	**393**
Other payables and liability for employee severance benefits	71	**46**
Allowance for doubtful receivables	109	**62**
IPO expenses	-	**287**
Other	10	**14**
Total	619	**802**

Deferred tax assets have not been recognized in respect of the following:

	As at December 31	
	2004	2005
	US$'000	US$'000
Tax losses (see Note 5)	3,117	**3,136**

Deferred tax assets have not been utilized because the Group does not currently have sufficient information to determine the probability that future taxable profits will be available against which the Group can utilize the benefits. The above tax losses are available for offsetting against future taxable income of the Company's Israeli subsidiaries subject to compliance with the relevant tax regulations and agreement by the tax authorities.

The tax losses do not expire under current tax legislation.

Note 10 - Inventories

	As at December 31	
	2004	2005
	US$'000	US$'000
Raw materials and consumables	1,585	**1,941**
Work-in-progress	283	**487**
Finished goods	344	**709**
	2,212	**3,137**

Note 11 - Trade Receivables

	As at December 31	
	2004	2005
	US$'000	US$'000
Trade receivables	1,669	**1,623**
Allowance for doubtful receivables	(392)	**(423)**
	1,277	**1,200**

Note 12 - Other Receivables

	As at December 31	
	2004	2005
	US$'000	US$'000
Value added tax recoverable	253	**209**
Customs deposit	-	**96**
Advances to suppliers	20	**57**
Prepaid expenses	121	**115**
Share offer expenses	398	**-**
Other	20	**37**
	812	**514**

Note 13 - Short-Term Investments

	As at December 31	
	2004	2005
	US$'000	US$'000
Bank deposit	400	**1,000**
Investments held for trading	217	**99**
	617	**1,099**

Note 14 - Cash and Cash Equivalents

	As at December 31	
	2004	2005
	US$'000	US$'000
Cash at banks and in hand	3,293	**1,298**
Bank deposits	2,205	**19,303**
	5,498	**20,601**

Note 15 - Other Payables

	As at December 31	
	2004	2005
	US$'000	US$'000
Employees and related institutions	673	**1,132**
Advances from customers	500	**488**
Accrued expenses	251	**497**
Prepaid income	120	**181**
Amounts payable to related parties	182	**101**
Other	61	**11**
	1,787	**2,410**

The amounts payable to related parties are unsecured, interest-free and have no fixed terms of repayment.

Note 16 - Warranty Provision

The movement in the warranty provision is as follows:

	As at December 31	
	2004	2005
	US$'000	US$'000
Balance at the beginning of the year	100	**152**
Change in accrual	52	**97**
Balance at the end of the year	152	**249**

Note 17 - Liability for Employee Severance Benefits, Net

A. Israeli labor laws and agreements require the Group to pay severance pay to dismissed or retiring employees (including those leaving their employment under certain other circumstances). The calculation of the severance pay liability was made in accordance with labor agreements in force and based on salary components, which, in management's opinion, create entitlement to severance pay.

B. The Group's severance pay liabilities to its Israeli employees are funded partially by regular deposits with recognized pension and severance pay funds in the employees' names and by purchase of insurance policies.

Note 17 - Liability for Employee Severance Benefits, Net (cont'd)

C. Employees benefits consist of the following:

	As at December 31	
	2004	**2005**
	US$'000	**US$'000**
Present value of defined benefit obligations	572	**759**
Fair value of plan and individual assets (see B above)	489	**691**
Recognized liability for defined benefit obligations	83	**68**

Liability for defined benefit obligations

The Group makes contributions to various external defined benefit plans as mentioned in (B) above that provide pension benefits for employees upon retirement. The Company has no control over the assets of these funds.

Movements in the net liability recognized in the balance sheet:

	As at December 31	
	2004	**2005**
	US$'000	**US$'000**
Net liability at 1 January	73	**83**
Contributions paid	(123)	**(300)**
Expense recognized in the income statements	133	**285**
Net liability at 31 December	83	**68**

Expenses recognized in the income statements:

	As at December 31	
	2004	**2005**
	US$'000	**US$'000**
Current service costs	104	**189**
Interest cost	15	**24**
Expected return on plan and individual assets	(12)	**(21)**
Expected severance paid	-	**(2)**
Net actuarial loss	26	**95**
	133	**285**

Note 17 - Liability for Employee Severance Benefits, Net (cont'd)

The expense is recognized in the following line items in the income statements:

	As at December 31	
	2004	**2005**
	US$'000	**US$'000**
Cost of sales	24	**47**
Research and development costs	59	**131**
Selling and marketing expenses	19	**43**
General and administrative expenses	31	**64**
	133	**285**
Actual return on plan assets	12	**21**

Principal actuarial assumptions:

(a) The calculations are based on the following demographic assumptions about the future characteristics of current employees who are eligible for benefits:

(i) Mortality rates are based on the pension circular 2000/1 of the Ministry of Finance, including 0.5% improvement per annum, as specified in that document.

(ii) Disability rates are based upon the aforementioned document.

(iii) The leave rate assumed is conservative and derived from experience of comparable companies as the Group is considered too small to have credible experience. It is assumed that for employees with up to 10 years service, the leave rate will be 2.5% p.a. with entitlement to post-employment benefits, and 5% p.a. without such entitlement. For employees with 10 years service and more it is assumed that the leave rate will be 2% p.a. with entitlement to benefits and 2% p.a. without entitlement.

(b) The calculations are based on the following financial assumptions:

(i) The discount rate used is based on the yield of fixed-interest Israeli government bonds with duration equal to the duration of the gross liabilities:

Valuation Date	Duration of Liabilities	Discount Rate
31st December 2003	13.16 years	4.17%
31st December 2004	13.12 years	4.10%
31st December 2005	11.96 years	3.76%

(ii) The future real salary increase is assumed to fall linearly from 12% p.a. at age 20 to 3% p.a. from age 40 onwards.

(iii) The rate of growth of the accrued balance in individual savings plans and the separate plan assets is assumed to be 3.0% p.a. This reflects 4.0% expected market return after the deduction of 1.0% management fees.

(c) In view of the small size of the Group and the limited number of years experience currently available, these assumptions were felt to be reasonable. With the progress of time and the consequent accumulation of experience, these assumptions will be periodically reviewed.

Note 18 - Share Capital – The Company

	As at December 31	
	2004 (a)	2005
	No. of shares	No. of shares
Authorized:		
Ordinary Shares A of NIS 0.01 each	1,980,000,000	-
Ordinary Shares B of NIS 0.01 each	20,000,000	-
Ordinary Shares of no par value	-	**2,000,000,000**
Total	2,000,000,000	**2,000,000,000**
Issued and fully paid:		
Ordinary Shares A of NIS 0.01 each	186,600,000	-
Ordinary Shares B of NIS 0.01 each	4,532,000	-
Ordinary Shares of no par value	-	**250,896,750**
Total	191,132,000	**250,896,750**

The paid up share capital is less than US$1,000 as at 31 December 2004 and 2005.

(a) The number of shares for the year ended December 31 2004 are presented based on the fact that in 2005 the Company converted all its ordinary shares of NIS 0.01 each into ordinary shares with no par value and sub-divided each such converted ordinary share with no par value into 2,000 ordinary shares with no par value prior to the Initial Public Offering (IPO).

(b) On April 8 2005, the Company completed an IPO of 52 million shares and its shares were listed for trading on the Singapore Stock Exchange Main Board.

(c) 7,764,750 Ordinary Shares were issued upon exercise of options for cash during 2005.

Note 19 - Employee Stock Option Plan

In November 2003, the Company adopted a share option plan to allot options to directors, officers, and employees of the Company and its subsidiaries (the "2003 Plan"). Under the 2003 Plan, the Board of Directors was authorized to grant to its employees and managers share options exercisable to up to a total of 10,000 Ordinary Shares B of NIS 0.01 par value (prior to the sub-division and reclassification of the Company's shares which took place on March 8, 2005) .

Following the said sub-division and reclassification of the Company's share capital (as set forth in Note 18), the total number of options administrated by the 2003 Plan is 20,000,000 options, each exercisable to one ordinary share of no par value of the Company.

On 8 March 2005, the General Meeting of the Company's shareholders resolved to amend the 2003 Plan in order to adjust it to the changes resulting from listing of the Company's shares for trade on the SGX-ST stock exchange in Singapore. Following the said adjustments, shares issued upon exercise of the options granted under the 2003 Plan, entitle their holders to any and all rights attached to the Company's shares, inter alia, the right to receive dividends, the right to participate in the distribution of the Company's assets upon liquidation and the right to vote in the Company's General assemblies.

The vesting period of the option ranges from immediate vesting to ratable vesting over a period of four years.

The said options shall expire at the end of six years commencing on the date of grant or on cessation of employment, at the earlier of the two. Unexercised vested options can generally be exercised within 60 days of cessation of employment. Since January 1, 2005, the Company ceased to grant options under the 2003 Plan.

Note 19 - Employee Stock Option Plan (cont'd)

The Income Tax authorities have recognized the option plan as "share allotment through a trustee" according to Section 102 to the Tax Ordinance "Capital gain track". As a result, the benefit from the option plan shall not be recognized for deduction for income tax purposes.

In March 2005 the Company adopted a new share option plan to allot options to directors, officers, and employees of the Company and its subsidiaries (the "2005 Plan").

Shares which shall be issued by the Company pursuant to exercise of options granted under the 2005 Plan, entitle their holders with any and all rights attached to the Company's ordinary shares, inter alia, the right to receive dividends, the right to participate in the distribution of the Company's assets upon liquidation, voting rights in the Company's General assemblies (provided that as long as the shares are being held by the trustee, such voting rights will be exercised by the trustee, in its sole discretion).

Currently, the vesting periods of the options granted under the 2005 Plan range from one year following the date of grant (as such term is defined in the 2005 Plan) and up to three years following the date of grant (the said range may vary, inter alia, due to the exercise price of the options granted, which exercise price may be the Market Price (as such term is defined in the 2005 Plan) of the Company's share, or a discount of up to 20% thereon).

The said options shall expire at the end of six years commencing on the date of grant (or any earlier date, if such was mentioned in the grant instrument) or on cessation of employment, at the earlier of the two. Unexercised vested options can generally be exercised within 90 days of cessation of employment.

The Income Tax Authorities have recognized the 2005 Plan as "share allotment through a trustee" according to Section 102 to the Tax Ordinance "Capital gain track". As a result, the benefit from the option plan shall be either classified as ordinary income or capital gain, all in accordance with the provisions of Section 102(b)(3) to the Tax Ordinance.

Movements in the number of share options (granted under the 2003 Plan and the 2005 Plan) outstanding and their related weighted average exercise prices are as follows:

	As at December 31			
	2004		**2005**	
	Average Exercise price in US$ per share	**Options thousands**	**Average Exercise price in US$ per share**	**Options thousands**
As January 1	0.022	18,250	**0.029**	**15,462**
Granted	0.067	1,950	**0.214**	**1,590**
Cancelled	0.016	(206)	**0.029**	**(200)**
Exercised	0.017	(4,532)	**0.025**	**(7,765)**
At December 31	0.029	15,462	**0.064**	**9,087**

The number of stock options vested at 31 December 2004 and 2005 is 11,348,250 and 4,627,250 respectively (following the sub-division of the Company's share capital, which occurred on March 8, 2005).

Note 19 - Employee Stock Option Plan (cont'd)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Exercise price US$ per share	As December 31 2005 US$'000
December 2009	0.015	**4,089**
December 2009	0.030	**2,600**
December 2010	0.121	**808**
August 2011	0.214	**1,590**
		9,087

Note 20 - Significant Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

In addition to the related party information disclosed elsewhere in the financial statements, there were the following significant related party transactions between the Group and parties which are subject to common control or common significant influence during the year carried out in the normal course of business on terms agreed between the parties:

	As December 31	
	2004	2005
	US$'000	US$'000
Remuneration of key management personnel	423	**659**

Remuneration of key management personnel

On 18 October 2004 the Company's Board of Directors approved the employment agreement by and between the CEO and the Company, according to which, the CEO's monthly salary was US$11,000. On 9 May 2005, the Company's Board of Directors approved an increase to the salary of the CEO (effective 1 April 2005), from US$ 11,000 per month to US$12,500 per month. In addition to his base salary of US$12,500 per month plus social benefits and a company vehicle, the CEO is entitled to an annual bonus. From the year 2005, the bonus was equal to 1% of the Group's annual profit before tax and 3% of the annual increase in the Group's profit (before tax).

In December 2003, the Company granted to the CEO 2,750 options at an exercise price of NIS 135 (US$30.02) per share (equivalent to 5,500,000 options at an exercise price of NIS 0.0675 (US$0.015) following the sub-division of the Company's shares which took place on 8 March 2005). As of December 31, 2005, all of the said options are vested. As of December 31, 2005, the CEO has exercised 1,000,000 options, 500,000 options and 500,000 options, in September 2004, June 2005 and November 2005, respectively.

Note 20 - Significant Related Party Transactions (cont'd)

Remuneration of key management personnel (cont'd)

The Company had contracted with an interested party who serves as Chairman and executive director of the Board of Directors (hereinafter - "the Chairman"). On 8 March 2005, the General Meeting of the Company's shareholders approved the execution of a service agreement by and between the Company and the Chairman, according to which, the Chairman receives a monthly remuneration of US$5,000 in return for his services.

An interested party who serves as an executive director of the Company has entered into a service agreement with the Company, which was approved on 8 March 2005 by the General Meeting of the Company's shareholders. In accordance with the said agreement, the director received a monthly salary of US$1,000 (which was later raised by the Board of Directors to an amount of US$4,000 per month, effective 1 November 2005). A company which is under the control of the said director (who also serves as a director of Romedix), is entitled to royalties in the amount of 2% per year from certain sales of Romedix up to 31 December 2009.

Other related party transactions

On 21 June 2005, the Annual General Meeting of the Company approved the Board of Director's resolution that a sum of up to US$200,000 be paid by the Company as directors' fees for the period from 8 March 2005 to 31 December 2005 (which payment includes amounts paid to certain directors who are deemed to have interest in the Company through certain body corporates).

Name	Remuneration
Mr. Daniel Benjamin Glinert	Band 1
Mr. Hanoh Stark	Band 1
Mr. Israel Zeev Eliezri	Band 1
Mr. Ehud Harel	Band 1
Mr. Eyal Mashiah	Band 1
Mr. Aharon Shapira	Band 1
Mr. Yehezkel Pinhas Blum	Band 1
Mr. Chan Kam Loon	Band 1
Ms. Valerie Ong Choo Lin	Band 1

Total remuneration to all directors in 2005 was US$190,298

Notes:
Band 1: remuneration of up to S$ 250,000 per annum.

Note 21 - Segment Reporting

A. Business segment

The Group is engaged in only one business segment, which is development, assembly and marketing of technology intensive products for the diamond, precious stone and associated industries.

B. Geographical segment

The Group's secondary segment is based on geographical segments. These are India, Europe, North America and Other.

In presenting information geographically, segment revenue is based on the geographical location of the production, services or assets. Segment assets are based on the geographical location of the assets. Unallocated assets comprise deferred tax assets, other receivables and cash and cash equivalents held principally with banks in Israel.

Note 21 - Segment Reporting (cont'd)

B. Geographical segment (cont'd)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

	India US$'000	Europe US$'000	North America US$'000	Other US$'000	Total US$'000
Year ended 31 December 2004					
Revenue from external customers	13,080	1,506	1,574	2,662	18,822
Segment assets	2,232	628	776	810	4,446
Unallocated assets					7,580
Total assets					12,026
Capital expenditure incurred during the year	545	24	45	113	727

	India US$'000	Europe US$'000	North America US$'000	Other US$'000	Total US$'000
Year ended 31 December 2005					
Revenue from external customers	23,447	1,510	1,406	3,928	30,291
Segment assets	3,169	422	308	1,579	5,478
Unallocated assets					24,073
Total assets					29,551
Capital expenditure incurred during the year	305	19	18	493	835

Note 22 - Financial Instruments

The Group's financial assets comprise mainly cash and cash equivalents, trade receivables, other receivables and short-term investments. The Group's financial liabilities comprise mainly short-term bank loans, trade and other payables and liability for employee severance benefits. Except for the short-term investments, the Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts as at 31 December 2004 and 2005. Exposure to credit, interest rate and currency risk arise in the normal course of the Group's business.

A. Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group does not require collateral in respect of financial assets.

Note 22 - Financial Instruments (cont'd)

A. Credit risk (cont'd)

The Group has established credit limits for customers and monitor their balances regularly. Cash and deposits are placed with banks and financial institutions, which are regulated.

At the balance sheet date, cash and cash equivalents were held with only two banks, thereby exposing the Group to significant concentrations of credit risk. However, management consider that the high credit rating of the bank reduces the risk to the Group to an acceptable level.

B. Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents and debt obligations. The Group does not use derivative financial instruments to hedge its debt obligations.

C. Foreign currency risk

The Group is mainly exposed to movement in exchange rates of the US dollar in relation to the NIS with regards to salaries paid in NIS.

D. Fair values

The fair values of cash and cash equivalents, trade and other receivables, short-term investments, trade and other payables and short term bank loans are not materially different from their carrying amounts because of the immediate or short term maturity of these instruments.

Note 23 - Acquisitions of Subsidiaries

In February 2004 the Company acquired from related parties the remaining 9% of Romedix in return for US$18,000. As from February 2004 the Company holds 100% of Romedix.

Note 24 - Commitments

A. Operating lease commitments

The total future minimum lease payments of the Group, under operating leases in respect of properties and motor vehicles, are payable as follows:

	As December 31	
	2004	2005
	US$'000	US$'000
Payable within:		
1 year	352	**365**
2 to 5 years	570	**376**
	922	**741**

B. The Group is committed to pay royalties at the rate of 3.5% to the Chief Scientist's Office of the Ministry of Trade and Industry (hereinafter - the Chief Scientist) on sales proceeds from products for which the Company and a subsidiary received grants up to an amount not exceeding the grants received (linked to the exchange rate of the US dollar). The total grants received, net of royalties paid to the Chief Scientist were approximately US$ 1.1 million as at 31 December 2005.

Note 24 - Commitments (cont'd)

C. In August 2004 the Company signed an agreement for the acquisition of know-how regarding the development of a laser diamond cutting machine and a subsequent agreement in July 2005 for a consideration of US$685,000 and a commitment to pay royalties for six years or until the total amount shall equal or exceed US$2 million, whichever occurs latest. Furthermore, the Company undertook to receive management and marketing services from the vendors for a consideration of US$100,000 a year subject to certain terms and conditions.

D. On 21 March 2005, the Company signed an agreement with a third party for the design and development of a prototype product based on product intellectual property owned by the third party, including a technology license in respect of such product. The agreement contains provisions for payment of royalties, including minimum royalties during the term of the agreement and is subject to successful completion of product testing.

E. See Note 20 for contractual obligations to related parties.

F. In May 2004 a subsidiary signed an agreement for the acquisition of know-how regarding the development of diamond polishing discs for a consideration of US$50,000 and a commitment to pay royalties in the amount of 2% of the net sales proceeds of the subsidiary from these products in the 5 year period beginning on 1 January 2005 up to 31 December 2009.

Note 25 - Subsequent Event

A. At a Board of Directors meeting held on 22 February 2006, the Company's Board of Directors resolved to recommend that at the next Annual General Meeting (which is scheduled to be held on 24 April 2006) a dividend of US$ 0.00865 per share (approximately US$ 2.176 million) be paid out of profits from the year ended 31 December 2005.

Statistics of **Shareholdings**

Statistics of Shareholdings as at 9 March 2006

Issued and paid-up capital	-	251,566,750 shares
Class of shares	-	ordinary shares of no par value
Voting rights	-	on a show of hands, by written ballot or by any other means : 1 vote for each ordinary share

ANALYSIS OF SHAREHOLDINGS

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	5	0.74	867	0.00
1,000 - 10,000	465	69.09	2,455,499	0.97
10,001 - 1,000,000	188	27.94	15,687,000	6.24
1,000,001 and above	15	2.23	233,423,384	92.79
	673	100.00	251,566,750	100.00

Shareholdings Held in Hands of Public

Based on information available to the Company as at 9 March 2006, approximately 39% of the issued ordinary shares of the Company is held by the public and therefore, Rule 723 of the Listing Manual issued by Singapore Exchange Securities Trading Limited is complied with.

Top 21 Shareholders

No.	Name	No. of Shares	%
1	Sarin Research & Development Ltd	105,155,000	41.80
2	Interhightech (1982) Ltd	48,133,000	19.13
3	DBS Nominees Pte Ltd	23,051,000	9.16
4	HSBC (Singapore) Nominees Pte Ltd	10,763,735	4.28
5	Morgan Stanley Asia (S) Securities Pte Ltd	10,375,000	4.12
6	Raffles Nominees Pte Ltd	7,280,000	2.89
7	Vision Capital Private Limited	5,990,000	2.38
8	Eyal Avraham Khayat	4,524,649	1.80
9	Kim Eng Securities Pte Ltd	3,826,000	1.52
10	Royal Bank Of Canada (Asia) Ltd	3,764,000	1.50
11	Citibank Nominees Singapore Pte Ltd	3,384,000	1.35
12	DBSN Services Pte Ltd	2,027,000	0.81
13	United Overseas Bank Nominees Pte Ltd	1,860,000	0.74
14	Gay Chee Cheong	1,800,000	0.72
15	Kwan Wai Meng	1,490,000	0.59
16	CIMB-GK Securities Pte Ltd	946,000	0.38
17	Asdew Acquisitions Pte Ltd	799,000	0.32
18	UOB Kay Hian Pte Ltd	641,000	0.25
19	OCBC Securities Private Ltd	589,000	0.23
20	Bank Of China Nominees Pte Ltd	586,000	0.23
		236,984,384	**94.20**

Substantial Shareholders

Name	Direct Interest No. of Shares	Direct Interest %	Deemed Interest No. of Shares	Deemed Interest %
Sarin Research & Development Ltd	105,155,000	41.80	-	-
Interhightech (1982) Ltd	48,133,000	19.13	-	-
Hanoh Stark	-	-	*105,155,000	41.80
Ehud Harel	-	-	*105,155,000	41.80
Daniel Benjamin Glinert	-	-	**48,621,000	19.33
Aharon Shapira	-	-	**48,133,000	19.13
Gilad Moran			**48,133,000	19.13
Uzi Lev-Ami			**48,133,000	19.13

The Results of the **Auditors' Review**
of the Company's ERP System

According to Section 1(vi) of the ETL letter dated 8 March 2005, the grant of the ETL letter was subject, among other things, to:

"The Auditors' review of the ERP system during its audit of the financial statements of the group for the financial year ended 31 December 2005. The Company is to disclose the results of the auditors' review in an announcement to be released via SGXNET and its annual report for the financial year ended 31 December 2005."

The Company reports as follows:

1. The auditors have carried out a detailed review of the ERP system (called Priority) which is in use by the Company for managing most of its business applications, during January through March 2006.

2. The review encompassed the following subjects:

   - Manufacturing and inventory;
   - Marketing, sales and customers;
   - Purchases and suppliers;
   - ERP system's change management;
   - Data security and authorizations.

3. The auditors delivered a report on their findings to the Company on March 20, 2006. The report indicated that nothing came to the auditors' attention to indicate that the ERP system was not properly providing the requisite overall control functionality, but that there are certain areas requiring procedural and system control modifications and improvements.

4. This report has been evaluated by the Company's appropriate management staff and has been discussed with the auditors and other professional advisors to the Company.

5. After considering the findings contained in the report, management is of the opinion that the control issues raised are not likely to have a material impact on the Company's operations, financial reporting or on the financial statements.

6. The Company is developing a program to correct the identified issues, in its procedures and/or system controls, and will continue to enhance its ERP system in accordance with the findings contained in the report.

Sarin Technologies Ltd
26 March 2006

Notice of **Annual General Meeting**

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at Connaught Room, Level 2, Carlton Hotel Singapore, 76 Bras Basah Road, Singapore 189558 on the 24th day of April 2006 at 2.30 pm to transact the following business :-

Ordinary Business

1. To receive and consider the audited accounts for the year ended 31 December 2005 and the reports of the Directors and Auditors thereon.

2. To declare a final dividend of US$0.00865 (gross) per share less tax (as applicable) for the year ended 31 December 2005.

3. To approve Directors' Fees of up to US$350,000 for the year ending 31 December 2006 (March 2005 - December 2005: US$200,000).

4. To elect Mr. Avraham Eshed as a Director and to record the resignation of Mr Israel Zeev Eliezri. [See explanatory Note(a)]

5. To re-appoint Somekh Chaikin, Certified Public Accountants (Isr.), Member firm of KPMG International and Chaikin, Cohen, Rubin and Gilboa, Certified Public Accountants (Isr.) as external auditors and to authorise the Directors to fix their remuneration.

Special Business

6. To consider and, if thought fit, to pass the following shareholders' resolutions with or without amendments [see Explanatory Note (b)]:-

6.1 Authority to issue shares

"That authority be given to the Directors to issue and allot shares in the Company whether by way of rights, bonus or otherwise (including but not limited to the issue and allotment of shares at any time, whether during the continuance of such authority or thereafter, pursuant to offers, agreements or options made or granted by the Company while this authority remains in force) by the Directors, or otherwise disposal of shares (including making and granting offers, agreements and options which would or might require shares to be issued, allotted or otherwise disposed of, whether during the continuance of such authority or thereafter) by the Directors at any time to such persons (whether or not such persons are shareholders), upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit PROVIDED THAT:

(i) the aggregate number of shares to be issued shall not exceed 50% of the issued share capital of the Company; and

(ii) where shareholders are not given opportunity to participate in the same on a pro rata basis, then the shares to be issued under such circumstances shall not exceed 20% of the issued share capital of the Company, and the percentage of the issued share capital shall be calculated based on the Company's issued share capital at the time this resolution is passed (after adjusting for new shares arising from the conversion or exercise of convertible securities or exercise of share options or vesting of share awards which are outstanding or subsisting at the time this resolution is passed and any subsequent consolidation or subdivision of the Company's shares), and unless revoked or varied by the Company in a general meeting, such authority shall continue in full force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier." [See Explanatory Note (c)]

6.2 Authority to offer and grant options and issue shares pursuant to the Sarin Technologies Ltd 2005 Share Option Plan

"That the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the provisions of the Sarin Technologies Ltd 2005 Share Option Plan (the "Plan") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of options under the Plan provided always that the aggregate number of such shares to be issued pursuant to the Plan and any other share option schemes of the Company shall not exceed 15% of the total issued share capital of the Company from time to time; and offer and grant options with exercise price (as defined in the Plan) set at a discount to the market price (as defined in the Plan) provided that such discount shall not exceed the maximum discount allowed under the Plan." [See Explanatory Note (d)]

7. Issuance of letters of Indemnification

"To issue, subject to the provisions of the Israeli Companies Law, 1999 and of the Company's Articles of Association, prospective indemnification letters to the Company's Directors and Executive Officers with a maximum aggregate coverage (to all Directors and Executive Officers involved) of up to US$ 5,000,000 as per a single event, but in no event more than 25% of the Company's equity – as such shall be at the time of indemnification, with respect to acts and omissions performed in their capacity as office holders, against: (i)a financial liability imposed on them, and/or incurred by them in favour of another person by any judgment, including a settlement or an arbitration award approved by a court; (ii) reasonable litigation expenses, including attorneys' fees, expended by them or charged to them by the court, in proceedings instituted against them by the Company or on its behalf or by another person, a criminal charge from which they were acquitted, or a criminal charge in which they were convicted of a criminal offence that does not require proof of criminal intent; and (iii) reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to them, due to investigation or other similar proceeding initiated by a competent governmental agency, which investigation did not result in criminal charges, or a payment of a fine in lieu of criminal proceedings." [See Explanatory Note (e)]

8. To approve a grant of bonuses to Messrs. Daniel Benjamin Glinert and Hanoh Stark in the amount of US$ 40,000 and US$ 30,000, respectively. [See Explanatory Note (f)]

9. To transact any other business which may properly be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

AMIR JACOB ZOLTY
Company Secretary

Singapore,
6 April 2006

Proxies :-

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company.

An instrument appointing a proxy must be deposited at the office of the Company's Singapore Share Transfer Agent at 138 Robinson Road #17-00 The Corporate Office Singapore 068906 not less than 24 hours before the time fixed for the meeting.

Explanatory Notes :-

(a) Mr. Israel Zeev Eliezri, who served as a Director in the Company since July 2004, has submitted his resignation to the Board of Directors (effective 24 April 2006). Mr. Eliezri notified the Company that his resignation was due to personal reasons. Mr. Avraham Eshed is proposed to be elected as a Director in his stead. Mr. Eshed's CV may be found in the Company's Annual Report.

(b) A shareholders' resolution shall be deemed adopted if approved by the holders of a majority of the voting power represented at the meeting in person or by proxy and voting thereon.

(c) The shareholders' resolution set out in item 6.1 above, if passed, will empower the Directors from the date of the above meeting until the date of the next Annual General Meeting, to issue shares in the Company. The number of shares which the Directors may issue under this resolution would not exceed 50% of the issued share capital of the Company at the time this resolution is passed. For issues of shares other than on a pro rata basis to all shareholders, the aggregate number of shares to be issued shall not exceed 20% of the total issued share capital of the Company at the time this resolution is passed.

(d) The shareholders' resolution set out in item 6.2 above, if passed, will empower the Directors to offer and grant options and to allot and issue shares in the capital of the Company pursuant to the exercise of the options under the Plan.

(e) According to the Israeli Companies Law, 1999, a company may indemnify an office holder (i.e. a director or an executive officer) with respect to an act performed in his capacity as an office holder against: (i) a financial liability imposed on him, and/or incurred by him in favour of another person by any judgment, including a settlement or an arbitration award approved by a court; (ii) reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to him by a court, in proceedings instituted by the company or on its behalf or by another person against him, a criminal charge from which he was acquitted, or a criminal charge in which he was convicted of a criminal offence that does not require proof of criminal intent; and (iii) reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to him, due to investigation or other similar proceeding initiated by a competent governmental agency, which investigation did not result in criminal charges, or a payment of a fine in lieu of criminal proceedings.

A company may also grant in advance an undertaking to indemnify an office holder, provided that the undertaking is limited to types of events which the board of directors deems to be foreseeable at the time of the undertaking, in view of the company's activities at that time, and limited to an amount determined by the board of directors to be reasonable under the circumstances.

As was mentioned in the Company's Prospectus, at the Extraordinary General Meeting held on 8 March 2005, the Company's shareholders approved, inter alia, the resolution of the Board of Directors dated 8 March 2005, to issue letters of indemnification to the Directors and Executive Officers of the Company, according to which letters, the Company undertakes, subject to the provisions of the Israeli Companies Laws and of the Company's Articles of Association, to indemnify its Directors and Executive Officers prospectively up to the amount of US$ 2,000,000, but in no event more than 25% of the Company's equity, in respect of an act performed in their capacity as Directors in connection with the Company's initial public offering.

It is now proposed to issue new letters of indemnification to the Company's Directors and Executive Officers, subject to the provisions of the Israeli Companies Law, 1999 and of the Company's Articles of Association. The proposed resolution is a result of the growing scope of the Company's activities, and of the Company's status as a publicly traded company. The grant of such prospective letters is widely accepted among Israeli public companies.

(f) On 13 November 2005, the Board of Directors of the Company resolved, following the recommendation of the Company's Remuneration Committee and the approval of the Company's Audit Committee, to grant to Messrs. Daniel Benjamin Glinert and Hanoh Stark bonuses in the amount of US$ 40,000 and US$ 30,000, respectively, as recognition of their efforts and intensive work put in connection with the Company's initial public offering in Singapore – all subject to the resolution of the Annual General Meeting.

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SARIN TECHNOLOGIES LTD
(Incorporated in Israel)
Israel Registration No. 51 1332207

PROXY FORM

I/We ______________________________, NRIC/Passport no. ______________

of ____

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

Name	**Address**	**NRIC/Passport No.**	**No. of Shares**

and/or (delete as appropriate)

Name	**Address**	**NRIC/Passport No.**	**No. of Shares**

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and, if necessary, to demand a poll at the Annual General Meeting of the Company to be held at Connaught Room, Level 2, Carlton Hotel Singapore, 76 Bras Basah Road, Singapore 189558 on 24th April 2006 at 2.30pm and at any adjournment thereof.

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

No.	**Resolution**	**For**	**Against**
1.	Adoption of reports and accounts		
2.	Declaration of final dividend		
3.	Approval of Directors' Fees		
4.	Election of Mr. Avraham Eshed as a Director		
5.	Re-appointment of Somekh Chaikin, Certified Public Accountants (Isr.), Member firm of KPMG International and Chaikin, Cohen, Rubin and Gilboa, Certified Public Accountants (Isr.) as external auditors		
6.1	Authority to issue shares		
6.2	Authority to grant options and issue shares pursuant to the Sarin Technologies Ltd 2005 Share Option Plan		
7.	Issuance of indemnification letters to Directors and Executive Officers		
8.	Grant of bonuses to Messrs. Daniel Benjamin Glinert and Hanoh Stark		

Dated this ______________ day of _______ 2006

Total Number of Shares Held

____
Signature(s) of Member(s) or Common Seal
Important: Please Read Notes Overleaf

Notes

1 Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register, you should insert that number. If you have shares registered in your name in the Register of Members of the Company, you should insert that number. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.

2 A member entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

3 The instrument appointing a proxy or proxies must be deposited at the office of the Company's Singapore Share Transfer Agent at 138 Robinson Road #17-00 The Corporate Office Singapore 068906 not less than 24 hours before the time appointed for holding the meeting.

4 Where a member appoints more than one proxy, he shall specify the number of shares to be represented by each proxy, failing which, the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.

5 The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a company or other body corporate, it must be executed under its common seal or stamp or under the hand of its duly authorised agent or attorney on behalf of the corporation.

6 Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney or other authority, the power of attorney or authority or a notarially certified copy thereof must be lodged with the instrument of proxy, failing which the instrument of proxy may be treated as invalid.

7 A company or other body corporate which is a member may authorize, by resolution of its directors or any other managing body, such person as it thinks fit to act as its representative at the meeting.

8 The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register, the Company may reject an instrument of proxy if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 24 hours before the time appointed for holding the meeting, as certified by The Central Depository (Pte) Limited to the Company.

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