Sharpen Your Vision

SARIN TECHNOLOGIES LTD. • ANNUAL REPORT 2008

SARIN TECHNOLOGIES LTD.

Contents

Corporate Profile

DiaExpert™ Nano

Sarin Technologies Ltd deals 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 comprise various hardware technologies, including electro-optics, electronics, precision mechanics and lasers. At the heart of these systems is the computer software that implements three-dimensional modelling using advanced mathematical algorithms, and overall system control (motion, image capture, laser functionality, etc.).

Our products provide smart solutions for every stage and aspect of diamond design and manufacturing, from determining the optimal yield from a rough stone, through laser cutting of rough stones, polishing discs, measuring and analysing polished diamonds, inscription on polished diamonds to technology that assists sales in jewellery stores.

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 all leading gemmological 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), the European Gemological Laboratory (EGL), and the Gemmological Association of All Japan (GAAJ-ZENHOKYO) 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 utilisation of the rough stones in order to cut them so as to achieve the maximum yield and value;

(b) Cutting and shaping rough stones using green-laser technology;

(c) Measurement of two (Colour and Cut) of the four parameters (Colour, Cut, Clarity and Carat) of the polished diamond in order to help determine the value of the diamond, based on the quality grade of its colour and cut;

(d) Inscribing on polished diamonds with distinct marks like text, numerals and symbols; and

(e) Disposable discs for cost-effective diamond polishing.

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 bring cutting-edge technology to the industry.

To this end we have acquired a company, Galatea, with a revolutionary technology and an initial product in the final stages of testing which is aimed at an additional key aspect of the industry - Clarity. We expect our initial product, an automated inclusion mapping system for rough diamonds, which will enhance our rough stone planning systems to be launched shortly, as planned. It will initially be offered as a service and, subsequently, the product will be made available for use at customer sites. In the future, we intend to support the fully automated measurement of the last of the four Cs – Clarity.

The hawk has the sharpest vision,
it can spot the slightest movement from six miles away.

Colibri™
Polished diamond color grading

Our Milestones

2008
Sarin acquires 23% of IDEX Online SA, an operator of a B2B polished diamond traders' network, a web portal for news, analyses and polished diamond price indices and publisher of a leading trade magazine. Shortly after the acquisition, IDEX Online launches the first ever polished diamond spot market.

Sarin acquires 100% of the issued share capital of Galatea Ltd., which then becomes a wholly-owned subsidiary of the Company. Galatea is in the final testing stages of an automatic inclusion (Clarity) mapping system for rough diamonds, scheduled for launch, commencing Q1 '09, initially as a service and subsequently as a product.

2007
Sarin introduces DiaMark™-Z Eye for semi-automated inclusion (Clarity) charting of rough diamonds, supporting the need for considering inclusions in the planning and production of diamonds. Additionally, after evaluating the important market niche of small stone manufacturers, DiaExpert™ Nano, a unique product for the planning and marking of small stones, is launched.

2006
Sarin introduces Colibri™ and OrchiDia™. Colibri™ is a state-of-the-art colour grading product for polished diamonds. Colibri™ calculates and grades the colour of the diamond as well as its fluorescence. The Group's subsidiaries, GCI and Romedix, are renamed Sarin Color Technologies Ltd. and Sarin Polishing Technologies Ltd., respectively. New subsidiaries, Sarin Hong Kong Ltd. and SUSNY LLC, are established.

2005
Sarin launches 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. We also introduce 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).

8 APRIL 2005
Sarin Technologies Limited is listed on the Mainboard of the Singapore Exchange.

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

22 MARCH 2004
Sarin India is incorporated as a wholly owned subsidiary in India. Sarin India deals in the provision of presale, post-sale and technical support services to our Group's customers in India, Sri Lanka, and neighbouring countries.

2001
Sarin acquires 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.

2000
Sarin introduces the DiaMark™. 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.

1996
Sarin introduces the use of laser scanning in order to create three-dimensional concave modelling of rough stones. The ability to accurately complement our modelling with the rough stone's concavities provides the user with a complete and accurate model of the rough stone. This feature is complementary to, and increases the effectiveness of, the DiaExpert™.

21 DECEMBER 1995
Sarin, along with another company, Rodata Investments Limited, incorporates 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.

1995
Sarin develops the DiaExpert™, an automated computerised planning system for the maximum utilization of rough stones. The introduction of this new technology in the DiaExpert™ revolutionizes the diamond manufacturing industry by introducing computer-based technology to substitute person-based expertise, and thus contributes to the geographic shift of the diamond industry to new centres of manufacture such as India, PRC and Russia.

31 DECEMBER 1994
The Group is renamed Sarin Technologies Limited.

1992
The DiaMension™, a pioneering grading product for assessing the cut (proportion and symmetry) of polished diamonds, is introduced. The product is 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 by providing accurate means of measuring the proportion and symmetry, thereby deriving the cut grade.

21 SEPTEMBER 1989
Our Company changes its name to Sarin Research, Development and Manufacture (1988) Limited.

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

8 NOVEMBER 1988
Our Company is 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.

Chairman's Statement

Dear Fellow Shareholders,

This past year has certainly played out differently than expected and has ushered in a very challenging period.

Significant Events

The most significant event in 2008 was, clearly, the advent of the global crises that initially plagued the financial markets and rapidly spread to the mainstream of the worldwide economies.

The first half of the year saw significant growth in our revenues – nearly 18%. The Group indeed reported a record figure of US$ 21.9 million for the first six months' revenues, while retaining our historic gross margin levels – 65.6%. The growth was mostly attributed to the then-ongoing demand for our traditional products, as well as improved sales of the Quazer green laser system, which contributed over 10% of total revenues in H1 2008, in our key market in India and continued market expansion in the emerging market in Africa - 359% growth year over year. Similar growth was realised in our profits – just over 17% before adjusting for a loss in our then newly-acquired minority interest in IDEX Online SA ("IDEX Online").

A special moment of pride occurred in September when Indian diamond manufacturer and exporter Kiran Gems, one of the world's largest rough diamond processing groups, with over 20,000 employees worldwide, became Sarin`s first customer to reach 200 Sarin DiaMark™ rough diamond planning system installations at its manufacturing facilities in India. Kiran Gems and the other Sarin Century Club (the exclusive list of Sarin clients using at least 100 of Sarin's rough planning systems) members' repeated purchases are a clear vote of confidence for Sarin's leadership status as a vendor to the global diamond manufacturing industry.

However, commencing in September, and accelerating dramatically during the last quarter of the year, market conditions deteriorated as the global recession made its mark felt in all our target markets. Indeed, in our key Indian market, the diamond manufacturing industry extended its normal 2-3 week Diwali break to a full 6 weeks from late October through early December, and even after Diwali did not resume anything near full production activity. Affected by a surplus in polished diamonds, as the global demand rapidly dissipated, and by production over-capacity, as well as by a credit crunch from shaken financial institutions, the manufacturers opted for extended shutdowns, partial re-openings accompanied by staff layoffs and, in some instances, closures.

Due to the now-expected, continued slowdown in our markets, the Group has continued its efforts to reduce its operating expenses. In addition to the 20% reduction implemented in Q4 FY2008 (only a portion of which were reflected in the reported operating expenses of that quarter), ongoing efforts are expected to further decrease our operating expenses by approximately 15%. The expected savings stem from further staff reductions already executed, pay cuts, a decrease in sales commissions being paid, and a reduction in other operating expenses. To highlight a few of our recent management staff changes, most of them a direct result of our expense reduction plan: our VP R&D and CTO positions have been unified into the CTO position, to be continued by Abraham Meir Kerner; our Manufacturing Market and Retail Market business activities, previously managed by two separate

"Indeed, the second most significant event of 2008 was the acquisition of Galatea Ltd. ("Galatea"). Acquired in Q2 FY2008, Galatea possesses unique, patent pending, technology for the detection and mapping of internal features in rough and polished diamonds. The advantage of Galatea's technology over any other competing technology currently applied to the same objectives, is that it is automated and is thus much quicker, more comprehensive, more accurate, and requires less skilled staff for its operation."

Chairman's Statement

Vice Presidents of the Group, have been unified into a single position, to be continued by Akiva Caspi, who will also be responsible for Marketing, after eliminating our VP Marketing position, in lack of sufficient activities to justify full-time staffing of this position; our polishing discs activity, previously managed by a dedicated Vice President of the Group, is now under the responsibility of the General Manager of Sarin India, for reasons of cost reductions both in management and staff of this business activity, as well as being closer to the target market in India; a final management change to take place in Q2 Y2009 is the appointment of Zafrir Engelhard as the General Manager of Sarin India, replacing and reporting to David Block who will be appointed VP Worldwide Sales.

Overall, we expect 2009 to be a challenging year as the global economy struggles with significantly less sales than in 2008. Cash flow and profitability are our main concerns. Our strategy for the year revolves around the roll out of the new Galatea technology, which we believe will be a compelling offering, especially in these trying market conditions.

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Over the past twelve months, Sarin's research and development team, along with Galatea's highly skilled technical personnel, have brought the technology to product stage. Integration with Sarin's existing rough planning products has been completed. Beta testing in Israel and India has been ongoing for some time. And, as a result of customer requests, we have begun offering, albeit on a limited basis intended for further in-depth evaluation purposes, an inclusion detection and mapping service at two fee-charging service centres in India and Israel. We have thus begun to realise what we believe, over time, may become a significant source of recurring service-based income.

We expect to further roll out this Galatea service offering during Q2 and Q3 FY2009, expanding capacity in India and establishing a service outlet in Belgium, most likely followed by Russia, China and/or South Africa. Commercial offering of the product to customers for use on an in-house basis, against initial payment for the hardware and an ongoing software license fee based on actual utilisation is expected, as planned, late in Q2 FY2009.

The third important event in 2008, whose fruits we have yet to reap, is the acceptance of our laser marking system patents in India, after long years of anticipation. The significance of these patents is that they potentially award Sarin an exclusive right to manufacture, market, and sell our laser marking systems in India, and prohibit our competitors from profiting by providing their customers with similar products. Subsequently to having been granted these patents, we have initiated litigation against those of our competitors whom we believe have infringed these important patents.

Group Performance - Year in Review

For the year ended December 31, 2008 the Group recorded a decline of 10.7% in revenues in comparison to the twelve months ended December 31, 2007, from US$ 37.1 million to US$ 33.1 million. The decline is mostly attributed to the dramatic drop in demand for all our products in the last three months of the year, as a result of the global financial and economic crises and their impact on the diamond industry, as elaborated on above.

On the expense side, during the beginning of FY2008 a larger research and development team was recruited, as we continued to invest in upgraded and new products, resulting in higher research and development costs. Higher sales and marketing expenses were also incurred to support our growth in India and Africa during the initial part of the year, as well as to support our activities in other markets. Our general and administrative expenses increased for a number of reasons, many of which were one off issues, having to do with our restructuring, as detailed below, and the legal arbitration with Credit Suisse, which ended favourably for the Company.

As a result of the negative developments in the last quarter of the year, the Group has undertaken significant reductions in its operating expenses in all areas, both by reducing staff as well as by cutting other expenses. Operating expenses were reduced in Q4 FY2008 in comparison to Q3 FY2008 by approximately 24% and during Q1 FY2009 the Group continued to take additional measures to further reduce fixed operating expenses by an additional 15%.

The weakening of the US$ compared to the New Israeli Shekel (NIS) increased our overall expenses for the year ended December 31, 2008, primarily due to salary and related costs for employees in Israel, incurred in NIS but reported in US$. Commencing in Q3 FY2008, and more significantly in Q4 FY008, we witnessed a reversal of the trend experienced during H1 2008, and the US$ regained value against the NIS. This trend helped to reduce our manpower costs in Israel in Q4 FY2008.

Overall, the Group's profit before tax for the year ended December 31, 2008 decreased 47.9% from US$ 10.5 million to US$5.5 million.

As a result of the operating loss incurred in Q4 FY2008, and the challenging period facing the Group, as the diamond industry goes through some very difficult times, Sarin took a one-time write off of tax assets of approximately US$ 1.2 million in Q4 FY2008.

Thus the Group's profit after tax for the twelve months ended December 31, 2008 decreased by 52.7% from US$ 8.0 million to US$3.8 million, compared to the twelve months ended December 31, 2007.

Chairman's Statement

During FY2008 Sarin invested in two companies – Galatea and IDEX Online. As described above, progress on the commercialisation of the Galatea technology is in line with the previously reported plans and expectations. The execution of IDEX Online's commercialisation plans of its unique Guaranteed Diamond Transactions online trading platform has been significantly less successful than expected, mainly due to the crisis in the diamond industry and is expected to continue to face challenging market conditions for some time. As a result of this, along with a significant drop in advertising revenues also related to the diamond industry downturn, and the resulting losses incurred in its ongoing activities, Sarin has adjusted downward its investment in IDEX Online by approximately US$ 1.8 million.

Due to the adjustment, the Group's profit for the year ended December 31, 2008 after our share in IDEX Online losses and the adjustment of our investment, decreased by 80.1% from US$ 8.0 million to US$ 1.6 million.

Dividend

The Board of Directors has recommended that no additional final dividend be distributed for FY2008, in addition to the interim dividend paid mid-year.

Looking Ahead to 2009

We expect the following industry trends to continue to influence our business well into 2009:

a. The global economic slowdown which has dramatically slowed the diamond industry is expected to continue to hold sway over much, if not all, of 2009. Industry consultants cite the recession's impact on the global demand for luxury goods in general, and on the vital US market, which still consumes over 40% of the polished diamonds produced, in particular, and forecast that the drop in demand for rough diamonds and their processing may reach 50% to 60%. However, looking forward to 2010, it is to be noted that demand is still growing in India and China, and some market participants expect these two markets to equal the US market by the end of this decade.

b. One of the most crucial issues facing the diamond industry is how much business activity the banks will continue to finance. Indeed, the credit freeze which followed the financial crisis has created difficulties for both consumers and businesses in the diamond industry itself. This has contributed to the slowdown in the industry in general, and has led to a dramatic slowing of capital equipment expenditures in particular.

- A number of negative factors continue to afflict our main customers, diamond manufacturers in India and elsewhere:
- An existing inventory of polished diamonds, which is hard to sell off and which has been impacted by recent price reductions in polished goods - these have fallen by 13% to 16% (depending on industry source) in the past 6 months (August 2008 to January 2009);
- Surplus production capacity, which has led to prolonged shutdowns, layoffs and even plant closures;
- Credit freeze.

d. The global economic slowdown has, however, produced a secondary positive side-effect for the industry - recent reductions in the prices of rough diamonds by most producers have somewhat eased the cost to manufacturers, and may thus induce more activity, which could hasten the recovery from the current slump.

e. The Russian diamond industry is on hold, as a result of repeated delays and changes in policies enacted by the Russian government, related to taxation as well as to the percentage of diamonds produced in Russia which needs to be manufactured domestically. Once resolved, these issues may result in an increase in the manufacturing activities in Russia and create new opportunities for our product sales.

f. In the southern African region the effects of the global slowdown are also being felt.

DiaMark™-Z Eye

Rough diamond planning and laser marking with inclusion viewing capabilities

Chairman's Statement

The Group continues to focus its Research and Development initiatives on projects that may contribute to revenues in the challenging twelve-month period ahead.

The Galatea product: Sarin is currently on track to offer the benefits of the Galatea technology, initially as a new service through service centres, which will provide the automated, comprehensive and accurate mapping of inclusions within a rough diamond in a far shorter time compared to using other currently available techniques. Sarin has begun offering this service, on a limited trial basis, to its diamond manufacturing customers in Israel and in India as of Q1 FY2009. Sarin intends to gradually ramp up its service capacity in India in Q2 FY2009, and to thereafter introduce the service to other diamond manufacturing centres. The commercial launch of product sales, on a limited basis, so as to best control the product's introduction to the market, is planned for late in Q2 FY2009.

Rough planning products: This line of products has historically been the Group's primary contributor to revenue, and our share in the market continues to remain dominant. We anticipate that when the market returns to more robust activity sales of automated planning solutions, especially those enhanced by the new Galatea technology, may pick up. R&D efforts currently focus on integrating these products with the Galatea technology, where applicable, and utilising its added value to a greater extent to optimise the planning process. We anticipate that this will significantly widen the positive gap between our products and the products of our competitors, primarily in regards to rough diamond yield optimisation.

Polished planning products: The Company has also continued with the development of its Instructor product, for the ongoing quality control of the polished diamond during the manufacturing process and for the instruction on necessary corrective actions on flawed polished diamonds. This product is currently in alpha testing and preliminary demonstrations to customers for functionality feedback.

Quazer: We believe that the Quazer has emerged as the most advanced and most reliable green laser sawing and shaping system in the market. It has been demonstrated to offer customers the highest productivity and lowest breakage rates available. R&D efforts are focused on improving the system's breakage rate even further. As a result of customer interest, the adaptation of the Quazer to synthetic CVD (Chemical Vapour Deposition) diamond manufacturing needs has also been initiated. This may open a new market for the Quazer for the cutting and shaping of these synthetic CVD diamonds for industrial applications outside the diamond jewellery industry. An initial pair of systems has been delivered for evaluation purposes to two European customers.

Polishing discs: Initial feedback from Indian customers utilising the disc for manual, as well as automated, polishing has been generally positive. Though we believe that the disc has competitive advantages in the early stages of polishing (termed "blocking"), having been delayed by the extended Diwali holiday closures, we are still continuing our tests and have yet to fully ascertain whether this product is economically viable.

Colour products: The latest version of the Colibri is showing satisfactory results and therefore only minimal further R&D is being carried out, aimed at further refinements.

IDEX Online: The global economic slowdown has definitely impeded the adoption of IDEX's unique online spot market trading platform and has also had significant impact on the company's traditional sources of income - subscription fees and advertising revenues. IDEX is exploring new outlets for its services and hopes to expand its presence both in the traditional, as well as online diamond trade. This is crucial to IDEX's prospects for FY2009.

In what will clearly be a challenging environment in FY2009, we will focus on the Galatea technology rollout, as well as on retaining or expanding, where possible, our market share in all key markets.

Acknowledgements

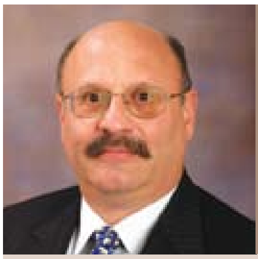
Together with my fellow directors, I would like to thank our customers, shareholders, suppliers, business partners and most of all our management and employees for their ongoing support and dedication to the Group. We believe that these valued relationships will provide the means by which we will weather the current times, while we yet again revolutionise the diamond trade and manufacturing industry with the Galatea-enabled inclusion and Clarity mapping.

Finally, I would like to finish with a word of thanks to Zeev Leshem, our former CEO who left our Group's employ last year after sixteen years of service. On behalf of the entire Board of Directors, we thank Zeev for all his long years of dedicated service and wish him well in his future pursuits.

Daniel Glinert

Daniel Benjamin Glinert
Executive Chairman

Board of Directors



DANIEL BENJAMIN GLINERT
Executive Director

Daniel Benjamin Glinert is our Executive Director and has been the Chairman of the Board of the Group since 1999. He is also a Director in the Group's subsidiaries, Sarin India, Sarin Color Technologies, Sarin Polishing Technologies and Sarin Hong Kong. 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 Israel Air Force and was honourably discharged with the rank of Major.

UZI LEVAMI
Executive Director

Uzi Levami was appointed Executive Director in December 2008, following the resignation of our former CEO, Zeev Leshem. On February 22, 2009, Mr. Levami was named CEO of the company. He holds a Master's degree in Computer Sciences from the Weitzman Institute and a Bachelor's degree in Electrical Engineering, Cum Laude, from the Technion - Israel Institute of Technology. Mr. Levami is one of the original founders of Sarin and has a rich history of founding high-tech companies (Compulite Ltd., Shalev Computer Systems Ltd. and EquipNet, a start-up spin-off of Interhightech Ltd.). Mr. Levami most recently held the position of Director of Business Development at MKS Instruments Inc., a publicly traded US company supplying in excess of $700M of capital equipment to the semiconductor industry, after the most recent company he founded, EquipNet Ltd., was acquired by MKS. From 1973 to 1980, he was a Major in the Israel Defence Forces and in 1992 was awarded the prestigious Israel Defence Award by President Herzog.

EYAL MASHIAH
Executive Director

Eyal Mashiah is an Executive Director of the Group and was appointed to the Board in 1994. Mr. Mashiah was appointed Executive Director in December 2008. Mr. Mashiah has over 20 years of experience in the diamond and gemstone industries. He is currently the Executive Director of Novel Collection Limited (formerly Biram Diamonds Limited), a leading fancy coloured 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).

Board of Directors

AVRAHAM ESHED
Non-Executive Director

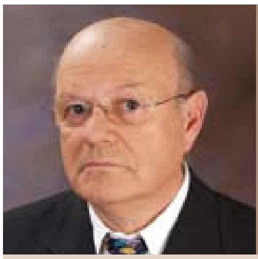
Avraham Eshed is a Non-Executive Director of the group. Mr. Eshed has over 35 years of experience in the diamond and gemstone industries. He is the founder of Gemstar Ltd. and Eshed Diam Ltd., and serves as the president of both companies. Mr. Eshed is a founding member of the International Colored Gemstone Association (ICA) where he served as a Director. Mr. Eshed is president of the Israel Emerald Cutters Association and a Director in the Israel Diamond Manufacturers Association.

EHUD HAREL
Non-Executive Director

Ehud Harel is a Non-Executive Director of the Group and was appointed to the Board in 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.

AHARON SHAPIRA
Former 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 Weitzman 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 organizations and individuals in a methodology for inventive thinking. From 1973 to 1980, he was a Captain in the Israel Defence Forces. Mr. Shapira resigned from the Board of Directors, for personal reasons, on 15 December, 2008.



HANOH STARK
Non-Executive Director

Hanoh Stark was an Executive Director of the Group until January 2008, and has been on our Board since 1989. He is a Director of the Group's subsidiaries, Sarin India, Sarin Color Technologies, Sarin Polishing Technologies and Sarin Hong Kong. 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 ICA, the 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.

Board of Directors

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 Administration from the Bar-Ilan University in Ramat Gan, Israel. Mr. Blum is a Member 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 Ltd 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.

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 Ltd. 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 funding 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. Mr. Chan is also a Non-Executive Independent Director of several companies listed on the Singapore Exchange.

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 at Rodyk & Davidson. 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 Mainboard of the Singapore Exchange).

Key Management

UZI LEVAMI

UZI LEVAMI, our Chief Executive Officer, was appointed Executive Director in December 2008, following the resignation of our former CEO, Zeev Leshem. On February 22, 2009, Mr. Levami was named CEO of the Company. He holds a Master's degree in Computer Sciences from the Weitzman Institute and a Bachelor's degree in Electrical Engineering, Cum Laude, from the Technion - Israel Institute of Technology. Mr. Levami is one of the original founders of Sarin and has a rich history of founding high-tech companies (Compulite Ltd., Shalev Computer Systems Ltd. and EquipNet Ltd., a start-up spin-off of Interhightech Ltd.). Mr. Levami most recently held the position of Director of Business Development at MKS Instruments Inc., a publicly traded US company supplying in excess of $700M of capital equipment to the semiconductor industry, after the most recent company he founded, EquipNet Ltd., was acquired by MKS. From 1973 to 1980, he was a Major in the Israel Defence Forces and in 1992 was awarded the prestigious Israel Defence Award by President Herzog. Zeev Leshem, our former Chief Executive Officer, was in charge of overseeing the overall management and expansion of the Company's operations and business. After sixteen years of heading the Company, Mr. Leshem resigned in December 2008.

ZVI HALPERIN

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.

ABRAHAM MEIR KERNER

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.

Key Management

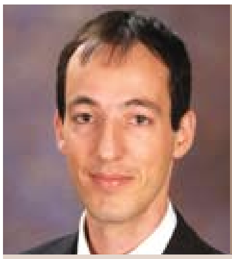
AKIVA CASPI

AKIVA CASPI is the Group's Vice President and Manager of the Manufacturing Market Business Activity, established as of January 2006. Mr. Caspi 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.

YOSEF VAX

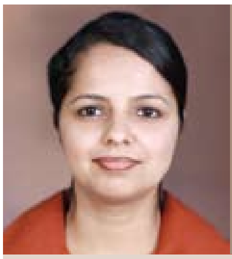
YOSEF VAX is the Group's Vice President for Operations, in charge of production, administration and quality control in the Company. He has been with the Group since 2001 and is responsible for product assembly lines, purchasing, logistics and ensuring the quality of the Group's products. He is an Electronics 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 manufacturing and customer care.

Key Management



DAVID SYDNEY BLOCK

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.



RAJESHWARI H. MEHTA

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's 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.

Management's Business, Operations & Financial Review

The Business: Adding Value to your 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 these emotions among consumers. Worldwide retail sales of diamond jewellery have been growing consistently for the past 20 years and surpassed US$73 billion in 2007. Although the first eight months of 2008 were still strong, during the remainder of the year, and especially in the last quarter, the industry experienced a dramatic downturn, with most data evidencing a double-digit drop in business. This retail market drives an industry of mining, processing, certification and trading, on which our Group capitalises.

Rough diamonds go through a series of planning, sawing (cutting), shaping (sometimes, if round, referred to as "bruting"), polishing (faceting) and fine-polishing processes to turn them into retail-ready polished diamonds. Traditionally, the rough diamonds were processed into polished ones manually by an elite group of skilled experts, mostly within families. Historically, this led to diamond processing activity being concentrated, after World War II, in Belgium, Israel and the USA.

We believe Sarin has revolutionised the diamond manufacturing industry by introducing computer-based technology to automate many of the processes of this highly concentrated expertise. This has, in turn, contributed to the migration of the manufacturing to lower-cost centres, primarily India and China. Russia, to a degree, and, more so currently, 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's turnover was valued at approximately US$20 billion in 2007.

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

Similarly, because of the high value of polished diamonds, adhering to the established standards of quality, as measured by a diamond's so-called four Cs (Carat, Colour, Clarity and Cut) is important. The results typically obtained from the manual grading inspection of a diamond often vary, depending on the expert conducting the evaluation. Thus, again, technology has evolved as a major contributor to the industry's grading standardization.

Our Markets

Traditionally, as noted above, 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 85% of all stones manufactured worldwide (by quantity). China is now the second most important manufacturing centre globally, with plants having been set up by international players, primarily from Belgium, USA and India. The southern African countries are fast emerging as a major manufacturing centre due to legislation enacted to limit the export of unpolished diamonds and government incentives to develop the domestic polishing industry in these countries.

Management's Business, Operations & Financial Review

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 the key diamond processing centres of Mumbai and Surat, we now have full control over the business direction and marketing of our products in the key Indian market.

The emerging diamond manufacturing centres of southern Africa and China represent strategic markets for our products with significant growth potential. Sarin has taken and is taking steps to strengthen its market presence in these emerging markets, with the appointment of an agent in South Africa in 2005 and expansion into Botswana in 2008, the establishment of a subsidiary in Hong Kong in 2006 and the establishment of another subsidiary in China in early 2009. Over the next few years, we expect our sales and profits from these regions to grow, as we aggressively enhance our market presence therein. We will continue to monitor these and other potential emerging markets closely in order to capitalise on new business opportunities.

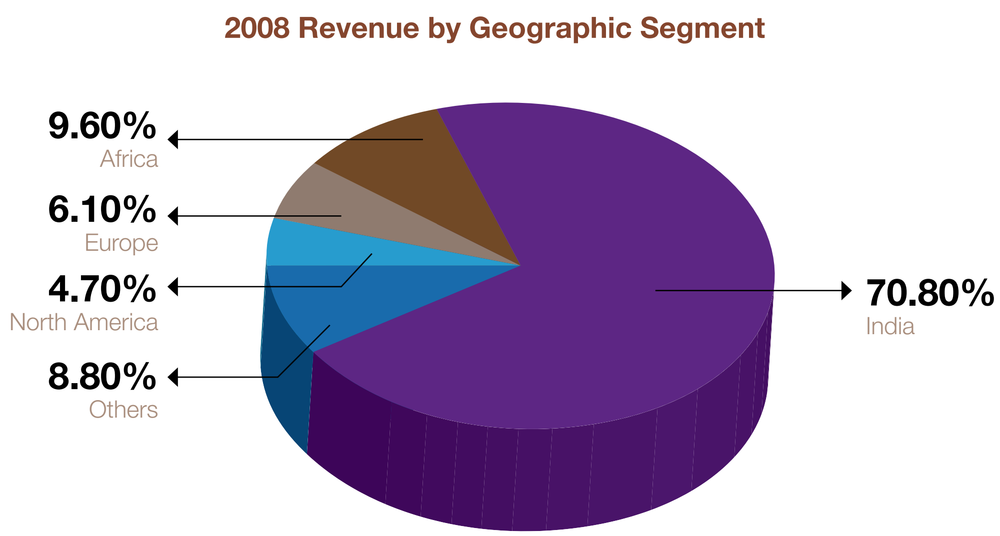
Sarin Products by Use and Client Type

USE	CLIENT	SARIN PRODUCTS
Assist in evaluating rough diamond value according to the 4 Cs (Carat, Cut, Colour and Clarity)	Wholesaler/ Manufacturer	DiaExpert, DiaExpert Nano, DiaExpert Eye, Advisor, Galaxy 1000* (launched as a service in Q1 FY2009), DiaMobile-XL
Assist in the production & planning of unpolished diamonds into polished ones	Manufacturer	DiaExpert, DiaExpert Nano, DiaExpert Eye, Advisor, DiaMark-Z, Galaxy 1000* (launched as a service in Q1 FY2009)
Assist in cutting unpolished diamonds	Manufacturer	Quazer
Assist in shaping unpolished diamonds	Manufacturer	Quazer
Assist in polishing facets of unpolished diamonds	Manufacturer	Disposable polishing discs
Assist in evaluating diamond finishing	Manufacturer	DiaMension, DiaScan S+, DiaVision
Assist in evaluating polished diamond value according to three of the 4 Cs (all but Clarity)	Gemmological Laboratory / Wholesaler / Manufacturer	DiaMension, DiaScan S+, DiaVision, Colibri
Assist in polished diamond customization such as lettering or graphics on the diamonds (e.g., certificate numbers, company logos, personalisation)	Retailer	DiaScribe

* New inclusion mapping service based on technology acquired from Galatea Ltd.

DiaMobile XL

Management's Business, Operations & Financial Review



Intellectual Property

The products we develop are proprietary in nature. Hence, our ability to remain competitive in the market is dependent, in part, on our ability to protect our proprietary intellectual property in general, and our software in particular. To facilitate the protection of these proprietary intellectual rights, we have registered several patents and trademarks in countries key to our business worldwide and several additional patent and trademark applications are in various registration phases. As is normal, several of our patents and trademarks have been disputed by other, competing, players in the industry. Subsequently to having been granted patents for our laser marking technology in India in 2008, we have initiated litigation against those of our competitors whom we believe have infringed these important patents.

Objectives

The Group's main objectives for FY2009 and beyond are:

- Leverage the Galaxy 1000 service and product launches to generate a steadily growing source of recurring income;
- Focus the Group's research and development initiatives on projects most likely to contribute to revenues in the challenging 12-month period ahead;
- Retain our key competitive advantages so as to be prepared, when market conditions permit, to resume adding value to our shareholders by growing our business in terms of sales and profit.

Strategy

To realise these objectives, the Group plans to execute these strategies:

- Incorporate products and services in our offerings that will bring solutions to those facets of the industry not currently addressed by our existing offerings;
- Incorporate products and services in our offerings that generate recurring income (e.g., by charging per carat processed for the new Galaxy 1000 service and upcoming product) - a counter-balance to our existing revenues, which are predominantly from the sale of capital equipment, as has been our traditional business model;
- Distribute our business more evenly between the rough diamond manufacturing and trading industry, which currently accounts for a predominant part of our business, and the polished diamond trading and grading market;
- Expand and strengthen our business in mature markets like India, Europe, and USA, while developing our business in emerging markets like the southern African countries, China, and Russia.

Management's Business, Operations & Financial Review

Performance Indicators
Non-financial Indicators

We use the following non-financial indicators to assess our Group's performance year-on-year and against our competition's performance:

INDICATOR	PERFORMANCE
Estimated market share	Despite challenging competitive conditions, we believe we have managed to substantially retain a dominating market share in the market for rough diamond planning and polished diamond grading products. The fact that all other players in this industry are privately-held companies hampers our ability to collect and collate accurate sales data. Additionally, no well-known international analysts regularly cover our market for technological tools for the diamond industry, making accurate assessments even harder to perform.
Technological leadership	Our technological leadership, as measured by market acceptance of our new and enhanced products, as well as by our existing and newly registered patents worldwide, remains strong. No other company in our field holds a larger market share or broader portfolio of granted patents for products for the diamond industry.
Brand strength	Our brand strength allows us to command premium prices for our products in a competitive market. Our brand strength also allows us to use our reputation and distribution channels to market and sell complementary products to our existing customers, as well as seek out new ones. We believe our brand continued to strengthen during the year in review and we intend to continue strengthening our brand throughout FY2009.
Product & service offering	During the year in review we announced and released several new products and enhancements for existing products which were favourably received in the market and we have plans to continue this strategy throughout FY2009 and beyond.

Quazer

Management's Business, Operations & Financial Review

Financial Indicators

We use the following financial indicators to assess our Group's performance year-on-year and against our competition's performance:

INDICATOR	PERFORMANCE
Revenues	Revenues and profit for H1 FY2008 saw record highs with US$ 21.9 million in sales and US$ 5.1 million net profit. However, the crisis in India in Q4 FY2008 and the significant drop in revenues from our Other market segment, primarily from China and Russia, due to slower capital expenditures in China, as some manufacturing was lost to Africa, and the freeze affecting the Russian industry, offset somewhat by the continued expansion of the market in Africa and increased sales of Quazers in Europe, drove Group revenue for the year downwards by 10.7% from US$37.1 million in FY2007 to US$33.1 million in FY2008. By region, in FY2008 revenues from India declined 7.5% to US$ 23.5 million down from US$ 25.4 million in FY2007, due to a sharp reduction in demand from customers during the last quarter. Diamond manufacturing in India in Q4 2008 was affected by a prolonged period of plant closures linked to the Diwali holiday and extended due to the industry downturn. At the same time, as the result of ongoing focused sales and marketing efforts, on an annual basis Sarin continued to increase revenues from Africa, Europe and North America. Revenues from the Africa segment recorded significant growth as a result of the increased incentivising policy in southern African countries to increase manufacturing using their domestic diamond sources. In FY2008, revenues from Africa achieved 25.9% growth from US$ 2.5 million in FY2007 to US$ 3.2 million in FY2008. Sales to Europe increased by US$ 350,000, or 21%, to US$ 2.0 million, primarily due to increased sales of Quazers. North America registered an increase in revenue of US$ 0.1 million, or 5.6%, to US$ 1.6 million. Revenue from the Other region declined 51.9% to US$ 2.9 million in comparison to US$ 6.1 million in FY2007. China and Russia (classified under Other), with combined revenues of approximately US$ 2.9 million in FY2007, decreased in revenues to about only US$ 1.0 million in FY2008 (as discussed above). Lower revenues were also recorded in Hong Kong (by about US$ 0.7 millions) and Israel (by about US$ 0.3 million).
Gross Profit	Similar to the 10.7% decrease in revenues, cost of sales also decreased, but by a lower ratio of only 5.5% from US$ 12.7 million in the year ended December 31, 2007 to US$ 12.0 million in the year ended December 31, 2008. The lower ratio of the reduction in the cost of sales was due to the mix of products delivered during 2008 in comparison to those in 2007, and the amortisation of fixed operating expenses of the production department over lower sales. Our gross profit margin in the year ended December 31, 2008 was 63.7% - at the lower end of our historical performance range and 2.0% lower than in the year ended December 31, 2007 in which it was 65.7%.
Profit Before Tax	As a cumulative result of lower revenues, lower gross margin and higher operating expenses, the profit before tax in the year ended December 31, 2008 amounted to US$ 5.5 million in comparison to US$ 10.5 million in the year ended December 31, 2007, representing a decrease of 47.9% or US$ 5.0 million. Our profit before tax margin decreased sharply from 28.3% of revenue in the year ended December 31, 2006 to 16.5% in the year ended December 31, 2008.
Profit for the Year	Given the Group's operating loss incurred in Q4 FY2008 and the challenging business conditions in the diamond industry, Sarin took a one-time write off of deferred tax assets of about US$ 1.2 million in Q4 FY2008. Thus the Group's profit after tax for the twelve months ended December 31, 2008 decreased by 52.7% from US$ 8.0 million to US$3.8 million, compared to the twelve months ended December 31, 2007. During FY2008, Sarin invested in two companies – acquiring 100% of Galatea and 23% of IDEX Online. The progress on the commercialisation of the Galatea technology is in line with the previously reported plans and expectations. However, the execution of IDEX Online's commercialisation plans of its unique Guaranteed Diamond Transactions online trading platform has been significantly less successful than expected due to the downturn of the diamond industry, which is expected to continue for some time. Coupled with a significant drop in advertising revenues and the resulting losses incurred by IDEX's ongoing activities, Sarin recorded a one-time downward adjustment to its investment in IDEX Online by about US$ 1.8 million. The Group's profit for the year, after accounting for its share of loss of equity accounted by investee IDEX Online, decreased by 80.1% from US$ 8.0 million to US$ 1.6 million. Thus, our net profit margin decreased from 21.6% of revenue in the year ended December 31, 2007 to 4.8% in the year ended December 31, 2008.

Management's Business, Operations & Financial Review

OPERATING REVIEW

Opportunities

Market-driven Opportunities

- Demand for diamonds is still growing in India and China, and these two markets are expected to equal the US market (currently 40% of globally produced diamonds) by the end of this decade.

- The global economic slowdown has produced a secondary positive side-effect for the industry - recent reductions in the prices of rough diamonds by most producers has somewhat eased the cost to the manufacturers, and may thus induce more activity, which could hasten the recovery from the current slump.

- The Russian diamond industry is on hold, as a result of repeated delays and changes in policies enacted by the Russian government, related to taxation as well as the percentage of the diamonds produced in Russia which needs to be manufactured domestically. Once resolved, these issues may result in an increase in the manufacturing activities in Russia and create new opportunities for our product sales.

- The southern African region is expected to continue to create more opportunities for the sale of our products to this emerging market, albeit the effects of the global slowdown are also felt in this region.

Company-driven Opportunities

- Galaxy 1000 - intended for the automated high-speed evaluation of inclusions in both rough and polished diamonds: The Galaxy 1000 launch is being accelerated, where possible. Initial functional integration of the Group's current rough diamond planning systems (the Advisor software running on the DiaMark platform) with the new Galaxy 1000 internal scanning technology has been accomplished. Efforts are currently focused on the beta testing of the product in Israel and India. Sarin is currently on track to offer the benefits of the Galaxy 1000 technology, initially as a new service through service centres, which will provide the automated, comprehensive and accurate mapping of inclusions within a rough diamond in a far shorter time compared to using other currently available techniques. Sarin has begun offering this service, on a limited trial basis, to its diamond manufacturing customers in Israel and in India in Q1 FY2009. Sarin intends to gradually ramp up its service capacity in India in Q2 FY2009, and to thereafter introduce the service to other diamond manufacturing centres. The commercial launch of product sales, on a limited basis, so as to best control the product's introduction to the market, is planned for late in Q2 FY2009.

- Rough planning products: This line of products has historically been the Group's primary contributor to revenue, and our share in the market continues to remain dominant. We anticipate that when the market returns to more robust activity, sales of automated planning solutions, especially those enhanced by the new Galaxy 1000 technology, may pick up significantly. R&D efforts currently focus on integrating these products with the Galaxy 1000 technology, where applicable, and utilising the latter's added value to a greater extent to optimise the planning process. We anticipate that this will significantly widen the positive gap between our products and the products of our competitors, primarily in yield optimisation.

- Polished planning products: The Company has also continued with the development of its Instructor product, for the ongoing quality control of the polished diamond during the manufacturing process and for the instruction on necessary corrective actions on flawed polished diamonds. This product is currently in alpha testing and preliminary demonstrations to customers for their feedback.

- Quazer: We believe that the Quazer has emerged as the most advanced and most reliable green laser sawing and shaping system in the market. It has been demonstrated to offer customers the highest productivity and lowest breakage rates available. R&D efforts are focused on improving the system's breakage rate even further. As a result of customer interest, the adaptation of the Quazer to synthetic CVD (Chemical Vapour Deposition) diamond manufacturing needs has also been initiated. This may open a new market for the Quazer for the cutting and shaping of these synthetic CVD diamonds for industrial applications outside the diamond jewellery industry. An initial pair of systems has been delivered for evaluation purposes to two European customers.

Management's Business, Operations & Financial Review

Risk Factors

- The global economic slowdown has dramatically slowed the diamond industry. Some leading industry consultants expect the drop in demand this year for rough diamonds may reach 50% to 60%, citing the recession's impact on the global demand for luxury goods in general, and on the vital US market, which still consumes over 40% of the polished diamonds produced, in particular.

- One of the most crucial issues facing the industry is how much business activity the banks will continue to finance. Indeed, the credit freeze which followed the financial crisis has created difficulties for both consumers and players in the diamond industry itself. This has contributed to the slowdown in the industry in general, and has led to a dramatic slowing of capital equipment expenditures in particular.

- Currency exchange rate fluctuations may have an adverse effect on our business in the following ways: (a) the strengthening of the Indian Rupee against the U.S. Dollar (as was the case in early 2008) may impair our Indian customers' profitability and purchasing power; and (b) the strengthening of the New Israeli Shekel against the U.S. Dollar (again, as was the case in early 2008) may impact the Group's profitability, as some of its expenses (mostly on human resources) are paid in this currency.

- Our success and ability to compete are substantially dependent on our proprietary technology. The steps that we have taken to protect our proprietary rights may not be adequate and we might not be able to prevent others from using what we regard as our technology. If we have to resort to legal proceedings to enforce our proprietary rights, the proceedings could be costly and we may not be able to recover our expenses.

- We may be subject to claims by others regarding infringement of their proprietary technology: Litigation over intellectual property rights exists in the industry. In addition to our outstanding legal proceedings, we may in future be subject to other claims.

- As part of our business plan, we intend to develop new product lines, new products in existing product lines and to expand our marketing and sales efforts in key geographical markets. There is no assurance that such expansion plans will be commercially successful. If we fail to achieve a sufficient level of revenue or if we fail to manage our production costs effectively, we will not be able to recover our costs and our future financial position and performance may be materially and adversely affected.

- The location of the Company in Israel, and the concentration of its research and development and manufacturing activities there, remains a security risk factor

FINANCIAL REVIEW

Cash Flow

The Company's business activities throughout 2008 resulted in a positive cash flow generated from operating activities. Sarin opened the fiscal (and calendar) year 2008 with cash reserves and short-term investments of US$ 25.3 million and ended the year with reserves totalling US$ 12.0 million. These reserves are after paying out in excess of US$ 2.1 million in dividends to its shareholders, US$ 8.2 million for the acquisition of Galatea, and US$ 3.0 million for the acquisition of equity in IDEX Online.

Cash Management and Liquidity

Throughout 2008 the Company maintained cash reserves higher than needed for the financing of ongoing activities. The policy dictated by the Board for the management of these cash surpluses is to invest them in low-risk short-term US Dollar-denominated interest-bearing instruments with high liquidity. In view of the turmoil into which the financial markets were plunged in late 2007, all cash surpluses have thus been invested in short-term dollar-linked interest-bearing bank deposits. Financial instruments held are classified as current assets. When the cash and cash-equivalent balances are analysed and compared to the annual cash requirements needed for the financing of the ongoing business activities of the Company, one finds that the Company has strong liquidity.

Management's Business, Operations & Financial Review

Accounting Policies

The financial statements are prepared in accordance with the International Financial Reporting Standards - IFRS, as revised from time to time. A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing the financial statements. Refer to Note 3.T (New standards and interpretations not yet adopted) of the Financial Statements for complete details.

The financial statements are presented in United States Dollars, rounded to the nearest thousand. 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.

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 rateably over the contract period.

The financial statements are prepared on the historical cost basis except that short-term investments are stated at their fair value. Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Know-how is stated at cost less accumulated amortisation and impairment losses. 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. Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Financial instruments held for trading are classified as current assets and stated at fair value.

The preparation of financial statements, in conformity with the IFRS, 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 these forms 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, if the revision affects both current and future periods.

The accounting policies set out in our yearly financial reports have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently to all Group entities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

For more information on our accounting policies and related explanations, please refer to our Consolidated Financial Reports.

Shareholder Return

Sarin is a profitable company. During 2008 the Company earned US$ 1.6 million, equivalent to basic earnings per share of US$ cents 0.62.

The Group's dividend policy provides for the distribution of at least 38% of its net earnings as a dividend to its shareholders. For 2008 the Company has paid (in August 2008) an interim dividend totalling US$ cent 0.8 per share, totalling US$ 2.1 million.

Group Structure

The following chart accurately depicts the Group's structure at the time of this report.

[1] **Sarin Polishing Technologies Limited**
The development, manufacture and marketing of disposable polishing discs for diamonds.

[2] **Sarin Color Technologies Limited**
The development, manufacture and marketing of instruments for assessing the colour of rough and polished diamonds.

[3] **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.

[4] **Sarin Hong Kong Limited**
The provision of pre- and post-sales and technical support services for our products in Hong Kong and mainland China (whether directly or through a Chinese subsidiary of Sarin Hong Kong Limited, in incorporation).

[5] **SUSNY LLC**
An entity which acts as the Group's representative in NY State, USA.

[6] **Galatea Limited**
A developer of a patent-pending technology, applicable to the fully automated detecting and mapping of internal inclusions in rough and polished diamonds.

[7] **IDEX Online SA**
An operator of a B2B polished diamond traders' network, a web portal for news, analyses and polished diamond price indexes, publisher of a leading trade magazine, and operator of the first ever polished diamond online spot market.

Corporate Information

Board of Directors

Daniel Benjamin Glinert
Chairman and Executive Director

Uzi Levami
Executive Director

Eyal Mashiah
Executive Director

Avraham Eshed
Non-Executive Director

Ehud Harel
Non-Executive Director

Hanoh Stark
Non-Executive Director

Yehezkel Pinhas Blum
Independent Director

Chan Kam Loon
Independent Director

Valerie Ong Choo Lin
Independent Director

Audit Committee

Chan Kam Loon - Chairperson
Yehezkel Pinhas Blum
Valerie Ong Choo Lin

Nominating Committee

Valerie Ong Choo Lin - Chairperson
Yehezkel Pinhas Blum
Chan Kam Loon
Daniel Benjamin Glinert
Eyal Mashiah

Remuneration Committee

Yehezkel Pinhas Blum - Chairperson
Chan Kam Loon
Valerie Ong Choo Lin
Eyal Mashiah
Hanoh Stark

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: Lior Caspi
(appointed with effect from 1 January, 2008)

Chaikin, Cohen, Rubin and Co.
Certified Public Accountants (Isr.)
Kiriat Atidim Building No. 4
P.O. Box 58143
Tel-Aviv 61580
Israel
Partner-in-charge: Dan Aviram
(appointed with effect from
1 January, 2007)

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

DiaMension™ Lab Edition
High accuracy diamond measurement and grading.

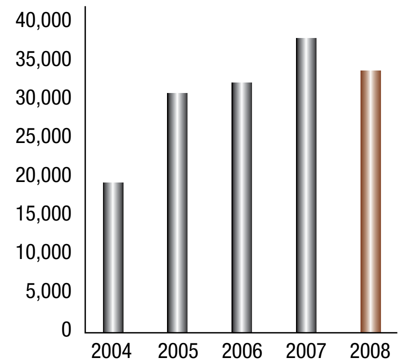
Financial Highlights

PERFORMANCE AT A GLANCE

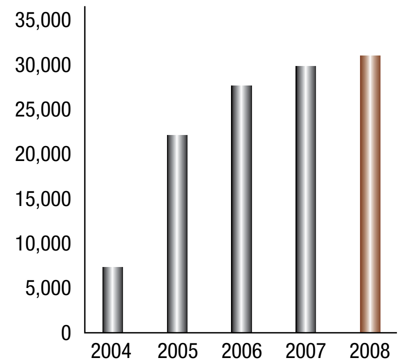
Financial Year Ended December					
Profit Statement (US$ 000)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	18,822	30,291	31,327	37,123	33,149
Gross Profit	12,673	20,742	20,413	24,402	21,130
Profit before tax	6,323	11,709	8,915	10,516	5,479
Profit for the year	4,467	9,350	8,378	8,010	1,594
Balance Sheet (US$ 000)					
Shareholders' Equity	7,186	21,693	26,907	29,148	30,451
Total Assets	12,026	29,551	32,841	36,591	37,522
Total cash and cash equivalents	5,498	20,601	12,118	15,188	9,910
Short term loans and bank overdue	0	0	0	0	0
Financial Ratio (%)					
Gross profit margin	67.30%	68.50%	65.20%	65.70%	63.70%
Profit before tax margin	33.60%	38.70%	28.50%	28.30%	16.50%
Profit margin	23.70%	30.90%	26.70%	21.60%	4.80%
Revenues from India (US$ 000)	13,080	23,447	22,644	25,376	23,461
Earnings Per Share					
Basic					
Profit (US$ cents)	2.40	4.01	3.30	3.16	0.62
Profit (SGD$ cents)*	3.51	5.86	4.82	4.62	0.91
Diluted					
Profit (US$ cents)	2.20	3.86	3.20	3.11	0.62
Profit (SGD$ cents)*	3.21	5.64	4.68	4.54	0.91

*Convenience translation based on exchange rate of US$1=SGD$1.4612 as at December 31st 2008.

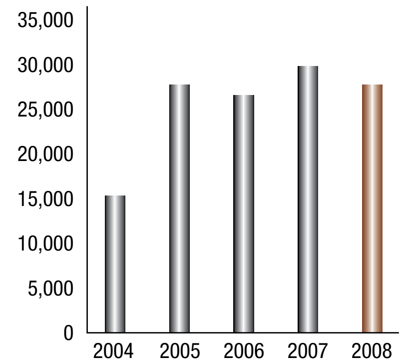
Revenues (US$000)



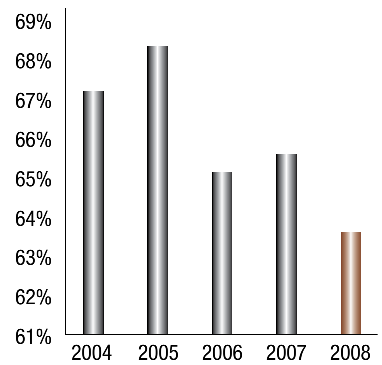
Shareholders' Equity (US$000)



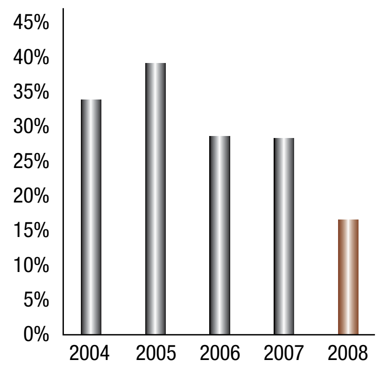
Revenues From India (US$000)



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 (initially the 2001 Code of Corporate Governance, and subsequently - the 2005 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 goals and 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) and/or under the guidelines set by the Board. In general any material issue concerning Sarin (e.g material research and development milestones, material market and/or business development issues, potential material transactions issues, etc.) is brought to the attention of the Executive Directors and of the Board in its entirety.

The Board meets regularly and in any event no less frequently than four times every calendar year. The Company's Articles of Association (the "Articles") and the Israeli Companies law allow the convening of the Board using conference calls or any other device allowing each Director participating in such meeting to hear all the other Directors participating in such meeting.

The Directors are provided with written and oral guidance with regard to the performance of their duties as directors, prior to, and following their appointment as directors.

Principle 2: Board Composition and Guidance

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. On 28 April 2008 all of the directors retired from office and were re-appointed by the Company's Annual General Meeting. On 11 December 2008 Mr. Aharon Shapira retired from his office as a Non-Executive Director and Mr. Uzi Levami was appointed by the Company's Board of Directors as an Executive Director in his stead. Mr. Levami's appointment as an Executive Director shall be brought to the approval of the Company's Annual General Meeting scheduled for 27 April 2009.

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. Avraham Eshed	Mr. Yehezkel Pinhas Blum
Mr. Uzi Levami	Mr. Ehud Harel	Mr. Chan Kam Loon
Mr. Eyal Mashiah	Mr. Hanoh Stark	Ms. Valerie Ong Choo Lin

Corporate Governance Statement

Mr. Hanoh Stark, who served as an Executive Director of the Company, resigned from this position in January 2009. Mr. Eyal Mashiah was appointed as an Executive Director in December 2008.

There are no permanent alternate directors (alternate directors have been 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.

Principle 3: Chairman and Chief Executive Officer

The Executive Chairman and the CEO of the Company are separate individuals. They are not related.

According to the resolution of the Board:

“The Company is of the view that a distinctive separation of responsibilities between the Chairman and the CEO will indeed ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

As the most senior executive in the Company, the CEO bears executive responsibility for the Company’s day-to-day business according to the policies set by the Board and subject to the Board’s directives, and works with the Board for strategic planning, business development and generally charting the growth of the Company.

The CEO shall report to the Executive Committee of the Board (comprised of the three Executive Directors) on a continuous and frequent basis, and shall fluently consult with the Executive Committee regarding all matters of substance requiring their update, guidance and/or decision.

The Chairman bears responsibility for the proper functioning of the Board and the Board’s committees (and of the non-executive directors in particular), maintains on-going supervision over the management of the Company and over the flow of information from the Company’s management to the Board, and assists in promoting high standards of corporate governance and ensuring compliance with the Company’s guidelines of corporate governance.

The Chairman ensures that Board meetings are held when necessary and sets the Board meetings agenda in consultation with the CEO.

The Chairman ensures effective communication between the Board and the Company’s shareholders.”

Principle 4: Board Membership

According to 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.

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:

Corporate Governance Statement

Ms. Valerie Ong Choo Lin	(Chairman and Independent Director)
Mr. Chan Kam Loon	(Independent Director)
Mr. Yehezkel Pinhas Blum	(Independent Director)
Mr. Daniel Benjamin Glinert	(Executive Director)
Mr. Eyal Mashiah	(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 the members of the Board are able to and have been adequately carrying out their duties as directors.

Key information about the directors is detailed in the "Board of Directors" section of the annual report.

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 2008, the Board was convened 9 times (in addition, written resolutions were passed in few occasions).

The attendance (in person) of the directors in the Board meetings held in 2008 is as follows:

	Board of Directors – 2008	
Name of Director	**No. of Meetings Held**	**Attendance**
Mr. Daniel Benjamin Glinert	9	9
Mr. Hanoh Stark	9	6
Mr. Eyal Mashiah	9	9
Mr. Aharon Shapira	9	7
Mr. Avraham Eshed	9	8
Mr. Ehud Harel	9	8
Mr. Yehezkel Pinhas Blum	9	9
Mr. Chan Kam Loon	9	7
Ms. Valerie Ong Choo Lin	9	7
Mr. Israel Zeev Eliezri - Alternate Director[1]	9	1
Mr. Uzi Levami- Alternate Director[2]	9	1

The attendance of the directors in the Audit Committee meetings held in 2008 is as follows:

	Audit Committee – 2008	
Name of Director	**No. of Meetings Held**	**Attendance**
Mr. Yehezkel Pinhas Blum	6	6
Mr. Chan Kam Loon	6	6
Ms. Valerie Ong Choo Lin	6	6

1 Mr. Israel Zeev Eliezri attended one meeting as an Alternate Director for Mr. Hanoh Stark.
2 Mr. Uzi Levami (prior to his appointment as a Director) attended one meeting as an Alternate Director for Mr Aharon Shapira.

Corporate Governance Statement

The attendance of the directors in the Remuneration Committee meetings held in 2008 is as follows:

	Remuneration Committee – 2008	
	No. of Meetings Held	Attendance
Mr. Yehezkel Pinhas Blum	1	1
Mr. Chan Kam Loon	1	1
Ms. Valerie Ong Choo Lin	1	1
Mr. Eyal Mashiah	1	1
Mr. Aharon Shapira[3]	1	1

The attendance of the directors in the Nominating Committee meetings held in 2008 is as follows:

	Nominating Committee - 2008	
	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

Principle 6: Access to Information

The management of the Company provides the Board with interim and periodical (quarterly/annual) financial reports, budget control reports and additional financial and operational 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 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 who, 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[4]	(Executive Director)
Mr. Aharon Shapira[5]	(Non-Executive Director)

3 Mr. Shapira resigned from his office as a director in December 2008.
4 Mr. Eyal Mashiah was appointed as an Executive Director in December 2008. Prior to such time, he had been a Non- Executive Director. The Board is of the opinion that Mr. Mashiah's experience and expertise in the Remuneration Committee should continue to benefit the Remuneration Committee following Mr. Mashiah's appointment as an Executive Director.
5 Mr. Shapira resigned from his office as a director in December 2008.

Corporate Governance Statement

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 concerning the remuneration of directors 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 (Mr. Yehezkel Pinhas Blum and Ms. Valerie Ong Choo Lin), is also subject to the limitations set by Israeli law.

Our Non-Executive Directors received for their services during 2008 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 amounting in the aggregate (for all four Non-Executive Directors) to less than S$40,000. The participation fees paid to our Non-Executive Directors are equal to the fees paid to our Independent Directors per meeting (which participation fees are subject to the limitations set by Israeli law - as aforesaid). Our Independent Directors received (in the aggregate) less than S$130,000 for their services in 2008 (the remuneration of our Independent Directors is comprised of annual fees and participation fees). The two Executive Directors who served in such position during 2008 received (together) approximately S$140,000 for their services during 2008.The remuneration arrangements of our Executive Directors include performance-based bonuses (based on the performance of the Company).

The remuneration (including bonuses) paid by us and our subsidiaries to each of our directors and our top five (in terms of amount of remuneration) employees (not being directors) for services rendered to us in all capacities during 2008, were as follows:

Name	**Position**	**Remuneration**	**Breakdown between Fixed Income and Performance Based Incentives**	
			Fixed Income	**Performance Based Incentives**
Mr. Daniel Benjamin Glinert	Executive Director	Band 1	86%	14%
Mr. Hanoh Stark[6]	Executive Director	Band 1	83%	17%
Mr. Eyal Mashiah[7]	Executive Director	Band 1	100%	_
Mr. Uzi Levami[8]	Executive Director	Band 1	100%	_
Mr. Philip Chan	Independent Director	Band 1	100%	_
Ms. Valerie Ong Choo Lin	Independent Director	Band 1	100%	_
Mr. Yehezkel Pinhas Blum	Independent Director	Band 1	100%	_
Mr. Avraham Eshed	Non- Executive Director	Band 1	100%	_
Mr. Aharon Shapira[9]	Non- Executive Director	Band 1	100%	_
Mr. Ehud Harel	Non- Executive Director	Band 1	100%	_
Ms. Rajeshwari Mehta	VP, Sarin India	Band 2	15%	85%
Mr. David Block	CEO, Sarin India	Band 2	44%	56%
Mr. Zeev Leshem[10]	Former CEO	Band 2	80%	20%
Mr. Natan Mossak[11]	VP Sales & Customer Care	Band 1	72%	28%
Mr. Zvi Halperin	CFO	Band 1	100%	0%

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.

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.

6 Mr. Stark resigned from his position as an Executive Director in January 2009.
7 Mr. Mashiah, who was formerly a Non-Executive Director was appointed as an Executive Director in December 2008.
8 Mr. Levami was appointed as an Executive Director in December 2008.
9 Mr. Shapira resigned from his office as a director in December 2008.
10 Mr. Leshem retired from his position as a CEO in December 2008.
11 Mr. Mossak's employment was terminated effective May 2009.

Corporate Governance Statement

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

Since its listing on the SGX-ST, the Company has been granting share options to its employees under its 2005 Share Option Plan (the "Plan"). The Plan is described in the Company's prospectus and a copy thereof is attached to the said prospectus. The Board of Directors has set guidelines concerning, among other things, eligibility to receive share options (based on performance and time of service with the Company), vesting periods (typically over four years from the date of grant) and the minimum and maximum amounts of share options to be granted (based on seniority and expertise). So far, all share options granted under the Plan were granted at a 20% discount off the Market Price (as such term is defined in the Plan). Further details with regard to the options granted by the Company may be found in the "Directors Report" section of the 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.

The management of the Company provides the Board in general and the Executive Directors in particular, with management accounts regarding the Company's performance. Such accounts are provided to the Executive Directors on an ongoing basis and to the Directors on a periodical basis (and where needed - as warranted by the circumstances).

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 who, including the Chairman, are independent. As at the date of this Report, the Audit Committee members are:

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

The members of our Audit Committee possess vast and diverse accounting, financial and commercial expertise and experience. Mr. Chan Kam Loon has a degree in accountancy and is qualified as a chartered accountant with the Institute of Chartered Accountants in England and Wales, Mr. Yehezkel Pinhas Blum has a degree in economics and business administration and Ms. Ong heads the Corporate Finance practice in the Singapore law firm of Rodyk and Davidson. Each of them has more than twenty years' financial/business experience. Further details with regard to expertise and experience of the members of our Audit Committee may be found in the "Board of Directors" section of the annual report.

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. Under its terms of reference, our Audit Committee may seek any information it requires from any employee and all employees are directed to co-operate with any requests made by our Audit Committee. 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 scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors.

(b) review with the internal and external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to management and the management's response;

Corporate Governance Statement

(c) review the quarterly and annual financial statements and balance sheet and profit and loss accounts and the Appendix 7.2 report thereon before submission to our Board for approval, ensuring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and 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;

(d) 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);

(e) 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;

(f) 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; consider and recommend to the Board with regard to the fees of the internal and external auditors ;

(g) 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;

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

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

(j) 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;

(k) 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; and

(l) Setting an arrangement by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

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.

Corporate Governance Statement

Based on the recommendations of the Audit Committee, the Board of Directors appointed, in August 2005, Mr. Shmuel Rosenblum, CPA, of Rozenblum-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.

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 are provided with 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

For the year ended 31 December 2008

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 2008.

Directors

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

Daniel Benjamin Glinert, Chairman of the Board and Executive Director
Uzi Levami, Executive Director & CEO
Eyal Mashiah, Executive Director

Avraham Eshed, Non-Executive Director
Ehud Harel, Non-Executive Director
Hanoh Stark, 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 2008 (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 at the end of the Year or as at 21 January 2009:

	Shareholdings in which the director has direct interest		
	As at 1 January 2008	**As at 31 December 2008**	**As at 21 January 2009**
Ordinary Shares of the Company of no par value each			
Chan Kam Loon	205,000	205,000	205,000

	Shareholdings in which the director is deemed to have an interest		
The Company	**As at 1 January 2008**	**As at 31 December 2008**	**As at 21 January 2009**
Ordinary Shares of the Company of no par value each			
Daniel Benjamin Glinert[1]	45,988,000	46,150,000	46,150,000
Hanoh Stark[2]	98,830,000	98,830,000	98,830,000
Ehud Harel[3]	98,830,000	98,830,000	98,830,000
Uzi Levami[4]	45,500,000	45,500,000	45,500,000
Aharon Shapira[5]	45,500,000	45,500,000	45,500,000
Chan Kam Loon[6]	221,000	221,000	221,000

1 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 488,000/650,000 shares held on his behalf by UOB Kay Hian Pte at the beginning and the end ogf the Year (respectively).

2 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.

3 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.

4 Uzi Levami is deemed interested in the Shares by virtue of his holdings (through U Lev Ami Holdings Ltd.) of more than 20% of the issued share capital of Interhightech (1982) 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. Mr. Shapira retired from his position as a director in December 2008.

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.

Directors' Report

For the year ended 31 December 2008

	Shareholdings in which the director is deemed to have an interest		
Related Corporations	**As at 1 January 2008**	**As at 31 December 2008**	**As at 21 January 2009**
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
Avraham Eshed Shares registered in the name of Gemstar Ltd.)	18,160	18,160	18,160
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
Uzi Levami (Shares registered in the name of U Lev Ami Holdings Ltd.)	9,893	9,893	9,893

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, nor at 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 (2007), and except as disclosed in the Company's audited financial statements for the Year, 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.

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 former 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$32.5), NIS270 (approximately US$65), or US$ 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 and four years. As at the date of this report, 15,288,000 options have been exercised. The exercise period for the 2003 Options is six years from the date of grant.

Directors' Report
For the year ended 31 December 2008

In 2005 the Company adopted a new share option plan ("Sarin 2005 Share Option Plan") and since then granted options to 51 persons at no consideration. As of 31 December 2008, a total of 6,702,000 options exercisable into 6,702,000 ordinary shares of no par value each in the capital of the Company, at an exercise price ranging between US$ 0.26 and US$ 0.66 per option (according to the date of grant) were granted under the Sarin 2005 Share Option Plan ("2005 Options"). Out of which options, 4,692,000 options were granted until December 31, 2007 and the remaining 2,010,000 were granted in 2008. The vesting periods of the 2005 Options are up to four 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. Chan Kam Loon (Chairperson), Mr. Yehezkel Pinhas Blum 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

Eyal Mashiah
Executive Director

Uzi Levami
Executive Director

Israel
22 March 2009

Statement by Directors

In the opinion of the directors,

(a) the balance sheet of the Company and the consolidates financial statements of the Group as set out on pages 39 to 42 are drawn up so as to give a true and fair view of the Company and of the Group at 31 December 2008 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to assume that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

Daniel Benjamin Glinert
Executive Director, Chairman of the Board

Eyal Mashiah
Executive Director

Uzi Levami
Executive Director

22 March 2009

Auditors' Report

To the Shareholders of Sarin Technologies Ltd.

We have audited the accompanying consolidated balance sheets of Sarin Technologies Ltd. (the Company and its subsidiaries) as at December 31, 2008 and 2007 and the consolidated income statements, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows, for each of the years ended on such dates. These financial statements are the responsibility of the Company's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance) - 1973. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit also 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 the Board of Directors and 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, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as at December 31, 2008 and 2007 and its consolidated results of operations, consolidated changes in shareholders' equity and its consolidated cash flows, for each of the years ended on such dates, in accordance with International Financial Reporting Standards (IFRS).

Somekh Chaikin
Certified Public Accountants (Isr.)
Member firm of KPMG International

Tel-Aviv, Israel
March 22, 2009

Chaikin, Cohen, Rubin and Co
Certified Public Accountants

Tel-Aviv, Israel
March 22, 2009

Consolidated Balance Sheets

As of December 31

	Note	2008 US$ thousands	2007 US$ thousands
Assets			
Property, plant and equipment	12	**2,128**	1,624
Intangible assets	13	**13,874**	1,312
Other receivables	14	**9**	1,005
Investment in equity accounted investee	15	**1,279**	-
Deferred tax assets	16	**59**	419
Total non-current assets		**17,349**	4,360
Inventories	17	**4,685**	4,194
Trade receivables	18	**573**	1,298
Other receivables	19	**1,077**	1,164
Current tax receivables		**1,828**	305
Investments	20	**2,100**	10,082
Cash and cash equivalents	21	**9,910**	15,188
Total current assets		**20,173**	32,231
Total assets		**37,522**	36,591
Equity			
Share capital *	22	**-**	-
Share premium and reserves		**13,275**	11,465
Retained earnings		**17,176**	17,683
Total equity		**30,451**	29,148
Liabilities			
Long-term liabilities	26	**1,518**	-
Employee benefits	25	**240**	191
Total non-current liabilities		**1,758**	191
Trade payables		**1,114**	2,829
Other payables	24	**3,647**	4,078
Current tax payable		**289**	93
Warranty provision	28	**263**	252
Total current liabilities		**5,313**	7,252
Total liabilities		**7,071**	7,443
Total equity and liabilities		**37,522**	36,591

* Less than US$ 1 thousand

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

Consolidated Income Statements

For the Years Ended December 31

	Note	2008 US$ thousands	2007 US$ thousands
Revenue	8	**33,149**	37,123
Cost of sales		**(12,019)**	(12,721)
Gross profit		**21,130**	24,402
Research and development expenses		**(5,458)**	(4,281)
Sales and marketing expenses		**(7,152)**	(6,869)
General and administrative expenses		**(4,135)**	(3,299)
Profit from operations	9	**4,385**	9,953
Finance income		**1,247**	853
Finance expenses		**(153)**	(290)
Net finance income	10	**1,094**	563
Share of loss of equity accounted investee	15	**(2,196)**	-
Profit before income tax		**3,283**	10,516
Income tax expense	11	**(1,689)**	(2,506)
Profit for the year		**1,594**	8,010
Earnings per share			
Basic earnings per share (US cents)	23	**0.62**	3.16
Diluted earnings per share (US cents)	23	**0.62**	3.11

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

Consolidated Statements of Cash Flows

For the Years Ended December 31

	2008	2007
	US$ thousands	**US$ thousands**
Cash flows from operating activities		
Profit for the year	**1,594**	8,010
Adjustments for:		
Equity-settled share-based payment transactions	**308**	366
Income tax expense	**1,689**	2,506
Depreciation of property, plant and equipment	**852**	764
Share of loss of equity accounted investee	**2,196**	-
Disposals of demonstration equipment	**443**	589
Amortization of intangible assets	**436**	346
Loss on sale of property, plant and equipment	**-**	1
Net finance income	**(1,094)**	(563)
Operating profit before working capital changes	**6,424**	12,019
Changes in working capital		
Inventories	**(491)**	(885)
Trade receivables	**725**	(160)
Other receivables	**(1,363)**	13
Trade payables	**(1,926)**	499
Other payables and warranty provision	**(619)**	883
Employee benefits	**31**	116
Cash generated from operations	**2,781**	12,485
Income taxes paid	**(1,133)**	(1,721)
Net cash from operating activities	**1,648**	10,764
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(1,717)**	(1,408)
Short terms investments, net	**7,982**	186
Investments	**1,000**	-
Acquisition of subsidiary, net cash acquired	**(8,467)**	-
Capitalization of R&D expenses	**(1,261)**	-
Acquisition of equity accounted investee	**(2,999)**	-
Acquisition of intangible assets	**-**	(900)
Interest received	**603**	853
Net cash used in investing activities	**(4,859)**	(1,269)
Cash flows from financing activities		
Proceeds from exercise of share options	**23**	71
Interest paid	**(153)**	(121)
Foreign currency translation gain (loss)	**164**	(169)
Dividends paid	**(2,101)**	(6,206)
Net cash used in financing activities	**(2,067)**	(6,425)
Net increase (decrease) in cash and cash equivalents	**(5,278)**	3,070
Cash and cash equivalents as of January 1	**15,188**	12,118
Cash and cash equivalents as of December 31	**9,910**	15,188

Changes in Shareholders' Equity

For the Years Ended December 31

	Share capital* US$ thousands	Share premium and reserves US$ thousands	Translation reserve US$ thousands	Retained earnings US$ thousands	Total US$ thousands
Balance at January 1, 2007	-	11,028	-	15,879	26,907
Net profit for the year ended December 31, 2007	-	-	-	8,010	8,010
Share-based payments	-	366	-	-	366
Exercise of options	-	71	-	-	71
Dividend paid of US$0.008 per share	-	-	-	(2,019)	(2,019)
Dividend paid of US$0.016 per share	-	-	-	(4,187)	(4,187)
Balance at December 31, 2007	**-**	**11,465**	-	**17,683**	**29,148**
Net profit for the year ended December 31, 2008	**-**	**-**	-	**1,594**	**1,594**
Foreign currency translation differences	**-**	**-**	**(112)**	**-**	**(112)**
Share-based payments	**-**	**308**	-	**-**	**308**
Shares issued in connection with the purchase of a subsidiary	**-**	**1,591**	-	**-**	**1,591**
Exercise of options	**-**	**23**	-	**-**	**23**
Dividend paid	**-**	**-**	**-**	**(2,101)**	**(2,101)**
Balance at December 31, 2008	**-**	**13,387**	**(112)**	**17,176**	**30,451**

* Less than US$1 thousand.

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

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 1 - General

A. Reporting Entity

Sarin Technologies Ltd. (the "Company") is a company domiciled in Israel. The address of the Company's registered office is 4 Hahilazon Street, Ramat Gan 52522. The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities.

B. Introduction

Sarin Technologies Ltd ("Sarin", "The Company"), an Israeli corporation, was incorporated on November 8, 1988. The Company and a wholly-owned consolidated subsidiary, Sarin Color Technologies Ltd. are engaged in the development, manufacturing and marketing of technology intensive products for the diamond, precious stone and associated industries. Sarin Polishing Technologies Ltd. a wholly owned consolidated subsidiary, is engaged in the development and manufacture of disposable polishing discs for diamonds and gemstones. Sarin Technologies India Private Ltd. ("Sarin India") a wholly owned consolidated subsidiary, renders services of pre-sale and post-sale to Sarin customers in India and Sri Lanka. During 2006 the Company established a wholly-owned subsidiary in Hong Kong, which has not yet started operating, and registered an entity in New York, USA, for sales tax purposes. During 2008 the Group acquired all of the shares in Galatea Ltd. and 23% of the shares of IDEX Online SA. Galatea Ltd. developed a unique and innovative technology for the fully automated evaluation of internal features in diamonds. IDEX Online SA is a leading provider of trading services and content for the diamond industry.

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

These financial statements were authorized for issue by the directors on March 22, 2009.

C. Auditors

The statutory audited financial statements of the Israeli companies in the Group as of and for the year ended December 31, 2008 and 2007 were audited jointly by Chaikin, Cohen, Rubin & Co. and Somekh Chaikin, firms of Israeli Certified Public Accountants, whose partners are registered with the Israel Auditors' 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 2008 and 2007 were audited by KPMG Mumbai, India.

The audit reports on the statutory financial statements of Sarin Polishing Technologies Ltd. for the financial years ended December 31, 2008 and 2007 include an emphasis of matter statement relating to a capital deficit and losses.

Note 2 - Basis of Preparation

A. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 2 - Basis of Preparation (cont'd)

B. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss that are measured at fair value.

C. Functional and presentation currency

These consolidated financial statements are presented in US dollars, which is the Group's functional currency. All financial information presented in US dollars has been rounded to the nearest thousand.

D. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 25 – measurement of defined benefit obligations
Note 27 – measurement of share-based payments
Notes 28 and 31 – warranty provisions and contingencies

Note 3 - Significant Accounting Policies

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

A. Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power 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 currently are exercisable 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 accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

B. Equity accounted investees

Equity accounted investees are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

B. Equity accounted investees (cont'd)

Equity accounted investees are accounted for using the equity method and are recognized initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

C. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. 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 to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

E. Financial instruments

Non-derivative financial instruments comprise investments in debt securities, trade and other receivables, cash and cash equivalents, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances, call deposits and other bank deposits with an initial maturity of up to three months. 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 statement of cash flows.

Accounting for finance income and expense is discussed in Note 3O.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

E. Financial instruments (cont'd)

Financial assets at fair value through profit or loss:

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Group records such investments in the consolidated statements of cash flows as investing activities.

Other:

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Share capital:

Ordinary shares are classified as equity. Incremental cost directly attributable to the issue of ordinary shares and share options are recognized as deduction from equity, net of any tax effects.

F. Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. 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.

When part of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income" in profit or loss.

ii. Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

iii. Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

F. Property, plant and equipment (cont'd)

iii. Depreciation (cont'd)

The estimated useful lives for the current and comparative periods 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

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

G. Intangible assets

i. Know-how

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

ii. Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

For acquisitions, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in the income statement.

Subsequent measurement:
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

iii. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

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.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

G. Intangible assets (cont'd)

iv. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

v. Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date they are available for use. The estimated useful lives of the know-how is:

• Intangible asset acquired in respect of subsidiary acquisition	6 years [1]
• Capitalized development expenditure	6 years [1]
• Other	5-8 years

[1] The Company will amortize the assets from 2009, when the assets are available for use.

H. Inventories

Inventories are measured 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. Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

I. Impairment (cont'd)

(i) Financial assets (cont'd)

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

J. Employee benefits

i. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension and savings plans are recognized as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

J. Employee benefits (cont'd)

ii. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. 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. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

The Group recognizes all actuarial gains and losses arising from defined benefit plans directly in profit or loss.

iii. Bonuses

The Group recognizes a liability and an expense for bonuses, which are based on agreements with employees and/or consultants and 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.

iv. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

v. Share-based payment transactions

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

K. Provisions

A provision is recognized if, as a result of past event, the Group has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

K. Provisions (cont'd)

i. Warranties

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.

ii. Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

L. Dividends

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

M. Revenue

i. Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfer of risks and renewals vary depending on the individual terms of the contract of sale.

ii. Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

iii. Interest income

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

N. Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

O. Finance income and expenses

Finance income comprises interest income on funds invested, gains on the disposal of investments, changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

O. Finance income and expenses (cont'd)

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets. All borrowing costs are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

P. Income tax

Income tax expense 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 recognized 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 reviewed at each reporting date and 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.

Q. Monetary balances presented at present value

Monetary balances – long-term liabilities – either non-interest bearing or bearing interest at rates lower than the market norm – are presented at their present value, computed according to the accepted market rate in effect when such balances were generated.

R. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which comprise share options granted to employees.

S. Segment reporting

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

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

T. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2008, and have not been applied in preparing these consolidated financial statements:

I. IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see Note 6). Under the management approach, there are not expected to be any changes in this presentation.

2. Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will not constitute a change in accounting policy for the Group.

3. IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have any impact on the consolidated financial statements.

4. Revised IAS 1 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is not expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.

5. Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.

6. Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

   – The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
   – Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
   – Transaction costs, other than share and debt issue costs, will be expensed as incurred.
   – Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 3 - Significant Accounting Policies (cont'd)

T. New standards and interpretations not yet adopted (cont'd)

– Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

7. Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

8. Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The amendment is not expected to have a significant impact on the consolidated financial statements.

Note 4 - Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(ii) Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Investments in debt securities

The fair value of financial assets at fair value through profit or loss, is determined by reference to their quoted closing bid price at the reporting date.

(iv) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 4 - Determination of Fair Values (cont'd)

(v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(vii) Share-based payment transactions

The fair value of the options granted is measured using a Monte Carlo lattice based valuation, taking into account the terms and conditions upon which the options were granted.

Measurement inputs include share price on measurement date, expected volatility, expected employee turnover rate, employee exercise behavior risk free interest rate and expected dividend.

Note 5 - Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management complies with the Group's risk management policies and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

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.

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

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 5 - Financial Risk Management (cont'd)

Credit risk (cont'd)

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

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.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The components of this allowance are specific loss components that relate to individually significant exposures.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At December 31, 2008 no guarantees were outstanding.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, by investing in bank deposits only, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

This is achieved by not investing in equities and by investing in either US dollars or New Israeli Shekel (NIS) quoted investments only, in ratios which reflect the exposure of the Group to these currencies.

The Group is exposed to currency risk on sales and expenses that are denominated in a currency other than the respective functional currencies of Group entities.

The Group is mainly exposed to movement in exchange rates of the US dollar in relation to the NIS with regard to salaries paid in NIS. The group bought in 2008 a financial tool to protect US$4 million until April 2009 against a decline of the exchange rate below NIS 3.55 for US$1.

The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents and short-term investments.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

There were no changes in the Group's approach to capital management during the year.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Note 6 - Segment Reporting

A. Business segment

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

B. Geographical segment

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

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

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		Europe		North America		Africa		Others		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	US$ thousands											
External revenues	**23,461**	25,376	**2,009**	1,660	**1,571**	1,487	**3,186**	2,530	**2,922**	6,070	**33,149**	37,123
Segment result	**9,934**	11,593	**1,073**	931	**386**	434	**1,334**	1,170	**1,251**	3,405	**13,978**	7,533
Unallocated expenses											**9,593**	7,580
Operating profit											**4,385**	9,953
Net finance expense											**1,094**	563
Share of loss of equity accounted investees											**(2,196)**	-
Income tax expense											**(1,689)**	(2,506)
Profit for the year											**1,594**	8,010
Segment assets	**4,752**	3,533	**421**	589	**408**	283	**615**	656	**731**	1,117	**6,927**	6,178
Investment in equity accounted investees											**1,279**	-
Unallocated assets											**29,316**	30,413
Total assets											**37,522**	36,591
Segment liabilities	**1,098**	1,367	**62**	82	**90**	36	**31**	88	**431**	845	**1,712**	2,418
Unallocated liabilities											**5,359**	5,025
Total liabilities											**7,071**	7,443
Capital expenditure	**997**	633	**80**	13	**88**	2	**313**	-	**239**	760	**1,717**	1,408
Depreciation	**562**	573	**38**	28	**34**	23	**107**	35	**111**	105	**852**	764

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 7 - Acquisition of Subsidiary

Business combination

On 18 May 2008 the Group acquired all of the shares in Galatea Ltd. for a total consideration of US$11,989 thousand. The consideration is satisfied as follows:
(a) US$9,640 thousand in cash.
(b) by way of allotment and issue of 6,859,225 ordinary shares of no par value in the Capital of Sarin, in the amount of US$1,591 thousand (market price).
(c) additional payments to the shareholders of Galatea Ltd. upon achievement and fulfillment of certain future target and conditions.

Sarin expects that the additional payment will be approximately US$0.8 million (see also note 3Q).

Galatea Ltd. is engaged in the development of a unique and innovative technology for the fully automated evaluation of internal features in diamonds. In the period from its acquisition to 31 December 2008 the subsidiary contributed loss of US$53 thousand. If the acquisition had occurred on January 1, 2008, Management estimates that the effect on the consolidated income statement is not material.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Note	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
		US$ thousands	US$ thousands	US$ thousands
Property, plant and equipment	12	94	-	94
Intangible assets	13	-	10,742	10,742
Trade receivables		73	-	73
Cash and cash equivalents		1,173	-	1,173
Employee benefits		(18)	-	(18)
Royalties to the office of the Chief Scientist		(760)	-	(760)
Long term liabilities*	26	-	(758)	(758)
Trade payables		(211)	-	(211)
Other payables		(99)	-	(99)
Net identifiable assets and liabilities		252	9,984	10,236
Goodwill on acquisition	13			995
Total consideration paid **				11,231
Consideration paid by way of allotment and issue ordinary shares				(1,591)
Cash acquired				(1,173)
Net cash outflow				8,467

* Relates to additional payments to the shareholders of Galatea Ltd. upon achievement of certain future targets.
** Includes advisory and legal fees of US$204 thousand.

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognized on acquisition are their estimated fair values (see note 4 for the methods used in determining fair values).

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 7 - Acquisition of Subsidiary (cont'd)

Business combination (cont'd)

The goodwill recognized on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force, and the synergies expected to be achieved from integrating the company into the Group's existing business (see note 13).

Note 8 - Revenue

Composition:

	Year ended December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Revenue from sale of products	31,559	36,074
Revenue from maintenance and services	1,590	1,049
	33,149	**37,123**

Note 9 - Profit from Operations

Profit from operations is after expenses detailed below:

A. Personnel expenses

	Year ended December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Salaries and allowances	**10,232**	8,728
Defined benefit retirement plan expense (see Note 25)	**494**	458
Equity-settled share-based payment transactions (see Note 27)	**308**	366
	11,034	9,552

B. Other operating expenses include:

	Year ended December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Amortization of intangible assets	**436**	346
Allowance for doubtful trade receivables	**173**	(46)
Depreciation of property, plant and equipment	**852**	764
Operating lease charges	**732**	558
Warranty expense	**126**	134
Disposals of demonstration equipment	**443**	589

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 10 - Net Finance Income

	Year ended December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Gain (loss) from investment in CDO (see Note 14)	**500**	(500)
Interest income on financial assets and bank deposit	**583**	1,353
Interest expenses	**(153)**	(121)
Net foreign exchange gain / (losses)	**164**	(169)
	1,094	563

Note 11 - Income Tax Expense

	Year ended December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Current tax expense	**1,999**	2,535
Deferred tax expense		
Origination and reversal of temporary differences	**348**	7
Adjustment for prior years	**(658)**	(36)
Total income tax expense	**1,689**	2,506
Reconciliation of effective tax rate		
Profit for the year	**1,594**	8,010
Income tax expense	**1,689**	2,506
Profit excluding income tax expense	**3,283**	10,516
Income tax using Israel tax rate of 2008 - 27% (2007 - 29%)	**886**	3,050
Non-deductible expenses	**83**	233
Current year losses for which no deferred tax assets were recognized	**291**	309
Difference in effective tax rate of equity accounted investee	**594**	-
Effects of lower tax rates arising from "Approved and Beneficiary Enterprise" status	**(105)**	(1,110)
Taxes related to prior years	**(658)**	(36)
Effect of exchange rate between dollars and NIS	**(574)**	-
Valuation allowance for deferred taxes	**1,170**	-
Others, including effect of overseas tax rates	**2**	60
	1,689	2,506

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 11 - Income Tax Expense (cont'd)

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

In accordance with the Adjustments Law, the results of the Israeli subsidiaries for tax purposes are measured in real terms, based on the changes in the Israeli Customer Price Index. As from 2008 the adjustments law has been cancelled. As from 2006, the Company elected to report for tax purposes using the dollar basis. In 2008, as a result of amendment issued to the tax law, the company decided to report for tax purposes using the NIS basis. As a result of this decision, the Company has recorded prior years' tax benefits in the amount of US$658 thousand.

B. Tax rates applicable to income not derived from approved enterprises

On July 25, 2005 the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147 and Temporary Order) – 2005 ("Amendment 147"). The Amendment 147 provides for a gradual reduction in the company tax rate in the following manner: in 2007 the tax rate will be 29%, in 2008 the tax rate will be 27%, in 2009 the tax rate will be 26% and from 2010 onward the tax rate will be 25%. Furthermore, as from 2010, upon reduction of the company tax rate to 25%, real capital gains will be subject to tax of 25%.

Deferred tax balances as at December 31, 2008 and 2007 are calculated in accordance with the new tax rates specified in Amendment 147 as aforementioned.

The foreign subsidiaries are taxed according to tax rules in their jurisdictions.

C. 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.

D. 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") and 2002 ("second program") and the status of a "Beneficiary Enterprise" in respect of the 2005 ('third program") and the 2007 ("fourth program"). Income of the Company derived from the Enterprises 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 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 Enterprise was put into operation.

The first program was enacted in 1999, the second program was enacted in 2002, the third program was enacted in 2005 and the fourth program was enacted in 2007. Dividends distributed to Israeli shareholders from the "Approved and Beneficiary Enterprise" income will be liable to a 15% withholding tax rate. The last year of benefits relating to the first program was 2005, the second program is 2008, the third program is 2011 and the fourth program is 2013.

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

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 11 - Income Tax Expense (cont'd)

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

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 Enterprises.

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.

E. 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, 2003.
Sarin India has not received final tax assessments since incorporation.

Note 12 - Property, Plant and Equipment

	Computers and equipment	Demonstration equipment	Motor vehicles	Machinery and office equipment	Leasehold improvements	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Cost						
Balance at January 1, 2007	736	1,165	118	443	502	2,964
Additions	157	1,167	-	80	4	1,408
Disposals	(2)	(940)	(1)	-	-	(943)
Balance at December 31, 2007	891	1,392	117	523	506	3,429
Acquisitions through business combinations	**19**	**-**	**-**	**67**	**8**	**94**
Other additions	**116**	**1,122**	**98**	**164**	**217**	**1,717**
Disposals	**-**	**(693)**	**(62)**	**-**	**-**	**(755)**

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 12 - Property, Plant and Equipment (cont'd)

	Computers and equipment	Demonstration equipment	Motor vehicles	Machinery and office equipment	Leasehold improvements	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Balance at December 31, 2008	**1,026**	**1,821**	**153**	**754**	**731**	**4,485**
Depreciation						
Balance at January 1, 2007	535	393	61	123	282	1,394
Depreciation for the year	167	410	14	55	118	764
Disposals	**(2)**	**(351)**	**-**	**-**	**-**	**(353)**
Balance at December 31, 2007	700	452	75	178	400	1,805
Depreciation for the year	**122**	**535**	**19**	**90**	**86**	**852**
Disposals	**-**	**(250)**	**(50)**	**-**	**-**	**(300)**
Balance at December 31, 2008	**822**	**737**	**44**	**268**	**486**	**2,357**
Carrying amounts						
At January 1, 2007	201	772	57	320	220	1,570
At December 31, 2007	191	940	42	345	106	1,624
At January 1, 2008	191	940	42	345	106	1,624
At December 31, 2008	**204**	**1,084**	**109**	**486**	**245**	**2,128**

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 13 - Intangible Assets

	Goodwill	Development costs	Know-how	Total
	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Cost				
Balance at January 1, 2007	-	-	975	975
Acquisitions	-	-	1,124	1,124
Balance at December 31, 2007	-	-	2,099	2,099
Acquisitions through business combinations [1][2]	**995**	**-**	**10,742**	**11,737**
Other acquisitions – internally developed [2]	**-**	**1,261**	**-**	**1,261**
Balance at December 31, 2008	**995**	**1,261**	**12,841**	**15,097**
Amortization				
Balance at January 1, 2007	-	-	441	441
Amortization for the year	-	-	346	346
Balance at December 31, 2007	-	-	787	787
Amortization for the year	**-**	**-**	**436**	**436**
Balance at December 31, 2008	**-**	**-**	**1,223**	**1,223**
Carrying amount				
At January 1, 2007	-	-	534	534
At December 31, 2007	-	-	1,312	1,312
At January 1, 2008	-	-	1,312	1,312
At December 31, 2008	**995**	**1,261**	**11,618**	**13,874**

(1) See also Note 7.

(2) See also Note 3G(v)

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 14 - Other Receivables

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Advance in respect of investment in IDEX Online (1)	-	500
Investment in CDO, net (2)	-	496
Other	9	9
	9	1,005

(1) See Note 15.

(2) The investment of US$1 million in a Collateralized Debt Obligations (CDO) was made with a US financial institution. At the end of 2007, after an expert valuation was made, the Company had provided for an impairment loss of US$0.5 million. Negotiations were conducted between the Company and the financial institution regarding compensation for this investment decline. During 2008, the financial institution bought back the CDO from the company for US$1 million and the Company reversed the US$0.5 million loss from 2007 with US$0.5 million profit in 2008 which was recorded in the finance income.

Note 15 - Investment in Equity Accounted Investee

In the first half of FY2008, Sarin acquired 23% of IDEX Online which was in the process of finalizing a revolutionary internet B2B spot market trading platform for rough diamonds – Guaranteed Diamond Transactions for a cash consideration of US$3.5 million. As part of the agreement, IDEX has also granted Sarin an option for a period of up to 24 months to invest an additional amount of up to US$3.0 million, which would (upon and subject to the exercise of the option) bring Sarin's total investment in IDEX up to US$6.4 million. The product was launched, as planned, in June 2008. As a result of the dramatically deteriorated market conditions in the last months of FY2008, the goals of the business plan of IDEX Online have been significantly delayed. In addition, the overall negative industry climate has had significant impact on IDEX's traditional sources of income – subscription fees and advertising revenues. The poor current outlook for the diamond industry and the losses IDEX has incurred since Sarin's investment have led to the adjustment of the value of the investment and the taking of a one-time US$1.8 million loss in Q4 FY2008, which led to a total loss from equity accounted investee of US$2.2 million.

Note 16 - Deferred Tax Assets

Recognized deferred tax assets are attributable to the following:

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Other payables and employee benefits	-	196
Allowance for doubtful receivables	-	72
IPO expenses	-	35
Other	59	116
Total	59	419

After the Company reviewed its deferred tax assets as at December 2008, it was reduced as the probability that the related tax benefit would be realized had diminished.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 16 - Deferred Tax Assets (cont'd)

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

	As at December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Tax losses	**5,580**	4,975

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.

Deferred tax assets have not been recognized in respect of these tax losses because it is not highly probable that future taxable profits will be available against which the Group can utilize the benefits.

The tax losses do not expire under current tax legislation.

Note 17 - Inventories

	As at December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Raw materials and consumables	**3,078**	2,599
Work in progress	**845**	1,056
Finished goods	**762**	539
	4,685	4,194

In 2008 the write-down of inventories to net realizable value amounted to US$665 thousand. (2007 US$575 thousand).

Note 18 - Trade Receivables

	As at December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Trade receivables	**1,081**	1,633
Allowance for doubtful receivables	**(508)**	(335)
	573	1,298

The Group's exposure to credit and currency risks related to trade receivables is disclosed in Note 29.

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 19 - Other Receivables

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Institutions	**269**	321
Customs deposit	**106**	330
Advances to suppliers	**244**	108
Prepaid expenses	**342**	320
Other	**116**	85
	1,077	1,164

The Group's exposure to credit and currency risks losses related to other receivables is disclosed in Note 29.

Note 20 - Investments

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Bank deposit (initial period over 3 months)	**2,100**	1,443
Financial assets at fair value through profit and loss	**-**	8,639
	2,100	10,082

The bank deposit and financial assets at fair value through profit and loss have interest rates of 1.4% at December 31, 2008 (December 31, 2007 - 5.0%).

Note 21 - Cash and Cash Equivalents

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Bank balances	**2,835**	2,473
Bank deposits	**7,075**	12,715
	9,910	15,188

The effective interest rate on the dollar bank deposits in 2008 was 2% (2007: 5.0%).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets are disclosed in Note 29.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 22 - Share Capital – The Company

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Authorized:		
Ordinary Shares of no par value	**2,000,000,000**	2,000,000,000
Issued and fully paid:		
Ordinary Shares of no par value	**260,747,225**	253,605,500

The paid up share capital is less than $1,000 as at December 31, 2008 and 2007.

282,500 Ordinary Shares were issued upon exercise of options for cash during 2008 (2007 - 1,180,000 shares). See also Note 27.

	2008
	Number of shares
Ordinary shares at 1 January	253,605,500
Share options exercised	282,500
Share issuance in respect of subsidiary acquisition (see Note 7)	6,859,225
Ordinary shares at 31 December	260,747,225

Note 23 - Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of US$1,594 thousand (2007: US$8,010 thousand) and a weighted average number of ordinary shares outstanding of 258,112 thousand (2007: 253,306 thousand), calculated as follows:

Weighted average number of ordinary shares
In thousands of shares

	2008	2007
Issued ordinary shares at 1 January	**253,605**	252,426
Effect of share options exercised	**220**	880
Effect of share issuance in respect of subsidiary acquisition (see note 7)	**4,287**	-
Weighted average number of ordinary shares at 31 December	**258,112**	253,306

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2008 was based on profit attributable to ordinary shareholders of US$1,594 thousand (2007: US$8,010 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 258,149 thousand (2007: 257,546 thousand), calculated as follows:

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 23 - Earnings per share (cont'd)

Basic earnings per share (cont'd)

Weighted average number of ordinary shares (diluted)
In thousands of shares

	2008	2007
Weighted average number of ordinary shares (basic)	**258,112**	253,306
Effect of share options on issue	**37**	4,240
Weighted average number of ordinary shares (diluted) at 31 December	**258,149**	257,546

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

Note 24 - Other Payables

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Employees and related institutions	**1,997**	2,016
Advances from customers	**349**	859
Accrued expenses	**728**	615
Prepaid income	**515**	475
Amounts payable to related parties	**26**	40
Other	**32**	73
	3,647	4,078

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

The Group's exposure to currency and liquidity risk related to other payables are disclosed in Note 29.

Note 25 - Employee Benefits

A. Defined benefit plan

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.

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.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 25 - Employee Benefits (cont'd)

A. Defined benefit plan (cont'd)

(i) Employee benefits consist of the following:

	As at December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Present value of the obligation	**1,319**	1,336
Fair value of assets	**1,079**	1,145
Recognised liability for defined benefit obligation	**240**	191

The group makes contributions to defined benefit plans that provide pension benefits for employee upon retirement or post employment.

Expense recognized in the income statement

	As at December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Current service costs	**312**	474
Interest on obligation	**135**	80
Expected return on assets	**(94)**	(73)
Asset Return expense	**(115)**	-
Actuarial losses (gains)	**256**	(2)
Other	**-**	(21)
	494	458

	As at December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Cost of sales	**83**	47
Research and development costs	**149**	199
Selling and marketing expense	**139**	124
General and administrative expenses	**123**	88
	494	458

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 25 - Employee Benefits (cont'd)

A. Defined benefit plan (cont'd)

(i) Employee benefits consist of the following (cont'd)

Movement in present value of the defined benefit obligation

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Defined benefit obligation at 1 January	**1,336**	649
Funded benefits paid	**(408)**	(22)
Unfunded benefits paid	**(85)**	138
Current service and interest costs	**447**	554
Actuarial losses	**29**	17
Defined benefit obligation at 31 December	**1,319**	1,336

Movement in the assets

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Fair value of the assets at 1 January	**1,145**	574
Contributions paid	**360**	480
Assets Return Expense	**115**	-
Expected return on assets	**94**	73
Actuarial gains (losses)	**(227)**	19
Funded Benefits paid	**(408)**	(22)
Other	**-**	21
Fair value of the assets at 31 December	**1,079**	1,145

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 Ministry of Finance insurance circular 2007-1-3, reflecting the latest mortality assumptions in Israel, including future mortality improvements.

ii) Disability rates are based upon table P.8 of the pension circular 6-3-2007 of the Ministry of Finance.

iii) Retirement age as per 2003 pension law, i.e. 67 for male and 64 for females (except for transition birth years).

iv) As of 2007, the following leave rate assumptions applied: leave rate for senior employees of 10% and non-manager leave rate of 13%. For senior employees it was assumed that they would be always receive full severance compensation irrespective of the reason for leave. For non-managers it was assumed that one third would leave as a result of termination, while two thirds leave on their own without entitlement to severance make-up pay.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 25 - Employee Benefits (cont'd)

A. Defined benefit plan (cont'd)

(i) Employee benefits under the defined benefit plan consist of the following: (cont'd)

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 2007	7.02	3.40%
31st December 2008	6.66	3.24%

ii) As of 2007, the future real salary increase is assumed to be 3.0% for all employees at all ages.

iii) The rate of growth of 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 are felt to be reasonable. With the progress of time and the consequent accumulation of experience, these assumptions will periodically be reviewed.

B. Defined contribution plan

The Group provides post-employment benefits under which it pays fixed sums into a provident fund in respect of employee savings plans. The amounts deposited in the year ended December 31, 2008 amounted to US$287 thousand (2007: US$214 thousand).

Note 26 – Long-Term Liabilities

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Royalties to the office of the Chief Scientist	760	-
Long term liabilities	758	-
	1,518	-

The liabilities are derived from the subsidiary - Galatea Ltd. (see Note 7).

Note 27 - Share-Based Payments

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 20,000,000 share options, each exercisable to one ordinary share of no par value, of the Company after the sub-division and reclassification of the Company's shares which took place on March 8, 2005. As at December 31, 2008 19,994,000 options were granted, after taking into account cancellations.

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 27 - Share-Based Payments (cont'd)

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

See Note 3J(v) for accounting policy.

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.

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").

The aggregate number of shares which may be granted as options on any date, when added to the number of shares issued and issuable in respect of all options granted under all of the Company's Plans shall not exceed 15% of the issued share capital of the Company on the date preceding the date of the relevant grant.

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 Meetings (provided that as long as the shares are being held by the trustee, such voting rights will be exercised by the trustee, according to instructions provided by the holders, and if no such instructions are provided – as per the trustee's 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 four 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). A total of 6,702,000 options have been granted under the 2005 plan.

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.

In an agreement made of late, the exercise period of the former CEO of the Company who retired on January 2009 with regard to his vested options was extended by up to 11 months after his retirement until December 31, 2009.

The Income Tax Authorities have recognized the 2005 Plan as a "share allotment through a trustee" plan according to Section 102 to the Tax Ordinance using the "capital gain track". As a result, the benefit to the employee 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.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 27 - Share-Based Payments (cont'd)

The terms and conditions of the grants to key management and other employees are as follows:

Grant date	Number of options in thousands	Vesting conditions	Contractual life of options
December 2003	19,280	Immediate to 4 years	6 years
October 2004	1,030	Immediate to 4 years	6 years
December 2004	920	Immediate to 4 years	6 years
August 2005	1,590	2 years	6 years
February 2006	500	2 years to 3 years	6 years
October 2006	1,612	1 year to 4 years	6 years
February 2007	80	1 year to 4 years	6 years
June 2007	1,180	1 year to 4 years	6 years
February 2008	410	1 year to 4 years	6 years
May 2008	1,600	2 years	6 years

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			
	2008		2007	
	Weighted average exercise price in US cents per share	Options thousands	Weighted average exercise price in US cents per share	Options thousands
At January 1	**19.2**	**8,983**	13.5	8,993
Granted	**21.3**	**2,010**	38.5	1,260
Forfeited	**27.9**	**(883)**	26.2	(90)
Exercised	**8.6**	**(283)**	6.2	(1,180)
At December 31	**18.6**	**9,827**	19.2	8,983

The number of share options vested at December 31, 2008 and 2007 is 6,332 thousand and 5,762 thousand, respectively.

The average share price in 2008 was US cents 21.15 (2007: US cents 42.36)

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 27 - Share-Based Payments (cont'd)

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

	Exercise price US cents per share	As December 31, 2008
		Options thousands
December 2009	3.9	**838**
December 2009	2.0	**2,960**
August 2011	24.5	**1,195**
February 2012	44.9	**500**
December 2012	30.6	**1,494**
February 2013	29.3	**80**
June 2013	40.8	**950**
February 2014	18.1	**210**
May 2014	19.7	**1,600**
		9,827

The expenses derived from equity settled share-based payment transactions are as follows:

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Cost of sales	43	58
Research and development expenses	66	105
Distribution expenses	76	84
General and administrative expenses	123	119
	308	366

Note 28 - Warranty Provision

The provision for warranty relates mainly to product sales during the years ended 31 December 2008 and 2007. The provision is based on estimates made from historical warranty data associated with similar products and services. The Group expects to incur most of the liability over the next year.

The movement in the warranty provision is as follows:

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Balance at the beginning of the year	**252**	299
Provisions used during the year	**(115)**	(181)
Provisions made during the year	**126**	134
Balance at the end of the year	**263**	252

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 29 - Financial Instruments

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.

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2008	2007
	US$ thousands	US$ thousands
Investments	**2,100**	10,082
Trade receivables	**573**	1,298
Other receivables	**1,077**	1,164
Cash and cash equivalents	**9,910**	15,188
	13,660	27,732

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2008	2007
	US$ thousands	US$ thousands
India	**83**	103
Europe	**138**	420
North America	**158**	91
Africa	**37**	327
Other	**157**	357
	573	1,298

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 29 - Financial Instruments (cont'd)

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2008 US$ thousands	Impairment 2008 US$ thousands	Gross 2007 US$ thousands	Impairment 2007 US$ thousands
Not past due	**163**	**-**	540	-
Past due 0-30 days	**270**	**-**	295	-
Past due 31-90 days	**140**	**-**	293	-
More than 90 days	**508**	**508**	505	335
	1,081	**508**	1,633	335

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008 US$ thousands	2007 US$ thousands
Balance at 1 January	**335**	381
Impairment loss / (gain) recognized	**173**	(46)
Balance at 31 December	**508**	335

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	US$	NIS	Rupee	*Euro*	US$	NIS	Rupee	*Euro*
	December 31, 2008				**December 31, 2007**			
Trade receivables	**448**	**42**	**83**	**-**	1,207	39	52	-
Other receivables	**178**	**2,551**	**235**	**-**	1,717	1,020	146	-
Trade payables	**258**	**854**	**-**	**2**	1,328	1,382	39	80
Other payables	**1,020**	**2,061**	**1,116**	**-**	1,192	2,127	728	-
Net balance sheet exposure	**(652)**	**(322)**	**(798)**	**(2)**	404	(2,450)	(569)	(80)

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 29 - Financial Instruments (cont'd)

Exposure to currency risk (cont'd)

The following significant exchange rates applied during the year:

	Average rate		As at December 31	
	2008	**2007**	**2008**	**2007**
Euro 1	**0.682**	0.733	**0.718**	0.680
NIS 1	**3.588**	4.108	**3.802**	3.846
Rupee 1	**43.84**	41.20	**48.45**	39.41

The Group is mainly exposed to movement in exchange rates of the US dollar in relation to the NIS with regards to salaries and other expenses paid in NIS. The Group bought in 2008 a financial tool to protect US$4 million until April 2009 against a decline of the exchange rate below NIS 3.55 for US$1.

The Management expects that the Group expenses in NIS for 2009 will be US$9 million (2008: US$15 million). Negative economic developments in the last quarter of 2008 and the management actions as a result of them, are the main reasons for the expected decrease in the Group expenses between the years. Expectations of reduced revenues and cost of goods associated with them in 2009 and management actions to significantly reduce the Company's operating expenses in all areas, both by reducing staff as well as by cutting other expenses, will cause this reduction.

Currency risk	**Loss in US$ thousands (Income statement and equity)**
Decrease of 5%	450
Decrease of 10%	900
Decrease of 15%	1,350

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents and investments. The Group does no use derivative financial instruments to hedge its debt obligations.

Cash and cash equivalents and investments at December 31, 2008 amounted to US$12 million. Management believes that the interest rate risk exposure in 2009 will not be changed materially.

Interest rate risk	**Loss in US$ thousands (Income statement and equity)**
Decrease of 0.5%	60
Decrease of 1%	120
Decrease of 1.5%	180
Decrease of 2%	240

Fair values

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

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 30 - Commitments

A. Operating lease commitments

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

	As December 31 2008 US$ thousands	As December 31 2007 US$ thousands
Payable within:		
1 year	**470**	718
2 to 5 years	**1,138**	2,055
	1,608	2,773

During the year ended December 31, 2008, US$732 thousand was recognized as an expense in the income statement in respect of operating leases (2007: US$558 thousand).

B. The Group, excluding Galatea Ltd., 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). Galatea Ltd. will have to pay 3% of its revenue. The total grants received, net of royalties paid to the Chief Scientist, excluding Galatea, was approximately $1.1 million up to December 31, 2008. As the technology related to these grants was not successful, it is unlikely that these royalties will be paid and no liability was recorded. The total grants received by Galatea Ltd. were approximately US$1.1 million up to December 31, 2008. No royalties were paid yet as no revenues incurred until December 31, 2008.

C. A subsidiary undertook to pay royalties from the sales of diamond polishing discs to three entities (one of which is a company controlled by a related party). The aggregate percentage of such royalties ranges between 5.5% and 9% of the net sales proceeds of the subsidiary from such discs (according to the annual net sales of such products). Such royalties (if any) shall be due over varying periods ending on December 31, 2009, December 31, 2011 and December 31, 2014.

As no net sales were realized as of December 31, 2008 no royalties have yet been paid.

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 said product. The agreement contains provisions for payment of royalties, including minimum royalties during the term of the agreement, and is subject to the successful completion of the product testing.

E. See Note 30C and 32 for contractual obligations to related parties.

Note 31 - Contingencies

The Company has submitted a claim for patent infringement, regarding laser markings, against OGI Systems Ltd. (OGI) and OGI Systems Europe BVBA in Belgium. OGI has submitted a counter-claim against the Company. The counter-claim aims primarily at having Sarin's patent in Belgium revoked. Based on legal advice, the directors do not expect the outcome of this counter-claim to have a material effect on the Group's financial position.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 32 - Related Parties

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 at December 31	
	2008	**2007**
	US$ thousands	**US$ thousands**
Remuneration of key management personnel (for share options, see below)	**936**	728

Remuneration of key management personnel

In addition to his base salary of $12,500 per month plus social benefits and a company vehicle, the Company's former CEO (who retired from the company in January 2009) is entitled to an annual bonus equal to 1% of the Group's annual profit before tax and 3% of the annual increase in the Group's profit (before tax). In October 2007, the Company's Board of Directors' Executive Committee approved conversion of the above US$ linked remuneration to a flat rate of NIS 56,250 per month and from January 2008 the amount was raised to NIS 61,000 per month.

In December 2003, the Company granted to the CEO 5,500,000 options at an exercise price of US cents 2.0. As of December 31, 2008, all of the said options are vested, of which 2,960,000 have not been exercised. In October 2006, the Company granted to the CEO 240,000 options at an exercise price of US cents 28.2. As of December 31, 2008, 120,000 of the said options are vested.

As mentioned above, the Company's former CEO retired in January 2009. According to his retirement arrangement, the Company's former CEO shall continue to receive his salary, as well as related social benefits until June 15, 2009.

The Company has contracted with an interested party who serves as Chairman and executive director of the Board of Directors (hereinafter - "the Chairman"). On March 8, 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 and the reimbursement of various expenses in return for his services. On February 22, 2006, the Company's Board of Directors approved an increase in the salary to US$5,800 per month. In addition, the Chairman is entitled to an annual bonus equal to 0.25% of the Group's annual net profit, and an additional bonus based on the Company's stock price, up to amount of US$25,000. On April 24, 2006, the Company's General Meeting granted the Chairman an additional special bonus of US$40,000. On January 14, 2008, the Company's Board of Directors approved a 12% raise in the Chairman's monthly remuneration – in view of the continuing weakening of the US$ versus the NIS. Such raise was waived by the Chairman as of January 2009 – given the general market situation.

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 March 8, 2005 by the General Meeting of the Company's shareholders. In accordance with the said agreement, the director receives 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 November 1, 2005). On February 22, 2006, the Company's Board of Directors approved the executive director an annual bonus equal to 0.25% of the Group's annual net profit. On April 24, 2006, the Company's General Assembly granted the executive director an additional special bonus of US$30,000. A company which is under the control of the said director (who also serves as a director of Sarin Polishing Technologies Ltd), is entitled to royalties in the amount of 2% per year from certain sales of Sarin Polishing Technologies Ltd up to December 31, 2009. No royalties have yet been paid. See Note 30.

Notes to the Consolidated Financial Statements

As at December 31, 2008

Note 32 - Related Parties (cont'd)

Remuneration of key management personnel (cont'd)

On January 14, 2008 the Company's Board of Directors approved a 12% raise in the executive director's monthly remuneration – in view of the continuing weakening of the US$ versus the NIS. This director retired from his position as an executive director as of January 2009, and another interested party assumed his position, as of January 2009 as an executive director – under the same terms of engagement (however, this new executive director waived the 12% raise – so that his monthly fee shall be US$4,000).

An interested party who serves as a director of the Company was appointed as the new CEO of the Company as of February 22, 2009. According to his terms of appointment (which are still subject to the approval of the Company's Shareholders' Meeting), the new CEO shall receive US$8,500 per month and shall be issued 350,000 options of the Company, exercisable upon the payment of the Market Price (as such term is defined in the 2006 Plan) thereof.

On April 17, 2007, the Annual General Meeting of the Company approved the Board of Director's resolution that a total sum of up to US$350,000 be paid by the Company as directors' fees for 2007 (which payment includes amounts paid to certain directors who are deemed to have interest in the Company through certain body corporations). On April 28, 2008, the Annual General Meeting of the company approved the Board of Directors resolution that a total sum of up to US$450,000 be paid by the Company as directors' fees for 2008.

Name	Remuneration
Mr. Daniel Benjamin Glinert	Band 1
Mr. Hanoh Stark	Band 1
Mr. Avraham Eshed	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 2008 and 2007 was US$414 thousand and US$397 thousand, respectively.

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

Other related party transaction

	As at December 31	
	2008	2007
	US$ thousands	US$ thousands
Sale to related party	-	* 45

* Stated at fair value.

On February 1, 2009, the Company leased 68 square meters (732 square feet) of office space in the Israeli Diamond Exchange building, from a company controlled by an interested party. The lease is for a period of 12 months, with an option (at the Company's discretion) to extend the lease period by two consecutive periods of 12 months each. The monthly rent is US$ 2,700 (during each extended period the monthly rent shall be raised by 5% of the original monthly rent – i.e. US$ 2,835 and US$ 2,970 per month – respectively).

Notes to the Consolidated Financial Statements
As at December 31, 2008

Note 33 - Group Entities

The following subsidiaries have been included in the consolidated financial statements:

	Place of incorporation	Effective equity interest held by the Group as at December 31 2008 and 2007
		%
Sarin Color Technologies Ltd.	Israel	100%
Sarin Polishing Technologies Ltd.	Israel	100%
Sarin Technologies India Private Ltd.	India	100%
Sarin Hong Kong Ltd.	Hong Kong	100%
SUSNY LLC	New York State	100%
Galatea Ltd.	Israel	(1) 100%

(1) From May 2008

Shareholdings Statistics

As at 11 March 2009

Issued and fully paid-up	-	260,747,225
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	4	0.55	829	0.00
1,000 - 10,000	407	56.06	2,364,722	0.91
10,001 - 1,000,000	303	41.74	21,496,000	8.24
1,000,001 and above	12	1.65	236,885,674	90.85
	726	100.00	260,747,225	100.00

Shareholdings Held in Hands of Public

Based on information available to the Company as at 11 March 2009, approximately 44.4% 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 20 SHAREHOLDERS

No.	Name of Shareholder	No. of Shares	%
1	Sarin Research & Development Ltd	98,830,000	37.90
2	Interhightech (1982) Ltd	45,500,000	17.45
3	HSBC (Singapore) Nominees Pte Ltd	42,821,948	16.42
4	DBS Nominees Pte Ltd	22,587,573	8.66
5	Citibank Nominees Singapore Pte Ltd	7,857,000	3.01
6	DBSN Services Pte Ltd	4,760,286	1.83
7	Kim Eng Securities Pte. Ltd.	4,156,102	1.59
8	Royal Bank Of Canada (Asia) Ltd	3,730,000	1.43
9	Eyal Avraham Khayat	2,628,629	1.01
10	OCBC Securities Private Ltd	1,804,136	0.69
11	CIMB-GK Securities Pte. Ltd.	1,159,000	0.44
12	Merrill Lynch (S) Pte Ltd	1,051,000	0.40
13	Tan Boon Keng Kennedy	923,000	0.35
14	Chua Siok Lan	853,000	0.33
15	UOB Kay Hian Pte Ltd	765,000	0.29
16	DBS Vickers Securities (S) Pte Ltd	655,000	0.25
17	Ang Hao Yao	601,000	0.23
18	Loo Wai Hoong Mrs Ang Wai Hoong	471,000	0.18
19	Ong Sin Beng or Fong Amabelle Lu	469,000	0.18
20	Ng Lang Hiang	420,000	0.16
		242,042,674	92.80

Shareholdings Statistics

As at 11 March 2009

SUBSTANTIAL SHAREHOLDERS

Name	Direct Interest No. of Shares	%	Deemed Interest No. of Shares	%
Sarin Research & Development Ltd	98,830,000	37.90	-	-
Interhightech (1982) Ltd	45,500,000	17.45	-	-
Hanoh Stark [1]	-	-	98,830,000	37.90
Ehud Harel [2]	-	-	98,830,000	37.90
Daniel Benjamin Glinert [3]	-	-	46,150,000	17.70
Aharon Shapira [4]	-	-	45,500,000	17.45
Gilad Moran [5]	-	-	45,500,000	17.45
Uzi Levami [6]	-	-	45,500,000	17.45
Chartered Asset Management Pte. Ltd.[7]	-	-	25,628,000	9.83

1 Hanoh Stark is deemed interested in the shares 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.

2 Ehud Harel is deemed interested in the shares by virtue of his holdings (through Hargem Ltd.) of more than 20% of the issued share capital of Sarin Research and Development Ltd.

3 Daniel Benjamin Glinert is deemed interested in the shares 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 650,000 shares held on his behalf by UOB Kay Hian Pte. Ltd.

4 Aharon Shapira is deemed interested in the shares by virtue of his holdings (through A. Shapira 2000 Systems Ltd.) of more than 20% of the issued share capital of Interhightech (1982) Ltd.

5 Gilad Moran is deemed interested in the shares by virtue of his holdings (through Moran Hightech Ltd.) of more than 20% of the issued share capital of Interhightech (1982) Ltd.

6 Uzi Levami is deemed interested in the shares by virtue of his holdings (through U Lev-Ami Holdings, Ltd.) of more than 20% of the issued share capital of Interhightech (1982) Ltd.

7 Chartered Asset Management Pte. Ltd. notified the Company that it is deemed interested in the shares as an investment manager acting for various funds and clients.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of the Company will be held at 7 Atir Yeda Street, First Floor, Kfar Saba, Israel [See Explanatory Note (a)] on the 27th day of April 2009 at 10.00 a.m. (Israel time) to transact the following business :-

Ordinary Business

1. To receive and consider the audited accounts for the year ended 31 December 2008 and the reports of the Directors and Auditors thereon.

2. To ratify the appointment of Mr. Uzi Levami as a Director of the Company [see Explanatory Note (b)].

3. To approve Directors' fees of up to US$450,000 for the year ending 31 December 2009 (for the year ended on 31 December 2008: US$450,000).

4. 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

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

5.1 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% (unless paragraph (iii) below applies) of the issued shares in the capital of the Company;

(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 shares in the capital of the Company, and for the purpose of this resolution, the percentage of issued shares shall be based on the number of issued shares in the capital of the Company 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);

(iii) the 50% limit in paragraph (i) above may be increased to 100% for issues of shares pursuant to this resolution by way of renounceable rights issues where shareholders are given the opportunity to participate in the same on a pro-rata basis ("Renounceable Rights Issues"); and

(iv) 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 (d)]

Notice of Annual General Meeting

5.2 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 issued shares in the 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 (e)]

6. 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

Israel,
22 March 2009

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.

Notice of Annual General Meeting

Explanatory Notes:-

(a) The Company is currently coordinating a video/audio conference, so to enable shareholders who wish to take part in the Annual General Meeting from Singapore to do so. Further updates in this regard shall be posted on the SGXNET. The persons attending the said video/audio conference will be able to pose questions to the Company and to comment on the Company's reports. It should be noted, however, that only persons who shall actually attend the Annual General Meeting in Israel (whether in person or via proxy) may vote in the Annual General Meeting.

(b) The Board of Directors of the Company appointed Mr. Uzi Levami as an Executive Director of the Company on December 11, 2008, following Mr. Aharon Shapira's resignation from the Board of Directors, and in accordance with the provisions of Article 39 of the Company's Articles of Association. According to Article 37 (b) of the Company's Articles of Association: "In the event that any Directors are appointed by the Board of Directors, such appointment of Directors shall be subject to ratification by Shareholders Resolution at the first Annual General Meeting of the shareholders following the date upon which the Director was appointed by the Board of Directors."

Mr. Levami's CV may be found in the Company's Annual Report.

(c) 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.

(d) The shareholders' resolution set out in item 5.1 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 maximum number of shares which the Directors may issue under this resolution shall not exceed the quantum set out in this resolution.

The authority for 100% Renounceable Rights Issues is proposed pursuant to the SGX news release of 19 February 2009 which introduced further measures to accelerate and facilitate listed issuers' fund raising efforts.

(e) The shareholders' resolution set out in item 5.2 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.

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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 7 Atir Yeda Street, Kfar Saba, Israel on 27th April 2009 at 10:00 a.m. (Israel time) 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	Ratify the appointment of Mr Uzi Levami as director		
3	Approval of Directors' Fees		
4	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		
5.1	Authority to issue shares		
5.2	Authority to grant options and issue shares pursuant to the Sarin Technologies Ltd 2005 Share Option Plan		

Dated this ______________ day of ______________ 2009

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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+65 6250 5998

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