Sarine Technologies Ltd.
and its Subsidiaries

(Incorporated in Israel)
(Registration Number: 51-133220-7)

Condensed Consolidated Interim Financial Statements
For the six months ended 30 June 2023

Table of Contents

Sarine Technologies Ltd.
and its Subsidiaries

A. Condensed Consolidated and Company Statements of Financial Position as at:

	Group		Company	
	June 30	**December 31**	**June 30**	**December 31**
	2023	**2022**	**2023**	**2022**
	US$ thousands			
Assets				
Property, plant and equipment	12,009	10,431	1,817	1,395
Right-of-use assets	6,462	3,918	3,391	3,751
Intangible assets	8,406	2,051	35	70
Long-term trade receivables	1,135	1,006	764	653
Investment in subsidiaries	--	--	40,419	36,022
Long-term income tax receivable	500	500	--	--
Deferred tax assets	512	499	--	--
Total non-current assets	29,024	18,405	46,426	41,891
Inventories	10,899	6,859	7,516	4,388
Trade receivables	18,659	21,476	5,778	6,733
Other current assets	2,249	2,496	1,455	1,553
Short-term investments (bank deposits)	3,664	10,684	3,630	9,627
Cash and cash equivalents	21,959	25,307	14,004	17,216
Total current assets	57,430	66,822	32,383	39,517
Total assets	86,454	85,227	78,809	81,408
Equity				
Share capital*	--	--	--	--
Share premium and reserves	35,057	34,490	35,057	34,490
Translation reserve	(4,162)	(4,217)	(4,162)	(4,217)
Dormant shares, at cost	(4,846)	(4,829)	(4,846)	(4,829)
Retained earnings	39,116	41,652	39,116	41,652
Total equity	65,165	67,096	65,165	67,096
Liabilities				
Long-term lease liabilities	5,703	3,557	3,097	3,524
Financial instrument, see Note 10	2,087	--	--	--
Employee benefits	184	194	175	184
Total non-current liabilities	7,974	3,751	3,272	3,708
Trade payables	3,021	3,220	2,957	2,544
Other payables	7,139	8,220	6,506	7,139
Current lease liabilities	1,159	812	691	682
Current tax payable	1,676	1,769	--	--
Warranty provision	320	359	218	239
Total current liabilities	13,315	14,380	10,372	10,604
Total liabilities	21,289	18,131	13,644	14,312
Total equity and liabilities	86,454	85,227	78,809	81,408

* No par value

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B. Condensed Consolidated Interim Statements of Profit or Loss:

	Group Six months ended June 30,		
	2023	2022	change
	US$ thousands		%
Revenue	**23,731**	**31,172**	**(23.9)**
Cost of Sales	7,472	8,931	(16.3)
Gross profit	**16,259**	**22,241**	**(26.9)**
Research and development expenses	4,365	4,194	4.1
Sales and marketing expenses	6,587	6,257	5.3
General and administrative expenses	3,912	4,289	(8.8)
Profit from operations	**1,395**	**7,501**	**(81.4)**
Net finance income	422	73	478.1
Profit before income tax	**1,817**	**7,574**	**(76.0)**
Income tax expense	864	1,029	(16.0)
Profit for the period	**953**	**6,545**	**(85.4)**
Other comprehensive income (loss) Foreign currency translation differences from foreign operations	55	(747)	NM
Total comprehensive income for the period	**1,008**	**5,798**	**(82.6)**
Earnings per share			
Basic earnings per share (US cents)	0.27	1.86	(85.5)
Diluted earnings per share (US cents)	0.27	1.86	(85.5)

Sarine Technologies Ltd.
and its Subsidiaries

C. Condensed Consolidated and Company Statements of Changes in Equity for the period ended June 30:

Group and Company	Share capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
	US$ thousands					
Balance at January 1, 2022	--	34,014	(2,896)	43,368	(3,935)	70,551
Profit for the period ended June 30, 2022	--	--	--	6,545	--	6,545
Other comprehensive loss for the period ended June 30, 2022	--	--	(747)	--	--	(747)
Dormant shares, acquired at cost (577,600 shares)	--	--	--	--	(188)	(188)
Share-based payment expenses	--	123	--	--	--	123
Exercise of options	--	36	--	--	--	36
Dividend paid	--	--	--	(3,511)	--	(3,511)
Balance at June 30, 2022	--	34,173	(3,643)	46,402	(4,123)	72,809
Balance at January 1, 2023	--	34,490	(4,217)	41,652	(4,829)	67,096
Profit for the period ended June 30, 2023	--	--	--	953	--	953
Other comprehensive income for the period ended June 30, 2023	--	--	55	--	--	55
Dormant shares, acquired at cost (56,900 shares)	--	--	--	--	(17)	(17)
Share-based payment expenses	--	153	--	--	--	153
Capital infusion by minority shareholder in consolidated subsidiary	--	343	--	--	--	343
Exercise of options	--	71	--	--	--	71
Dividend paid	--	--	--	(3,489)	--	(3,489)
Balance at June 30, 2023	--	35,057	(4,162)	39,116	(4,846)	65,165

* No par value

Sarine Technologies Ltd.
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D. Condensed Consolidated Statements of Cash Flows

	Group	
	Six months ended June 30,	
	2023	2022
	US$ thousands	
Cash flows from operating activities		
Profit for the period	**953**	6,545
Adjustments for:		
Share-based payment expenses	**153**	123
Income tax expense	**864**	1,029
Depreciation of property, plant & equipment and right-of-use assets	**1,309**	1,190
Amortisation of intangible assets	**162**	96
Revaluation of lease liabilities from exchange rate differences	**(204)**	(611)
Other net finance expense	**(286)**	480
Changes in working capital		
Inventories	**(4,040)**	174
Trade receivables	**2,688**	(542)
Other current assets	**247**	(152)
Trade payables	**(199)**	474
Other liabilities	**(1,104)**	(416)
Employee benefits	**(10)**	(30)
Income tax paid	**(970)**	(688)
Net cash (used in) from operating activities	**(437)**	7,672
Cash flows from (used in) from investing activities		
Acquisition of property, plant and equipment	**(932)**	(420)
Acquisition of consolidated subsidiary, see Note 10	**(5,741)**	--
Proceeds from realisation of property, plant and equipment	**6**	45
Short-terms investments, net	**7,020**	(1,687)
Interest received	**475**	64
Net cash from (used in) investing activities	**828**	(1,998)
Cash flows used in financing activities		
Proceeds from exercise of share options	**71**	36
Purchase of Company's shares by the Company	**(17)**	(188)
Dividends paid	**(3,489)**	(3,511)
Capital infusion by minority shareholder in consolidated subsidiary	**343**	--
Payment of lease liabilities	**(458)**	(439)
Interest paid	**(75)**	(63)
Net cash used in financing activities	**(3,625)**	(4,165)
Net (decrease) increase in cash and cash equivalents	**(3,234)**	1,509
Cash and cash equivalents at beginning of year	**25,307**	27,358
Effect of exchange rate fluctuations on cash and cash equivalents	**(114)**	(481)
Cash and cash equivalents at end of period	**21,959**	28,386

E. Notes to the Condensed Interim Financial Statements as at June 30, 2023

Note 1 – General

Sarine Technologies Ltd. (hereinafter "Sarine" or the "Company") is a company domiciled in Israel. The address of the Company's registered office is 4 Haharash Street, Hod Hasharon 4524075, Israel. The condensed interim financial statements of the Company, as at, June 30, 2023 and for the six months ended June 30, 2023, comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Company was incorporated on November 8, 1988. On April 8, 2005, the Company was admitted to the Main Board list of the Singapore Exchange Securities Trading Ltd. and on July 5, 2021, the Company dual listed its shares for trading on the Tel Aviv Stock Exchange.

Note 2 - Basis of Preparation

A. Statement of compliance

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The condensed interim financial statements for the six months ended June 30, 2023 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed interim financial statements were authorised for issue by the Company's Board of Directors on August 13, 2023.

B. Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except for the following material items in the condensed interim statement of financial position:

- liabilities measured at fair value through profit or loss;
- assets and liabilities relating to employee benefits;
- deferred tax assets and liabilities; and
- provisions.

C. Functional and presentation currency

These condensed interim financial statements are presented in United States (US) dollars, or US$, which is the Company's functional currency. The US dollar is the currency that represents the principal economic environment in which the Company and most Group entities operate. All financial information presented in US dollars has been rounded to the nearest thousand, except where otherwise indicated.

D. Use of estimates and judgments

The preparation of condensed interim financial statements in conformity with IFRS 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. Certain accounting estimates used in the preparation of the Group's condensed interim financial statements may require management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management prepares these estimates on the basis of past experience, known facts, external circumstances, and reasonable assumptions. Actual results may differ from these estimates.

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

Changes in accounting policies

The accounting policies applied in these condensed interim financial statements for the six months ended June 30, 2023 are the same as those applied by the Company in audited financial statements for the year ended December 31, 2022.

Note 3 - Operating Segments

The Group is a worldwide leader in the development, manufacturing, marketing and sale of precision technology products for the planning, processing, evaluation and measurement of diamonds and gems. India is the principal market for these products. In accordance with IFRS 8, the Group determines and presents operating segments based on the information that is provided internally to the CEO, who is the Group's chief operating decision maker. The measurement of operating segment results is generally consistent with the presentation of the Group's condensed interim statements of comprehensive income. The Group operates in only one operating segment. Presented below are revenues broken out by geographic distribution.

	Group			
	Six months ended June 30,			
	US$ thousands			
Region	2023	2022	$ change	%
India	13,060	15,947	(2,887)	(18.1)
Africa	3,969	6,986	(3,017)	(43.2)
Europe	1,728	2,100	(372)	(17.7)
USA	1,349	534	815	152.6
Israel	1,014	752	262	34.8
Other*	2,611	4,853	(2,242)	(46.2)
Total	23,731	31,172	(7,441)	(23.9)

* Primarily Asia, excluding India

Note 4 - Revenue

	Group	
	Six months ended June 30,	
	US$ thousands	
Composition	2023	2022
Sale of products[1]	19,019	26,734
Maintenance & services[2]	4,712	4,438
Total	23,731	31,172

[1] Includes Galaxy® family recurring revenues associated with customer-owned machines.
[2.] Includes annual maintenance contracts, service centre and gemmological lab revenues

Note 5 – Income Taxes

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim statements of profit and loss and other comprehensive income are:

	Group	
	Six months ended June 30,	
	US$ thousands	
	2023	2022
Current tax expense	866	1,034
Taxes in respect of previous years	8	(13)
Deferred tax expense	(10)	8
Total income tax expense	864	1,029

Note 6 – Share Capital – The Company

	June 30, 2023	December 31, 2022	June 30, 2022
	No. of shares	No. of shares	No. of shares
Authorised:			
Ordinary shares of no par value	2,000,000,000	2,000,000,000	2,000,000,000
Issued and fully paid:			
Ordinary shares of no par value	356,812,335	356,447,895	355,677,875
Dormant shares (out of the issued and fully paid share capital)**:**			
Ordinary shares of no par value	(7,566,600)	(7,509,700)	(4,967,800)
Total number of issued shares (excluding dormant shares)	349,245,735	348,938,195	350,710,075

For the six months ended June 30, 2023, 364,440 share options were exercised into ordinary shares. For the six months ended June 30, 2023, the Company purchased 56,900 of its ordinary shares at an aggregate cost of US$ 17,000. There was no sale, transfer, disposal, cancellation and/or use of treasury shares by the Company.

As at June 30, 2023, the total number of issued shares excluding dormant shares was 349,245,735 (as at December 31, 2022- 348,938,195 and June 30, 2022 – 350,710,075). As at June 30, 2023, the total number of dormant shares was 7,566,600 (as at December 31, 2022- 7,509,700 and June 30, 2022 – 4,967,800). In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares (treasury shares in Singaporean terms) as long as the Company holds them, and, as such, they do not bear any rights until they are transferred to a third party. The issued and fully paid shares as at June 30, 2023, December 31, 2022 and June 30, 2022 included 7,566,600, 7,509,700 and 4,967,800 dormant shares, respectively.

For the six months ended June 30, 2023, the Company paid a final dividend in respect of FY2022, in the amount of US$ 3.5 million amounting to US cents 1.0 per share. See also Note 11 – Subsequent Events.

Note 7 - Share-Based Payments

Details of changes in share options:

	Average exercise price in US$ per share	**Options**
At January 1, 2023	0.572	15,529,930
Granted	0.334	4,480,000
Cancelled	1.323	(2,224,278)
Exercised	0.195	(364,440)
At June 30,2023	0.418	17,421,212

During the six months ended June 30, 2023, the Company granted 4,480,000 options to employees and directors under the Company's 2015 Option Plan, with vesting conditions of one to three years and a contractual life of six years. The options vest subject to service-based conditions and performance-based conditions, relating to sales targets.

The Company measured the fair value of the share options granted using a lattice-based valuation model. The following assumptions under this method were used for the share options granted during the six months ended June 30, 2023: weighted average expected volatility of: 47.00%; weighted average risk-free interest rates (in US dollar terms) of 2.85%; dividend yield of 6.26%. The weighted average fair value of the share options granted during six months ended June 30, 2023 using the model was US$ 0.090 per share option.

Note 8 – Earnings Per Share

Basic earnings per share

The calculation of basic earnings per share for the six months ended June 30, 2023 was based on the profit attributable to ordinary shareholders of US$ 953,000 (six months ended June 30, 2022 -- US$ 6,545,000) and a weighted average number of ordinary shares outstanding of 348,966,671 (six months ended June 30, 2022 – 351,043,672, calculated as follows:

	Six months ended June 30,	
	2023	2022
Basic earnings per share (US cents)	0.27	1.86
Issued ordinary shares at beginning of period	348,938,195	351,090,280
Effect of share options exercised	84,414	60,354
Effect of dormant shares purchased	(55,938)	(106,962)
Weighted average number of ordinary shares during period	348,966,671	351,043,672

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended June 30, 2023 was based on the profit attributable to ordinary shareholders of US$ 953,000 (six months ended June 30, 2022 -- US$ 6,545,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 349,076,747 (six months ended June 30, 2022 -351,111,879), calculated as follows:

	Six months ended June 30,	
	2023	2022
Diluted earnings per share (US cents)	0.27	1.86
Weighted average number of ordinary shares (basic)	348,966,671	351,043,672
Effect of share options on issue	110,076	68,207
Weighted average number of ordinary shares (diluted) during period	349,076,747	351,111,879

The average market value of the Company's ordinary 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 9 – Leases

	Group		Company	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
	US$ thousands			
Right-of-use assets	6,462	3,918	3,391	3,751
Current lease liabilities	1,159	812	691	682
Long-term lease liabilities	5,703	3,557	3,097	3,524
Total lease liabilities	6,862	4,369	3,788	4,206

Note 9 – Leases (cont'd)

Maturity analysis of the Group's and Company's lease liabilities as at June 30, 2023.

	Group	Company
	US$ thousands	
Less than one year	1,159	691
One to five years	4,102	2615
More than five years	1,601	482
Total lease liabilities	6,862	3,788

The Group has lease agreements with respect to office facilities mainly in Israel, USA and India. The Group also has lease agreements in respect to vehicles in Israel. In measurement of the lease liabilities, the Group discounted lease payments using the nominal incremental borrowing rate as at the lease inception. In May 2023, with the closing of the GCAL acquisition, the Group assumed the obligations of the New York leases (see also Note 10, Business acquisition).

Note 10 – Business acquisition

Business combination during the current period

In May 2023, the Company's indirect wholly-owned subsidiary, Sarine North America, Inc. (the "Sarine NA"), closed an asset purchase agreement to acquire the business and certain assets of Gem Certification & Assurance Lab, Inc., a New York Corporation ("GCAL" or the "Seller"), comprising the gemological laboratory business of GCAL, through GCAL USA LLC, a newly created Delaware, USA entity ("GCAL USA") which is 70% owned by Sarine NA and 30% owned by GCAL. Under the Agreement the total cash paid by Sarine NA was US$ 5.65 million for a 70% interest in the business.

By implementing the Group's unique technologies and products, the Group will be able to concurrently develop its services globally while significantly expanding its services to US retailers and wholesalers. The acquisition provides the Group with a well-respected channel into the US market and to accelerate its penetration thereof.

The Agreement contains two put/call arrangements. The first would be appliable in the event of a change in control of Sarine in the event the proposed acquirer seeks control over 100% of the equity interests in GCAL USA or if Seller seeks to dispose of its interest in GCAL USA to the proposed acquirer. The second put/call arrangement is applicable following the third anniversary of the Completion (May 2026) and enables Sarine NA to acquire all of Seller's equity in GCAL USA or Seller to dispose of its interest in GCAL USA to Sarine NA (the "Put/Call"). The purchase price for the Put/Call, if exercised by Sarine, is the greater of (a) Seller's equity interest in GCAL USA multiplied by US$ 8.5 million and (b) a multiple of eight times the trailing eight quarters' average annual net income of GCAL USA (the "Call Option Exercise Price"). If exercised by Seller, the purchase price is six times the multiple of the trailing eight quarters' average annual net income of GCAL USA (the "Put Option Exercise Price").

The Group applied the anticipated-acquisition method and accounts for 100% of GCAL USA from day one in its financial statements.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration (US$ thousands)

Cash paid	5,650
Fair value of Put Option Exercise Price*	2,087
Total purchase consideration	7,737

* Valuation of options granted as part of the asset purchase agreement.

Note 10 – Business acquisition (cont'd)

The assets recognised as a result of the acquisition are as follows (US$ thousands):

Property, plant and equipment	1,220
Customers relations	1,997
Brand name	724
Goodwill	3,796
Total purchase consideration	7,737

Measurement of fair values

(i) Presented hereunder is information regarding the techniques the Group used to measure the fair value of the assets and liabilities recognized as a result of the business combination:

a. Fixed assets

The fair value of fixed assets is based on market values. The market value of fixed assets is the estimated amount for which a fixed asset could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties each acted knowledgeably. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items, when available, and on replacement costs when such quotes are unavailable.

b. Intangible assets

The fair value of Brand name is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned. The fair value of customer relationships is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

(ii) The following fair values have been determined on a provisional basis:

- The fair value of intangible assets (the acquiree's brand name and customer relationships) has been determined provisionally pending completion of an independent valuation.
- The fair value of the put option has been determined provisionally pending completion of an independent valuation.

If new information is obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, the Group will retrospectively adjust the relevant amounts that were recognized at the time of the acquisition.

Goodwill

The goodwill is attributable mainly to the skills and technical talent of the acquiree's work force, and the synergies expected to be achieved from integrating the company into the Group's existing regular business.

Acquisition-related costs

The Group incurred acquisition-related costs of approximately US$ 0.3 million related to legal fees and due diligence costs. These costs have been included in general and administrative expenses in the statement of income.

Note 11 – Subsequent Events

On August 13, 2023, the Board of Directors of the Company declared an interim dividend of US cents 0.25 per ordinary share for the half-year ended June 30, 2023. The Company expects to pay an interim dividend of US$ 0.9 million on September 14, 2023, with record date on August 28, 2023.

F. Other Information Required by Listing Rule Appendix 7.2

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

These figures have not been audited or reviewed. The figures presented were prepared in accordance with International Financial Reporting Standards (IFRS).

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

Not applicable.

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

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended December 31, 2022 have been applied in the preparation for the financial statements for period ended June 30, 2023.

4. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Not applicable.

5. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Net asset value (US$ thousands)	65,165	67,096	65,165	67,096
Net asset value per ordinary share:				
US cents	18.66	19.23	18.66	19.23
Singapore cents*	25.30	26.07	25.30	26.07

As at June 30, 2023, net asset value per share is calculated based on the number of ordinary shares in issue at June 30, 2023 of 349,245,735 (not including 7,566,600 dormant ordinary shares at June 30, 2023). At December 31, 2022, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2022 of 348,938,195 (not including 7,509,700 dormant ordinary shares at December 31, 2022).

* Convenience translation based on exchange rate of US$ 1=S$ 1.3557 at June 30, 2023.

6. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business:-
(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Overview

The negative macro-economic environment, driven by inflation and dramatically increased interest rates, took its toll on consumer confidence in the U.S., the key global market for diamond jewellery. The expected resurgence in consumer spending in China, following the lifting of the zero-Covid policy late last year, did not yet fully manifest itself (though luxury brands have reported a recovery in their mainland China sales versus a very low comparable), leaving consumer demand in the second most important market for diamonds still weaker than hoped for. This lack of strong consumer demand has impaired business conditions in the entire diamond jewellery value chain, as already seen late last year. Consequently, the inventory of polished diamonds has risen significantly over the past 12 months, and the flow of new rough diamonds into the pipeline has decreased, as demonstrated by the five DeBeers sights in H1 2023 – down some 23% in value (more in carat quantity) from the corresponding period of 2022. In addition, in H1 2023 the Group experienced initial real-world use "teething" issues with our newly launched Meteorite™ Plus, which, we believe, have since been rectified. The drop in sales of Meteorite™ Plus systems into the smaller stones segments, also reduced sales of our legacy planning systems into this market segment.

In May 2023 the Group closed its acquisition of the business and certain assets of Gem Certification & Assurance Lab, Inc. (GCAL), pursuant to which the Group acquired a 70% stake in the gemmological laboratory business of GCAL, through GCAL USA LLC.

The Group reported in H1 2023, revenues of US$ 23.7 million, profit from operations of US$ 1.4 million, and net profit of US$ 1.0 million, as compared revenues of US$ 31.2 million, profit from operations of US$ 7.5 million, and net profit of US$ 6.5 million in H1 2022.

Overall recurring revenues for H1 2023 (including Galaxy® inclusion scanning, Quazer® services, grading and polished diamond related services, annual maintenance contracts, etc.) were over 60% of our overall revenue (over 50% for H1 2022), a decrease of approximately 9%. Overall rough and polished diamond wholesale and retail related ("Trade") revenues, mostly from grading digital tenders, the Sarine Profile™, the Sarine Diamond Journey™, our AI-derived grading and other technologies applied to the flow and trade of rough and polished diamonds were approximately 17% of our overall revenue for H1 2023 compared to 11% in H1 2022, an increase of approximately 12%.

The decline in profitability in H1 2023 was mainly due to lower sales, a slightly lower gross profit margin, associated with the lower sales and product mix. The Group delivered 20 Galaxy®-family inclusion mapping systems in H1 2023, a majority of which were for smaller stones. As of June 30, 2023, our installed base was 823 systems.

Balance Sheet and Cash Flow Highlights

As at June 30, 2023, cash, cash equivalents, short-term investments (bank deposits) ("Cash Balances") decreased to US$ 25.6 million as compared to US$ 36.0 million as of December 31, 2022. The decrease in Cash Balances was primarily due to US$5.7 million GCAL acquisition, the payment of a US$ 3.5 million final FY2022 dividend in May 2023, and an increase in inventory to $10.9 million (US$ 6.9 million as at December 31, 2022) due to stocking of long lead items and planned sales of trade systems in H2 2023), and decreased other payables, offset by a decline in trade receivables to US$ 19.8 million as at June 30, 2023 (US$22.5 million as at December 31, 2022) and the Group's H1 2023 net profit of US$ 1.0 million. This also resulted in negative operating cash flow of US$0.4 million.

Revenues

Revenues for H1 2023 of US$ 23.7 million, decreased by 24%, as compared to revenues of US$ 31.2 million reported in H1 2022. The decrease in revenues, across most geographies, was due to an approximate 40% decline in capital equipment sales and an approximate 9% decrease in recurring revenues. The decline in capital equipment sales, mainly for smaller sized stones, resulted from impaired business conditions in the entire diamond jewellery value chain, as well as to the teething issues, especially in Q1 2023, relating to the Meteorite™Plus. The decrease in recurring revenues was mainly due to decreased Galaxy related scanning, offset somewhat be increased trade related revenues, mainly from the GCAL acquisition.

Cost of sales and gross profit

Cost of sales for H1 2023 of US$ 7.5 million, decreased by 16% (on a decrease in revenues of 24%), as compared to US$ 8.9 million in H1 2022, with a gross profit margin of 69% in H1 2023 compared to 71% in H1 2022. The decrease in cost of sales in H1 2022 was primarily due to decreased capital equipment sales. The decrease in gross profit and the corresponding decrease in gross profit margin were primarily due to decreased overall sales and product mix.

Research and development expenses

Research and development expenses for H1 2023 of US$ 4.4 million increased by 4% as compared to US$ 4.2 million in H1 2022. The increase in research and development expenses, as planned, was primarily due to higher employee costs.

Sales and marketing expenses

Sales and marketing expenses for H1 2023 of $6.6 million increased by 5% as compared to US$ 6.3 million in H1 2022. The increase in sales and marketing expenses was due primarily to increased direct sales expenses mainly in India and the US (from the GCAL acquisition from May 2023), offset somewhat by decreased sales commissions on lower revenues outside of India.

General and administrative expenses

General and administrative expenses for H1 2023 of US$ 3.9 million, decreased by 9%, as compared to US$ 4.3 million in H1 2022. The decrease in general and administrative expenses was primarily due to decreased incentive based compensation accruals as well as decreased third-party legal and professional fees (despite US$ 0.3 million in expenses associated with the GCAL transaction)

Profit from operations

The Group reported a decline in profit from operations of US$ 1.4 million in H1 2023, as compared to US$ 7.5 million in H1 2022. The decrease in profit from operations was mainly due to the lower gross profit in H1 2023 resulting from lower revenues, as detailed above.

Net finance income

Net finance income for H1 2023 was US$ 0.4 million as compared US$ 0.1 million in H1 2022. The increase in net finance income was due to higher interest income during H1 2023 as compared to H1 2022, due to increased interest rates on bank deposits.

Income tax expense

The Group recorded an income tax expense of US$ 0.9 million for H1 2023 as compared to income tax expense of US$ 1.0 million in H1 2022. The decrease in income tax expense was primarily due to decreased profitability in H1 2023, affected by the profitability being realised in various entities of the Group, each subject to different jurisdictions, applicable incentives, and income tax loss carryforwards.

Profit for the period

The Group reported a decline in net profit to US$ 1.0 million in H1 2023, as compared to US$ 6.5 million in H1 2022. The decrease in net profit was mainly due to lower profit from operations in H1 2023, as detailed above.

7. Where a forecast, or a prospect statement, has been previously disclosed to shareholders any variance between it and the actual results.

Not applicable.

8. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

We expect the following industry trends to continue influencing our business:

a. Macroeconomic headwinds prevail. Inflation remains higher than normal in many western economies, in general, and, particularly, in the key U.S. market, though it has cooled substantially from the summer of 2022's peaks. The U.S. Fed has raised interest rates repeatedly, to levels not seen for over two decades, but has now tempered its aggressive stance, as expressed in 2022 and early 2023. The consensus expectation is that a recession, if any, will occur only in 2024 and will most likely not be prolonged nor deep. There is even a growing chorus speaking of the Fed succeeding to realise a "soft landing". Consumer sentiment in the U.S. market is still subdued, especially as relating to discretionary spending. The expected rebound in consumer spending in China, following its abandonment of the Zero Covid policy, petered out before it manifested itself. Consumer spending in China, the diamond industry's second most significant market, remains limited.

b. The government of Israel is promoting a highly controversial judicial reform. Broad protests throughout Israel have occurred weekly, for over half a year. International rating agencies have warned that such legislation may encumber the country's economic resilience (e.g., by impairing foreign investment, by precipitating a "brain drain", etc.) and consequently dictate a reduction in its credit rating. While we still do not see any negative impact on the Group (as, for instance, our balance sheet is debt free and we note the New Israel Shekel (NIS) has, in fact, weakened to a three year low against the US$, and many of our expenses are in NIS while as our revenues are in US$), we cannot ascertain what, if any, impact this legislation will have on our business longer-term.

c. In the upstream, it appears that the Ukraine-related sanctions on the major Russian producer, Alrosa, continue to have minimal effect on the provision of its rough diamonds into the value chain, but actual data are not, for obvious reasons, available. The U.S., the E.U. and their G-7 partners announced in June their intent to ramp up the sanctions on Russian-sourced diamonds, aiming to cancel the exemption from the sanctions associated with their having undergone a "substantial transformation" (i.e., polishing) in a third party country. They have announced their intent to explore the use of traceability technology for diamonds, as the means by which to preclude the importation of any Russian sourced gems into their domestic consumer markets.

d. Our revenues from digital tender services remain strong, with the obvious exception of Alrosa. The ongoing utilisation of our digital tenders opens the door for additional collaboration, e.g., on our Sarine Diamond Journey™ provenance solution.

e. Revenue from our Galaxy® family scans decreased by approximately 15% in H1 2023, as the quantities of rough diamonds entering the pipeline decreased significantly. DeBeers revenues decreased during the first six months of 2023 by 23%, as all their sights were considerably reduced (the July sight was 38% less than the corresponding sight in 2022). Rough prices have declined in most categories (with the exception of some smaller stones categories). We expect that the ongoing macroeconomic conditions, as noted in paragraph [a] above, especially as pertaining to the U.S. and Chinese markets, coupled with the ongoing expansion of the market for lab-grown diamonds (LGD), will, in the near term, continue to weigh on the volumes of natural rough diamonds entering the pipeline.

f. We are seeing continued adoption of our Sarine Diamond Journey™ provenance and traceability solution by leading retailers, including in new markets (e.g. China). The marketing video portraying the Sarine Diamond Journey™ has been translated into six languages and has been viewed by over a 1.2 million viewers, including in retail stores. We have a dedicated website and a dedicated Tik Tok channel with over 120,000 followers. The Sarine Diamond Journey™ remains the only viable scalable solution for end-to-end diamond provenance based on actual data, as compared to declaratory paradigms with or without sporadic audits. As environmental, social and governance (ESG) issues are increasingly core concerns with consumers (and investors), retailers are increasingly seeking realistic solutions. Accordingly, additional retailers, including luxury brands, continue to evaluate and execute pilot programmes to evaluate the adoption of our solution.

g. Our Sarine AutoScan™ II, a much refined robotic system for the even higher speed scanning of rough stones, provides the capability to economically document the extraction of rough diamonds at their mined source, for their subsequent traceability by the Sarine Diamond Journey™. The system is currently in final testing, with initial units scheduled for installation at pilot clients in Q4 2023.

h. e-Grading™ continues its broader roll-out to midstream customers, both for natural and lab-grown diamonds. In May, we concluded our acquisition of the New-York based GCAL lab. We are now offering both natural and LGD diamond suppliers GCAL-branded grading reports empowered by our AI-derived grading. We offer various business models, specifically tailored to the differing needs of natural or LGD suppliers, aimed at accelerating our e-Grading™ offering's market penetration. Based on customer feedback, we expect initial commercial adoption in H2 2023.

i. The market for LGD continues to expand, primarily in the U.S., though not as rapidly as in 2022. Concurrently, their production technology continues to improve, thus reducing their production cost and increasing their quality. The retail pricing of LGD has also decreased somewhat, but not to the same degree, thus enhancing LGD retailers' margins. A definite trend of opting for significantly larger LGD engagement stones, while adhering to a pre-conceived budget, has been observed. We expect continued disruption of the value chain in the near term. However, it is forecast that over the next 2-3 years (maybe even sooner) as retail prices reduce, a new equilibrium between natural and LGD stones will be established. This should create a sustainable parallel demand for natural stones for high-worth individuals, luxury brands and a significant portion of the overall bridal jewellery market, possibly at prices somewhat reduced from historic highs. As yet, LGD adoption in the APAC market remains limited and is thus a significant unknown, which could further expand the overall LGD segment. The market acceptance of LGD jewellery has also created, as we have in the past forecast, new opportunities for the Group. Our midstream inclusion-scanning and planning technologies bring added value to LGD manufacturing on scales similar to those realised for natural stones, even though we suspect piracy may ultimately impair our benefits from this segment. More importantly, our GCAL-branded AI-powered on-site e-Grading™ can offer LGD suppliers substantial indirect and direct cost benefits, very much in line with the lower value of the LGDs produced, at levels not attainable by conventional labs. We believe we will see initial commercial adoption in H2 2023.

We continue to focus on the following objectives:

- Ongoing incremental improvements of our Advisor® 8.0 software for rough diamond planning;
- Adaptation of our technologies to LGD price points;
- Further refinement of our e-Grading™ AI-based technology;
- Commercial rollout of our e-Grading™ technology enabled GCAL-branded diamond reports to the midstream and downstream natural and LGD market segments.

9. Dividend

(a) Current Financial Period Reported
Any dividend declared/recommended for the current financial period reported on?

The Board of Directors has declared an interim dividend of US cents 0.25 per ordinary share for the half-year ended June 30, 2023, just over the stated dividend policy of 80% of net profit of the Group.

(b) Corresponding Period of the Immediately Preceding Financial Year
Any dividend declared for the corresponding period of the immediately preceding financial year?

On August 8, 2022, the Board of Directors declared an interim dividend of US cents 1.5 per ordinary share for the half-year ended June 30, 2022, constituting a US cents 1.0 dividend, as per the stated dividend policy, and an additional special interim dividend of US cents 0.5.

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

	Amount before tax	Tax rate applicable to shareholders
	US$ thousands	Percent
2023	873	20%/0%[1] / 10%[2,3]
2022	5,261	20%/0%[1] / 10%[2,3]

[1] The tax rate will be 20% (20% in 2022) for individual Israeli shareholders and 0% (0% in 2022) for Israeli corporate shareholders.
[2] The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2022.
[3] Payments to shareholders of dividends distributed by the Company will be subject to a tax deduction at source at the rate of 20%, in compliance with Israeli tax directives. Tax amounts deducted from dividend payments will be deposited with a trustee. A shareholder claiming eligibility for preferential tax treatment on dividend payments pursuant to Israeli tax laws or international tax treaties may apply to the trustee within 30 days of the distribution date providing all necessary details and documents, for reimbursement of excess deduction, subject to verification of such eligibility. Details regarding the application procedure shall be provided by the Company in the formal dividend announcement posted on the SGX.

(d) Date Payable

	Amount
	US$ thousands
14 September, 2023	873
2 September, 2022	5,261

(e) Record Date

5:00 PM on:

	Amount
	US$ thousands
28 August, 2023	873
19 August, 2022	5,261

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

Not applicable.

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

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

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

The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited financial results of the Group for the period ended June 30, 2023, to be false or misleading, in any material aspect.

13. Confirmation pursuant to Rule 720 (1) of the Listing Manual.

The Company confirms that it has procured undertakings from all its Directors and Executive Officers in the format set out in Appendix 7.7 under Rule 720 (1) of the Listing Manual.

On behalf of the Directors

Daniel Benjamin Glinert
Executive Chairman

13 August 2023