

Sarine Technologies Ltd. and its Subsidiaries

(Incorporated in Israel)

PART 1 INFORMATION REQUIRED FOR ANNOUNCEMENT OF QUARTERLY (Q1, Q2 & Q3), FULL YEAR RESULTS

1(a) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated Statements of Comprehensive Income (loss) for the (US\$'000):

	<u>Group</u> <u>Quarter ended</u> <u>June 30,</u>			<u>Group</u> <u>Six months ended</u> <u>June 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u> <u>%</u>	<u>2018</u>	<u>2017</u>	<u>Change</u> <u>%</u>
Revenue	17,959	18,151	(1.1)	34,620	34,422	0.6
Cost of sales	5,775	5,730	0.8	11,070	10,949	1.1
Gross profit	12,184	12,421	(1.9)	23,550	23,473	0.3
Research and development expenses	2,454	3,057	(19.7)	5,122	6,075	(15.7)
Sales and marketing expenses	3,556	3,741	(4.9)	7,011	7,233	(3.1)
General and administrative expenses	1,500	1,466	2.3	3,179	2,840	11.9
Profit from operations	4,674	4,157	12.4	8,238	7,325	12.5
Net finance income	87	72	20.8	111	53	109.4
Profit before income tax	4,761	4,229	12.6	8,349	7,378	13.2
Income tax expense	629	999	(37.0)	1,109	1,697	(34.6)
Profit for the period	4,132	3,230	27.9	7,240	5,681	27.4
Foreign currency translation differences from foreign operations	(499)	13	NM	(665)	411	NM
Total comprehensive income for the period	3,633	3,243	12.0	6,575	6,092	7.9

Notes to consolidated statements of comprehensive income (loss) (US\$'000)

Profit before income tax is stated after charging the following:

	<u>Group</u> <u>Quarter ended</u> <u>June 30,</u>			<u>Group</u> <u>Six months ended</u> <u>June 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>Change</u> <u>%</u>	<u>2018</u>	<u>2017</u>	<u>Change</u> <u>%</u>
Allowance for doubtful trade receivables	2	16	(87.5)	9	20	(55.0)
Depreciation and amortization	1,050	968	8.5	1,959	1,916	2.2
Interest income, net	83	56	48.2	165	128	28.9
Exchange rate differences	4	16	(75.0)	(54)	(75)	(28.0)
Warranty provision	8	(17)	NM	10	(23)	NM
NM- Not meaningful						

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

Statement of Financial Position as at (US\$'000):

	<u>Group</u>		<u>Company</u>	
	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Assets				
Property, plant and equipment	15,088	15,646	1,586	1,961
Intangible assets	5,796	6,648	377	411
Investment in equity accounted investee and subsidiaries	--	--	46,427	47,200
Deferred tax assets	1,498	1,595	400	400
Total non-current assets	<u>22,382</u>	<u>23,889</u>	<u>48,790</u>	<u>49,972</u>
Inventories	6,810	7,200	4,609	4,285
Trade receivables	20,162	17,269	4,811	2,566
Other receivables	2,501	2,888	1,394	1,507
Short-term investments (bank deposits)	14,790	12,381	10,364	9,165
Cash and cash equivalents	17,265	16,736	9,046	8,792
Total current assets	<u>61,528</u>	<u>56,474</u>	<u>30,224</u>	<u>26,315</u>
Total assets	<u>83,910</u>	<u>80,363</u>	<u>79,014</u>	<u>76,287</u>
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(3,483)	(3,055)	(3,483)	(3,055)
Share premium, reserves and retained earnings	75,781	73,773	75,781	73,773
Total equity	<u>72,298</u>	<u>70,718</u>	<u>72,298</u>	<u>70,718</u>
Liabilities				
Employee benefits	197	208	187	197
Total non-current liabilities	<u>197</u>	<u>208</u>	<u>187</u>	<u>197</u>
Trade payables	3,515	1,750	2,374	1,167
Other payables	7,256	6,673	3,934	3,987
Current tax payable	340	720	--	--
Warranty provision	304	294	221	218
Total current liabilities	<u>11,415</u>	<u>9,437</u>	<u>6,529</u>	<u>5,372</u>
Total liabilities	<u>11,612</u>	<u>9,645</u>	<u>6,716</u>	<u>5,569</u>
Total equity and liabilities	<u>83,910</u>	<u>80,363</u>	<u>79,014</u>	<u>76,287</u>

* No par value

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

Zero borrowings from banks as at June 30, 2018 and December 31, 2017.

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

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

	Group		Group	
	Quarter ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Cash flows from operating activities				
Profit for the period	4,132	3,230	7,240	5,681
Adjustments for:				
Share-based payment expenses	333	164	621	587
Income tax expense	629	999	1,109	1,697
Depreciation of property, plant and equipment	624	573	1,107	1,127
Amortisation of intangible assets	426	395	852	789
Net finance income	(87)	(72)	(111)	(53)
Changes in working capital				
Inventories	(374)	897	527	857
Trade receivables	(2,912)	(1,908)	(2,893)	(640)
Other receivables	334	923	133	959
Trade payables	1,344	(911)	1,765	(1,248)
Other liabilities	(884)	1,387	424	923
Employee benefits	(8)	6	(11)	14
Income tax paid, net	(543)	(171)	(1,138)	(607)
Net cash from operating activities	3,014	5,512	9,625	10,086
Cash flows used in investing activities				
Acquisition of property, plant and equipment	(839)	(951)	(1,182)	(2,768)
Short-term investments, net	481	5,832	(2,409)	3,146
Interest received	83	56	165	128
Net cash (used in) from investing activities	(275)	4,937	(3,426)	506
Cash flows used in financing activities				
Proceeds from exercise of share options	--	348	80	567
Purchase of Company's shares by the Company	(428)	--	(428)	--
Dividend paid	(5,268)	(8,778)	(5,268)	(8,778)
Net cash used in financing activities	(5,696)	(8,430)	(5,616)	(8,211)
Net (decrease) increase in cash and cash equivalents	(2,957)	2,019	583	2,381
Cash and cash equivalents at beginning of the period	20,218	19,738	16,736	19,467
Exchange rate differences	4	16	(54)	(75)
Cash and cash equivalents at end of the period	17,265	21,773	17,265	21,773

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Shareholders' Equity

Group (US\$'000)

	Share Capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2017	--	29,688	(1,919)	53,957	(2,413)	79,313
Profit for the period ended June 30, 2017	--	--	--	5,681	--	5,681
Other comprehensive income for the period ended June 30, 2017	--	--	411	--	--	411
Share-based payment expenses	--	587	--	--	--	587
Exercise of options	--	567	--	--	--	567
Dividend paid	--	--	--	(8,778)	--	(8,778)
Balance at June 30, 2017	--	30,842	(1,508)	50,860	(2,413)	77,781
Balance at January 1, 2018	--	31,235	(1,386)	43,924	(3,055)	70,718
Profit for the period ended June 30, 2018	--	--	--	7,240	--	7,240
Other comprehensive loss for the period ended June 30, 2018	--	--	(665)	--	--	(665)
Share-based payment expenses	--	621	--	--	--	621
Exercise of options	--	80	--	--	--	80
Dormant shares, acquired at cost (593,500)	--	--	--	--	(428)	(428)
Dividend paid	--	--	--	(5,268)	--	(5,268)
Balance at June 30, 2018	--	31,936	(2,051)	45,896	(3,483)	72,298

* No par value

Statement of Changes in Shareholders' Equity

Company (US\$'000)

	Share Capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2017	--	29,688	(1,919)	53,957	(2,413)	79,313
Profit for the period ended June 30, 2017	--	--	--	5,681	--	5,681
Other comprehensive income for the period ended June 30, 2017	--	--	411	--	--	411
Share-based payment expenses	--	587	--	--	--	587
Exercise of options	--	567	--	--	--	567
Dividend paid	--	--	--	(8,778)	--	(8,778)
Balance at June 30, 2017	--	30,842	(1,508)	50,860	(2,413)	77,781
Balance at January 1, 2018	--	31,235	(1,386)	43,924	(3,055)	70,718
Profit for the period ended June 30, 2018	--	--	--	7,240	--	7,240
Other comprehensive loss for the period ended June 30, 2018	--	--	(665)	--	--	(665)
Share-based payment expenses	--	621	--	--	--	621
Exercise of options	--	80	--	--	--	80
Dormant shares, acquired at cost (593,500)	--	--	--	--	(428)	(428)
Dividend paid	--	--	--	(5,268)	--	(5,268)
Balance at June 30, 2018	--	31,936	(2,051)	45,896	(3,483)	72,298

* No par value

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

	<u>June 30, 2018</u>	<u>March 31, 2018</u>	<u>June 30, 2017</u>
	<u>No. of shares</u>	<u>No. of shares</u>	<u>No. of shares</u>
Authorised:			
Ordinary shares of no par value	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:			
Ordinary shares of no par value	<u>353,672,126</u>	<u>353,672,126</u>	<u>352,855,376</u>
Dormant shares (out of the issued and fully paid share capital):			
Ordinary shares of no par value	<u>2,923,500</u>	<u>2,330,000</u>	<u>1,623,100</u>
Total number of issued shares (excluding dormant shares)	<u>350,748,626</u>	<u>351,342,126</u>	<u>351,232,276</u>

For the three months ended June 30, 2018, no share options were exercised into ordinary shares. For the three months ended June 30, 2018, the Company purchased 593,500 of its ordinary shares at an aggregate cost of US\$ 0.4 million.

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, 2018, March 31, 2018 and June 30, 2017 included 2,923,500, 2,330,000 and 1,623,100 dormant shares, respectively.

Details of changes in share options:

	<u>Average exercise price in US\$ per share</u>	<u>Options</u>
At January 1, 2018	1.248	19,833,650
Granted	0.872	7,970,000
Cancelled	1.305	(1,317,248)
Exercised	0.396	(201,500)
At June 30, 2018	1.112	<u>26,284,902</u>

At June 30, 2018, the average exercise price in Singapore dollars per share was S\$ 1.518, based on an exchange rate of US\$ 1 = S\$ 1.365.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

As at June 30, 2018, the total number of issued shares excluding dormant shares was 350,748,626 (as at December 31, 2017- 351,140,626). As at June 30, 2018, the total number of dormant shares was 2,923,500 (as at December 31, 2017- 2,330,000).

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

For the three and six months ended at June 30, 2018, the Company purchased 593,500 of its ordinary shares, and there was no sale, transfer, disposal, cancellation and/or use of treasury shares by the Company.

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

These figures have not been audited or reviewed.

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

Not applicable.

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

The same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended December 31, 2017 have been applied in the preparation for the financial statements for period ended at June 30, 2018, except for the adoption of IFRS 15, Revenues from Contracts with Customers and IFRS 9 (2014), Financial Instruments.

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

The adoption of IFRS 15 and IFRS 9 (2014) has had an immaterial effect on the Group's consolidated financial statements from January 1, 2018, and has had no impact on the presented comparable periods.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	For the Quarter ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
<u>US cents</u>				
Basic earnings per share	1.18	0.92	2.06	1.62
Diluted earnings per share	1.18	0.92	2.06	1.62
<u>Singapore cents*</u>				
Basic earnings per share	1.61	1.26	2.81	2.21
Diluted earnings per share	1.61	1.26	2.81	2.21

Basic earnings per share for the three months ended June 30, 2018 are calculated based on the weighted average number of 351,120,197 ordinary shares issued during the current period and the equivalent of 351,085,176 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended June 30, 2018 are calculated based on the weighted average number of 351,120,197 ordinary shares and outstanding options and the equivalent of 351,142,716 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the six months ended June 30, 2018 are calculated based on the weighted average number of 351,219,485 ordinary shares issued during the current period and the equivalent of 350,827,769 ordinary shares during the preceding period.

Diluted earnings per share for the six months ended June 30, 2018 are calculated based on weighted average number of 351,224,991 ordinary shares and outstanding options and the equivalent of 351,046,895 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US\$ 1= S\$ 1.365 at June 30, 2018.

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

	Group		Company	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Net asset value (US\$ thousands)	72,298	70,718	72,298	70,718
Net asset value per ordinary share (US cents)	20.61	20.14	20.61	20.14
Net asset value per ordinary share (Singapore cents*)	28.13	27.49	28.13	27.49

At June 30, 2018, net asset value per share is calculated based on the number of ordinary shares in issue at June 30, 2018 of 350,748,626 (not including 2,923,500 dormant ordinary shares at June 30, 2018). At December 31, 2017, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2017 of 351,140,626 (not including 2,330,000 dormant ordinary shares at December 31, 2017).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.365 at June 30, 2018.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
- 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
 - 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 Group reported improved sequential results with Q2 2018 revenues of US\$ 18.0 million, profit from operations of US\$ 4.7 million, and net profit of US\$ 4.1 million, as compared to revenues of US\$ 16.7 million, profit from operations of US\$ 3.6 million, and net profit of US\$ 3.1 million in Q1 2018. The sequential improvement in operating results was primarily due to increased capital equipment sales, in particular GalaxyTM family systems. Operating and net profits also benefitted from lower operating expenses in the current quarter.

On a year-over-year basis, the Group's profitability improved on stable revenues as compared to the comparable period last year, with increased operating profits and net profits reported primarily due to lower operational expenses and a more normalised tax rate. The Group reported Q2 2018 revenues of US\$ 18.0 million, profit from operations of US\$ 4.7 million, and net profit of US\$ 4.1 million, as compared to revenues of US\$ 18.2 million, profit from operations of US\$ 4.2 million, and net profit of US\$ 3.2 million in Q2 2017. The Group reported H1 2018 revenues of US\$ 34.6 million, profit from operations of US\$ 8.2 million, and net profit of US\$ 7.2 million, as compared to revenues of US\$ 34.4 million, profit from operations of US\$ 7.3 million, and net profit of US\$ 5.7 million in H1 2017.

With deliveries in Q2 2018 of 20 Galaxy[®] family systems to customers, comprising 8 of the new MeteoriteTM model, 6 of the MeteorTM model, a SolarisTM system, 4 Galaxy[®] systems and one Galaxy[®] Ultra machine. Notably, all the systems for smaller stones were delivered in India (the Galaxy[®] Ultra and 3 of the Galaxy[®] systems were delivered in Africa), our installed base grew to 377 systems as of June 30, 2018. Overall recurring revenues for H1 2018 (including Galaxy[®]-related, Quazer[®] services, polished diamond related ("Trade") services, annual maintenance contracts, spare parts, etc.) represented over 42% of our overall revenue. Overall polished diamond retail-related revenues, currently mostly still only from the Sarine ProfileTM and its various components (Sarine LightTM, Sarine LoupeTM, Sarine ConnectTM, etc.) were 2% of our overall revenue for H1 2018, just under a 25% overall improvement, year-over-year.

Balance Sheet and Cash Flow Highlights

As at June 30, 2018, cash and cash equivalents and short-term investments (bank deposits) (“**Cash Balances**”) increased to US\$ 32.1 million as compared to US\$ 29.1 million as of December 31, 2017. The increase in Cash Balances was primarily due to the Group’s improved operating results, higher payables and lower inventory levels, offset partially by the US\$ 5.3 million final dividend paid in Q2 2018 for 2017, the repurchase of US\$ 0.4 million of Sarine shares in the open market, higher trade receivables (on credit to certain customers and higher recurring revenues), and due to capital expenditures associated with the opening of the Sarine Technology Labs in Ramat Gan and Mumbai.

Revenues

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

Q2 2018 versus Q2 2017				
Region	Q2 2018	Q2 2017	\$ change	% change
India	12,060	12,735	(675)	(5.3)
Africa	2,613	1,093	1,520	139.1
Europe	658	901	(243)	(27.0)
North America	213	258	(45)	(17.4)
Israel	896	937	(41)	(4.4)
Other*	1,519	2,227	(708)	(31.8)
Total	17,959	18,151	(192)	(1.1)

H1 2018 versus H1 2017				
Region	H1 2018	H1 2017	\$ change	% change
India	25,583	25,763	(180)	(0.7)
Africa	3,467	1,782	1,685	94.6
Europe	1,002	1,498	(496)	(33.1)
North America	493	574	(81)	(14.1)
Israel	1,949	1,843	106	5.8
Other*	2,126	2,962	(836)	(28.2)
Total	34,620	34,422	198	0.6

Q2 2018 versus Q1 2018				
Region	Q2 2018	Q1 2018	\$ change	% change
India	12,060	13,523	(1,463)	(10.8)
Africa	2,613	854	1,759	206.0
Europe	658	344	314	91.3
North America	213	280	(67)	(23.9)
Israel	896	1,053	(157)	(14.9)
Other*	1,519	607	912	150.2
Total	17,959	16,661	1,298	7.8

*primarily Asia, excluding India

Revenues for Q2 2018 increased to US\$ 18.0 million as compared to revenues of US\$ 16.7 million in Q1 2018, but were stable as compared to US\$ 18.2 million in Q2 2017. Similarly, revenues for H1 2018 of US\$ 34.6 million were also virtually flat as compared to US\$ 34.4 million in H1 2017. The increase in revenues on a sequential basis was primarily due to increased diamond manufacturing equipment sales, in Africa in particular, on virtually flat recurring revenues (note the aggregate volumes of stones entering the pipeline ("sights") in Q2 2018 was lower as compared to Q1 2018, see section 10). On a year-over-year basis, the revenues were affected by marginally lower capital equipment sales. Recurring revenues in Q2 2018 were flat as compared to Q2 2017 and increased modestly in H1 2018 as compared to H1 2017 (note the aggregate volumes of sights in H1 2018 were lower as compared to H1 2017, see section 10). As noted above, overall polished diamond retail-related revenues were 2% of our overall revenue for H1 2018, just under a 25% overall improvement, year-over-year.

Cost of sales and gross profit

Cost of sales for Q2 2018 increased to US\$ 5.8 million as compared to US\$ 5.3 million for Q1 2018, but was virtually flat as compared to US\$ 5.7 million in Q2 2017, with a gross profit margin of 68% in Q2 2018 which was virtually flat with Q1 2018 and Q2 2017. Cost of sales for H1 2018 increased slightly to US\$ 11.1 million as compared to US\$ 10.9 million, with gross profit margins of 68% in both H1 2018 and H1 2017, albeit H1 2018 includes preliminary setup expenses associated with the newly opened Sarine Technology Laboratories. The sequential increase in the cost of sales was due primarily to higher sales volumes in Q2 2018 as compared to Q1 2018.

Research and development expenses

Research and development costs for Q2 2018 of US\$ 2.5 million decreased as compared to US\$ 2.7 million in Q1 2018 and as compared to US\$ 3.1 million in Q2 2017. Research and development expenses for H1 2018 decreased to US\$ 5.1 million as compared to US\$ 6.1 million in H1 2017. The decrease in research and development costs, as planned, was primarily due to lower employee compensation and outsourcing expenses following the completion of major development efforts in 2017 related to our key Sarine Profile™ enhancements – the AI-based 4Cs grading as well as the Sarine Journey™.

Sales and marketing expenses

Sales and marketing expenses for Q2 2018 increased minimally to US\$ 3.6 million as compared to US\$ 3.5 million in Q1 2018, and decreased as compared to US\$ 3.7 million in Q2 2017. Sales and marketing expenses for H1 2018 decreased to US\$ 7.0 million as compared to US\$ 7.2 million in H1 2017. The sequential increase in sales and marketing expenses was primarily due to increased sales commissions on higher revenues outside of India. The decrease in sales and marketing expenses on a year-over-year basis was primarily due to lower compensation expenses as we restructure our sales and marketing staff and a decrease in marketing and trade-show expenses.

General and administrative expenses

General and administrative expenses for Q2 2018 decreased to US\$ 1.5 million as compared to US\$ 1.7 million in Q1 2018 and was virtually flat with Q2 2017. General and administrative expenses for H1 2018 increased to US\$ 3.2 million as compared to US\$ 2.8 million in H1 2017. The sequential decrease in general and administrative expenses was due to lower third-party professional fees following the temporary hiatus in our court-related IP activities in India, due to the summer holiday break there in May. The year-over-year increase in general and administrative expenses was primarily due to higher third-party professional fees related to our proactive IP protection activities mainly in India (see Section 10).

Profit from operations

Profit from operations for Q2 2018 increased to US\$ 4.7 million as compared to US\$ 3.6 million in Q1 2018 and US\$ 4.2 million in Q2 2017. Profit from operations for H1 2018 increased to US\$ 8.2 million as compared to US\$ 7.3 million in H1 2017. The sequential increase in profit from operations was mainly due to higher revenues and lower operating expenses. The increase in profit from operations on a year-over-year basis was primarily due to lower operational expenses, all as detailed above.

Net finance income

Net finance income for Q2 2018 was US\$ 87,000 as compared to US\$ 24,000 in Q1 2018, and US\$ 72,000 in Q2 2017. Net finance income for H1 2018 was US\$ 111,000 as compared to US\$ 53,000 in H1 2017. The increase in net finance income on a sequential basis was mainly due to lower exchange rate differences in the current period. The increase in net finance income on a year-over-year basis was mainly due to higher interest rates available in the market on our bank deposits.

Income tax expense

The Group recorded an income tax expense of US\$ 0.6 million for Q2 2018 as compared to an expense of US\$ 0.5 million for Q1 2018 and an expense of US\$ 1.0 million in Q2 2017. The Group recorded an income tax expense of US\$ 1.1 million for H1 2018 as compared to an expense of US\$ 1.7 million for H1 2017. The income tax expense in Q2 2018 and H1 2018 was essentially a normalised tax expense, based on a blended rate derived from the Group's export oriented activities. The sequential increase in income tax expenses was due to higher pre-tax profitability as discussed above. The year-over-year decrease in income tax expenses was due to the impact of product mix on the profitability of Group subsidiaries and due to the write-downs of US\$ 0.3 million of certain deferred and other tax assets in Q2 2017 (and H1 2017).

Profit for the period

Net profit for Q2 2018 increased to US\$ 4.1 million as compared to US\$ 3.1 million in Q1 2018 and as compared to US\$ 3.2 million in Q2 2017. Net profit for H1 2018 increased to US\$ 7.2 million as compared to US\$ 5.7 million in H1 2017. The sequential increase in net profit was mainly due to higher revenues and lower operating expenses, as detailed above. The increase in net profit on a year-over-year-basis was primarily due to lower operational expenses and a more normalised tax rate in 2018, all as detailed above.

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

Not applicable.

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

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

- a. Fundamental global economic indicators continue to be overall positive, though there could be potentially negative impact from disagreements pertaining to trade issues between the U.S. and other major trading partners.
- b. In dollar terms, the first six sights of 2018 have been slightly less (-2.5%) in aggregate as compared to the corresponding period of 2017, and as rough prices are slightly (2-3%) higher year over year, this indicates the number of stones entering the pipeline is down (by some 5+%). Alrosa's offerings have trended similarly. We believe the quantities entering the pipeline and the prices paid indicate prudent planning by all parties concerned, though margins are beginning to come under some pressure. As always, this is a key factor to track and we will continue to report on sight volume and pricing trends, as they develop.
- c. Inventory levels have been replenished post year-end 2017 and early 2018 holiday season reductions, as expected, and have now stabilised, with midstream industry activity softening slightly, accordingly. Notwithstanding inventory levels having increased, polished prices have remained firm and even increased marginally in certain categories. It is expected that the seasonal slowing in midstream activity will continue through the Diwali holiday in early November. As always, this too is a key factor

to track, and we will continue to report on inventory trends and manufacturing activity, as they develop.

- d. Sales programs utilising Sarine Profile™ by retailers in the Asia Pacific (APAC) region continue to expand with new and expanded programs being initiated with existing and new retailers. The Sarine Profile™ paradigm is now in use with retailers in the APAC and U.S. markets at an aggregate of over 1,000 retail locations ("doors"). Revenues for the six months ended 30 June 2018 are up 25% y-o-y, as noted above in section 8. Revenues for Q2 2018 are up 33% y-o-y over Q2 2017. We expect use of the Sarine Profile™ to continue to expand, albeit at a slower pace than anticipated at year's start (doubling of stones scanned in 2018), mostly due to delays in ramping up by customers. A new service centre to serve the Japanese market is in the final stages of being launched, which should facilitate easier access to Sarine Profile™ reports by Japanese retailers, thereby supporting further expansion in Japan. As part of our effort to bolster our presence in China, awareness is being created through local Chinese social media platforms (WeChat, Baidu, Weibo etc...). The QR below links to our WeChat platform. To view it you need to install WeChat on your mobile device (please note contents are primarily in Chinese).



- e. Our Sarine Diamond Journey™ feature, which verifies, documents and graphically depicts the stone's transition from a specific rough stone to specific polished gem(s), has generated keen interest in light of the current trends emphasising provenance and branding, as was manifested at the JCK Show in Las Vegas in June, where these issues were prominently discussed. Both upstream producers (mining companies), in addition to the CanadaMark® initiative, as well as downstream retail customers (in the U.S. as well as in the APAC market) are expressing interest in the implementation of this unique feature, either in provenance blockchain implementations or new / enhanced retail programs.
- f. We have opened our second Sarine Technology Lab in Mumbai. We can now provide our technology-enabled 4Cs diamond reports directly following the polished diamonds' manufacturing in India, on a commercial scale. K-Uno, a key high-end Japanese retailer announced its adoption of our new reports in mid-April. Other retail customers continue to express interest in and are learning about our automated, consistent and objective AI-based grading paradigm with several chains in Asia currently running trial analyses of our grading technologies with an aim to adopt our unique ground-breaking solution.
- g. We delivered 20 inclusion mapping systems in Q2. 8 of the new Meteorite™ model, 6 of the Meteor™ model, a Solaris™ system, 4 Galaxy® systems and one Galaxy® Ultra machine. Notably, all the systems for small stones were delivered in India (the Galaxy® Ultra and 3 of the Galaxy® systems were delivered in Africa), which bolsters our belief in our continuing success at containing the effects of the illicit competition, as detailed below. These deliveries bring our installed base to 377 as of 30 June 2018. We continue to see scanning activities at record levels, even though the volumes of DeBeers and Alrosa's rough sales have decreased by some 3+% on a yoy basis. We believe this too is an indication of our success in reducing the infringing parties' impact on our business. In addition, at the invitation of the Guangzhou Diamond Exchange, we have opened a ninth Galaxy service centre in Sha Wan Jewellery Park, Panyu District, Guangzhou, China.
- h. Based on our continued setting of new records of rough stones being scanned by our inclusion mapping systems (irrespective of the slight drop in the number of rough stones entering the pipeline so far this year), as mentioned above, the number of users who continue to migrate to Advisor 7.0 and the sales of increasing numbers of inclusion mapping systems to Indian manufacturers, we believe we are significantly constraining the illicit competition.
- In the Indian judicial system, we are pursuing parallel lawsuits against Diyora & Bhanderi Corporation ("DBC") for patent infringement and copyright (software) infringement. In both actions we have requested interim injunctions to put an immediate halt to the infringing activities, pending the trials and final outcomes of the matters.

- In the patent case, based on new evidence submitted to the court, the High Court in Ahmedabad has set dates for additional hearings on our request for an injunction against the infringing parties, as well as on suspected perjury and contempt of court.
 - Concerning the software copyright infringement suit, after numerous attempts by DBC to block the court-ordered examination of its software program, which we claim is infringing our copyright, the Supreme Court of India has confirmed the appointment of a prominent U.S. expert to conduct an independent analysis of the parties' software in question to ascertain this issue, which analysis has begun and will be concluded once the court affirms Sarine's copyrights on all the versions of its code, which are allegedly being infringed. Thus far, the Supreme Court has affirmed our copyright on Advisor® 6.0.
 - U.S Enforcement – As announced on 26 June 2018, having been alerted to the suspected infringement of U.S. patents and copyrights by the relevant Indian parties, major diamond importers and dealers, including Signet and Tiffany, have required from their supply chains verification and certification that their polished diamonds from India do not comprise goods that infringe third party intellectual property rights, including Sarine's U.S. patents and copyrights. The inquiries and actions initiated by these leading retailers have notably increased pressure on the infringing parties in India.
 - Technological – The tangible benefits and enhanced planning capabilities provided by our current planning software and hardware continue to incentivise manufacturers to migrate upwards to the latest version of our Advisor® software. To date, users of over 13,500 installations of our 20,000+ installed planning systems have adopted the latest software.
 - Commercial – Our expanding relationships with major retailers and producers, interested in or already launching programs implementing the enhanced Sarine Profile™, including the Sarine Diamond Journey™, and the fact that only suppliers who have migrated to Advisor® 7.0 can participate in same, have also added to the incentive to migrate upwards.
- i. Rose Gems, who had purchased a Galaxy® system and whose employees wrongfully manipulated the reporting of the weights of the stones processed by their system so as to reduce the use fees owed to the Group, has taken responsibility for such actions and has agreed to all conditions set by Sarine bringing this lawsuit to successful closure.

We will focus our research and development initiatives on the following objectives:

- **Polished diamond oriented systems and services:**
 - In continuation to the launch of our Sarine Diamond Journey™ in Q1, which provides visual realisation of the process of planning, cutting and polishing the rough stone into polished gems, and in line with the renewed emphasis on responsible and sustainable sourcing, as manifested at the U.S. JCK Show in June, we will be introducing in Q3 2018 a new capability for the fingerprinting of a polished diamond, enabling consumers to readily verify the authenticity of their digital and printed reports and their unequivocal match with the actual polished diamond. We have and are also continuing to enhance our Sarine Diamond Journey™ to augment its visual cues with secure provenance traceability mechanisms, which will provide explicit and indisputable verification of the diamond's origin and derivation as it progresses through all its stations from mine to consumer,
 - With the accelerating penetration of the Sarine Profile™ into the Chinese mainland market, we are enhancing our support of the unique online environment in China, as dictated by government regulation, so as to provide customers in China the same levels of accessibility and performance as provided globally. A major upgrade to our infrastructure will be released in Q3 2018.
 - We will continue to enhance our **Sarine Profile™**:
 - We are enhancing the displays provided by the Sarine Profile™ pertaining to the presentation of inclusion-related information to the consumer in the retail environment. These displays provide clear visual cues as to the Clarity of the diamond. The first new display, an enhancement to the Sarine Loupe™ feature has been completed – see following links as examples:

<https://api.sarine.com/viewer/v1/ZQI5YB0C27J/LOUPENEWEX>

<http://api.sarine.com/viewer/v1/6IUXHBEAI05/LOUPENEWEX>
 - The second new display derived during the 4Cs automated grading process by the Sarine Clarity™, will be released as an enhancement to the Sarine Profile™ in Q3 2018.

- Personalisation of the Sarine Profile™ by the diamond's consumer buyer, allowing the creation / importation of text, imagery, music and video (e.g., the proposal), as a means of personifying his / her message to the ultimate recipient of the purchased jewel.
- Enhancement of our support of jewellery pieces, in addition to loose polished diamonds. As retail businesses display set jewellery more often than loose stones, this will significantly broaden the appeal and applicability of Sarine Profile™.
- Further refinement of the **Sarine Clarity™** and **Sarine Color™** AI-based grading capabilities, to achieve broader relevance to additional shapes and sizes of polished diamonds and even better accuracy and consistency.
- **Manufacturing products:**
 - **Galaxy® Tension Mapping** – We have extended our Galaxy® capabilities not only for inclusion detection but also for tension/stress detection and modelling. Based on beta-operations at leading manufacturers, we have shown that understanding the location, structure and magnitude of stress inside a rough stone contributes both to the reduction of risk of damage to the stone during laser sawing, as expected, and also to increased yield from the planning process, as the safety margin used for planning can be reduced significantly.
 - **Axiom™** – Our third generation of standard-setting Axiom™ system for the ultra-accurate (better than 10 micron accuracy) measurement of a polished diamond's proportions has started beta-testing in India. The new system provides for unmatched accuracy in the measurement of fancy shaped diamonds, including special modified branded shapes. This ability should enable the Sarine Profile™ to support more accurate analyses and renditions of fancy and special shapes. As these diamonds typically do not get a Cut grade from gem labs, by empowering better analyses of these diamonds by the Sarine Technology Lab, we should be able to provide a better means to document their quality, with potential to add impetus to our reports' adoption.

11. 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 2.0 per ordinary share for the half-year ended June 30, 2018, in accordance with the stated dividend policy.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

In August 2017, the Board of Directors had declared an interim dividend of US cents 2.0 per ordinary share for the half-year ended June 30, 2017.

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

	<u>Amount before tax</u> <u>US\$'000</u>	<u>Tax rate applicable to shareholders</u> <u>%</u>
2018	7,015	20%/0% ¹ / 10% ^{2,3}
2017	7,019	20%/0% ¹ / 10% ^{2,3}

¹ The tax rate will be 20% (20% in 2017) for individual Israeli shareholders and 0% (0% in 2017) for Israeli corporate shareholders.

² The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2017).

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

	<u>Amount</u> <u>US\$'000</u>
31.8.18	7,015
8.9.17	7,019

(e) Books Closure Date

5:00 PM on:

	<u>Amount</u> <u>US\$'000</u>
21.8.18	7,015
24.8.17	7,019

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

Not applicable.

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

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

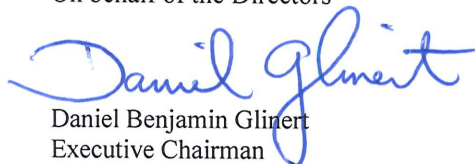
14. Negative confirmation pursuant to Rule 705(5) (not required for announcement of full year results).

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, 2018, to be false or misleading, in any material aspect.

15. 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
12 August 2018