

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 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>2017</u>	<u>2016</u>	<u>Change</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>
			<u>%</u>			<u>%</u>
Revenue	18,151	20,870	(13.0)	34,422	36,357	(5.3)
Cost of sales	5,730	6,442	(11.1)	10,949	11,465	(4.5)
Gross profit	12,421	14,428	(13.9)	23,473	24,892	(5.7)
Research and development expenses	3,057	2,744	11.4	6,075	5,296	14.7
Sales and marketing expenses	3,741	3,658	2.3	7,233	6,768	6.9
General and administrative expenses	1,466	1,280	14.5	2,840	2,398	18.4
Profit from operations	4,157	6,746	(38.4)	7,325	10,430	(29.8)
Net finance income	72	208	(65.4)	53	354	(85.0)
Profit before income tax	4,229	6,954	(39.2)	7,378	10,784	(31.6)
Income tax expense	999	912	9.5	1,697	1,780	(4.7)
Profit for the period	3,230	6,042	(46.5)	5,681	9,004	(36.9)
Foreign currency translation differences from foreign operations	13	(153)	NM	411	(147)	NM
Total comprehensive income for the period	3,243	5,889	(44.9)	6,092	8,857	(31.2)

Notes to consolidated statements of comprehensive income (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>2017</u>	<u>2016</u>	<u>Change</u>	<u>2017</u>	<u>2016</u>	<u>Change</u>
			<u>%</u>			<u>%</u>
Allowance (write back) for doubtful trade receivables	16	(44)	NM	20	(24)	NM
Depreciation and amortization	968	954	1.5	1,916	1,891	1.3
Interest income, net	56	55	1.8	128	159	(19.5)
Exchange rate differences	16	153	(89.5)	(75)	195	NM
Warranty provision	(17)	34	NM	(23)	43	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>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Assets				
Property, plant and equipment	15,970	14,064	2,118	2,255
Intangible assets	6,680	7,469	--	--
Investment in equity accounted investee and subsidiaries	--	--	49,119	48,480
Deferred tax assets	2,156	2,527	999	1,318
Total non-current assets	<u>24,806</u>	<u>24,060</u>	<u>52,236</u>	<u>52,053</u>
Inventories	8,395	9,230	5,160	6,393
Trade receivables	17,595	16,955	2,648	2,559
Other receivables	2,486	3,488	1,645	2,029
Short-term investments (bank deposits)	15,374	18,520	9,505	11,835
Cash and cash equivalents	21,773	19,467	12,880	11,631
Total current assets	<u>65,623</u>	<u>67,660</u>	<u>31,838</u>	<u>34,447</u>
Total assets	<u>90,429</u>	<u>91,720</u>	<u>84,074</u>	<u>86,500</u>
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(2,413)	(2,413)	(2,413)	(2,413)
Share premium, reserves and retained earnings	80,194	81,726	80,194	81,726
Total equity	<u>77,781</u>	<u>79,313</u>	<u>77,781</u>	<u>79,313</u>
Liabilities				
Employee benefits	158	144	152	138
Total non-current liabilities	<u>158</u>	<u>144</u>	<u>152</u>	<u>138</u>
Trade payables	2,477	3,725	1,415	2,258
Other payables	8,793	7,971	4,493	4,541
Current tax payable	884	208	--	--
Warranty provision	336	359	233	250
Total current liabilities	<u>12,490</u>	<u>12,263</u>	<u>6,141</u>	<u>7,049</u>
Total liabilities	<u>12,648</u>	<u>12,407</u>	<u>6,293</u>	<u>7,187</u>
Total equity and liabilities	<u>90,429</u>	<u>91,720</u>	<u>84,074</u>	<u>86,500</u>

* No par value

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

Zero borrowings from banks as at June 30, 2017 and December 31, 2016.

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):

	<u>Group</u> <u>Quarter ended</u> <u>June 30,</u>		<u>Group</u> <u>Six months ended</u> <u>June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities				
Profit for the period	3,230	6,042	5,681	9,004
Adjustments for:				
Share-based payment expenses	164	472	587	869
Income tax expense	999	912	1,697	1,780
Depreciation of property, plant and equipment	573	562	1,127	1,123
Amortisation of intangible assets	395	392	789	768
Net finance income	(72)	(208)	(53)	(354)
Changes in working capital				
Inventories	897	776	857	2,087
Trade receivables	(1,908)	(1,624)	(640)	(3,985)
Other receivables	923	138	959	(402)
Trade payables	(911)	1,720	(1,248)	2,093
Other liabilities	1,387	1,512	923	1,416
Employee benefits	6	(3)	14	2
Income tax paid, net	(171)	(2,246)	(607)	(1,936)
Net cash from operating activities	<u>5,512</u>	<u>8,445</u>	<u>10,086</u>	<u>12,465</u>
Cash flows from (used in) investing activities				
Acquisition of property, plant and equipment	(951)	(1,306)	(2,768)	(1,961)
Acquisition of activity	--	(1,210)	--	(1,210)
Short-term investments, net	5,832	(4,521)	3,146	1,451
Interest received	56	55	128	159
Net cash from (used in) investing activities	<u>4,937</u>	<u>(6,982)</u>	<u>506</u>	<u>(1,561)</u>
Cash flows used in financing activities				
Proceeds from exercise of share options	348	10	567	434
Dividend paid	(8,778)	(5,244)	(8,778)	(5,244)
Net cash used in financing activities	<u>(8,430)</u>	<u>(5,234)</u>	<u>(8,211)</u>	<u>(4,810)</u>
Net increase (decrease) in cash and cash equivalents	<u>2,019</u>	<u>(3,771)</u>	<u>2,381</u>	<u>6,094</u>
Cash and cash equivalents at beginning of the period	<u>19,738</u>	<u>29,205</u>	<u>19,467</u>	<u>19,298</u>
Exchange rate differences	<u>16</u>	<u>153</u>	<u>(75)</u>	<u>195</u>
Cash and cash equivalents at end of the period	<u>21,773</u>	<u>25,587</u>	<u>21,773</u>	<u>25,587</u>

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

Statement of Changes in Shareholders' Equity

Group (US\$'000)

	Share Capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2016	--	27,402	(1,730)	48,225	(2,366)	71,531
Profit for the period ended June 30, 2016	--	--	--	9,004	--	9,004
Other comprehensive loss for the period ended June 30, 2016	--	--	(147)	--	--	(147)
Share-based payment expenses	--	869	--	--	--	869
Exercise of options	--	434	--	--	--	434
Dividend paid	--	--	--	(5,244)	--	(5,244)
Balance at June 30, 2016	--	28,705	(1,877)	51,985	(2,366)	76,447
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

* 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, 2016	--	27,402	(1,730)	48,225	(2,366)	71,531
Profit for the period ended June 30, 2016	--	--	--	9,004	--	9,004
Other comprehensive loss for the period ended June 30, 2016	--	--	(147)	--	--	(147)
Share-based payment expenses	--	869	--	--	--	869
Exercise of options	--	434	--	--	--	434
Dividend paid	--	--	--	(5,244)	--	(5,244)
Balance at June 30, 2016	--	28,705	(1,877)	51,985	(2,366)	76,447
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

* 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, 2017</u>	<u>March 31, 2017</u>	<u>June 30, 2016</u>
	<u>No. of shares</u>	<u>No. of shares</u>	<u>No. of shares</u>
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	352,855,376	352,417,188	351,196,254
Dormant shares (out of the issued and fully paid share capital):			
Ordinary shares of no par value	1,623,100	1,623,100	1,583,100
Total number of issued shares (excluding dormant shares)	351,232,276	350,794,088	349,613,154

For the three months ended June 30, 2017, 438,188 share options were exercised into ordinary shares. For the three months ended June 30, 2017, the Company did not purchase any of its ordinary shares.

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 they are held by the Company, 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, 2017, March 31, 2017 and June 30, 2016 included 1,623,100, 1,623,100 and 1,583,100 dormant shares, respectively.

Details of changes in share options:

	<u>Average exercise price in US\$ per share</u>	<u>Options</u>
At January 1, 2017	1.106	19,381,380
Granted	1.333	2,134,000
Cancelled	1.577	(486,083)
Exercised	0.600	(938,563)
At June 30, 2017	1.197	20,090,734

At June 30, 2017, the average exercise price in Singapore dollars per share was S\$ 1.649, based on an exchange rate of US\$ 1 = S\$ 1.3773.

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, 2017, the total number of issued shares excluding dormant shares was 351,232,276 (as at December 31, 2016- 350,293,713). As at June 30, 2017, the total number of dormant shares was 1,623,100 (as at December 31, 2016- 1,623,100).

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 June 30, 2017, the Company did not purchase any 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, 2016 have been applied in the preparation for the financial statements for period ended June 30, 2017.

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.

Not applicable.

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,	
	2017	2016	2017	2016
US cents				
Basic earnings per share	0.92	1.73	1.62	2.58
Diluted earnings per share	0.92	1.73	1.62	2.58
Singapore cents*				
Basic earnings per share	1.27	2.38	2.23	3.55
Diluted earnings per share	1.27	2.38	2.23	3.55

Basic earnings per share for the three months ended June 30, 2017 are calculated based on the weighted average number of 351,085,176 ordinary shares issued during the current period and the equivalent of 349,599,452 ordinary shares during the preceding period.

Diluted earnings per share for the three month ended June 30, 2017 are calculated based on the weighted average number of 351,142,716 ordinary shares and outstanding options and the equivalent of 349,608,862 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the six months ended June 30, 2017 are calculated based on the weighted average number of 350,827,769 ordinary shares issued during the current period and the equivalent of 349,339,825 ordinary shares during the preceding period.

Diluted earnings per share for the six months ended June 30, 2017 are calculated based on weighted average number of 351,046,895 ordinary shares and outstanding options and the equivalent of 349,455,859 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US\$ 1= S\$ 1.3773 at June 30, 2017.

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	
	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Net asset value (US\$ thousands)	77,781	79,313	77,781	79,313
Net asset value per ordinary share (US cents)	22.15	22.64	22.15	22.64
Net asset value per ordinary share (Singapore cents*)	30.51	31.18	30.51	31.18

At June 30, 2017, net asset value per share is calculated based on the number of ordinary shares in issue at June 30, 2017 of 351,232,276 (not including 1,623,100 dormant ordinary shares at June 30, 2017). At December 31, 2016, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2016 of 350,293,713 (not including 1,623,100 dormant ordinary shares at December 31, 2016).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.3773 at June 30, 2017.

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 2017 revenues of US\$ 18.2 million, profit from operations of US\$ 4.2 million, and net profit of US\$ 3.2 million, as compared to revenues of US\$ 16.3 million, profit from operations of US\$ 3.2 million, and net profit of US\$ 2.5 million in Q1 2017. The sequential improvement in operating results was primarily due to the mix of Galaxy™ family systems delivered, nearly half of which were of various Galaxy™ models (see below), as well as due to increased recurring revenues.

On a year-over-year basis the Group's results were down, with Q2 2017 revenues of US\$ 18.2 million, profit from operations of US\$ 4.2 million, and net profit of US\$ 3.2 million, as compared to revenues in Q2 2016 of US\$ 20.9 million, profit from operations of US\$ 6.7 million and net profit of US\$ 6.0 million. The Group realised in H1 2017 revenues of US\$ 34.4 million, profit from operations of US\$ 7.3 million, and net profit of US\$ 5.7 million, as compared to revenues in H1 2016 of US\$ 36.4 million, profit from operations of US\$ 10.4 million, and net profit of US\$ 9.0 million.

The year-over-year results were primarily impacted by lower sales, mainly due to the illicit competition in India and higher operating expenses. The lower than anticipated sales are primarily due to the sale of fewer inclusion mapping systems for smaller stones (mainly Meteor™ systems, but also Solarises™), as is apparent from the unusual mix of inclusion mapping systems, as detailed below. Research and Development expenses remained high, as we were bringing to fruition our new Clarity and Colour grading technologies, as reported on 30 July 2017, and adding significant capabilities to our Advisor™ planning software, as detailed in section 10 (e.g., integrating light performance results with planning). The latter is a crucial facet in opening a significant technological gap with the illicit competition in India, as, due to more effective IP protection in later versions, they are limited to the use of our planning software from two generations back. We expect R&D expenses to start coming down in H2, as, among other issues, outsourcing related to the Clarity technology refinement drops off substantially. Sales and Marketing expenses, are being closely controlled, with very minimal expansion of our staff tightly coupled with growth in Sarine Profile™ rollout. General and Administrative expenses are higher as we are aggressively fighting our IP infringements, as detailed in section 10. We expect these expenses will decrease, as our efforts bear fruit. Operating expenses were further

impacted by an approximate 8% decline of the US\$ versus the NIS in Israel, where most of our compensation expenses, especially in R&D, are incurred.

With deliveries in Q2 2017 of 16 Galaxy™ family systems to customers, comprising 6 Meteor™ systems, 3 Solaris™ systems, 3 Galaxy™ systems, 3 Galaxy™ Ultra systems and a Galaxy™ XL system shipped to the Botswana service centre, the Group had an installed base of 332 Galaxy™ family systems as of June 30, 2017. Overall recurring revenues for H1 2017 (including Galaxy™-related, Quazer™ services, polished diamond related ("Trade") services, annual maintenance contracts, spare parts, etc.) represented approximately 41% of our overall revenue.

Overall Trade revenues from our polished diamond line of products and services, the Sarine Profile™ and its various components (Sarine Light™, Sarine Loupe™, Sarine Connect™, etc.), represented about 2% of our overall revenue for H1 2017, but we continue to expect to improve this ratio as the year unfolds, as new retail chains and independents continue to buy in to the paradigm (see Section 10 for more details), existing customers continue to expand their programs, and the number of stones processed increases. Previous years' experience has shown that the second half of the year, with retailers in the West preparing for the holidays buying season (and Valentine's Day) and those in the East preparing for the same holidays as well as for the Chinese New Year, typically sees twice as many stones scanned as in the first half of the year.

Balance Sheet and Cash Flow Highlights

As at June 30, 2017, cash and cash equivalents and short-term investments (bank deposits) ("Cash Balances") decreased to US\$ 37.1 million as compared to US\$ 38.0 million as of December 31, 2016. The decrease in Cash Balances was primarily due to the US\$ 8.8 million final dividend paid in Q2 2017 for 2016 and due to expenditures associated with Group's completed new facilities in Surat India, offset by the Group's operating results and lower inventory levels.

Revenues

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

Q2 2017 versus Q2 2016				
Region	Q2 2017	Q2 2016	\$ change	% change
India	12,735	16,789	(4,054)	(24.1)
Africa	1,093	466	627	134.5
Europe	901	432	469	108.6
North America	258	612	(354)	(57.8)
Israel	937	1,169	(232)	(19.8)
Other*	2,227	1,402	825	58.8
Total	18,151	20,870	(2,719)	(13.0)

H1 2017 versus H1 2016				
Region	H1 2017	H1 2016	\$ change	% change
India	25,763	29,035	(3,272)	(11.3)
Africa	1,782	1,029	753	73.2
Europe	1,498	908	590	65.0
North America	574	1,035	(461)	(44.5)
Israel	1,843	2,227	(384)	(17.2)
Other*	2,962	2,123	839	39.5
Total	34,422	36,357	(1,935)	(5.3)

Q2 2017 versus Q1 2017				
Region	Q2 2017	Q1 2017	\$ change	% change
India	12,735	13,028	(293)	(2.2)
Africa	1,093	689	404	58.6
Europe	901	597	304	50.9
North America	258	316	(58)	(18.4)
Israel	937	906	31	3.4
Other*	2,227	735	1,492	203.0
Total	18,151	16,271	1,880	11.6

*primarily Asia, excluding India

Revenues for Q2 2017 increased to US\$ 18.2 million as compared to revenues of US\$ 16.3 million in Q1 2017, but decreased as compared to US\$ 20.9 million in Q2 2016. Revenues for H1 2017 decreased to US\$ 34.4 million as compared to US\$ 36.4 million in H1 2016. The increase in revenues in most geographies on a sequential basis was primarily due to increased diamond manufacturing equipment sales and increased recurring revenues. The illicit competition based on the infringement of our patent for the Galaxy™ family of systems and the copyright of our older versions of the Advisor™ planning software (as discussed in detail in Section 10), has negatively impacted the Group's results in India sequentially and is the primary cause for the year-over-year decrease in revenues, due to lower capital equipment sales (recurring revenues are flat).

Cost of sales and gross profit

Cost of sales for Q2 2017 increased to US\$ 5.7 million as compared to US\$ 5.2 million for Q1 2017, but decreased as compared to US\$ 6.4 million in Q2 2016, with gross profit margin of 68% in Q2 2017 virtually flat with Q1 2017 and down slightly from 69% in Q2 2016. Cost of sales for H1 2017 decreased to US\$ 10.9 million as compared to US\$ 11.5 million for H1 2016, with gross profit margins of 68% in both H1 2017 and H1 2016. The sequential increase in the cost of sales was due primarily to higher sales volumes in Q2 2017 as compared to Q1 2017. The decrease in cost of sales on a year-over-basis was primarily due to lower sales volumes in Q2 2017 and H1 2017 versus the comparable periods in 2016.

Research and development expenses

Research and development expenses for Q2 2017 of US\$ 3.1 million were virtually flat as compared to US\$ 3.0 million in Q1 2017, and increased as compared to US\$ 2.7 million in Q2 2016. Research and development expenses for H1 2017 increased to US\$ 6.1 million as compared to US\$ 5.3 million in H1 2016. The increase in research and development on year-over-year basis was primarily due to higher employee-related and outsourcing expenses. The increase in employee related expenses was significantly impacted by the approximate 8% decline of the US\$ versus the NIS in Israel. The Group continues to focus its research and development expenditures on the development of future growth products and services, as expanded upon in Section 10.

Sales and marketing expenses

Sales and marketing expenses for Q2 2017 increased minimally to US\$ 3.7 million as compared to US\$ 3.5 million in Q1 2017, and was virtually flat with US\$ 3.7 million in Q2 2016. Sales and marketing expenses for H1 2017 increased to US\$ 7.2 million as compared to US\$ 6.8 million in H1 2016. It should be noted that a much larger proportion of sales and marketing expenses are not incurred in Israel, and were hence not impacted by the aforementioned US dollar devaluation against the NIS, as were the research and development expenses. The insignificant increase in sales and marketing expenses on a sequential basis was primarily due to higher sales-commissions ex-India. The increase in sales and marketing expenses on a year-over-year basis was due to increased marketing, advertising and business development expenses as well as increased sales expenses in the Asia Pacific region, with the minimal expansion of our staff in line with the aggressive and growingly successful rollout of our polished diamond sales supporting (the Sarine Profile™) offerings.

General and administrative expenses

General and administrative expenses for Q2 2017 increased to US\$ 1.5 million as compared to US\$ 1.4 million in Q1 2017, and as compared to US\$ 1.3 million in Q2 2016. General and administrative expenses for H1 2017 increased to US\$ 2.8 million as compared to US\$ 2.4 million in H1 2016. The increases in general and administrative expenses on a sequential and year-over-year bases were primarily due to higher third-party professional fees, mainly related to IP protection (primarily, but not solely, in India; (see Section 10).

Profit from operations

Profit from operations for Q2 2017 increased to US\$ 4.2 million as compared to US\$ 3.2 million in Q1 2017, but decreased as compared to US\$ 6.7 million in Q2 2016. Profit from operations for H1 2017 decreased to US\$ 7.3 million as compared to US\$ 10.4 million in H1 2016. The sequential increase in profit from operations was due to higher revenues, offset somewhat by increased operating expenses. The decrease in profit from operations on a year-over-year basis was primarily due to lower sales volume and higher operating expenses, all as detailed above.

Net finance income (expense)

Net finance income for Q2 2017 was US\$ 72,000 as compared to an expense of US\$ 19,000 in Q1 2017, and income of US\$ 208,000 in Q2 2016. Net finance income for H1 2017 was US\$ 53,000 as compared to US\$ 354,000 in H1 2016. The decline in net finance income on a year-over-year basis was primarily due to lower exchange rate income associated with NIS account balances.

Income tax expense

The Group recorded an income tax expense of US\$ 1.0 million for Q2 2017 as compared to an expense of US\$ 0.7 million for Q1 2017 and an expense of US\$ 0.9 million in Q2 2016. The Group recorded an income tax expense of US\$ 1.7 million for H1 2017 as compared to an expense of US\$ 1.8 million for H1 2016. The quarterly increase in income tax expense on a sequential and year-over-year bases was primarily due to a US\$ 0.3 million revaluation in deferred tax assets in accordance with official formalisation of Israel tax guidelines related to export oriented companies. The semi-annual decrease in tax expenses was primarily due to lower pre-tax profitability, as discussed above.

Profit for the period

Net profit for Q2 2017 increased to US\$ 3.2 million as compared to US\$ 2.5 million in Q1 2017 and decreased as compared to US\$ 6.0 million in Q2 2016. Net profit for H1 2017 decreased to US\$ 5.7 million as compared to US\$ 9.0 million in H1 2016. The increase in net profit on a sequential basis was primarily due to higher revenues, offset somewhat by increased operating expenses. The decrease in net profit on a year-over-year basis was primarily due to lower sales and higher operating expenses, 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 geopolitical uncertainties in North Korea, Syria and Europe (Brexit) persist.
- b. In all significant retail diamond markets, save for the domestic market in India, end consumer demand remains robust. In the second most important market, China, general and retailer-specific indicators continue to show consumer demand for luxury items, in general, and diamond jewellery specifically, expanding after a two plus year hiatus.
- c. De Beers' and other major producers' sales of rough diamonds in the second quarter of 2017 were lower than in the first quarter, with prices showing minimal increase. The reduced quantities of the sights in the second quarter were absorbed for the most part in the industry midstream, though not all of Alrosa's offered goods in the second week of July were taken, as there are growing concerns amongst manufacturers of overstocking and excessive rough pricing. The July sight was at the high end of our expectations, at a reported \$570M, with rough prices flat and all boxes being taken up. This relatively low quantity for a July sight shows prudence both from producers and manufacturers, as midstream inventories of polished stones have increased significantly, and polished stone prices have eroded commensurate with the additional goods available for sale. Expectations are that inventory levels will come down as wholesale holiday-season buying commences towards the end of the summer and into the fall.
- d. The trends noted above, no negative macroeconomics, continued consumer demand for polished diamonds in almost all major markets and renewed demand in China, should lead to continued normal industry activity in the second half of 2017, assuming polished inventory levels are, indeed, reduced by wholesale holiday-season buying.
- e. In Q2 2017 we delivered 16 inclusion mapping systems, comprising 6 Meteor™ systems, 3 Solaris™ systems, 3 Galaxy™ systems, 3 Galaxy™ Ultra systems and a Galaxy™ XL system shipped to the Botswana service centre. The unusual mix of systems delivered this quarter is indicative of the illicit competition in the Indian market (see below) which is primarily affecting sales of our systems for smaller stones, with which their patent/copyright infringing activities more directly compete. We expect these illicit competitive conditions to prevail in Q3, in accordance with the timelines set by the High Court in Ahmedabad for the upcoming court hearings, as discussed below. The Group had an installed base of 332 inclusion mapping systems as of 30 June 2017. We note that Sarine's installed base of inclusion mapping systems are currently processing record numbers of stones, with around 33,000 rough stones of all sizes being processed daily (note that these numbers include stones processed by all installed machines, also those bought on a one-time basis without ongoing usage fees).
- f. Sales programs utilising Sarine Profile™ by retailers primarily in the Asia Pacific (APAC) region and North America continue to expand. Programs with retailers in the U.S. are also gaining momentum, albeit slower than those in the APAC region due to various factors, as discussed in our past announcements (e.g., the average quality of stones sold, corporate culture, etc.). In the APAC region we have enjoyed continued geographic expansion this quarter, including commencing services in Thailand with the Aurora Group, as announced on 16 June 2017, and in South Korea with the Golden Dew retail chain. We have concluded plans for launches with additional major chains in APAC (Hong Kong and China, primarily) with actual in-store operations scheduled for the beginning of 2018, due to the scope and operational complexity of the planned programs. Due to the continued successes in the APAC region, we are doubling our sales staff, with the addition of two additional sales persons in China. We continue to expect doubling the number of stones scanned for the Sarine Profile™ in 2017, as compared to those scanned in 2016, and, based on previous experience, we expect the second half of the year to show a doubling of the revenues realised in the first six months of 2017. However, due to the long lead-times we are seeing between the signing on to the Profile™ paradigm to the actual programs' launches (mostly due to operational complexities stemming from their scope, as mentioned above), we lower our expectation of the Profile™'s contribution to overall Group sales to 3 - 4 % of revenues this year.

- g. Our new technologies for the automated, objective and consistent grading of a polished diamond's Clarity and Colour grades remain on track for commercialisation in Q3 2017, with the formal launch scheduled for mid-September. The technologies' ability to correctly match the average grading opinion of a reference group of multiple human gemmologists and the actual polished stone's gemmological lab report, when available, within a grade's accuracy, exceeds 97% for Clarity and 99% for Colour. These error rates of 3% and 1% respectively are in comparison to the current error rates of manual grading, which we have found to be in excess of 7% for Clarity and 3.5% for non-fluorescent Colour (Colour grading of fluorescent diamonds is substantially worse), based on statistical analyses of the manual grading group (note: typically, 10% of Clarity grade results are contested). We expect to further improve both these error rates to less than 1%, as the self-teaching algorithms improve over time. These technologies address the US\$500 million annual 4Cs grading market, which currently generates an estimated 7 million reports a year for stones typically a fifth of a carat and up, at prices ranging from US\$50 to US\$100 a carat. We believe that by introducing a cost-effective, consistent and reliable automated solution, the addressable market can be expanded down to polished diamonds of a tenth of a carat and up, effectively increasing the total addressable market value by 50% to US\$ 750 million annually. We will commercialise these technologies, either in conjunction with our Sarine Profile™ or independently, and charge on a per carat basis, as is the industry norm.
- h. The Allegro™ system's planning optimisation algorithms and shaping/polishing hardware are still undergoing re-evaluation, as previously disclosed.
- i. As announced on 29 June 2017, we recently filed lawsuits for patent and copyright infringement against Diyora & Bhandari Corporation and a number of its related entities (hereinafter collectively, "D&B") in Surat, India. The lawsuits claim that D&B have copied Sarine's patented Galaxy™ inclusion mapping products for the internal scanning and inclusion mapping of rough diamonds, and are using pirated and manipulated versions of Sarine's proprietary and copyrighted Advisor™ software program for the purposes of adapting the resultant imagery for use in rough diamond planning. In addition to Sarine's own investigation into this matter prior to the filing of the lawsuits, and as mentioned in the above referenced announcement, the High Court in Ahmedabad appointed commissioners to carry out on-site inspections of the defendants' premises and activities and to report back to the courts with their findings. The commissioners carried out these inspections, which lasted for close to 10 hours, and thereafter filed their respective detailed reports with the court. We are now awaiting the hearing(s) wherein the courts will rule on Sarine's requests for preliminary injunctive relief against the defendants based on those findings.
- j. Primarily, we claimed before the court in India, based on our extensive investigations, that:
- D&B are operating a rough diamond scanning operation that utilises the same technology and processes as Sarine's patented family of inclusion mapping systems and copyrighted Advisor™ rough planning software program. Diamonds that were submitted by Sarine's investigators to D&B for scanning and analysis, and the digital reports provided by D&B with respect to those scans, as well as other subsequent tests performed on the stones, clearly show that the patented processes are being duplicated. Furthermore, expert analyses of the digital files containing the scanning reports demonstrate that the software being used by D&B to produce such files is an illegally modified version of Sarine's proprietary Advisor™ program, which, we believe, could not have been done without illegally breaching our software.
 - D&B, of course, are disputing the aforesaid stand taken by us. They claim that their systems do not infringe Sarine's patented and copyrighted technologies. Sarine is awaiting the release by the court of the commissioners' reports, at which time we will be able to relate more extensively to the exact evidence that was found during those inspections. It is expected that in addition to the evidence already available to us, the local commissioners' reports will substantiate our claims before the court and more clearly show what we already know and further suspect.
 - Based upon information obtained through various sources, we understand that a substantial number of duplicated Galaxy™ systems are installed at D&B's facilities, along with multiple pirated and illegally manipulated copies of the Advisor™ software program. It is, however, unclear how many of the installed systems are already operational or are simply warehoused for future use. Furthermore, we have indicative information that the duplicated machines operate with throughput significantly less than that of the Galaxy™. Thus, the scope of the illicit operations is not, as yet, clear.
- k. In addition to the legal processes we have initiated and which continue vis-à-vis the appropriate courts in India, we have also addressed these Intellectual Property (IP) issues with various arms of the Israeli

government, specifically, the Ministry of Economy and Industry and the Ministry of Science and Technology. These will be addressing these issues through the appropriate diplomatic channels. Furthermore, we are also involving international diamond industry organs and law-enforcement agencies to increase awareness of and help fight this and other IP infringements (e.g., see announcement of 23 July 2017 on arrests in Israel of suspected would-be IP thieves). Lastly, we are leveraging our market position and the release of innovations to the planning process (Advisor™ 7.0) and other facets of the diamond manufacturing and wholesale/retail sales processes, to incentivise and reward our loyal customers.

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

- **Polished diamond oriented systems:**

- We will continue to enhance our **Sarine Profile™**:
 - Introduction of yet another imagery format in true 360 degrees, specifically designed to enhance the ability to showcase special modified cuts, which are more and more the mainstay of special retail branded programs. This function will allow the retailer and the consumer to interactively and engagingly examine the unique faceting of these unique shapes. It should be noted that for modified shapes, as well as for lab-grown diamonds, the stone's quality of faceting and light performance characteristics (see bullet below) are becoming an integral part of the stone's grading, essentially on a par with the 4Cs.
 - In order to support a growing trend of producers' wishing to brand their rough stones, we will enhance the Sarine Profile™ in order to effectively present the rough-to-polish (aka "chain of custody") story. This will include the importation of the rough stone external imaging, inclusion mapping imaging and the Advisor™ planning imagery into the Sarine Profile™. We will leverage our dominant market share in inclusion mapping and planning to seamlessly enable this integration.
 - Enhancement of our support of jewellery pieces, in addition to loose polished diamonds. As retail businesses display set jewellery by far more often than loose stones, this will significantly broaden the appeal and applicability of Sarine Profile™.
 - Enhancement of our support of retailers' generic marketing material, images, video, text, etc., on the overall chain, store and program levels, so as to present the retailer's positioning message more effectively.
- Continued development of special integrative processes, involving retailers, suppliers and Sarine for enhancing the **Sarine Light™** grading results of unique modified shapes of polished diamonds. By teaching the Advisor™ unique proprietary recipes for these stones' optimal polishing, we can improve polishing results significantly, thus enhancing these stones market appeal (especially in the APAC region). Initial results on three programs, which have opted for this service, have shown tangible improvements in these stones' light performance grades, with a much higher proportion of Ultimate grades derived. In one case study, the proportion of Ultimate *** graded stones, which command a significant premium at the retail outlet, doubled from only 15% to 30%, and continuing work is aimed at pushing this percentage to fully half of production.
- Continuation of the refinement of the **Clarity and Colour** grading capabilities currently in testing, having evaluated 10,000 polished stones for Clarity and 5,000 for Colour. Complete our end-to-end technological solution for the 4Cs grading for launch in Q3, as planned, including process management, data security, etc.
- Initial assessment of available technologies and possible enhancements to the solutions for the authentication of a polished diamond being of natural source and untreated, especially as applicable to the high-speed screening of very small polished diamonds (so called "melee").

- **Manufacturing products:**

- **Advisor™** – following our June release (announced 19 June 2017) of our newest and most-capable-ever Advisor™ 7.0 rough planning software, with significant new value-added features, including light performance simulation and evaluation, we are continuing to enhance this industry-leading package with additional unique functionality. The next capability slated for release later this year is the support of a stress (tension) display and analysis package, which will enable planners to take into consideration physical complexities within the rough diamond, when planning its optimal cutting solutions.
- **Axiom™** – We will release the third generation of our standard-setting Axiom™ system for the ultra-accurate (better than 10 micron accuracy) measurement of a polished diamond's proportions.

The new system will provide for unmatched accuracy in the measurement of all fancy shaped diamonds, including special modified branded shapes. This ability will enable the Sarine Profile™ to support far more accurate renditions of fancy and special shapes, including the more accurate analysis of their quality. As these diamonds typically do not get a Cut grade from gem labs, by empowering much better simulations of these diamonds' light performance, hearts and arrows, and photo-realistic qualities, we will provide a far better means to show and tell their quality.

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 2.00 per ordinary share for the half-year ended June 30, 2017, in accordance with the 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 2016, the Board of Directors had declared an interim dividend of US cents 2.00 per ordinary share for the half-year ended June 30, 2016.

(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 US\$'000</u>	<u>Tax rate applicable to shareholders %</u>
2017	7,025	20%/0% ¹ / 10% ^{2,3}
2016	7,004	20%/10% ¹ / 10% ²

¹ The tax rate will be 20% (20% in 2016) for individual Israeli shareholders and 0% (0% in 2016) for Israeli corporate shareholders.

² The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2016).

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 US\$'000</u>
8.9.17	7,025
8.9.16	7,004

(e) Books Closure Date

5:00 PM on:

	<u>Amount</u> <u>US\$'000</u>
24.8.17	7,025
25.8.16	7,004

12. If no dividend has been declared/recommendeded, 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, 2017, 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


Uzi Levami
Executive Director

6 August 2017