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):

	Group Quarter ended June 30,			Group Six months ended June 30,		
	2019	2018	Change %	2019	2018	Change %
Revenue	**11,597**	**17,959**	**(35.4)**	**22,519**	**34,620**	**(35.0)**
Cost of sales	5,074	5,775	(12.1)	9,863	11,070	(10.9)
Gross profit	**6,523**	**12,184**	**(46.5)**	**12,656**	**23,550**	**(46.3)**
Research and development expenses	2,118	2,454	(13.7)	4,184	5,122	(18.3)
Sales and marketing expenses	3,359	3,556	(5.5)	6,607	7,011	(5.8)
General and administrative expenses	1,938	1,500	29.2	3,582	3,179	12.7
Profit (loss) from operations	**(892)**	**4,674**	**NM**	**(1,717)**	**8,238**	**NM**
Net finance income (expense)	(134)	87	NM	(295)	111	NM
Profit (loss) before income tax	**(1,026)**	**4,761**	**NM**	**(2,012)**	**8,349**	**NM**
Income tax expense	380	629	(39.6)	804	1,109	(27.5)
Profit (loss) for the period	**(1,406)**	**4,132**	**NM**	**(2,816)**	**7,240**	**NM**
Foreign currency translation differences from foreign operations	41	(499)	NM	140	(665)	NM
Total comprehensive income (loss) for the period	**(1,365)**	**3,633**	**NM**	**(2,676)**	**6,575**	**NM**

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

Profit (loss) before income tax is stated after charging the following:

	Group Quarter ended June 30,			Group Six months ended June 30,		
	2019	2018	Change %	2019	2018	Change %
Allowance for doubtful trade receivables	6	2	200.0	(23)	9	NM
Depreciation and amortization	1,072	1,050	2.1	2,251	1,959	14.9
Interest (expense) income, net	(13)	83	NM	(12)	165	NM
Exchange rate differences	(121)	4	NM	(283)	(54)	424.1
Warranty provision	(10)	8	NM	(6)	10	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):

	Group		Company	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Assets				
Property, plant and equipment	14,153	14,641	1,243	1,381
Right-of-use assets	6,491	--	5,821	--
Intangible assets	4,220	4,944	308	342
Investment in equity accounted investee and subsidiaries	--	--	41,216	44,437
Deferred tax assets	934	998	--	--
Total non-current assets	25,798	20,583	48,588	46,160
Inventories	6,737	7,032	4,609	5,297
Trade receivables	15,059	16,406	3,723	3,980
Other receivables	2,524	3,037	860	835
Short-term investments (bank deposits)	9,703	12,021	6,051	7,787
Cash and cash equivalents	18,029	16,832	7,873	7,271
Total current assets	52,052	55,328	23,116	25,170
Total assets	77,850	75,911	71,704	71,330
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(3,576)	(3,576)	(3,576)	(3,576)
Share premium, reserves and retained earnings	63,404	69,232	63,404	69,232
Total equity	59,828	65,656	59,828	65,656
Liabilities				
Long-term lease liabilities	5,920	--	5,489	--
Employee benefits	202	192	192	182
Total non-current liabilities	6,122	192	5,681	182
Trade payables	3,591	2,328	1,467	1,377
Current lease liabilities	1,182	--	899	--
Other payables	6,524	6,831	3,631	3,889
Current tax payable	294	589	--	--
Warranty provision	309	315	198	226
Total current liabilities	11,900	10,063	6,195	5,492
Total liabilities	18,022	10,255	11,876	5,674
Total equity and liabilities	77,850	75,911	71,704	71,330

* No par value

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

Zero borrowings from banks as at June 30, 2019 and December 31, 2018

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 Quarter ended June 30,		Group Six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Cash flows from operating activities				
Profit (loss) for the period	(1,406)	4,132	(2,816)	7,240
Adjustments for:				
Share-based payment expenses	190	333	354	621
Income tax expense	380	629	804	1,109
Depreciation of property, plant and equipment	774	624	1,527	1,107
Amortisation of intangible assets	298	426	724	852
Net finance income	(52)	(87)	(102)	(111)
Revaluation of lease liabilities	122	--	333	--
Changes in working capital				
Inventories	244	(374)	295	527
Trade receivables	(2,023)	(2,912)	1,347	(2,893)
Other receivables	(396)	334	235	133
Trade payables	1,066	1,344	1,263	1,765
Other liabilities	(39)	(884)	43	424
Employee benefits	4	(8)	10	(11)
Income tax paid, net	(175)	(543)	(757)	(1,138)
Net cash (used in) from operating activities	(1,013)	3,014	3,260	9,625
Cash flows used in investing activities				
Acquisition of property, plant and equipment	(202)	(839)	(366)	(1,182)
Proceeds from realization of property, plant and equipment	16	--	33	--
Short-term investments, net	2,775	481	2,318	(2,409)
Interest received	147	83	223	165
Net cash from (used in) investing activities	2,736	(275)	2,208	(3,426)
Cash flows used in financing activities				
Proceeds from exercise of share options	--	--	--	80
Purchase of Company's shares by the Company	--	(428)	--	(428)
Payment of lease liabilities	(295)	--	(644)	--
Dividend paid	(3,506)	(5,268)	(3,506)	(5,268)
Interest paid	(96)	--	(171)	--
Net cash used in financing activities	(3,897)	(5,696)	(4,321)	(5,616)
Net increase in cash and cash equivalents	(2,174)	(2,957)	1,147	583
Cash and cash equivalents at beginning of the period	20,202	20,218	16,832	16,736
Exchange rate differences	1	4	50	(54)
Cash and cash equivalents at end of the period	18,029	17,265	18,029	17,265

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, 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 income 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
Balance at January 1, 2019	--	32,199	(2,212)	39,245	(3,576)	65,656
Loss for the period ended June 30, 2019	--	--	--	(2,816)	--	(2,816)
Other comprehensive income for the period ended June 30, 2019	--	--	140	--	--	140
Share-based payment expenses	--	354	--	--	--	354
Dividend paid	--	--	--	(3,506)	--	(3,506)
Balance at June 30, 2019	--	32,553	(2,072)	32,923	(3,576)	59,828

* 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, 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 income 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
Balance at January 1, 2019	--	32,199	(2,212)	39,245	(3,576)	65,656
Loss for the period ended June 30, 2019	--	--	--	(2,816)	--	(2,816)
Other comprehensive income for the period ended June 30, 2019	--	--	140	--	--	140
Share-based payment expenses	--	354	--	--	--	354
Dividend paid	--	--	--	(3,506)	--	(3,506)
Balance at June 30, 2019	--	32,553	(2,072)	32,923	(3,576)	59,828

* 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.

	June 30, 2019	March 31, 2019	June 30, 2018
	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	353,672,126	353,672,126	353,672,126
Dormant shares (out of the issued and fully paid share capital)**:**			
Ordinary shares of no par value	3,076,400	3,076,400	2,923,500
Total number of issued shares (excluding dormant shares)	350,595,726	350,595,726	350,748,626

For the three months ended June 30, 2019, no share options were exercised into ordinary shares. For the three months ended June 30, 2019, 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 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, 2019, March 31, 2019 and June 30, 2018 included 3,076,400, 3,076,400 and 2,923,500 dormant shares, respectively.

Details of changes in share options:

	Average exercise price in US$ per share	Options
At January 1, 2019	1.107	19,876,884
Granted	0.265	7,070,000
Cancelled	0.934	(3,675,502)
Exercised	--	--
At June 30, 2019	0.883	23,271,382

At June 30, 2019, the average exercise price in Singapore dollars per share was S$ 1.206, based on an exchange rate of US$ 1 = S$ 1.3535.

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, 2019, the total number of issued shares excluding dormant shares was 350,595,726 (as at December 31, 2018- 350,595,726). As at June 30, 2019, the total number of dormant shares was 3,076,400 (as at December 31, 2018- 3,076,400).

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, 2019, 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, 2018 have been applied in the preparation for the financial statements for period ended June 30, 2019, except for the adoption of IFRS 16, Leases.

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 16 had a material effect on our consolidated financial statements from January 1, 2019, and has had no impact on the presented comparable period. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead, IFRS 16 presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize a right-of-use asset and a lease liability in its financial statements (with two exceptions whereby a lessee may elect to not apply the requirements for recognizing a right-of-use asset and a liability with respect to short-term leases of up to one year and/or leases where the underlying asset has a low value). Therefore, from January 1, 2019, depreciation expenses and financing expenses will be recognized instead of operating lease expenses relating to assets leased under an operating lease. The adoption of IFRS 16 resulted in an increase of approximately $7.0 million in the balance of right-of-use assets and an increase of approximately of $7.3 million in the balance of lease liabilities, as at January 1, 2019. For the six months ended June 30, 2019, the Group recorded deprecation expenses of $0.6 million, interest expenses of US$ 0.2 million and exchange rate differences related to the revaluation lease liabilities of US$ 0.3 million.

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,	
	2019	**2018**	**2019**	**2018**
US cents				
Basic (loss) earnings per share	(0.40)	1.18	(0.80)	2.06
Diluted (loss) earnings per share	(0.40)	1.18	(0.80)	2.06
Singapore cents*				
Basic (loss) earnings per share	(0.54)	1.60	(1.08)	2.79
Diluted (loss) earnings per share	(0.54)	1.60	(1.08)	2.79

Basic (loss) earnings per share for the three months ended June 30, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares issued during the current period and the equivalent of 351,120,197 ordinary shares during the preceding period.

Diluted (loss) earnings per share for the three months ended June 30, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares and outstanding options and the equivalent of 351,120,197 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the six months ended June 30, 2019 are calculated based on the weighted average number of 350,595,726 ordinary shares issued during the current period and the equivalent of 351,219,485 ordinary shares during the preceding period.

Diluted earnings per share for the six months ended June 30, 2019 are calculated based on weighted average number of 350,595,726 ordinary shares and outstanding options and the equivalent of 351,224,991 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US$ 1= S$ 1.3535 at June 30, 2019.

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:
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	June 30, 2019	**December 31, 2018**	**June 30, 2019**	**December 31, 2018**
Net asset value (US$ thousands)	59,828	65,656	59,828	65,656
Net asset value per ordinary share (US cents)	17.06	18.73	17.06	18.73
Net asset value per ordinary share (Singapore cents*)	23.09	25.35	23.09	25.35

At June 30, 2019, net asset value per share is calculated based on the number of ordinary shares in issue at June 30, 2019 of 350,595,726 (not including 3,076,400 dormant ordinary shares at June 30, 2019). At December 31, 2018, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2018 of 350,595,726 (not including 3,076,400 dormant ordinary shares at December 31, 2018).

* Convenience translation based on exchange rate of US$ 1=S$ 1.3535 at June 30, 2019.

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:-
(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

As disclosed in our profit guidance on July 18, 2019, our business activity continued to be significantly impaired during the second quarter of 2019. The Group reported in Q2 2019 revenues of US$ 11.6 million, a loss from operations of US$ 0.9 million, and a net loss of US$ 1.4 million, as compared to revenues of US$ 18.0 million, profit from operations of US$ 4.7 million and net profit of US$ 4.1 million reported in Q2 2018, and as compared to revenues of US$ 10.9 million, loss from operations of US$ 0.8 million and net loss of US$ 1.4 million reported in Q1 2019. Similarly, the Group reported in H1 2019 revenues of US$ 22.5 million, a loss from operations of US$ 1.7 million, and a net loss of US$ 2.8 million, as compared to revenues of US$ 34.6 million, profit from operations of US$ 8.2 million and net profit of US$ 7.2 million reported in H1 2018.

During H1 2019, challenging conditions in the industry's midstream continued to affect our business. Our midstream customers continued to experience working capital issues due to credit tightening policies implemented by Indian banks, with an ongoing reduction of the already extended credit. Negative sentiments related to the ongoing trade disputes between the U.S. and China, which continued to dampen consumer sentiment in the critically important Chinese market, as well as continued uncertainties surrounding lab-grown diamonds (LGD) in the market also contributed to adverse sentiments in the industry's midstream.

Together, these factors resulted in a reduction in manufacturing activities, and reduced recurring revenues from inclusion mapping activities - down 3% and 12% y-o-y for the three and six months ended June 30, 2019, respectively, though up 15% sequentially in Q2 over Q1. The reduction in manufacturing activities is also evident from the accelerating reduction of miners' rough output into the pipeline with DeBeers sights having been reduced by 18% during H1 2019 (see details in section 10, paragraph d) and Alrosa rough diamond sales down by 32%. The negative conditions also contributed to a tendency to postpone capital equipment expenditures (down over 50% y-o-y).

Notwithstanding all these issues, the Group delivered a record 34 Galaxy®-family inclusion mapping systems in Q2 2019 (one more than in Q1 2019). Notably, all these systems were delivered in India – continuing indication of the Indian market's growing understanding and appreciation of the value of our technology over the pirated version of same (only available in India). The delivered systems were all of the Meteorite™ models, bringing our installed base up to 477 systems as of June 30, 2019.

Overall recurring revenues for H1 2019 (including Galaxy®-related scanning, Quazer® services, polished diamond related ("Trade") services, annual maintenance contracts, etc.) was over 55% of our overall revenue. Overall polished diamond retail-related revenues, currently mostly still only from the Sarine Profile™ and its various components (Sarine Light™, Sarine Loupe™, Sarine Connect™, etc.) were just under 3% of our overall revenue for H1 2019.

Balance Sheet and Cash Flow Highlights

As at June 30, 2019, cash, cash equivalents and short-term investments (bank deposits) ("**Cash Balances**") decreased to US$ 27.7 million as compared to US$ 28.9 million as of December 31, 2018. The decrease in Cash Balances was primarily due to the US$ 3.5 million final dividend paid in Q2 2019 for FY2018, operational results, as detailed below, offset mainly by lower trade receivables and increased trade payables.

The negative operating cash flow of US$ 1.0 million in Q2 2019 was primarily due to an increase of US$ 2.0 million in trade receivables, offset somewhat by higher trade payables of some US$ 1.1 million, and our net loss of US$ 1.4 million (of which US$ 1.0 million was non-cash, as mentioned below).

The net loss for the three and six months ended June 30, 2019, of US$ 1.4 million and US$ 2.8 million, respectively, included approximately US$ 1.0 million and US$ 2.0 million, respectively, in non-cash depreciation, amortisation and share based options compensation. See also Section 4 and 5 in reference to the implementation of IFRS 16, Leases.

Revenues

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

Q2 2019 versus Q2 2018				
Region	**Q2 2019**	**Q2 2018**	**$ change**	**% change**
India	8,158	12,060	(3,902)	(32.4)
Africa	964	2,613	(1,649)	(63.1)
Europe	361	658	(297)	(45.1)
North America	263	213	50	23.5
Israel	900	896	4	0.4
Other*	951	1,519	(568)	(37.4)
Total	11,597	17,959	(6,362)	(35.4)

H1 2019 versus H1 2018				
Region	**H1 2019**	**H1 2018**	**$ change**	**% change**
India	15,177	25,583	(10,406)	(40.7)
Africa	2,309	3,467	(1,158)	(33.4)
Europe	684	1,002	(318)	(31.7)
North America	576	493	83	16.8
Israel	1,506	1,949	(443)	(22.7)
Other*	2,267	2,126	141	6.6
Total	22,519	34,620	(12,101)	(35.0)

Q2 2019 versus Q1 2019				
Region	**Q2 2019**	**Q1 2019**	**$ change**	**% change**
India	8,158	7,019	1,139	16.2
Africa	964	1,345	(381)	(28.3)
Europe	361	323	38	11.8
North America	263	313	(50)	(16.0)
Israel	900	606	294	48.5
Other*	951	1,316	(365)	(27.7)
Total	11,597	10,922	675	6.2

* Primarily Asia, excluding India

Revenues for Q2 2019 decreased to US$ 11.6 million as compared to revenues of US$ 18.0 million in Q2 2018, and increased as compared to US$ 10.9 million in Q1 2019. Revenues for H1 2019 decreased to US$ 22.5 million as compared to US$ 34.6 million in H1 2018. The decrease in revenues on a year-over-year basis, across most geographies, resulted from significantly lower capital equipment sales and reduced recurring revenues due to a decline in the number of rough diamonds entering the pipeline. The sequential quarterly increase in revenues was due to increased recurring revenue from Galaxy scanning activities (both related to the increased installed base of Meteorite/Meteor machines in India, increased Galaxy service centre revenues and increased Galaxy scanning revenues from customers outside of India).

Cost of sales and gross profit

Cost of sales in Q2 2019 decreased to US$ 5.1 million, as compared to US$ 5.8 million in Q2 2018, with a gross profit margin of 56% in Q2 2019 versus 68% in Q2 2018, and increased as compared to US$ 4.8 million with a gross profit margin of 56% in Q1 2019. Cost of sales for H1 2019 decreased to US$ 9.9 million as compared to US$ 11.1 million, with a gross profit margin of 56% in H1 2019 versus 68% in H1 2018. The decrease in cost of sales and the associated decline in gross margin on a year-over-year basis was primarily due to significantly lower sales volumes and product mix in Q2 2019 and H1 2019 (increased number of Meteor™/Meteorite™ and lower recurring revenues from inclusion scanning) compared to 2018. The increase in cost of sales on a sequential basis was primarily due to product mix in Q2 2019 as compared to Q1 2019.

Research and development expenses

Research and development (R&D) costs for Q2 2019 of US$ 2.1 million decreased as compared to US$ 2.5 million in Q2 2018 and was virtually flat with Q1 2019. Research and development expenses for H1 2019 decreased to US$ 4.2 million as compared to US$ 5.1 million in H1 2018. The decrease in research and development costs, primarily due to lower employee compensation expenses, was in line with our planned reductions in R&D activities.

Sales and marketing expenses

Sales and marketing expenses for Q2 2019 decreased to US$ 3.4 million as compared to US$ 3.6 million in Q2 2018, and increased as compared to US$ 3.2 million in Q1 2019. Sales and marketing expenses for H1 2019 decreased to US$ 6.6 million as compared to US$ 7.0 million in H1 2018. The year-over-year decrease in sales and marketing expenses was due to decreased marketing and trade-show expenses, lower third-party sales commissions, and reduced incentive-based compensation accruals, offset by higher personnel compensation expenses in the Asia Pacific (APAC) region, due to the bolstering of our sales teams in these markets, in line with the Group's focus on gaining traction in its retail-related services business in this market. The sequential increase in sales and marketing expenses was primarily related to higher trade show expenses associated with the JCK show in the second quarter.

General and administrative expenses

General and administrative expenses for Q2 2019 increased to US$ 1.9 million as compared to US$ 1.5 million in Q2 2018, and as compared to US$ 1.6 million in Q1 2019. General and administrative expenses for H1 2019 increased to US$ 3.6 million as compared to US$ 3.2 million in H1 2018. The year-over-year and sequential increase in general and administrative expenses was primarily due to higher third-party professional fees, especially in Q2 2019, related to the trial phase of our patent litigation in India during Q2 2019 (see Section 10).

Profit (loss) from operations

The Group reported a loss from operations of US$ 0.9 million for Q2 2019, as compared to a profit from operations of US$ 4.7 million in Q2 2018, and virtually the same as our loss from operations of US$ 0.8 million in Q1 2019. The Group reported a loss from operations of US$ 1.7 million for H1 2019, as compared to profit from operations of US$ 8.2 million in H1 2018. The year-over-year loss of profitability was primarily due to lower revenues and gross profitability, as detailed above.

Net finance income (expense)

Net finance expense for Q2 2019 was US$ 134,000, as compared to net finance income of US$ 87,000 in Q2 2018. Net finance expense for H1 2019 was US$ 295,000 as compared to net finance income of US$ 111,000 in H1 2018. The increase in net finance expense was primarily due to the recording of interest expenses and exchange rate differences associated with the new application of IFRS 16 on our leases (see Section 4 and Section 5).

Income tax expense

The Group recorded an income tax expense of US$ 0.4 million for Q2 2019 as compared to an expense of US$ 0.6 million for Q2 2018, and as compared to US$ 0.4 million in Q1 2019. The Group recorded an income tax expense of US$ 0.8 million for H1 2019 as compared to an expense of US$ 1.1 million for H1 2018. Income tax expenses in 2019, despite our operational losses, were due to income tax expenses associated with subsidiary profitability during the applicable periods.

Profit for the period

The Group reported a net loss of US$ 1.4 million for Q2 2019 as compared to a net profit of US$ 4.1 million in Q2 2018, same as our net loss of US$ 1.4 million in Q1 2019. The Group reported a net loss of US$ 2.8 million for H1 2019 as compared to a net profit of US$ 7.2 million in H1 2018. The year-over-year loss of profitability was primarily due to lower revenues and gross profitability, 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. The mutual trade tariffs imposed between the U.S and China have slowed the latter's economy, with growth down to just over 6%, the lowest in nearly three decades. This has in turn had a negative impact on Chinese consumer sentiment, with rough diamond sales by Alrosa (see paragraph [c] below) down by 32% in the first half of 2019, attributed mainly to slowing demand in China, the second largest market for polished diamonds. Major diamond / jewellery retailers in China reported sales down an average of 10% in Q1 2019 and further noted that the civil unrest in Hong Kong impaired sales volumes there as well. The recent devaluation of the Yuan may have further negative impact on Chinese consumer sentiment. For now the U.S. market remains strong, in light of overall positive economic news, with retail sales up 3.4% for the first half of 2019.

b. Banks in India continue to implement their restrictive credit policies and thus impact available working capital, creating cash-flow problems for many midstream entities. This is still the primary negative factor impacting the midstream of the diamond industry. ABN Amro has gone a step further and has curtailed its financing of rough-diamond purchases, citing a lack of profitability in the manufacturing and trading sectors. The Dutch bank will now only extend credit for buying rough diamonds, if no proof of immediate onward sale of the rough provided, if the buyer can show it will make money from the rough's polishing. They have explicitly urged the trade to show restraint by purchasing rough only when clearly profitable.

c. Notwithstanding their being an insignificant fraction of the overall retail diamond market at this time, lab-grown diamonds (LGD) continue to disrupt the diamond industry, primarily impacting smaller and lower quality goods. Though most industry players (e.g., 80% of RapNet members by poll) view them as little more than fashion jewellery with no intrinsic value (and have petitioned the U.S. Federal Trade Commission that an apt warning in this spirit needs to be provided to the potential consumer considering LGD), there are retailers, mostly in the U.S., embracing same. Both the market segment of smaller sizes and lower qualities, as well as the U.S. market being the primary geography of adoption, at this time, are in line with our expectations, as noted in previous discourses on the issues related to LGD in our earlier quarterly announcements.

d. The aggregate six DeBeers' sights through July 2019 are down 23%. However, tellingly, the May, June and July sights were down 25%, 33% and 53(!)%, respectively, compared to the corresponding sights of 2018. Alrosa's sales for the first half of 2019 were down even more - 32% y-o-y. Furthermore, prices of rough sold by DeBeers' during the first six months of 2019 were down an average 7%, with additional decreases expected going forward. All these data are symptomatic of the midstream's liquidity issues and oversupply of polished goods. The latter issue of excess inventory is expected to be resolved over time, most likely towards the holiday season at year's end.

e. Having noted all the current negatives above, we would like to highlight a summary of the current state of affairs as seen by Paul Zimnisky, CFA, an independent diamond industry analyst and consultant based in the New York metro area (http://www.paulzimnisky.com/is-the-diamond-industry-really-in-a-crisis), "While overall industry sentiment is dire at the moment, the current challenges are seemingly more deeply seated in oversupply than a lack of end-consumer demand, which is arguably a more manageable task for the industry then vice versa. While each segment of the industry is going through its own catharsis of sorts, current problems appear to be most rooted in the cutting and polishing, or manufacturing, segment of the supply chain which undoubtedly makes the industry sensitive to any slowing consumer demand. That said, the industry is arguably approaching the final innings of a shift to a more efficient pipeline after a multiyear deleveraging of supply. The strongest players are set to survive setting the stage for a leaner industry set on sounder footing than it has in years —perhaps the diamond industry's version of the U.S. financial sector post-Lehman Brothers and Bear Stearns in 2008-2009."

Interestingly, he notes the record number of new stores opened in China this past year by Chow Tai Fook (549 new stores in the fiscal year ended on March 31, the most new store openings in a fiscal year in the company's history), as does Rapaport note a decided slowing in jewellery shop closures in the U.S., both an indication of no long-term breakdown in consumer demand neither in China nor the U.S.

f. To meet the current industry challenges, we continue to diligently manage our expenses, balancing our long-term goals, and the efforts necessary to realise them, with the short-term difficult conditions. Though slightly up sequentially (e.g., due to key annual trade shows), our R&D and S&M expenditures are down 18% and 6% y-o-y, respectively, the latter even as we have added personnel in various geographies throughout the APAC region, in which we are gaining momentum. Our G&A expenses, up 13% y-o-y, will not decrease so long as our aggressive litigations in India on IP infringement continue, though we do not expect legal costs to constantly be as high as in Q2, during which the main trial phase of the patent infringement suit incurred higher direct and indirect expenditures. We will continue to vigilantly monitor our costs so as to progress towards our long-term prospects with minimal short-term negative results, until industry conditions and activity revert to normal.

g. Notwithstanding the noted negative sentiment and working capital issues, we delivered a record 34 inclusion mapping systems in Q2 2019, all of the Meteorite™ model, all in India, besting our Q1 2019 record by one system. This continues to indicate our ongoing success at reducing the effects of the illicit competition, as detailed below. These deliveries bring our installed base to 477 as of June 30, 2019. We continue to see scanning activities at record levels including days with the number of scans exceeding 55,000. In the first half of 2019 we scanned some 8 million stones, as compared to 12 million stones scanned in the whole of 2018, bringing the total number of stones scanned since the launch of our Galaxy® technology a decade ago to over 50 million.

h. Based on our continued setting of new records of rough stones being scanned by our inclusion mapping systems and the record quarterly sales of inclusion mapping systems to Indian manufacturers, we believe we are significantly constraining the illicit competition.
   - Technological – As per the announced year-end-2018 end-of-life of Advisor® 5.3 (and earlier versions), the window for free or reduced-cost upgrades has closed. The manufacturers who have availed themselves of this offer and who have migrated to Advisor® 7.0 as of the end of Q2 2019, account for some 17,500 installations. We are following through on this with an end-of-life of older software versions of the Galaxy® system to further limit the domain of systems addressable by infringing parties.
   - Commercial – Our expanding relationships with producers, such as Dominion's CanadaMark® and Lucara's Clara initiatives (as well as ongoing talks with additional miners), and the ever-growing number of retailers launching programs primarily implementing the Sarine Profile™ and the Sarine Diamond Journey™ provenance solution are also contingent on the use of Advisor® 7.0.
   - We continue to pursue parallel lawsuits against Diyora & Bhanderi Corporation ("DBC") for their patent and copyright (software) infringements. The trial in the patent infringement suit took place from April through June of this year, with expenses increasing commensurately in Q2 2019, and the parties are currently in the process of finalising the evidence with the court and scheduling the submission of final trial briefs and oral arguments. As for the copyright infringement case, the court has scheduled hearings concerning our motions for relief regarding the blatant refusal of DBC to provide the court-appointed expert key files, which he had requested during his analysis of the parties' software. Said refusal was in direct contravention of previous court orders to fully comply with all the expert's requests for data and effectively rendered the analysis inconclusive.
   - Other Enforcement – We continue to provide industry players with details of the alleged infringements, and actions implemented by leading producers and retailers in response to our representations have clearly impaired the infringing parties' activities.

i. Our Sarine Profile™ continues gaining footholds, primarily in Asia. We have signed on two new customers in China and three in Taiwan (a new geographical presence), with two additional Taiwanese retailers in the process of finalising their implementation. Furthermore, our prominent Japanese customers, New Art (previously CIMA) and K-Uno are expanding into Taiwan using all our various offerings - Sarine Profile™, Light Performance, Sarine Diamond Journey™ and our 4Cs (K-Uno only). Our expansion into Taiwan (and Indonesia) has been due to the addition of local sales people as well as targeted marketing campaigns such as our 'Diamond Journey' video, which has, in less than 3 months, garnished close to half a million views (https://www.youtube.com/watch?v=2I88fWe5H0o). In northern India, five prominent retailers have initiated programs utilising our Sarine Profile™ and 15 more are in various evaluation stages with demo installations. We are now initiating a sales campaign in southern India, as well. We have also initiated programs with a prominent Israeli retailer with outlets in Israel and eastern Europe. Three of our Sarine Profile™ customers in Australia, Hong Kong and Malaysia have also adopted our 4Cs and we continue leveraging our presence with retailers to promote our AI-based paradigm of diamond grading.

j. Interest in our Sarine Diamond Journey™ provenance (traceability) solution has accelerated significantly at and following the JCK Show in Las Vegas, also on the heels of the U.S. Department of State's clear demand that the industry move forward to resolve the issue of documentation of a polished diamond's source. Leading luxury high-end industry players, as well as large and mid-range retail chains and individual outlets are enquiring and moving forward with actual implementations of our industry-leading solution, comprising the most comprehensive, readily verifiable and tamper-proof information with the least overhead associated with its adoption. As an added benefit, our solution also provides the retailer unmatched visual/video means with which to promote the diamond's story, including an optional 3D-printed scaled model of the actual original rough diamond from which the polished gem was painstakingly derived, as already offered by Sarine's long-time customer New Art in Japan. Notably, New Art launched this new offering with a national television interview with the chain's CEO (see link https://www.youtube.com/watch?v=eR9fNOB-5Ek, in Japanese with English subtitles), and followed through with a campaign celebrating the 100th anniversary of the Tolkowsky Ideal Cut diamond and the re-creation of the Superiorite crown, valued at US$ 11 million, the original of which was stolen in 2007. The campaign in leading media is also accompanied by an exposition pavilion, which opened July 13th at the 43 day Asahi Summer Festival in Tokyo, showcasing the crown, the Tolkowsky story and Sarine's technology (https://news-tv.jp/_ct/16959519). As major midstream polishers' awareness of this new retail opportunity grows, they are opting to sign onto the concept, implementing the appropriate steps during their diamonds' polishing, so as to have their stones Journey™-ready for interested retailers, a tangible benefit for them. We will launch an integrated end-to-end solution, from mine to retail outlet, with verifiable fingerprinting of the polished diamond at the September Hong Kong show. The 14 original Sarine Diamond Journey official partners announced previously are expected to have expanded to 25 by the Hong Kong show in September. These are force multipliers for us, as they market our paradigm to their retail customers, even to those with whom we have not had prior discourse.

We continue to focus our initiatives on the following objectives:

- **Industry-wide propositions:**
  - We continue refining our provenance (Sarine Diamond Journey™) and related (e.g., fingerprinting) capabilities**.** We have implemented an end-to-end ability to trace a rough diamond from mining supplier to midstream polisher and subsequently through its polishing. As noted above, we will launch this integrated end-to-end solution, from mine to retail outlet, with a verifiable in-store validation procedure of the polished diamond's provenance (see below), at the September Hong Kong show.
  - TruMatch™, at the JCK show in June in Las Vegas, we introduced the last link of our provenance solution for use in the retail environment on both loose and set stones. TruMatch™ is a low-cost device that enables the retailer to validate to the consumer, on the sales floor, the source origin and provenance chain of the offered diamond in real time. This unique innovation is a key component of the Sarine Diamond Journey™ provenance offering, as it differs from all other solutions in its ability to verify the traceability information right in front of the consumer before his/her own eyes. This sophisticated solution integrates actual fingerprinting features from the polished diamond with visual cloud-based data to ensure the stone's true identity. The TruMatch™ process requires no complex training or expertise and its simplicity and speed of data retrieval allow it to be seamlessly integrated into the sales process.
  - TruMatch™ can also provide a verification solution for additional industry segments such as:
    - E-Commerce – A consumer can readily verify that the item purchased online and that delivered are indeed one and the same merchandise, and e-tailers can instantly verify that the merchandise returned was not tampered with.
    - Buybacks and upgrades – retailers can immediately verify that they are buying back / upgrading the actual diamonds previously sold by them.
    - Jewellery cleaning and repair – A consumer will no longer have to be concerned with the "post-traumatic switch syndrome", which we are all cautioned about by our seniors, as the

service provider will instil confidence by confirming for his customer that the same diamond submitted for servicing was, in fact, returned.
    - Insurance – unequivocal identification of insured gems.
    - Banking – straightforward identification of collateral against which credit is issued.

- **Midstream manufacturing products**:
  - **Galaxy® Tension Mapping** – The launch of our tension mapping capability for our Galaxy® family of systems and its integration, along with other new and advanced planning features, with Advisor® 8.0, has been postponed till later this year, due to market conditions and the implementation of additional software features.
  - **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 is showing excellent results in its beta testing cycle and is meeting our goal of automatically grading a standard Ideal Round Cut's symmetry. It has also proven capable of analysing the quality of the workmanship of fancy cut diamonds and non-standardly faceted modified round makes, both of which categories typically do not get a Cut grade from other gem labs. This will enable the Sarine Technology Lab to provide a unique service of documenting their workmanship. Commercial launch is planned for later this year.

- **Downstream polished diamond services**:
  - We have improved our internet infrastructure to meet new 2018 Chinese regulations, so that our services (e.g., the Sarine Profile™ and the Sarine Diamond Journey™) in China are now readily and constantly available and information download is much faster.
  - We continue refining the Sarine Clarity™ and Sarine Color™ AI-based grading capabilities.
  - We continue developing our abilities to fine-sort a diamond by its Clarity, in accordance with customer-specific industry-accepted sub-grades pertaining to the diamond's actual appearance (e.g., "eye-clean", "no black inclusions", "no inclusions under the table", "milky", etc.), as well as by its Color in accordance with tinting criteria (brownish, greenish, etc.).

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 0.50 per ordinary share for the half-year ended June 30, 2019, half the interim dividend policy, in light of the H1 2019 results and industry conditions.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

The Board of Directors 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.

(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 US$'000	Tax rate applicable to shareholders %
2019	1,753	20%/0%[1] / 10%[2,3]
2018	7,013	20%/0%[1] / 10%[2,3]

[1] The tax rate will be 20% (20% in 2018) for individual Israeli shareholders and 0% (0% in 2018) for Israeli corporate shareholders.
[2] The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2018).
[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$'000
30.8.19	1,753
31.8.18	7,013

(e) Books Closure Date

5:00 PM on:

	Amount US$'000
20.8.19	1,753
21.8.18	7,013

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, 2019, 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.

Daniel Benjamin Glinert
Executive Chairman
8 August 2019