

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>2015</u>	<u>2014</u>	<u>Change</u> <u>%</u>	<u>2015</u>	<u>2014</u>	<u>Change</u> <u>%</u>
Revenue	14,421	24,716	(41.7)	26,577	49,088	(45.9)
Cost of sales	3,989	7,015	(43.1)	8,137	13,630	(40.3)
Gross profit	10,432	17,701	(41.1)	18,440	35,458	(48.0)
Research and development expenses	2,732	2,744	(0.4)	5,408	5,273	2.6
Sales and marketing expenses	3,337	3,510	(4.9)	6,550	6,348	3.2
General and administrative expenses	997	1,360	(26.7)	2,310	2,876	(19.7)
Profit from operations	3,366	10,087	(66.6)	4,172	20,961	(80.1)
Net finance income	66	171	(61.4)	39	167	(76.6)
Profit before income tax	3,432	10,258	(66.5)	4,211	21,128	(80.1)
Income tax expense	(753)	(1,690)	(55.4)	(661)	(3,481)	(81.0)
Profit for the period	2,679	8,568	(68.7)	3,550	17,647	(79.9)
Other comprehensive (expense) income						
Foreign currency translation differences from foreign operations	(131)	(1)	NM	(55)	160	NM
Total comprehensive income for the period	2,548	8,567	(70.3)	3,495	17,807	(80.4)

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>2015</u>	<u>2014</u>	<u>Change</u> <u>%</u>	<u>2015</u>	<u>2014</u>	<u>Change</u> <u>%</u>
Allowance (write back) for doubtful trade receivables	47	(49)	NM	36	(25)	NM
Depreciation and amortisation	855	1,157	(26.1)	2,124	2,431	(12.6)
Interest income, net	36	99	(63.6)	59	96	(38.5)
Exchange rate differences	30	72	(58.3)	(20)	71	NM
Warranty provision	(91)	16	NM	(29)	22	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, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Assets				
Property, plant and equipment	11,827	11,535	1,627	1,534
Intangible assets	8,611	6,751	--	--
Investment in equity accounted investee and subsidiaries	--	--	32,537	25,465
Deferred tax assets	3,117	2,198	1,489	1,290
Total non-current assets	23,555	20,484	35,653	28,289
Inventories	10,690	10,070	7,442	6,212
Trade receivables	12,800	13,486	2,123	4,080
Other receivables	3,470	2,522	2,004	1,025
Short-term investments (bank deposits)	18,261	25,145	12,140	17,382
Cash and cash equivalents	19,132	20,352	13,371	7,834
Total current assets	64,353	71,575	37,080	36,533
Total assets	87,908	92,059	72,733	64,822
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(1,981)	(1,033)	(1,981)	(1,033)
Share premium, reserves and retained earnings	79,032	80,664	68,609	52,325
Total equity	77,051	79,631	66,628	51,292
Liabilities				
Employee benefits	164	159	148	143
Total non-current liabilities	164	159	148	143
Trade payables	2,303	2,838	1,588	1,949
Other payables	7,760	8,821	4,114	11,119
Current tax payable	288	176	--	--
Warranty provision	342	434	255	319
Total current liabilities	10,693	12,269	5,957	13,387
Total liabilities	10,857	12,428	6,105	13,530
Total equity and liabilities	87,908	92,059	72,733	64,822

* No par value

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

Zero borrowings from banks as at June 30, 2015 and December 31, 2014.

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

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

	Group		Group	
	Quarter ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Cash flows from operating activities				
Profit for the period	2,679	8,568	3,550	17,647
Adjustments for:				
Share-based payment expenses	332	645	1,052	1,186
Income tax expense	753	1,690	661	3,481
Depreciation of property, plant and equipment	479	516	984	1,149
Amortisation of intangible assets	376	641	1,140	1,282
Net finance income	(66)	(171)	(39)	(167)
Changes in working capital				
Inventories	352	(328)	(490)	(133)
Trade receivables	(3,124)	458	686	(702)
Other receivables	(682)	5	(653)	(87)
Trade payables	129	1,070	(535)	1,240
Other liabilities	26	811	(1,190)	110
Employee benefits	8	2	5	1
Income tax refund (paid), net	649	(2,594)	(1,763)	(2,986)
Net cash from operating activities	1,911	11,313	3,408	22,021
Cash flows from (used in) investing activities				
Acquisition of property, plant and equipment	(1,114)	(843)	(1,424)	(1,872)
Acquisition of intellectual property	(3,000)	--	(3,000)	--
Short-term investments, net	6,986	(7,915)	6,884	(12,882)
Capitalisation of development expenses	--	(337)	--	(715)
Interest received	67	152	127	200
Net cash from (used in) investing activities	2,939	(8,943)	2,587	(15,269)
Cash flows used in financing activities				
Proceeds from exercise of share options	183	390	803	753
Purchase of Company's shares by the Company	(948)	--	(948)	--
Dividend paid	(6,982)	(6,972)	(6,982)	(6,972)
Interest paid	(31)	(19)	(68)	(70)
Net cash used in financing activities	(7,778)	(6,601)	(7,195)	(6,289)
Net (decrease) increase in cash and cash equivalents	(2,928)	(4,231)	(1,200)	463
Cash and cash equivalents at beginning of the period	22,030	24,704	20,352	20,011
Exchange rate differences	30	72	(20)	71
Cash and cash equivalents at end of the period	19,132	20,545	19,132	20,545

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, 2014	--	21,525	(1,213)	47,022	--	67,334
Profit for the period ended June 30, 2014	--	--	--	17,647	--	17,647
Other comprehensive income for the period ended June 30, 2014	--	--	160	--	--	160
Share-based payment expenses	--	1,186	--	--	--	1,186
Exercise of options	--	753	--	--	--	753
Dividend paid	--	--	--	(6,972)	--	(6,972)
Balance at June 30, 2014	--	23,464	(1,053)	57,697	--	80,108
Balance at January 1, 2015	--	25,201	(1,391)	56,854	(1,033)	79,631
Profit for the period ended June 30, 2015	--	--	--	3,550	--	3,550
Other comprehensive income for the period ended June 30, 2015	--	--	(55)	--	--	(55)
Share-based payment expenses	--	1,052	--	--	--	1,052
Exercise of options	--	803	--	--	--	803
Dormant shares, acquired at cost (663,100)	--	--	--	--	(948)	(948)
Dividend paid	--	--	--	(6,982)	--	(6,982)
Balance at June 30, 2015	--	27,056	(1,446)	53,422	(1,981)	77,051

* 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, 2014	--	21,525	(1,213)	23,344	--	43,656
Profit for the period ended June 30, 2014	--	--	--	21,549	--	21,549
Other comprehensive income for the period ended June 30, 2014	--	--	160	--	--	160
Share-based payment expenses	--	1,186	--	--	--	1,186
Exercise of options	--	753	--	--	--	753
Dividend paid	--	--	--	(6,972)	--	(6,972)
Balance at June 30, 2014	--	23,464	(1,053)	37,921	--	60,332
Balance at January 1, 2015	--	25,201	(1,391)	28,515	(1,033)	51,292
Profit for the period ended June 30, 2015	--	--	--	21,466	--	21,466
Other comprehensive income for the period ended June 30, 2015	--	--	(55)	--	--	(55)
Share-based payment expenses	--	1,052	--	--	--	1,052
Exercise of options	--	803	--	--	--	803
Dormant shares, acquired at cost (663,100)	--	--	--	--	(948)	(948)
Dividend paid	--	--	--	(6,982)	--	(6,982)
Balance at June 30, 2015	--	27,056	(1,446)	42,999	(1,981)	66,628

* 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, 2015</u>	<u>March 31, 2015</u>	<u>June 30, 2014</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	350,354,761	349,873,512	348,166,053
Dormant shares (out of the issued and fully paid share capital):			
Ordinary shares of no par value	1,253,100	590,000	--
Total number of issued shares (excluding dormant shares)	349,101,661	349,283,512	348,166,053

For the three months ended June 30, 2015, a total of 481,249 employee share options were exercised into ordinary shares. For the three months ended June 30, 2015, the Company purchased 663,100 ordinary shares at an aggregate cost of US\$ 0.9 million.

In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares (treasury shares in Singaporean terms) as long as 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, 2015 and March 31, 2015 included 1,253,100 and 590,000 dormant shares, respectively.

Details of changes in share options:

	<u>Average exercise price in US\$ per share</u>	<u>Options</u>
At January 1, 2015	1.048	15,753,142
Granted	1.981	600,000
Cancelled	0.384	(3,125)
Exercised	0.477	(1,683,556)
At June 30, 2015	1.127	14,666,461

- 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, 2015, the total number of issued shares excluding dormant shares was 349,101,661 (as at December 31, 2014: 348,081,205). As at June 30, 2015 the total number of dormant shares was 1,253,100 (as at December 31, 2014: 590,000).

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

For the three and six months ended June 30, 2015, the Company purchased 663,100 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, 2014 have been applied in the preparation for the financial statements for period ended June 30, 2015.

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,	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Basic earnings per share (US cents)	0.77	2.46	1.02	5.08
Diluted earnings per share (US cents)	0.76	2.43	1.01	5.01
Basic earnings per share (Singapore cents*)	1.04	3.31	1.37	6.84
Diluted earnings per share (Singapore cents*)	1.02	3.27	1.36	6.75

Basic earnings per share for the three months ended June 30, 2015 are calculated based on the weighted average number of 349,079,004 ordinary shares issued during the current period and the equivalent of 348,047,440 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended June 30, 2015 are calculated based on weighted average number of 351,144,539 ordinary shares and outstanding options and the equivalent of 353,221,381 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the six months ended June 30, 2015 are calculated based on the weighted average number of 348,767,046 ordinary shares issued during the current period and the equivalent of 347,203,853 ordinary shares during the preceding period.

Diluted earnings per share for the six months ended June 30, 2015 are calculated based on weighted average number of 352,719,837 ordinary shares and outstanding options and the equivalent of 352,065,265 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.3474 at June 30, 2015.

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

	Group		Company	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Net asset value (US\$ thousands)	77,051	79,631	66,628	51,292
Net asset value per ordinary share (US cents)	22.07	22.88	19.09	14.74
Net asset value per ordinary share (Singapore cents*)	29.74	30.82	25.72	19.85

At June 30, 2015, net asset value per share is calculated based on the number of ordinary shares in issue at June 30, 2015 of 349,101,661 (not including 1,253,100 dormant ordinary shares at June 30, 2015). At December 31, 2014, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2014 of 348,081,205 (not including 590,000 dormant ordinary shares at December 31, 2014).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.3474 at June 30, 2015.

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

Though our business activity was still significantly impaired during the second quarter of 2015 on a year-over-year basis, the Group's performance improved significantly on a sequential quarterly basis, even though the industry conditions remained extremely challenging. The Group achieved revenues of US\$ 14.4 million in Q2 2015, 18% higher than the revenues of US\$ 12.2 million realised in Q1 2015 and, more significantly, profit from operations of US\$ 3.4 million, 325% over the US\$ 0.8 million reported in Q1 2015, and net profit of US\$ 2.7 million, 200% better than the net profit of US\$ 0.9 million reported in Q1 2015. The Group realised H1 2015 revenues of US\$ 26.6 million, profit from operations of US\$ 4.2 million and net profit of US\$ 3.6 million, as compared to revenues of US\$ 49.1 million, profit from operations of US\$ 21.0 million and net profit of US\$ 17.6 million reported in H1 2014.

On a sequential quarterly basis, the increased revenues in Q2 2015 were driven by both higher recurring revenues and capital equipment sales, as compared to Q1 2015. The increase in sales was accompanied by a prudent controlling of our operating expenditures keeping them essentially flat, as the Group focused its activities on future growth drivers – its offerings for the polished diamond trade, unique enhancements to inclusion scanning and planning for rough diamonds and accelerated development of our non-diamond gemstone manufacturing offering, the Allegro™.

The decrease in overall revenues year-over-year by over 40% for Q2 2015 and H1 2015 and the consequential decline in Group profitability were due to continued negative conditions in the midstream of the diamond industry driven by:

- disproportionately high rough diamond prices and languishing polished diamond prices;
- excess polished inventory levels in the midstream and reduced quantities of new rough entering the midstream resulting in lower than anticipated Galaxy™ processing revenues;

- minimally expanded demand in the primary U.S. market, tepid consumer demand from most other markets and reduced demand in the key growth markets in the Far East, due to issues elaborated upon in section 10 below; and
- squeezed working capital and credit lines of manufacturers due to slower turnaround of inventories.

Significantly reduced (30%-40%) rough manufacturing resulted in lower Galaxy™ processing revenues. Our recurring revenues saw an over 20% drop on a year-over-year basis and an increase on a sequential quarterly basis (~5%).

Galaxy™ penetration continues to grow slowly, as in the previous two quarters, due to continued negative industry conditions. Only 6 Galaxy™ family systems were delivered to customers and service centres in Q2 2015, however, notably, mostly Galaxy™ Ultras. As of June 30, 2015, the Group has an installed base of just over 200 Galaxy™ family systems. Overall recurring revenues for H1 2015 (including Galaxy™-related, Quazer services, annual maintenance contracts, etc.) represented just under half of our overall revenue.

Balance Sheet and Cash Flow Highlights

As at June 30, 2015, *cash and cash equivalents and short-term investments (bank deposits)* (“**Cash Balances**”) decreased to US\$ 37.4 million as compared to US\$ 45.5 million as of December 31, 2014. The decrease in Cash Balances in H1 2015 was primarily due to the payment of a US \$7.0 million final dividend for the fiscal year 2014, paid in May 2015 and the Group’s US\$ 0.9 million buy-back of its shares in the open market in Q2 2015. An additional factor affecting our Cash Balances was the payment of US\$ 3.0 million in Q2 2015 to a licensor of software utilised in the Galaxy™ family of products (resulting in an equivalent increase in intangible assets on the Group’s balance sheet) which allows us to cease ongoing license payments on our Galaxy™ family product sales. We believe this is in the Group’s best interest as we prepare to launch the Meteor™, our inclusion mapping system for small stones of 0.20 to 0.85 carats rough, later this year, as we anticipate this model could significantly accelerate deliveries. The Cash Balances were also affected by lower payables (after payment of trade payables and 2014 accrued cash-based incentive compensation), offset by the Group’s semi-annual operating results.

Revenues

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

Q2 2015 versus Q1 2015				
Region	Q2 2015	Q1 2015	\$ change	% change
India	10,611	8,837	1,774	20.1
Africa	691	437	254	58.1
Europe	717	771	(54)	(7.0)
North America	557	287	270	94.1
Israel	816	817	(1)	(0.1)
Other*	1,029	1,007	22	2.2
Total	14,421	12,156	2,265	18.6

Q2 2015 versus Q2 2014				
Region	Q2 2015	Q2 2014	\$ change	% change
India	10,611	20,240	(9,629)	(47.6)
Africa	691	1,074	(383)	(35.7)
Europe	717	315	402	127.6
North America	557	287	270	94.1
Israel	816	1,452	(636)	(43.8)
Other*	1,029	1,348	(319)	(23.7)
Total	14,421	24,716	(10,295)	(41.7)

H1 2015 versus H1 2014				
Region	H1 2015	H1 2014	\$ change	% change
India	19,448	39,722	(20,274)	(51.0)
Africa	1,128	2,068	(940)	(45.5)
Europe	1,488	1,025	463	45.2
North America	845	591	254	43.0
Israel	1,633	2,788	(1,155)	(41.4)
Other*	2,035	2,894	(859)	(29.7)
Total	26,577	49,088	(22,511)	(45.9)

*primarily Asia, excluding India

The Group's improved revenues on a sequential quarterly basis in Q2 2015 of US\$ 14.4 million, as compared to revenues in Q1 2015 of US\$ 12.2 million, were manifested in most geographies, driven by both higher recurring revenue and capital equipment sales.

The Group reported decreased revenues in Q2 2015 of US\$ 14.4 million, as compared to US\$ 24.7 million in Q2 2014, and semi-annual revenues in H1 2015 of US\$ 26.6 million as compared to revenues of US\$ 49.1 million in H1 2014. The decrease in revenues on a year-over-year basis was across most geographies and was primarily due to decreased diamond manufacturing equipment sales in virtually all geographies, especially in India, and an over 20% year-over-year decline in recurring revenues, due to significantly reduced manufacturing activity, as noted above.

Cost of sales and gross profit

Sequentially, cost of sales for Q2 2015 decreased slightly to US\$ 4.0 million as compared to US\$ 4.1 million for Q1 2015, primarily due to the cessation, after six years, effective from Q2 2015, of the amortisation of Galatea-related (Galaxy™) acquisition costs of US\$ 0.5 million per quarter. Gross profit margin increased to 72% in Q2 2015 as compared to 66% in Q1 2015, primarily due to said cessation of Galatea-related acquisition costs amortisation, and also due to the sequential quarterly increase in sales volume and specific product mix.

Cost of sales in Q2 2015 decreased to US\$ 4.0 million, as compared to US\$ 7.0 million in Q2 2014, with a gross profit margin of 72% in both quarters. Cost of sales in H1 2015 decreased to US\$ 8.1 million, as compared to US\$ 13.6 million in H1 2014, with gross profit margins of 69% in H1 2015 versus 72% in H1 2014. The decrease in cost of sales on a year-over-year basis, and the respective impact on the gross profits margin was primarily due to significantly lower sales volumes in 2015, offset somewhat by the cessation of Galatea-related acquisition costs amortisation in Q2 2015.

Research and development expenses

Research and development expenses for Q2 2015, Q1 2015, H1 2015 and for the comparable periods are shown in the table below. Sarine Loupe™ system development-related expenditures were capitalised through September 30, 2014 in compliance with IFRS.

<u>US\$ (thousands)</u>	<u>Q2 2015</u>	<u>Q1 2015</u>	<u>Q2 2014</u>	<u>H1 2015</u>	<u>H1 2014</u>
R&D expenses as reported	2,732	2,676	2,744	5,408	5,273
Capitalised development	--	--	337	--	715
Total R&D costs incurred	2,732	2,676	3,081	5,408	5,988

Research and development costs in Q2 2015 increased marginally on a sequential basis as compared to Q1 2015 on higher outsourcing expenses. Research and development costs for Q2 2015 and H1 2015 decreased on a year-over-year basis primarily due to lower incentive-based compensation expenses. The Group continues to focus its research and development expenditures on the development of future growth

products and services for polished diamonds and non-diamond gemstones, along with other key growth programs as expanded upon in Section 10.

Sales and marketing expenses

Sales and marketing expenses for Q2 2015 increased by 4% on a sequential basis to US\$ 3.3 million as compared to US\$ 3.2 million in Q1 2015. This increase was primarily due to increased business development and marketing expenses associated with the launch of our Sarine Profile™, and the establishment of the requisite necessary sales and marketing infrastructures for the polished diamond services and products, primarily in North America as well as in the Far East. Sales and marketing expenses for Q2 2015 decreased by 5% on a year-over-year basis to US\$ 3.3 million as compared to US\$ 3.5 million in Q2 2014. This decrease on a year-over-year basis was primarily due to lower incentive-based compensation expenses (offset by increased staffing levels associated with the establishment of our sales and marketing infrastructures, as noted above). Sales and marketing expenses for H1 2015 increased by 3% to US\$ 6.6 million as compared to US\$ 6.3 million in H1 2014. This increase for H1 2015 was primarily due to the same issues discussed above - increased business development and marketing expenses offset by lower incentive-based compensation expenses.

General and administrative expenses

General and administrative expenses for Q2 2015 decreased to US\$ 1.0 million, as compared to US\$ 1.3 in Q1 2015 and US\$ 1.4 million in Q2 2014, and similarly decreased to US\$ 2.3 million for H1 2015, as compared to US\$ 2.9 million in H1 2014. The decrease in general and administrative expenses on both sequential and year-over-year bases was primarily due to lower incentive-based compensation expenses and decreased third-party professional fees.

Profit from operations

Profit from operations for Q2 2015 increased significantly on a sequential basis to US\$ 3.4 million as compared to US\$ 0.8 million in Q1 2015. The increase in profit from operations was primarily due to increased revenues, higher gross margin and lower operating expenses. Profit from operations for Q2 2015 decreased to US\$ 3.4 million as compared to US\$ 10.1 million in Q2 2014, and similarly decreased to US\$ 4.2 million for H1 2015, as compared to US\$ 21.0 million in H1 2014. The decrease in profit from operations on a year-over-year basis was primarily due to significantly lower sales due to the challenging industry conditions, as detailed above.

Net finance income

Net finance income for Q2 2015 was US\$ 0.06 million as compared to US\$ 0.17 million in Q2 2014. Net finance income for H1 2015 was US\$ 0.04 million as compared to US\$ 0.17 million in H1 2014. Net finance income in 2014 included \$0.10 million in interest and linkage income related to a prior period tax refund.

Income tax credit /expense

The statutory corporate tax rate in Israel in 2015 remains 26.5%. The Group's effective tax rate is a blend of the statutory tax rate in Israel reduced by substantial tax benefits, in accordance with tax directives enacted in Israel as of 2011, accorded to our export-oriented revenue mix (taxed at between 9%-16%), offset somewhat by the higher statutory tax rate (34%) in India.

For Q2 2015, the Group recorded an income tax expense of US\$ 0.8 million, as compared to an expense of US\$ 1.7 million in Q2 2014. The Group recorded an income tax expense of US\$ 0.7 million in H1 2015,

as compared to an expense of US\$ 3.5 million in H1 2014. The decrease in the income tax expense was primarily due to lower pre-tax profits, as discussed above. H1 2015 income tax expense includes the recognition in Q1 2015 of deferred tax assets associated with losses of a subsidiary company expected to be utilised in the future of approximately US\$ 0.5 million.

Profit for the period

Net profit for Q2 2015 increased robustly on a sequential basis to US\$2.7 million as compared to US\$ 0.9 million in Q1 2015. The increase in net profit was primarily due to increased sales, improved gross margin and controlled expenses, all as elaborated on above. Net profit for Q2 2015 decreased to US\$ 2.7 million as compared to US\$ 8.6 million in Q2 2014, and similarly decreased to US\$ 3.6 million for H1 2015, as compared to US\$ 17.6 million in H1 2014. The decrease in net profit on a year-over-year basis was primarily due to lower sales.

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. Global economic indicators are improving overall. The Greek debt crisis and bailout negotiations with its European Union partners have seemingly been resolved. In the US, Federal Reserve Chairperson, Janet Yellen, has emphasised that the U.S. economy continues to heal, evidenced by increased spending on houses and cars and a 42-year low in initial unemployment benefits applications. The nuclear "deal" reached between Iran and the five permanent members of the UN Security Council and Germany is also likely to affect the global economy, as it is sure to drive massive investments in Iran, as well as possibly lower energy costs, as Iranian oil and gas enter the market unfettered by sanctions, which could jump-start currently semi-dormant European (and other) economies. The flip side of lower energy costs could be continued softness in the diamond jewellery markets in other oil-producing countries such as Russia.
- b. A primary area of concern is the faltering Chinese economy, in general, and the Chinese government anti-corruption activities, in particular. Together these have reduced the demand for polished diamonds in China by just under 10% and, with the resulting reduced mainland tourism to Hong Kong, even more significantly so in Hong Kong (~30%). Thus, the second most important market for polished diamonds, and the one with the most significant potential for growth in the short term, remains in negative territory. The markets in Japan, the Middle East and Russia remain cool. However in the U.S., still the largest single market for diamonds and diamond jewelry, there continues to be healthy demand with minimal growth. Overall consumer demand remains similar to 2014.
- c. Industry Conditions:
 - The volumes of the recent DeBeers sights have been substantially trimmed, as manufacturers refuse to take goods which are perceived as being unsustainably highly priced. DeBeers' June sight was 20%-25% under average. Alrosa, the Russian rough diamond producer, reduced its June offerings by 20%-30%, as well. Following June's sight and the continued high pricing evidenced there, some 200 leading Indian manufacturers convened and considered an outright boycott of the July and August sights (which in the end did not happen), typically the year's two largest sights, as manufacturers gear production up for the year-end holiday buying season. Ultimately, DeBeers July sight was offered at some 33% below average size - \$500 million compared to \$775 million in July 2014. Still, as offered prices remained high, sight holders refused unprecedented quantities from DeBeers' already substantially trimmed July sight, 60%-70% of the offerings, effectively bringing the sight to between US\$ 150-200 million – the

lowest since the global financial crisis of 2008. Markedly, for the first time DeBeers, Alrosa and Rio Tinto are explicitly tolerating such refusals. Alrosa reduced its July offerings by 20% and agreed to sight holders deferring up to 20% of the goods offered, and Rio Tinto both reduced prices and offered its customers a two-month hiatus in taking any new rough stocks. More significantly, after the July sight DeBeers has written to its sight holders informing them that they will be allowed to forego up to 75% of the upcoming August sight. DeBeers has proposed that sight holders come to the August sight, inspect the offered goods and decide onsite what to buy, with no ramifications on their future status. Moreover, in subsequent sights through March 2016 DeBeers is offering its sight holders flexibility in buying rough diamonds without being bound to their originally contracted quantities. In essence, this announcement is all but an abandonment of the precepts upon which the sight/sight holder paradigm has historically been pinned, and seems to indicate that the world's primary producer of rough diamonds is changing its marketing and sales strategy for the near term in favour of the midstream.

- Rough diamond prices did come down somewhat in January and May, as previously reported, bringing DeBeers and Alrosa's prices down by a reported 8% and 6%, respectively, for the first six months of the year. The subsequent sights in June and July evidenced no further significant price changes. As margins remain thin, at best, manufacturers continue to manufacture at capacities reduced by some 30%-40% and furlough or reduce pay of their employees. The cumulative effect of seven months of reduced rough diamond buying and subsequent production is already felt in the market with distinct shortages of various types of polished goods. Excess polished inventory, primarily at manufacturers and wholesale traders (created last year by the GIA's delays and subsequent concurrent certification of massive quantities of polished diamonds in the last four months of the year), though reduced, remains an issue for smaller sized stones (Note: this has manifested itself for the Group in the last three quarters as an all but curtailment of sales of our Solaris™ system). But for larger stones the disparity between the drop in manufacturing in India (by 30%-40% and perhaps more now given July's refusals) and robust stability in U.S. consumer demand, have depleted the availability of various types of polished goods, creating a shortage leading up to the critical fall holiday season. This would seemingly indicate that the tipping point of prices of polished diamonds of those categories is imminent. There are still conflicting reports as to whether polished diamond prices have indeed already started increasing, held steady or continue to decrease. This is due, in no small degree, to the fact that there is little, if any, fully transparent objective data based on actual selling prices. Prevailing price lists are based on "unique perspectives" and other partial information pertaining to asking prices. This uncertainty is one of the primary reasons wholesalers and retailers have not been in a hurry to restock, but time is running out, as the fall nears.
 - It is possible that the issue of the unsustainable spread between rough and polished prices is thus on the verge of being resolved. Most industry experts agree that a significant rough price cut of at least 10% is needed. It would have been better had this cut been staggered, so as not to impair the value of manufacturers' current inventory and the credit lines which are based on same. However, with rough diamond inventories held by manufacturers currently low, due to their reduction of buying at sights and tenders these past eight months (commencing December 2014), this is now probably less of an issue. It would seem that some leading producers no longer believe that they can continue with business as usual, given the midstream's adamant refusal to buy rough diamonds at current non-profitable price levels, as noted above. Nor would it appear that the producers can afford to continue for long on their previous path. Compared to 2014, in which DeBeers was Anglo American's star performer, its profit contribution for the first half of 2015 was down 25%, even before July's more substantial refusal of goods. After the July sight, analysts are predicting its full-year profitability could be down by as much as 50%. It remains to be seen, but the upcoming August 21st sight may indeed be the point at which business starts to return to normal, as the underlying tenets of the sight are made more flexible, as was the explicit message in DeBeers' letter to its sight holders.
 - We believe that the current developments are healthy for a longer term resolution of the unsustainable imbalance between producers and manufacturers, though for the present the reduction of polishing activity continues to affect the Group – there are lower volumes of rough diamonds being processed through our installed base of inclusion mapping systems and less sales of capital equipment, given both the lack of need for expansion and tight liquidity.
- d. The ongoing slowdown in the midstream industry and ongoing tight liquidity has caused a handful of defaults by smaller (second tier and below) midstream players in India. Liquidity issues have also been

reported amongst certain Israeli and Belgian wholesale traders as well. The Group has not experienced any material collection issues to date.

- e. The JCK show in Las Vegas during the last week of May, the key annual U.S. trade show, was overall good (extraordinarily so for the Group, as reported), creating a temporary blip of positive sentiment. However, the subsequent Hong Kong trade show in late June (although not as important as the shows in March and September at the same venue) was weak, and, coupled with all the other issues discussed at length above, sentiment turned back to negative.
- f. We continue to closely monitor our various would-be Galaxy™ competitors' activities. There are no developments to report, and the current industry conditions are all but favourable to new competing product introductions and launches. With the delivery of 6 (notably all Galaxy™ systems; 5 of which were of the high-end Ultra model) in Q2, our installed base stands at just over 200 as of 30 June 2015.
- g. We are extremely pleased to share with the public that our Sarine Light™ launch customer in Japan, CIMA, has confirmed that its adoption of and intrinsic use of the Sarine Light™ in virtually all its in-store sales activities over the past two years has led to its strengthening its positioning as a leading seller of high-quality polished diamonds and has contributed to a significant increase in its sales volumes.
- h. Increasing popularity of digital trade visualisation solutions, which complement traditional marketing methods, both online and in stores, continues to generate broad interest in the Sarine Profile™ offering, integrating the Sarine Light™ and Sarine Loupe™ imaging solutions as well as other Sarine technologies (Cut proportions and Hearts and Arrows graphic representations generated by the DiaMension™). This was clearly evidenced at the JCK show and by the subsequent deals closed (e.g., the collaboration with GSI, reported upon on 21 June 2015) and under negotiation. We are witnessing actual initial adoption of these technologies by significant and leading industry players at virtually all points along the polished value chain: manufacturers, gemmological laboratories, wholesale traders and retailers, as anticipated. However, given that the norm for all new technology adoption is always cautious and staggered, and given the prevailing negative industry circumstances, the current implementation of the Profile™ by the initial retail users is mostly for limited trial "programs", involving thousands of stones only. We are currently partnering with leading national U.S. retailers in creating such new trial programs, or improving the appeal of existing programs, for in-store and internet online applications for the upcoming fall holidays selling season (November through December), centred on the implementation of our Sarine Profile™ digital "story" of the diamond. It is anticipated that the generation of revenues should accelerate for the remainder of the year, as these new programs are launched in the fall, and that these revenues will be more substantial in 2016.

We continue to focus our research and development initiatives on the following projects:

The Galaxy™ family of products: As reported, we are now focused on bringing the proven benefits of inclusion mapping in rough diamonds to the next tier of smaller stones - 20 - 85 points in size. The initial two beta and demonstrations systems have shipped to Indian manufacturers, as development has moved into the actual onsite beta testing phase, are already running to capacity and have met expectations as to cost of ownership i.e., throughput and added yield/value. Our commercialisation schedule remains unaltered, with launch planned for late in Q3 2015, dependent on overall market conditions.

Rough planning products: The beta testing of Advisor™ 6.0 is well under way, with over 1,000 stations up and running, and we are incorporating fixes as mandated by testing in the field. Due to incremental improvements being implemented as actual customer feedback is collected, as well as the overall industry sentiment effects, planned commercialisation has been postponed to late Q3 2015.

Facet polishing products: We continue with the refinement of the new DiaMension™ Axiom platform. A second generation system is ready for commercial launch, incorporating a 30% improvement in a polished diamond's scanning and processing time.

Sarine Profile™: Subsequent to the initial adoption by launch customers of this new product, which integrates information from various industry-leading Sarine platforms, the Sarine Light™, Sarine Loupe™ and DiaMension™ HD, we continue expanding the system's capabilities to accommodate additional diamond shapes and sizes, as well as program-specific enhancements requested by our launch customers.

Sarine Light™: We have continued to develop the new derivative functionality for the Sarine Light™, as reported in our FY2014 announcement of 22 February 2015. We are pleased to report that our efforts have progressed well, and the technology is in advanced testing with an over 99.9% success rate. Depending on industry sentiment, market analyses, focus and budgeting, commercial introduction of the new functionality may commence in the second half of 2015.

Sarine Loupe™: We have similarly continued to develop the new derivative technologies based on the Sarine Loupe™, also as reported in our FY2014 announcement of 22 February 2015. The first of these activities has also proceeded from the research and proof of concept phases to development and testing phases. The tradeoffs between possible hardware configurations (the derivative technologies will not necessarily be implemented on precisely the same Sarine Loupe™ platform used for the existing imaging functionality) are being evaluated. The necessary software algorithms are being refined based on their application to ever-increasing quantities of polished diamonds.

Allegro™: An early Allegro™ proof-of-concept (POC) system for the analysis and optimal shaping of gemstones (other than diamonds) has completed comparative testing with very satisfactory results demonstrating an increase in yield of some 30%, compared to the commonly used manual processes. The actual prototype Allegro™ system has completed alpha testing and has demonstrated its yield as being further improved relative to the POC system. It has been shipped to our selected beta site to commence actual onsite beta testing, as planned. Initial conceptual marketing in India has met with an enthusiastic response from gemstone manufacturers. Commercialisation, initially in service centres only, is expected in late 2015.

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 1.50 per ordinary share for the half-year ended June 30, 2015, half of the dividend paid for the corresponding period last year, in light of the H1 2015 results.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

In August 2014, the Board of Directors had declared an interim dividend of US cents 3.0 per ordinary share for the half-year ended June 30, 2014, constituting a US cents 2.0 dividend as per the stated dividend policy, and an additional special interim dividend of US cents 1.0.

(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</u> <u>tax</u> <u>US\$'000</u>	<u>Tax rate applicable to</u> <u>shareholders</u> <u>%</u>
2015	5,237	20%/0%* / 10% **
2014	10,426	20%/10%* / 10% **

*The tax rate will be 20% (20% in 2014) for individual Israeli shareholders and 0% (10% in 2014) for Israeli corporate shareholders.

**The tax rate for the dividends for individual and corporate Singaporean shareholders is 10% (10% in 2014).

(d) Date Payable

	<u>Amount</u> <u>US\$'000</u>
10.9.15	5,237
29.8.14	10,426

(e) Books Closure Date

5:00 PM on:

	<u>Amount</u> <u>US\$'000</u>
1.9.15	5,237
20.8.14	10,426

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

Not applicable.

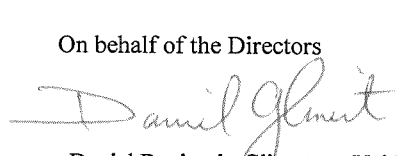
13. If the group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions under Rule 920(1)(a)(ii). If no IPT mandate has been obtained a statement to that effect.

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, 2015, to be false or misleading, in any material aspect.

On behalf of the Directors


Daniel Benjamin Glinert
Executive Chairman


Uzi Levami
Executive Director and CEO


Eyal Mashiah
Executive Director