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 Six months ended June 30,		
	2020	**2019**	**Change %**
Revenue	**22,403**	**22,519**	**(0.5)**
Cost of sales	8,414	9,863	(14.7)
Gross profit	**13,989**	**12,656**	**10.5**
Research and development expenses	3,434	4,184	(17.9)
Sales and marketing expenses	5,286	6,607	(20.0)
General and administrative expenses	3,124	3,582	(12.8)
Profit (loss) from operations	**2,145**	**(1,717)**	**NM**
Net finance income (expense)	37	(295)	NM
Profit (loss) before income tax	**2,182**	**(2,012)**	**NM**
Income tax expense	1,009	804	25.5
Profit (loss) for the period	**1,173**	**(2,816)**	**NM**
Foreign currency translation differences from foreign operations	(637)	140	NM
Total comprehensive income (loss) for the period	**536**	**(2,676)**	**NM**

Notes to consolidated statements of comprehensive income (loss) (US$'000)
Profit (loss) before income tax is stated after charging the following:

	Group Six months ended June 30,		
	2020	**2019**	**Change %**
Allowance for doubtful trade receivables	342	(23)	NM
Depreciation and amortisation	2,087	2,251	(7.3)
Interest (expense) income, net	19	(12)	NM
Exchange rate differences	18	(283)	NM
Warranty provision	(23)	(6)	283.3

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, 2020	**December 31, 2019**	**June 30, 2020**	**December 31, 2019**
Assets				
Property, plant and equipment	12,760	13,474	1,331	1,241
Right-of-use assets	5,540	6,170	4,944	5,403
Intangible assets	3,033	3,625	240	274
Long-term trade receivables	1,914	756	421	686
Investment in equity accounted investee and subsidiaries	--	--	41,251	39,648
Long-term income tax receivable	916	916	--	--
Deferred tax assets	587	874	--	--
Total non-current assets	24,750	25,815	48,187	47,252
Inventories	6,839	5,452	3,693	3,276
Trade receivables	19,995	14,595	6,614	4,813
Other receivables	1,498	1,799	554	840
Short-term investments (bank deposits)	6,118	11,190	4,152	9,179
Cash and cash equivalents	15,186	18,284	8,374	7,433
Total current assets	49,636	51,320	23,387	25,541
Total assets	74,386	77,135	71,574	72,793
Equity				
Share capital*	--	--	--	--
Dormant shares, at cost	(3,689)	(3,576)	(3,689)	(3,576)
Share premium, reserves and retained earnings	62,754	62,996	62,754	62,996
Total equity	59,065	59,420	59,065	59,420
Liabilities				
Long-term lease liabilities	5,260	5,716	4,892	5,218
Employee benefits	233	234	223	223
Total non-current liabilities	5,493	5,950	5,115	5,441
Trade payables	2,203	3,907	1,628	2,306
Other payables	5,274	6,076	4,717	4,425
Current lease liabilities	1,137	1,311	830	972
Current tax payable	869	103	--	--
Warranty provision	345	368	219	229
Total current liabilities	9,828	11,765	7,394	7,932
Total liabilities	15,321	17,715	12,509	13,373
Total equity and liabilities	74,386	77,135	71,574	72,793

* No par value

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

Zero borrowings from banks as at June 30, 2020 and December 31, 2019

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 Six months ended June 30,	
	2020	**2019**
Cash flows from operating activities		
Profit (loss) for the period	1,173	(2,816)
Adjustments for:		
Share-based payment expenses	271	354
Income tax expense	1,009	804
Depreciation of property, plant and equipment	1,495	1,527
Amortisation of intangible assets	592	724
Net finance expense (income)	(37)	(102)
Revaluation of lease liabilities	(37)	333
Changes in working capital		
Inventories	(1,387)	295
Trade receivables	(6,558)	1,347
Other receivables	301	235
Trade payables	(1,704)	1,263
Other liabilities	(2,135)	43
Employee benefits	(1)	10
Income tax received (paid), net	43	(757)
Net cash (used in) from operating activities	(6,975)	3,260
Cash flows from investing activities		
Acquisition of property, plant and equipment	(516)	(366)
Proceeds from realization of property, plant and equipment	35	33
Short-term investments, net	5,072	2,318
Interest received	179	223
Net cash from investing activities	4,770	2,208
Cash flows used in financing activities		
Purchase of Company's shares by the Company	(113)	--
Payment of lease liabilities	(638)	(644)
Dividend paid	--	(3,506)
Interest paid	(205)	(171)
Net cash used in financing activities	(956)	(4,321)
Net (decrease) increase in cash and cash equivalents	(3,161)	1,147
Cash and cash equivalents at beginning of the period	18,284	16,832
Exchange rate differences	63	50
Cash and cash equivalents at end of the period	15,186	18,029

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, 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
Balance at January 1, 2020	--	32,819	(2,437)	32,614	(3,576)	59,420
Profit for the period ended June 30, 2020	--	--	--	1,173	--	1,173
Other comprehensive loss for the period ended June 30, 2020	--	--	(637)	--	--	(637)
Dormant shares, acquired at cost (763,800)	--	--	--	--	(113)	(113)
Share-based payment expenses	--	271	--	--	--	271
Dividend declared	--	--	--	(1,049)	--	(1,049)
Balance at June 30, 2020	--	33,090	(3,074)	32,738	(3,689)	59,065

* 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, 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
Balance at January 1, 2020	--	32,819	(2,437)	32,614	(3,576)	59,420
Profit for the period ended June 30, 2020	--	--	--	1,173	--	1,173
Other comprehensive loss for the period ended June 30, 2020	--	--	(637)	--	--	(637)
Dormant shares, acquired at cost (763,800)	--	--	--	--	(113)	(113)
Share-based payment expenses	--	271	--	--	--	271
Dividend declared	--	--	--	(1,049)	--	(1,049)
Balance at June 30, 2020	--	33,090	(3,074)	32,738	(3,689)	59,065

* 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, 2020	**December 31, 2019**	**June 30, 2019**
	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	3,840,200	3,076,400	3,076,400
Total number of issued shares (excluding dormant shares)	349,831,926	350,595,726	350,595,726

For the six months ended June 30, 2020, no share options were exercised into ordinary shares. For the six months ended June 30, 2020, the Company purchased 763,800 of its ordinary shares at an aggregate cost of US$ 0.1 million.

In accordance with Israeli Companies Law, Company shares that have been acquired and are held by the Company are dormant shares (treasury shares in Singaporean terms) as long as the Company holds them, and, as such, they do not bear any rights until they are transferred to a third party. The issued and fully paid shares as at June 30, 2020, December 31, 2019 and June 30, 2019 included 3,840,200, 3,076,400 and 3,076,400 dormant shares, respectively.

Details of changes in share options:

	Average exercise price in US$ per share	**Options**
At January 1, 2020	0.879	22,431,992
Granted	0.164	4,550,320
Cancelled	1.763	(2,409,277)
Exercised	--	--
At June 30,2020	0.634	24,573,035

At June 30, 2020, the average exercise price in Singapore dollars per share was S$ 0.883, based on an exchange rate of US$ 1 = S$ 1.3932.

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, 2020 the total number of issued shares excluding dormant shares was 349,831,926 (as at December 31, 2019- 350,595,726). As at June 30, 2020, the total number of dormant shares was 3,840,200 (as at December 31, 2019- 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 six months ended at June 30, 2020, the Company purchased 763,800 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, 2019 have been applied in the preparation for the financial statements for period ended June 30, 2020.

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 six months ended June 30,	
	2020	**2019**
US cents		
Basic earnings (loss) per share	0.33	(0.80)
Diluted earnings (loss) per share	0.33	(0.80)
Singapore cents*		
Basic earnings (loss) per share	0.46	(1.11)
Diluted earnings (loss) per share	0.46	(1.11)

Basic earnings (loss) per share for the six months ended June 30, 2020 are calculated based on the weighted average number of 350,285,450 ordinary shares issued during the current period and the equivalent of 350,595,726 ordinary shares during the preceding period.

Diluted earnings (loss) per share for the six months ended June 30, 2020 are calculated based on weighted average number of 350,285,450 ordinary shares and outstanding options and the equivalent of 350,595,726 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US$ 1= S$ 1.3932 at June 30, 2020.

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, 2020	**December 31, 2019**	**June 30, 2020**	**December 31, 2019**
Net asset value (US$ thousands)	59,065	59,420	59,065	59,420
Net asset value per ordinary share (US cents)	16.88	16.95	16.88	16.95
Net asset value per ordinary share (Singapore cents*)	23.52	23.61	23.52	23.61

At June 30, 2020, net asset value per share is calculated based on the number of ordinary shares in issue at June 30, 2020 of 349,831,926 (not including 3,840,200 dormant ordinary shares at June 30, 2020). At December 31, 2019, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2019 of 350,595,726 (not including 3,076,400 dormant ordinary shares).

* Convenience translation based on exchange rate of US$ 1=S$ 1.3932 at June 30, 2020.

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 per our update to investors on 26 April 2020 regarding the expected impact of the Covid-19 pandemic on business conditions, our business activity was, indeed, significantly impaired during the second half of H1 2020. Limited retail activity on a rolling basis from the Asia Pacific region, through Europe to the US resulted in lower demand for polished diamonds, which, in turn created minimal demand for rough diamonds polishing activities. In addition, lockdowns in the midstream in India due to the pandemic for over two months commencing March 24th, effectively halted all polishing in this crucial manufacturing centre, placing most new orders and deliveries of equipment on hold and cutting recurring revenues from scanning services by some 70% in the second half of H1 2020.

Given these very challenging global conditions, we believe we succeeded in delivering notable results for H1 2020. The Group reported revenues of US$ 22.4 million in H1 2020, profit from operations of US$ 2.1 million, and net profit of US$ 1.2 million, as compared to revenues of US$ 22.5 million, loss from operations of US$ 1.7 million and a net loss of US$ 2.8 million reported in H1 2019.

A strong start to the year, including record deliveries of 50 Galaxy® family inclusion mapping systems and record daily scanning activities, occasionally topping 80,000 stones, in January through March, along with the half-year product mix and active focused reduction of our costs in the second half of H1 2020, resulted in improved profitability as compared to H1 2019. Cost reductions included, primarily, furloughing of or Group-initiated vacations for personnel in non-essential positions (or roles temporarily made redundant by customers shutting down – e.g. production and sales and marketing), reduced sales and marketing activities (e.g. – no trade shows), lower legal expenditures (due to the lockdown in India) and temporary compensation cuts, all as further detailed below.

The Group recorded an approximate 55% increase in capital equipment sales, primarily Galaxy®-family systems delivered in the first half of H1 2020. The Group delivered 59 Galaxy®-family inclusion mapping systems in H1 2020 (a record 50 in Q1 2020 and 9 in Q2 2020) comprising 37 Meteorites™, 15 Meteors™, 6 Solaris™ and 1 Galaxy® Ultra model, with all but one system delivered in India. As of 30 June 2020 our installed base was 614 systems. During H1 2020, over two thirds of these systems were sold under the one-off paradigm with no follow-on per-use revenues.

Reduced midstream diamond polishing activity during the second half of H1 2020, as aforementioned, resulted in a 40% reduction in recurring revenues from inclusion mapping activities for the six months ended 30 June 2020. Overall recurring revenues for H1 2020 (including Galaxy®-related scanning, Quazer® services, polished diamond related ("Trade") services, annual maintenance contracts, etc.) was over 35% 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 approximately 2.5% of our overall revenue for H1 2020.

Balance Sheet and Cash Flow Highlights

As at June 30, 2020, cash, cash equivalents and short-term investments (bank deposits) (“**Cash Balances**”) decreased to US$ 21.3 million as compared to US$ 29.5 million as of December 31, 2019. Despite our profitability in H1 2020, the negative operating cash flow of US$ 7.0 million and the resultant decrease in Cash Balances was primarily due to increased trade receivables of US$ 21.9 million at June 30, 2020 (US$15.4 million at December 31, 2019) due to extended credit terms provided and prolonged collection times associated with the Covid-19 pandemic (e.g., virtually zero collections during the lockdown period in India), reduced trade and other payables and increased inventory levels associated with our continuing procurement of parts and subsystems, based on the very positive sales realised pre-pandemic at the beginning of the year .

Revenues

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

H1 2020 versus H1 2019				
Region	**H1 2020**	**H1 2019**	**$ change**	**% change**
India	17,187	15,177	2,010	13.2
Africa	1,375	2,309	(934)	(40.5)
Europe	478	684	(206)	(30.1)
North America	754	576	178	30.9
Israel	837	1,506	(669)	(44.4)
Other*	1,772	2,267	(495)	(21.8)
Total	22,403	22,519	(116)	(0.5)

* Primarily Asia, excluding India

Revenues for H1 2020 were virtually flat at US$ 22.4 million as compared to US$ 22.5 million in H1 2019. The insignificant decrease in revenues on a year-over-year basis, resulted from lower recurring revenues, due to the dramatic 90+% decline (see Section 10) in rough diamonds entering the pipeline amid Covid-19 related lockdowns in India and elsewhere, as mentioned above, especially during the last four months of H1 2020, offset by higher capital equipment sales, mainly in India, especially Galaxy®-family systems, many of which were, as noted, sold on a one-off basis, at higher selling prices and on extended credit terms.

Cost of sales and gross profit

Cost of sales for H1 2020 decreased to US$ 8.4 million as compared to US$ 9.9 million in H1 2019, with a gross profit margin of 62% in H1 2020 versus 56% in H1 2019. The decrease in cost of sales and the associated increase in gross margin was primarily due to the product mix (the noted Galaxy®-family systems sold on a one-off basis) coupled with cost reductions of our fixed overhead - temporary pay cuts and furloughs, offset somewhat by lower inclusion mapping recurring revenues.

Research and development expenses

Research and development (R&D) costs for H1 2020 of US$ 3.4 million decreased as compared to US$ 4.2 million in H1 2019. The decrease in research and development costs was primarily due to lower employee compensation and outsourcing, due to our continued focussing of expenditures on specific goals driving future growth (see also Section 10), as well as from cost containment measures taken during this period. These were primarily temporary reductions in staff salaries (no R&D staff were furloughed or cut despite Covid-19). It is noteworthy that prudently focusing our R&D efforts and the active cost containment measures has enabled an approximate one-third reduction in our annualised R&D costs over a three year period.

Sales and marketing expenses

Sales and marketing expenses for H1 2020 decreased to US$ 5.3 million as compared to US$ 6.6 million in H1 2019. The decline in sales and marketing expenses was due to decreased trade-show and related travel expenses due to pandemic-related cancellations, as well as decreased advertising. Additionally, customer-related activities were reduced in line with lockdowns of our customers' facilities, enabling aggressive cost management measures during this period (e.g. furloughs and vacations).

General and administrative expenses

General and administrative expenses for H1 2020 decreased to US$ 3.1 million as compared to US$ 3.6 million in H1 2019. The decrease in general and administrative expenses was primarily due to significantly lower third-party professional fees associated with our IP protection and litigation activities, especially from the latter part of March 2020 during the lockdown in India, offset somewhat by increased allowance for doubtful accounts associated with the Covid-19 pandemic effects. Overall reduced activity allowed us to also implement internal cost reduction measures.

Profit from operations

The Group reported profit from operations of US$ 2.1 million in H1 2020, as compared to a loss from operations of US$ 1.7 million in H1 2019. The increase in profit from operations was mainly due the improved gross profit in H1 2020 coupled with prudent expense management and containment of costs, as detailed above.

Net finance income (expense)

Net finance income for H1 2020 was US$ 37,000 as compared to net finance expense of US$ 295,000 in H1 2019. The increase in net finance income was due to lower exchange rate expenses during H1 2020 as compared to H1 2019.

Income tax expense

The Group recorded an income tax expense of US$ 1.0 million for H1 2020 as compared to an expense of US$ 0.8 million for H1 2019. The increase in income tax expense was primarily due to increased overall profitability in H1 2020 and a decrease in certain subsidiary deferred tax assets, offset by lower taxable income in our Indian subsidiary as a result of the Covid-19 lockdown.

Profit (loss) for the period

The Group net profit of US$ 1.2 million in H1 2020, as compared to a net loss of US$ 2.8 million in H1 2019. The increase in net profit was mainly due to improved gross profit coupled with prudent expenditure management and containment of costs during the pandemic in the second half of H1 2020, offset somewhat by increased tax expense, all as detailed above.

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

Not applicable.

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

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

a. The Covid-19 (Coronavirus) outbreak and its global spread as a pandemic has disrupted the diamond industry in various ways:
   - The most significant effect has been limited retail activity on a rolling basis from the Asia Pacific (APAC) region, initially during the crucial Lunar New Year holiday through Valentine's Day season, through Europe and on to the U.S., resulting in lower sales of polished diamonds and stagnant inventories, which, in turn, created minimal demand for rough diamonds polishing activities.
   - Additionally, lockdowns in the midstream in India, initially for over two months commencing March 24th, effectively halting all polishing in this crucial manufacturing centre, have been followed by subsequent shorter regional lockdowns and restrictions on the scope of operations both in the Gujarat (Surat) manufacturing centres and the Maharashtra (Mumbai) trading centre. Manufacturing activity, when not locked down, has periodically fluctuated from 20% to 50% of normal operating levels.
   - This drop in demand for polished diamonds as a result of reduced retail activity and decreased polishing activity due to lockdowns, compounded by worldwide travel restrictions preventing the normal rough trading cycles from being realised, has decimated the quantities of rough stones entering the pipeline with major producing miners' sales having dropped by over 90% from March onwards.
   - Naturally, all industry trade shows have been cancelled, including the key APAC March and June Hong Kong shows (the September show has tentatively been postponed to November), the major European Basel show and the primary U.S. June JCK show, as well as other less important regional shows elsewhere.

b. As of this writing, retail activity has re-opened either completely or at least partially in most major geographies. In China, the second largest market for polished diamonds, accounting for almost a fifth of global demand, retail activity has all but rebounded to near normal levels. Some major retailers have announced their intension to resume their expansion plans, albeit while reducing activities in Hong Kong, affected by ongoing geopolitical issues. In fact, as a result of global travel restrictions and the cessation of Chinese tourism overseas, initial indications are that domestic luxury retail activity in China has actually risen over previous periods' figures. The flipside is, of course, that Chinese tourist spending abroad, primarily in Hong Kong and Macau but also in the U.S., throughout the APAC region and in Europe, has ceased. In other primary APAC markets, such as Japan, Korea and Taiwan, retail activity has also restarted, but at less than normal levels, also possibly due to the lack of tourists in general and Chinese tourists particularly, as noted. The wholesale trade in Hong Kong has reopened, but at levels significantly below normal (the recent border skirmish between Chinese and Indian forces has also impeded the return to normal wholesale trading levels). In the U.S., the level of retail activity varies from state to state, as per local ordinances. Data show that overall retail activity rebounded strongly in May and June after the March and April lockdowns and restrictions, with overall retail sales figures in June 2020 reportedly up a percentage point over the overall retail figures of June 2019. Diamond jewellery retailers in the U.S. reported strong Mothers' Day sales. However, due to renewed outbreaks in many U.S. states, we suspect that U.S. consumer sentiment may not yet be robust enough to support expansive luxury spending in this crucial market, which accounts for nearly two fifths of global polished diamond consumption. Recently announced additional stimulus measures may help restore consumer sentiment. Wholesale activity in New York remains very limited, though in secondary U.S. wholesale hubs in Chicago, Houston, Los Angeles etc., it has restarted somewhat, with developing shortages of lower-end goods (e.g., treated natural diamonds).

c. DeBeers' March 2020 sight was outright cancelled and its subsequent sights in May and June, though formally not cancelled, sold over 90% less rough stones than the corresponding sights of 2019, impeded by minimal demand, the lull in polishing activities due to lockdowns in India, global travel restrictions and also by the prevailing midstream perception that rough prices, retained at pre-pandemic levels, were not representative of current market realities. Alrosa's sales during these months were similarly affected. Alrosa has accelerated their digital tenders initiative as an alternative channel, offering stones from 2 to over 10 carats and has teamed with Delgatto Diamond Fund to provide third-party financing to interested buyers. Alrosa has posted a video expounding the advantages (lower costs, less risk, no need to travel, etc.) of their Digital Stones initiative, empowered by Sarine's technologies (see link on YouTube at https://youtu.be/rEVXGFks8oA). DeBeers has taken the initiative of effectively shifting their sights from Botswana to more accessible locations – Antwerp and Dubai. As many sightholders and midstream manufacturers have offices in either or both of these locations, this should facilitate easier access to future sights, to a large degree alleviating issues of travel restrictions, self-quarantines, etc., and allow more substantial rough buying, once the demand rebounds.

d. We do not have any clear indications on whether the banks in India are changing their restrictive credit policies during the Covid-19 crisis or not. However, as the buying of new inventories of rough stones has dramatically dropped, as noted in the previous paragraph, the need for extended credit lines is not an immediate issue. Though very little new rough has been entering the pipeline and polishing activity has been significantly reduced due to lockdowns and operational restrictions, polished diamond inventories have not decreased significantly in the midstream, as the global wholesale and retail polished diamond trade was also essentially curtailed due to the Covid-19 pandemic. Inventories also remain high in the retail trade, as consumer activity was limited, at best. Thus, the credit available to midstream players in India will be a factor going forward with the eventual resumption of more normal operations. As noted in the previous paragraph, to help alleviate this issue, Alrosa has taken the initiative of offering midstream buyers an alternative source of finance. Other ex-bank financial entities are also offering third-party financing to diamond industry players.

e. Assuming there is no need for further lockdowns in India, if and as demand continues to strengthen due to more robust retail activity globally, and specifically in the U.S., we expect existing midstream inventories of rough to be significantly reduced within 2-3 months, even at the current reduced levels of polishing. We further expect the major producers to implement alternative channels, as noted above, so as to avail more normal levels of rough trading, regardless of travel limitations, etc. These steps will need to be accompanied by appropriate financing, whether from traditional banks or new sources already being established. All these developments should bring manufacturing activity back to more normal levels. We believe this rebound may unfold towards the end of 2020 or beginning of 2021, depending on the consumer sentiment during the end-of-year holidays and/or the anticipated emergence of vaccines / cures for the Covid-19 virus.

f. To prepare for the anticipated impact of the Covid-19 pandemic, we implemented in mid-March steps to significantly reduce our cost structure to better weather the expected disruption of our revenue flow, as discussed in our announcement of 26 April 2020. We furloughed employees in positions where activities were significantly reduced as our and our customers' facilities were mostly locked down and ceased operations in several geographies. These furloughs were primarily in general and administrative, manufacturing, sales and marketing, customer care, service centres and our grading labs. We further implemented a mandatory use of accrued vacation, reducing our other staff, mostly working from home, to shortened work weeks. And we requested voluntary pay reductions of 10-20% (depending on pay level). All these steps succeeded in reducing our H1 2020 costs significantly, by close to 20%, as compared to H1 2019. It is noteworthy that prudently focusing our R&D efforts has, in general, enabled an approximate one-third reduction in our R&D costs over a three year period, as discussed previously. Going forward, we will continue reducing costs if necessary, minimally impacting our development and marketing related activities pertaining to our long-term growth goals, as outlined below. Going into H2 2020 we will also significantly reduce other cash outflows - for instance our production-related procurements will primarily be only for deliveries of outstanding orders.

g. The Group delivered 59 Galaxy®-family inclusion mapping systems in H1 2020 (a record 50 in Q1 2020 and 9 in Q2 2020) comprising 37 Meteorites™, 15 Meteors™, 6 Solaris™ and 1 Galaxy® Ultra model, with all but one system delivered in India. As of 30 June 2020 our installed base was 614 systems. During H1 2020, over two thirds of these systems were sold under the one-off paradigm with no follow-on per-use revenues. Based on our achievements in the first half of H1 2020, prior to the pandemic impacting our customers' operations, with the continued setting of new daily records of rough stones being scanned by our inclusion mapping systems (exceeding 80,000 stones on some days) and the record sales of inclusion mapping systems to Indian manufacturers, including of the Solaris™ model, we believe we are indeed continuing to constrain the illicit competition in India.

h. Our Sarine Profile™, our umbrella term for our digital paradigms providing "profiling" data pertaining to a polished diamond to a consumer, continues to gain traction in the APAC market, though a handful of customers in the U.S. and Europe are also implementing it. It is noteworthy that one of our U.S. customers has utilised the Sarine Profile™ to engage out-of-state customers over the digital platform, something indicative of the opportunity created by the Covid-19 pandemic for this service. Our cooperation with China's National Gemstone Testing Center (NGTC) is continuing, with its initial focus on establishing a new standard for light performance in China to address the growing interest in light performance by Chinese consumers and the need for a unified benchmark. Its launch, delayed by the pandemic, is expected later this year. Major wholesalers in Belgium and China who supply polished diamonds and jewellery to Chinese retailers are negotiating programs with light performance grading, to meet retailers' requirements. Additional major retailers in China, Hong Kong, Japan and Vietnam continue to evaluate the Sarine Profile™ paradigm (Taiwan and Korea have been more impacted by the drop in tourism due to the pandemic), with major retailers in Malaysia and Indonesia now launching new programs.

i. We are continuing to see very strong interest in our Sarine Diamond Journey™ traceability solution and have launched pilot programs with several key miners (e.g., Lucara, as announced 25 June 2020) and leading global brands, in addition to actual programs already running with major retailers in China, Japan and Australia. Both the story-telling and the sustainability/responsibility verification aspects of the Journey concept are driving the retailers' interest, with different customers emphasising varying perspectives. The miners and high-end global retail brands are primarily focused on sustainability and responsibility issues. This is where we have clear advantages over competing offerings, due to our strong presence in the midstream polishing phase, which allows us to collect verifiable documentary data with very little overhead or disruption to existing workflow patterns. Expansion of our midstream Journey Official Partners program and the uploading of additional Journey-ready stones to our cloud based repository has been stalled by the pandemic-related lockdowns and restrictions.

j. E-Grading™ - As announced in our Annual Report for 2019, we are launching an initiative to allow the onsite grading of a polished diamond's 4Cs, so as to preclude the need for an external gemmological laboratory to physically inspect the stone at its facilities. This will radically cut the time required for grading from typically over a week (when done by a local lab; two weeks and up if international shipping involved) to less than an hour and will eliminate all the indirect costs involved in the process (shipping, insurance, customs handling, etc.). Furthermore, as far less manpower will be involved in the process, and may actually be staff of the manufacturer itself, the direct cost will also be substantially less than today. All this while benefiting from an automated, technology-enabled, objective, consistent and repeatable process, with far fewer errors incurred than by today's manual subjective processes. E-Grading™ will be based on the implementation of our already industry standard equipment for Cut and Symmetry grading, along with our AI-based Color and Clarity grading, enhanced by light performance grading and integrative traceability documentation, as required, all inter-connected by process control and verification software. Though delayed somewhat by the pandemic lockdown in India, we still expect to be able to effect initial beta-site testing with leading manufacturers in the second half of this year.

We continue to focus our initiatives on the following objectives:

- **Industry-wide propositions:**
  - **Sarine Diamond Journey™ -** Continue refining the provenance sustainability/responsibility aspect of our offering by utilising additional data available to us at the mine and during the polishing sequence, while implementing pilot programs with leading industry producers and high-end retailers.
  - **Sarine AI-Based 4Cs Grading** - Continue refining our grading capabilities, including significant enhancements to our Color grading capabilities and a second generation hardware platform for Clarity grading, which will empower our AI-driven grading to even higher levels of accuracy, consistency and repeatability, while shortening the processing time by half and cutting the platform complexity and cost significantly.

- **Midstream manufacturing products and services**:
    - **Advisor® 8.0** – Continue developing our next generation Advisor® 8.0 software package, originally slated for launch in mid-2020 but delayed by the pandemic, enhancing it with functionality relating to our tension analysis feature and traceability solution, as well as further-bolstered IP protection features.
    - **E-Grading™ -** Implement the necessary process control and verification software to allow beta-testing of our e-Grading™ paradigm at initial Indian midstream polishers.
    - **Sorting -** Continue developing our abilities to fine-sort a diamond by its Clarity characteristics, in accordance with customer-specific 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.) as along with other parameters important for the trading of polished diamonds. This will be a key feature substantially adding to the value-proposition of our e-Grading™ initiative**.**

11. Dividend

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

As a result of the ongoing impact of Covid-19 on the diamond value chain in general and on our results of operation in particular, the Board of Directors of the Company has temporarily suspended the payment of an interim dividend.

(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 0.50 per ordinary share for the half-year ended June 30, 2019.

(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.

Not applicable.

(d) Date Payable

Not applicable.

(e) Record Date

Not applicable.

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

As a result of the ongoing impact of Covid-19 on the diamond value chain in general and on our results of operation in particular, the Board of Directors of the Company has temporarily suspended the payment of an interim dividend.

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, 2020, 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
6 August 2020