

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>2014</u>	<u>2013</u>	<u>Change</u> <u>%</u>	<u>2014</u>	<u>2013</u>	<u>Change</u> <u>%</u>
Revenue	24,716	22,134	11.7	49,088	42,348	15.9
Cost of sales	7,015	6,545	7.2	13,630	12,201	11.7
Gross profit	17,701	15,589	13.5	35,458	30,147	17.6
Research and development expenses	2,744	1,978	38.7	5,273	3,644	44.7
Sales and marketing expenses	3,510	2,814	24.7	6,348	5,546	14.5
General and administrative expenses	1,360	1,288	5.6	2,876	2,386	20.5
Profit from operations	10,087	9,509	6.1	20,961	18,571	12.9
Net finance income (expense)	171	(55)	NM	167	58	187.9
Profit before income tax	10,258	9,454	8.5	21,128	18,629	13.4
Income tax expenses	(1,690)	(1,176)	43.7	(3,481)	(2,286)	52.3
Profit for the period	8,568	8,278	3.5	17,647	16,343	8.0
Other comprehensive (expense) income						
Foreign currency translation differences from foreign operations	(1)	(437)	(99.8)	160	(461)	NM
Total comprehensive income for the period	8,567	7,841	9.3	17,807	15,882	12.1

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>2014</u>	<u>2013</u>	<u>Change</u> <u>%</u>	<u>2014</u>	<u>2013</u>	<u>Change</u> <u>%</u>
(Write back) allowance for doubtful trade receivables	(49)	2	NM	(25)	(31)	(19.4)
Depreciation and amortisation	1,157	1,044	10.8	2,431	1,985	22.5
Interest income (expense), net	99	(43)	NM	96	(79)	NM
Exchange rate differences	72	(12)	NM	71	137	(48.2)
Warranty provision	16	10	60.0	22	13	69.2
NM- Not meaningful						

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

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

	<u>Group</u>		<u>Company</u>	
	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>	<u>June 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets				
Property, plant and equipment	11,509	10,670	1,353	1,168
Intangible assets	7,808	8,375	--	--
Investment in equity accounted investee and subsidiaries	--	--	23,593	19,255
Deferred tax assets	1,889	1,355	1,013	650
Total non-current assets	<u>21,206</u>	<u>20,400</u>	<u>25,959</u>	<u>21,073</u>
Inventories	8,681	8,548	5,576	6,268
Trade receivables	16,540	15,838	2,451	2,637
Other receivables	2,765	3,744	1,446	1,578
Dividend from subsidiary	--	--	5,493	--
Short-term investments (bank deposits)	25,930	13,048	16,013	8,534
Cash and cash equivalents	20,545	20,011	12,681	13,303
Total current assets	<u>74,461</u>	<u>61,189</u>	<u>43,660</u>	<u>32,320</u>
Total assets	<u>95,667</u>	<u>81,589</u>	<u>69,619</u>	<u>53,393</u>
Equity				
Share capital*	--	--	--	--
Share premium, reserves and retained earnings	80,108	67,334	60,332	43,656
Total equity	<u>80,108</u>	<u>67,334</u>	<u>60,332</u>	<u>43,656</u>
Liabilities				
Long-term liabilities	96	159	96	159
Employee benefits	185	184	156	155
Total non-current liabilities	<u>281</u>	<u>343</u>	<u>252</u>	<u>314</u>
Trade payables	4,529	3,333	2,868	2,124
Other payables	9,977	9,792	5,945	7,070
Current tax payable	363	400	--	--
Warranty provision	409	387	222	229
Total current liabilities	<u>15,278</u>	<u>13,912</u>	<u>9,035</u>	<u>9,423</u>
Total liabilities	<u>15,559</u>	<u>14,255</u>	<u>9,287</u>	<u>9,737</u>
Total equity and liabilities	<u>95,667</u>	<u>81,589</u>	<u>69,619</u>	<u>53,393</u>

*No par value

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.
Zero borrowings from banks as at June 30, 2014 and December 31, 2013.

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

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

	<u>Group</u> <u>Quarter ended</u> <u>June 30,</u>		<u>Group</u> <u>Six months ended</u> <u>June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities				
Profit for the period	8,568	8,278	17,647	16,343
Adjustments for:				
Share-based payment expenses	645	528	1,186	838
Income tax expense	1,690	1,176	3,481	2,286
Depreciation of property, plant and equipment	516	403	1,149	831
Amortisation of intangible assets	641	641	1,282	1,154
Net finance (income) expenses	(171)	55	(167)	(58)
Changes in working capital				
Inventories	(328)	(183)	(133)	328
Trade receivables	458	(4,199)	(702)	(8,001)
Other receivables	5	(288)	(87)	(964)
Trade payables	1,070	655	1,240	1,564
Other short- and long-term liabilities	811	1,119	110	1,918
Employee benefits	2	1	1	6
Cash generated from operations	13,907	8,186	25,007	16,245
Income tax paid	(2,594)	(974)	(2,986)	(2,382)
Net cash from operating activities	<u>11,313</u>	<u>7,212</u>	<u>22,021</u>	<u>13,863</u>
Cash flows used in investing activities				
Acquisition of property, plant and equipment	(843)	(215)	(1,872)	(5,698)
Restricted cash	--	--	--	485
Short-term investments, net	(7,915)	(3,838)	(12,882)	(6,943)
Capitalisation of development expenses	(337)	(190)	(715)	(819)
Interest received	152	64	200	169
Net cash used in investing activities	<u>(8,943)</u>	<u>(4,179)</u>	<u>(15,269)</u>	<u>(12,806)</u>
Cash flows used in financing activities				
Proceeds from exercise of share options	390	568	753	826
Repayments of long-term liabilities	--	(249)	--	(249)
Sale of Company's shares by the Company	--	--	--	2,527
Dividend paid	(6,972)	(4,279)	(6,972)	(4,279)
Interest paid	(19)	(107)	(70)	(248)
Net cash used in financing activities	<u>(6,601)</u>	<u>(4,067)</u>	<u>(6,289)</u>	<u>(1,423)</u>
Net (decrease) increase in cash and cash equivalents	<u>(4,231)</u>	<u>(1,034)</u>	<u>463</u>	<u>(366)</u>
Cash and cash equivalents at beginning of the period	24,704	19,972	20,011	19,155
Exchange rate differences	72	(12)	71	137
Cash and cash equivalents at end of the period	<u>20,545</u>	<u>18,926</u>	<u>20,545</u>	<u>18,926</u>

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

Statement of Changes in Shareholders' Equity

Group (US\$'000)

	Share capital*	Share premium and reserves	Translation reserve	Retained earnings	Dormant shares	Total
Balance at January 1, 2013**	--	16,671	(633)	41,213	(1,113)	56,138
Profit for the period ended June 30, 2013	--	--	--	16,343	--	16,343
Other comprehensive expense for the period ended June 30, 2013	--	--	(461)	--	--	(461)
Share-based payment expenses	--	838	--	--	--	838
Exercise of options	--	826	--	--	--	826
Dormant shares sold	--	1,414	--	--	1,113	2,527
Dividend paid	--	--	--	(4,279)	--	(4,279)
Balance at June 30, 2013	<u>--</u>	<u>19,749</u>	<u>(1,094)</u>	<u>53,277</u>	<u>--</u>	<u>71,932</u>
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	<u>--</u>	<u>23,464</u>	<u>(1,053)</u>	<u>57,697</u>	<u>--</u>	<u>80,108</u>

* No par value

** Retrospective application regarding initial application of amended IAS 19, Employee Benefits

Statement of Changes in Shareholders' Equity

Company (US\$'000)

	<u>Share capital*</u>	<u>Share premium and reserves</u>	<u>Translation reserve</u>	<u>Retained earnings</u>	<u>Dormant shares</u>	<u>Total</u>
Balance at January 1, 2013**	--	16,671	(633)	23,525	(1,113)	38,450
Profit for the period ended June 30, 2013	--	--	--	6,455	--	6,455
Other comprehensive expense for the period ended June 30, 2013	--	--	(461)	--	--	(461)
Share-based payment expenses	--	838	--	--	--	838
Exercise of options	--	826	--	--	--	826
Dormant shares sold	--	1,414	--	--	1,113	2,527
Dividend paid	--	--	--	(4,279)	--	(4,279)
Balance at June 30, 2013	<u>--</u>	<u>19,749</u>	<u>(1,094)</u>	<u>25,701</u>	<u>--</u>	<u>44,356</u>
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	<u>--</u>	<u>23,464</u>	<u>(1,053)</u>	<u>37,921</u>	<u>--</u>	<u>60,332</u>

* No par value

** Retrospective application regarding initial application of amended IAS 19, Employee Benefits

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, 2014</u>	<u>March 31, 2014</u>	<u>June 30, 2013</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	348,166,053	347,037,928	343,597,256

For the quarter ended June 30, 2014, a total of 1,128,125 employee share options were exercised into ordinary shares.

Details of changes in share options:

	<u>Average exercise price in US cents per share</u>	<u>Options</u>
At January 1, 2014	75.0	15,110,794
Granted	196.2	3,810,000
Cancelled	107.3	(531,250)
Exercised	35.6	(2,118,750)
At June 30, 2014	108.7	<u>16,270,794</u>

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, 2014, the total number of issued shares was 348,166,053 (as at December 31, 2013: 346,047,303). As at June 30, 2014 the total number of dormant shares was nil (as at December 31, 2013: nil).

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 June 30, 2014, 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, 2013 have been applied in the preparation for the financial statements for the period ended June 30, 2014.

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,	
	2014	2013	2014	2013
Basic earnings per share (US cents)	2.46	2.41	5.08	4.79
Diluted earnings per share (US cents)	2.43	2.39	5.01	4.75
Basic earnings per share (Singapore cents*)	3.07	3.01	6.34	5.98
Diluted earnings per share (Singapore cents*)	3.04	2.99	6.26	5.93

Basic earnings per share for the three months ended June 30, 2014 are calculated based on the weighted average number of 348,047,440 ordinary shares issued during the current period and the equivalent of 342,898,589 ordinary shares during the preceding period.

Diluted earnings per share for the three months ended June 30, 2014 are calculated based on weighted average number of 353,221,381 ordinary shares and outstanding options and the equivalent of 346,434,491 ordinary shares and outstanding options during the preceding period.

Basic earnings per share for the six months ended June 30, 2014 are calculated based on the weighted average number of 347,203,853 ordinary shares issued during the current period and the equivalent of 341,123,839 ordinary shares during the preceding period.

Diluted earnings per share for the six months ended June 30, 2014 are calculated based on weighted average number of 352,065,265 ordinary shares and outstanding options and the equivalent of 344,292,221 ordinary shares during the preceding period.

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.249 at June 30, 2014.

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, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Net asset value (US\$ thousands)	80,108	67,334	60,332	43,656
Net asset value per ordinary share (US cents)	23.01	19.46	17.33	12.62
Net asset value per ordinary share (Singapore cents*)	28.74	24.30	21.64	15.76

At June 30, 2014, net asset value per share is calculated based on the number of ordinary shares in issue at June 30, 2014 of 348,166,053 (there were no dormant ordinary shares at June 30, 2014).

At December 31, 2013, net asset value per share is calculated based on the number of ordinary shares in issue at December 31, 2013 of 346,047,303 (there were no dormant ordinary shares at December 31, 2013).

* Convenience translation based on exchange rate of US\$ 1=S\$ 1.249 at June 30, 2014.

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-
- any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
 - any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Overview

The Group reported record quarterly revenues in Q2 2014 of US\$ 24.7 million, profit from operations of US\$ 10.1 million and net profit of US\$ 8.6 million, as compared to revenues of US\$ 22.1 million, profit from operations of US\$ 9.5 million and net profit of US\$ 8.3 million reported in Q2 2013, and as compared to revenues of US\$ 24.4 million, profit from operations of US\$ 10.9 million and net profit of US\$ 9.1 million reported in Q1 2014. The Group reported record semi-annual revenues in H1 2014 of US\$ 49.1 million, record semi-annual profit from operations of US\$ 21.0 million and record semi-annual net profit of US\$ 17.6 million, as compared to revenues of US\$ 42.3 million, profit from operations of US\$ 18.6 million and net profit of US\$ 16.3 million reported in H1 2013. The improved operating performance in Q2 2014 and H1 2014 on a year-over-year basis stemmed primarily from increased Galaxy™ family related revenues along with increased sales of our other rough-diamond planning and processing products. On a sequential basis, Q2 2014 results showed increased revenues offset by somewhat higher operating expenses, as planned.

Galaxy™ family penetration and recurring revenues continues to grow, with deliveries in Q2 2014 of a record 19 Galaxy™ family systems to customers. As of June 30, 2014, the Group has an installed base of just over 175 Galaxy™ family systems. Overall recurring revenues for H1 2014 (including Galaxy™-related, Quazer™ services, annual maintenance contracts, etc.) represented just under 35% of our overall sales.

Balance Sheet and Cash Flow Highlights

As of June 30, 2014, cash and cash equivalents and short-term investments (bank deposits) increased to US\$ 46.5 million from the US\$ 42.7 million reported as of March 31, 2014 and from the US\$ 33.1 million as of December 31, 2013. This increase in Q2 2014 and H1 2014 follows the Group's strong operating results and, notably, it is after the payment of a US \$7.0 million final dividend for the fiscal year 2013, paid in May 2014. Trade receivables decreased marginally to US\$ 16.5 million as at June 30, 2014, as compared to US\$ 17.0 million as at March 31, 2014, as we continue to manage our receivables with prudence and caution.

Revenues

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

Q2 2014 versus Q2 2013				
Region	Q2 2014	Q2 2013	\$ change	% change
India	20,240	16,980	3,260	19.2
Africa	1,074	932	142	15.2
Europe	315	576	(261)	(45.3)
North America	287	26	261	1,003.8
Israel	1,452	1,003	449	44.8
Other*	1,348	2,617	(1,269)	(48.5)
Total	24,716	22,134	2,582	11.7

H1 2014 versus H1 2013				
Region	H1 2014	H1 2013	\$ change	% change
India	39,722	32,481	7,241	22.3
Africa	2,068	2,180	(112)	(5.1)
Europe	1,025	1,099	(74)	(6.7)
North America	591	238	353	148.3
Israel	2,788	1,883	905	48.1
Other*	2,894	4,467	(1,573)	(35.2)
Total	49,088	42,348	6,740	15.9

Q2 2014 versus Q1 2014				
Region	Q2 2014	Q1 2014	\$ change	% change
India	20,240	19,482	758	3.9
Africa	1,074	994	80	8.0
Europe	315	710	(395)	(55.6)
North America	287	304	(17)	(5.6)
Israel	1,452	1,336	116	8.7
Other*	1,348	1,546	(198)	(12.8)
Total	24,716	24,372	344	1.4

* (primarily Asia, excluding India)

The Group reported record revenues in Q2 2014 of US\$ 24.7 million, an increase of 12% as compared to US\$ 22.1 million in Q2 2013. The Group reported record semi-annual revenues in H1 2014 of US\$ 49.1 million, an increase of 16% as compared to revenues of US\$ 42.3 million in H1 2013. The increase in revenues was across most geographic segments, and stemmed from increased Galaxy™ family related revenues along with increased sales of our other rough-diamond planning and processing products. On a sequential basis, revenues increased by 1% as compared to US\$ 24.4 million in Q1 2014, primarily on increased Galaxy™ family related revenues.

Cost of sales and gross profit

Cost of sales for Q2 2014 increased by 7% to US\$ 7.0 million as compared to US\$ 6.6 million for Q2 2013, with gross profit margins of 72% in Q2 2014 versus 70% in Q2 2013. Similarly, cost of sales for H1 2014 increased by 12% to US\$ 13.6 million as compared to US\$ 12.2 million for H1 2013, with gross profit margins of 72% in H1 2014 versus 71% in H1 2013. The increase in the cost of sales and the improvement in the gross profit margin on a year-over-year basis were due to increased sales volumes and composition of product mix (as Galaxy™ family related recurring revenues continue to grow from an expanded installed base). On a sequential basis, cost of sales for Q2 2014 increased by 6% to US\$ 7.0 million as compared to US\$ 6.6 million for Q1 2014, with gross profit margins of 72% in Q2 2014 versus 73% in Q1 2014, due to the composition of product mix in the respective quarters.

Research and development expenses

Research and development expenses for Q2 2014 and H1 2014 and for the comparable periods are as per the table below. The Group capitalised (in compliance with IFRS) costs associated with the development of the Sarine Loupe™ system.

<u>US\$ (thousands)</u>	<u>Q2 2014</u>	<u>Q2 2013</u>	<u>Q1 2014</u>	<u>H1 2014</u>	<u>H1 2013</u>
R&D expenses as reported	2,744	1,978	2,529	5,273	3,644
Capitalised development	337	190	378	715	819
Total R&D costs incurred	3,081	2,168	2,907	5,988	4,463

The increase in research and development expenditures for Q2 2014 and H1 2014 on year-over-year and sequential bases, is in line with the Group's expanded strategic research and development plans

and is primarily related to the Group's development of new products and services for polished diamonds along with other programs (see Section 10).

Sales and marketing expenses

Sales and marketing expenses for Q2 2014 increased by 25% to US\$ 3.5 million as compared to US\$ 2.8 million for Q2 2013 and US\$ 2.8 million in Q1 2014. Sales and marketing expenses for H1 2014 increased by 14% to US\$ 6.3 million, as compared to US\$ 5.5 million for H1 2013. The increase in sales and marketing expenses for Q2 2014 and H1 2014 on a year-over-year and sequential bases was primarily due to increased business development and marketing expenses associated with activities related to the launch of our new polished diamond products and services and the establishing of the necessary sales and marketing infrastructures.

General and administrative expenses

General and administrative expenses increased by US \$0.1 million to US\$ 1.4 million for Q2 2014 as compared to US\$ 1.3 million in Q2 2013. General and administrative expenses increased by US\$ 0.5 million to US\$ 2.9 million for H1 2014 as compared to US\$ 2.4 million for H1 2013. The increase in general and administrative expenses on a year-over-year basis was primarily due to increased incentive-based compensation. On a sequential basis, general and administrative expenses decreased by an insignificant \$0.15 million as compared to US\$ 1.5 million in Q1 2014 primarily due to reduced third-party administrative fees.

Profit from operations

Profit from operations for Q2 2014 increased by 6% to US\$ 10.1 million as compared to US\$ 9.5 million for Q2 2013. Profit from operations for H1 2014 increased by 13% to a record US\$ 21.0 million as compared to US\$ 18.6 million for H1 2013. The increase in profit from operations on a year-over-year basis was primarily due to higher sales and increased gross profits, offset by higher operating expenses, as detailed above. Profit from operations for Q2 2014 decreased by 7% to US\$ 10.1 million as compared to US\$ 10.9 million for Q1 2014. The decrease in profit from operations on a sequential basis was primarily due to higher operating expenses, as noted.

Net finance income (expense)

Net finance income for Q2 2014 was US\$ 0.17 million as compared to an *expense* of US\$ 0.06 million. Net finance income for H1 2014 was US\$ 0.17 million as compared to *income* of US\$ 0.06 million. The increase in financial income on a year-over-year basis was primarily due to financial income related to a previous year tax refund, as well as exchange rate income on our NIS held deposits.

Income tax expense

The statutory corporate tax rate in Israel has increased in 2014 to 26.5% (25% in 2013). The Group's effective current period tax rate is approximately 16.5% for Q2 2014 and H1 2014. The Group's tax rate is a blend of the statutory tax rate in Israel and substantial tax benefits, in accordance with tax directives enacted in Israel as of 2011, accorded to our export oriented revenue mix (marginally taxed in 2014 at between 9%-16% (7%-12.5% in 2013)), offset somewhat by the higher statutory tax rate (34%) in India.

For Q2 2014, the Group recorded an income tax expense of US\$ 1.7 million, as compared to an expense of US\$ 1.2 million in Q2 2013. The Group recorded an income tax expense of US\$ 3.5 million in H1 2014, as compared to an expense of US\$ 2.3 million in H1 2013. The increase in the income tax expense was primarily due to higher pre-tax profitability and the higher marginal tax rate in 2014 following the enactment of the higher tax rates as noted. On a sequential basis the Group recorded income tax expense of US\$ 1.7 million in Q2 2014, as compared to an expense of US\$ 1.8 million in Q1 2014.

Profit for the period

Net profit for Q2 2014 increased by 4% to US\$ 8.6 million as compared to US\$ 8.3 million for Q2 2013. Net profit for H1 2014 increased by 8% to a record US\$ 17.6 million, as compared to US\$ 16.3 million for H1 2013. The increase in net profit on a year-over-year basis was primarily due to higher sales and increased gross profits, offset somewhat by higher operating expenses and income taxes, as noted above. Net profit for Q2 2014 decreased by 6% to US\$ 8.6 million as compared to US\$ 9.1 million for Q1 2014. The decrease in net profit on a sequential basis was primarily due to higher operating expenses, as noted.

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 remain stable, as does the exchange rate of the Indian Rupee against the U.S. Dollar. The shortage of available credit in India remains a factor, though we have not seen any meaningful impairment of our sales there during Q2 2014. Barring any unforeseen developments, the overall economic conditions should continue to be favourable to our business for the rest of 2014.
- b. Having increased moderately during the first quarter of 2014, with high-demand 30-40 point sizes appreciating more than other sizes, polished diamond prices have now stabilised. Rough diamond prices have continued increasing moderately in the quarter. However, there has not been substantial diversion between overall changes in rough and polished diamond prices so far this year. We remain cautiously optimistic that this trend will continue and that the divergence in prices experienced in the previous two years (2012 – 2013) will not manifest itself again in 2014. However, due to the potentially negative effect of such a divergence on our business, we continue to monitor these trends closely.
- c. The Group realised record deliveries of new Galaxy™ family systems this quarter. With deliveries of 19 systems to customers, a majority of which were of the Solaris™ model, as of 30 June 2014 we had just over 175 systems deployed worldwide. Our recurring revenue stream from the installed Galaxy™ and Solaris™ systems continued to expand significantly, and we expect this trend to continue throughout 2014. We continue to closely monitor our various would-be competitors' activities. The solution introduced by our Russian competitor earlier this year has still not realised any commercial sales, nor has the system developed by the Indian competitor materialised commercially. Based on current demand and given our world-leading integrative solution and extensive installed base of planning systems, the Group expects to continue significant deliveries of Galaxy™ and Solaris™ systems this year. Sale of the Galaxy™ Ultra (to identify VVS1 inclusions accurately and automatically with much higher throughput and ease of operation than any other competing solution) to customers have commenced, as planned, in Q3.
- d. Marketing efforts of the Sarine Light™ in the U.S., Japan, Taiwan and Korea are continuing, and, as expected, we concluded sales with launch customers in the U.S. and Taiwan in Q2 2014. We reiterate that 2014 is a transition year, in which our marketing and sales footprint will expand to cover the above countries as well as HK and China, to be followed by additional Asian countries (e.g. Thailand, Malaysia, Indonesia and Singapore) in late 2014 or early 2015. Traction, measured either by the number of Sarine Light™ reports issued or revenues collected, should follow with significant contribution to be expected in 2015 and thereafter.

- e. We have launched the Sarine Loupe™ imaging service commercially in our service centre in India as of 1 July 2014. It is expected that additional features, proposed by customers, will be implemented during Q3 in time for the September Hong Kong show, and that this will provide additional impetus to the broader commercial adoption of the unique Sarine Loupe™ imaging solution, including roll-out at customer sites, in Q4.

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

The Galaxy™ family of products: Our research and development efforts relating to our inclusion scanning family of systems continue to focus on increasing the added value of using these systems, with emphasis being on increased throughput and automation, so as to lower the total cost of ownership and use.

Rough planning products: We continue to focus on bolstering the added value realised by utilising our planning systems in conjunction with our inclusion mapping systems. This has been a winning proposition both underpinning our inclusion systems market penetration and leading to our capturing an increased share in the planning systems market. We continue to refine the Advisor™ rough planning software so as to even further optimise the resulting polished diamonds' values, and continue to plan the release of a significantly upgraded version of the Advisor™ software with new and exciting features in the second half of 2014.

Facet polishing products: Beta-testing of the new DiaMension Axiom™ platform, enabling more comprehensive geometric data measurements relating to the polished diamond, at a new and unmatched level of accuracy, with an opinion-leading gem lab and high-end manufacturers/retailers in the U.S. and India has completed successfully. Initial sales to customers in the U.S. and India have commenced. We expect the Axiom's™ introduction will lead to a refined definition of a polished diamond's Cut and symmetry, and thus create a new business opportunity for the Group.

Sarine Light™: As the Sarine Light™ is launched in additional markets in the Far East and the U.S., as noted above, continuing development efforts are addressing the refinement of the system to extend its capabilities to additional shapes and categories of polished diamonds, enhance its scalability, and finish the in-store tablet-based display system, to better meet retailers' needs in the actual sales environment.

Sarine Loupe™: The Sarine Loupe™ system's enhancement with additional features, proposed by customers who have participated in its trial runs and initial commercial launch, continues. These features will be implemented over the upcoming months to augment the online assessment of polished diamonds, with intuitive indications of its visual appearance, actual size and Colour.

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 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.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

In August 2013, the Board of Directors declared an interim dividend of US cents 4.0 per ordinary share for the half-year ended June 30, 2013, constituting a US cents 1.5 dividend as per the stated dividend policy, and an additional special interim dividend of US cents 2.5.

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

	<u>Amount before tax US\$'000</u>	<u>Tax rate applicable to shareholders %</u>
2014	10,445	20%/10%* / 10% **
2013	13,800	15%* / 10% **

*The tax rate for the interim cash dividend for 2014 will be 20% (15% in 2013) for individual Israeli shareholders and approximately 10% (15% in 2013) for Israeli corporate shareholders.

**The tax rate for the dividends for Singaporean shareholders is 10%.

(d) *Date Payable*

	<u>Amount US\$'000</u>
29.8.14	10,445
4.9.13	13,800

(e) *Books Closure Date*

5:00 PM on:

	<u>Amount US\$'000</u>
20.8.14	10,445
23.8.13	13,800

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, 2014, 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