

Company Registration No. 459576 (England and Wales)

STAR DIAMOND COMPANY LIMITED  
AND SUBSIDIARIES  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 24 MAY 1998



# STAR DIAMOND COMPANY LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	D.D. Fiszman P.I. Propper D.L. Bucks
<b>Joint secretaries</b>	D.D. Fiszman, P.I. Propper
<b>Company number</b>	459576
<b>Registered office</b>	Harford House 101-103 Great Portland Street London W1N 6BH
<b>Auditors</b>	Harold Everett Wreford Harford House 101-103 Great Portland Street London W1N 6BH
<b>Bankers</b>	National Westminster Bank Plc Barclays Bank Plc

# STAR DIAMOND COMPANY LIMITED

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# STAR DIAMOND COMPANY LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 24 MAY 1998

The directors present their report and financial statements for the year ended 24 May 1998.

### Principal activities and review of the business

The principal activity of the company and the group during the year continued to be those of dealing in diamonds.

The results for the year and the financial position at the balance sheet date were considered satisfactory by the directors.

### Results and dividends

The results for the year are set out on page 4.

An interim dividend of 10p per 'D' share was paid amounting to £6,000. The directors do not recommend payment of a final dividend.

### Future developments

There are no plans for any significant changes to the group's principal activities during the next financial year.

### Directors and their interests

The following directors have held office since 25 May 1997; their beneficial interests in the shares of the company were as stated below:

	'A' shares of £1 each	
	24 May 1998	25 May 1997
D.D. Fiszman	77,000	77,000
P.I. Propper	-	-
D.L. Bucks	-	-

	'B' shares of £1 each	
	24 May 1998	25 May 1997
D.D. Fiszman	112,000	112,000
P.I. Propper	-	-
D.L. Bucks	-	-

	'C' shares of £1 each	
	24 May 1998	25 May 1997
D.D. Fiszman	398,000	398,000
P.I. Propper	-	-
D.L. Bucks	-	-

	'D' shares of £1 each	
	24 May 1998	25 May 1997
D.D. Fiszman	20,000	20,000
P.I. Propper	20,000	20,000
D.L. Bucks	20,000	20,000

The 60,000 'D' Shares of £1 each are held jointly by the three directors as trustees.

# STAR DIAMOND COMPANY LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 24 MAY 1998

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### Charitable contributions

During the year the group made charitable donations of £25,275 (1997 - £25,070).

### Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Harold Everett Wreford be reappointed as auditors of the company will be put to the Annual General Meeting.

### Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

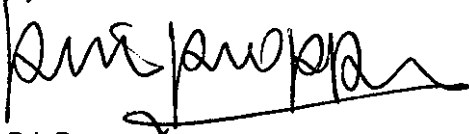
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operations of the company's business depends not only on the company's computer systems, but also on those of the company's suppliers and customers. This could result in exposure to further risk in the event that there is a failure by third parties to remedy their own Year 2000 issues.

Steps have been taken by the board to address the issue. Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the board believes that it will achieve an acceptable state of readiness and would be able to deal promptly with significant subsequent failures or issues that might arise.

By order of the board



P.I. Propper

Joint secretary

17 March 1999

# STAR DIAMOND COMPANY LIMITED

## AUDITORS' REPORT TO THE SHAREHOLDERS OF STAR DIAMOND COMPANY LIMITED

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We have audited the financial statements on pages 4 to 24 which have been prepared under the historical cost convention and the accounting policies set out in note 1.

### Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

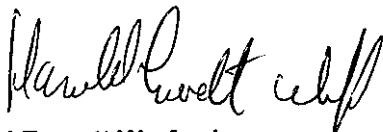
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us was limited because we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the valuation of diamond stock valued at £581,861 included within total diamond stock of £655,827 appearing in the company's balance sheet, and £2,191,888 included within total diamond stock of £2,265,854 appearing in the consolidated balance sheet. Any adjustment to these figures would have a corresponding effect on the loss for the year.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Qualified opinion arising from limitation in audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the valuation of stock, in our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 24 May 1998 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our audit work relating to the valuation of stock we were unable to obtain all the information that we considered necessary for the purpose of our audit.



Harold Everett Wreford

18 March 1999

Chartered Accountants  
Registered Auditor

Harford House  
101-103 Great Portland Street  
London  
W1N 6BH

# STAR DIAMOND COMPANY LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 24 MAY 1998

	Notes	1998 £	1997 £
Turnover	2	6,450,331	11,112,234
Cost of sales		(4,419,329)	(8,591,162)
<b>Gross profit</b>		<u>2,031,002</u>	<u>2,521,072</u>
Administrative expenses		(2,552,306)	(2,405,886)
Other operating income		28,248	20,000
<b>Operating (loss)/profit</b>	3	<u>(493,056)</u>	<u>135,186</u>
Investment income	4	(744,853)	421,367
Other interest receivable and similar income	4	19,963	82,837
Interest payable and similar charges	5	(344,872)	(295,942)
<b>(Loss)/profit on ordinary activities before taxation</b>		<u>(1,562,818)</u>	<u>343,448</u>
Tax on (loss)/profit on ordinary activities	6	(25,319)	(9,030)
<b>(Loss)/profit on ordinary activities after taxation</b>		<u>(1,588,137)</u>	<u>334,418</u>
Dividends	7	(6,000)	(6,000)
<b>Retained (loss)/profit for the year</b>	16	<u><u>(1,594,137)</u></u>	<u><u>328,418</u></u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

# STAR DIAMOND COMPANY LIMITED

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 24 MAY 1998

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	1998 £	1997 £
<b>Group (loss)/profit for the financial year</b>	(1,588,137)	334,418
Currency translation differences on foreign currency net investments	-	(254,884)
<b>Total recognised gains and losses relating to the year</b>	(1,588,137)	79,534
Prior year adjustment	235,624	(259,539)
<b>Total gains and losses recognised since last financial statements</b>	<u>(1,352,513)</u>	<u>(180,005)</u>

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# STAR DIAMOND COMPANY LIMITED

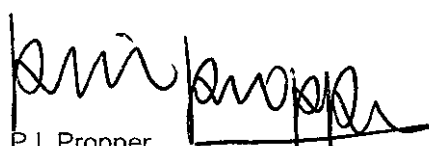
## BALANCE SHEET AS AT 24 MAY 1998

	Notes	1998		1997	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	8		2,049,048		1,231,482
Investments	9		8,895,118		8,531,568
			<u>10,944,166</u>		<u>9,763,050</u>
<b>Current assets</b>					
Stocks	10	679,106		624,828	
Debtors: amounts falling due within one year	11	534,163		964,082	
Debtors: amounts falling due after more than one year	11	2,504,650		2,504,650	
Cash at bank and in hand		11,617		1,532	
		<u>3,729,536</u>		<u>4,095,092</u>	
<b>Creditors: amounts falling due within one year</b>	12	<u>(4,153,175)</u>		<u>(2,481,612)</u>	
<b>Net current (liabilities)/assets</b>			<u>(423,639)</u>		<u>1,613,480</u>
<b>Total assets less current liabilities</b>			<u>10,520,527</u>		<u>11,376,530</u>
<b>Creditors: amounts falling due after more than one year</b>	13		<u>(810,560)</u>		<u>(875,000)</u>
			<u>9,709,967</u>		<u>10,501,530</u>
<b>Capital and reserves</b>					
Called up share capital	15		771,750		771,750
Share premium account	16		12,500		12,500
Other reserves	16		528,250		528,250
Profit and loss account	16		8,397,467		9,189,030
<b>Shareholders' funds - equity interests</b>	17		<u>9,709,967</u>		<u>10,501,530</u>

The financial statements were approved by the board on 17 March 1999



D.D. Fiszman  
Director



P.I. Propper  
Director

# STAR DIAMOND COMPANY LIMITED

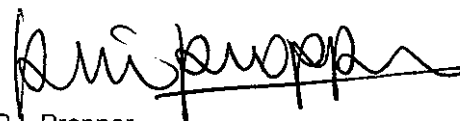
## CONSOLIDATED BALANCE SHEET AS AT 24 MAY 1998

	Notes	1998		1997	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	8		2,313,006		1,479,847
Investments	9		9,669,603		10,533,764
			<u>11,982,609</u>		<u>12,013,611</u>
<b>Current assets</b>					
Stocks	10	2,289,133		2,034,467	
Debtors: amounts falling due within one year	11	2,054,075		2,428,512	
Debtors: amounts falling due after more than one year	11	2,504,650		2,504,650	
Cash at bank and in hand		14,043		3,569	
			<u>6,861,901</u>		<u>6,971,198</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(5,949,640)</u>		<u>(4,398,903)</u>	
<b>Net current assets</b>			<u>912,261</u>		<u>2,572,295</u>
<b>Total assets less current liabilities</b>			<u>12,894,870</u>		<u>14,585,906</u>
<b>Creditors: amounts falling due after more than one year</b>	13		<u>(825,540)</u>		<u>(922,439)</u>
			<u>12,069,330</u>		<u>13,663,467</u>
<b>Capital and reserves</b>					
Called up share capital	15		771,750		771,750
Share premium account	16		12,500		12,500
Other reserves	16		579,145		579,145
Profit and loss account	16		10,702,638		12,296,775
			<u>12,066,033</u>		<u>13,660,170</u>
<b>Shareholders' funds - equity interests</b>	17		<u>12,066,033</u>		<u>13,660,170</u>
Minority interests			3,297		3,297
			<u>12,069,330</u>		<u>13,663,467</u>

The financial statements were approved by the board on 17 March 1999



D.D. Fizman  
Director



P.I. Propper  
Director

# STAR DIAMOND COMPANY LIMITED

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 24 MAY 1998

	1998		1997	
	£	£	£	£
<b>Net cash inflow from operating activities</b>		1,378,008		1,446,325
<b>Returns on investments and servicing of finance</b>				
Interest received	19,963		82,837	
Interest paid	(344,872)		(295,942)	
Dividends received	122,856		105,168	
Dividends received from participating interests	-		4,006	
<b>Net cash outflow for returns on investments and servicing of finance</b>		(202,053)		(103,931)
<b>Taxation</b>		9,874		(211,883)
<b>Capital expenditure and financial investment</b>				
Payments to acquire tangible assets	(1,302,656)		(258,296)	
Payments to acquire investments	(3,548)		(3,666,750)	
Receipts from sales of tangible assets	7,399		62,228	
Receipts from sales of investments	-		13,012	
<b>Net cash outflow for capital expenditure</b>		(1,298,805)		(3,849,806)
<b>Equity dividends paid</b>		(6,000)		(6,000)
<b>Net cash outflow before management of liquid resources and financing</b>		(118,976)		(2,725,295)
<b>Financing</b>				
New long term bank loan	-		1,000,000	
Other new long term loans	479,922		-	
Other new short term loans	135,232		2,000,000	
Repayment of long term bank loan	(532,459)		(154,414)	
Repayment of other long term loans	(44,362)		-	
Repayment of other short term loans	-		(1,498,146)	
<b>Increase in debt</b>	38,333		1,347,440	
<b>Net cash inflow from financing</b>		38,333		1,347,440
<b>Decrease in cash in the year</b>		(80,643)		(1,377,855)

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 24 MAY 1998

<b>1</b>	<b>Reconciliation of operating (loss)/profit to net cash inflow from operating activities</b>			<b>1998</b>	<b>1997</b>
				£	£
	Operating (loss)/profit			(493,056)	135,186
	Depreciation of tangible assets			463,782	305,522
	Profit on disposal of tangible fixed assets			(1,684)	(5,638)
	Currency translation differences on foreign currency net investments not relating to participating interests			-	(7,695)
	Increase in stocks			(254,666)	(193,307)
	Decrease in debtors			339,244	2,575,611
	Increase/(decrease) in creditors within one year			1,324,388	(1,363,354)
	<b>Net cash inflow from operating activities</b>			<b>1,378,008</b>	<b>1,446,325</b>
<b>2</b>	<b>Analysis of net debt</b>	<b>25 May 1997</b>	<b>Cash flow</b>	<b>Other non-cash changes</b>	<b>24 May 1998</b>
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	3,569	10,474		14,043
	Bank overdrafts	(1,247,779)	(91,117)		(1,338,896)
		<u>(1,244,210)</u>	<u>(80,643)</u>		<u>(1,324,853)</u>
	Debt:				
	Debts falling due within one year	(1,128,971)	(135,232)	-	(1,264,203)
	Debts falling due after one year	(922,439)	96,899	-	(825,540)
		<u>(2,051,410)</u>	<u>(38,333)</u>	<u>-</u>	<u>(2,089,743)</u>
	Net debt	<u>(3,295,620)</u>	<u>(118,976)</u>	<u>-</u>	<u>(3,414,596)</u>
<b>3</b>	<b>Reconciliation of net cash flow to movement in net debt</b>			<b>1998</b>	<b>1997</b>
				£	£
	Decrease in cash in the year			(80,643)	(1,377,855)
	Cash inflow from increase in debt			(38,333)	(1,347,440)
	<b>Movement in net debt in the year</b>			<b>(118,976)</b>	<b>(2,725,295)</b>
	Opening net debt			(3,295,620)	(570,325)
	<b>Closing net debt</b>			<b>(3,414,596)</b>	<b>(3,295,620)</b>

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

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### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

#### 1.2 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 24 May 1998. The financial statements of Star Diamond Company (Israel) Limited have not been included in the consolidation as the company has been dormant for many years. Intra-group sales and profits are eliminated fully on consolidation.

As permitted by Section 230 of the Companies Act 1985, a profit and loss account dealing with the results of the holding company only is not presented as part of these financial statements.

#### 1.3 Participating interests

The group's share of profits (less losses) of undertakings in which the group has a participating interest is included in the consolidated profit and loss account, and the group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned.

#### 1.4 Turnover

Turnover represents the invoiced amount of goods sold and services provided to customers outside the group stated net of VAT and trade discounts.

#### 1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Land and buildings	Short leasehold	Equal instalments over lease term
Aircraft		9% reducing balance
Fixtures, fittings, plant & equipment		15% and 20% reducing balance
Motor vehicles		20% and 25% reducing balance

#### 1.6 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### 1.7 Investments

Fixed asset investments are stated at cost less provision for diminution in value, where appropriate.

#### 1.8 Stock

Stock is valued at the lower of cost and net realisable value.

#### 1.9 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with SSAP 24.

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

### 1.10 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

### 1.11 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2	Turnover	1998	1997
		£	£
	<b>Class of business</b>		
	Diamond activities	5,993,707	10,666,426
	Studio recording	456,624	445,808
		<u>6,450,331</u>	<u>11,112,234</u>
	<b>Geographical market</b>		
	United Kingdom	6,347,468	6,908,526
	Export	102,863	4,203,708
		<u>6,450,331</u>	<u>11,112,234</u>

In the opinion of the directors, further disclosure of the information in respect of turnover required by the Companies Act 1985 would be seriously prejudicial to the interests of the group.

3	Operating (loss)/profit	1998	1997
		£	£
	Operating (loss)/profit is stated after charging:		
	Depreciation of tangible fixed assets	463,782	305,523
	Profit on disposal of tangible fixed assets	(1,684)	(5,638)
	Operating lease rentals	162,527	174,314
	Auditors' remuneration	40,918	37,742
	and after crediting:		
	Rents receivable	<u>20,000</u>	<u>20,000</u>

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

4	Income from investments, other interest receivable and similar income	1998 £	1997 £
	Income from listed investments	116,853	105,168
	Income from unlisted investments	6,003	-
	Loss on disposal of unlisted investments	-	(4,851)
	Bank interest	14,798	13,241
	Other interest	5,165	69,596
	Share of participating interests' (loss)/profit on ordinary activities before taxation	(648,497)	46,412
	Additional share of participating interests' reserves attributable to increase in overall shareholding	-	274,638
	Elimination of share of participating interests' reserves attributable to reclassification on dilution in holding	(219,212)	-
		<u>(724,890)</u>	<u>504,204</u>
5	Interest payable	1998 £	1997 £
	On bank loans and overdrafts	220,885	250,365
	On other loans wholly repayable within 5 years	123,954	44,837
	Other	33	740
		<u>344,872</u>	<u>295,942</u>
6	Taxation	1998 £	1997 £
	<b>U.K. current year taxation</b>		
	U.K. corporation tax at 21% (1997 - 24%)	-	125
	Tax credits on franked investment income	23,386	21,050
	Share of tax of participating interests' tax charge	-	24,871
		<u>23,386</u>	<u>46,046</u>
	<b>Prior years</b>		
	U.K. Corporation tax	1,933	(37,016)
		<u>25,319</u>	<u>9,030</u>

The group has estimated losses of £960,000 (1997 - £530,000) available for carry forward against future trading profits.

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

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7 Dividends	1998	1997
	£	£
Ordinary interim paid 28 January 1998 (10p per 'D' share)	6,000	6,000
	<u>6,000</u>	<u>6,000</u>



# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

### 8 Tangible fixed assets

The Group	Land and buildings Short leasehold	Aircraft	Fixtures, fittings, plant & equipment	Motor vehicles	Total
	£	£	£	£	£
<b>Cost</b>					
At 25 May 1997	1,671,479	-	954,065	150,650	2,776,194
Additions	279,246	941,010	45,019	37,381	1,302,656
Disposals	-	-	(1,113)	(10,000)	(11,113)
At 24 May 1998	1,950,725	941,010	997,971	178,031	4,067,737
<b>Depreciation</b>					
At 25 May 1997	668,592	-	559,509	68,246	1,296,347
On disposals	-	-	(413)	(4,985)	(5,398)
Charge for the year	306,771	56,461	81,416	19,134	463,782
At 24 May 1998	975,363	56,461	640,512	82,395	1,754,731
<b>Net book value</b>					
At 24 May 1998	975,362	884,549	357,459	95,636	2,313,006
At 24 May 1997	1,002,887	-	394,556	82,404	1,479,847
<b>The Company</b>					
<b>Cost</b>					
At 25 May 1997	1,671,479	-	377,603	92,918	2,142,000
Additions	279,246	941,010	7,827	-	1,228,083
At 24 May 1998	1,950,725	941,010	385,430	92,918	3,370,083
<b>Depreciation</b>					
At 25 May 1997	668,592	-	216,182	25,744	910,518
Charge for the year	306,771	56,461	33,850	13,435	410,517
At 24 May 1998	975,363	56,461	250,032	39,179	1,321,035
<b>Net book value</b>					
At 24 May 1998	975,362	884,549	135,398	53,739	2,049,048
At 24 May 1997	1,002,887	-	161,421	67,174	1,231,482

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

### 9 Fixed asset investments

#### The Group

	Listed investments	Unlisted investments	Shares in participating interests	Shares in subsidiary undertakings	Total
	£	£	£	£	£
<b>Cost</b>					
At 25 May 1997	527,512	6,806,236	2,923,471	1,907	10,259,126
Prior year adjustment - Additional reserves attributable to Group due to increase in overall shareholding	-	-	274,638	-	274,638
At 25 May 1997 - as restated	527,512	6,806,236	3,198,109	1,907	10,533,764
Reclassification	-	50,584	(269,796)	-	(219,212)
Additions	-	3,548	(648,497)	-	(644,949)
At 24 May 1998	527,512	6,860,368	2,279,816	1,907	9,669,603
At 24 May 1997	527,512	6,806,236	3,198,109	1,907	10,533,764

#### The company

<b>Cost</b>					
At 25 May 1997	527,512	6,806,236	557,105	640,715	8,531,568
Reclassification	-	50,584	(50,584)	-	-
Additions	-	3,548	-	360,002	363,550
At 24 May 1998	527,512	6,860,368	506,521	1,000,717	8,895,118
At 24 May 1997	527,512	6,806,236	557,105	640,715	8,531,568

Shares in subsidiary undertakings include loans totalling £187,253 (1997 - £187,253).

During the year, London Star Diamond Co. (India) Ltd. ceased to be an undertaking in which the company had a participating interest, and it has therefore been reclassified as an unlisted investment as shown above.

#### Market value of listed investments

	1998	1997
	£	£
	8,432,140	17,051,244

Should the investments be sold at their valuation, a tax charge in the region of £2,517,900 (1997 - £5,372,800) would arise.

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

### 9 Fixed asset investments (continued)

#### Holdings of more than 10%

The company holds more than 10% of the share capital of the following companies:

Company	Country of incorporation if outside U.K.	Shares held		Principal activity
		Class	%	
<b>Subsidiary undertakings</b>				
Polished Diamond Distributors Limited		Ordinary	100	Diamond dealing
Roundhouse Recording Studios Limited		Ordinary	100	Recording studio
Echocity Limited & Echoworld Limited		Ordinary	100	Recording studio
Central Diamonds Limited		Ordinary	83	Dormant
London Star Limited		Ordinary	100	Dormant
Gungho Investments Ltd. & Gungho Trading Ltd.		Ordinary	100	Dormant
SDC Nominees Limited		Ordinary	100	Dormant
Star Industrial Holdings Limited		Ordinary	100	Dormant
Star Diamond Company (Israel) Limited	Israel	Ordinary	80	Dormant
<b>Participating interests</b>				
Star Diamond Group Inc.	U.S.A.	Ordinary	21	Diamond dealing
Star Diamond Group Inc.	U.S.A.	Preference	23	Diamond dealing
<b>Other significant interests</b>				
London Star Diamond Co. (India) Ltd.	India	Ordinary	15	Diamond dealing

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

The group's interests in its participating interests comprise:

	1998	1997
	£	£
Share of net assets as previously reported	2,279,816	2,936,813
Prior year adjustment	-	274,638
	<hr/>	<hr/>
Share of net assets as restated	2,279,816	3,211,451
Discount on acquisition	-	(13,342)
	<hr/>	<hr/>
	<u>2,279,816</u>	<u>3,198,109</u>

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

10 Stocks	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Securities	23,279	54,001	23,279	54,001
Finished goods and goods for resale	2,265,854	1,980,466	655,827	570,827
	<u>2,289,133</u>	<u>2,034,467</u>	<u>679,106</u>	<u>624,828</u>

11 Debtors	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Trade debtors	1,711,022	2,003,726	181,713	206,627
Amounts owed by subsidiary undertakings	-	-	95,253	355,087
Amounts owed by participating interests	-	143,985	-	158,904
Corporation tax	51,035	86,228	49,502	86,228
Other debtors	2,615,360	2,606,813	2,589,177	2,589,802
Prepayments and accrued income	181,308	92,410	123,168	72,084
	<u>4,558,725</u>	<u>4,933,162</u>	<u>3,038,813</u>	<u>3,468,732</u>

Amounts falling due after more than one year and included in the debtors above are:

Other debtors	<u>2,504,650</u>	<u>2,504,650</u>	<u>2,504,650</u>	<u>2,504,650</u>
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# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

### 12 Creditors: amounts falling due within one year

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Bank loans and overdrafts	1,870,876	1,776,750	1,318,206	1,143,445
Trade creditors	972,702	1,030,764	33,643	51,650
Amounts owed to subsidiary undertakings	-	-	19,597	103,916
Amounts owed to participating interests	113,205	79,663	70,136	7,608
Taxes and social security costs	61,645	47,588	27,342	19,902
Directors current accounts	409,872	384,829	366,610	344,076
Other creditors	2,121,442	781,764	1,958,787	611,323
Accruals and deferred income	399,898	297,545	358,854	199,692
	<u>5,949,640</u>	<u>4,398,903</u>	<u>4,153,175</u>	<u>2,481,612</u>
Debt due within one year	<u>1,264,203</u>	<u>1,128,971</u>	<u>1,232,223</u>	<u>1,100,000</u>

A bank loan of £500,000 (1997 - £500,000) is secured by way of a fixed charge on certain of the company's unlisted fixed asset investments.

Included within other creditors is a loan of £132,223 (1997 - £nil) which is secured by way of a fixed charge on the company's aircraft.

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

### 13 Creditors: amounts falling due after more than one year

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Bank loans	389,980	922,439	375,000	875,000
Other loans	435,560	-	435,560	-
	<u>825,540</u>	<u>922,439</u>	<u>810,560</u>	<u>875,000</u>
<b>Analysis of loans</b>				
Wholly repayable within five years	2,089,743	2,051,410	2,042,783	1,975,000
Included in current liabilities	(1,264,203)	(1,128,971)	(1,232,223)	(1,100,000)
	<u>825,540</u>	<u>922,439</u>	<u>810,560</u>	<u>875,000</u>
<b>Loan maturity analysis</b>				
Between one and two years	522,203	532,796	507,223	500,000
Between two and five years	303,337	389,643	303,337	375,000

A bank loan of £375,000 (1997 - £875,000) is secured by way of a fixed charge on certain of the company's unlisted fixed asset investments. The other loan of £435,560 (1997 - £nil) is secured by way of a fixed charge on the aircraft.

### 14 Pension costs

The company, together with a subsidiary undertaking, operates non-contributory defined contribution pension schemes for group employees and certain directors, the assets of which are held separately from those of the company in independently administered funds. The pension cost charge represents contributions paid and payable to the schemes and amounted to £44,880 (1997 - £40,395) for the group and £21,572 (1997 - £16,419) for the company.

The company also operates a non-contributory funded defined contribution scheme for one director, the assets of which are held separately from those of the company in a trustee administered fund. Contributions to the scheme are made in accordance with the advice of an independent qualified actuary in order to spread the pension costs over the the expected remaining service life of the participating director.

The latest actuarial valuation of the scheme was carried out as at 24 May 1996 using the aggregate funding method. The most significant actuarial assumptions having an effect on the contribution rate are those relating to the valuation rate of interest (10% p.a.) and the rates of increase in salaries and pensions (an average of 9.5% and 8% p.a. respectively). The market value of the scheme's assets was £6,439,500 and the present value of future contributions required by the company to meet future liabilities based on the actuarial assumptions made was £3,662,800. The pension charge for the year was £5,000 (1997 - £5,000).

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

15 Share capital	1998	1997
	£	£
<b>Authorised</b>		
200,000 'A' shares of £1 each	200,000	200,000
240,000 'B' shares of £1 each	240,000	240,000
800,000 'C' shares of £1 each	800,000	800,000
60,000 'D' shares of £1 each	60,000	60,000
	<u>1,300,000</u>	<u>1,300,000</u>
 <b>Allotted, called up and fully paid</b>		
155,000 'A' shares of £1 each	155,000	155,000
156,750 'B' shares of £1 each	156,750	156,750
400,000 'C' shares of £1 each	400,000	400,000
60,000 'D' shares of £1 each	60,000	60,000
	<u>771,750</u>	<u>771,750</u>

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

### 16 Statement of movements on reserves

The Group	Share premium account £	Other reserves £	Profit and loss account £
Balance at 25 May 1997 as previously reported	12,500	579,145	12,061,151
Prior year adjustment	-	-	235,624
Balance at 25 May 1997 as restated	12,500	579,145	12,296,775
Retained loss for the year	-	-	(1,594,137)
Eliminated on sale of subsidiary	-	-	-
	<u>12,500</u>	<u>579,145</u>	<u>10,702,638</u>
<b>The Company</b>			
Balance at 25 May 1997 as previously reported	12,500	528,250	9,189,030
Retained loss for the year	-	-	(791,563)
Balance at 24 May 1998	<u>12,500</u>	<u>528,250</u>	<u>8,397,467</u>

Other reserves comprise £528,250 Capital Redemption Reserve for both the group and the company, and an additional Consolidation Reserve of £50,895 for the group.

As permitted by Section 230 of the Companies Act 1985, a profit and loss account dealing with the results of the holding company only is not presented as part of these financial statements.

The prior year adjustment comprises -

A credit of £274,638 representing the additional share of the reserves in respect of an undertaking in which the company has a participating interest where the overall percentage shareholding in that undertaking increased during the previous year; and

A charge of £39,014 representing the assignment to third parties by a subsidiary undertaking in a prior year of a debt due to the holding company, written off in the holding company's financial statements.



# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

### 17 Reconciliation of movements in shareholders' funds

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
(Loss)/profit for the financial year	(1,588,137)	334,418	(785,563)	9,378
Dividends	(6,000)	(6,000)	(6,000)	(6,000)
	<u>(1,594,137)</u>	<u>328,418</u>	<u>(791,563)</u>	<u>3,378</u>
Other recognised gains and losses	-	(254,884)	-	-
Net (depletion in)/addition to shareholders' funds	(1,594,137)	73,534	(791,563)	3,378
Opening shareholders' funds	13,660,170	13,586,636	10,501,530	10,498,152
Closing shareholders' funds	<u>12,066,033</u>	<u>13,660,170</u>	<u>9,709,967</u>	<u>10,501,530</u>

Opening shareholders' funds were originally £13,424,546 before incorporating prior year adjustments of £235,624.

### 18 Contingent liabilities

The company has entered into a guarantee of up to £200,000 (1997 - £200,000) in respect of bank facilities granted to one subsidiary undertaking, and an unlimited guarantee in respect of bank facilities granted to another subsidiary undertaking. The contingent liability at the balance sheet date amounted to £567,650 (1997 - £680,594).

### 19 Financial commitments

At 24 May 1998 annual commitments under non-cancellable operating leases were as follows:

#### Land and buildings

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Expiry date:				
Between two and five years	3,160	3,160	-	-
In over five years	150,000	150,000	150,000	150,000
	<u>153,160</u>	<u>153,160</u>	<u>150,000</u>	<u>150,000</u>

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

20 Directors' emoluments	1998	1997
	£	£
Emoluments for qualifying services	668,881	577,155
Company pension contributions to money purchase schemes	20,000	19,710
	<u>688,881</u>	<u>596,865</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 3 (1997 - 3).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	600,460	525,237
Company pension contributions to money purchase schemes	5,000	10,910
	<u>605,460</u>	<u>536,147</u>

## 21 Employees

### Number of employees

The average monthly number of employees (including directors) during the year was:

	1998	1997
	Number	Number
Management	4	5
Administration	20	19
Factory	2	2
Sales	3	4
Studio	8	7
	<u>37</u>	<u>37</u>

### Employment costs

	£	£
Wages and salaries	1,185,554	1,118,358
Social security costs	114,849	110,200
Other pension costs	49,899	45,395
	<u>1,350,302</u>	<u>1,273,953</u>

# STAR DIAMOND COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1998

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### 22 Control

The ultimate controlling party is Mr. D.D. Fiszman, one of the directors, and his immediate family.

### 23 Related party transactions

The group had the following transactions with related parties during the year -

With Star Diamond Group Inc., an undertaking in which the company had a participating interest - sales of \$nil (1997 - \$1,301,508), management charges received of \$500,000 (1997 - \$500,000), insurances recharged of \$352,214 (1997 - \$537,858), and purchases from that company of \$70,203 (1997 - \$80,390).

With London Star Diamond Co. (India) Ltd., an undertaking in which the company had a significant interest - purchases totalling \$nil (1997 - \$707,318).