

STAR DIAMOND COMPANY LIMITED
AND SUBSIDIARIES
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 24 MAY 1997



STAR DIAMOND COMPANY LIMITED

COMPANY INFORMATION

Directors	D.D. Fiszman P.I. Propper D.L. Bucks
Joint secretaries	D.D. Fiszman, P.I. Propper
Company number	459576
Registered office	Harford House 101-103 Great Portland Street London W1N 6BH
Auditors	Harold Everett Wreford Harford House 101-103 Great Portland Street London W1N 6BH
Bankers	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 1997

The directors present their report and financial statements for the year ended 24 May 1997.

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 1996; their beneficial interests in the shares of the company were as stated below:

	'A' shares of £1 each	
	24 May 1997	25 May 1996
D.D. Fiszman	77,000	77,000
P.I. Propper	-	-
D.L. Bucks	-	-

	'B' shares of £1 each	
	24 May 1997	25 May 1996
D.D. Fiszman	112,000	112,000
P.I. Propper	-	-
D.L. Bucks	-	-

	'C' shares of £1 each	
	24 May 1997	25 May 1996
D.D. Fiszman	398,000	398,000
P.I. Propper	-	-
D.L. Bucks	-	-

	'D' shares of £1 each	
	24 May 1997	25 May 1996
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 1997

Charitable contributions

During the year the group made charitable donations of £25,070 (1996 - £25,075).

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.

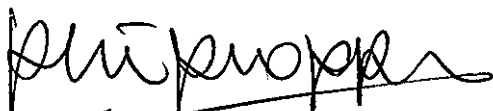
Directors' responsibilities

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.

By order of the board



P.I. Propper

Joint secretary

23 March 1998

STAR DIAMOND COMPANY LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF STAR DIAMOND COMPANY LIMITED

We have audited the financial statements on pages 4 to 22 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.

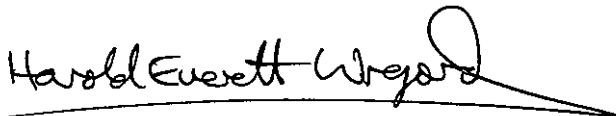
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 £473,079 included within total diamond stock of £570,827 appearing in the company's balance sheet, and £1,882,718 included within total stock of £1,980,466 appearing in the consolidated balance sheet. Any adjustment to these figures would have a corresponding effect on the profit 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 1997 and of the profit 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

23 March 1998

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 1997

	Notes	1997 £	1996 £
Turnover	2	11,112,234	12,854,701
Cost of sales		(8,591,162)	(10,228,548)
Gross profit		<u>2,521,072</u>	<u>2,626,153</u>
Administrative expenses		(2,411,720)	(2,977,024)
Other operating income		20,000	20,000
Operating profit/(loss)	3	<u>129,352</u>	<u>(330,871)</u>
Profit on disposal of fixed assets	3	5,834	760,401
Other exceptional item	3	-	(156,056)
Profit on ordinary activities before interest		<u>135,186</u>	<u>273,474</u>
Investment income	4	146,729	267,666
Other interest receivable and similar income	4	82,837	243,648
Interest payable and similar charges	5	(295,942)	(99,536)
Profit on ordinary activities before taxation		<u>68,810</u>	<u>685,252</u>
Tax on profit on ordinary activities	6	(9,030)	(238,990)
Profit on ordinary activities after taxation		<u>59,780</u>	<u>446,262</u>
Minority interests		-	-
Profit for the year		<u>59,780</u>	<u>446,262</u>
Dividends	7	(6,000)	(6,000)
Retained profit for the year	16	<u><u>53,780</u></u>	<u><u>440,262</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 1997

	1997	1996
	£	£
Group profit for the financial year	59,780	446,262
Currency translation differences on foreign currency net investments	(254,884)	123,701
Total recognised gains and losses relating to the year	(195,104)	569,963
Prior year adjustment	(220,525)	(220,525)
Total gains and losses recognised since last financial statements	<u>(415,629)</u>	<u>349,438</u>

STAR DIAMOND COMPANY LIMITED

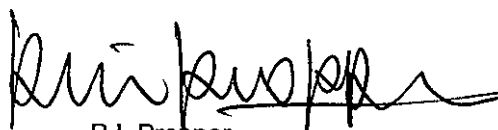
BALANCE SHEET AS AT 24 MAY 1997

	Notes	1997		1996	
		£	£	£	£
Fixed assets					
Tangible assets	8		1,231,482		1,320,471
Investments	9		8,531,568		4,888,444
			<u>9,763,050</u>		<u>6,208,915</u>
Current assets					
Stocks	10	624,828		566,924	
Debtors: amounts falling due within one year	11	964,082		2,925,638	
Debtors: amounts falling due after more than one year	11	2,504,650		2,504,650	
Cash at bank and in hand		1,532		568,031	
			<u>4,095,092</u>	<u>6,565,243</u>	
Creditors: amounts falling due within one year	12	<u>(2,481,612)</u>		<u>(2,276,006)</u>	
Net current assets			<u>1,613,480</u>		<u>4,289,237</u>
Total assets less current liabilities			<u>11,376,530</u>		<u>10,498,152</u>
Creditors: amounts falling due after more than one year	13		<u>(875,000)</u>		<u>-</u>
			<u>10,501,530</u>		<u>10,498,152</u>
Capital and reserves					
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		9,189,030		9,185,652
Shareholders' funds - equity interests	17		<u>10,501,530</u>		<u>10,498,152</u>

The financial statements were approved by the board on 23 March 1998



D.D. Fiszman
Director



P.I. Propper
Director

STAR DIAMOND COMPANY LIMITED

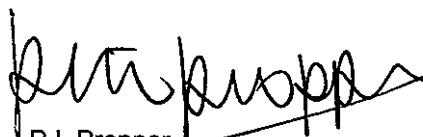
CONSOLIDATED BALANCE SHEET AS AT 24 MAY 1997

	Notes	1997		1996	
		£	£	£	£
Fixed assets					
Tangible assets	8		1,479,847		1,583,663
Investments	9		10,259,126		6,839,893
			<u>11,738,973</u>		<u>8,423,556</u>
Current assets					
Stocks	10	2,034,467		1,841,160	
Debtors: amounts falling due within one year	11	2,428,512		4,917,895	
Debtors: amounts falling due after more than one year	11	2,504,650		2,504,650	
Cash at bank and in hand		3,569		617,081	
		<u>6,971,198</u>		<u>9,880,786</u>	
Creditors: amounts falling due within one year	12	<u>(4,359,889)</u>		<u>(4,598,542)</u>	
Net current assets			<u>2,611,309</u>		<u>5,282,244</u>
Total assets less current liabilities			<u>14,350,282</u>		<u>13,705,800</u>
Creditors: amounts falling due after more than one year	13		<u>(922,439)</u>		<u>(76,853)</u>
			<u>13,427,843</u>		<u>13,628,947</u>
Capital and reserves					
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		12,061,151		12,262,255
Shareholders' funds - equity interests	17		<u>13,424,546</u>		<u>13,625,650</u>
Minority interests			3,297		3,297
			<u>13,427,843</u>		<u>13,628,947</u>

The financial statements were approved by the board on 23 March 1998



D.D. Fizman
Director



P.I. Propper
Director

STAR DIAMOND COMPANY LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 24 MAY 1997

	1997		1996	
	£	£	£	£
Net cash inflow from operating activities		1,446,325		1,106,117
Returns on investments and servicing of finance				
Interest received	82,837		243,648	
Interest paid	(295,942)		(99,536)	
Dividends received	105,168		77,902	
Dividends received from participating interests	4,006		7,167	
Net cash (outflow)/inflow for returns on investments and servicing of finance		(103,931)		229,181
Taxation		(211,883)		(55,666)
Capital expenditure and financial investment				
Payments to acquire tangible assets	(258,296)		(270,599)	
Payments to acquire investments	(3,666,750)		(12,451)	
Receipts from sales of tangible assets	62,228		13,000	
Receipts from sales of investments	13,012		852,659	
Net cash outflow for capital expenditure		(3,849,806)		582,609
Equity dividends paid		(6,000)		(6,000)
Net cash (outflow)/inflow before management of liquid resources and financing		(2,725,295)		1,856,241
Financing				
New long term bank loan	1,500,000		-	
Other new short term loans	1,500,000		600,000	
Repayment of long term bank loan	(152,560)		(24,388)	
Repayment of other short term loans	(1,500,000)		(110)	
Increase in debt		1,347,440		575,502
Net cash inflow from financing		1,347,440		575,502
(Decrease)/increase in cash in the year		(1,377,855)		2,431,743

STAR DIAMOND COMPANY LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 24 MAY 1997

1	Reconciliation of operating profit/(loss) to net cash inflow from operating activities		1997	1996
			£	£
	Operating profit/(loss)		129,352	(330,871)
	Depreciation of tangible assets		305,522	281,958
	Loss on disposal of tangible assets		196	185
	Currency translation differences on foreign currency net investments not relating to participating interests		(7,695)	38,153
	Increase/(decrease) in stocks		(193,307)	534,009
	Decrease/(increase) in debtors		2,575,611	(1,414,331)
	(Decrease)/Increase in creditors within one year		(1,363,354)	1,997,014
	Net cash inflow from operating activities		1,446,325	1,106,117
2	Analysis of net debt	25 May 1996	Cash flow	Other non-cash changes
				24 May 1997
		£	£	£
	Net cash:			
	Cash at bank and in hand	617,081	(613,512)	3,569
	Bank overdrafts	(483,436)	(764,343)	(1,247,779)
		<u>133,645</u>	<u>(1,377,855)</u>	<u>(1,244,210)</u>
	Debt:			
	Debts falling due within one year	(627,117)	(501,854)	- (1,128,971)
	Debts falling due after one year	(76,853)	(845,586)	- (922,439)
		<u>(703,970)</u>	<u>(1,347,440)</u>	<u>- (2,051,410)</u>
	Net debt	(570,325)	(2,725,295)	- (3,295,620)
3	Reconciliation of net cash flow to movement in net debt		1997	1996
			£	£
	(Decrease)/increase in cash in the year		(1,377,855)	2,431,743
	Cash inflow from increase in debt		(1,347,440)	(575,502)
	Movement in net debt in the year		(2,725,295)	1,856,241
	Opening net debt		(570,325)	(2,426,566)
	Closing net debt		(3,295,620)	(570,325)

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

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 1997, with the exception of London Star S.A. (Proprietary) Limited, whose financial year end is 28 February, and was sold on 22 May 1997. The results of this subsidiary are not material to the consolidated financial statements, and therefore its results for the period 1 March 1997 to the date of sale have not been included in the consolidation. 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
Plant and machinery	15% and 20% reducing balance
Fixtures, fittings & 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 1997

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	1997	1996
	£	£
Class of business		
Diamond activities	10,666,426	12,362,144
Studio recording	445,808	492,557
	<u>11,112,234</u>	<u>12,854,701</u>
Geographical market		
United Kingdom	6,908,526	7,386,503
Export	4,203,708	5,468,198
	<u>11,112,234</u>	<u>12,854,701</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 profit/(loss)	1997	1996
	£	£
Operating profit/(loss) is stated after charging:		
Depreciation of tangible fixed assets	305,523	281,958
Loss on disposal of tangible fixed assets	196	185
Operating lease rentals	174,314	195,879
Auditors' remuneration	37,742	57,071
Remuneration of auditors for non-audit work	5,080	2,489
and after crediting:		
Rents receivable	<u>20,000</u>	<u>20,000</u>

The profit on disposal of fixed assets has had no effect on the Corporation Tax charge for the year (1996 - an increase of £187,947).

The other exceptional item relates to the assignment to third parties by a subsidiary undertaking 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 1997

4	Income from investments, other interest receivable and similar income	1997 £	1996 £
	Income from listed investments	105,168	77,902
	Loss on disposal of unlisted investments	(4,851)	-
	Bank interest	13,241	39,217
	Other interest	69,596	204,431
	Share of participating interests' profit on ordinary activities before taxation	46,412	189,764
		<u>229,566</u>	<u>511,314</u>
5	Interest payable	1997 £	1996 £
	On bank loans and overdrafts	250,365	92,296
	On other loans wholly repayable within 5 years	44,837	6,478
	Other	740	762
		<u>295,942</u>	<u>99,536</u>
6	Taxation	1997 £	1996 £
	U.K. current year taxation		
	U.K. corporation tax at 24% (1996 - 33%)	125	189,907
	Tax credits on franked investment income	21,050	15,596
	Share of tax of participating interests' tax charge	24,871	71,839
		<u>46,046</u>	<u>277,342</u>
	Prior years		
	U.K. Corporation tax	(37,016)	(38,352)
		<u>9,030</u>	<u>238,990</u>
<p>The group has estimated losses of £530,000 (1996 - £540,000) available for carry forward against future trading profits.</p>			
7	Dividends	1997 £	1996 £
	Ordinary interim paid 29 January 1997 (10p per 'D' share)	6,000	6,000

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

8 Tangible fixed assets

The Group

	Land and buildings Short leasehold	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 25 May 1996	1,581,341	623,243	250,360	135,015	2,589,959
Additions	90,138	73,819	11,759	82,580	258,296
Disposals	-	(1,200)	(3,916)	(66,945)	(72,061)
	<u>1,671,479</u>	<u>695,862</u>	<u>258,203</u>	<u>150,650</u>	<u>2,776,194</u>
Depreciation					
At 25 May 1996	474,403	343,760	128,368	59,765	1,006,296
On disposals	-	(560)	(1,522)	(13,389)	(15,471)
Charge for the year	194,189	64,836	24,627	21,870	305,522
	<u>668,592</u>	<u>408,036</u>	<u>151,473</u>	<u>68,246</u>	<u>1,296,347</u>
Net book value					
At 24 May 1997	<u>1,002,887</u>	<u>287,826</u>	<u>106,730</u>	<u>82,404</u>	<u>1,479,847</u>
At 24 May 1996	<u>1,106,938</u>	<u>279,483</u>	<u>121,992</u>	<u>75,250</u>	<u>1,583,663</u>

The Company

Cost

At 25 May 1996	1,581,341	167,311	168,981	77,283	1,994,916
Additions	90,138	41,311	-	82,580	214,029
Disposals	-	-	-	(66,945)	(66,945)
	<u>1,671,479</u>	<u>208,622</u>	<u>168,981</u>	<u>92,918</u>	<u>2,142,000</u>

Depreciation

At 25 May 1996	474,403	118,020	59,682	22,340	674,445
On disposals	-	-	-	(13,389)	(13,389)
Charge for the year	194,189	16,620	21,860	16,793	249,462
	<u>668,592</u>	<u>134,640</u>	<u>81,542</u>	<u>25,744</u>	<u>910,518</u>

Net book value

At 24 May 1997	<u>1,002,887</u>	<u>73,982</u>	<u>87,439</u>	<u>67,174</u>	<u>1,231,482</u>
At 24 May 1996	<u>1,106,938</u>	<u>49,291</u>	<u>109,299</u>	<u>54,943</u>	<u>1,320,471</u>

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

9 Fixed asset investments

The Group	Listed investments	Unlisted investments	Shares in participating interests	Shares in subsidiary undertakings	Total
	£	£	£	£	£
Cost					
At 25 May 1996	527,512	3,157,349	3,373,650	1,907	7,060,418
Prior year adjustment - Reclassification of asset in participating interest's accounts	-	-	(220,525)	-	(220,525)
At 25 May 1996 - as restated	527,512	3,157,349	3,153,125	1,907	6,839,893
Additions	-	3,666,750	(229,654)	-	3,437,096
Disposals	-	(17,863)	-	-	(17,863)
At 24 May 1997	527,512	6,806,236	2,923,471	1,907	10,259,126
At 24 May 1996	527,512	3,157,349	3,153,125	1,907	6,839,893
The company					
Cost					
At 25 May 1996	527,512	3,157,349	557,105	646,478	4,888,444
Additions	-	3,666,750	-	-	3,666,750
Disposals	-	(17,863)	-	(5,763)	(23,626)
At 24 May 1997	527,512	6,806,236	557,105	640,715	8,531,568
At 24 May 1996	527,512	3,157,349	557,105	646,478	4,888,444

Shares in subsidiary undertakings include loans totalling £187,253 (1996 - £187,253).

Market value of listed investments

1997	1996
£	£
17,051,244	16,639,920

Should the investments be sold at their valuation, a tax charge in the region of £5,372,800 (1996 - £5,243,500) would arise.

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

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 (all if outside U.K.)	Shares held (all Ordinary)	Principal activity
		%	
Subsidiary undertakings			
Polished Diamond Distributors Limited		100	Diamond dealing
Roundhouse Recording Studios Limited		100	Recording studio
Echocity Limited & Echoworld Limited		75	Recording studio
Central Diamonds Limited		83	Dormant
London Star Limited		100	Dormant
Gungho Investments Ltd. & Gungho Trading Ltd.		100	Dormant
SDC Nominees Limited		100	Dormant
Star Industrial Holdings Limited		100	Dormant
Star Diamond Company (Israel) Limited	Israel	80	Dormant
Participating interests			
London Star Diamond Co. (India) Ltd.	India	22	Diamond dealing
London Star Limited	U.S.A.	20	Diamond dealing
Star Diamond Trading Company (NY) Inc.	U.S.A.	20	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:

	1997 £	1996 £
Share of net assets	2,936,813	3,386,992
Discount on acquisition	(13,342)	(13,342)
	<u>2,923,471</u>	<u>3,373,650</u>

10 Stocks

	The Group		The Company	
	1997 £	1996 £	1997 £	1996 £
Securities	54,001	35,297	54,001	35,297
Finished goods and goods for resale	1,980,466	1,805,863	570,827	531,627
	<u>2,034,467</u>	<u>1,841,160</u>	<u>624,828</u>	<u>566,924</u>

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

11 Debtors	The Group		The Company	
	1997 £	1996 £	1997 £	1996 £
Trade debtors	2,003,726	2,880,773	206,627	640,326
Amounts owed by subsidiary undertakings	-	-	355,087	250,612
Amounts owed by participating interests	143,985	175,417	158,904	227,707
Corporation tax	86,228	-	86,228	-
Other debtors	2,606,813	3,911,747	2,589,802	3,875,529
Prepayments and accrued income	92,410	454,608	72,084	436,114
	<u>4,933,162</u>	<u>7,422,545</u>	<u>3,468,732</u>	<u>5,430,288</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>

12 Creditors: amounts falling due within one year

	The Group		The Company	
	1997 £	1996 £	1997 £	1996 £
Bank loans and overdrafts	1,776,750	510,553	1,143,445	-
Trade creditors	1,030,764	2,028,046	51,650	495,625
Amounts owed to subsidiary undertakings	-	-	103,916	51,853
Amounts owed to participating interests	79,663	7,808	7,608	-
Corporation tax	-	141,496	-	126,589
Other taxes and social security costs	47,588	142,231	19,902	92,734
Directors current accounts	345,815	17,457	344,076	10,017
Other creditors	781,764	773,091	611,323	600,815
Accruals and deferred income	297,545	977,860	199,692	898,373
	<u>4,359,889</u>	<u>4,598,542</u>	<u>2,481,612</u>	<u>2,276,006</u>
Debt due within one year	<u>528,971</u>	<u>27,117</u>	<u>500,000</u>	<u>-</u>

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

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

13 Creditors: amounts falling due after more than one year

	The Group		The Company	
	1997	1996	1997	1996
	£	£	£	£
Bank loans	922,439	76,853	875,000	-
Analysis of loans				
Wholly repayable within five years	2,051,410	703,970	1,975,000	600,000
Included in current liabilities	(1,128,971)	(627,117)	(1,100,000)	(600,000)
	922,439	76,853	875,000	-
Loan maturity analysis				
Between one and two years	532,796	27,206	500,000	-
Between two and five years	389,643	49,647	375,000	-

A bank loan of £875,000 is secured by way of a fixed charge on certain of the company's unlisted fixed asset investments.

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 £40,395 (1996 - £29,290) for the group and £12,419 (1996 - £1,537) 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 valuation was £10,102,300. The pension charge for the year was £5,000 (1996 - £284,600).

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

15 Share capital	1997	1996
	£	£
Authorised		
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
	<hr/>	<hr/>
	1,300,000	1,300,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
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
	<hr/>	<hr/>
	771,750	771,750
	<hr/>	<hr/>

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

16 Statement of movements on reserves

The Group	Share premium account £	Other reserves £	Profit and loss account £
Balance at 25 May 1996 as previously reported	12,500	579,145	12,482,780
Prior year adjustment	-	-	(220,525)
	<u>12,500</u>	<u>579,145</u>	<u>12,262,255</u>
Balance at 25 May 1996 as restated	12,500	579,145	12,262,255
Retained profit for the year	-	-	53,780
Currency translation differences on foreign currency net investments	-	-	(254,884)
Eliminated on sale of subsidiary	-	-	-
	<u>12,500</u>	<u>579,145</u>	<u>12,061,151</u>

The Company

Balance at 25 May 1996 as previously reported	12,500	528,250	9,185,652
Retained profit for the year	-	-	3,378
	<u>12,500</u>	<u>528,250</u>	<u>9,189,030</u>
Balance at 24 May 1997	<u>12,500</u>	<u>528,250</u>	<u>9,189,030</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.

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

17 Reconciliation of movements in shareholders' funds

	The Group		The Company	
	1997	1996	1997	1996
	£	£	£	£
Profit for the financial year	59,780	446,262	9,378	397,434
Dividends	(6,000)	(6,000)	(6,000)	(6,000)
	<u>53,780</u>	<u>440,262</u>	<u>3,378</u>	<u>391,434</u>
Other recognised gains and losses	(254,884)	123,701	-	-
Net (depletion in)/addition to shareholders' funds	(201,104)	563,963	3,378	391,434
Opening shareholders' funds	13,625,650	13,061,687	10,498,152	10,106,718
Closing shareholders' funds	<u>13,424,546</u>	<u>13,625,650</u>	<u>10,501,530</u>	<u>10,498,152</u>

Opening shareholders' funds were originally £13,846,175 before deducting prior year adjustments of £220,525.

18 Contingent liabilities

The company has entered into a guarantee of up to £200,000 (1996 - £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 £680,594 (1996 - £562,840).

19 Financial commitments

At 24 May 1997 annual commitments under non-cancellable operating leases were as follows:

Land and buildings

	The Group		The Company	
	1997	1996	1997	1996
	£	£	£	£
Expiry date:				
Between two and five years	3,160	3,120	-	-
In over five years	150,000	150,000	150,000	150,000
	<u>153,160</u>	<u>153,120</u>	<u>150,000</u>	<u>150,000</u>

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

20 Directors' emoluments	1997 £	1996 £
Emoluments for qualifying services	577,155	918,821
Company pension contributions to money purchase schemes	19,710	299,010
	<u>596,865</u>	<u>1,217,831</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 3 (1996 - 3).

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

	1997 £	1996 £
Emoluments for qualifying services	525,237	862,474
Company pension contributions to money purchase schemes	10,910	290,510
	<u>536,147</u>	<u>1,152,984</u>

21 Employees

Number of employees

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

	1997 Number	1996 Number
Management	5	5
Administration	19	20
Factory	2	2
Sales	4	4
Studio	7	6
	<u>37</u>	<u>37</u>

Employment costs

	£	£
Wages and salaries	1,118,358	1,411,907
Social security costs	110,200	138,919
Other pension costs	45,395	313,890
	<u>1,273,953</u>	<u>1,864,716</u>

STAR DIAMOND COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 24 MAY 1997

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, all of which were with undertakings in which the company had a participating interest:

With Star Diamond Trading Company (NY) Inc., sales of \$436,508, management charges received of \$250,000, insurances recharged of \$219,462, and purchases from that company of \$27,810.

With London Star Limited, sales of \$865,000, management charges received of \$250,000 and insurances recharged of \$318,396, and purchases from that company of \$52,580.

With London Star Diamond Co. (India) Ltd. purchases totalling \$707,318.