



WESTERN SELECTION P.L.C.



REPORT & ACCOUNTS

30TH JUNE
2004

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Directors

D.C. MARSHALL, *Non-executive Chairman*, age 60.

Mr. Marshall joined the board in 1974. He is the chairman of London Finance & Investment Group P.L.C., which is a substantial shareholder of Western, Creston plc and Doctors Direct plc. He is a non-executive director of Finsbury Food Group plc and Marylebone Warwick Balfour Group Plc and is the chief executive of Monteagle Holdings S.A., chairman of Falcon Investment Holdings S.A. and a non-executive director of Conafex Holdings S.A. He resides in South Africa, where he has extensive interests in listed trading, financial and property companies.

A.R.C. BARCLAY, *FCA, Non-executive*, age 64.

Mr Barclay joined the board in 1988. He is a Chartered Accountant and a director of Monteagle Holdings S.A. and Falcon Investment Holdings S.A. He was chief executive of City Group P.L.C., Western's administrative and corporate secretary between 1980 and 1999.

A.J. HALL, *Non-executive*, age 62*†

Mr Hall joined the board in 1996. Mr. Hall held senior investment management positions with The Royal Trust Company of Canada and Aitken Hume. In 1985 he joined Sarasin Investment Management Limited, a wholly owned subsidiary of Bank Sarasin & Cie, a major private Swiss bank, as a director with responsibility for expanding investment services, was managing director from 1989 to 2002 and he is now executive deputy chairman.

J.M. ROBOTHAM, *OBE, FCA, Non-executive*, age 71*†

Mr Robotham joined the board in 1971. He is the non-executive chairman of Monteagle Holdings S.A. and a non-executive director of London Finance & Investment Group P.L.C., Marylebone Warwick Balfour Group Plc, and Falcon Investment Holdings S.A. He is a chartered accountant and a Member of the Securities Institute. He is associated with J.M. Finn & Co, who are the nominated brokers to Western.

*Member of the audit committee

†Member of the investment committee

Secretaries and Registered Office

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Auditors

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Bankers

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Nominated Adviser

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Nominated Broker

J.M. Finn & Co.
Salisbury House,
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Registered Number

234871

Western Selection is a United Kingdom Strategic Investment company. It's core portfolio covers holdings of both large and medium sized companies predominantly within the United Kingdom and Western Europe. Strategic Investments are held in three small United Kingdom companies, on two of which Western has board representation.

Western's share capital is admitted to trading on the Alternative Investment Market ("AIM").

Results in Brief

	2004 £000	2003 £000
Profit on ordinary activities before taxation	312	266
Taxation charge	(5)	(6)
Profit on ordinary activities after tax	307	260
Dividend per share	0.55p	0.52p
Basis and diluted earnings per share	0.71p	0.60p
Net assets, including investments at market values	£10,081,000	£8,748,000
Number of shares in issue	43,511,903	43,511,780
Net assets per share, including investments at market value	23.17p	20.10p
Middle market price on 30th June	13.25p	12.50p

Financial Calendar

Annual General Meeting	Wednesday 29th September 2004 at 9.30 a.m.
Dividend for 2004	Payable on 1st October 2004 to holders on 3rd September 2004
Half year results	Announced in February

Analysis of Shareholders

Shareholders			Total	
Holding	Number	%	Shareholding	%
1 - 500	368	29.77	76,879	0.18
501 - 1,000	177	14.32	143,841	0.33
1,001 - 5,000	438	35.44	1,071,225	2.46
5,001 - 10,000	103	8.33	814,974	1.87
10,001 - 50,000	103	8.33	2,671,717	6.14
50,001 - 100,000	19	1.54	1,444,186	3.32
100,001 - 250,000	12	0.97	2,134,724	4.91
250,001 - 500,000	5	0.41	1,753,356	4.03
500,001 - 1,000,000	4	0.32	2,871,459	6.60
Over 1,000,000	7	0.57	30,529,542	70.16
	1,236	100.00	43,511,903	100.00

The current price of the Company's shares can be found in the AIM sections of the Financial Times and The Daily Telegraph.

Chairman's Review

In last year's report I said that, "we remain cautiously optimistic regarding the prospects for smaller listed companies, whereas we expect shares in the main indices to perform less well on average". Over the last year the FTSE 250 and Small Cap indices have increased more than twice as much as the FTSE 100 index, which managed a 10.7% gain. We still believe that shares in smaller companies will outperform larger companies and that our mix of Strategic Investments together with a General Portfolio primarily of U.K. stocks remains the best investment policy for our Company. Over the five years to 30th June 2004, our net assets per share have increased by over 30% compared to a fall of almost 30% in the FTSE 100 index over the same period.

The Company made a profit for the year of £307,000 (0.7p per share) after tax, compared to last year's profit of £260,000 (0.6p per share) after tax. This year's results include the sum of £570,000 from the release of provisions made against the carrying value of Creston in 1995, partly offset by provisions made against the carrying value of Doctors Direct.

Our net asset value per share including investments at market value has increased 15% over the year to 30th June 2004, from 20.1p to 23.2p. The value of our Strategic Investments has increased by 60% due to rises in the share prices of Creston plc (65%) and Swallowfield plc (12%), offset by a fall in the share price of Doctors Direct plc (34%). The value of our General Portfolio, net of overdrafts and other liabilities, has increased by 1% over the year.

Strategic Investments

Creston plc

Creston is a marketing services group whose strategy is to grow within its sector both by organic growth and through selective acquisition to become a substantial, diversified international marketing services group.

The results for the year to 31st March 2004, show a profit after tax of £1,449,000 (2003 – £715,000), equivalent to earnings of 9.0p per share (2003 – 6.4p).

At 1st July 2003, Western owned 1,600,000 shares in Creston. During the year we acquired an additional 400,000 shares at a cost of £344,00 to bring our total holding to 2,000,000 shares, being 9% of Creston's issued share capital. The market value of the Company's holding in Creston on 30th June 2004 was £2,620,000 (2003 – £1,272,000), being 26% of Western's net assets. Creston has significantly changed the nature of its business and, as a result of its improved performance and the resulting increase in its share price, the provision made many years ago for diminution in value of £1,040,000 has now been released.

On 7th July 2004 we exercised our warrants and acquired a further 308,264 Creston shares at a cost of £403,826.

I am the non-executive chairman of Creston.

Swallowfield plc

Swallowfield has a long history of developing and producing aerosol, cosmetic and toiletry products stretching back to 1950. As one of Europe's premier contract manufacturers of toiletries and cosmetics it offers an unrivalled breadth of product capabilities. Its skill in design, developing and producing gift packs and themed product ranges compliments its production capability.

Swallowfield's latest published results were for the 28 weeks to 10th January 2004 and showed a profit of £263,000 (28 weeks to 11th January 2003 – £480,000). This decline in profits was caused by reduced sales in both the cosmetics and aerosol parts of the business. The Company expects to make greater use of Far Eastern sourcing as a means of reducing production costs and is also setting up a representative office in China. The value of the company is underpinned by net assets in excess of £1 per share and we believe that the business model, incorporating the proposed changes to product sourcing, and driven by a committed, entrepreneurial, management team has a high likelihood of success.

At 1st July 2003 Western owned 880,000 shares in Swallowfield. During the year we acquired an additional 120,000 shares at a cost of £110,000 to bring our total holding to 1,000,000 shares being 8.9% of the issued share capital. The market value of the Company's holding in Swallowfield on 30th June 2004 was £775,000 (2003 – £612,000) being 7.7% of Western's net assets.

Doctors Direct plc

Doctors Direct provides a visiting General Practitioner service in the London area to private patients and corporate clients. It is also a provider of GP medical assistance to UK and international insurance groups and their agents.

Doctors Direct's latest published results are for the nine months to 31st March 2004 and show a loss of £255,000 as a result of volumes for private patient and insurance business well below levels achieved in previous years.

Given the continuing losses at Doctors Direct we have deemed it prudent to make full provision (£470,000) against the carrying value of this investment.

I am the non-executive chairman of Doctors Direct.

General Portfolio

The reclassification of our investment in The Sanctuary Group plc from Strategic Investments has substantially increased the value of our General Portfolio. I am no longer on the Board of Sanctuary and we have reduced our investment from 6,000,000 to 5,000,000 shares over the last 6 months. In due course we will consider further reducing our holding.

We have continued our strategy of reducing exposure to companies listed outside the UK as and when selling opportunities arise, reducing the cost of these investments by £1,022,000. A list of the major constituents of the portfolio is included on page 7.

Conclusion

Subject to any unforeseen disruptions in the stock market we are confident of being able to produce satisfactory results for the coming year and hope to once again be in a position to increase the dividend.

18th August 2004

D.C. MARSHALL
Chairman

Schedule of Investments/Assets

at 30th June

	2004			2003		
	Cost less Provision £000	Market Value £000	%	Cost less Provision £000	Market Value £000	%
Strategic Investments						
Creston plc	3,012	2,620	24.8	1,628	1,272	13.8
Doctors Direct Plc	–	307	2.9	451	433	4.7
Swallowfield plc	1,043	775	7.3	933	612	6.6
The Sanctuary Group PLC†	–	–	–	1,208	2,670	28.9
Total Strategic Investments	4,055	3,702	35.0	4,220	4,987	54.0
General Portfolio analysed by country:						
European Union	112	100	1.0	681	394	4.3
Switzerland	530	448	4.2	727	522	5.6
United Kingdom	4,207	5,522	52.2	3,156	2,564	27.7
United States of America	–	–	–	196	159	1.7
Total General Portfolio	4,849	6,070	57.4	4,760	3,639	39.3
AIM and Ofex	378	404	3.8	232	235	2.5
Offshore Funds – FSA recognised	146	155	1.5	146	135	1.5
Unquoted investments	246	247*	2.3	246	247*	2.7
Total of AIM, Ofex and Other	770	806	7.6	624	617	6.7
Total Fixed Asset Investments	9,674	10,578	100.00	9,604	9,243	100.00
Overdraft net of cash at bank	(268)	(268)		(239)	(239)	
Other Net Current Liabilities	(229)	(229)		(256)	(256)	
	9,177	10,081		9,109	8,748	
Net assets per share		23.2p			20.1p	

* Director's valuation

† Re-classified to General Portfolio

Market Value of General Portfolio at 30th June 2004

	£000	%
UCM Group PLC	368	10.2
Bioquell PLC	214	5.9
Treatt PLC	200	5.5
Shell Transport & Trading Co PLC	182	5.0
Alexandra PLC	131	3.6
Associated British Foods PLC	127	3.5
Lavendon Group PLC	125	3.5
Julius Baer Holdings AG	122	3.4
BP PLC	122	3.4
Diageo PLC	112	3.1
United Utilities PLC	104	2.9
Nestlé SA	103	2.9
Novartis AG	97	2.7
Cadbury Schweppes PLC	95	2.6
Prudential Corporation PLC	95	2.6
Tesco PLC	93	2.6
Johnson Matthey PLC	92	2.6
J Sainsbury PLC	88	2.4
Scottish & Newcastle PLC	87	2.4
Lloyds TSB Group PLC	86	2.4
Legal & General Group PLC	86	2.4
HSBC Bank PLC	82	2.3
Roche Holdings Genusscheine	82	2.3
GlaxoSmithKline PLC	73	2.0
Standard Chartered PLC	72	2.0
Gallaher Group PLC	67	1.8
SIG PLC	62	1.7
Fortis NL	61	1.7
Hornby PLC	58	1.6
Tate & Lyle PLC	56	1.6
Mersey Docks & Harbour Co	55	1.5
Others (less than £50,000)	210	5.9
	<u>3,607</u>	<u>100.0</u>
Sanctuary Group plc (formerly classified as a Strategic Investment), being 40.6% of the total General Portfolio	<u>2,463</u>	
	<u>6,070</u>	

Profit and Loss Account

For the year ended 30th June

	Notes	2004 £000	2003 £000
Income from investments in:			
Listed strategic undertakings		56	21
Other listed undertakings		212	188
Other unlisted undertakings		–	3
(Loss)/surplus on disposal of listed undertakings		(248)	341
Net release of provisions against investments	4	570	–
Interest receivable		2	1
		<u>592</u>	<u>554</u>
Administrative expenses	2	(250)	(249)
Operating profit		342	305
Interest payable		(30)	(39)
		<u>312</u>	<u>266</u>
Profit on ordinary activities before taxation		312	266
Taxation	5	(5)	(6)
		<u>307</u>	<u>260</u>
Profit on ordinary activities after taxation		307	260
Dividends		(239)	(226)
		<u>68</u>	<u>34</u>
Retained profit for the year	7	68	34
Basic earnings per share	6	0.71p	0.60p
Diluted earnings per share	6	0.71p	0.60p

There are no recognised gains or losses other than the above profit for the year and accordingly no separate statement of recognised gains and losses is shown.

All profits and losses are on continuing activities.

The notes on pages 11 to 16 form part of these accounts.

Balance Sheet

at 30th June

	Notes	2004 £000	2003 £000
Fixed Assets			
Investments	8	<u>9,674</u>	<u>9,604</u>
Current Assets			
Debtors	9	100	44
Cash at bank and in hand		<u>10</u>	<u>3</u>
		110	47
Creditors (amounts falling due within one year)	10	<u>(607)</u>	<u>(542)</u>
Net Current Liabilities		<u>(497)</u>	<u>(495)</u>
Net Assets		<u>9,177</u>	<u>9,109</u>
Capital and Reserves			
Called up share capital	11	4,351	4,351
Share premium account	12	1,646	1,646
Warrants reserve	13	355	355
Profit and loss account	7	<u>2,825</u>	<u>2,757</u>
Shareholders' funds (all equity)	14	<u>9,177</u>	<u>9,109</u>

Approved by the Board on 18th August 2004.

J.M. ROBOTHAM Director

The notes on pages 11 to 16 form part of these accounts.

Cash Flow Statement

For the year ended 30th June

	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Net cash (outflow)/inflow from operating activities	(a)		(23)		20
Returns on investments and servicing of finance					
Interest paid		(30)		(39)	
Interest received		2		1	
			(28)		(38)
Taxation paid			(5)		(6)
Financial investment					
Proceeds of disposal of fixed asset investments		2,639		2,388	
Purchase of fixed asset investments		(2,386)		(1,557)	
Net cash inflow from financial investment activities			253		831
Equity dividend paid			(226)		(218)
(Increase)/decrease in net debt			(29)		589
Net debt at start of year			(239)		(828)
Net debt at end of year	(b)		(268)		(239)

Notes:

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

Operating profit	342	305
Loss/(profit) on sale of investments	248	(341)
Net release of provisions against investments	(570)	-
Interest received	(2)	(1)
(Increase)/decrease in debtors and accrued income	(57)	40
Increase in creditors	16	17
Net cash (outflow)/inflow from operating activities	(23)	20

(b) Analysis of net debt

	At start of period £000	Cash Flow £000	At end of period £000
2003/2004			
Cash at bank	3	7	10
Bank overdraft	(242)	(36)	(278)
	(239)	(29)	(268)
2002/2003			
Cash at bank	54	(51)	3
Bank overdraft	(882)	640	(242)
	(828)	589	(239)

Notes to the Accounts

For the year ended 30th June 2004

1. Accounting Policies

- (i) These accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.
- (ii) Dividends receivable in respect of associated and other undertakings are taken to the credit of the profit and loss account, in respect of listed shares, when the shares are quoted ex-dividend and, in respect of unlisted shares, when the dividend is declared.
- (iii) Investments are stated at cost less provision. Provision against the value of fixed asset investments is charged to profit and loss when, in the opinion of the directors, the decline below cost is significant and unlikely to be recovered in the foreseeable future.
- (iv) Deferred tax balances are recognised on all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing difference.

2. Administrative expenses

	2004	2003
	£000	£000
Bank charges	6	6
Auditors' remuneration – for audit work	6	6
Directors' emoluments as set out in Note 3	45	45
Other administrative expenses	193	192
	<u>250</u>	<u>249</u>

3. Directors' emoluments and related party disclosures

The emoluments of the Directors who were the only employees of the Company were:

D.C. Marshall	nil	nil
A.J. Hall	nil	nil
A.R.C. Barclay	10	10
J.M. Robotham	10	10
	<u>20</u>	<u>20</u>
Amounts paid to third parties	25	25
	<u>45</u>	<u>45</u>

The services of Mr. Marshall were supplied by an overseas company, in which none of the directors are beneficially interested, for £15,000 (2003 – £15,000). The services of Mr. Hall were supplied by his primary employer for £10,000 (2003 – £10,000).

The section on Related Party Disclosures below gives details of the interests of the directors in any material transactions. Other than as disclosed there and above no director was interested in any contract between the directors, the company and any other related parties which subsisted during or at the end of the financial year.

Related Party Disclosures

London Finance & Investment Group P.L.C. ("Lonfin") has a 40.48% interest in the Company. Mr. Marshall and Mr. Robotham are directors of Lonfin and Mr. Marshall has an interest in Lonfin through family trusts, which hold 11,265,670 shares, representing 43.49% of Lonfin's issued share capital. Of this figure he has a beneficial interest in 2,301,000 shares (8.85%) and a non-beneficial interest in the balance as a trustee of the family trusts. At 30th June 2004, the balance owing to Lonfin was £ Nil (2003 – £ Nil).

The Company owns 48.57% of City Group P.L.C. ("CGL"). The remaining 51.43% is owned by Lonfin. Mr. Marshall and Mr. Robotham are directors of CGL. CGL provides office and secretarial services to the Company, Lonfin and other companies. During the year under review the Company paid rent of £27,000 (2003 – £27,000) to CGL and secretarial management fees of £91,000 (2003 – £83,000).

Notes to the Accounts (continued)

For the year ended 30th June 2004

3. Directors' emoluments and related party disclosures (continued)

Mr. Robotham is an associate of J.M. Finn & Co. who are the nominated brokers of the Company. As an associate, he receives 32% of the commission on transactions introduced by him. During the year the Company paid £21,750 (2003 – £10,900) in commission to J.M. Finn & Co.

4. Net release of provisions

	2004 £000	2003 £000
Creston plc provision written back	1,040	–
Doctors Direct plc, provision against investment	(470)	–
	<u>570</u>	<u>–</u>

5. Taxation

The tax charge for the year comprises:

Tax on overseas investment income	<u>5</u>	<u>6</u>
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The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

Profit on ordinary activities before taxation	<u>312</u>	<u>266</u>
Taxation at 30%	94	80
Effects of:		
Tax losses carried forward/(brought forward utilised)	83	(18)
Non-taxable franked and other income	<u>(172)</u>	<u>(56)</u>
	<u>5</u>	<u>6</u>

All of the tax charge for the year is tax deducted from the dividends of overseas companies. Dividends received from U.K. companies are recognised in the profit and loss account net of their associated tax credit. The Company has estimated Corporation Tax losses carried forward of £827,000 and Capital Tax losses of £1.1 million subject to agreement of tax computations with the Inland Revenue.

6. Earnings/(loss) per share

Earnings/(loss) per share are based on the profit on ordinary activities after taxation and on 43,511,862 (2003 – 43,511,641) being the weighted average number of shares in issue during the period.

Basic earnings per share	<u>0.71p</u>	<u>0.60p</u>
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At 30th June 2004 and 2003 the warrants in issue were not dilutive and the diluted earnings per share were

<u>0.71p</u>	<u>0.60p</u>
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7. Statement of retained profits

	2004 £000	2004 £000	2003 £000	2003 £000
Retained profits at beginning of year				
Realised profits	3,797		3,763	
Provision for unrealised capital losses	(1,040)		(1,040)	
		2,757		2,723
Retained profit for year		68		34
Retained profits at end of year				
Realised profits	3,295		3,797	
Provision for unrealised capital losses	(470)		(1,040)	
		2,825		2,757

8. Fixed assets

	Strategic Listed Investments £000	Other Listed Investments £000	AIM, Ofex & Unlisted Companies £000	Unlisted Associated Companies £000	Total £000
Shares and warrants at cost:					
Balance at 1st July 2003	5,260	4,760	541	83	10,644
Re-classified	(1,187)	1,187	–	–	–
Additions	452	2,958	382	–	3,792
Disposals	–	(4,056)	(236)	–	(4,292)
Balance at 30th June 2004	<u>4,525</u>	<u>4,849</u>	<u>687</u>	<u>83</u>	<u>10,144</u>
Provisions for impairment in value:					
Balance at 1st July 2003	(1,040)	–	–	–	(1,040)
Charge	(470)	–	–	–	(470)
Release	1,040	–	–	–	1,040
Balance at 30th June 2004	<u>(470)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(470)</u>
Balance at 30th June 2004	<u>4,055</u>	<u>4,849</u>	<u>687</u>	<u>83</u>	<u>9,674</u>
Balance at 1st July 2003	<u>4,220</u>	<u>4,760</u>	<u>541</u>	<u>83</u>	<u>9,604</u>

The market value of the listed investments, all of which are either listed on the London Stock Exchange or dealt in on a recognised stock exchange, was £10,176,000 at 30th June 2004 (2003 – £8,841,000).

Notes to the Accounts (continued)

For the year ended 30th June 2004

8. Fixed assets (continued)

ASSOCIATED COMPANY

City Group P.L.C. ("CGL") is incorporated and operating in Great Britain and its prime activity is the provision of Corporate Services. CGL's year end is 30th June. It has 70,000 ordinary £1 shares in issue of which the Company owns 34,000 shares (48.57%).

	2004 £000	2003 £000
Tangible assets	–	5
Net current assets	172	149
Operating income/turnover	627	606
Profit before taxation	19	21
Taxation	–	–
Aggregate capital and reserves	172	154
Share of net assets	84	75
Share of profit before tax for the year	9	10
Share of post acquisition profit	19	10

9. Debtors

Prepayments and accrued income	51	44
Stock settlements	49	–
	<u>100</u>	<u>44</u>

10. Creditors: amounts falling due within one year

Bank facility drawn down	278	242
Other creditors	90	74
Proposed dividend	239	226
	<u>607</u>	<u>542</u>

The revolving £2 million credit facility is secured by a charge over the Company's General Portfolio of listed investments. Interest is charged at 1% over the Bank of Scotland PLC's base rate fluctuating from time to time.

11. Share capital

	2004 £000	2003 £000
Authorised:		
100,000,000 (2003 – 50,000,000) shares of 10p each	<u>10,000</u>	<u>5,000</u>
Allotted, called up and fully paid equity share capital:		
At 1st July 2003 – 43,511,780	4,351	4,351
Warrants exercised during the year – 123 (2003 – 248)	<u>–</u>	<u>–</u>
Balance carried forward at 30th June 2004 – 43,511,903	<u>4,351</u>	<u>4,351</u>

12. Share Premium Account

Balance brought forward at 1st July 2003	1,646	1,646
Premium on warrants exercised	<u>–</u>	<u>–</u>
Balance carried forward at 30th June 2004	<u>1,646</u>	<u>1,646</u>

13. Warrants reserve

Balance brought forward at 1st July 2003	355	355
Warrants exercised	<u>–</u>	<u>–</u>
Balance carried forward at 30th June 2004	<u>355</u>	<u>355</u>

There are 5,919,044 (2003 – 5,919,167) warrants to subscribe for Shares outstanding. Each warrant gives the holder the right to subscribe for one share of 10p each in the Company at a fixed price of 16p per share. Warrants are exercisable 28 day after any of the Annual General Meetings of the Company in the years 2004 to 2006, after which time all outstanding subscription rights shall lapse. The warrants reserve represents deferred premium in respect of the free issue of warrants at the time of the rights issue in 1995. The reserve is transferred to share premium account when the warrants are exercised.

14. Reconciliation of movement in shareholders' funds

Profit for financial year	307	260
Proposed dividend	<u>(239)</u>	<u>(226)</u>
Net addition to shareholders' funds	68	34
Opening equity shareholders' funds	<u>9,109</u>	<u>9,075</u>
Closing equity shareholders' funds	<u>9,177</u>	<u>9,109</u>

Notes to the Accounts (continued)

For the year ended 30th June 2004

15. Financial Instruments

The Directors' Report on pages 17 to 19 provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the company faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving the objectives that have been followed during the year.

The Company has taken advantage of the option under Financial Reporting Standard 13 – "Derivatives and Other Financial Instruments: Disclosures" (FRS13) to exclude short-term debtors and creditors, other than those relating to currency exposure, from the detailed disclosures.

Interest Rate Risk Profile

The company's principle financial asset is its investment portfolio.

There are no investments in fixed interest stock and the majority of the company's investment portfolio consists of equity investments, for which an interest rate profile is not relevant.

Borrowings represent a Sterling revolving credit facility at a variable interest rate.

Currency Exposures

The table below shows the Company's currency exposures. Such exposures comprise the financial assets (investments) at book values that are not traded in Sterling.

	2004 £000	2003 £000
Euro	112	681
Swiss franc	530	727
U.S. dollar	–	196
	<u>642</u>	<u>1,604</u>

Borrowing Facilities

The company has a five-year revolving credit facility of £2m, renegotiable in April 2006. At 30th June 2004, the company had drawn down £278,000 of this facility. Interest is charged at 1% over the Bank of Scotland PLC's base rate fluctuating from time to time.

Fair values

The fair value of the investment portfolio is determined by the prices available from the markets on which the instruments involved are traded. The differences between book value and market value are disclosed on page 6.

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 30th June 2004.

Operating and Financial Review

The company operated throughout the year as a strategic investment company. It generated income from dividends and realised profits from its investment portfolio. Details of the portfolio are set out on pages 6 and 7 of this report.

Results

The profit for the year, after tax, was £307,000, compared with £260,000 for the previous year. The earnings per share, after tax, were 0.71p per share, compared with 0.60p per share for 2003.

At 30th June 2004, the net assets, taking investments at market value, were £10,081,000 (23.2p per share) compared to £8,748,000 (20.1p per share) a year earlier.

Dividend

We are please to recommend an increased dividend of 0.55p per share for the year, compared to 0.52p per share for 2003, an increase of 5.8%. The dividend will be paid on 1st October 2004 to shareholders on the register at the close of business on 3rd September 2004.

Investment review

Information on the development of our strategic investments and the general portfolio is set out in the Chairman's Review on pages 4 and 5.

The market value of the investments listed on recognised stock exchanges was £9,465,000 at 30th June 2004 (2003 – £8,193,000). In addition, the Company held AIM, Ofex and unquoted investments valued at £1,113,000 (2003 – £1,050,000). At 30th June 2004, Western had drawn £278,000 of its £2 million revolving credit facility (2003 – £242,000).

Fixed Assets

The changes in fixed assets during the year are summarised in note 8 to the accounts on page 13.

Directors

A list of the present directors of the company is shown on page 2. The beneficial interests of the directors in the shares and warrants to subscribe, were as follows:

	30th June 2004		30th June 2003	
	Shares	Warrants	Shares	Warrants
D.C. Marshall	–	–	50,000	7,482
A.R.C. Barclay	20,000	1,904	20,000	1,904
A.J. Hall	200,000	–	200,000	–
J.M. Robotham	100,000	17,000	100,000	17,000

There have been no changes in directors' share interests between 1st July 2004 and the date of this report.

Report of the Directors (continued)

Substantial Interests

The Company has been notified under section 211 of the Companies Act 1985 of the following interests in 3% or more of its shares:

	Shareholding	% interest
London Finance & Investment Group P.L.C.	17,611,928	40.48
W.T. Lamb Holdings Limited	5,000,000	11.49
T.W.G. Charlton	1,625,832	3.76
J.A. Whybrow and S.R.M. Wilson	1,410,339	3.24

There are other substantial holdings on the register, but the company has not been notified of any other interests in excess of 3%.

Warrants to Subscribe for Shares

During the year, 123 warrants were exercised and at 30th June 2004 there were 5,919,044 warrants in issue. The warrants are exercisable at 16p each 28 days after any of the Annual General Meetings of the Company held in the years 2004 to 2006 inclusive. A separate notice will be sent to registered holders of outstanding warrants reminding them of their subscription rights shortly before each of the relevant Annual General Meetings.

As previously advised, the directors have the power to place any warrants not exercised by the final exercise date in 2006, with institutions or individuals who will then subscribe for new shares at the exercise price of 16p each, to ensure as far as possible that the Company receives the full amount of expected income from the warrants. The effect of this is that Warrant holders rights remain unchanged but at the point at which any Warrants not exercised are due to lapse the directors may place such warrants to raise further funds for the Company.

Income and Corporation Taxes Act 1988

The company is not a close company as defined in this Act.

Financial Instruments

The financial instruments of the Company, in addition to the investment portfolio, comprise borrowings and cash to finance those investments.

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies, which have remained substantially unchanged for the year under review, for managing both of these risks. The policies are summarised below.

Interest Rate Risk – The Company finances its operations through a mixture of retained profits and bank borrowings, in pounds sterling, at a floating rate of interest. The Company's policy is to keep all of its borrowings at floating rates of interest.

Liquidity Risk – The Company's policy is that its borrowings should be flexible and available over the medium term. The bank borrowings are by way of a £2 million revolving credit facility. The Company holds investments, most of which are listed on recognised stock exchanges. In normal markets these are, by their nature, liquid. However there are periods when the market may not be prepared to deal at realistic prices in unusually large blocks of certain shares and this particularly applies to our Strategic Investment holdings. The Company maintains a General Portfolio of investment holdings most of which are within normal market size and which have aggregate market values in excess of the borrowings at any point in time.

Auditors

On 31st December 2003, BDO Stoy Hayward, the Company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as successor with effect from 1st January 2004.

In accordance with Section 384 of the Companies Act 1985 a resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of BDO Stoy Hayward LLP as auditors to the Company.

Economic and Monetary Union

The anticipated costs to the Company relating to the possible introduction of the Euro by the United Kingdom would be negligible.

Payment of Suppliers

The Company does not follow any code or statement on payment practice, but the policy of the Company is to abide by such payment terms as are agreed with suppliers within the terms of supply. At the Balance Sheet date there were 61 (2003 – 63) days purchases outstanding, calculated on the ratio of trade creditors to total purchases.

Signed on behalf of the Board,
CITY GROUP P.L.C.
Secretaries

18th August 2004

Corporate Governance

The Financial Services Authority requires that listed companies (but not companies traded on AIM) incorporated in the UK should state in their report and accounts whether they comply with the Code of Best Practice and identify and give reasons for any areas of non-compliance. The Company is listed on AIM and no disclosures are required. This is not a statement of compliance as required by the Combined Code and should therefore not be relied upon to give the disclosure.

The Company follows the code wherever it is reasonable to do so. It operates an effective board, which includes non-executive directors. A separate investment committee and an audit committee are established and meet on a timely basis. The appointment of directors is a matter for the entire Board. Each director is required to retire every three years in accordance with the Articles of Association.

The Company has no Remuneration Committee because the company has no employees and the remuneration of each Director is limited by the Articles of Association and set out in detail in the statutory accounts which are approved by shareholders in General Meeting. None of the directors has a service contract with the Company. There are no share options in issue.

The Board is aware of the requirements of the code and the need for appropriate controls and systems to safeguard the Company's assets. Wherever possible, appropriate controls are put in place and monitored by the Board. However full compliance with the code is not possible because of the size and resource constraints within the Company and because of the relative cost benefit assessment of putting in place the additional procedures.

The Directors, after making enquiries, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis in preparing the accounts.

Statement of Directors' Responsibilities in Respect of the Accounts

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:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (d) 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.

Report of the Independent Auditors

TO THE SHAREHOLDERS OF WESTERN SELECTION P.L.C.

We have audited the financial statements of Western Selection P.L.C. for the year ended 30th June 2004 on pages 8 to 16 which are prepared under the accounting policies on page 11.

Respective responsibilities of the Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you, if in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Results in Brief, the Chairman's Review, the Schedule of Investments, Market Value of General Portfolio, the Report of the Directors, the Corporate Governance statement and the Statement of Directors' Responsibilities in Respect of the Accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. 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. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30th June 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London
18th August 2004

BDO STOY HAYWARD LLP
*Chartered Accountants and
Registered Auditors*

Notice of Meeting

NOTICE is hereby given that the ANNUAL GENERAL MEETING of Western Selection P.L.C. will be held at the Honourable Artillery Company, Armoury House, City Road, London EC1 on Wednesday 29th September 2004 at 9.30 a.m. for the following purposes:

1. To receive the directors' report and accounts for the year ended 30th June 2004.
2. To declare a dividend.
3. To re-elect Mr. J.M. Robotham a director.
4. To re-appoint BDO Stoy Hayward LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business

5. To consider and, if thought fit, pass the following Resolution which will be proposed as an Ordinary Resolution:

"THAT the Board be and is hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £648,810 provided that this authority will expire on 28th September 2009, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired."

6. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

"THAT

- (a) in accordance with Section 95(1) of the Companies Act 1985 the Directors be and are hereby given power to allot securities pursuant to the authority conferred by the Ordinary Resolution numbered 5 passed at the Annual General Meeting held on 29th September 2004, as and when the same becomes effective as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment, provided that:

- (i) the power hereby conferred shall be limited;

- (aa) to the allotment of equity securities in connection with or pursuant to an offer by way of rights, bonus issues or other similar issues to the holders of Shares of 10p each in the capital of the Company and other persons entitled to participate therein in proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the numbers of such shares which such other persons are for those purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or the requirements of any recognised regulatory body in any territory; and

- (bb) to the allotment (otherwise than pursuant to sub-paragraph (i) (aa) of this proviso) of equity securities up to an aggregate nominal amount of £217,559 representing 5 per cent. of the issued share capital:

- (ii) the power hereby granted shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution or on 28th December 2005 if earlier:

-
- (b) the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the said power had not expired
 - (c) words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning herein"

7. To consider the following special resolution:

THAT, subject to the Company's Articles of Association and section 166 of the Companies Act 1985, the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163 (3) of that Act) of its own ordinary shares on such terms and in such manner as the capital were directors of the Company shoulders per month, provided that:

- (a) the maximum aggregate number of ordinary shares hereby authorised to be acquired is 4,350,000 (9.99 per cent.) of the present issued share capital of the Company;
- (b) the maximum price which may be paid for each ordinary share is no more than 5% above the average of the price of the ordinary shares of the Company (derived from the London Stock Exchange Daily Official List) for the five business days prior to the date of purchase and the minimum price per ordinary share is the nominal value thereof in each case exclusive of any expenses payable by the Company; and
- (c) the authority hereby given shall expire at the conclusion of the next Annual General Meeting of the Company save that the Company may make a purchase of ordinary shares after expiry of such authority in execution of a contract of purchase that was made under and before the expiry of such authority.

By Order of the Board,
CITY GROUP P.L.C.
Secretaries

25 City Road,
London EC1Y 1BQ.

18th August 2004

Notes

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member of the company.

A form of proxy is enclosed. To be valid it should be completed and returned so as to reach the registered office of the company not less than 48 hours before the time fixed for the meeting. Completion of a form of proxy does not preclude a member from subsequently attending and voting in person.

The register of directors' interests will be available, for inspection by members, at the registered office of the company during usual business hours on any weekday (Saturday and public holidays excepted), from the date of this notice until the date of the Annual General Meeting and at the place of the meeting, from 9.30 a.m. until the conclusion thereof. No director has a service contract with the Company.

Change of address:

Members are requested to advise the Registrars, Capita Registrars, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA of any change of address.

Western Selection P.L.C.

