



# WESTERN SELECTION P.L.C.



REPORT & ACCOUNTS

30TH JUNE  
2005

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**Directors and Advisers**

D.C. MARSHALL, *Non-executive Chairman*, age 61.

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, and Creston 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 Halogen 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 65.

Mr. Barclay joined the board in 1988. He is a Chartered Accountant and a director of Monteagle Holdings S.A. and Halogen 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 63\*†

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, and was managing director from 1989 to 2003 and he is now executive vice chairman.

J.M. ROBOTHAM, OBE, FCA, *Non-executive*, age 72\*†

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 Halogen 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

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		<b>E-mail</b>	western@city-group.com
<b>Registrars</b>	<b>Capita Registrars</b> Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA Tel: 0870 162 3131		
<b>Auditors</b>	<b>BDO Stoy Hayward LLP</b> 69 Tweedy Road, Bromley Kent BR1 3WA	<b>Bankers</b>	<b>Bank of Scotland plc</b> 50 St John Street Perth PH1 5SL
<b>Nominated Adviser</b>	<b>Ruegg &amp; Co Limited</b> 39 Cheval Place London SW7 1EW	<b>Nominated Broker</b>	<b>J.M. Finn &amp; Co.</b> Salisbury House, London Wall, London EC2M 5TA
<b>Registered Number</b>	234871		

Western Selection is a United Kingdom Strategic Investment company. Its 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

	2005 £000	2004 £000
<b>Profit on ordinary activities before taxation</b>	<b>157</b>	<b>312</b>
Taxation charge	(4)	(5)
<b>Profit on ordinary activities after tax</b>	<b>153</b>	<b>307</b>
Dividend per share	<b>2.32p</b>	2.20p
Basis and diluted earnings per share	<b>1.40p</b>	2.84p
Net assets	<b>£9,050,751</b>	£9,177,421
<b>Net assets, including investments at market values</b>	<b>£9,407,571</b>	£10,081,000
Number of shares in issue*	<b>10,878,094</b>	10,877,976
Net assets per share	<b>83.2p</b>	84.4p
<b>Net assets per share, including investments at market value*</b>	<b>86.5p</b>	92.7p
<b>Middle market price on 30th June*</b>	<b>52.5p</b>	53.0p

\*Figures for 2004 have been adjusted for the consolidation and sub-division.

## Financial Calendar

Annual General Meeting	Wednesday 28th September 2005 at 9.30 a.m.
Dividend for 2005	Payable on 7th October 2005 to holders on 9th September 2005
Half year results	Announced in February

## Analysis of Shareholders

Shareholders	Number	%	Total Shareholding	%
Holding				
1 - 500	259	36.6	93,281	0.9
501 - 1,000	154	21.8	114,201	1.1
1,001 - 5,000	190	26.8	426,749	3.9
5,001 - 10,000	45	6.4	337,725	3.1
10,001 - 50,000	40	5.6	816,598	7.5
50,001 - 250,000	13	1.8	1,455,766	13.4
250,001 - 500,000	4	0.6	1,407,792	12.9
Over 500,000	3	0.4	6,222,982	57.2
	<u>708</u>	<u>100.00</u>	<u>10,878,094</u>	<u>100.00</u>

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

Western Selection is an investment company with a mix of Strategic Investments and a General Portfolio, primarily of U.K. stocks, whose objective is to generate real growth in value for shareholders over the medium to long term. Our total shareholder return over the last 5 years is in line with the return from the FTSE 250 index and slightly above the return on the FTSE 100 index.

At the end of June the Company's shares were effectively consolidated on a 1 for 4 basis and all relevant comparatives have been restated to reflect this. The cost incurred to achieve this is the main factor behind the significant increase in administrative expenses.

The year was shaping up to be very satisfactory, until Sanctuary Group's surprise profits warning on 17th June caused their share price to fall 50%. We had been reducing our holding in Sanctuary, a former Strategic Investment, but still owned 3.5 million shares at the time of the profits warning. We had retained this investment in Sanctuary because of the rumours of a bid, despite the risk attached. The fall in the share price had an adverse effect on our net asset value. Despite this, we have realised a substantial profit on our shareholding over the course of our six year investment.

Since the year end we have cashed our remaining holding in Sanctuary at the year end balance sheet value, made certain other realisations and reduced our borrowings to approximately £745,000. Our bank facility remains unchanged at £2,000,000.

Overall, our net asset value per share including investments at market value has fallen 7% over the year to 30th June 2005, from 92.7p to 86.5p. The value of our Strategic Investments has increased by 18% due to the rise in Creston's share price. The value of our General Portfolio has declined over the year due, in the main, to the reasons given above.

The Company made a profit for the year of £366,000 before tax and a charge for provisions against investment of £209,000, compared to last year's loss of £258,000 before tax and a net release of provisions against investments of £570,000. The profit for the year was £153,000 (1.4p per share) after tax, compared to last year's profit of £307,000 (2.8p per share) after tax. We have declared a dividend of £252,000 (2.32p per share) compared with £239,000 for 2004 (2.20p per share adjusted for the share consolidation and sub-division).

### 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 2005, show a profit after tax of £2,640,000 (2004 – £1,449,000), equivalent to earnings of 10.7p per share (2004 – 9.0p).

At 1st July 2004, Western owned 2,000,000 shares in Creston. During the year we acquired an additional 873,998 shares at a cost of £1,224,141 as a result of the exercise of our warrants and participation in Creston's fundraising to bring our total holding to 2,873,998 shares, being 8.2% of Creston's issued share capital. The market value of the Company's holding in Creston on 30th June 2005 was £4,455,000 (2004 – £2,620,000), being 47% of Western's net assets.

I am the non-executive chairman of Creston. At its recent AGM, Creston's directors expressed their confidence in current trading conditions being experienced by the now much enlarged group.

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### **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 8th January 2005 and showed a profit of £431,000 (28 weeks to 10th January 2004 – £263,000).

Western owns 1,000,000 shares in Swallowfield being 8.9% of the issued share capital. The market value of the Company's holding in Swallowfield on 30th June 2005 was £765,000 (2004 – £775,000), being 7% of Westerns' net assets.

### **Industrial & Commercial Holdings PLC**

ICH is a small unlisted PLC in which Western holds 29.9%. It holds land pending planning permission for housing at Milngavie, adjacent to Dougalston golf course, just north east of Glasgow. As it may take many years for the development to progress, we are in discussion with the board of ICH to consider an acquisition of an active business. Mr. Robotham and I are directors of ICH.

### **General Portfolio**

With the exception of Sanctuary, all areas of our General Portfolio performed well. Our investments in FTSE 100 and FTSE 250 stocks, which comprise 45% of the General Portfolio, increased in value by more than 30%. Our investments in FTSE Small Cap and FTSE Fledgling stocks, which make up 28% of our General Portfolio, fared less well with growth of only 9% primarily due to poor performances by UCM and Bioquell. Our AIM stocks grew in value by 13%, marginally ahead of the FTSE AIM index, and growth in our overseas holdings was 10%.

### **Conclusion**

Despite weak consumer demand, we remain confident and will utilise the balance of our available facilities both cautiously and "stock specific". July and August have been good months for stock markets, and at the time of writing our net asset value has moved up to 92.9p from 86.5p at 30th June 2005. Barring unforeseen circumstances, your Directors intend to at least maintain the dividend in the year ahead.

31st August 2005

**D.C. MARSHALL**  
*Chairman*

## Summary of Investments

at 30th June	2005			2004		
	Cost less Provision	Market Value	%	Cost less Provision	Market Value	%
	£000	£000		£000	£000	
<b>Listed Strategic Investments</b>						
Creston plc	4,236	4,455	39.5	3,012	2,620	24.8
Swallowfield plc	1,043	765	6.8	1,043	775	7.3
<b>Total Strategic Investments</b>	<b>5,279</b>	<b>5,220</b>	<b>46.3</b>	<b>4,055</b>	<b>3,395</b>	<b>32.1</b>
<b>General Portfolio analysed by country:</b>						
European Union	144	136	1.2	112	100	1.0
Switzerland	527	492	4.3	530	448	4.2
Hong Kong	67	74	0.7	–	–	–
United Kingdom	4,080	4,481	39.7	4,207	5,522	52.2
<b>Total General Portfolio</b>	<b>4,818</b>	<b>5,183</b>	<b>45.9</b>	<b>4,849</b>	<b>6,070</b>	<b>57.4</b>
AIM and Ofex	471	505	4.5	378	404	3.8
Offshore Funds – FSA recognised	146	172	1.5	146	155	1.5
Unquoted strategic investments	108	108*	1.0	108	108*	1.0
Other unquoted investments	110	101*	0.8	138	446*	4.2
<b>Total of AIM, Ofex and Other</b>	<b>835</b>	<b>886</b>	<b>7.8</b>	<b>770</b>	<b>1,113</b>	<b>10.5</b>
<b>Total Fixed Asset Investments</b>	<b>10,932</b>	<b>11,289</b>	<b>100.0</b>	<b>9,674</b>	<b>10,578</b>	<b>100.0</b>
Overdraft net of cash at bank	(1,612)	(1,612)		(268)	(268)	
Other Net Current Liabilities	(269)	(269)		(229)	(229)	
	<b>9,051</b>	<b>9,408</b>		<b>9,177</b>	<b>10,081</b>	
<b>Net assets per share</b>		<b>86.5p</b>			<b>92.7p</b>	

\* Director's valuation

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## Composition of General Portfolio

at 30th June 2005

	£000	%
Treant	738	14.2
Sanctuary Group	665	12.8
UCM Group	303	5.8
Shell Transport & Trading Co	244	4.7
BP	174	3.4
Bioquell	152	2.9
Nestlé	143	2.8
Julius Baer Holdings	137	2.6
United Utilities	132	2.5
Associated British Foods	124	2.4
Diageo	123	2.4
Prudential Corporation	116	2.2
GlaxoSmithKline	115	2.2
Johnson Matthey	107	2.1
Cadbury Schweppes	107	2.1
Novartis AG	106	2.1
Roche Holdings	106	2.0
BHP Billiton	100	1.9
British American Tobacco	97	1.9
Lloyds TSB Group	95	1.8
Gallaher Group	91	1.8
HSBC Bank	89	1.7
Imperial Tobacco Group	87	1.7
Siemens	86	1.7
Standard Chartered	82	1.6
Shanks Group	80	1.5
McBride	75	1.4
Gibbs & Dandy	63	1.2
Associated British Ports Holdings	59	1.1
AGA Foodservice Group	59	1.1
Balfour Beatty	53	1.0
Forth Ports	52	1.0
Eni	50	1.0
BOC Group	50	1.0
Others (less than £50,000)	323	6.4
	<u>5,183</u>	<u>100.0</u>

## Profit and Loss Account

For the year ended 30th June

	Notes	2005 £000	2004 £000
<b>Income from investments in:</b>			
Listed strategic undertakings		106	104
Other listed undertakings		173	164
		<u>279</u>	<u>268</u>
Interest receivable		–	2
Administrative expenses	2	(308)	(250)
Surplus/(loss) on disposal of listed undertakings		461	(248)
Net (charge)/release of provisions against investments	4	<u>(209)</u>	<u>570</u>
<b>Operating profit</b>		<b>223</b>	<b>342</b>
Interest payable		<u>(66)</u>	<u>(30)</u>
<b>Profit on ordinary activities before taxation</b>		<b>157</b>	<b>312</b>
Taxation	5	<u>(4)</u>	<u>(5)</u>
<b>Profit on ordinary activities after taxation</b>		<b>153</b>	<b>307</b>
Dividends		<u>(252)</u>	<u>(239)</u>
<b>Retained (loss)/profit for the year</b>	7	<b><u>(99)</u></b>	<b><u>68</u></b>
<b>Earnings per share</b>	6	<b>1.40p</b>	2.84p
<b>Diluted earnings per share</b>	6	<b>1.40p</b>	2.84p

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.

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## Balance Sheet

at 30th June	Notes	2005 £000	2004 £000
<b>Fixed Assets</b>			
Investments	8	<u>10,932</u>	<u>9,674</u>
<b>Current Assets</b>			
Debtors	9	67	100
Cash at bank and in hand		<u>25</u>	<u>10</u>
		92	110
<b>Creditors</b> (amounts falling due within one year)	10	<u>(1,973)</u>	<u>(607)</u>
<b>Net Current Liabilities</b>		<u>(1,881)</u>	<u>(497)</u>
<b>Net Assets</b>		<u>9,051</u>	<u>9,177</u>
<b>Capital and Reserves</b>			
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>2,699</u>	<u>2,825</u>
<b>Shareholders' funds (all equity)</b>	14	<u>9,051</u>	<u>9,177</u>

Approved by the Board on 31st August 2005.

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	2005 £000	2005 £000	2004 £000	2004 £000
<b>Net cash outflow from operating activities</b>	(a)		(2)		(23)
<b>Returns on investments and servicing of finance</b>					
Interest paid		(66)		(30)	
Interest received		–		2	
			(66)		(28)
<b>Taxation paid</b>			(4)		(5)
<b>Financial investment</b>					
Proceeds of disposal of fixed asset investments		2,362		2,639	
Purchase of fixed asset investments		(3,368)		(2,386)	
<b>Net cash (outflow)/inflow from financial investment activities</b>			(1,006)		253
<b>Equity dividend paid</b>			(239)		(226)
<b>Financing</b>					
Compensation to shareholders on share consolidation			(27)		–
<b>Increase in net debt</b>			(1,344)		(29)
Net debt at start of year			(268)		(239)
<b>Net debt at end of year</b>	(b)		(1,612)		(268)

Notes:

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

<b>Operating profit</b>	223	342
(Profit)/loss on sale of investments	(461)	248
Net charge/(release) of provisions against investments	209	(570)
Interest received	–	(2)
Decrease/(increase) in debtors and accrued income	33	(57)
(Decrease)/increase in creditors	(6)	16
<b>Net cash outflow from operating activities</b>	<b>(2)</b>	<b>(23)</b>

(b) Analysis of net debt

	At start of period £000	Cash Flow £000	At end of period £000
<b>2004/2005</b>			
Cash at bank	10	15	25
Bank overdraft	(278)	(1,359)	(1,637)
	(268)	(1,344)	(1,612)
<b>2003/2004</b>			
Cash at bank	3	7	10
Bank overdraft	(242)	(36)	(278)
	(239)	(29)	(268)

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# Notes to the Accounts

For the year ended 30th June 2005

## 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 recognised in 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.
- (v) Exchange gains and losses on the translation of monetary assets and liabilities at the rates ruling at the balance sheet date are recognised in the profit and loss account.

## 2. Administrative expenses

	2005	2004
	£000	£000
Bank charges	7	6
Auditors' remuneration – for audit work	8	6
Directors' emoluments as set out in Note 3	45	45
Cost of capital reorganisation	35	–
Other administrative expenses	213	193
	<u>308</u>	<u>250</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 (2004 – £15,000). The services of Mr. Hall were supplied by his primary employer for £10,000 (2004 – £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

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 (2004 – £27,000) to CGL, secretarial management fees of £91,000 (2004 – £83,000) and a fee of £7,500 in respect of the share consolidation. At 30th June 2005 the balance owing to CGL was £15,330 (2004 – £37,673).

## Notes to the Accounts (continued)

For the year ended 30th June 2005

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

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 and Mr. Robotham has a non-beneficial interest in 4,662,670 shares. These non-beneficial interests arise as the individuals concerned are trustees and/or directors of entities that hold shares in Lonfin. At 30th June 2005, the balance owing to Lonfin was £ Nil (2004 – £ Nil).

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 £13,656 (2004 – £21,750) in commission to J.M. Finn & Co.

### 4. Provisions against investments

	2005 £000	2004 £000
Creston plc provision written back	–	1,040
Provision against investments		
Sanctuary Group plc	(132)	–
Others	(77)	(470)
	<u>(209)</u>	<u>570</u>

### 5. Taxation

**The tax charge for the year comprises:**

Tax on overseas investment income	<u>4</u>	<u>5</u>
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The tax assessed for the year is lower than the standard rate of corporation tax in the U.K. The differences are explained below:

Profit on ordinary activities before taxation	<u>157</u>	<u>312</u>
Taxation at 30%	47	94
<b>Effects of:</b>		
Tax losses carried forward	131	83
Capital gains losses utilised	(122)	(97)
Non-taxable franked and other income	(52)	(75)
	<u>4</u>	<u>5</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 £1,479,000 (2004 – £1,119,000) and Capital Tax losses of £3,088,000 (2004 – £3,376,000) subject to agreement of tax computations with the Inland Revenue.

## 6. Earnings per share

Earnings per share are based on the profit on ordinary activities after taxation including and excluding exceptional items and on 10,878,005 (2004 – 10,877,965, adjusted for the consolidation and sub-division) being the weighted average number of shares in issue during the period.

Basic earnings per share	<b>2005</b> <b>1.40p</b>	2004 2.84p
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At 30th June 2005 and 2004 the warrants in issue were not dilutive and the diluted earnings per share were	<b>1.40p</b>	2.84p
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## 7. Statement of retained profits

	<b>2005</b> <b>£000</b>	<b>2005</b> <b>£000</b>	2004 £000	2004 £000
<b>Retained profits at beginning of year</b>				
Realised profits	3,295		3,797	
Provision for unrealised capital losses	(470)		(1,040)	
		<b>2,825</b>		2,757
Retained (loss)/profit for year		(99)		68
Purchase of fractions following consolidation		(27)		–
<b>Retained profits at end of year</b>				
Realised profits	3,378		3,295	
Provision for unrealised capital losses	(679)		(470)	
		<b>2,699</b>		2,825

## 8. Fixed assets

	Strategic Listed Investments £000	Other Listed Investments £000	AIM, Ofex & Unlisted Companies £000	Unlisted Associated Companies £000	Total £000
<b>Shares and warrants at cost:</b>					
Balance at 1st July 2004	4,525	4,849	687	83	10,144
Re-classified	(470)	–	470	–	–
Additions	1,224	1,840	304	–	3,368
Disposals	–	(1,739)	(162)	–	(1,901)
Balance at 30th June 2005	5,279	4,950	1,299	83	11,611
<b>Provisions for impairment in value:</b>					
Balance at 1st July 2004	(470)	–	–	–	(470)
Charge	–	(132)	(77)	–	(209)
Re-classified	470	–	(470)	–	–
Balance at 30th June 2005	–	(132)	(547)	–	(679)
<b>Balance at 30th June 2005</b>	<b>5,279</b>	<b>4,818</b>	<b>752</b>	<b>83</b>	<b>10,932</b>
Balance at 1st July 2004	4,055	4,849	687	83	9,674

The market value of the listed investments, all of which are listed on the London Stock Exchange, was £10,403,000 at 30th June 2005 (2004 – £9,465,000).

## Notes to the Accounts (continued)

For the year ended 30th June 2005

### 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%). The following amounts have been extracted from the accounts of CGL.

	2005 £000	2004 £000
Tangible assets	4	–
Net current assets	123	172
Operating income/turnover	599	627
Profit before taxation	(45)	19
Taxation	–	–
Aggregate capital and reserves	128	172
Share of net assets	62	84
Share of (loss)/profit before tax for the year	(22)	9
Share of post acquisition (loss)/profit	(2)	19

The effect of equity accounting for the above associate on a pro forma basis would be to increase the net assets by £62,000 to £9,113,000 (2004 – increase by £84,000 to £9,261,000) and increase the retained loss by £22,000 to £122,000 (2004 – increase by £9,000 to £77,000).

### 9. Debtors

Prepayments and accrued income	67	51
Stock settlements	–	49
	<u>67</u>	<u>100</u>

### 10. Creditors: amounts falling due within one year

Bank facility drawn down	1,637	278
Other creditors	84	90
Proposed dividend	252	239
	<u>1,973</u>	<u>607</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

	2005 £000	2004 £000
<b>Authorised:</b>		
25,000,000 shares of 40p each (2004 – 100,000,000 shares of 10p each)	<u>10,000</u>	<u>5,000</u>
<b>Allotted, called up and fully paid equity share capital:</b>		
At 1st July 2004 – 43,511,903 shares of 10p each	4,351	4,351
Warrants exercised during the year – 476 (2004 – 123)	<u>–</u>	<u>–</u>
<b>Balance carried forward at 30th June 2005 – 10,878,094 shares of 40p each</b>	<u>4,351</u>	<u>4,351</u>

On 27th June 2005 the shares of 10p each were consolidated by 1,000 and subsequently sub-divided by 250 and are now shares of 40p each.

Included within issued share capital are 40,123 shares of 40p each amounting to £16,048. These are the fraction shares purchased on the share consolidation, which are held in a nominee name on behalf of the Company.

## 12. Share Premium Account

Balance brought forward at 1st July 2004	1,646	1,646
Premium on warrants exercised during the year – 476 (2004 – 123)	<u>–</u>	<u>–</u>
<b>Balance carried forward at 30th June 2005</b>	<u>1,646</u>	<u>1,646</u>

## 13. Warrants reserve

Balance brought forward at 1st July 2004	355	355
Released on warrants exercised during the year – 476 (2004 – 123)	<u>–</u>	<u>–</u>
<b>Balance carried forward at 30th June 2005</b>	<u>355</u>	<u>355</u>

There are 1,479,642 warrants to subscribe for Shares outstanding (2004 – 5,919,044, prior to the adjustment following the consolidation and sub-division of the shares). Each warrant gives the holder the right to subscribe for one share of 40p each in the Company at a fixed price of 64p per share. Warrants are exercisable 28 day after any of the Annual General Meetings of the Company in the years to 2006, after which time all outstanding subscription rights shall lapse. The warrants reserve represents deferred premium in respect of the 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	153	307
Proposed dividend	(252)	(239)
Purchase of fraction following consolidation	<u>(27)</u>	<u>–</u>
Net movement in shareholders' funds	(126)	68
Opening equity shareholders' funds	<u>9,177</u>	<u>9,109</u>
<b>Closing equity shareholders' funds</b>	<u>9,051</u>	<u>9,177</u>

## Notes to the Accounts (continued)

For the year ended 30th June 2005

### 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.

	2005 £000	2004 £000
Euro	144	112
Hong Kong dollars	67	–
Swiss franc	527	530
	<u>738</u>	<u>642</u>

#### Borrowing Facilities

The company has a five-year revolving credit facility of £2 million, renegotiable in April 2006. At 30th June 2005, the company had drawn down £1,637,000 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 in Note 8 to these financial statements.

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# Report of the Directors

The directors submit their report together with the audited accounts for the year ended 30th June 2005.

## Principal Activities and 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 £153,000, (2004 – £307,000 including an exceptional profit of £570,000). The earnings per share, after tax, were 1.40p per share, compared with 2.84p per share for 2004.

At 30th June 2005, the net assets, taking investments at market value, were £9,408,000 (86.5p per share) compared to £10,081,000 (92.7p per share, after adjusting for the share consolidation) a year earlier.

## Dividend

We are pleased to recommend an increased dividend of 2.32p per share for the year, compared to 2.20p per share for 2004, an increase of 5%. The dividend will be paid on 7th October 2005 to shareholders on the register at the close of business on 9th September 2005.

## 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 £10,403,000 at 30th June 2005 (2004 – £9,465,000). In addition, the Company held AIM, Ofex and unquoted investments valued at £886,000 (2004 – £1,113,000). At 30th June 2005, Western had drawn £1,637,000 of its £2 million revolving credit facility (2004 – £278,000).

## 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 2005		30th June 2004	
	Shares	Warrants	Shares	Warrants
D.C. Marshall	–	–	–	–
A.R.C. Barclay	5,000	476	5,000	476
A.J. Hall	50,000	–	50,000	–
J.M. Robotham	25,000	–	25,000	4,250

The figures for 2004 have been restated to reflect the share sub-division and consolidation.

There have been no changes in directors' share interests between 1st July 2005 and the date of this report.

Mr. A.R.C. Barclay retires by rotation in accordance with the Articles of Association and, being eligible, offers himself for re-election.

## 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.	4,402,982	40.48
W.T. Lamb Holdings Limited	1,250,000	11.49
T.W.G. Charlton	406,458	3.76
J.A. Whybrow and S.R.M. Wilson	352,584	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%.

### Share capital

As advised in the circular to share and warrant holders dated 10th June 2005, an extraordinary general meeting of the Company was held on 27th June 2005. At that meeting the resolution to approve the consolidation and sub-division of the issued shares so as to increase the nominal value of each shares from 10p to 40p, and the payment of compensation to small shareholders who were removed from the register as a result, was passed with over 99% of the votes cast being in favour. As a result, the issued share capital of the Company, formerly 43,512,379 shares of 10p each, is now represented by 10,878,094 shares of 40p each.

### Warrants to Subscribe for Shares

During the year, 476 warrants were exercised. Following the consolidation and sub-division of the shares on 28th June 2005, the number of warrants and their exercise price were adjusted to mirror the changes to the shares. At 30th June 2005 there were 1,479,642 warrants in issue. The warrants are exercisable at 64p each 28 days after any of the Annual General Meetings of the Company held in the years 2005 and 2006. 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 64p 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.

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## 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

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 27 (2004 – 61) 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*

31st August 2005

## Corporate Governance

The Financial Services Authority requires that listed companies (but not companies traded on AIM) incorporated in the U.K. 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.

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# 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 2005 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 Chairman's Review, the Schedule of Investments, 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 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London  
31st August 2005

**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 28th September 2005 at 9.30 a.m. for the following purposes:

1. To receive the directors' report and accounts for the year ended 30th June 2005.
2. To declare a dividend.
3. To re-elect Mr. A.R.C. Barclay 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 £652,685 provided that this authority will expire on 27th September 2010, 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 28th September 2005, 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 40p 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 £217,561 representing 5% 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 27th December 2005 if earlier:

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- (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 and, if thought fit, pass the following resolution which will be proposed as a 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 1,087,500 (9.99%) 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

31st August 2005

**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 Registrars 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.

## Shareholder Information

### Share consolidation and sub-division

All shareholders who previously had a holding of 1,000 shares of 10p each and over have been sent a certificate in respect of their new holding of 40p shares. If you did not receive such a certificate you should contact Capita Registrars at the address shown on page 2.

All shareholders who previously had a holding of 999 shares of 10p each or less were removed from the register as a result of the consolidation and were paid compensation equivalent to 17p for each old share of 10p each, compared with a share price of 13.75p. If you did not receive a compensation cheque you should contact Capita Registrars at the address shown on page 2.

### Share dealing

A share dealing service is now available for shareholders through Capita IRG Trustees Limited, a subsidiary of Capita Registrars. Shareholders can buy or sell shares in the Company online or by telephone and a card setting out details of the service is enclosed with this Report and Accounts.

