

Washington H. Soul Pattinson and Company Limited

Review of Operations Year Ended 31 July, 2006

CONSOLIDATED FINANCIAL PERFORMANCE

The Profit of the Group, **after tax and before non regular items**, attributable to shareholders for the year ended 31 July, 2006 was \$102.6 million an increase of 6.7% over the previous year. Increased normalised profits from associated entity Brickworks Limited and the Group's Australian coal operations have underpinned the consolidated result which was severely impacted by the significant net loss incurred by KH Foods Limited as well as a reduced contribution from SP Telemedia Limited.

The Profit of the Group, **after tax and non-regular items**, was \$91.5 million, a decrease of 77.4% over the previous year. Last year's non regular items included the share of profit on the sale of NHC's international coal assets and gains arising from the issue of new shares by controlled entities and associates.

Comparisons with the corresponding period last year are as follows:-

	2006 \$000	2005 \$000		% Change
Revenue from ordinary activities	909,815	587,861	+	54.8%
Profit after tax before non regular items	102,622	96,137	+	6.7%
Profit after tax and non regular items	91,512	405,730	-	77.4%
Share of Net profits of Associates	43,927	34,306	+	28.0%
Final Dividend	16.0c	15.0c	+	6.7%
Interim Dividend	11.0c	10.0c	+	10.0%
Total Dividends (excluding Special Dividends)	27.0c	25.0c	+	8.0%

DIVIDENDS

1. Final Dividend

Directors recommend the payment of a fully franked final dividend of 16.0 cents per share in respect of the year ended 31 July, 2006 (2005 – 15 cents).

2. Special Dividend

As referred to in last year's Directors' Report, directors have declared a further special fully franked dividend of 15 cents per share (2005 - 5 cents) arising from the profit on the sale of New Hope Corporation Limited's international coal assets in July, 2005, and this will be paid in conjunction with the final dividend.

The final dividend of 16.0 cents per share, to be approved by Shareholders at the Annual General Meeting, and the special dividend of 15 cents per share, will be payable on 4 December, 2006. The record date for both the final and special dividend will be 2 November, 2006.

Dividends paid or declared by the Company to members since the end of the previous financial year were:-

	Cents Per Share	Total Amount \$000	Franked Unfranked	Date of Payment
Declared and paid during the financial year				
Final ordinary dividend 2005	15.0	35,796	Fully Franked	28 Nov 2005
2nd Special Dividend arising from the sale of NBN Television to SP Telemedia Limited	10.0	23,864	Fully Franked	28 Nov 2005
Special Dividend result of profit distribution by NHC from the sale of its international coal assets	5.0	11,932	Fully Franked	28 Nov 2005
Interim ordinary dividend 2006	11.0	26,250	Fully Franked	11 May 2006
Dealt with in the financial report as dividends	<u>41.0</u>	<u>97,842</u>		
Declared after the end of year				
Proposed final ordinary dividend 2006	16.0	38,182	Fully Franked	4 Dec 2006
Special Dividend result of profit distribution by NHC from the sale of its international coal assets	15.0	35,796	Fully Franked	4 Dec 2006
	<u>31.0</u>	<u>73,978</u>		

REVIEW OF OPERATIONS

INVESTMENTS – Share Portfolio

The market value of the listed investment portfolio, including listed controlled entities and associates, was \$2.2 billion as at 31 July, 2006. Excluding controlled entities and associates, the market value of the listed investment portfolio increased by \$83 million to \$468 million. In accordance with group accounting policies, this increase is credited to the revaluation reserve.

During the year \$33 million was invested in the equity market and \$10 million was provided as seed capital for the Souls Select Australian Share Fund. The main purchases were Roberts Limited (subsequently taken over by Ruralco Limited), Fiducian Portfolio Services Ltd., Apex Healthcare Berhad and AMP Limited. Proceeds from disposals totalled \$9 million and included the sale of Patrick Corporation Limited, Metcash Limited, Australian Ethanol Limited and Colorado Group Limited.

Dividend income from investments, excluding controlled entities and associates, was \$18.2 million for the year, an increase of 10% on the previous year. Special and increased dividends from Bank of Queensland Limited, Choiseul Investments Limited, BHP Billiton Limited and Ruralco Holdings Limited contributed to the increase.

INVESTMENTS – Associated Entities

Australian Pharmaceutical Industries Limited (API)

API's net profit after tax for the year ended 30 April, 2006 was \$20.4 million, a decrease of 41.4% over the previous year. Shareholders will no doubt be aware of discrepancies amounting to \$17.2 million which arose during API's results consolidation process when a number of significant items did not reconcile. Extensive forensic accounting, investigation and review processes failed to provide conclusive evidence as to how the discrepancies arose and, accordingly, the API Board took the conservative position and wrote-off the \$17.2 million against the profit for the year. API

is of the view that the discrepancies relate to the processes in the conversion from the previous legacy IT systems to the new IT platform and investigations as to their cause are ongoing.

Revenue from continuing operations was \$2.6 billion, an increase of 11% on the previous year while underlying earnings (EBITD) of \$73 million, excluding all one-off expenses, was 3% ahead of last year. API's Retail Division made good progress with its strategic implementation and grew earnings whilst Pharmacy Distribution maintained its share of a highly competitive low growth market. Consumer Brands was restored to positive earnings during the year after a period of restructuring.

Having regard to the issues surrounding the discrepancy, the API Board took the view that the underlying business was fundamentally sound and, accordingly, declared a fully franked final dividend of 3 cents per share taking total dividends for the year to 9.25 cents (2005 13 cents).

Brickworks Limited (Brickworks)

Brickworks normalised net profit after tax, before non-regular items, for the year ended 31 July, 2006 was \$101.9 million, an increase of 17%.

The main factors contributing to the increased result were a significant increase in profit from land and development offsetting reductions from building products and associates. As an associate of WHSP, last year Brickworks shared in the significant non regular profit from the sale of New Hope Corporation Limited's overseas coal assets.

Brickworks directors are recommending an increase in the final dividend to 25 cents per share fully franked, taking the full year dividend to 36 cents per share fully franked. This is an increase of 16% from the 31 cents per share paid in the previous year.

The Building Products Division has again been affected by the continued decline in the building industry. Since peaking in December, 2003, the housing market has experienced the longest decline since records began, exacerbated recently by lower consumer confidence caused by higher interest rates and fuel prices.

EBITDA for the Building Products Division for the year was \$93.9 million (19.4% to sales) a decline of 12.6% compared with the previous period. Brickworks is focused on maintaining the margins, despite the downturn and competitive environment. The Building Products Division is more exposed to NSW than any other state and this held back results. Whilst Western Australia performed well it was unable to balance the sluggish performances of the east coast states.

On 1 August, 2006 Brickworks completed the acquisition of GB Masonry for \$17.5 million. The integration into Austral Bricks was completed swiftly and successfully and the acquisition is expected to be earnings positive immediately.

In Land and Development, Brickworks property realisation program for surplus land holdings saw its highest return to date. Profit before tax increased by \$23.8 million to \$50.3 million during the year, a 90% increase.

In August, 2006 Brickworks announced the formation of a property trust in the form of a 50:50 joint venture with Macquarie Goodman Wholesale Trust. The property trust will house numerous industrial developments commencing with the Mamre Road, Erskine Park developments and selected M7 Business Hub developments, all located in Sydney's western suburbs.

The Horsley Park and Bowral waste facilities provided royalties of \$1.9 million during the year. The royalties from the Horsely Park facility operated by Collex, have continued to be well over the minimum requirement and the forecast amount.

Brickworks associated entity Brickworks Investment Company Limited (BKI) has reported a net profit after tax for the year ended 30 June, 2006 of \$12.8 million compared with \$10.5 million in the previous year. Brickworks equity accounted share of BKI's profit was \$2.8 million.

Clover Corporation Limited (Clover)

Clover's profit for the year was \$453,000, a decrease of 41% compared with the last financial year. The profit was affected by start-up losses of \$357,000 in their soy flour joint venture, the expensing of \$675,000 in research and product development costs and a \$191,000 asset write-down.

Clover has recently secured its source of tuna oil through the extension of its supply contract with Star-Kist Seafood for a further five years. Additionally, Clover has finalised an agreement with an internationally recognised research partner in relation to an improved microencapsulation technology which will improve the functionality of the powdered Driphorm ingredients range of applications.

In September, 2006 Clover's subsidiary Nu-Mega Ingredients Pty. Ltd. signed a long term supply agreement with So Natural Foods Australia Ltd. for the provision of Nu-Soya® whole soy flour ingredients. The use of Nu-Soya® will begin progressively during the current financial year.

Dr. Ian Brown was appointed as Managing Director and CEO of Clover on 26 June, 2006. Dr. Brown has 25 years of technical and commercial experience in the cereals, ingredient, food and nutrition industries.

CONTROLLED ENTITIES

New Hope Corporation Limited Group (NHC)

NHC Australian operations, in its first full year since the sale of its overseas assets, produced a profit after tax and outside equity interests of \$68.7 million for the year ended 31 July, 2006, an increase of 29% compared with the 2005 equivalent result. Shareholders will recall that NHC's 2005 result included a significant non regular profit of \$352.6 million from the sale of its overseas assets.

Basic earnings per share at 8.6 cents are 19% above last year's Australian operations component of 7.2 cents per share.

Australian mining operations, which are at full capacity, benefited from improved coal prices, offset to some extent by higher costs of tyres, fuel and explosives. Coal export volumes increased by 17% to 2.5 million tonnes whilst domestic sales were 3% lower at 1.3 million tonnes.

The major source of coal production was from NHC's New Acland Mine which produced 2.6 million tonnes. The balance of production of 1.1 million tonnes came from the Jeebropilly and New Oakleigh mines located in the Ipswich region of South East Queensland.

The New Acland Stage 2 mine expansion is underway and on schedule for completion by April, 2007. Specifically, an additional wash plant module is under construction, new mining equipment is on order and construction of additional site infrastructure has commenced. When the Stage 2 expansion is completed the total mine capacity will increase to 4 million tonnes per annum.

In June, 2006 NHC announced that the New Acland Mine had entered into an option agreement to supply coal to the Tarong Energy Corporation at the rate of 5.7 million tonnes per annum for up to 25 years. If Tarong Energy Corporation exercises the option on or before 30 June, 2007, the New Acland Mine would initiate a Stage 3 expansion taking production to approximately 8.7 million tonnes by the end of 2010. The Tarong option agreement is subject to several conditions precedent that need to be satisfied before the option is exercised.

NHC has substantially increased its exploration efforts in the Bowen Basin of Central Queensland and the Clarence-Moreton Basin on the Darling Downs. Exploration expenditure increased by 115% to \$9 million during the year. Exploration in South East Queensland is aimed at proving up potential open cut thermal coal resources in readiness for the Tarong Energy Corporation Option Agreement, if exercised, and to identify areas of additional future coal supply in the Acland region.

NHC announced in August, 2006 that it had acquired an 18.8% shareholding in Arrow Energy N.L., a major coal seam gas group. This acquisition is consistent with NHC's stated strategy of diversification with an expanded energy portfolio complimentary to its domestic coal energy business.

NHC has declared a final dividend of 2.5 cents per share for the year ended 31 July, 2006 and a special dividend of 4.5 cents per share, both fully franked and payable on 14 November, 2006.

SP Telemedia Limited (SPT)

SPT reported a profit after tax for the year ended 31 July, 2006 of \$8.2 million, a decrease of 49.1% on the previous year. The decrease in profit is attributable to changes in accounting policies as a result of AIFRS, non-recurring significant items in B Digital (46% owned by SPT) and losses in the SOUL Voice business which traded profitably in June and July, 2006. Before these significant items, SPT's normalised profit for the 2006 year was \$17 million, a decrease of 3% on last year's result.

Media operations (NBN Television) contributed a profit after tax of \$7.9 million which was marginally up on last year as was revenue. NBN's ratings and audience share continue to grow with a year to date audience share of 34.2% being over 4 points higher than the National average for Nine Network stations in capital cities.

The media operations have expanded in the last six months into new media and event production, and it is anticipated that these initiatives will deliver strong revenue streams in future years.

Whilst the focus on Soul Telecommunications for the year under review has been on the integration of the B Digital and SPTCom (SOUL Voice) businesses, other major achievements during the year, which will impact positively on SPT's future earnings, include:

- The introduction and marketing of the new "SOUL" brand.
- New voice contracts for SPTCom's IP Network
- The formation of 'Ausalliance' with Austar and Unwired for the delivery of broadband products and services to regional Australia. Ausalliance is hopeful of being a major beneficiary of Connect Australia funding.
- The acquisition of the 50% interest in the SPT and Kooee joint ventures previously owned by WIN Television the consideration for which was the issue of 50 million SPT shares.

SPT has declared a fully franked final dividend for the year ended 31 July, 2006 of 1.2 cents per share (2005 1.2 cents per share) on its increased share capital. When combined with the 2006 interim dividend of 1.2 cents per share, the total amount paid as dividends was \$9.1 million for the year.

KH Foods Limited (KHF)

KHF has reported a loss for the year of \$39.5 million which comprised a trading loss of \$33.8 million and a net loss on one-off non-regular items of \$5.7 million.

The Boards of KHF and Washington H. Soul Pattinson and Company Limited deem the trading loss as totally unacceptable.

Remedial action to stem the extent of the trading loss was taken by the KHF Board during the financial year with the management team, including the Managing Director, being replaced with a new and enthusiastic group of senior management headed by CEO Mr. Ray Mooney, who has extensive experience in the baking industry.

A great deal of work has been done by the new management team in a short space of time to remedy past business practices which have contributed to the trading losses, despite significant sales growth in the past 2 years.

It is evident that KHF has been through a difficult period and many challenges still lie ahead. However, the current initiatives and business plan should bring stability to KHF during the next financial year.

Pitt Capital Partners Limited (PCP)

PCP had a satisfactory year in regard to work-in-progress and projects in hand, however, profit after tax for the year ended 31 July, 2005 declined to \$1.6 million. PCP's Sydney operations were profitable whilst the South Australian and Asian (Hong Kong) operations recorded losses for the year.

End document