

# Washington H. Soul Pattinson and Company Limited

## Review of Operations

### Half Year Ended 31 January, 2006

#### **CONSOLIDATED RESULT**

The Profit of the Group, **after tax before non regular items**, attributable to shareholders for the half year ended 31 January, 2006 was \$48.9 million, a decrease of 12.1% over the previous corresponding period. The decrease in profit during the half year is attributable to losses in controlled entities, particularly KH Foods Limited, as well as a reduced contribution from associates within the SP Telemedia Limited Group.

The Profit of the Group, **after tax and non-regular items**, was \$40.1 million, a decrease of 40.4% over the previous corresponding period. The loss on non regular items of \$8.8 million was mainly due to the impairment of intangible assets and plant and equipment in controlled entities following the adoption of AIFRS. Additionally, in the previous corresponding period, non regular items included a profit on the sale of businesses of \$5.3 million which was not repeated in this half year.

Operating Profit before income tax from continuing operations increased by 1.2% to \$66.6 million.

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

	<b>2006</b>	<b>2005</b>		<b>%</b>
	<b>\$000</b>	<b>\$000</b>		<b>Change</b>
Revenue	477,868	247,345	+	93.2%
Operating profit before income tax from Continuing Operations	66,577	65,804	+	1.2%
Profit after tax before non regular items	48,899	55,628	-	12.1%
Profit after tax and non regular items	40,096	67,301	-	40.4%
Share of net profits of Associates	13,369	15,399	-	13.2%
Earnings per share	16.8c	28.2c	-	40.4%
Interim Dividend	11.0c	10.0c	+	10.0%

#### **DIVIDEND**

Directors have declared an interim dividend of 11 cents per share in respect of the half year ended 31 January, 2006, an increase of 10% over last year's interim dividend of 10 cents per share. The dividend will be fully franked and payable on 11 May, 2006

#### **INVESTMENTS – Share Portfolio**

The market value of the listed investment portfolio, including listed controlled entities and associates, was \$2.3 billion as at 31 January, 2006, a slight increase on the \$2.2 billion valuation at year end 31 July, 2005.

During the half year \$29 million was invested in the equity market which included \$26 million for the acquisition of a 19% holding in Roberts Limited. Proceeds from disposals totalled \$5 million and included the sale of Colorado Group Limited, Metcash Limited, Onesteel Limited and Suncorp Metway Limited, The previously announced capital return by New Hope Corporation Limited of \$49 million was received in December, 2005.

Dividend income from investments, excluding controlled entities and associates, was \$9 million in this half year, an increase of 10% compared with the previous corresponding period. Special and increased dividends from Ruralco Limited, Bank of Queensland, BHP Billiton Limited and Choiseul Investments Limited contributed to the increase.

### ***INVESTMENTS – Associated Entities***

#### ***Australian Pharmaceutical Industries Limited (API) (Group shareholding 22%)***

API's net profit after tax for the half year ended 31 October, 2005 was \$14 million, an increase of 1.2% over the previous corresponding period. Sales revenue of \$1.6 billion showed an increase of 16.6%. The first half results were impacted by several one-off items, including redundancies in both the Pharmacy Distribution business and the Manufacturing Division as well as certain IT related costs.

API continues to make progress in the first year of its three year turnaround strategy with the focus now on growth opportunities. API's Manufacturing Division has completed its relocation to New Zealand and is focused on API's range of private label and exclusive products. The Retail Division has been making strong progress in building brand equity behind API's retail brands.

On 14 December, 2005 API announced the sale of its New Zealand healthcare logistics business, trading as Healthcare Logistics and ProPharma, for NZ\$40 million. Following the sale API still retains significant assets in New Zealand, including the wholly owned Healthcare Manufacturing Group, which manufactures a range of products from two plants in Auckland.

API maintained its interim dividend of 6.25 cents per share.

#### ***Brickworks Limited (Brickworks) (Group shareholding 49.8%)***

Brickworks net profit after tax for the half year ended 31 January, 2006 was \$46.1 million, an increase of 15% over the previous corresponding period. The profit was based on revenues of \$258.9 million and is the ninth consecutive increase in first half profit.

Building Products recorded a 35% decline in earnings for the half year, however, net profit after tax from Land and Development was \$10.9 million compared to a negligible contribution in the previous corresponding period. Nationally, building approvals declined by 10% in the six months to 31 January, 2006 which was in line with expectations.

Earnings per share increased by 15% to 34.7 cents per share for the half year under review.

Brickworks directors have declared an increased fully franked interim dividend of 11 cents per share, up 10% on last year.

Brickworks has continued its net debt reduction program during the period, with net debt reducing by \$7.1 million to \$182.6 million since 31 July, 2005.

Capital expenditure of \$23.5 million was incurred during the half year mainly due to the construction of the new brick plant at Wollert in Victoria. The main building is nearing completion and brick production is scheduled for February, 2007.

Realisation of surplus land holdings during the period was centred on the sale of land at the M7 Business Hub property to Coca Cola Amatil. The development of the M7 Business Hub property in conjunction with joint venture partner Macquarie Goodman is continuing and is expected to underpin sales in the second half.

Brickworks associated entity Brickworks Investment Company Limited (BKI) has reported a net profit after tax of \$7.7 million for the half year ended 31 December, 2005, an increase of 31% over

the previous corresponding period. The value of Brickworks investment in BKI increased by 8% to \$54.5 million during the period.

***Clover Corporation Limited (Clover) (Group shareholding 29%)***

Clover's net profit after tax for the half year ended 31 December, 2005 was \$461,000, an increase of 5% over the corresponding period in 2005. Clover's profit and sales for the period were affected by the transfer of sales of \$1.2 million to the next reporting period due to goods not being received by overseas customers until January, 2006. Except for that transfer Clover's profit would have increased 116% over the same period last year.

Clover's growth in Omega<sup>3</sup>DHA sales revenue came predominately from the infant nutrition and powdered supplement categories in Asia and New Zealand where its customer base has increased.

Clover's operating subsidiary, Nu-Mega Ingredients Pty. Limited (Nu-Mega), continues to be extremely active in the marketplace and is currently involved in a number of product innovation projects including, new microencapsulation technology, installation of deodorising equipment at Altona and nut replacement technology using NuSoy technology.

Clover is also involved in a single cell fermentation project with the CSIRO, focused on developing new sources of Omega<sup>3</sup>DHA. The project, which is in its early stages, is being funded, dollar for dollar, by a Commonwealth Government Food Innovation Grant.

***CONTROLLED ENTITIES***

***New Hope Corporation Limited Group (NHC) (Group Shareholding 61.6%)***

NHC's profit after tax and outside equity interest for the half year ended 31 January, 2006 was \$40.3 million, a decline of 4% on the previous corresponding period which included a profit contribution of \$19.7 million from NHC's overseas operations sold in June, 2005.

Saleable coal production was steady during the period at 1.8 million tonnes, whilst coal sold increased by 23% to 2 million tonnes. Increased revenues have more than offset the higher costs of production which have been driven by higher fuel prices.

The Acland mine near Toowoomba accounted for 74% of total production with the balance of 26% coming from the West Moreton mines near Ipswich. The Acland Stage 2 expansion is on schedule for completion in April, 2007, subject to receiving appropriate Government approvals, and will provide the Acland mine with an overall potential capacity of 3.5 to 4.0 million tonnes per year. The additional capacity at Acland will offset the declining capacity from the West Moreton operations as coal reserves are mined out.

NHC has declared a fully franked interim dividend of 2 cents per share for the half year ended 31 January, 2006.

Bulk handling operations of NHC's associates, Queensland Bulk Handling Pty. Ltd. (QBH) and Queensland Commodity Exports Pty. Ltd. (QCE) both contributed positively during the period. NHC has received an offer for its 33.3% equity in QCE and negotiations are continuing with the aim of disposing of this asset.

NHC has continued exploration activities in the Darling Downs in South East Queensland aimed at open cut thermal coal deposits as well as in Central Queensland for both open cut and underground coking and thermal coal deposits. Drilling activities have confirmed the presence of thermal coal in the Darling Downs Exploration Permits for Coal (EPC's) and these will be evaluated over the next few years. Hard coking coal drill intersections have been encountered in two EPC's in Central Queensland. NHC's increase in exploration activities is reflected by these expenditures being some 136% higher than in the corresponding period last year.

After returning \$180 million to shareholders from the profit on disposal of its international coal assets, NHC currently has funds of approximately \$400 million for use in optimizing its base business and funding exploration and development.

***Telemedia - SP Telemedia Limited (SPT) (Group Shareholding 51%)***

SPT reported a net profit after tax for the half year ended 31 January, 2006 of \$2.6 million. The result was impacted by a number of significant items including management restructure at B Digital, full accounting period for SPT Com (formerly Comindico) and major write-offs by B Digital in its investment in the B Shop joint venture and amortisation of intangibles.

Except for the significant items referred to above, SPT's net profit after tax for the period was \$8.2 million, an increase of 4% on the previous corresponding period.

SPT's net cash generation from operating activities has more than doubled during the period to \$18.7 million and is a strong indication of the underlying operating performance of the SPT Group.

SPT has declared a fully franked interim dividend for the half year ended 31 January, 2006 of 1.2 cents per share.

An announcement was made on 29 March, 2006 that SPT had formed an alliance with Austar for the delivery of wireless broadband to regional Australia. The alliance will introduce an alternative broadband infrastructure which is a key objective of the Federal Government under the Broadband "Connect" program.

***KH Foods Limited (KHF) (Group shareholding 53.3%)***

KH Foods Limited has reported an operating loss after tax of \$22.6 million for the half year ended 31 January, 2006. Excluding non-trading items and the asset impairment of intangibles and plant and equipment, KHF's trading loss was \$13.9 million, which compares with a bakery division trading loss after tax of \$11.1 million for the previous corresponding period.

The operating results are behind original forecasts and as a result a new management team and organisational structure has been installed to drive KHF to a self funding position by the end of the 2007 financial year. Initiatives being undertaken by the new management team include the installation of new plant and equipment to reduce manufacturing overheads and a more focused approach to product range and customers, which is expected to show sales and margin improvements in the medium term.

KHF has continued to experience working capital issues and Washington H. Soul Pattinson and Company Limited (WHSP) has agreed, in principle, subject to the receipt of appropriate security, to both short term support for KHF and its restructure in due course. WHSP has also agreed to retain its existing loans to KHF and has recently guaranteed a short term loan facility for working capital requirements.

***Pitt Capital Partners Limited (PCP) (Group shareholding 53%)***

PCP produced a small profit for the half year ended 31 January, 2006 and revenue was down on the same period last year. However, current work in progress alone should deliver improved results in the second half of the financial year.

**End document**