



# Washington H. Soul Pattinson and Company Limited

ABN 49 000 002 728

## Review of Operations Year Ended 31 July, 2005

### **CONSOLIDATED RESULT**

The Profit of the Group, **after tax before non regular items**, attributable to shareholders for the year ended 31 July, 2005 was \$105.1 million, an increase of 29% over the previous year. The Group's coal operations were the main contributor to the increase in profit, assisted by solid gains from investments and merchant banking.

The Profit of the Group, **after tax and non-regular items**, was \$421.5 million, an increase of 170.3% over the previous year. The profit on non regular items of \$316.3 million mainly consisted of 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:-

	<b>2005</b>	<b>2004</b>		<b>%</b>
	<b>\$000</b>	<b>\$000</b>		<b>Change</b>
Sales	597,104	392,854	+	52.0%
Profit after tax before non regular items	105,109	81,508	+	29.0%
Profit after tax and non regular items	421,455	155,925	+	170.3%
Share of Net profits of Associates	43,743	78,489	-	44.3%
Earnings per share	176.6c	65.3c	+	170.3%
Final Dividend	15.0c	12.0c	+	25.0%
Interim Dividend	10.0c	8.0c	+	25.0%
Total Dividends (excluding Special Dividends)	25.0c	20.0c	+	25.0%

### **DIVIDENDS**

#### **1. Final Dividend**

Directors recommend the payment of a fully franked final dividend of 15 cents per share in respect of the year ended 31st July, 2005 (2004 – 12 cents).

#### **2. Special Dividends**

- (i) As previously announced, the second special fully franked dividend of 10 cents per share arising from the sale of NBN Television to SP Telemedia Limited will be paid in conjunction with the final dividend.
- (ii) Arising from the proposed distribution by New Hope Corporation Limited of approximately 50% of the profit on the sale of its international coal assets, Directors have declared an additional fully franked special dividend of 5 cents per share, to be paid with the 2005 final dividend. It is envisaged that, subject to unforeseen circumstances and the receipt by NHC of a favourable Class Ruling from the ATO, a further fully franked special dividend of 15 cents per share will again be paid at the same time as the 2006 final dividend.

### **Summary**

The final dividend of 15 cents per share, to be approved by Shareholders at the Annual General Meeting, and the two special dividends totalling 15 cents per share, will be payable on 28 November, 2005. The record date for the final and two special dividends will be 27 October, 2005.

***INVESTMENTS – Share Portfolio***

The Company's portfolio of investments, which includes the Group's listed controlled entities and associated companies, returned 14.4% for the year after including unrealised capital gains.

The market value of the listed investment portfolio, including listed controlled entities and associates, was \$2.2 billion as at 31 July, 2005 compared with \$1.9 billion last year, an increase of 15.8%.

During the year \$65 million was invested in the equity market which included \$55 million for the exercise of options and adding to existing holdings in listed controlled entities and associates. The main purchases were Huntley Investment Co. Limited, Trust Company of Australia Ltd and Choiseul Investments Limited. Proceeds from disposals totalled \$15 million of which \$12 million was from the WMC Resources Limited take-over.

Dividend income from investments, excluding controlled entities and associates, was \$16.4 million for the year, an increase of 37% on the previous year. Special and increased dividends from Perpetual Trustees Australia Limited, Milton Corporation Limited and Choiseul Investments Limited contributed to the increase.

***INVESTMENTS – Associated Entities***

***Australian Pharmaceutical Industries Limited (API) (Group shareholding 21.5%)***

API's net profit after tax for the year ended 30 April, 2005 was \$29.7 million, an increase of 61.2% over the previous year. Although the result was significantly better than last year, API's performance was adversely affected by continued manufacturing difficulties in the Australian pharmaceutical plant which produced a significant loss for the year. All manufacturing facilities are now consolidated and located in New Zealand. The manufacturing loss was partially offset by the profit on the sale of the Kingsgrove property which was sold following the closure of the pharmaceutical manufacturing plant.

The integration of New Price Retail (NPR), which was acquired in October, 2004, has now been completed. The Retail Division, which included the results of NPR for only seven months, performed strongly recording \$255 million revenue and \$19.2 million EBIT.

In 2004/2005 API achieved strong sales growth and good progress in implementing outcomes from the strategic review announced in December, 2004. API recently secured a greater market share of the Australian pharmacy market and set in place the framework for the growth of franchise retail pharmacies.

API maintained its full year dividend of 13 cents per share.

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

***Note: Brickworks change of annual reporting date to 31 July to comply with IFRS.***

National building products company Brickworks Limited's net profit after tax, before non-regular items, for the 13 months ended 31 July, 2005 was \$93.9 million, an increase of 27%. On a normalised 12 month basis, the net profit after tax was up 7% to \$79.8 million.

The main factors contributing to the result were a significant increase in profit from property development and investments offsetting reductions from building products.

Basic earnings per share increased to 63.1 cents per share for the 13 month period.

Brickworks Directors are recommending a significant increase in the final dividend to 21 cents per share fully franked, taking the full year dividend to 31 cents per share fully franked. This is

an increase of 29.2% from the 24 cents per share paid in the previous year.

Brickworks total free cash flow was very strong at \$187.4 million, up from \$93.1 million last year, and included \$82.1 million from property development compared with \$20.7 million last year. Strong cash generation has allowed debt to be reduced by \$71.3 million to \$204 million resulting in gearing of 19%.

For the year ended 30 June, 2005, building products sales were down 1.4% to \$481.8 million compared with \$487.7 million in the previous year. In the 13 months to July, 2005 sales were \$521.1 million.

Building products EBITA in the 12 months ended 30 June, 2005 was \$82.2 million, down 13.2% on the 12 months to 30 June, 2004. The EBITA for the 13 months ended 31 July, 2005 was \$86.1 million.

Nationally, dwelling approvals peaked in September, 2003 and have appeared to form a base some 25% lower over the last six to nine months, in seasonally adjusted figures.

Brickworks capital works program continued strongly during the period. The focus of the program, within building products, was cost reduction and improvement in safety and environmental performance. Property development included both property acquisition and development costs. Capital expenditure totalled \$54.6 million in the 13 months to July, 2005, including \$6.7 million for property development. This compares with \$40.4 million last year and depreciation of \$29.0 million for the 13 months to 31 July, 2005.

The 2005 year has seen substantial advances in the Brickworks property realisation program with EBIT of \$26.2 million in the 13 months to 31 July, 2005, up from \$9.6 million last year.

Brickworks associated entity Brickworks Investment Company Limited (BKI) has reported a net profit after tax of \$10.5 million in its first full year of operation to 30 June, 2005, compared to \$3.6 million in the seven months to 30 June, 2004. Brickworks equity accounted share of BKI's profit was \$2.4 million.

***Clover Corporation Limited (Clover) (Group shareholding 28.6%)***

Clover Corporation Limited's profit for the year was \$764,000 which is a decrease of 38% compared with the last financial year. The profit was impacted by lower sales and delays in the commissioning of the Nu-Soya plant at Moree.

Whilst this year's result is disappointing, Clover's directors believe that the Omega<sup>3</sup> markets internationally are growing and Clover is well placed to participate in this growth. The enquiry level and interest in Omega<sup>3</sup> in the USA, Asia and Europe is presently at the highest it has been in Clover's history.

Clover continues to be active in Asia where product trials are currently underway in Vietnam, Indonesia, Malaysia, Thailand, Japan and China, whilst in the USA shelf life trials of various food products continue with a number of multinationals. The markets for infant formula applications in Indonesia, New Zealand and South Korea have provided strong growth and will be a continued focus in the year ahead.

Clover's joint venture with Austgrains to manufacture and market a unique soy flour has now been commercialised with the plant at Moree being commissioned during June and July, 2005.

## ***CONTROLLED ENTITIES***

### ***Coal (New Hope Corporation Limited Group) (NHC)***

New Hope Corporation Limited is listed on the Australian Stock Exchange (ASX Code NHC) with the Group's shareholding being 64.2%.

For the year ended 31 July, 2005, NHC's profit after tax and outside equity interests was \$463.3 million. The result included a significant non-regular profit after tax of \$366.6 million from the sale of NHC's overseas operations in June, 2005.

Excluding the non-regular item referred to above, NHC's profit after tax and outside equity interests was \$96.7 million, an increase of 136% over the previous year. The improved profit result was principally driven by higher World coal prices. The continued appreciation of the Australian Dollar against the U.S. Dollar was again an offsetting factor.

Earnings per share, before the non-regular item from the sale of the overseas assets, were 13.1 cents compared to 5.8 cents in the previous year.

The NHC Board is recommending a final dividend of 3 cents per share which, together with the interim dividend of 2.75 cents per share paid in May, 2005, will give a full year distribution of 5.75 cents per share, an increase of 140% compared with the 2004 distribution.

In addition to the increased final dividend NHC has agreed to return approximately 50% of the net profit from the sale of its overseas operations by way of a fully franked special dividend of 13 cents per share, to be paid at the same time as the final dividend, and a 10 cents per share return of capital. The return of capital is subject to a favourable class ruling from the Australian Taxation Office and approval by NHC's shareholders at the Annual General Meeting in November, 2005.

NHC recently completed a strategic review of the business following the sale of its overseas operations resulting in a decision to return a percentage of profits from the sale to shareholders (referred to above) and to focus on exploration activities to upgrade its resource base, with new mine development potential over the medium term. Continued evaluation of opportunities in the energy business, port infrastructure and development of land holdings will also form part of NHC's medium to long term strategy.

NHC plans to maintain current production levels next year and in 2007 the Stage Two Expansion at Acland will result in the mine increasing production to approximately 3.75 million tonnes.

### ***Australian Operations***

NHC Australia's after tax profit for the period was \$54.6 million compared with \$21.9 million in the previous year, an increase of 149%. Apart from the higher World coal prices mentioned above, the Australian operations also benefited from higher production at the Acland operations, although increased fuel and blasting costs adversely impacted the result.

Earnings per share from the Australian operations in 2005 were 7.4 cents compared with 3.1 cents per share in 2004.

Following the sale of the overseas mining assets, New Acland mine became NHC's main coal producer, producing 2.6 million tonnes during the year, 24% above the 2004 production and well above the mine's design capacity of 2.0 million tonnes per year. The balance of NHC's Australian coal production of 1.1 million tonnes came from the Jeebopilly and New Oakleigh mines.

Bulk handling operations of NHC's associates, Queensland Bulk Handling Pty. Ltd. and Queensland Commodity Exports Pty. Ltd. maintained satisfactory results, similar to 2004.

***Overseas Operations***

To the date of sale, the international coal operations contributed a profit after tax and outside equity interest of \$42.0 million, an increase of 12% over the previous full year.

NHC completed the sale of its international coal assets on 21 June, 2005 with proceeds totalling US\$406 million. The realised capital profit on the sale, after tax, was \$366.6 million, referred to earlier as a non-regular item.

***Telemedia - SP Telemedia Limited (SPT)***

SPT is listed on the Australian Stock Exchange (ASX Code SOT) with the Group's shareholding being 51%.

SPT reported a profit after tax for the year ended 31 July, 2005 of \$16.5 million, an increase of 71% on the previous year.

A number of strategic acquisitions have occurred during the year under review namely, in Media, Telecommunications Infrastructure and Retail Communications. These investments are designed to increase the potential for SPT's future growth.

The NBN Television Group, acquired from the parent company on 1 August, 2004, contributed a net profit after tax of \$8 million to SPT's result, based on revenue growth of 6.5%. NBN's strength in News has underpinned its ratings where it continues to dominate in the region.

The business and assets of Comindico Limited were acquired by the SPT Group on 1 December, 2004 and subsequently 50% was sold to B Digital Limited on 31 May, 2005 under the terms of the Strategic Alliance with B Digital Limited. B Digital Limited is one of Australia's largest consumer retail service providers with over 550,000 mobile, fixed line and internet customers.

The Strategic Alliance with B Digital involved the sale by SPT of 50% of SPTCom Pty. Limited, which had acquired the Comindico Limited business, and 100% of Kooee Communications Pty Limited. The sale proceeds comprised 240 million shares in B Digital Limited and cash of \$13.75 million. Subsequently, SPT acquired a further 115 million B Digital shares and now holds 42.9% of the share capital of B Digital Limited.

B Digital Limited recently announced a profit after tax, before goodwill amortisation, of \$24.6 million for the year ended 30 June, 2005.

SPT has announced a fully franked final dividend for the year ended 31 July, 2005 of 1.2 cents per share which, together with the interim dividend of 1 cent per share paid in May, 2005, gives a total fully franked dividend distribution for the year of 2.2 cents per share.

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

In its third year of operations PCP has achieved a net profit after tax of \$8.6 million, an increase of 406% over the previous year. Revenue grew to \$19.1 million for the year. The outstanding performance was mainly due to success in both the capital raising and mergers and acquisitions field.

During the 2005 year PCP undertook 6 major placements and underwritings and raised approximately \$400 million. In mergers and acquisitions PCP acted on 6 mandated corporate finance projects with a transaction value in excess of \$1.2 billion.

Rundle Capital, PCP's 53% owned subsidiary based in South Australia, had a successful year with revenues growing to approximately \$1.4 million and, in what is seen as a strategic long term move, PCP has also invested in the establishment of an Asian subsidiary, Pitt Capital Partners Asia Limited based in Hong Kong.

***Funds Management – Souls Funds Management Limited (SFM) (Group shareholding 63.3%)***

SFM recorded a profit after tax of \$773,820 compared with \$292,193 for the previous year. Funds under management increased during the year by 132% to \$543 million and continued growth is expected in the year ahead. Investments in business systems and additional staff is planned for the 2006 year to ensure SFM is well placed to service existing and new clients and to take advantage of significant opportunities over the medium to long term.

***KH Foods Limited.***

KH Foods Limited (KHF) is listed on the Australian Stock Exchange (ASX Code KHF) and the Group has a 52.2% shareholding.

KHF has reported a disappointing loss after tax and non regular items of \$17.3 million. The non-regular items included re-structuring costs of \$14.9 million and profit on the sale of assets of \$20.3 million. The majority of KHF's assets are now within the baking industry.

The operating results from the cake and savoury divisions are behind original forecasts due to the delays in installation of the new bakery plant and equipment. This delay contributed significantly to an inability to benefit from the revised cost base and sales activity. Operating losses have been higher for longer than anticipated.

KHF's operational focus over the past 12 months has been on capacity building and consolidation of its baking plant and equipment. The upgrade of KHF's baking plant and equipment has now been completed and the business is now experiencing the benefits of a lower cost base combined with increased sales.

**End document**