

Washington H. Soul Pattinson and Company Limited

A.B.N. 49 000 002 728

Review of Operations

Year Ended 31 July, 2004

CONSOLIDATED RESULT

The Profit of the Group, **after tax before non regular items**, attributable to shareholders for the year ended 31 July, 2004 was \$81.5 million, an increase of 3.6% over the previous year. Solid performances from the Group's coal operations, telecommunications and media, and our equity accounted associate Brickworks Limited, have again been the main contributors to the increase in profit.

The Profit of the Group, **after tax and non-regular items**, was \$155.9 million, an increase of 76.6% over the previous year. Profit on non regular items was \$74.4 million.

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

	2004	2003		%
	\$000	\$000		Change
Sales	392,854	340,624	+	15.3%
Profit after tax before non regular items	81,508	78,706	+	3.6%
Profit after tax and non regular items	155,925	88,307	+	76.6%
Share of Net profits of Associates	78,489	41,620	+	88.6%
Earnings per share	65.3c	37.0c	+	76.6%
Final Dividend	12.0c	10.0c	+	20.0%
Interim Dividend	8.0c	7.0c	+	14.3%
Total Dividends (excluding Special Dividends)	20.0c	17.0c	+	17.6%

DIVIDENDS

Directors recommend the payment of a final dividend of 12 cents per share in respect of the year ended 31 July, 2004 (2003 – 10 cents). On 16 June, 2004 Directors announced that, arising from the sale of NBN Television to SP Telemedia Limited, two special dividends of 10 cents per share would be paid at the same time as the final dividend in 2004 and 2005. Accordingly, this year, the final dividend and the special dividend will be paid on 29 November, 2004 and both dividends will be fully franked. The record date for the final and special dividends will be 27 October, 2004.

INVESTMENTS – Share Portfolio

The Company's portfolio of investments, which includes the Group's listed controlled entities and associated companies, returned 48.3% for the year after including unrealised capital gains, compared to the Benchmark S&P/ASX 300 Accumulation Index of 18.2% for the same period.

The market value of the listed investment portfolio, including listed controlled entities and associates, was \$1.91 billion as at 31 July, 2004 compared with \$1.15 billion last year, an increase of 66.1%.

During the year a net \$25 million was invested in the equity market which included a net \$16 million for the rights issue by SP Telemedia Limited. The main purchases were Huntley Investment Co. Limited, Trust Company of Australia Ltd, Bank of Queensland Ltd and Ruralco

Limited. Disposals included WMC Resources Ltd., Sabre Group Limited, Abigroup Limited and Prudential Investment Co. of Aust. Ltd.

Dividend income from investments, excluding controlled entities and associates was \$12 million.

INVESTMENTS – Associated Entities

Australian Pharmaceutical Industries Limited (API) (Group shareholding 23.2%)

Despite continued revenue growth API's net profit after tax for the year ended 30 April, 2004 declined 21.7% to \$18.4 million. The decline in profit was attributable to the delay in return to production at the Kingsgrove manufacturing plant following the voluntary suspension of the Company's TGA licence, higher redundancy costs from the API Pharmacy restructure and the inclusion this year of a charge relating to the development of a new information and warehouse management system.

To conform to the new standards set for all pharmaceutical manufacturing plants in Australia, API has decided to build a new manufacturing plant on the existing Kingsgrove site at a cost of \$10 million. As a result of compliance with the new TGA standards the number of pharmaceutical manufacturers will reduce and the investment in new manufacturing plant will enable API to maximize their market position and take advantage of the new conditions. The current plant will continue to operate until the new facility is completed in April, 2005.

The Group's equity accounted profit from API amount to \$4.2 million compared with \$5.6 million in 2003.

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

On 6 September, 2004 API announced the acquisition of New Price Retail (NPR) for \$112.4 million. NPR is the holding company for Priceline, Priceline Pharmacy, House and Price Attack.

API believes the acquisition will deliver a fast track retail-led strategy for API, enhance its wholesale, manufacturing and distribution capabilities whilst allowing for the continuation of NPR's strong growth and the delivery of best practice specialist retail services to NPR franchisees. The acquisition is expected to be earnings per share positive in year one.

As consideration for the acquisition, API will issue 33.5 million shares and debt funded cash of \$28.7 million.

Brickworks Limited (Brickworks) (Group shareholding 49.8%)

National building products company Brickworks Limited's net profit after tax for the year ended 30 June, 2004 was \$157.4 million, an increase of 116%.

The main factors contributing to the result were the acquisition of Bristle Limited, which helped lift building products sales 170%, higher contributions from property and its equity accounted associate Washington H. Soul Pattinson & Co. Limited and the sale of its investment portfolio to Brickworks Investment Company Limited.

Excluding non-regular items such as the sale of the investment portfolio and various one-off costs, net profit after tax for the year was up 16.3% to \$74.2 million.

Earnings per share increased by 107% to 114.3 cents (55.2 cents previously) and Directors are recommending a final dividend of 15 cents per share fully franked, taking the full year dividend to 24 cents per share fully franked, an increase of 20% on the previous year.

Brickworks level of borrowings to fund the Bristile Limited acquisition was reduced by more than half during the year, decreasing from a peak of \$566 million to \$276 million, assisted by the sale of the investment portfolio and the successful \$165 million issue of reset preference shares called PAVERS.

The past year has been a landmark for Brickworks as it made the transition from a state-based clay products and investment company to a national building products business with national branding and a presence in all Australian States. Brickworks is now structured so that approximately two thirds of its profit comes from building products with the remainder from non-building cycle sources.

Bristile Limited has been integrated successfully and proven to be a natural fit in terms of corporate culture, product lines and markets. The roll out of the new national brands, Austral Bricks for bricks, Bristile Roofing for roof tiles and Eureka for floor tiles, is nearing completion.

With trading conditions being much stronger than many had forecast, Brickworks increased its EBITDA sales margin to 19.4% from 17.5% and achieved record export sales (up 137%), following the inclusion of Bristile's export sales, with unprecedented growth in New Zealand where demand stretched the ability to supply.

Brickworks program of realising property assets surplus to its building products business encompasses rezoning and development in partnership with other groups. In excess of \$15 million has been received as deposits during the year, however, the long lead time to completion is delaying recognition of profit. Brickworks earned \$9.6 million from property disposals in the current year.

The Waste Management Division continued strongly during the year with royalties in excess of \$1.6 million received from the Horsley Park waste facility.

The Group's equity accounted profit from Brickworks amounted to \$60.7 million compared with last year's result of \$22.3 million.

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

Clover Corporation Limited's profit for the year was \$1.2 million which is an increase of 168%. The improved earnings are due to increased sales of Omega³ DHA oils and microencapsulated powders during the year. Sales for the year ended 30 June, 2004 reached \$17.1 million a 54% increase over last year of \$11.1 million.

The 2004 result is lower than forecasts primarily due to lower sales from the UK and Europe and the inability of Martek to supply Arasco oil which is a key ingredient to Omega³ DHA enriched infant formula. Based on the most recent information received from Martek, oil supply will not return to normal until after November, 2004. On the marketing side Clover continues to work closely with large multinationals in Australia and overseas. In Scotland a new Omega³ DHA enriched orange juice branded 'Supajus' has been released which is targeted at the school canteen market and supported by the government's 'green machine' campaign which is aimed at providing a more health conscious diet to Scotland's school children. The product, which has a unique packaging design is now being considered by a number of UK supermarket chains. In Australia, interest in Omega³ DHA fortified breads continues, with all prominent bakeries seeking to launch products based on the success of GWF Tip Top Up range and GF Wonder White, to name a few. Clover is seeking to broaden the Omega³ DHA range with several projects set to meet the spring retail launch window in August/September. The

Page 4 of 8

meat industry continues to show interest in both domestic and international markets. Infant nutrition trends continue to assist Asian sales growth.

The awareness level of Omega³ DHA and its health related benefits continues to grow in the USA. To capitalise on this trend a US based Development Manager has been appointed during the year. Currently there are at least 6 multinationals who have various trials underway using Clover's Omega³ DHA products. Results from a number of these trials look promising.

As the health benefits of Omega³ DHA have become widely known worldwide a number of competitive products have been introduced to the market. Clover continues to refine its product to ensure the quality remains at the highest level. However, a number of less expensive products are now available which has caused Clover to look for alternative less costly sources of Omega³. The research continues to ensure Clover has a product offering across all markets.

Clover's JV with Austgrains, to manufacture and market a unique soy flour, is well underway with civil works having commenced on site in Moree. The manufacturing plant is expected to be commercialised during February, 2005. A pilot plant has been installed and commissioned which allows Clover's R&D staff to work on technology applications in the bakery, cereal and beverage areas. Marketing has commenced with a view to having a number of potential customers ready to take product early in the 2005 calendar year.

Clover has declared a maiden dividend of 1 cent per share payable on 30 November, 2004 and expects the dividend will be 38% franked.

The Group's equity accounted profit from Clover amounted to \$116,000 for the year.

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 63.4%.

The Group's share of net profit after tax and outside equity interest of NHC amounted to \$38 million, an increase of 49.6% over the previous year.

For the year ended 31 July, 2004, NHC's profit after tax and outside equity interests was \$59.4 million compared with \$36.7 million for the previous year. The improved profit was due to increased coal production and sales and operating efficiencies combined with higher coal prices in U.S. dollar terms. An offsetting factor was the strong appreciation in the Australian dollar against the U.S. dollar during the period, which impacted adversely on results from the overseas operations.

NHC's profit also included a number of non-regular items including \$13.6 million after tax from the settlement of a handling contract through PT Indonesia Bulk Terminal, \$2.5 million profit on the sale of NHC's interest in Minerva Coal Pty. Ltd. and a \$2.3 million benefit on implementation of tax consolidations.

The NHC Board is recommending the payment of a final dividend of 1.5 cents per share in addition to the previously paid interim dividend of 0.75 cents per share.

Combined coal production of New Hope and its associate P.T. Adaro Indonesia totalled 27.7 Mt compared with 24.9 Mt in the previous year, an increase of 11.2%. Coal sales increased to 28.0 Mt from 25.3 Mt previously.

Bulk handling operations of NHC's associates, Queensland Bulk Handling Pty. Ltd. and P.T. Indonesia Bulk Terminal contributed positive results despite a slightly reduced combined throughput of 10.6 Mt compared with 10.7 Mt in the previous year.

Australian Operations

NHC Australia's after tax profit for the period was \$21.9 million compared with \$15.5 million in the previous year. This was achieved despite the adverse impact of the Australian dollar appreciation against the U.S. dollar affecting export results, although offset by hedging and contractual coal price increases after March, 2004

Coal production increased to 3.3 Mt from 2.8 Mt as a result of the first full year's production from the New Acland mine achieving 2.1 Mt – better than its design capacity of 2.0 Mt. Coal sales increased to 3.4 Mt from 2.9 Mt last year with a sales split of 44% domestic and 56% export.

Overseas Operations

NHC's overseas interests include P.T. Adaro Indonesia (Adaro) (40.8% shareholding) and P.T. Indonesia Bulk Terminal (IBT) (50% shareholding), both located in South Kalimantan, Indonesia. NHC's associate, Vindoor Investments (Mauritius) Ltd. owns Coaltrade Services International Pte. Ltd. (Coaltrade) with operates independently in Singapore and specialises in coal marketing, blending and trading.

The overseas operations contributed an after tax profit of \$37.5 million to NHC for the year ended 31 July, 2004 compared with \$21.2 million in the previous year. The increased profit included a non-regular item after tax amounting to \$13.6 million received as payment for the cessation of contractual obligations with P.T. Paiton Energy and reflected improved U.S. dollar coal prices received by Adaro, despite the adverse effect of the Australian dollar appreciation.

During the year Adaro increased production of coal to 24.4 Mt from 22.1 Mt in the previous period, representing an average daily production of 67,500 tonnes, 8,000 tonnes per day more than the previous year. Sales reached 24.5 Mt compared with 22.4 Mt previously with domestic sales of 9.0 Mt and export sales of 15.5 Mt. Demand for Adaro's clean 'envirocoal' remains strong with the mine production fully contracted for next year.

During the year Adaro continued to upgrade its infrastructure including commencement of chip-sealing its haul road and ongoing expansion work at the river loading port at Kelanis.

IBT produced satisfactory results handling 7.4 Mt on coal during the period (7.2 Mt in 2003). With the receipt of additional abnormal funds and the existing repayment schedule, debt was reduced to US\$17.5 million during the year. Since the end of the financial year, the decision was made to repay the remaining debt from internal cash flows in August, 2004.

Coaltrade, due to expanding market relationships in Southern China and strong market demand, traded 7.1 Mt of coal (3.4 Mt in 2003) and produced a solid contribution to profits.

Media - NBN Limited (NBN)

NBN's profit after tax was \$7.5 million compared to \$5.8 million last year, an increase of 30%. The increased profit was due to a buoyant advertising market with a 9.6% increase in revenue for the year.

The national advertising market, which represents in excess of 60% of NBN's advertising revenue, has experienced an extended period of growth, and NBN's national revenue growth for the year of 12.1% reflects this trend.

NBN's dominant position in its Northern NSW market is reflected by a 44% market share of revenue – considerably higher than the average for the Nine Network stations Australia wide.

The year was important from a business development perspective, with a major investment in state of the art digital post production facilities, and the construction of Australia's first High Definition Digital Outside Broadcast Unit. These facilities are expected to provide increasing profit streams in the new financial year.

As previously announced, and following shareholder approval, the NBN Group was sold to SP Telemedia Limited with effect from 1 August, 2004 for a cash consideration of \$80 million and 44,217,688 shares in SP Telemedia Limited valued at \$1.47 each.

Telecommunications - SP Telemedia Limited (SPT)

SPT is listed on the Australian Stock Exchange (ASX Code SOT) with the Group's shareholding being 44.5% on 31 July, 2004.

As mentioned above, following shareholder approval in June, 2004, SPT acquired the NBN Group from the parent company with settlement occurring subsequent to the end of the financial year end on 1 August, 2004. Following the acquisition SP Telecommunications Limited changed its name to SP Telemedia Limited.

To fund the NBN acquisition, SPT carried out a 4-for-9 rights issue to shareholders at \$1.05 per share. At the conclusion of the transaction the parent company now holds 52.2% of the enlarged share capital.

SPT's profit after tax for the period attributable to shareholders was \$9.7 million, an increase of 66% over the previous year. Earnings per share (adjusted for the new shares issued at year end) were 5.4 cents per share compared with 3.2 cents last year. The increase in profit can be attributed to the continued profit growth from SPT's joint ventures via SPT Telecommunications Pty. Limited and Kooee Pty. Limited.

SPT has announced a final dividend for the year ended 31 July, 2004 of 0.75 cents per share on the enlarged share capital which, together with the interim dividend of 0.75 cents per share paid in April, 2004, gives a total dividend distribution for the year of 1.5 cents per share. This represents a payout ratio of approximately 40% of the profits after tax for the year.

SPT's subsidiary Soul Pattinson Telecommunications Pty. Limited currently operates Australia's second largest regional broadband access network extending from Melbourne to Cairns and the joint venture with ntl Telecommunications has enabled the creation of this extensive network.

SPT's other subsidiary, Kooee Communications Pty. Limited, holds a 50% interest in a joint venture with WIN Television which offers an extensive range of mainstream telecommunications products and services to both domestic and business markets.

SPT continues to expand geographically in network coverage and in products and services, particularly in the data telecommunications market. The quality of SPT's products is highlighted by their appointment as preferred State Government supplier in Queensland, New South Wales and Victoria. SPT has recently secured a major Government contract in South Australia and is creating a presence in Canberra to target the Federal Government market.

Merchant Banking – Pitt Capital Partners Limited (PCP) (Group shareholding 50%)

Following a successful year PCP reported a profit after income tax of \$1.7 million for the year ended 31 July, 2004 a 250% increase over the previous year.

PCP is a licenced Dealer in Securities and provides advice and expertise in all major facets of corporate advice. During the year PCP advised and or implemented a number of the Group's major strategic initiatives as well as acting for an expanding client base.

PCP, through its partly owned subsidiary Rundle Capital has opened offices in Adelaide and, since balance date, has established an Asian presence with the formation of Pitt Capital Partners Asia Ltd. in Hong Kong.

Funds Management – Souls Funds Management Limited (SFM) (Group shareholding 63.6%)

The Company acquired its investment in SFM (formerly Veritas Investment Management Limited) in September, 2003 when it had \$20 million under management. At the end of the current financial year this had grown to \$234 million. SFM recorded a profit after tax for the year of \$292,000 and declared a maiden fully franked dividend of 8.0 cents per share.

SFM's Souls Australian Equity Fund recorded a return of 20.2% for the year compared with the S&P/ASX All Ordinaries Accumulation Index of 18.8%. The Souls Australian Small Companies Fund returned 38.1% compared with the S&P/ASX Small Ordinaries Accumulation Index return of 22.6%. These strong returns have continued into the new financial year, however, it is unlikely that the quantum of returns will be repeated for the duration of 2005.

The strong investment results have led to a growth in funds under management late in the financial year and it is expected this trend will accelerate as SFM's investment and management capabilities become increasingly recognised.

Cromford Pty. Limited

Cromford Pty. Limited are recyclers of post industrial and post consumer waste plastics for use in the building industry.

Despite a drop in sales revenue and the strong Australian dollar continuing to favour imported products, Cromford Pty. Limited was able to increase profit after tax by 18% to \$989,145 for the year.

Polythene dampcourse again proved to be the backbone of the operation with steady growth in market share and the penetration of the New Zealand market where Cromford Supercourse 500 is now the preferred dampcourse in housing construction.

Keith Harris & Co. Ltd.

Keith Harris & Co. Ltd. is listed on the Australian Stock Exchange (ASX Code HAK) and the Group has a 58.7% shareholding.

Keith Harris & Co. Ltd. has reported a net loss after tax for the year of \$449,000 (2003 profit \$2.7 million). The loss was attributed to the expected trading loss in Balfours Australia, in which Keith Harris acquired a 63% shareholding on 1 December, 2004, and subsequent non-recurring restructuring costs relating to Balfours Australia.

Balfours was established in South Australia in 1853 as a small family-owned business manufacturing biscuits and cakes and is now the largest fresh bakery in Australia with manufacturing facilities in South Australia, New South Wales and Victoria.

Subsequent to the end of the financial year Keith Harris has acquired the Western Australian based bakery business of Mills & Ware and also arranged to acquire the 37% minority interest

in Balfours Australia. These corporate changes will result in the major proportion of the Company's assets being in the baking industry.

The Flavours and Fragrances Division produced increased profits during the year despite higher than expected start-up costs in the new Indonesian operation and negative exchange rate variations.

The Juice Division, which marketed the Orchy brand in New South Wales and Queensland, was sold on 30 June, 2004 and realised a profit of \$2.7 million.

Keith Harris' investment portfolio performed well during the year with dividend income increasing by 17% over last year. The market value of the portfolio at year end was \$16.2 million.

Keith Harris & Co. Limited has declared a fully franked final dividend of 12.5 cents per share.

End document