

Washington H. Soul Pattinson and Company Limited

A.B.N. 49 000 002 728

Review of Operations

Half Year Ended 31st January 2008

CONSOLIDATED FINANCIAL PERFORMANCE

The Profit of the Group, **after tax and non regular items**, was \$45.4 million, an increase of 17.1% over the previous corresponding period. The profit on non regular items of \$1.4 million arose mainly from gains on disposals of investments which were partially offset by net write downs and losses attributable to minority interests absorbed by the parent entity, both of which related to KH Foods Limited.

The Profit of the Group, **after tax before non regular items**, attributable to shareholders for the half year ended 31 January, 2008 was \$44.0 million, a decrease of 3.2% over the previous corresponding period. This decrease of \$1.5 million was mainly attributable to reduced earnings from the equity market and the absence of earnings from the media business which were partly offset by reduced trading losses in KH Foods Limited and improved results by associates.

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

	2008	2007	%
	\$000	\$000	Change
Revenue from continuing operations	393,511	365,889 *	+ 7.6%
Profit after tax and non regular items	45,407	38,784	+ 17.1%
Profit after tax before non regular items	43,987	45,456	- 3.2%
Share of net profits of Associates	15,923	11,286	+ 41.1%
Earnings per share	19.0c	16.3c	+ 17.1%
Interim Dividend	12.0c	11.5c	+ 4.3%

* restated for KH Foods Limited and media operations now classified as discontinued

INTERIM DIVIDEND

Directors have declared an interim dividend of 12 cents per share in respect of the half year ended 31 January, 2008, an increase of 4.3% over last year's interim dividend of 11.5 cents per share. The dividend will be fully franked and payable on 8 May, 2008.

SUMMARY

Brickworks Limited (Brickworks)

Brickworks announced a solid normalised profit for the first half of \$40.3 million, up 9.7%. Given the downturn in the building industry the result shows the benefit of Brickworks' diversification with their Land and Development division income up 102.3% at the EBIT level.

Brickworks will pay a fully franked interim dividend of 12.5 cents per share.

New Hope Corporation Limited Group (New Hope)

New Hope recorded a 9.4% increase in operating profit from its coal and port operations for the half year. Total profit for the half was down by \$3.5 million, significantly less than the one-off \$6.6 million gain on the sale of surplus land included in last year's result.

New Hope will pay a fully franked interim dividend of 2.25 cents per share.

With increased tonnages and the strong coal price it is likely, subject to exchange rates and final price negotiations, that the operational profit in the second half will be greater than for the first half of the year.

SP Telemedia Limited (SPT)

SPT's profit from continuing operations after tax for the period was \$2.5 million. The profit was affected by a number of one-off costs in the company's consumer operations.

SPT's strategy has been to participate in industry consolidation and to this end the merger with TPG Holdings Limited (TPG) announced in February 2008 (subject to shareholder approval) places the company in a stronger position post the transaction. The merger is earnings per share accretive to shareholders before synergies with EBITDA in excess of \$100 million forecast for 2009 from the merged group.

SPT continues to perform well in the corporate and government sectors and is continuing to build new business at a steady rate.

SPT will pay a 2.4 cents per share fully franked special dividend subject to the TPG transaction being approved.

Australian Pharmaceutical Industries Limited (API)

In early February API made an announcement to the market regarding its trading performance for the period September 2007 to January 2008, the first five months of its new financial year. Group sales for the period grew 18% compared to the same period last year with the Pharmaceutical distribution business up by 23% and the Retail division up by 7.5%.

With the integration of the Alphapharm distribution business, API is now the largest pharmaceutical distributor in Australia.

KH Foods Limited (KHF)

KHF continued to record losses albeit smaller than in previous periods. After careful consideration the KHF board, with the endorsement of the Washington H. Soul Pattinson and Company Limited (WHSP) board, will divest the last of its baking operations.

WHSP is extremely disappointed with this investment and the impact its losses have had on the Group's performance over the past four years.

INVESTMENTS – Share Portfolio

The Equities Market

The Australian equities market has been particularly volatile recently as demonstrated by the 11.3% reduction in the All Ordinaries Index between 31st December 2007 and 31st January 2008. The market values of the Group's and the Company's listed investment portfolios have reflected this volatility.

Group

The total decrease in the market value of the listed investment portfolio, excluding controlled entities and associates was \$190.7 million for the half year. Of this, \$134.0 million relates to the Group's strategic investment in Arrow Energy Limited (Arrow). The members' share of the total decrease in value was \$138.6 million of which \$81.9 million relates to Arrow. Under the Group's accounting policies this movement is transferred, net of tax, to the asset revaluation reserve.

Holding Company

The market value of the listed investment portfolio, including controlled entities and associates, was \$2.4 billion as at 31 January, 2008, compared to \$2.8 billion at 31 July, 2007 and \$2.4 billion at 31 January, 2007.

Excluding controlled and associated entities, the market value of the listed investment portfolio decreased by \$56.4 million to \$485.4 million. Under the Group's accounting policies the movement in market values is transferred to the asset revaluation reserve.

During the half year \$9.4 million was invested in the equity market, including shares acquired as a result of takeovers. Purchases of shares in controlled entities and associates totalled \$5.0 million. Proceeds from disposals totalled \$12.2 million including cash and shares of \$10.7 million received as a result of takeovers. Gains on disposals for the period were \$6.4 million before tax.

Dividend and distribution income from the investment portfolio, excluding special dividends and dividends received from controlled and associated entities, was \$11.6 million, up 17.1% on the same period last year. Special dividends received were down by \$2.2 million for the 6 months.

INVESTMENTS – Major Associated Entities

Brickworks Limited (Brickworks) – (49.5% held*)

Brickworks posted a normalised net profit after tax for the half year to January 2008, up 9.7% at \$40.3 million, compared to \$36.7 million for the half year ending January 2007.

The result continues to highlight the growing diversification of Brickworks earnings and its three divisions of Land and Development, Building Products and Investments.

Normalised earnings per share increased to 30.4 cents for the half year ended January 2008, up from 27.7 cents, for the half year ended January 2007.

Directors have declared an interim dividend of 12.5 cents fully franked, up 4.2% from 12.0 cents the previous half year.

* Percentage of the issued capital of the company held by Washington H. Soul Pattinson and Company Limited as at 31st January 2008.

The Building Products division result, currently representing approximately only 37% of the Company's earnings, was impacted by a number of one-off events including significant east coast rainfall, plant closures for stock control, gas shortages in Western Australia and the transition from Scoresby to Wollert in Victoria.

Housing construction affordability continues to decline with interest rates increasing and limited access to affordable land in many markets. We expect the building industry will continue to face difficult trading conditions until interest rates start trending down and housing affordability improves.

The Land and Development division exceeded the profit of Building Products, highlighting Brickworks' decreasing reliance on both bricks and the Australian residential housing market. The half year results produced a total profit before tax of \$26.3 million for the division. This represents an increase of 102.3% over the profit achieved in the half year to 31 January 2007 of \$13.0 million. The recent sale of Eastwood in Sydney was partially realised in this figure. The sale of Scoresby in Victoria will be completed in three stages scheduled for May, July and December this year. The value of the property trust, a 50:50 joint venture between Brickworks and Goodman International increased in value to \$104.0 million.

Brickworks' associated entity Brickworks Investment Company Limited (18.0% held at 31 January 2008) has reported a net profit after tax of \$13.4 million to 31 December 2007 compared to \$6.5 million in the six months to 31 December 2006, an increase of 105.4%.

Following enquiry at the Annual General Meeting, the board of directors of WHSP is satisfied with the Company's investment in Brickworks.

As a result of WHSP's 49.5% holding in the issued capital of Brickworks, Brickworks contributed \$12.1 million to the net profit of the Group (2007 \$10.1 million).

Australian Pharmaceutical Industries Limited (API) – (21.7% held*)

API has changed its financial year of 1 May - 30 April to 1 September - 31 August. The transition to its new financial year required the company to report a transitional period result for the four month period of 1 May to 31 August.

For the four month period API reported revenue of \$940.3 million, a 7.8% increase on last year and an EBITD of \$17.2 million. Excluding associates, API recorded a profit after tax of \$3.0 million however Clifford Hallam Healthcare and MLE over which API had no operational control recorded a combined loss of \$5.6 million. As a result API recorded a final after tax loss for the period of \$2.6 million.

API's underlying business of pharmaceutical distribution and health and beauty retailing has made good progress over the past twelve months. The pharmaceutical distribution business reported a 9% increase in sales revenue during the transitional four month period and continues to increase market share in all states. For the same period the Retail division recorded a solid 6% increase in sales.

On the 8th October 2007 API announced that it had become the preferred national distributor for Alphapharm, Australia's leading generic brand manufacturer. The generic pharmaceutical market

* Percentage of the issued capital of the company held by Washington H. Soul Pattinson and Company Limited as at 31st January 2008.

in Australia is valued in excess of \$800 million annual turnover and growing at 10% per annum. The Alphapharm distribution agreement places API in a strong strategic position as it is now the clear market leader in pharmaceutical distribution in Australia.

On the 7th February 2008 API provided the market with an update on its trading performance for the first five months of its new financial year (September'07 - January'08). Group sales for the period grew 18% compared to the same period last year. The Pharmaceutical distribution business grew sales by 23% and the Retail division reported a 7.5% increase over the same period last year.

The company advised that the integration of the Alphapharm distribution business had been a significant step for API and enabled them to provide their pharmacy customers with a more comprehensive offering. API also added that its Priceline Pharmacy store rollout continues and a well developed pipeline for 2008 will keep them on target for their growth plans.

Since July 2007 API has acted on its non-performing assets. The House and Price Attack franchise businesses have been sold, the MLE joint venture has been consolidated back into API and the company has exited its New Zealand joint venture. Although the Clifford Hallam Healthcare joint venture had a disappointing result for the four month transitional reporting period results for the new financial year are encouraging due to new management having initiated operational improvements in recent months.

As a result of WHSP's 21.7% holding in the issued capital of API, API contributed a \$0.6 million loss to the Group result (2007 \$3.7 million loss).

Clover Corporation Limited (Clover) – (28.6% held*)

Clover reported a net profit after tax for the six months ended 31st December 2007 of \$685,000 (last year \$80,000) on sales of \$9.4 million, a 24.4% increase on the same period last year.

During the six months under review Clover acquired the minority shareholding in joint venture company Nu-Mega Ingredients Pty Ltd (Nu-Mega), completed works at its oil refining plant to increase capacity and commercially released a new microencapsulated Hi-DHA powdered ingredient under the tradename 'Thermomax'TM.

In December 2007 Nu-Mega was awarded a five year renewable contract with Mead Johnson & Co USA to supply 50% of their Hi-DHA tuna fish oil and microencapsulated powder for product applications for children greater than twelve months of age. Sales have already commenced into South East Asia and significant forward orders have been received for the balance of this calendar year. Infant formula represents the major use of the company's Hi-DHA tuna oil powders where sales into Asia, particularly Indonesia, have been strong during the period under review. The company has recently commenced supply into Vietnam's major infant formula manufacturer.

Future Food Ingredients Pty Ltd (FFI), a 50% joint venture which produces bland flavoured soy ingredients continues to make steady progress. Although the company reported a loss of \$320,000 for the first six months the result compared favourably with last year's loss of \$684,000.

As a result of WHSP's 28.5% holding in the issued capital of Clover, Clover contributed \$200,000 to the net profit of the Group (2007 \$20,000).

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MAJOR CONTROLLED ENTITIES

New Hope Corporation Limited Group (New Hope) – (61.2% held*)

New Hope recorded a net profit after tax of \$36.6 million from its operations for the six months ended 31 January 2008. This was 9.4% higher than the 2007 half year operational result of \$33.5 million. Total profit attributable to New Hope shareholders for the 2007 half year was \$3.5 million higher than the current period but included a one-off \$6.6 million gain on the sale of surplus land.

Directors have declared an interim ordinary dividend of 2.25 cents per share fully franked.

New Hope's operations in South East Queensland produced 2.17 million tonnes of coal in the six months to 31 January 2008, a 21% increase on the 1.79 million tonnes produced in the prior corresponding period.

Coal sales for the six months to 31 January 2008 were some 2.3 million tonnes, approximately 20% higher than the 1.9 million tonnes sold in the first six months of the 2007 financial year. Export sales volumes for the six months to 31 January 2008 were 37% higher than the previous corresponding period, whereas domestic sales were slightly lower.

During the period, New Hope entered into a long-term agreement to supply its New Acland mine with recycled water from Toowoomba City Council's Wetalla Water Reclamation Facility. The agreement effectively 'drought proofs' the mine and allows for the mine's planned expansions into the future.

Higher coal prices have resulted in New Hope planning to recommence mining at the Jeebropilly operation in mid 2008 after ceasing mining operations in early 2007. The mine will operate at an initial rate of 500,000 tonnes per annum and will offset the closure of the New Oakleigh mine later this year or early next year.

New Hope acquired the remaining 50% of Queensland Bulk Handling Pty Ltd (QBH) on 1st August 2007 for \$42.5 million. QBH loaded 2.8 million tonnes of coal for customers in the six months to 31 January 2008, a 33% increase over the 2.1 million tonnes loaded in the previous corresponding period.

New Hope, through a share placement, purchased a further 8.57 million shares in Arrow Energy Limited during the half year. As at 31 January 2008 New Hope's interest in Arrow was valued at \$209.2 million, (based on a closing market price on 31 January 2008 of \$1.73 per share), representing an unrealised gain of some \$97.6 million.

Work continued on the Central Queensland exploration areas however wet weather curtailed some drilling.

The Saraji East, Lenton and Bee Creek projects located in central Queensland all have potential to produce coking coal with Saraji East the most significant economically and logistically.

As a result of WHSP's 61.2% holding in the issued capital of New Hope, New Hope contributed \$22.4 million to the net profit of the Group (2007 \$24.5 million).

* Percentage of the issued capital of the company held by Washington H. Soul Pattinson and Company Limited as at 31st January 2008.

SP Telemedia Limited (SPT) – (44.5% held*)

SPT achieved a net profit after tax from continuing operations in the six months to 31 January 2008 of \$2.53 million, compared to \$4.6 million for the corresponding period last year. During the half year SPT incurred a number of one-off adjustments and costs primarily associated with their consumer operations. Depreciation costs increased during the first half as the network expands. This along with the first time amortisation of advertising contra received as part of the consideration for the company's sale of its media operations further impacted on the result. The normalised net profit after tax from continuing operations for the half year was \$5.5 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the half year was \$12.2 million and on a normalised basis was \$15.3 million. During the half year SPT paid fully franked dividends of 1.2 cents per share amounting to \$4.9 million and announced on 7 February 2008 an intention to pay a further full franked special dividend, of 2.4 cents per share or \$9.7 million payable on 22 May 2008 to registered shareholders as at 17 April 2008 (subject to shareholders approving the TPG merger).

Total revenue from continuing operations in the current half year is \$203 million compared to \$207 million for the previous corresponding year.

On 7 February 2008, SPT announced the acquisition of 100% of the share capital of TPG Holdings Limited (TPG) for consideration of \$150 million and 270 million shares in SPT. TPG was established in 1986 and offers dial-up, ADSL and ADSL2+ internet solutions to consumers and small business. The proposed merger brings TPG's 238 owned DSLAMS together with SP Telemedia's converged voice and data network containing over 300 points of presence. The merged entity will have the enviable position of an extensive footprint of DSLAMS along with voice and data coverage to a large percentage of the Australian population. The acquisition is subject to the approval of shareholders at a meeting to be held on 7 April 2008. WHSP has announced its intention to vote in favour of the transaction. The Directors of SPT have advised the market that they unanimously support the merger with TPG. The transaction will be earnings per share accretive to SPT shareholders before synergies. The synergies achievable following the acquisition of TPG are compelling and will further enhance shareholder value in the future.

On 8 May 2007, SPT sold the NBN television media operations previously owned by the company for a consideration of \$250 million. The results for the half year ended 31 January 2008, therefore included no contribution from the media operations. It is expected that the TPG group will contribute more than 4 times the net profit after tax previously achieved by the media operations. The SPT Director's are of the view that the Company is now in a stronger position following these transactions.

In the second half of this financial year, management of SPT will consolidate the TPG and SPT consumer operations. This is expected to generate significant cost-savings and improved efficiencies in SPT's consumer operations. There will be further one-off costs incurred in the second half similar to that incurred in the first half in achieving the synergies and rationalisation of the consumer business. SPT continues to perform well in the corporate and government sector and is continuing to sign new business at a steady rate.

As a result of WHSP's 44.5% holding in the issued capital of SPT, SPT contributed \$1.2 million to the net profit of the Group (2007 \$4.5 million).

* Percentage of the issued capital of the company held by Washington H. Soul Pattinson and Company Limited as at 31st January 2008.

KH Foods Limited (KHF) – (86.6% held*)

KHF continued to record losses albeit smaller than in previous periods. For the half year ended 31 January 2008 KHF reported a loss of \$9.0 million. Trading losses accounted for \$4.8 million, a loss on the sale of grocery cake and Geelong route businesses along with closure costs of the Heidelberg head office amounted to \$1.4 million and asset impairment of \$2.8 million all contributed to the overall result. The Group reported a loss of \$14.0 million for the first half last year, all of which were trading losses.

During the period under review KHF completed the divestment of its grocery cake business to George Weston Foods Ltd and the Beaumont's route business to Routleys Bakery. The company also closed its head office in Melbourne during October 2007.

On 5 February 2008 the Group announced that it had agreed to divest its remaining two businesses, namely Balfours and Betabake to a company associated with the San Remo Macaroni Group (San Remo). As KHF is divesting its main (& last) businesses the ASX listing rules require the proposed divestments to be approved by its shareholders. WHSP, KHF's major shareholder with an 86.6% interest will vote in favour of the transaction and in doing so will end the continued losses which have flowed from this investment over the past four years. Both the WHSP and the newly constituted KHF board are working closely to determine the best outcome for both shareholder groups.

As a result of WHSP's 86.6% holding in the issued capital of KHF, KHF contributed a \$7.8 million loss to the Group result (2007 \$12.9 million loss).

End document

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