



Washington H. Soul Pattinson and Company Limited

ABN 49 000 002 728

Review of Operations

Year Ended 31 July 2007

CONSOLIDATED FINANCIAL PERFORMANCE

The profit of the Group, after tax and before non-regular items, attributable to shareholders for the year ended 31 July, 2007 was \$99.2 million, an increase of 5.6% over the previous year. Brickworks Limited produced a more than satisfactory result given the depressed housing market, particularly in New South Wales. New Hope Corporation Limited recorded a solid result due to higher coal prices and an increase in coal export volumes. SP Telemedia Limited reported an increase in profit for the year. The significant loss in KH Foods Limited affected the Group's overall result for the year. The Group profit on the sale of its media assets (NBN) in May 2007 was \$68.8 million.

The Profit of the Group, **after tax and non-regular items**, was \$130.2 million, an increase of 50.7% over the previous year.

Comparisons with the corresponding period last year (restated *) are as follows:-

	2007	2006*		%
	\$000	\$000		Change
Revenue from continuing operations	812,112	786,541	+	3.3%
Profit after tax before non regular items	99,192	93,944	+	5.6%
Profit after tax and non regular items	130,216	86,387	+	50.7%
Share of net profits of Associates	34,291	43,927	-	21.9%
Final Dividend	17.0c	16.0c	+	6.3%
Interim Dividend	11.5c	11.0c	+	4.5%
Total Dividends	28.5c	27.0c	+	5.6%

* 2006 comparatives have been restated for discontinued operations and policy changes.

DIVIDENDS

Final Dividend

Directors recommend the payment of a fully franked final dividend of 17 cents per share in respect of the year ended 31 July, 2007 (2006 – 16 cents).

The final dividend of 17 cents per share will be payable on 10 December, 2007. The record date for the final dividend will be 8 November, 2007.

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 2006	16.0	38,182	Fully Franked	4 Dec 2006
Special dividend 2006	15.0	35,796	Fully Franked	4 Dec 2006
Interim ordinary dividend 2007	11.5	27,444	Fully Franked	10 May 2007
Dealt with in the financial report as dividends	<u>42.5</u>	<u>101,422</u>		
Declared after the end of year				
Proposed final ordinary dividend 2007	<u>17.0</u>	<u>40,569</u>	Fully Franked	10 Dec 2007

REVIEW OF OPERATIONS

INVESTMENTS – Share Portfolio Group

The market value of the listed investment portfolio, excluding controlled entities and associates, increased by \$357 million to \$880 million as at 31 July, 2007.

Holding Company

The market value of the listed investment portfolio, including listed controlled entities and associates, was \$2.8 billion as at 31 July, 2007. Excluding controlled entities and associates, the market value of the listed investment portfolio increased by \$85 million to \$562 million. In accordance with group accounting policies, this increase is credited to the revaluation reserve.

During the year \$20 million was invested in the equity market and \$1 million was invested in the Souls Select Australian Share Fund. The main purchases were Apex Healthcare Berhad, Fairfax Media Ltd, Huntley Investment Company Ltd, Macquarie Bank Ltd, Mariner Pipeline Income Fund, and Trust Company of Australia Ltd. Proceeds from disposals and takeovers totalled \$10 million and included the sale of Fiducian Portfolio Services Ltd, Rural Press Ltd and Santos Ltd.

Dividend and Distribution income from investments, excluding controlled entities and associates, was \$23.6 million for the year, an increase of 29% on the previous year. Special and increased dividends from Brambles Ltd, Milton Corporation Ltd, Ruralco Holdings Ltd and Watty Ltd contributed to the increase.

INVESTMENTS – Associated Entities

Australian Pharmaceutical Industries Limited (API)

API recorded a loss for their financial year of \$11.5 million on sales of \$2.649 billion. The result for the year was seriously impacted by the level of one-off costs totalling \$30.5 million recorded at the half year and balance date. API directors have stated that a number of these costs may be related to prior years, they have however, been fully accounted for in the 2007 financial year.

The net profit performance in the second half of the year was a marked improvement on the first half result. A new management team has been able to focus on the continued rebuilding of the wholesale distribution business to the point where second half sales outperformed the same period in the prior year. At the same time API has continued to develop Priceline Pharmacy as the fastest growing retail brand in Australia which has grown by another 50 franchises in 12 months and now has 123 stores nationally. The company has a clear goal to build the Priceline Pharmacy store numbers to 400 over the next 4 years.

Overall API's results have shown improvements from the problems the company experienced in the first 6 months of the 2007 financial year with API stating that this positive momentum is likely to continue.

In keeping with focusing on core business opportunities API announced on the 24th July, 2007 the sale of its House franchise brand for \$8.5m.

Brickworks Limited (Brickworks)

Brickworks normalised net profit after tax for the year ended 31 July 2007 of \$102.2 million was up 0.3% compared to \$101.9 million for the year ended July 2006. The result was supported by a record EBIT from land and development of \$60.3 million and a steady building products EBIT of \$65.9 million.

Normalised earnings per share (EPS) increased to 77.0 cents for the year ended July 2007 (normalised EPS was 76.8 cents for the year ended July 2006).

Directors have declared a 4.0% increase in the final dividend to 26 cents fully franked, taking the full year dividend to 38 cents fully franked, up 5.6% from 36.0 cents the previous year.

Building product sales for the year ending July 2007 were up 7.0% at \$516.8 million compared to \$483.1 million in the year ending July 2006. Sales were supported by acquisitions. On a like-for-like basis sales were up 3.2%.

Capital expenditure totalled \$51.7 million in the year ended July 2007. Major projects during the year included the completed construction of the new brick plant in Wollert, Victoria and the upgrade of the existing brick plants in Golden Grove, South Australia and Bowral, New South Wales.

The Company's extensive capital expenditure and maintenance program continued during the year. The program has delivered many real benefits including production cost reductions and improved product quality, along with safety and environmental performance improvements.

During fiscal 2007, Brickworks expanded its portfolio of building product assets by acquiring the GB Masonry, Caloundra Blocks, Whitsunday Concrete & Block and Ary Masonry businesses for a total of \$40.0 million. Each of these was carefully targeted for their growth potential and strategic fit with Brickworks' existing business in Queensland.

Land and development generated a total profit of \$60.3 million for the year. The Brickworks land bank is expected to contribute strongly to future profits with a solid pipeline of developments.

Clover Corporation Limited (Clover)

Clover recorded a net profit for the year ended 30th June, 2007 of \$635,000 (2006: \$453,000), an increase of 40%.

The 2007 result was impacted by the expensing of \$831,000 in research & development costs relating to the investigation of microalgae as a source of omega³ oil and the development of an improved microencapsulation technology. The 2007 profit was also affected by the share of losses totalling \$534,000 in the 50% owned soy flour joint venture, Future Foods Ingredients Pty Ltd (FFI).

After disappointing sales in the first half of the financial year, due to the disruption of customers operations arising from an earthquake in Indonesia in mid 2006, revenue improved significantly during the second half.

FFI is Clover's 50/50 joint venture with Austgrains Pty Ltd which was formed to commercialise a new technology to produce bland flavoured soy ingredients manufactured from non-GM soybeans. FFI, though still in its early commercialisation phase, is developing a solid sales foundation for this business. The customer list for FFI soy based ingredients is growing quickly with a visible example being the long term contract secured to supply Nu-Soya flour to So Natural Foods Australia Ltd for use in their UHT soy milk products. In addition to Australian sales, significant export sales have now been secured in New Zealand and Asia.

On the 4th September, 2007 Clover announced that it had entered into a Heads of Agreement to acquire the minority interest in Nu-Mega Ingredients Pty Ltd (Nu-Mega). The transaction, which is subject to shareholder approval, will be considered by Clover shareholders at the company's Annual General Meeting which is to be held on the 27th November, 2007.

Nu-Mega is a joint venture between Clover (70%) and Nutra Spec Pty Ltd (Nutra Spec) (30%).

The proposed acquisition is being made at this time in response to Nutra Spec's desire to divest its equity and co-incides with Clover's plan to expedite Nu-Mega's strategy to expand its activities in international markets. Discussions are underway with several parties in relation to marketing Clover/Nu-Mega products in USA/UK and Europe.

CONTROLLED ENTITIES

New Hope Corporation Limited Group (NHC)

New Hope Corporation Limited (New Hope) reported a profit after tax from its coal mining and port operations of \$69.3 million for the year ended 31st July, 2007 compared with \$68.7 million recorded last year.

During the year under review saleable coal production increased to 3.838 million tonnes, an increase of 4% on last year. Coal export volumes rose 6% to 2.602 million tonnes while domestic sales were 4% lower at 1.266 million tonnes.

New Hope's associate company Queensland Bulk Handling (QBH) maintained a satisfactory profit performance with a new record throughput for the year of 4.526 million tonnes, up 7% on the same period last year. Unlike other ports on the eastern seaboard QBH operated with little disruption during the year with only one New Hope export shipment incurring a very small demurrage claim during the year. On the 1st August, 2007 New Hope acquired the remaining 50% equity in QBH and is now 100% owned. Preliminary design work on the potential future expansion of the port coal loading facilities has commenced.

New Hope continued its exploration activities during the year evaluating the New Saraji project located within the Bowen Basin of Central Queensland with an inferred resource of 678 million tonnes of coal, including hard coking coal and proving up reserves associated with the New Acland tenements. Other exploration projects undertaken during the year were at Lenton and Bee Creek, both tenements located southwest of Mackay, Central Queensland. Exploration work continued in support of the mining operation at New Acland. A new total Inferred Coal Reserve of 793 million tonnes, including 236 million tonnes of Marketable Reserves was confirmed in June 2007.

New Hope's exploration strategy is directed towards evaluating open-cut and underground coking coal resources in Central Queensland; open cut thermal coal in South East Queensland and evaluating coal as potential sources of gasification and liquefaction.

On the 10th September, 2007 New Hope advised that Tarong Energy Corporation Ltd (Tarong) had not exercised its option to purchase coal from New Acland commencing 2011. Coal supply to Tarong was one of a number of alternative growth opportunities New Hope had been evaluating for the New Acland mine. Since New Hope commenced negotiations with Tarong the price of coal on the world market has doubled in US Dollar terms. Tonnages previously reserved for Tarong can now be redirected to the more profitable export market.

New Hope has an 18.3% shareholding in Arrow Energy NL, a company with a portfolio of coal seam gas resources in Australia and throughout Asia. Already having supplied Queensland with 15% of its gas needs in 2006, Arrow's operated projects may supply up to 25% in 2007. As at the 31st July, 2007 New Hope's investment in Arrow Energy was valued at \$319.2 million representing an unrealised gain before tax of \$231.6 million.

New Hope has declared a final dividend of 2.5 cents per share for the year ended 31st July, 2007 and a special dividend of 3.0 cents per share, both fully franked 2007.

SP Telemedia Limited (SPT)

SPT announced a profit after tax of \$44.9 million for the year ended 31st July, 2007 compared with \$8.2 million for 2006. This result includes an after tax profit of \$31.9 million from the sale of SPT's NBN media assets in May 2007.

Operating profit after tax, including nine months trading by NBN, was \$13.1 million compared with \$8.2 million last year which included NBN's results for twelve months.

Profit after tax from SPT's continuing operations, excluding non-recurring significant items and amortisation of intangible assets increased by 39% to \$12.7 million. Operating cash flow from continuing operations increased by 40% to \$25.1 million.

SPT have advised that they continue to increase corporate and government business, winning new contracts in the last six months with a total annualised value of more than \$14.0 million. SPT continues to upgrade its infrastructure to attract new customers and increase margins with new ADSL2+, mobile 3G and SME products to be launched shortly.

SPT have declared a fully franked final dividend of 1.2 cents per share, unchanged from the previous year, payable on 15th November, 2007. The final dividend is in addition to the interim dividend of 1.2 cents per share and special dividend of 11.5 cents per share, both fully franked.

KH Foods Limited (KHF)

KHF has reported a loss for the period ended 31st July, 2007 of \$58.2 million. The disappointing result included a write-off and impairment of assets along with the provisioning for redundancy, lease payouts, bad debts and aged stock.

KHF is a manufacturer of cakes & savouries. Despite changes to management during this period the business has been unable to deliver on its original forecasts. In June 2007 the KHF board advised that the initiatives announced in December 2006 to curb the ongoing losses in the company had not been successful and the 2007 full trading year outlook was unlikely to show any improvement on the first half performance. Since that announcement the KHF board have taken steps to dramatically cut costs in all areas of its operation, including the closure of its head office in Melbourne planned for October 2007.

On the 14th August, 2007 KHF announced the sale of its cake business to George Weston Foods. The sale of the cake operations at Seaton (SA) and O'Connor (WA) resulted in an asset write-off. This asset write-off was included in the 2007 result as the accounting standards called for the directors to impair those assets as part of the KHF 2007 year-end adjustments. Subsequent to the sale of the cake business a small bakery in Geelong (Vic) has been sold to local interests.

KHF now operates a savoury manufacturing and route business at Dudley Park (SA) and Milperra (NSW).

KHF's poor performance had the single largest impact on the Washington H Soul Pattinson and Company Limited (WHSP) 2007 profit result.

Pitt Capital Partners Limited (PCP)

PCP is a merchant bank and through a team of experienced personnel provides specialist corporate advisory and corporate administrative services.

PCP recorded a net profit for the year ended 31st July, 2007 of \$5.6 million (2006: \$1.6 million), an increase of 250%.

During the year WHSP increased its direct shareholding in PCP to 75%.

End document