# WASHINGTON H SOUL PATTINSON & CO LIMITED

# 102nd Annual General Meeting

# 26th November 2004

# *Chairman's Address*

## *Group Performance – Consolidated Profit Results*

**Highlights:**

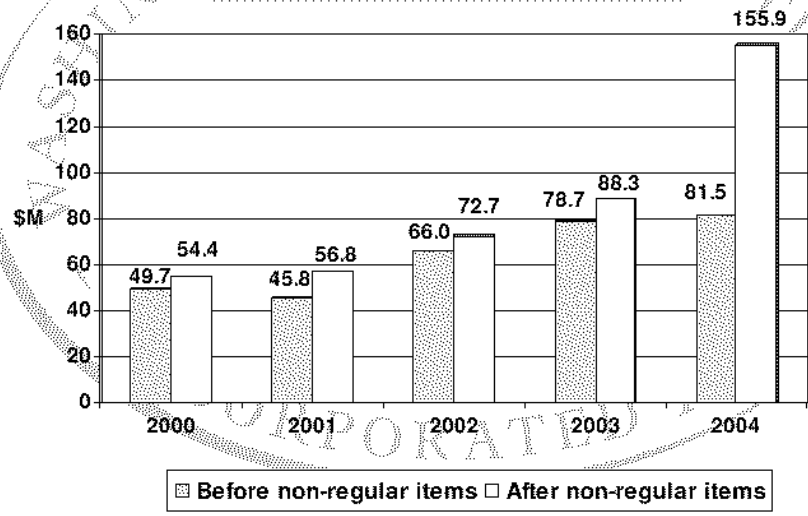
- **Profit After Tax and Non Regular Items $155.9M up 76.6%;**
- **Share of Net profits of Associates of $78.5M up 88.6%;**
- **48% Return from Investment Portfolio compared to the Benchmark S&P / ASX 300 accumulation Index of 18%;**
- **New Hope's profit after tax up 62% to $59 million;**
- **SPT's profit after tax up 66% to $9.7 million**

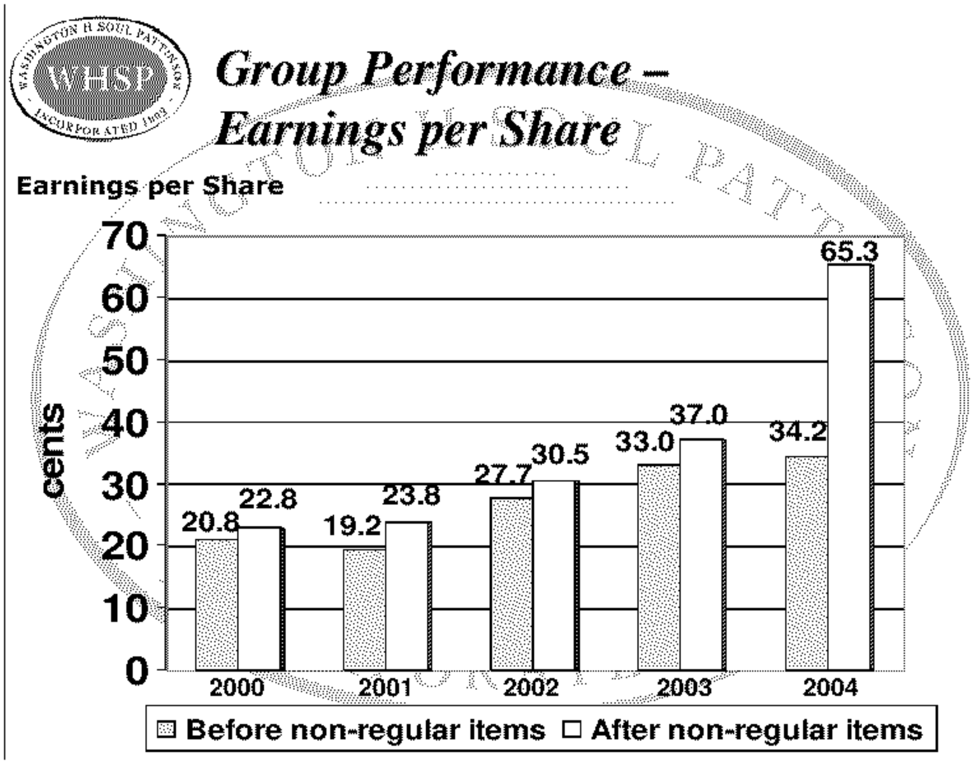
The Profit of the Group, **after tax and non-regular items**, was $155.9 million, an increase of 76.6% over the previous year. Profit on non regular items was $74.4 million.

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.

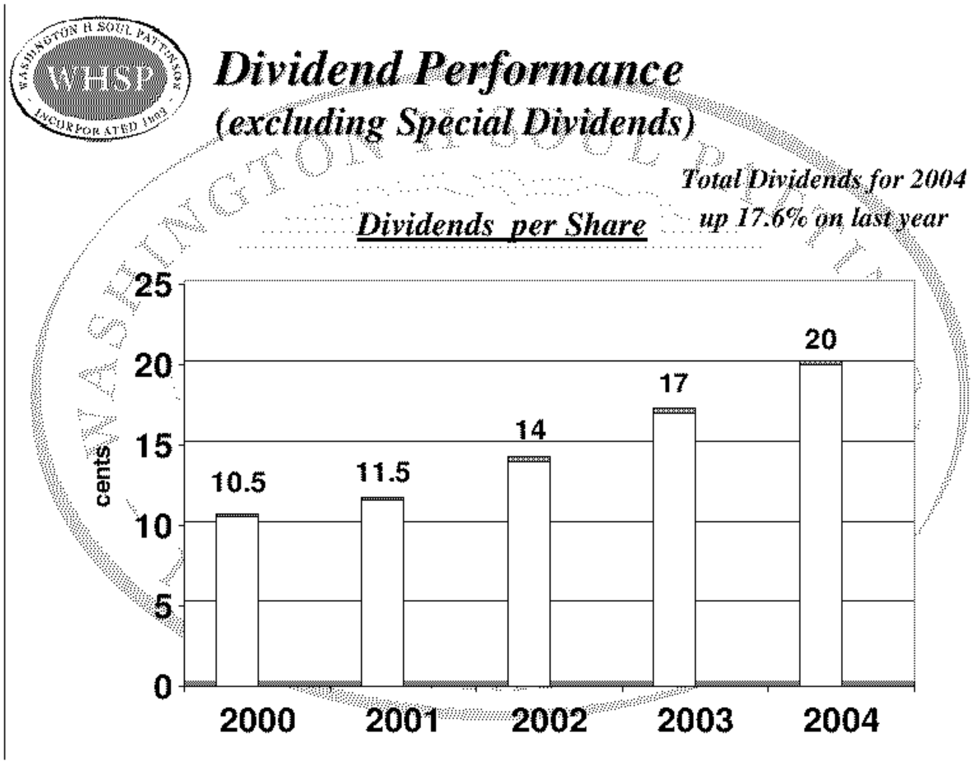
# *Group Performance – Consolidated Profit Results*

**Operating Profit After Tax and Outside Equity ($M)**






Earnings per share, after non-regular items, increased by 76% during the year.




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). The dividend will be fully franked and payable on 29th November 2004.

On 16th 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.

As can be seen from the above table, total dividends in respect of 2004 have increased by 18% and in the past 5 years have almost doubled from 10.5 cents per share to 20 cents per share.

# *Optimising value to Shareholders*

*SOL share price*

| 1/8/03 | 31/07/04 | % Move | 15/11/04 | % Move |
|---|---|---|---|---|
| $5.98 | $7.35 | 23% | $9.13 | 53% |

SOL's share price and market capitalisation has increased by 53% since 1st August 2003.

## *Optimising value to Shareholders*

| ASX Code | 01/08/03 | 31/07/04 | % Move | 15/11/04 | % Move |
|---|---|---|---|---|---|
| CLV | $0.64 | $0.32 | -50% | $0.35 | -45% |
| API | $2.53 | $2.50 | -1% | $3.30 | 30% |

Commencing with the ASX float of Clover Corporation Limited in 1999 the Board has followed a plan to optimise the value of the Group's assets in the hands of shareholders

2000 - Group's pharmaceutical manufacturing and wholesale assets sold to API. As consideration we were allotted API shares valued at $2.01 per share.

## *Optimising value to Shareholders*

| ASX Code | 01/08/03 | 31/07/04 | % Move | 15/11/04 | % Move |
|---|---|---|---|---|---|
| SOT | $1.07 | $1.45 | 36% | $1.69 | 58% |
| NHC | $0.40 | $1.14 | 185% | $1.35 | 237% |
| BKW | $8.15 | $10.30 | 26% | $11.05 | 37% |

2001 - SP Telemedia Limited (SOT) floated on ASX at 30 cents per share plus 1-for-10 free option.

2002 - New Hope Corporation Limited (NHC) floated on ASX at 40 cents per share plus 1-for-10 free option;

2003 - NBN Television sold to SP Telemedia Limited realizing $96 million for SOL shareholders of which approximately 50% will be distributed to shareholders as special dividends in 2004 and 2005. SPT's funding was assisted by a 4 – 9 rights issue at $1.05 per share.

# *Investments – Share Portfolio*

**Washington H Soul Pattinson & Co Limited**
**Portfolio Performance Analysis**
**For the period ended 31st July 2004**

| | |
|---|---|
| Investment Portfolio Return | 48% |
| Benchmark S&P / ASX 300 Accum Index | 18% |

The Company's investment portfolio return for the year, including unrealised gains, was 48% compared with the Benchmark S&P / ASX 300 Accummulation Index of 18% for the same period.

The market value of the listed investment portfolio, including listed controlled entities and associates, increased by 66% to $1.9 billion during the year.

## Investments – Associated Entities

### API (Australian Pharmaceutical Industries Limited)

- Shareholding @ 31/07/04 23.2%;
- Net profit of $18.4M down 22%;

priceline priceline pharmacy House. price attack

Despite continued revenue growth API's net profit after tax for the year ended 30th 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.

## Investments – Associated Entities

### *API (Australian Pharmaceutical Industries Limited)*

- **Profit contribution to WHSP $4.2M ($5.6M last year);**
- **Total dividends 13 cents per share unchanged;**

priceline priceline pharmacy House. priceattack

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

Profit contribution to WHSP was $4.2 million compared to $5.6 million in the previous year.

## *Investments - Associated Entities – Brickworks Limited*

BRICKWORKS

- **WHSP Equity accounted share of Brickworks Profit $60.7M up 172% on previous year.**

eurekatiles

australbricks

## *Investments – Associated Entities*
## *Brickworks Limited*

BRICKWORKS

- **Net Profit after Tax $157.4M up 116% on previous year;**
- **Earnings per share of 114.3 cents up 107% on last years 55.2 cents;**
- **Acquisition of Bristile Limited helped lift building products sales by 170%;**
- **Final Dividend 15c per share;**
- **Total Dividends 24c per share (last year 20c).**

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National building products company Brickworks Limited's net profit after tax for the year ended 30th June 2004 was $157.4 million, an increase of 116%. The main factors contributing to the result were the acquisition of Bristile 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 a final dividend of 15 cents per share fully franked was declared taking the full year dividend to 24 cents per share fully franked, an increase of 20% on the previous year.

## *Investments - Associated Entities – Clover Corporation*

CLOVER

- **WHSP share 28.5%;**
- **Record Profit of $1.2M up 168% on previous year;**
- **Maiden Dividend of 1 cent per share**

Clover Corporation Limited's profit for the year was $1.2 million - 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.

Clover declared a maiden dividend of 1 cent per share partly franked payable on 30 November, 2004.

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

## *Controlled Entities – New Hope Corporation Limited Group* (NHC)

- **NHC Group Profit After Tax and Outside Equity Interest of $59 million – up 62% on last year;**
- **Profit increase due to a combination of increased coal production and sales, operating efficiencies and higher coal prices in US dollar terms;**
- **NHC declared a final dividend of 1.5 cents per share making total dividends for the year of 2.25 cents per share;**
- **NHC profit contribution to WHSP was $38 million – up 49.6% on last year.**

For the year ended 31 July, 2004, NHC's profit after tax and outside equity interests was $59.4 million – an increase of 62% on last 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 has declared a partly franked final dividend of 1.5 cents per share in addition to the previously paid interim dividend of 0.75 cents per share.

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.

## *Controlled Entities – NBN Television*

- **Net Profit after Tax of $7.5M, up 30% on previous year;**
- **Total revenue growth of 9.6% on the back of growth from the National Advertising market of 12.1%;**
- **Market share of revenue at 44% well in excess of Nine Network average;**

NBN's profit after tax was $7.5 million - an increase of 30% on last year. 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.

## *Controlled Entities – SP Telemedia Limited (SPT)*

- **Net Profit After Tax $9.7M; up 66% on previous year;**
- **Earnings per share 4.9 cents – last year 3.0 cents;**
- **Final dividend of 0.75 cents per share (on enlarged share capital), following interim dividend of 0.75 cents per share;**

SPT's profit after tax for the period 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 declared a final dividend 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.

## *Controlled Entities – Pitt Capital Partners Limited (Merchant Banking)*

- **Group shareholding 50%;**
- **Net Profit after Tax of $1.7M up 250% on previous year;**
- **Licenced Dealer in Securities;**
- **New offices in Adelaide and Hong Kong;**

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 to the corporate sector. 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.

## *Controlled Entities – Souls Funds Management Limited (Funds Management)*

- **Group shareholding 63.6%;**
- **Net Profit after Tax of $292,000;**
- **Maiden dividend of 8 cents per share fully franked;**
- **Funds under management have grown from $20.3M in September 2003, to $234M at end of financial year;**

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 2004 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.

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.

## *Controlled Entities – Cromford Pty Limited*

- Cromford manufacturers and distributes Polyethylene film for the building industry;
- Profit after Tax of $989,000 up 18%, on previous year;
- Sales declined as a result of the strong Australian dollar favouring imported products.

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

## *Controlled Entities –*
## *Keith Harris & Co Ltd*

- **ASX listed (ASX Code HAK), in which the Group owns a 58.7% shareholding;**
- **Net Loss after Tax of $449,000, down on last years Profit of $2.7M, and attributable to the expected trading loss in Balfours;**
- **Final Dividend of 12.5 cents per share fully franked;**

Keith Harris & Co. Ltd. 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, 2003, 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

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

# OUTLOOK

I would now like to give a brief overview of the Group's performance in the first quarter.

## *Investments – Share Portfolio*

### *Portfolio Performance Analysis*

### *For the Quarter ended 31st October 2004*

| | % Return |
|---|---|
| Washington H Soul Pattinson | 13.3% |
| All Ords Accumulation Index | 8.4% |
| Out performance | 4.9% |

For the first quarter the return from the Soul Pattinson share portfolio was 13.3% compared with the Benchmark S&P / ASX 300 Accumulation Index of 8.4%.

Due to the recent strong reporting period and special dividends, dividend income from the portfolio, excluding dividends from controlled entities and associates, is up by 78% for the first quarter.

In the quarter ended 31 October, 2004, including purchases and sales, the value of the share portfolio has increased by a further 17% to $2.2 billion.

## *Investments – Associated Entities*
### *Australian Pharmaceutical Industries Limited*

- **Acquired New Price Retail (NPR) in September for $112 million;**
- **Acquisition will be EPS positive in year 1 (before synergy benefits);**
- **Acquisition fast tracks API retail led strategy and differentiates itself from Sigma and Mayne.**

API acquired NPR, which was the holding company for Priceline health and beauty stores, Priceline Pharmacies, Price Attack & House homeware stores in September, 2004 for $112 million.

The NPR acquisition will be EPS positive in year 1 and fast tracks APR's retail led strategy.

Mr. Jeff Sher has been appointed API's Group Leader.

In December API's half year results will be reported together with the results of the Strategic Review. The results will be impacted by the continuing problems in the manufacturing plant.

## *Investments - Associated Entities – Clover Corporation*

- **Comparable Omega³ DHA sales up 2.5% on last year;**
- **Unaudited profit for the period to October 2004 up 14%;**
- **UK & Europe continue to underperform;**
- **Increased awareness of health benefits from Omega³ DHA;**
- **Nu-Soya plant in Moree due for completion in February 2004**

Sales of Omega³ DHA products from Clover's 70% owned operating subsidiary Nu-Mega Ingredients Pty Ltd (Nu-Mega) totalled $5.4 million for the 4 months ended October, 2004. The result last year for the same period was $5.2 million.

Unaudited profit before tax for Nu-Mega for the same period was $984,000 compared with $862,000 last year, an increase of 14%.

The Nu-Soya plant in Moree will be commissioned in February, 2005. A pilot plant has been completed and R & D staff have commenced applications work in the beverage, cereal and bakery areas. Marketing has commenced and interest in the whole soy product, which offers improved taste profiles compared with current whole soy products is building both here in Australia and in Asia.

## *Investments – Associated Entities*
## *Brickworks Limited*

BRICKWORKS

**First quarter reflects ongoing group strength**

| | Sept '03 | Sept '04 | Variance |
|---|---|---|---|
| | | | |
| **Sales** | 121.3 | **126.8** | +5% |
| **Building Products EBITA** | 25.1 | **23.6** | -6% |
| **Associates (WHSP) EBITA** | 13.1 | **18.4** | +40% |
| **NPAT** | 23.4 | **28.5** | +22% |

($'000's Unaudited figures)

In the first quarter of 2004/05 Brickworks has experienced slightly softer trading conditions on the East Coast and slightly stronger conditions on the West Coast.

Compared to last year sales are up 5% and building products EBITA is down 6%.

Contributions from associates, mainly Souls, is up 40%.

This, combined with reduced tax expenses and lower borrowing costs, has achieved a 22% higher profit after tax than for the same period last year.

***Controlled Entities***
***Coal – New Hope Corporation Limited***

**1st Quarters Group Result**

**Factors likely to affect the result to 31st July 2005:**

- **Coal Prices**
- **Australian dollar**

New Hope Group's unaudited profit after tax and outside equity interest for the 1st Quarter of the 2004/05 financial year is more than double the result for the same quarter last year.

The Group's level of debt has continued to reduce substantially.

Directors anticipate that World coal prices will remain strong for the rest of this financial year, but are aware that the Australian Dollar has continued to strengthen and this will offset some of the increased profits resulting from the higher export selling prices.

## *Controlled Entities*
## *Telemedia - SP Telemedia Limited*

- **Acquisition of NBN for $144 million on 1st August 2004;**
- **Funding assisted by 4-for-9 rights issue at $1.05 per share;**
- **Acquisition of Comindico Australia Pty Ltd in November, 2004;**
- **Unaudited 1st quarter profit almost double at $4.4 million;**

The new financial year has been a very active one for SPT. On 1 August, 2004 SPT acquired NBN Television from Soul Pattinson for $144 million.

The acquisition was funded by the issue of 44.2 million shares to Soul Pattinson at $1.44 per share and a 4-for-9 rights issue to shareholders at $1.05 per share.

In another significant strategic move, SPT announced on 5 November that it had reached agreement with the Receivers of Comindico Australia Pty. Ltd. for the acquisition of the assets and business of Comindico.

Due to confidentiality restrictions with the Receiver we are unable to disclose the acquisition price until the transaction is completed which is expected to be at the end of this month.

However, we can say that the price is in the range of $26 million to $39 million for a business that has had approximately $400 million invested into it.

In terms of profitability, the unaudited profit after tax for the first quarter is up by almost double to $4.4 million versus last year's $2.2 million, with the inclusion for the first time of NBN's profits. The result is before the amortisation of the NBN Goodwill.

## *Controlled Entities*
## *Merchant Banking*
## *Pitt Capital Partners Limited (PCP)*

- $1^{st}$ quarter well ahead of budget;
- Expansion continuing

Pitt Capital Partners the Group's Merchant Bank has commenced the current year well ahead of budget.

PCP has assisted most of our group companies and other clients in a number of major transactions over the last few months.

The group has expanded rapidly and now has offices in Sydney, Brisbane, Adelaide and Hong Kong. Additional staff have been recruited to cope with PCP's growth and expand the group's overall capabilities.

## *Controlled Entities*
### *Funds Management*
### *Souls Funds Management Limited (SFM)*

- **Funds under management increased by 26% in first quarter;**
- **Trend expected to continue;**
- **Strong investment returns have continued into the new financial year;**
- **The Souls Small Companies Fund was rated "A" in the recent van Eyk Research small cap review.**

SFM's funds under management increased by a further 26% in the first quarter and strong investment returns have continued with the Souls Australian Equity Fund returning 8.1% and the Souls Australian Small Companies Fund 17.3%.

The influx of funds is expected to continue as SFM's strong capabilities become increasingly recognised by the professional investment community and prospective clients.

## *Controlled Entities*
## *Keith Harris & Co Limited*

- **Unaudited loss of $952,000 before tax for 1st quarter;**
- **Mills & Ware and Flavours / Fragrances businesses above budget;**
- **Balfours result affected by delay in relocation to new facility;**
- **Savings to flow in second half 2005**

For the 1st Quarter 2004 the unaudited result for Keith Harris shows a loss of $952,000 before tax.

Both the Mills and Ware baking business and the traditional flavours & fragrance division are performing above budget, however, the Balfours business continues to incur losses. This position with Balfours was expected until the relocation of the Adelaide plant was completed, however, this process has been delayed.

The highly automated plant at Dudley Park, although operating today, will not be fully commissioned until the end of December, hence the labour savings factored into the 2005 budget will not be realised until the second half of the year. Because of this delay Balfours 2005 forecast will be affected, however, the full savings will be realised in the 2006 financial year.