Financial year 2004 was an eventful and milestone year for SPH.

More significantly, we took note of and acted decisively on what our shareholders and stakeholders wanted us to do. We were able to enhance value for our shareholders, made inroads into regional markets, strengthened our products to attract readers, and leveraged on our core capabilities and brand name to stay ahead.

It was a year of achievements as our newspapers, magazines and TV channels went on a winning streak and clinched a string of top international awards for excellence and quality. But it was also a testing time as we had to take several tough measures to stay the course. On balance, I believe we put up a good show and can look back on the past year with satisfaction.

The following gives a short review of how we measured up in the key areas.

Looking back on the year

We entered FY04 when the economy was still sluggish, as it was just recovering from the adverse effects of SARS which ravaged many businesses in Singapore and the region. Terrorism continued to be a clear and present danger.

Amid the uncertainty and difficult operating environment, SPH's core newspaper business remained soft and the Group ended the first quarter with a net profit of $83.8 million, slightly up from $82.8 million in the same quarter of the previous year. Total turnover dipped 1.1% to $240.3 million.

With a slow but steady global recovery underway, our newspaper operations improved in the second quarter and the group posted $89.3 million in net profit. Overall performance of the group was also boosted by additional rental income from the new extension to Paragon, which opened for business on 1 September 2003.

The pickup came in the third quarter as consumer sentiment improved, in tandem with the economic recovery. Newspaper and magazine revenue went up, on the back of a low post-SARS period, as did our property, broadcasting and multimedia segments. For the quarter, the Group registered a net profit of $369.5 million, of which $170.5 million came from the disposal of Belgacom and $110.1 million from the sale of Times House site, markedly up from the $63.3 million in the same period in FY03.

I am pleased to report that we ended the year on a very positive note, achieving a net profit of $546.3 million, which is an increase of 44.2% from the previous financial year.

We have delivered on three key fronts.

Return of capital to shareholders

To our shareholders, we returned nearly $1.1 billion in cash in late June 2004, following a 5-for-1 share split and a major capital reduction exercise. The stock split was to make SPH shares more accessible to small investors. The capital reduction was to return surplus cash to shareholders by way of a $2,865 cash compensation for every 1,000 shares held, with cancellation of 15 per cent of shares.

The move was aimed at enhancing SPH's return on equity (ROE) and earnings per share (EPS). The capital return demonstrated the Group's commitment to managing the company's capital on an ongoing basis and, where appropriate, returning surplus capital to shareholders. The capital reduction exercise will not affect the company's funding of immediate and long-term growth plans as it still has a substantial cash balance.

Both the share split and capital reduction were overwhelmingly approved by shareholders at an Extraordinary General Meeting on 7 May 2004. The exercises were completed on 24 June 2004.

Commitment to divest non-core assets

We kept our commitment to divest non-core assets. The company sold the Times House site, a 10,485 sq metre freehold land at the junction of Kim Seng Road and River Valley Road, for $118.9 million in March 2004. In April 2004, we netted $170.5 million from the sale of our entire stake in Belgacom, Belgium's biggest phone company.

We sold a substantial part of our stake in StarHub following its recent IPO. Based on the IPO price of $0.95 per share, SPH would book an investment income of $126.3 million, before deduction of the Company's IPO expenses. This gain will be reflected in the first quarter results in FY05.

The company remains committed to divesting the remaining non-core assets in the Group as it focuses on its core business.

Rationalisation of TV and free newspaper operations

In early 2004, SPH began serious negotiations with MediaCorp Pte Ltd to rationalise the Group's free-to-air television broadcasting and free newspaper businesses, which have incurred continuing losses. Competition since media liberalisation in May 2000 has raised production and acquisition costs, as well as led to duplication of resources.

SPH MediaWorks, the Group's broadcasting arm, chalked up further losses of $44.5 million in FY04, up from the $40.2 million a year ago. Negotiations on the merger of MediaWorks' Channels U and i, and SPH's free newspaper Streats with MediaCorp, were in its final stages at the close of the financial year.

The proposed transactions, which were later signed on 17 September 2004, sought to create a new TV company in which SPH would have a 20% stake, and for SPH to co-own 40% of MediaCorp Press, which publishes Today, a free newspaper. SPH will merge Channel U and Streats with MediaCorp's Channels 5 and 8, and Today respectively. It was agreed that the commercial viability of Channel i would be reviewed.

The continuing losses, especially from the TV operation, were not sustainable. SPH believes rationalisation is in the best interest of the company, as it would immediately stem the losses and enhance shareholder value, while allowing the company to hold significant stakes in the TV and free newspaper businesses.

Business performance

Group turnover for the year grew 8% to $970.1 million, boosted by revenue from its core newspaper and magazine operations, which rose 5.6% to $833.2 million, property segment which brought in $82.6 million, up 56.7 %, and broadcasting and multimedia business which fell 2.6% to $54.3 million.

Riding on improving consumer sentiment, which was dented by the SARS crisis last year, the Group's advertising revenue rose 4.1% to $664.5 million. Operating expenses went up 4.5% to $643.5 million. Higher prices forced newsprint costs up by 6.2%, while staff costs also rose 9% due to the higher staff variable bonus that had to be set aside in line with higher operating profits.

Property

The Property segment was one of the three star performers of the year, the other two being newspaper and magazine segment and Treasury and Investment. The new Paragon extension helped boost property turnover to $82.6 million, up 56.7%. The higher income came from rentals in the new wing and renewals of rental leases at the existing Paragon, as well as increased occupancy from the medical and office tower.

Times Properties also contributed a higher net profit of $114.6 million, with $110.1 million from the Times House sale.

Newspaper sales

Against dwindling newspaper readership worldwide, competition from alternative media and pressure on readers' time, SPH newspapers managed to buck the trend and held their ground. This was borne out by the Nielsen 2004 Media Index survey, which showed that overall newspaper readership stayed at 84%, with some titles even enjoying a surge. The survey also found that readers in Singapore were becoming more sophisticated and mature, especially among the white-collar workers and PMEBs. This trend augurs well for paid newspapers.

But the total daily average circulation of the Group's 13 paid newspapers fell by 2.1% to 1,036,836 copies during FY04, compared to the previous financial year. This was partly due to the cover price increases for nine newspapers which came into effect on 16 January 2004, and increased competition, including from free sheets.

However, readers continued to find value for money in SPH newspapers, underlining support for their on-going improvements to beef up content and design. Six newspapers in the SPH stable underwent makeovers to stay relevant, with the most successful being the redesigned Sunday Times. Its circulation soared by 9,700 copies to 396,000 within a month after its revamp.

Daily average weekday circulation of The Straits Times, SPH's English flagship daily, stayed at 380,200, marginally down from the previous year. This was before the cover-to-cover makeover for the 159-year-old paper, which remains the newspaper of choice for Singapore readers. This new-look ST was relaunched on 19 October 2004, receiving kudos all round for its classy, fresh and clean design.

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Zaobao Sunday was also given a major overhaul and relaunched on 29 August 2004. It was also well received by readers, and sales rose by 6,000 copies to an average of 189,300. Its weekday circulation averaged 185,000 copies, slightly down from last year.

The string of top international and local newspapers awards which our newspapers garnered during the year attests to their quality and excellence. These awards, given by prestigious newspapers groups such as the Society for News Design (SND), Society of Publishers in Asia (SOPA), IFRA's Publish Asia and the Pacific Area Newspaper Publishers' Association (PANPA), are a good way to benchmark our work against other papers in the world.

On another platform, the online editions of our major newspapers and AsiaOne also continued to attract more eyeballs. Both the Chinese and English online sites drew up to 300 million pageviews a month, with Zaobao.com alone snaring about 250 million pageviews. Our Internet business unit also reported higher advertising revenue, in line with global trend.

Reaching out to young readers

SPH newspapers also stepped up efforts to attract younger readers by presenting news in a more appealing way, packaged in small, entertaining bites and delivered with edge. They added youth sections and education pages which give young readers a forum to contribute their works and air their views.

Our Chinese newspapers also made it easier and more accessible for readers who are not as proficient in the language, with simplified Chinese and easy-to-read stories. Both flagship dailies, The Straits Times and Lianhe Zaobao, moved into schools to engage more student readers through their media and student correspondent clubs, and their efforts boosted weekly sales to schools.

Newspaper-in-education is an area which we will be paying more attention to grow and drive readership.

SPH Magazines' regional thrusts

Not to be left out, our magazine subsidiary, SPH Magazines, also went into overdrive to make further inroads into regional markets and roll out new lifestyle titles. In the short span of eight months from October 2003 when it started its regional expansion drive, SPH Magazines established a beachhead for its bestseller Her World women's magazine in the region through joint ventures in Malaysia, Thailand and China.

At home, SPH Magazines continued to enlarge its stable of lifestyle titles, which included Shape, a health and fitness magazine for women, Maxim, a men's lifestyle magazine, Simply Her, a lifestyle guide for busy, working women who multi-task, Young Parents pre-school guide and Young Parents Baby.

And in a move that strengthens its foothold in the regional magazine market, it bought over the media and publishing business of Blu Inc for $32.9 million, bringing into its fold another 40 titles including Female, NuYou, Peak and Torque. With the acquisition of Blu Inc, SPH Magazines now publishes 63 in-house and contract titles, making it a market leader.

Corporate citizenry

SPH widened its community involvement during the year and continued to contribute to a diverse range of worthy events, from education, arts and culture, conservation, sports to charity.

In recognition of its staunch support to help keep the local arts scene thriving, SPH was given the Distinguished Patron of the Arts Award by the National Arts Council for the 12th year running. It was also big-hearted on charity, and initiated a group organised giving on 23 August 2004 with donations totalling $200,000 for 20 charity and welfare organisations which look after the needy sick and elderly.

SPH staff also pitched in to do their bit for charity by helping to raise funds for various charitable causes. Its hugely successful fund-raiser, The Straits Times School Pocket Money Fund met its target collection of $3.5 million to help the growing number of needy students on its list, which now stands at 11,000, as did its Chinese TV Channel U, which raised a record $7 million from its second Ren Ci Charity Show for the Ren Ci Hospital and Medical Centre.

Other newspapers such as The New Paper and Lianhe Zaobao continued to support the annual President's Challenge fund-raising drive.

For SPH, corporate giving is a way of giving back to the communities which have made it profitable and its responsibility to forge community spirit.

Acknowledgements

SPH has been able to turn in a good performance because of the collective efforts of our staff to excel at every level. Their unstinting support and talent have enabled the company to maintain its competitive edge. I want to thank all of them for their dedication and hard work and for going the distance for the company. I would also like to express my deepest appreciation to our business associates, management, unions and customers for their strong support and contribution to help keep the SPH flag flying high.

We enter the new financial year with renewed confidence, energised by our synergy and well-positioned to tap new growth opportunities in the region. But let's not be lulled into thinking that it will be business as usual for we have to brace ourselves for the changing market dynamics in the coming months which may upset the growth momentum. These include rising interest rates, oil and newsprint prices, cooling of China's economy, continuing conflict in the Middle East and terrorism risk in the region.

We must remain nimble and focused and continue to build on our competitive strengths to produce quality products and grow earnings, exploring fresh ideas, breaking new grounds to give those who believe in us better value for money.

Alan Chan Heng Loon
Chief Executive Officer