

# HONG KONG STATION COMMERCIAL BUSINESSES

**46,735**  
advertising units  
in stations and trains

**1,416**  
station shops with  
**58,716m<sup>2</sup>**

**4G**  
data access  
along the  
journey



## Our Aims and Achievements

We aim to enhance the journey experience of our customers by offering them railway related services. These mainly cover station retail outlets, advertising and telecommunications. Our strategy is to explore how best to use our stations, trains and other assets to provide such services and generate non-fare-related revenues for the Company.

During 2017, new shops and brands were added, offering customers greater choice. New advertising formats were introduced to raise our customers' awareness while on the network. We have increased the number of e-shops sales packages to capture the trend towards online-to-offline commerce. New digital screens were introduced in Hong Kong and Airport stations, some with multi-touch functions for interaction with customers. We have continued to work with telecom operators to upgrade mobile and Wi-Fi services.

Despite a weak retail environment and pressure on rents, station shops recorded positive rental reversion due to their diverse trade mix and relevance to daily life.

## Our Challenges

### Station Retail

- New forms of e-commerce present new challenges to traditional retailers
- Retail sales have grown moderately from their low in 2016 but operators remain cautious regarding expansion

### Advertising

- Advertisers are cautious regarding advertising spending and favour more in-store promotions

- The surge of advertising spending on mobile platforms continues at the expense of traditional media

### Telecommunications

- Demand for more data capacity is pushing telecom operators to upgrade their systems, while to prevent service interruption, works are confined to a daily two-hour non-traffic window

## Our Strategies

### Station Retail

- Strategic development to optimise trade floor space and retail value on existing and new lines
- Business development to broaden the tenant base and maximise growth opportunities
- Trade mix refinement to enhance customer service and rental reversions

### Advertising

- Offer flexible, timely sales packages and innovative solutions to advertisers to meet their changing needs, for example through campaigns that

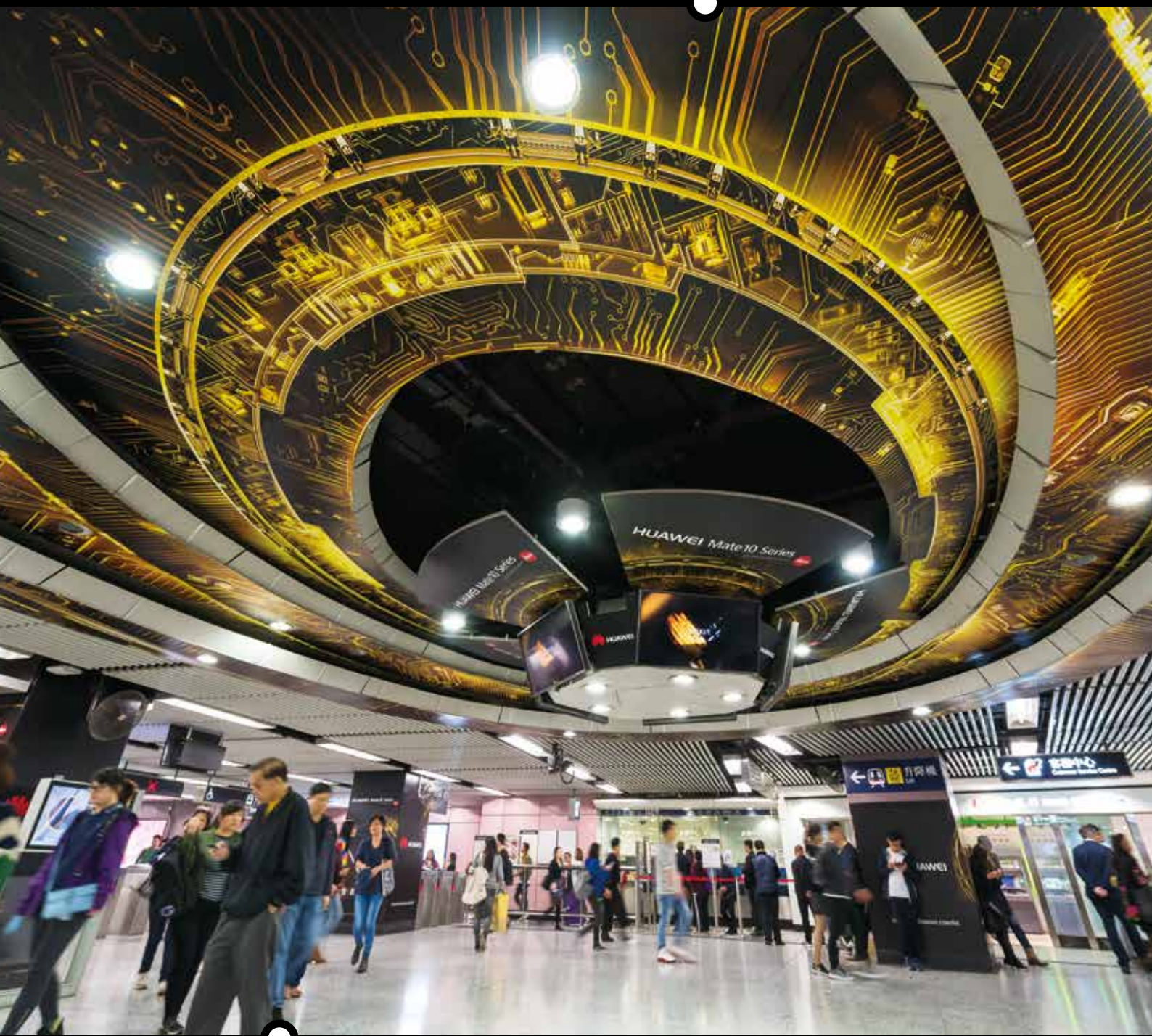
involve interactive mobile apps using Beacon and augmented reality technology

- Continue with the digital transformation of product development, marketing communications and sales packaging

### Telecommunications

- Explore new technologies with telecom operators to enhance mobile communications for our customers

BUSINESS REVIEW  
HONG KONG STATION  
COMMERCIAL BUSINESSES



EBITDA  
HK\$5,474m

↑ 9.2%

EBIT  
HK\$4,722m

↑ 8.3%



## FINANCIAL PERFORMANCE

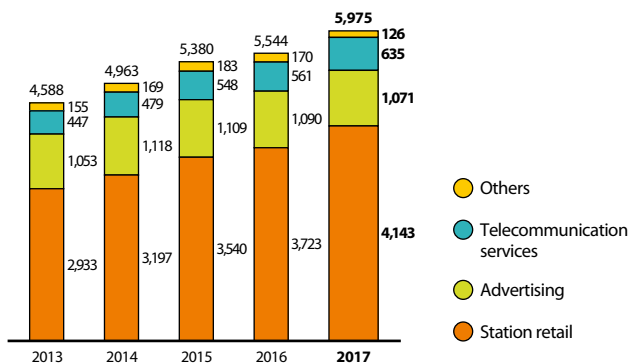
As illustrated below, in 2017, the financial performance of the Hong Kong station commercial businesses achieved good results.

In HK\$ million	Year ended 31 December		
	2017	2016	Inc./ (Dec.) %
<b>Hong Kong Station Commercial Businesses</b>			
Station Retail Rental Revenue	<b>4,143</b>	3,723	11.3
Advertising Revenue	<b>1,071</b>	1,090	(1.7)
Telecommunication Income	<b>635</b>	561	13.2
Other Station Commercial Income	<b>126</b>	170	(25.9)
Total Revenue	<b>5,975</b>	5,544	7.8
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	<b>5,474</b>	5,012	9.2
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	<b>4,722</b>	4,362	8.3
EBITDA Margin (in %)	<b>91.6%</b>	90.4%	1.2% pts.
EBIT Margin (in %)	<b>79.0%</b>	78.7%	0.3% pt.

Total revenue of the Hong Kong station commercial businesses increased by 7.8% to HK\$5,975 million in 2017. The revenue growth reflected positive rental reversion as a result of continuous trade mix refinements, an increase in the number of shops following the opening of the Kwun Tong Line extension and the South Island Line, and increases in Duty Free Shop rents.

### Revenue from Hong Kong Station Commercial Businesses

(HK\$ million)





## STATION RETAIL

As at 31 December 2017, there were 1,416 station shops, occupying 58,716 square metres of retail space, representing an increase of 24 shops and 1,565 square metres compared with 31 December 2016. The increase was mainly due to the opening of 11 new shops at Hung Hom, Kowloon and Wan Chai stations, as well as the opening of 15 shops at Nam Cheong, Tin Shui Wai, Tsing Yi, Tsuen Wan West, Shek Mun, Tuen Mun, Lok Ma Chau

and Yuen Long stations which were previously closed for re-development.

MTR Shops are supported by a “Style to Go” brand positioning and this was boosted in 2017 by a thematic campaign featuring two local artists. During the year, 24 new brands were introduced and featured in posters across the network.



## ADVERTISING

Advertising revenue decreased slightly by 1.7% to HK\$1,071 million in 2017. The decline was mainly attributable to a downturn in overall advertising spend and the increase in competition from online advertising. Overall advertising spend started to recover in the last quarter of 2017. The number of advertising units in stations and trains increased to 46,735 by 31 December 2017.

To improve our competitiveness, we have been developing a number of creative solutions and new digital formats to meet market needs. During the year, two digital zones were created by the installation of 16 new 65-inch high-definition LCD screens at Hong Kong Station and 14 such screens at Airport Station. In addition, over 900 advertising light boxes along the Island, Tsuen Wan, Ma On Shan and West Rail lines were revamped.

## TELECOMMUNICATIONS

Revenue from telecommunications in 2017 grew by 13.2% to HK\$635 million. The increase was mainly the result of incremental revenue from new service contracts and capacity enhancement projects, as well as the newly opened Kwun Tong Line extension and the South Island Line.

We continue to enhance mobile and internet connectivity. Installation of a new mobile phone network offering increased data capacity and more 4G services was completed in the concourses of ten stations and four tunnel sections during the year. Following the upgrade of equipment in April 2017, customers have been able to enjoy enhanced Wi-Fi services at 84 stations.