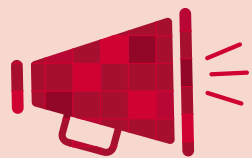


HONG KONG STATION COMMERCIAL BUSINESSES



47,777
advertising units

4G

data access along
the journey



AIM

We aim to enhance the experience of our travelling customers by offering a variety of railway related services, notably station retail outlets, advertising and telecommunications.

CHALLENGES

Station Retail

- New forms of e-commerce present increasing challenges to traditional retailers

Advertising

- Advertising spending on mobile advertising continues to grow at the expense of traditional media
- The economic outlook became more challenging recently and advertisers established prudent spending

Telecommunications

- Massive demand of mobile data has strained the systems requiring faster connections and more bandwidth. However, to avoid service disruption, upgrading infrastructure within the railway is mostly limited to a daily non-traffic 2-hour window

1,470 station shops with 66,292 m²

SHOP



STRATEGIES

Station Retail

- Devising effective strategies 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 rentals

Advertising

- Promote online-merged-offline sales packages and tailored-made solutions to advertisers to meet their changing needs and return on investment
- Digital transformation of advertising products, audience selling and marketing communications
- Invest in upgrading and modernising our traditional advertising units to ensure they keep their appeal

Telecommunications

- Explore new technologies and 5G roll-out with telecom operators to enhance mobile communications for our customers within the railway network

OUTLOOK

Hong Kong station commercial businesses revenue derives primarily from station retail, which in turn comes from the rentals achieved from the retail space leased out in MTR stations. The outlook of our station retail business will be subject to market conditions albeit shielded by the normal three-year tenancy cycle. Set against this, there will be a full year contribution from new shops opened in 2018, especially for the 35 shops opened in September 2018 in the Hong Kong West Kowloon Station.

BUSINESS REVIEW
HONG KONG STATION COMMERCIAL BUSINESSES



EBITDA
HK\$5,891m

7.6%



EBIT
HK\$5,025m

6.4%

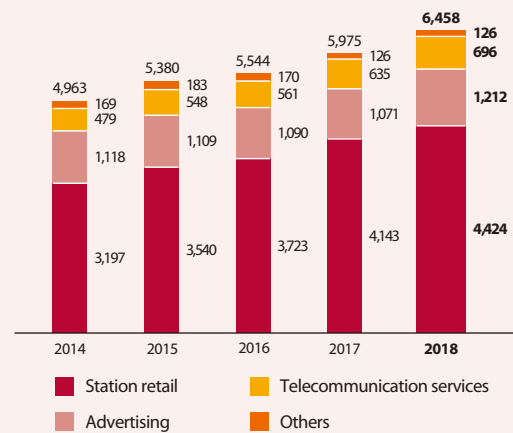
FINANCIAL PERFORMANCE

In HK\$ million	Year ended 31 December		Inc./ (Dec.) %
	2018	2017	
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	4,424	4,143	6.8
Advertising Revenue	1,212	1,071	13.2
Telecommunication Income	696	635	9.6
Other Station Commercial Income	126	126	–
Total Revenue	6,458	5,975	8.1
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	5,891	5,474	7.6
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	5,025	4,722	6.4
EBITDA Margin (in %)	91.2%	91.6%	(0.4)% pt.
EBIT Margin (in %)	77.8%	79.0%	(1.2)% pts.

Total revenue of the Hong Kong station commercial businesses in 2018 was 8.1% higher than in 2017 at HK\$6,458 million, with all of our major station commercial businesses exhibiting robust growth.

Revenue from Hong Kong Station Commercial Businesses

(HK\$ million)



STATION RETAIL

Station retail rental revenue rose by 6.8% to HK\$4,424 million, mainly due to higher rental at Duty Free Shops and an increase in the number of station shops. As at 31 December 2018, there were 1,470 station shops, occupying 66,292 square metres of retail space, representing an increase of 54 shops and 7,576 square metres of lettable space when compared with 31 December 2017. The increases were mainly due to the opening of 35 shops in the new Hong Kong West Kowloon Station which serves HSR. A total of 39 new retail merchants were introduced in the portfolio.

ADVERTISING

Advertising revenue increased by 13.2% to HK\$1,212 million in 2018 as further growth in retail spending and tourism improved market sentiment, overall advertising spend continued to recover and HSR also made a contribution. The number of advertising units in stations and trains increased to 47,105 by 31 December 2018, with a further 672 units added on HSR.

To strengthen our digital offering, during the year two new digital zones opened at Central and Mong Kok stations, as well as a new 30 square metres LED screen with a 55 inch LCD touch panel at Hong Kong Station. In addition, a further 29 pairs of 65 inch high-definition LCD digital panels were installed across the network, bringing the total to 91 pairs in 19 stations as at 31 December 2018. A total of 457 advertising panels in stations were also revamped in 2018, resulting in a brighter and more contemporary look.





TELECOMMUNICATIONS

Revenue from telecommunications in 2018 rose by 9.6% to HK\$696 million as a result of incremental revenue from new service contracts and capacity enhancement projects. A new Commercial Telecom System allowing more capacity for operators is being installed at 31 stations, and by 31 December 2018 the works had been completed at 12 stations.

