





STATION RETAIL



ADVERTISING



TELECOMMUNICATIONS

Hong Kong Station Commercial Businesses

Our Aims and Achievements

We aim to enhance the journey experience and convenience of our customers by offering them railway related services. These services currently cover mainly station retail outlets, advertising and telecommunications. Our strategy is to carefully explore new ways to optimise the use of our stations, trains and other assets to provide such services, while at the same time generating non-fare-related revenues for the Company.

During 2016, new shops and brands were added, offering greater choice to our customers. New advertising formats were introduced to raise our customers' awareness while travelling on the network. We have increased the number of e-shops sales packages to capture the popular trend of online-to-offline commerce. We have continued to work with telecom operators to upgrade mobile and Wi-Fi services, while ensuring coverage on the Kwun Tong Line Extension and South Island Line on their first days of operation.



Our Strategies

Station Retail

- Strategic development to optimise trade 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 and multiple platform sales packages and innovative solutions to advertisers, to meet their changing needs and succeed in a highly competitive market
- Continue to upgrade advertising products and develop digital formats to reinforce the competitiveness of MTR advertising and so capture the rising trend of online-to-offline marketing campaigns

Telecommunications

- Work with telecommunication operators to explore new technologies to enhance mobile communications for passengers
- Support telecommunication operators to speed up the upgrade and installation of mobile phone and Wi-Fi systems



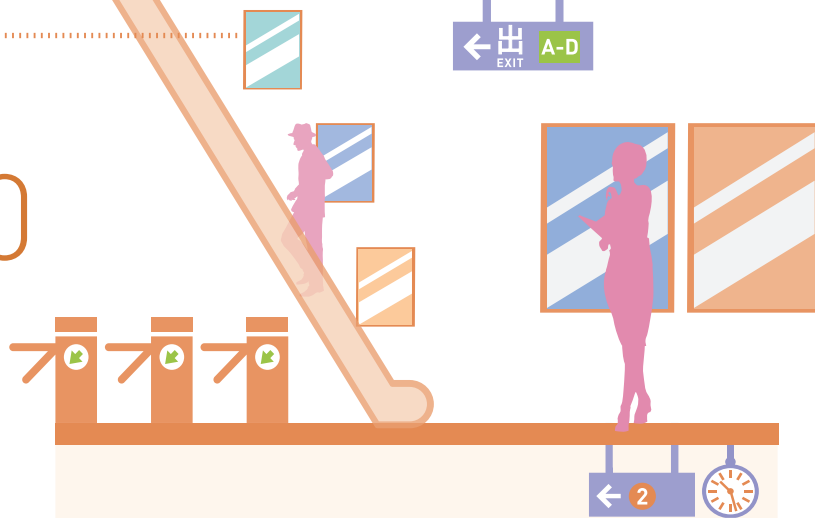
31
new brands
were introduced

Over
1,300
station shops



Over
22,000
advertising units
at stations

4G
data access along
the journey



Over
23,000
advertising units
in trains





Financial Performance

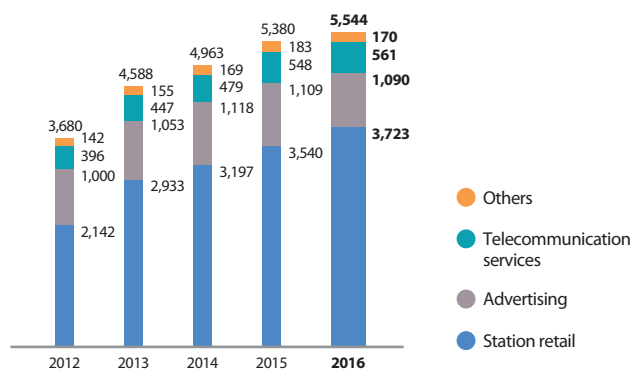
As illustrated below, in 2016, the financial performance of the Hong Kong station commercial businesses was stable.

In HK\$ million	Year ended 31 December		Inc./[Dec.] %
	2016	2015	
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	3,723	3,540	5.2
Advertising Revenue	1,090	1,109	(1.7)
Telecommunication Income	561	548	2.4
Other Station Commercial Income	170	183	(7.1)
Total Revenue	5,544	5,380	3.0
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	5,012	4,830	3.8
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	4,362	4,230	3.1
EBITDA Margin (in %)	90.4%	89.8%	0.6% pt.
EBIT Margin (in %)	78.7%	78.6%	0.1% pt.

Station retail rental revenue for the year was higher than last year as rents increased due to trade mix refinements, positive rental reversions in our station shops and increases in rents in accordance with lease contracts for the Duty Free Shops at Lo Wu and Hung Hom stations. Advertising revenue decreased slightly as the weaker economic environment led to a shrinking advertising market. Revenue from telecommunications increased, mainly due to network upgrades and increased mobile data capacity by telecommunication service providers.

Revenue from Hong Kong Station Commercial Businesses

(HK\$ million)



Station Retail

As at 31 December 2016, there were 1,392 station shops, occupying 57,151 square metres of retail space in the Company's retail portfolio. This represents an increase of 30 shops and 913 square metres as compared with 31 December 2015, mainly resulting from the addition of 31 new shops on the Kwun Tong Line Extension and South Island Line.

In November 2016, after an extensive tendering exercise, rental contracts for all the duty-free shops were awarded to Anway Limited, the existing operator which is wholly owned by NWS Holdings Limited. The new contracts will start in August 2017 for the Lok Ma Chau shops and in January 2018 for the Lo Wu and Hung Hom shops.

During the year, 31 new brands were introduced and posters featuring the new brands have been displayed across the MTR network. Renovation works were completed at Tai Po Market Station, as was the first phase of renovations at Hung Hom Station. Works remain in progress at Lo Wu, Hung Hom and Admiralty stations.

To strengthen MTR Shops' "Style to Go" brand positioning, a new thematic campaign featuring two local artists and a voting campaign were launched in 2016.

Advertising

The number of advertising units at stations and in trains reached 22,485 and 23,747 respectively by 2016 year end. To capture the online-to-offline trend, the "e-shop network", which enables our customers to experience online ticketing and shopping, has been expanded from ten to 20 stations.

A new animated zone featuring 95" digital screens has been installed at the arrival hall of Lo Wu Station, while 277 advertising panels were revamped across the rail network. The 12-sheet lightbox packages have been upgraded by adding Beacon mobile technology, along with QR (Quick Response) code and NFC (Near Field Communication), to enhance the interactivity with passengers.

Telecommunications

During the year MTR worked with a telecom operator to upgrade Wi-Fi equipment at 84 stations to provide enhanced service. Provision of mobile phone and Wi-Fi services were achieved for both the Kwun Tong Line Extension and South Island Line on their first days of operation.

The installation of a new mobile phone network, offering increased data capacity and more 4G services, initially at

eight busy stations has made good progress. Works in the concourses of the first two stations were completed during 2016 and the whole project is scheduled for completion in the third quarter of 2018. The second phase of the project, covering installation of the new mobile phone network at another nine busy stations, went out to tender in November 2016.

