

# HONG KONG STATION COMMERCIAL BUSINESSES



**49,519**  
Advertising Units

**5G**  
Data Access in  
40 Stations

**1,529**  
Station Shops with  
**67,746m<sup>2</sup>**

## AIM

We strive to deliver value-added services to our customers and business partners with a variety of offerings along our railway network, including a wide selection of station retail outlets as well as leading-edge, diverse advertising modes and telecommunications services.

## CHALLENGES

### Station Retail

- COVID-19 outbreak and subsequent economic downturn substantially affected tenant operations and retail sales, impacting the Company's station retail business
- Rental concessions provided to help tenants withstand station closures and reduced foot traffic resulted in a drop in rental revenue. For leases to be renewed, there was downward pressure on rentals due to market conditions, causing a further reduction in rental income

### Advertising

- Revenue fell by more than 50% as advertising spending drastically shrank following COVID-19
- Traditional advertising formats continued to be challenged by online media

### Telecommunications

- Telecoms infrastructure continued to be stretched by growing customer demand for faster, more sophisticated networks and wider coverage
- Reduced revenue from telecommunication operators resulted in downward pressure on contract renewal

## STRATEGIES

### Station Retail

- Foster strong tenant relations and attract new tenants by offering flexible as well as shorter-term rental agreements to help retail businesses – particularly small to medium enterprises – persevere through the economic downturn
- Help tenants leverage online-to-offline commerce and drive sales despite lower foot traffic and in-store shopping via offers with the MTR Mobile app and MTR Points loyalty programme
- Continue reviewing the station tenant mix to enhance customer appeal and drive rental revenue
- Continue introducing new brands into our station shops

### Advertising

- Offer more targeted, aggressive and flexible sales packages as well as extra sales incentives to capture advertisers' limited advertising budgets
- Continue to integrate digital formats into our advertising mix to target online budgets and increase the media value and appeal of our media offerings with digital solutions, driving new growth areas as per our Corporate Strategy

### Telecommunications

- Continue working with telecom operators to upgrade data network capacity and launch 5G across our railway network to enhance mobile communications for our customers

## OUTLOOK

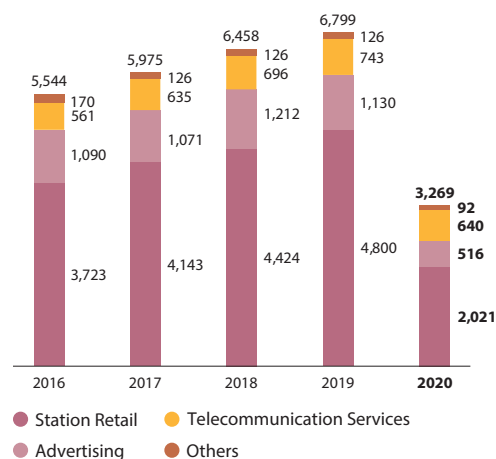
The COVID-19 pandemic will continue to have significant impacts on our station retail tenants and rental revenue in 2021 as consumer sentiment is expected to remain sluggish in the near term. Our station retail businesses may see continuing challenges in rentals resulting from the aftermath of last year's negative rental reversions as well as the accounting standard requirement to spread last year's rental rebates into 2021 and beyond. Our duty free business recovery will depend completely on the timing of the re-opening of borders and the recovery of border patronage. In the longer term, we are still well positioned for growth as more lines and stations are added to our Hong Kong network, which will bring more passengers through our stations and increase the prospect of more rental revenue from tenants.

Our advertising income will be dependent on economic recovery and retail spending. To capture clients' advertising budgets, we will continue to incorporate more digital formats in our advertising portfolio to keep up with consumer demand for dynamic, flexible and targeted offers as well as online and mobile commerce.

We will also continue to work with telecommunications providers to upgrade our networks and ensure that we are delivering the best possible service for our passengers.

## Revenue from Hong Kong Station Commercial Businesses

(HK\$ million)



In 2020, total revenue from all Hong Kong station commercial activities decreased by 51.9% to HK\$3,269 million. This was mainly due to rental concessions granted to tenants who were affected by station closures and suspended cross-boundary rail services following border shutdowns, as well as rental concessions granted to other station shop tenants during the COVID-19 outbreak.

## STATION RETAIL

Rental concessions and the closure of duty free shops in border stations resulted in a 57.9% decrease in station retail rental revenue to HK\$2,021 million.

In addition to rental concessions granted to tenants affected by the suspended cross-boundary rail services, we offered rental relief to small to medium tenants in other station shops by granting half-month reductions of their rents from February to April 2020, underscoring our commitment to society and our support of local businesses in difficult times. Rental relief for large corporations was considered on a case-by-case basis. From May to December 2020, we continued offering rental relief to all tenants. Rental reversion and average occupancy rates in 2020 for our station kiosks were approximately -8% and 98.3%, respectively.

During the year, the Company continued to employ innovative marketing promotions to stimulate retail activity. The MTR Mobile app's MTR Points loyalty scheme, introduced in May 2020, encourages customers to make purchases at designated station shops and MTR Malls and redeem gifts with earned MTR Points. We also launched promotional campaigns from time to time, including special offers from station shops to boost sales. Meanwhile, our two "v-smart" unmanned automated station shops at Kowloon and Tsing Yi stations continued to offer customers a new retail experience. In 2020, 22 new brands were introduced to our network.

As at 31 December 2020, the lease expiry profile of our station kiosks (including duty free shops) by area occupied was such that approximately 32% will expire in 2021, 47% in 2022, and 21% in 2023 and beyond.

In terms of trade mix, food and beverage accounted for approximately 22% of the leased area of our station kiosks (excluding duty free shops), followed by cake shops 16%, convenience stores 14%, passenger services 11% and others 37% as at 31 December 2020.

As at 31 December 2020, there were 1,529 station shops occupying 67,746 square metres of retail space, representing an increase of 37 shops and 409 square metres of lettable space when compared with 31 December 2019. The increases were mainly due to the openings of shops at the new Hin Keng Station, Kai Tak Station, and the expanded Diamond Hill Station along the Tuen Ma Line Phase 1 as well as Admiralty and Kowloon stations.

To help non-governmental organisations and social enterprises provide services for the community, we rent them certain station shops along the West Rail Line and other lines at a nominal rate. In 2020, a total of nine station shops were leased on this basis.

## ADVERTISING

Revenue from advertising decreased by 54.3% to HK\$516 million as a result of the COVID-19 outbreak, leading to steep declines in tourism and retail sales and causing advertisers to postpone or cancel campaigns.

As at 31 December 2020, the number of advertising units in stations and trains had increased to 49,519. This year we installed a new 108" LED concourse network along Island Line and Kwun Tong Line and two new trackside 108" LED zones at Central Station and Tsim Sha Tsui Station. We also launched a new 86" 4K resolution digital panel network along East Rail Line, Tuen Ma Line Phase 1

and West Rail Line. New advertising provisions were also available after the opening of the Tuen Ma Line Phase 1.

To drive business for our advertisers, we launched online-offline advertising modes with sales packages bundling our MTR Mobile app and station advertising platforms. We also collaborated with advertisers on various promotional activities via MTR Mobile's loyalty programme.

In 2020, MTR provided free advertising space to 64 non-profit organisations to help promote their services.



## TELECOMMUNICATIONS

Telecommunications revenue decreased by 13.9% to HK\$640 million in 2020. This was attributed to the special fee concession given during the COVID-19 pandemic and subsequent economic downturn as well as the revised fee due to contract renewal.

Our new commercial telecom system project continued during the year, with 26 of 31 stations completed as at 31 December 2020. Also as at year-end, 5G services had been launched at 40 stations by some telecom operators.