1,568
Station Shops with 68,664 square metres

43,186
Advertising Units

5G
Data Access in 75 Stations

HONG KONG TRANSPORT SERVICES
STATION COMMERCIAL BUSINESSES

AIM

We aim to provide high-quality retail, advertising and telecommunications services throughout our network, bringing value to our customers, business partners as well as shareholders.

CHALLENGES

- **Station Retail**

  In the wake of the COVID-19 pandemic, we continue to deal with dampened consumer sentiment and reduced foot traffic, which have combined to impact tenant operations and place downward pressure on rental revenue.

- **Advertising**

  The ever-changing pandemic situation and the weakened local and global economy caused advertising revenue to decline as advertisers closely monitored spending.

- **Telecommunications**

  Increased customer demand for faster connections and wider coverage across the MTR network continue to place pressure on the upgrading of infrastructure.

STRATEGIES

- **Station Retail**

  To offset the effects of the pandemic and economic downturn, we continued to offer flexible and/ or shorter-term leases to build tenant relationships and help their businesses recover. Promotions via our MTR Mobile app and MTR Points loyalty programme were launched to help attract customers and drive spending. Reviews of our tenant mix were carried out to drive rental revenue and ensure that our retail offerings are up to date.

- **Advertising**

  We continued with the digital transformation of our advertising platforms while designing competitive sales packages and flexible, target audience-centric packages, including innovative online-plus-offline ("O+O") campaign offerings.

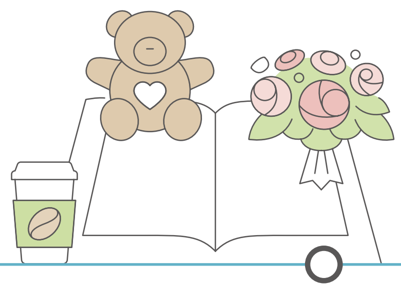
- **Telecommunications**

  We made solid progress during the year in our efforts to plan a new commercial telecom network that can support more 5G services and faster mobile communications for customers.

OUTLOOK

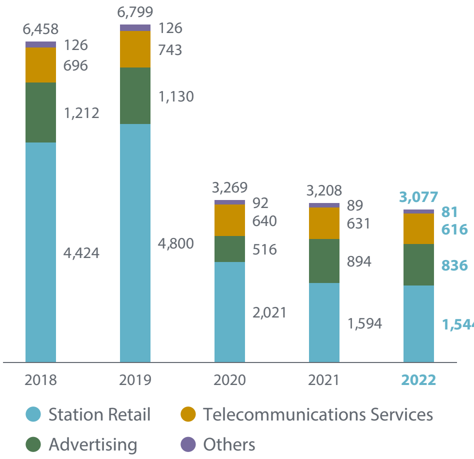
Station retail rental revenue is likely to stay under pressure due to negative rental reversions. To drive rental revenue at our stations in what continues to be a challenging operating environment for tenants, we will keep optimising our retail mix to ensure that it is fresh and in line with what our customers want and expect. Meanwhile, our Duty Free business has resumed after the reopening of cross-boundary stations in early 2023, but its performance is expected to be impacted compared to the past by contracts that were renewed in adverse market conditions, and it will also be dependent on patronage and turnover levels.

Recent trends have shown a modest recovery in advertising revenue, although this business is still highly susceptible to changes in the economic environment and their effects on consumer sentiment and spending, as the first six months of 2022 demonstrated. In line with our commitment to leverage technology and innovation for future growth, we will continue to expand our digital advertising capabilities and build our 5G telecommunication network to drive revenue and meet passengers' expectations.



Revenue from Hong Kong Station Commercial Businesses

(HK$ million)



Total revenue from Hong Kong station commercial activities decreased by 4.1% to HK$3,077 million in 2022. This was mainly due to the impact of the fifth wave of COVID-19, which led to lower spending by advertisers and lower rental revenue from negative rental reversions.

STATION RETAIL

In 2022, negative reversions on renewed rentals and new lets contributed to a decrease in revenue from station shop rentals of 3.1% to HK$1,544 million. In response, we offered tenants flexible and/ or shorter-term leases, particularly for small and medium tenants; reviewed the tenant mix to drive rental revenue and keep retail offerings up to date; and brought in new brands to attract customers. Rental relief was offered to tenants on a case-by-case basis following the fifth wave of COVID-19 in the early part of the year. Rental reversion and average occupancy rates for our station kiosks were -14.6% and 97.3%, respectively.

During the year, we launched several promotions for station shops via MTR Mobile and MTR Points, leveraging large user bases to drive campaigns such as "MTR Shops Stamp Reward", which was designed to stimulate spending at station shops (especially during the roll-out of Government's Consumption Voucher Scheme). In April and October 2022, we distributed MTR Shops cash coupons to passengers via promotional campaigns to encourage spending. We also unveiled new shop posters at stations to showcase new brands at MTR Shops.

Our Duty Free business was impacted by the on-going closure of cross-boundary stations. In early 2023, Duty Free business resumed with the reopening of cross-boundary stations. However, its performance is expected to be impacted as compared to the past by the contracts that were renewed in adverse market conditions, and it will be dependent on patronage and turnover levels.

As at 31 December 2022, the lease expiry profile of our station kiosks (including Duty Free shops) by area occupied was such that approximately 36% will expire in 2023, 24% in 2024, 35% in 2025, and 5% in 2026 and beyond.

In terms of trade mix, food and beverage accounted for approximately 46% of the leased area of our station kiosks (excluding Duty Free shops) as at 31 December 2022, followed by cake shops at 15%, convenience stores at 15%, passenger services at 10% and others at 14%.

As at 31 December 2022, there were 1,568 station shops occupying 68,664 square metres of retail space, representing an increase of 18 shops and 385 square metres of lettable space, respectively, when compared with 31 December 2021. This was mainly due to the opening of new shops at Exhibition Centre Station.

To help non-governmental organisations and social enterprises provide services for the community, we rent them certain station shops along the Tuen Ma Line at nominal rates. In 2022, a total of 10 station shops were leased on this basis.

ADVERTISING

Revenue from advertising decreased by 6.5% to HK$836 million in 2022. This was due to the dampened economic outlook disrupting consumption-related activities and impeding the momentum of a rebounding advertising market. MTR's enhanced O+O and Out-of-Home (i.e., outdoor advertising display) offerings helped the Company capitalise under the volatile advertising market.

As at 31 December 2022, the number of advertising units in stations and trains had decreased to 43,186. This was primarily due to the fact that the new nine-car trains along the East Rail Line have less in-train card space, resulting in a reduced number of in-train tube cards.

Throughout the year, we continued our progress in transforming our media to digital advertising platforms, launching new digital formats and increasing the number of digital panels across our network. We promoted flexible packages targeting specific audiences via our audience-targeting and media-selling platform. MTR was also proud to be the first metro in Asia to offer programmatic Digital Out-of-Home trading and launch Hong Kong's first metaverse online-to-offline ("O2O") campaign on Out-of-Home media, leveraging the occasion of the 25th anniversary of the establishment of the HKSAR.

In 2022, MTR provided free advertising space to 68 non-profit organisations to help them promote their services.

TELECOMMUNICATIONS

In 2022, MTR's revenue from telecommunications decreased by 2.4% to HK$616 million. 5G services were available in 75 stations by the end of the year. We also issued a tender for a new commercial telecom system at 24 stations that can support more 5G services and provide even faster data throughput. Following the opening of a co-developed data centre service in Tseung Kwan O in February 2022, we are exploring opportunities for additional data centres.