



The Accounting and Business Management Case Competition

2008-2009

Tertiary Institute Group

Kai Tak Development Project



Hong Kong Institute of

Vocational Education (TM)

Group Leader: Lo Fong

Group Members: Au Yan Ho

Li Yan Kit

Ngai Yu Ki



Content

No	Content	Page	Remark
1	Study background	2	
2	MTR vision and mission	3	
3	Development plan <ul style="list-style-type: none"> ● Stage 1:Building residential house ● Stage2:Building commercial buildings, including shopping mall ● Stage 3:Building leisure facilities 	4-5 6 7-8	
4	Budget and profit forecast for 5 years <ul style="list-style-type: none"> ● Calculation ● Description Budget of Kai Tak Avenue Park –Recreation Park –Runway Park <ul style="list-style-type: none"> ● Calculation and description ● Product life cycle 	9 10 10 11-12	
5	Project financing method <ul style="list-style-type: none"> ● Issue of new ordinary shares ● Issue of debentures ● Bank loans 	13 14 14	
6	Marketing segmentation	15	
7	Target market	15	
8	Market positioning and competitors analysis	16	
9	Forms of promotion	17-18	
10	The goals of promotion	18	
11	Conclusion	19	
12	Appendix	20	

Study Background

Our studies on Kai Tak development focused on using the ex-airport site to provide essential support for the proposed new commercial and residential developments and leisure facilities planned at Kai Tak. Our planning concepts have injected various elements and creative ideas to make Kai Tak become more attractive and environmental.

The development scheme of targeted sites will be comprehensively planned to achieve a better utilization of land and improve the overall district environment. For building design and construction standards, much of the emphasis will be placed on environmental friendliness maintenance efficient and durability. Hence, sustainable development can be used as a way of Kai Tak development that meets the social needs of that region at present with compromising the ability of future generations to meet their own needs. This new way of thinking and acting cannot only maintain a balance between development and environmental protection, but also live in harmony with environment through active participation.



MTR Vision

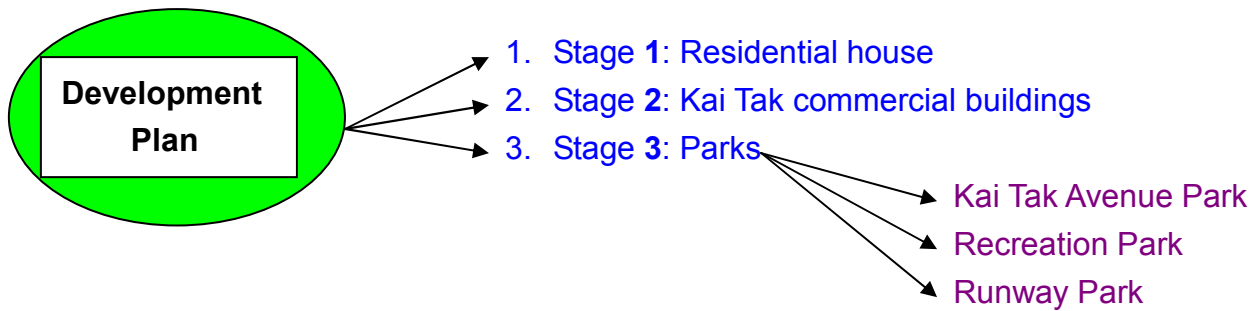
We aim to be a globally recognized leader that connects and grows communities with caring service.

MTR Mission

- Enhance **customer's** quality of life and anticipate their needs
- Actively engage in **communities** we serve
- Foster a company culture that staff can learn, grow and take pride in
- Provide sustainable returns to **investors**
- Set ourselves **new standards** through innovation and continuous improvement
- **Grow** in Hong Kong, Mainland of China and capture opportunities in Europe by extending our core competencies



Development Plan



We have been mapping out a three- building stage development plan to turn the former Kai Tak Airport into a modern and sustainable district.

Stage 1: **Building** residential house

Stage 2: **Building** commercial buildings, including shopping mall

Stage 3: **Building** leisure facilities





Stage 1: Building residential house

● 1. Residential house

It has been recognized that the scale of development should be appropriate in relation to the landscape setting in Kai Tak. A middle residential density zone is designated since these buildings will be located in front of a Victoria Harbor that provides a pleasant environment. Also, this has helped to protect the unspoiled natural landscape.



Kai Tak Crescent

Total gross floor area	150,000 sq.ft.
Total number of buildings	30
	
Number of floors	21 floors, including underground floor for car park
Number of units per floor	4 units
Location	Kai Tak 
Basic Info	Apartment, Simplex, Middle Floor Zone
Price	\$10000 per sq.ft.
Particulars	Sea & Garden Views
Size	1200 sq.ft.
Layout	<p>3 Bedrooms 2 Bathrooms 1 Living Rooms 1 Dining Room 1 Maid's Room</p> 
Details	<p>1 Terrace, 2 elevators and Car park</p> 

Stage 2: Building commercial buildings, including shopping malls and offices

● Kai Tak Commercial building (KTC)



We have designed to build the Kai Tak commercial building (KTC) to connect and grow communities with caring service. Various types of store and restaurants in the shopping mall can be chosen so as to enhance our customer's quality of life and anticipate their needs.

Office buildings will be built in order to foster a company culture and provide a comfortable working atmosphere that staff can learn, grow and take pride in.



Total gross area	600,000 sq. ft.
Total number of floors	30 floors, including 5 underground floors for car park (50 units per floor) 1 st - 10 th floors are retail space with 250 different kinds of stores and restaurants 11th-30th floors are office buildings
	<p>1st- 10th floors are retail space.</p> <p>~Specialty stores: Adidas, Nike, LV, SaSa, Bossina, Lukfook, Broadway, Trendy land, Gucci, etc.</p> <p>~Category killer: IKEA, Toy R Us, etc.</p> <p>~Department stores: Sogo, Jusco, etc.</p> <p>~Superstore: City super, etc.</p> <p>~Convenience stores: 7-11, OK, etc.</p> <p>~Exhibition centers</p>
Particulars	Sea & Garden Views
Details	Being a socially responsible corporate citizen, solar panels will be installed on surface of the buildings to trap the energy in sunlight and use it to generate electricity. In the process, people will be getting closer to using the sun's energy on a daily basis and having more research to do before the process becomes cost effective.



Stage 3: Building leisure facilities

- **Kai Tak Avenue Park –Recreation Park –Runway Park**

“Environmentally Friendly City”.

The development of the Kai Tak has taken into account the concept of sustainable development which can meet the needs of the present with compromising the ability of future generations to meet their own needs.



The planned areas will be characterized by a pedestrian- friendly environment, green neighborhoods, balanced community facilities and sustainable transport measures. Also, some areas are designated as conservation areas.

<p>Location</p>	
<p>Total gross area</p>	<p>15,000 sq. ft.</p>
<p>Facilities</p>	<p>A plenty of open space is provided in the Kai Tak, creating a pleasant living environment.</p> <p>1. Promenade</p> 

	<p>2. Children's Playground</p> 
	<p>3. Western Garden</p> 
	<p>4. Fountain Terrace Garden</p> 
	<p>5. Pavilion</p> 
<p>Details</p>	<p>Roof garden</p> <p>More flowers and grass will be planted on the top of the buildings. It can make the area become more environmental friendly and the people living here can breathe fresh air.</p> 

We hope that these measures can help maintain the environmental quality of the areas while providing developable land for urban development.

Budget and profit forecast for 5 years

	Residential house	Commercial Shopping centre	Total
	\$million	\$million	\$million
Estimated Revenue:			
Sales(2400units at \$12M each)	28800	-	28800
Annual rental income from car park (900 units at \$4000 per month)x 12 months	43.2	-	43.2
Annual Rental income from shopping centre car park (250 units at \$600 per day)x365 days	-	54.75	54.75
Annual rental income from shopping centre (Actual area 250000sq.f x \$500 psf)x12 months	-	1500	1500
Annual rental income from office(350000sq.f x \$20 psf)x12 months	-	84	84
Annual rental income for exhibition		1	1
	28843.2	1639.75	30482.95
Estimated Expense:			
Land cost	1000	300	1300
Material cost	300	150	450
Labour cost	80	50	130
Decoration	100	80	180
Drains and water mains	10	8	18
Construction cost of superstructure	10	10	20
Fire prevention installaion	15	15	30
Equipment cost	5	5	10
Other operation cost (e.g. Advertising)	1000	700	1700
	2520	1318	3838
Net profit	26323.2	321.75	26644.95

Description: In the part of Residential house, we have estimated that the gross profit through sale of residential house will be gained HK\$28843.2 million. Also, the annual revenue rental income from car park will be HK\$43.2million. On the other hand, we have assumed that the estimated expenses will spend about HK\$2520 million. Hence, if we would be able to sell the entire residential house, we would earn about HK\$26323.2 million * in net profit. In the part of the Commercial shopping centre, we have assumed that we will earn HK\$ 1639.75 million via different kinds of revenues from stores, resterants and office. Also, the estimated expenses will spend about HK\$1318 million. Therefore, the net profit in this part will be about HK\$321.75 million**.

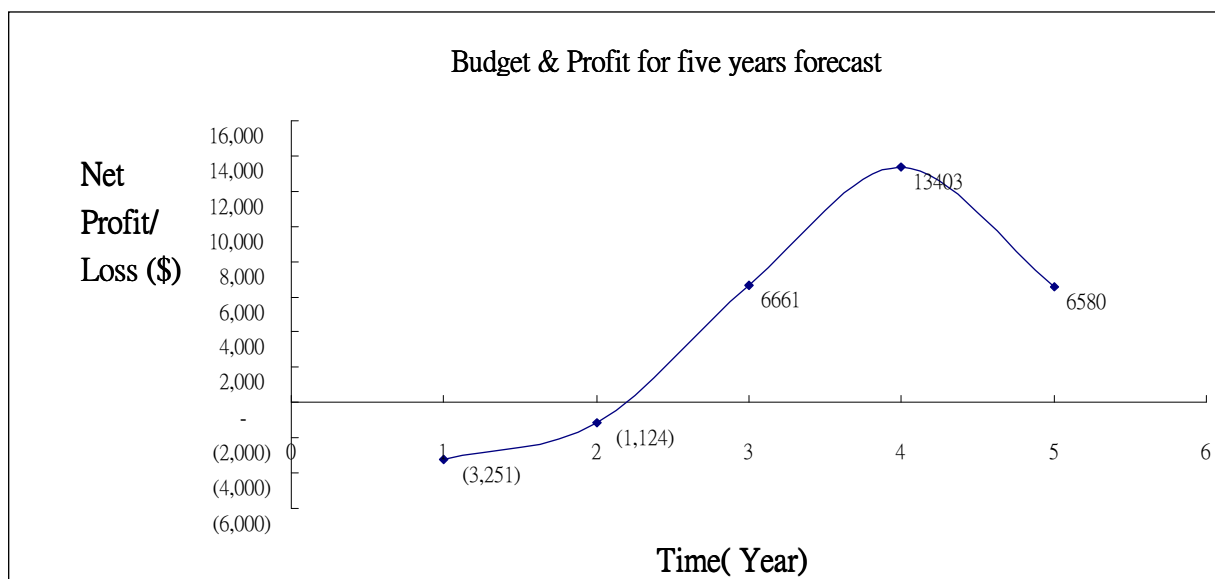
* Net profit: (HK\$28843.2 million - HK\$2520 million = HK\$26323.2 million)

** Net profit: (HK\$ 1639.75 million- HK\$1318 million= HK\$321.75 million)

Budget of Kai Tak Avenue Park —Recreation Park —Runway Park

	Promenade	Children's Playground	Western Garden	Fountain Terrace Garden	Pavilion	Total
	\$million	\$million	\$million	\$million	\$million	\$million
Estimated cost:						
Material cost	15	10	10	20	20	75
Labour cost	8	7	7	12	12	46
Land cost	40	30	30	45	45	190
Construction cost	20	15	15	25	25	100
Other expense	25	20	20	30	30	125
	<u>108</u>	<u>82</u>	<u>82</u>	<u>132</u>	<u>132</u>	<u>536</u>

In order to provide a high quality in living environment to our resident in the future, Kai Tak Avenue Park, Recreation Park and Runway Park will be built as leisure facilities. Although, there is no profit made from leisure facilities. We have assumed that the total budget for building this part will be about HK\$536 million.



This graph has been made in order to clarify the budget and profit in the following five years.

In the **Introduction stage (1st and 2nd years)**, when the residential house and commercial buildings are first launched, sales growth is slow. Profits are nonexistent in this stage because of promotion spending is relatively high to inform customers of our new residential house and get them to buy it. Hence, we have assumed that we would make net loss of HK\$ 3251 million on the construction of residential house and commercial buildings, also, HK\$ 1124 million on developing promenade, children's playground, western garden, fountain Terrance garden and pavilion.

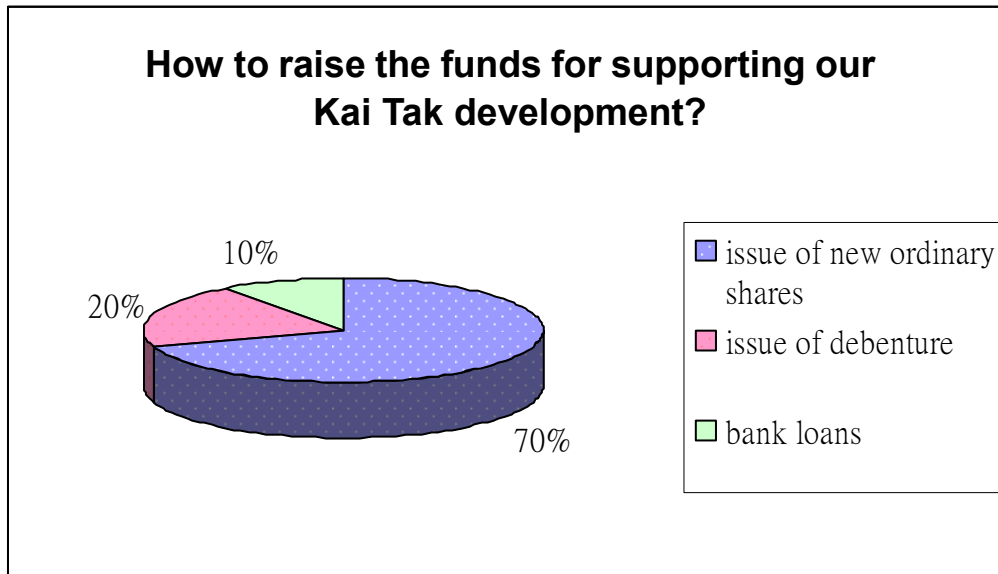
In the **growth stage (3rd year)**, sales of residential house and commercial buildings will start climbing quickly. Profits increase during this period, as promotions costs spend over a large volume and as unit operation cost fall. Therefore, we will estimate that the net profit will be about HK\$ 3251 million after minus the operation cost, HK\$ 1000 million in this year.

In this stage, our firm may face a trade-off between high market share and high current profit. By spending a lot of money on residential house and commercial buildings improvement and promotion, we will be able to capture a dominant position.

In the **Maturity stage (4th year)**, the slowdown in sales growth results in the residential house and commercial buildings have achieved acceptance by most potential buyers. In order to remain unchanged in this maturity stage for long periods, we may begin marking down prices to attract new buyers or competitors' customers, launching a better advertising campaign or using aggressive sales promotions and so on. Consequently, we has estimated that almost 3/4 residential house and commercial buildings will be sold, so we will earn the highest net profit that will be HK\$ 13403 million after minus the operation cost, HK\$ 1200 million in this year.

In **decline year (5th year)**, sales fall off and profits drop because of many reasons, including increased competition, shifts in consumer tastes and most of our residential houses have been sold. On the other hand, the rental income from car park and commercial shopping mall will remain unchanged. Therefore, the net profit will be HK\$ 6580 million after minus the operation cost HK\$ 1000 million in this year.

Project financing method



1. Issue of shares (New ordinary shares)

Since we will provide essential support for the proposed new commercial and residential developments and leisure facilities planned at Kai Tak, we need to raise funds for supporting our new development.

Advantages:

- Cost of raising funds is lower than other methods of financing.
- No financial burden of paying dividends in case of making loss.

Disadvantages:

- Diluting existing shareholding.

Result in our analysis, we has decided to raise \$35 billion funds through issue new ordinary shares.

2. Issue of bonds – (20%)

3. Bank Loans – (10%)

We would raise funds about HK\$10 billion and HK\$5 hundred million by issue bonds and from the bank respectively.

HKD Prime Rate

Hang Seng's HKD Prime Rate (As at 06-03-2009 19:44)

5% p.a.

Customers are advised that there is another prime rate in the market, which is 5.25% p.a.

[Apply for Overdraft Facility](#) [Apply for Mortgage](#)

Last five HKD prime rate change records:

Effective Date	Hang Seng's HKD Prime Rate
10-11-2008	5.00% p.a.
20-03-2008	5.25% p.a.
01-02-2008	5.75% p.a.
24-01-2008	6.00% p.a.
13-12-2007	6.75% p.a.

(The above information is for reference only.)

[Important Message to Readers and Internet Privacy Policy Statement](#)

© Hang Seng Bank Limited



Advantages:

- Raising fund not only to remind the legal reserve fund, but also to cause lower price
- Since the company only pays the fixed interest rate to the investors every year, the company may have the sufficient time to prepare settlement of interest.
- The interest settlement rates can be fixing around 5%p.a for 12 months that is the lowest prime rate comparing with other years.



Disadvantage:

- If the market interest rate is not stable, it may fall. Since the fixed rate of bond's interest rate has been already scheduled, the company needs to pay higher interest while comparing with the market interest rate.
- A bond generally involves a promise to repay the principal and interest on specified dates no matter the company is profit or loss in that year.
- We need to pay the loan interest to Hang Sang Bank every year.

Marketing segmentation

Income segmentation would be used since buying property is very costly. People may want to pay for the property in monthly installment payments or others. Actually, they usually use savings and mortgage loan. Therefore, buying property depends on the savings and purchasing power of consumers.

We divide the market into four segments based on their monthly income, namely (a) \$50,000 or below, (b) between \$50,001 and \$100,000, (c) between \$100,001 and \$150,000, and (d) above \$150,000.



Target marketing

Our choices are (b) between \$50,001 and \$100,000 and (c) between \$100,001 and \$150,000 for our target marketing since those people are able to fulfill our offered selling price of property.

Market positioning and competitors analysis

Our positioning in consumers' mind

Hong Kong people always consider that properties developed by MTR such as Heng Fa Chuen and Telford Garden are mainly for middle class rather than upper class or working class, so mostly likely our buyers come from middle class' people. In other respect, the people of our target segments mainly belong to middle class. Therefore, the market positioning is matched with our target segments.

Our brand's unique benefits

Most of properties developed by MTR are near to MTR station, so the development of transportation in Kai Tak is not expected. Since many people of middle class are white collars, they highly care about the degree of convenience of transportation. Kai Tak Station will be near our property and it will be located on Shatin to Central Link that will start operation in 2015.



Competitor and environment analysis

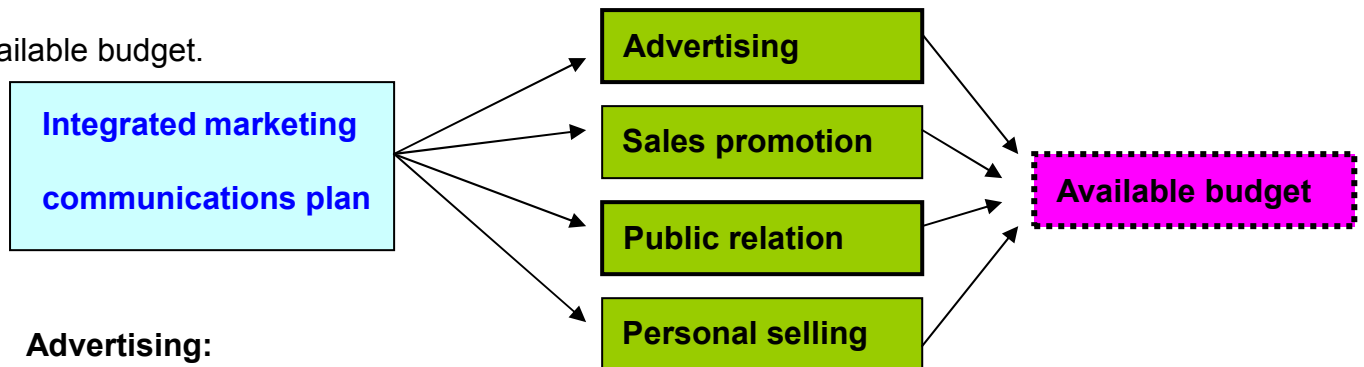
Kai Tak is located in Kowloon City District which is a relatively low density area. Recently, this district has few new development projects, so the competition among new properties is not very intense.

Grand Waterfront is one of the relatively new properties in Kowloon City District. It is jointly constructed by Henderson Land Development Co. Ltd. and The Hong Kong and China Gas Co. Ltd. Since Henderson Land Development operates property for a long period and specially has rich knowledge and human resources on this aspect, the quality of its construction could be guaranteed.

Although we lose slightly in this aspect, we believe our unique advantage can cover this defective.

Forms of promotion

It is suggested in integrated marketing communications plan which depends on the available budget.



1. Advertising:

It can be presented through mass media such as newspaper, TV and Internet. We can also make posters for advertising on public transportation, stations and stops.



2. Sales promotion:

In the initial stage of selling, short-term incentives such as discounts and gifts can be offered for a limited time to attract buyers or potential buyers.



3. Public relation:

A good public relation is an important element of promotion. It cannot be obtained in short-term by performing some activities. Luckily, MTR has this competitive advantage to have a good “corporate image”. We should keep and foster this advantage. In recent year, MTR has been participating community and charitable activities actively such as “MTR Hong Kong Race Walking”. Those activities should be held continuously. MTR also provides many channels to customers for enquires or suggestions to improve our quality of services.



4. Personal selling:

In order to sell our property efficiently and effectively, we would like to cooperate with other famous property agencies such as Midland Holding Limited, Centaline Property Agency Limited, Ricacorp Properties Limited to help us carry out personal selling. MTR only provides directions to property agencies to perform. Model flats could be placed in famous plazas to attract potential buyers. Property agencies would designate more sales in some busy places to perform promotion. MTR will also provide places in subsidiary plazas for agencies' uses.



The goal of our promotion

The property will be placed in early stages of the product life cycle in the market after completion, so informative promotion is more prevalent during this stage. Some useful information should be provided in order to explain the purpose and benefits of our property. For example, we tell to our customers that nearly half of the apartments of the property could see Vitoria Harbour and the others have garden view, so that we can attract their attention on our property.



Conclusion

Based on our research and analysis, we suggest that the MTR **should participate** in the Kai Tak development project.

According to the Budget and profit forecast for 5 years, we would suffer a loss in an early stage of development, but this project would bring us significant revenue and provides stable profit for MTR in subsequent years.

On the other hand, the problem of raising funds for our development plan is not a main difficult event for us. As we have developed a good “corporate image” and credit ratings already. The investors will feel relieved to invest their money in our company. Therefore, we will have HK\$ 5 billion that carrying on this project.

Lastly, we have gained a lot of good experience in development of residential and commercial projects, so we are confident in doing well in this project. In addition, we have a practicable development plan and effective promotion.

All in all, we recommend that MTR **should participate** in this Kai Tak development project.



Appendix

No	Appendix
1	MTR Annual Report 2007 – A New Era
2	MTR mission: http://www.mtr.com.hk/eng/investrelation/interim2008/E103.pdf
3	MTR web site, Investor’s Information: http://www.mtr.com.hk/eng/investrelation/financialinfo.php#02
4	MTR 2008 Interim Report MTR Corporation Limited: http://www.mtr.com.hk/eng/investrelation/interimrpt2008.htm
5	MTR CEO’s Review of Operations and outlook http://www.mtr.com.hk/eng/investrelation/interim2008/E106.pdf P.16-17
6	Heng Sang’s HKD Prime Rate : http://www.hangseng.com/e_rate/hkd_prime_rate.asp
7	The information of “Shatin to Central Link”: http://en.wikipedia.org/wiki/Shatin_to_Central_Link
8	The information of Grand Waterfront http://www.hld.com/property/localsales/kowloon/grandwaterfront/index.html
9	Public relation of MTR: http://www.mtr.com.hk/chi/publications/index.html
10	Stately Home: http://www.statelyhome.com.hk/Home.aspx
11	Stately Home- Regalia Bay http://www.statelyhome.com.hk/PropertyDetail.aspx?ID=e4ad7190-e88e-400c-84aa-e6a70255e7a1
12	Infrastructure & Logistics, News - <u>Travelling a greener path</u> http://www.news.gov.hk/tc/category/infrastructureandlogistics/080311/html/080311tc06004.htm
13	Kai Tak- video: http://www.youtube.com/watch?v=gsI0XdUezZ0&feature=related
14	Shatin-Central link construction –video : http://www.youtube.com/watch?v=AEHQySBYDqM