



Grand Harbour

Be Grand Live Grand Harbour



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Agenda

1. Background of Kai Tak
2. Project Feasibility
3. Development Plan
4. Project Budgeting
5. Project Financing
6. Profit Forecasting
7. Marketing Strategies
8. Conclusion



Background of Kai Tak



Future Kai Tak Development Project



Benefits of Kai Tak project



- Government Support
- Heart of East Kowloon district

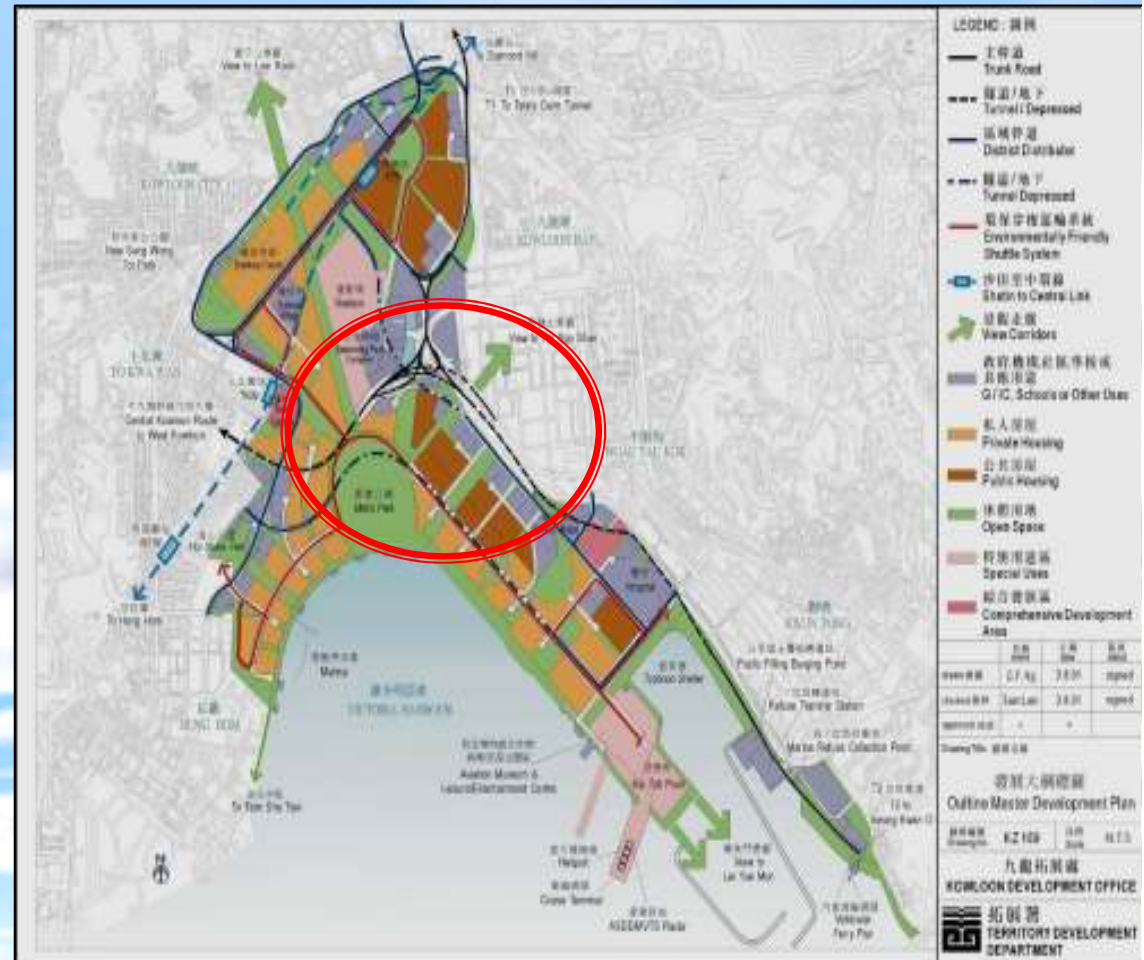




表 4 按區議會分區及住戶每月入息劃分的家庭住戶數目
Table 4 Domestic Households by District Council District and
2008 Monthly Household Income

區議會分區 District Council district		住戶每月入息 (港元) Monthly household income (HK\$)			總計 Total	住戶每月入息 中位數 (港元) Median monthly household income (HK\$)
		<10,000	10,000- 29,999	≥30,000		
中西區 Central & Western	數目 No. 百分比 %	17 400 18.8	32 300 34.8	43 000 46.4	92 700 100.0	27,000
灣仔 Wan Chai	數目 No. 百分比 %	10 600 18.4	18 100 31.3	29 100 50.3	57 800 100.0	30,000
東區 Eastern	數目 No. 百分比 %	39 800 20.6	80 000 41.5	73 100 37.9	192 900 100.0	22,000
南區 Southern	數目 No. 百分比 %	18 500 21.7	35 000 40.9	32 000 37.4	85 500 100.0	21,500
油尖旺 Yau Tsim Mong	數目 No. 百分比 %	29 400 28.1	45 000 43.0	30 100 28.9	104 500 100.0	17,700
深水埗 Sham Shui Po	數目 No. 百分比 %	45 900 36.3	54 700 43.3	25 800 20.4	126 300 100.0	13,800
九龍城 Kowloon City	數目 No. 百分比 %	28 900 24.6	47 500 40.3	41 400 35.1	117 800 100.0	20,000
黃大仙 Wong Tai Sin	數目 No. 百分比 %	41 700 30.2	71 200 51.6	25 100 18.2	138 100 100.0	15,300
觀塘 Kwun Tong	數目 No. 百分比 %	60 800 31.2	91 100 46.8	42 700 22.0	194 600 100.0	15,100

Source : Census and Statistics Department
March 2009

Limitations of Kai Tak project



No further land reclamation



Fixed land usage



Limitations of Kai Tak project



Wall effects and urban ventilation





MTR's Background

MTR's Property development :

Profit from property development in 2007

\$8,304 million

Revenues from property rental, management and other businesses

↑ 24.3%



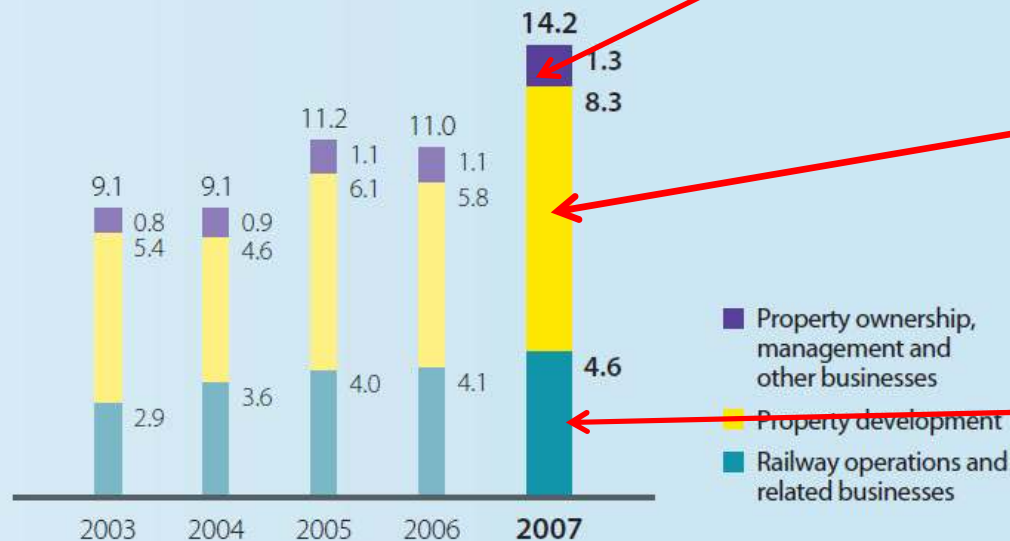
MTR's Background

Operating Profit Contributions

Operating Profit Contributions

Steady growths were maintained in all segments with significant profit increase from property development.

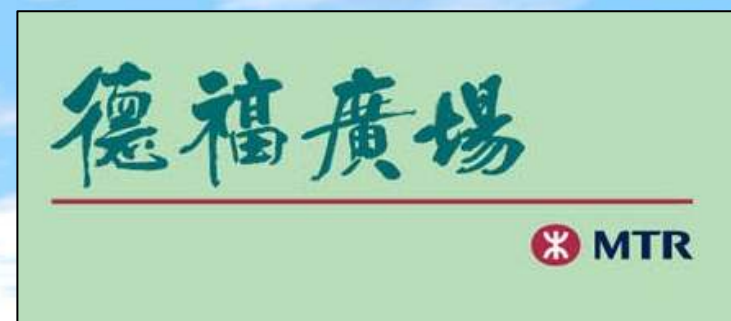
in HK\$ billion





MTR Background

List of MTR's properties



Proposed Development Plan



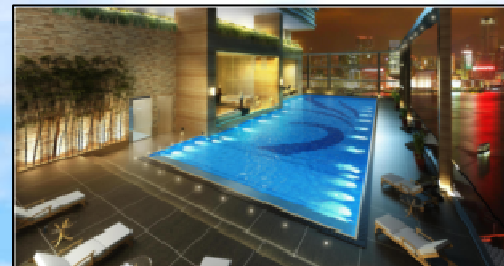
Type : Mixture of residential and recreational area

Location : Above future Kai Tak MTR station

Development Area : 100,000 sq.m

Development details:

- 6 residential condos
- Shopping mall
- Leisure facilities
- Car park facilities



Height : 50 stories **Units size** : 50 to 110 sq.m

Proposed Development Plan



Classes of each condo

Classes	SOHO	Harmony	Premier	Supreme
Floors	1-15	16-40	41-45	46-50
Number of units	6	3-4	3	2
Gross area (sq. feet)	600	800	900	1,200
Saleable area (sq. feet)	500	700	800	1,100
Target buyers	Small-size family and visiting tourists	Medium income	High income	Executives



Proposed Development Plan



Name: **The Grand Harbour**

THE GRAND
HARBOUR 帝豪灣

Magnificent Victoria Harbour's view with excellent facilities





Development Strategies

Search possible construction companies

- Hip Hing Construction Co.Ltd.
- E Man Construction Co.Ltd.



Roles of MTR	Roles of Construction Companies
Sale	Construction
Promotion	Expertise advice
Property Management	



Development Strategies

Construction period: 5 years

Breaks into **3 development phases**

	First Phase	Second Phase	Third Phase
Year	2 years	2 years	1 year
Completed Buildings	<ul style="list-style-type: none">•1 condo•Shopping mall	<ul style="list-style-type: none">•2 condos•Recreation Facilities	<ul style="list-style-type: none">•2 condos

Project Budgeting



Our proposed budget : \$5 billion



Project Budgeting

Development cost

Land price and land premium	\$1.7 billion
Site formation and foundation	0.1 billion
Superstructure and substructure	2.5 billion
Professional fees 2%	0.05 billion
Promotion costs	0.015 billion
Sundries (handover expenses)	0.05 billion
Interest Expenses	0.107 billion
Total development cost	<u>\$4.522 billion</u>



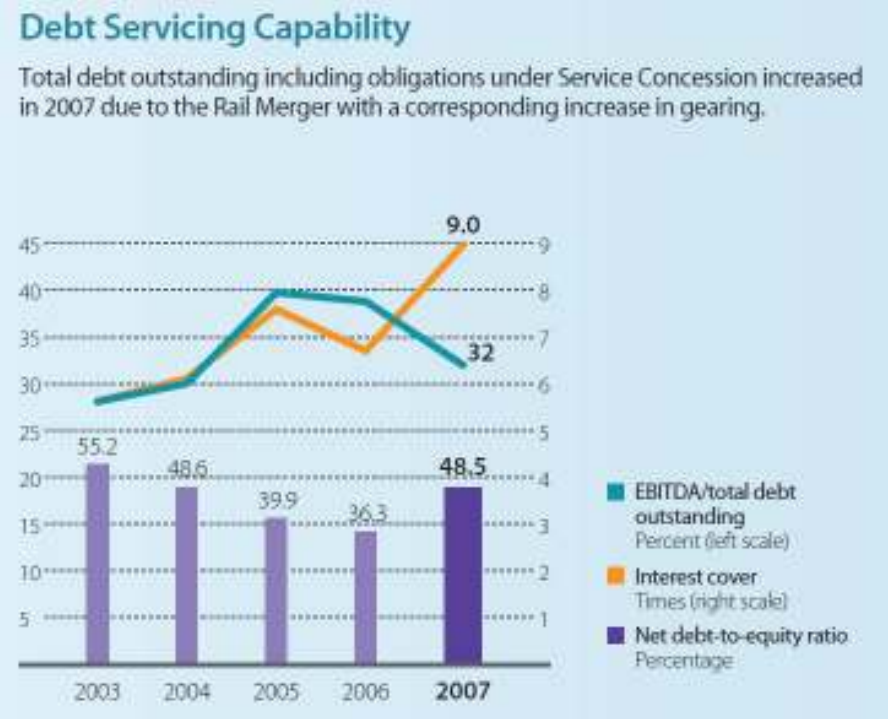
Project Financing

MTR's debt to equity ratio : 48.5%

MTR's

source of financing

- Syndicated loans
- Bonds
- Common Stock



Project Financing



Possible financing methods

- Syndicated loans
- Government fund
- Cooperates with other developers
- Provides right issues
- Issue common stock, preferred stock or bonds
- Real Estate Investment Trust (REIT)

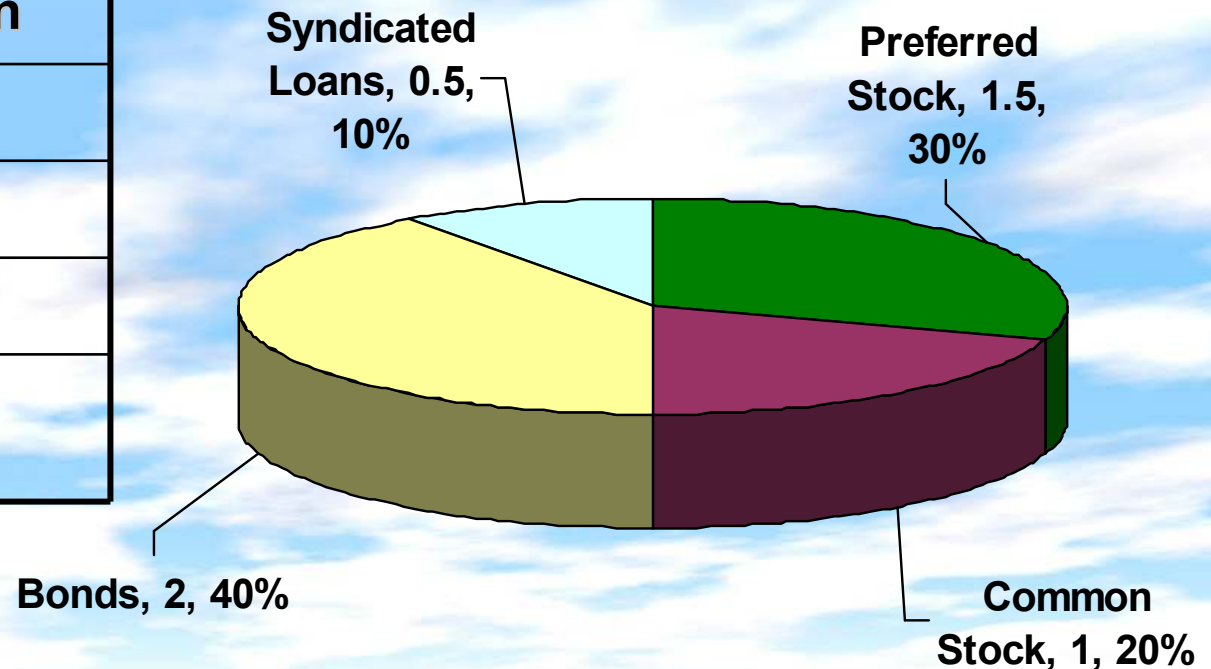


Project Financing

Project financing methods and proportion

Project Financing (In Billion)

	Billion
Preferred stock	1.5
Common stock	1
Bonds	2
Syndicated Loans	0.5



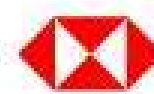
Project Financing Syndicated loans



- Sustain daily operations
- Internationally recognized credit ratings
- Reduce interest expenses



HSBC



citibank



Implementation:

- \$0.5 billion
 - 5-year revolving / term loan facility
 - Interest rate 1.6% per annum

Project Financing Preferred stock



- Hybrid security
- No voting right
- Redeemable after 5 years

$$P = \frac{D}{R} = \frac{\$1.7}{10\%} = \$17 / \text{Share}$$

Project Financing Common stock



- Defensive stock
- Not correlate with the economic situation
- No commitment to dividend

香港鐵路有限公司 (0066.HK)	最新價	19.440	↑ 0.40 (2.10%)
			2009年4月17日 HKT 已收市

Project Financing

Common stock



Assume the required return is 10%, the issue price of common stock is \$15.7 per share.

$$P = \frac{D_1}{(R - g)} = \frac{\$0.45}{(10\% - 7.14\%)} = \$15.7 / \text{Share}$$

Remarks: $g = \frac{D_1 - D_0}{D_0} = \frac{\$0.45 - \$0.42}{\$0.42} = 7.14\%$

D_1 = Current year dividend (2007)

D_0 = Last year dividend (2006)

Project Financing Bonds



- Good credit ratings

Credit ratings	Short-term ratings*	Long-term ratings*
Standard & Poor's	A-1+/A-1+	AA/AA
Moody's	-/P-1	Aa2/Aa2
Rating and Investment Information, Inc.	a•1+/-	AA/AA

- About 50% in the debt to equity ratio
- Optimistic in financing growth with debt

Project Financing Bonds



- Interest is tax-deductible
- Repaid in cheaper dollars during inflation periods
- Control remains undiluted
- Financing flexibility
 - Call provision

Project Financing

Callable Bonds



Assume market interest = 1% (According to HIBOR 1%),
Coupon interest = 3% per annual,
Par Value= \$1000, Coupon = \$30 and Year = 10 years

$$\text{Annual Coupon} = \text{Coupon Rate} \times \text{Par Value} = 3\% \times \$1000 = \$30$$

$$\begin{aligned} \text{Bond Value} &= C \left[\frac{1 - \frac{1}{(1+r)^t}}{r} \right] + \frac{F}{(1+r)^t} \\ &= 30 \left[\frac{1 - \frac{1}{(1+0.01)^{10}}}{0.01} \right] + \frac{1000}{(1+0.01)^{10}} = \$1189 \end{aligned}$$



Profit Forecasting

Revenue from property sale

Classes	Gross Size (sq.feet)	No of floor	No of units per sq floor	Total Area (sq.feet)	No of buildings	Selling price per sq.feet	Sale Proceed million (\$)
SOHO	600	15	6	54000	6	5000	1,620
Harmony	800	25	4	80000	6	7500	3,600
Premier	900	5	3	13500	6	12000	972
Supreme	1,200	5	2	12000	6	12000	864
						Total: \$7,056	



Profit Forecasting

Revenue from parking lots rental

Car parking lots (a)	Price per month (\$) (b)	No of buildings (c)	Annual income (\$) (a*b*c*12)
84	1000	6	6.048Million
300	1200	1 shopping mall	4.320Million
			Total: 10.37Million

Profit Forecasting



Statement of cash outflow

In million (\$)	Yr0	Yr1	Yr2	Yr3	Yr4	Yr5	Total
Land cost and land premium	(1,700)						(1,700)
Site formation and foundation	(100)						(100)
Superstructure and substructure		(312.5)	(312.5)	(625)	(625)	(625)	(2,500)
Professional fess	(5)	(5)	(10)	(10)	(10)	(10)	(50)
Marketing costs		(3.75)	(1.5)	(6)	(1.75)	(2)	(15)
Sundries		(4.3)	(4)	(15)	(10)	(16.7)	(50)
Interest		(21.59)	(21.59)	(21.59)	(21.59)	(21.57)	(107.93)
Total cost	(1805)	(347.14)	(349.59)	(677.59)	(668.34)	(675.27)	(4,522.93)



Profit Forecasting

Statement of cash inflow

In million (\$)	Yr0	Yr1	Yr2	Yr3	Yr4	Yr5	Total
Revenue (flat)		588	588	1,764	1,764	2,352	7,056
Car park (flat)		6.05	6.05	6.05	6.05	6.05	30.25
Car park (shopping mall)		4.32	4.32	4.32	4.32	4.32	21.6
Total revenue	N/A	598.37	598.37	1774.37	1774.37	2362.37	<u>7,107.85</u>

Profit (before tax) 2,584.92 million

Profit (after tax) @ 16.5% 2,158.41 million



Expected Return on Investment:

$$(2,158/5) / 4,522 \times 100\% \\ = 9.54\%$$



Profit Forecasting

Statement of net income

In million (\$)	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4
Accumulated cost	(1,806)	(2,152.14)	(2,501.73)	(3,179.32)	(3,847.66)
Accumulated revenue	-	598.37	1,196.74	2,971.11	4,745.48
Net income/loss	(1,806)	(1,553.77)	(1,304.99)	(208.21)	<u>897.82</u>

In year 4, accumulated revenue > accumulated cost
Break even point is at year 4



Profit Forecasting

Statement of cash inflow and outflow

In million (\$)	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Cash outflow	-1805	-325.55	-328	-656	-646.75	-653.7
Cash inflow		598.37	598.37	1774.37	1774.37	2362.37
Overall	-1805	272.82	270.37	1118.37	1127.62	1708.67

Net Present Value (NPV) = \$2,055 million

@ 4.10% Weighted Average Cost of Capital (WACC)

Internal rate of return (IRR) = 28.49%

Marketing Strategies

Promotion Strategy

- Advertisement
 - Trains and MTR Stations, Television and Magazine





Marketing Strategies

Promotion Strategy

- Special and innovative channels
 - E.g renting a commercial building on Hong Kong Island near Victoria Harbour and laying the advertisement outside the building's wall.





Marketing Strategies

Promotion Strategy

- Special and innovative channels

Be Grand, Live Grand Harbour





Marketing Strategies

Pricing Strategy

- Market research:
 - Le Billionnaire
 - The Latitude



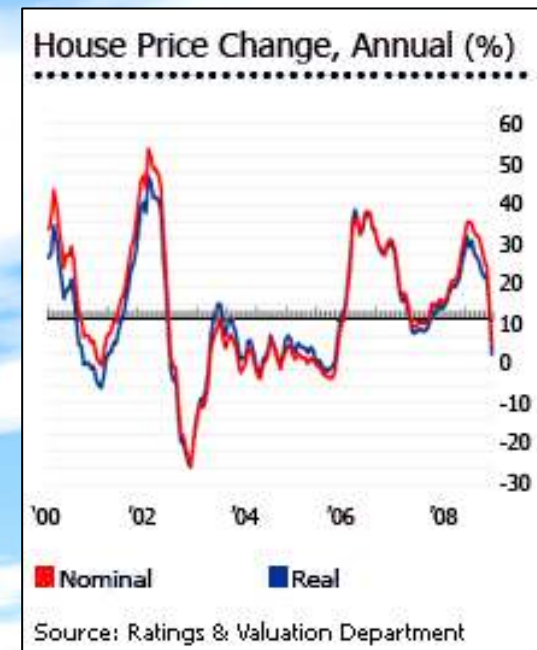
- Average unit price: \$6,000 to \$13,000 per sq. feet
- The Grand Harbour units' price: \$5,000 (SOHO), \$7,500 (Harmony) and \$12,000 (Premier and Supreme) per sq. feet



Marketing Strategies

Pricing Strategy

- Adjusting to the current market and the competitors' price rate
- Locating the acceptable price
- Receiving public's response





Marketing Strategies

Sale Strategy

- Cooperate with property agency and brokerage
 - Centaline, Midland Realty and Ricacorp
- Commissions scheme to property agents



Conclusion



We strongly recommend participating in Kai Tak Development Project

- Realise MTR's Mission : Enjoy the ride to great living
- Profitable project
 - Expected Return on Investment 9.54%
 - Upward trend in Kai Tak's property value
 - Net present value 2,055 million
- Increase the market share in property development

Grand Harbour

Be Grand Live Grand Harbour

~~Thank You~~

Q & A

Wong Chun Fat (Heero)
Ng Wai Ka (Ryan)
Lo Lok Hin (Enzo)
Chan Siu Lung (Black)

