

**NEW WORLD INFRASTRUCTURE LTD :  
COME ON CHAIRMAN HENRY CHENG, TELL IT THE WAY IT IS**

While one has to gulp at the speed at which publicly listed New World Infrastructure Ltd has growth in the past 5 Financial Years, and at the vastness of its empire in the world's most populous country, the People's Republic of China (PRC), actually, considering the amount of money that the Company has spent over the past 5 Financial Years, New World Infrastructure, really, has little about which to crow.

For the Financial Year, ended June 30, 2000, New World Infrastructure reported a Turnover of about \$HK987.83 million, which represented an increase of about 3 percent over the Turnover, reported for the 1999 Financial Year.

The Net Profit Attributable to Shareholders rose from the 1999 Figure, of about \$HK880.02 million, to the 2000 figure of about \$HK1.27 billion, a 44-percent increase, Year-on-Year.

All this looks lovely, of course, except when one starts to look at the hairs in the New World Infrastructure 'egg'.

**The Wuhan Disaster**

New World Infrastructure's 2000 Turnover, in terms of toll income (income derived from the operations of its interests in roads and bridges in the PRC), fell, in the last Financial Year, from the 1999 figure of about \$HK621.37 million to the 2000 figure about \$HK585.91 million.

In respect of roadways, the Company states: *'The Road Sector is the most extensive segment of the NWI (New World Infrastructure) portfolio ... In the China-Hong Kong region NWI has invested in 35 roads and made strategic investments in Sichuan Expressway Company Ltd and Jiangsu Expressway Company Ltd. Covering a total length of 1,179 km (kilometers), NWI roadways encompass four provinces, (Guangdong, Guangxi, Shanxi and Hubei) one municipality (Tianjin) and one Special Administration (sic!) Region (Hong Kong) ...'* (Pages 42 – 46 of the 2000 Annual Report of New World Infrastructure)

As for bridges, Page 66 of the 2000 Annual Report of New World Infrastructure states: *'NWI has five bridge projects located in Guangdong Province, Wuhan City and Tianjin Municipality. All these bridges are in areas with sound economic prospects and are spread across the southern, central and northern regions of China. Nine bridges with a combined length of 11.1 km compose the NWI portfolio and all are fully operational as of FY (Financial Year) 2000.'*

According to Page 193 of the 2000 Annual Report, the Attributable Operating Profit from New World Infrastructure's interests in the operations of roads and bridges, over the past 2 Financial Years, were:

	2000 Financial Year	1999 Financial Year	Increase/(Decrease)
Roads	\$HK391.65 million	\$HK356.02 million	10 percent
Bridges	\$HK151.37 million	\$HK165.60 million	(8.59 percent)
<b>TOTALS</b>	<b>\$HK543.02 MILLION</b>	<b>\$HK521.62 MILLION</b>	<b>4.10 PERCENT</b>

For subscribers, who are interested to learn the reasons that there was an 8.59-percent drop in the Attributable Operating Profits from the operations of bridges between the 1999 Year and the 2000 Year, one has to scan the 2000 Annual Report, quite carefully.

Managing Director Douglas Chan Wing Tak, in his Report to Shareholders, at Page 23 of the 2000 Annual Report, states: *'The AOP (Attributable Operating Profit) for the Bridge Segment* (of the New World

Infrastructure Group) decreased by 9% to HK\$151.4 million, compared with HK\$165.6 million in FY1999. Although the Wuhan Bridges situation has caused AOP to be reduced significantly, the decrease in AOP for the segment was in fact modest due to an increased contribution from Guangzhou Three New Bridges ("GTNB").'

The decrease, to which Managing Director Douglas Chan Wing Tak is referring, is stated in some detail at Page 70 of the 2000 Annual Report:

*'Wuhan Bridge Development originally includes the Yangtze River Bridge No. 2, Han River Bridge No. 1 and Han River Bridge No. 2, all of which are located in Wuhan City, Hubei Province. Yangtze River Bridge No. 2 connects the Hankou and Wuchang districts while the two Han River Bridges link the Hankou and Hanyang districts. The total length of the three bridges is 4 km. On 16 June 1999 a toll restructuring took place and the two Han River Bridges ceased collecting tolls. The average daily traffic flow for FY1999 included all three bridges while this year accounts for traffic flow only from the Yangtze River Bridge No. 2.'*

### ***'Outlook***

*'After toll collection for Han River Bridge No. 1 and No. 2 being ceased by government order, the Wuhan government took remedial action by doubling toll rates and implementing administrative measures to protect the toll income of Yangtze River Bridge No. 2. Other measures are being considered to compensate WBD.'*

If the PRC Government is to be blamed for this cock-up (because that is what it is, regardless of waffle to the contrary, since one would have thought that, prior to embarking on the great expense of building of the Han River Bridges, Numbers 1 and 2, New World Infrastructure would have obtained a bullet-proof contract from the Central Government Authority in Beijing, guaranteeing certain conditions, being precedent, prior to the first spadeful of mud, being dug), then, one has to ask the question: For what reason did the daily traffic flow drop between the 1998 Financial Year and the 1999 Financial Year, from 114,277 to 103,363?

And it fell to just 41,084 in the 2000 Financial Year.

In the 1998 Financial Year, there were 3 bridges operational, rising to 5 bridges in the 1999 Year, and there were 5 bridges, operational in the 2000 Financial Year. (Page 194 of the 2000 Annual Report)

Finally, on this topic, from Wuhan, New World Infrastructure logged in about \$HK187.80 million in the 2000 Financial Year. This compared with a 1999 Turnover from this region of the PRC of about \$HK257.01 million, a drop of nearly 27 percent, Year-on-Year.

### **Is It Worth It ?**

The amount of money, spent by New World Infrastructure in respect of its interests in roads and bridges since the Company first got cracking on building them, since 1995, has been not less than \$HK7.61 billion. (Page 194 of the 2000 Annual Report)

On the basis of the total amount of money that has been outlaid in the creation of New World Infrastructure's interest in roads and bridges, now operational in the PRC, the Company obtained a Gross Return on Assets Employed of about 7.10 percent in the 2000 Financial Year.

That figure of 7.10 percent, however, is highly suspect because it was calculated before the inclusion of Operating Costs, Finance Costs and Taxes, just to mention 3 important charges to be deducted from the Gross Operating Profits from this category of revenue.

There is no accurate method by which TARGET can isolate the costs that were attributable to the operations of the roads and bridges in the 2000 Financial Year, but it is a safe bet that, had TARGET been able to isolate them, it would have indicated that only a pittance had been obtained from these operations.

As will be seen, near the end of this report, a pittance, actually, is all that New World Infrastructure is earning from recurrent sources of revenue.

TARGET's statement is based, in part, on little entries, dotted here and there in the 2000 Annual Report of the Company, entries, such as are shown on Page 153 of the Report, under Note 4, 'Operating Costs':

	2000 (\$HK'000)	1999 (\$HK'000)
Impairment Losses on Other Investments	250,557	245,809
Depreciation	153,918	84,265
Management Fees Paid in Connection with Toll Collection, Maintenance and Management Services	58,642	55,299
Auditors' Remuneration	5,492	4,941
Rental for Leased Premises	7,316	5,189
Loss on Disposal of Fixed Assets	11,298	42
Amortisation of Cost of Investment in a Co-operative Joint Venture	1,534	1,534
Provision for Payments on Account of Proposed Joint Venture	20,750	6,482
Exchange losses	37,255	3,336
Staff Costs	79,817	65,112
Retirement Benefit Costs	3,784	2,585
Other Operating Costs	49,524	52,271

The items, that must be charges against the revenue, received from New World Infrastructure's interests in roads and bridges, now operational in the PRC, ... [CLICK TO ORDER FULL ARTICLE](#)

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