

CHAPTER I

INTRODUCTION

A Historical Approach:

The North Eastern Transport Service Limited was launched on 13th April 1946 with an authorised capital of \$150,000/-. However it started with an issued and paid up capital of \$89,000/- most of which was in kind - 27 second hand buses. These were valued at \$2,000/- each and formed the major part of the contributions from the shareholders who were mostly pre-war transport operators. The company started its operations with only \$19,000/- ready cash. By 1951 the issued and fully paid capital rose to \$101,000/-. In the same year and as a result of petitions to the then British Advisor by those who were excluded the Government ordered the company to operate 30 new buses in 6 months of the issue of the order. With a great deal of difficulty the company managed to satisfy the requirement of the Government. From then on its monopoly position was assured but its troubles were not yet over. Within the next four years, in 1952 and 1956 the company faced serious industrial actions from its employees. As a result of the latter strike the company went into a serious financial difficulty and was advised to seek the assistance of the RIBA. In fact it was virtually taken over by RIBA in October 1957. Its authorised capital was raised to \$1,250,000/-, ordinary shares of \$1/- each par value and \$250,000/- preference shares of \$1/- par value. The RIBA bought \$647,000/- ordinary shares and \$200,000/- preference shares. In addition RIBA also bought \$521,380's worth of debentures, secured against all the existing properties and those that will be acquired and also against the goodwill of the company, and made an unsecured loan of \$958,000/-. So by 1957 RIBA had planted \$847,000/- in owners equity and approximately \$1.5 million in credit and as a result it acquired three seats out of five on the Board of Directors of the company.

The downward trend of the company's fortunes did not end there. At the end of 1957 the statements showed that the company had made a net loss of \$778,000/-. However things improved in the next year when the loss was reduced to just over \$7,000/-. In 1959 the company made a record profit of \$357,736/-. By 1961 the company was able to recoup all losses and declared a dividend on preference shares.

Source of Finance^x

In the matter of the sources of finance one look at the balance sheet of the company will show that the main source of finance for this company is the Rural Industrial Development Authority (RIDA) which is the major shareholder of the company with 647,000 shares out of the 750,000 issued and fully paid ordinary shares. Together with 200,000, 6% Redeemable Preferred Shares (\$1/- each) the RIDA's contribution to the owner's equity of the company amounts to 89% of the contributed capital. This in turn amounts to 58% the total assets. Also the only long-term creditor of company is the RIDA. Long-term liabilities which consists of \$ secured debentures (\$212,218) and long-term loan (\$90,000) makes up 22% of the total assets.

Earnings appear to be a relatively insignificant source of finance so far. This is due to the fact that the company had made large amounts of losses recently and thereafter profits had not been large except for the year 1959.¹

It is the policy of the government to restrict the ownership of this company to Malays. Capital for investment among the Malay public is very scarce and what little there is, is not attracted to this company because of its low returns.

^x This section is based on the balance sheet of the company as per December 31 1962. This was the latest balance sheet available at the time of investigation (1st half of May 1964). See Appendix A.

¹ See Appendices A & E