

# the method is the thing

THE MARKET SAW SOME INTERESTING METHODOLOGY in January when Costraco Holdings Ltd. (Hongkong) (CH) and Kang Kock Seng and Associates (KKS) (a group of Malaysian investors) made a reverse takeover of General Lumber (Holdings) Bhd. (GLH) without subjecting shareholders to any capital reduction.

Costraco originally had close ties with Ralli International, Ralli still holding some shares in Hongkong, but the link is almost completely broken now. The GLH takeover was, in fact, effected by a new company formed CH/KKS.

Step by step, the technique was this: CH/KKS established a new Malaysian company, General Veneer and Plywood, with paid-up capital of \$4.2 million and held the shares in ratio 40 per cent Costraco, 60 per cent KKS. GLH then held an EGM and authorised issuance of seven million new shares at par to CH/KKS for cash. GLH simultaneously bought the newly-established company for \$7 million cash. This meant a facto exchange of shares at a net asset backing of 60 cents per GLH share, entailing no capital reduction.

General Veneer, now with \$4.2 million cash, is a GLH subsidiary with cash available for working capital. Three former executive directors of GLH resigned but original board chairman and managing director Dato Chan Peng Hong was re-appointed to the board as non-executive chairman. The new directors of GLH are: Dato Chang Peng Hong, Tan Sri Nik Ahmed Kamil, Ng Chin Hong, Kang Kock Seng (managing director, United Malayan Banking Corporation, A. Faber chief executive) I.C. Buchanan (chief financial officer) and Cheam Tat Pang.

It is well known that GLH has long been a sick company, burdened with a \$5.7 million overdraft and \$1.2 million Malaysian government (MIDF) loan.

However, the company, which buys timber and sells mainly in the American market, has some attractive subsidiaries and a well-established trading network.

These subsidiaries include General Trading Corporation in Singapore, with two Australian associates, General Fabricators and Builders, which has a Malaysian property developer's licence, now almost impossible to obtain, as well as eight acres of land just outside Kuala Lumpur — the new management will be looking into the prospects for property development and is already involved in a big \$9-million development project in Indonesia, with a built-in 56 per cent profit margin, according to the management, and General Sawmillers. GLH also has the largest kiln capacity in Malaysia.

Costraco, which deals in everything from commodity trading to sawmill and printing equipment, had been watching GLH for some time, anticipating the company's troubles. Costraco's own timber business was growing to an extent that made the acquisition of a firm like GLH very valuable. One of the businesses Costraco will now try to develop is knockdown furniture and the firm also expects substantial expansion in many directions in Indonesia. Despite the poor health of GLH at the takeover point, Ian Buchanan, the new chief financial officer, expects the firm to more than break even before 1974.

To achieve this GLH has had to undergo some fairly ruthless trimming, euphemistically termed "reduction of overheads, decentralisation and streamlining of management," by Buchanan. Expense accounts, even at management level, are being mercilessly scrutinised, for example, which was not always the case in the past. Junior staff are being forced into decision-making, a right formerly denied them. It should be interesting to watch GLH this year and see whether the new managers' optimistic prophecies of prosperity are in fact fulfilled. Δ