

MEMORANDUM TO CABINET PREPARED BY  
THE MINISTER OF TRADE, INDUSTRY AND  
AGRICULTURE

Overseas Knitting & Manufacturing Co. Ltd

The Aids to Industries Board was called for an urgent meeting on August 12, 1967, to consider the case of this company which is on the verge of bankruptcy.

2. It was noted that the company had accumulated heavy losses and had only been able to carry on with the help of the Banks which were granting facilities in the region of £180,000. Other creditors were allegedly owed substantial amounts and were pressing for payment.

3. Barclays Bank, the main creditor (£160,000) was prepared to continue with the current facilities under current control arrangements covering stock and cash transactions but Barclays was not ready to increase the accommodation.

4. The question before the Board was whether it should not recommend to the Government a further injection of capital to enable the company to discharge pressing liabilities and reconstruct its finances so as to stand a reasonable chance of survival. Advances made, in the past, to the Phoenix Textiles Malta Ltd. were quoted as precedents.

5. The main source of apprehension in this case was the weakness of the management and the Board could only agree to a favourable recommendation if the company was willing to submit to an investigation by an independent firm of chartered accountants experienced in the particular line of business. It was emphasized that no assistance could be recommended - in view of the past performance - unless expert opinion declared there was a reasonable possibility of recovery and prospects of future trading at a profit.

6. The Company's record has been as follows:

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	1964	1965	1966	1967(a)
Sales (practically all export)	£17,616	£161,478	£364,924	£150,518
Net Loss	22,221	66,302(b)	Not available	
Employment	128	394	350	360

Notes: (a) to June 30, 1967

(b) loss for period Jan. 1, 1965 to June 30, 1966

7. The company attributes losses to the heavy expenses incurred on training personnel, the lack of qualified accounting guidance, and the fierce competition in the cotton garment field. To these, of course, must also be added the heavy financial charges necessary in view of the insufficiency of the company's own original capital with the consequent reliance on heavy borrowing.

8. The Aids to Industries Board noting that the company had recently secured the services of a chartered accountant and that it was increasingly switching activities to nylon lines which were normally more lucrative, proceeded to recommend a salvage operation subject to a favourable consultants' report. A request was accordingly put up by the Minister of Trade, Industry and Agriculture to the Ministry of Overseas Development for assistance by way of a loan of £100,000; £10,000 to be advanced immediately and to be controlled by Barclays Bank and employed to discharge pressing creditors and the balance to be advanced as necessary after the receipt and in the light of the consultants' report. The idea behind the immediate advance was to stave off any threat of bankruptcy proceedings.

9. The request was turned down by the Ministry of Overseas development. Our concern on the possibility of the closing down of an industry employing some 360 was appreciated but they felt that "Malta Government's own resources should be more properly used to finance a rescue operation of this nature and that the technical difficulties of doing so were not insurmountable".

10. At a subsequent meeting the Aids to Industries Board considered alternative arrangements and agreed to recommend to the Government to extend assistance to the

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company out of local funds. The representative of Barclays Bank on the Aids to Industries Board reckoned that immediate assistance should be of the order of £20,000 and that the company should be asked to match that amount by a loan from shareholders convertible into ordinary share capital on further assistance being granted.

11. A pertinent request was put to the Ministry of Finance and the company was sounded on the question of funds. The company agreed to put in a further £15,000 by way of loan. Barclays Bank agreed to allow <sup>£ value of</sup> £10,000 worth of goods from the stocks under its custody and two of the major creditors agreed to accept 50% of their claims by way of goods to be deposited on their name with Barclays and to defer their claims by six months. The Ministry of Finance turned down the request for assistance on the plea of creating a precedent.

12. At the request of the Ministry of Finance the position was again discussed at a meeting held on September 19, at the Office of the S.M.T.I.A. Present for the discussion were: the Deputy Crown Advocate General, the P.A.S. (Finance), the P.A.S. (Economic Planning) and the A/Director of Industry. A review of the position and a summary of the proceedings leading to the recommendation put to the Ministry of Finance was given by Secretary to the Ministry. Emphasis was laid on Barclays' fear of imminent bankruptcy proceedings and on the desirability of doing ~~everything~~ that was possible to save a company that was giving employment to 360 persons.

13. Reviewing the list of creditors and noting that Barclays Bank which was the largest creditor (£160,000) enjoyed also first rights of hypothec, the Deputy Crown Advocate General said that it was not likely that the smaller creditors would start bankruptcy proceedings as they would probably not recover anything in the end. It was also pointed out that Barclays would not normally take action. Indeed it was plain that Barclays hopes of ever getting full repayment lay in a salvage operation and the Bank should be prepared to wait. The Dep. C.A.G. also assured the meeting that in the case of a request for executive action there would be ample time before the

Courts came to a decision for the consultants' investigation to be carried out. The majority of those present agreed that the investigation should be proceeded with forthwith and that in the event of an emergency the government would consider what action was desirable to prevent closure pending the report of the consultants.

14. This stand was duly communicated verbally to Barclays and to the Directors of the Company. Barclays showed great frustration and confirmed that the Bank would not possibly extend further credit facilities to the Company. The Director immediately told the Secretary, M.T.I.A. and the A/Secretary M.F.C.P. that unless Government assistance on the lines described in para 10 were forthcoming, they would have no alternative but to take steps for the closing down of the factory as the major creditors were not prepared to extend their credit terms except on the arrangements described in para 11 above.

15. Despite its precarious financial position the Company has substantial orders from abroad and certain overseas multiple stores have shown real and continuous interest in the articles produced by the company. The switching of the company's activities to nylon lines is also expected to ensure better terms. In view of these considerations the Minister of Trade, Industry & Agriculture considers that Government should grant a loan to the company of £20,000 which when supplemented by the £15,000 to be made available by the shareholders and by the additional accommodation by Barclays, would enable the company to tide over the present difficulties until such time as Government would have the accountants' report and the Ministry would be better placed to make definite and concrete recommendations to Government on the ways and means necessary to enable the company to re-establish itself on a sound and prosperous basis.

16. Hon. Ministers are asked to consider whether a loan of £20,000 should be made over to Overseas Knitting Manufacturing (Malta) Ltd., the position to be reviewed on the basis of the report and recommendations to be made within three months by an independent firm of chartered accountants.