

38060

C0533/478
KENYA

38060

MAGADI SODA COMPANY LTD.

Previous

Sec. 35244/34 Jy
Salt - Company Ltd
Ken.

1936

R. 298 18/6

297 25/6

R. 309

297 19/1/37

R. 309 19/7

Mubackin 19

M: Flood 20

R. 297 30/7

309 28

M. Lee 21/3

297

R. 80 4/12

297 16/12

R. 309 16

Sir C. Bottomley 17/12

Sir C. Bottomley 21/12

Sir C. Bottomley 22

R. 299 31/12

297 13/1/38

Sir C. Bottomley 14.1

R. 297 8.3

Sir C. Bottomley 10.3

R. 299 98

Subsequent

15025/14/38 2 con

1938

R. 297 21/12

R. 309 13/1

M: Flood 20

Sir C. Bottomley 27.5

298 29/5

297 31/5

R. 303 2/6

L.D. 4/6

299 4/6

297 5/6

R. 309 7/6

Mubackin 7.6

M: Flood 8

Sir C. Bottomley 4/6

R. 297 11/6

Official Receipt

TITLE.
Nominal

Encls., with comments, three copies of Report of the Directors and Balance Sheet for 1936 and three copies of Proceedings at 12th Ordinary General Meeting held on 30th April, 1937.

	<u>1935-</u>	<u>1936</u>
Trading Profits	£ 1779.	£ 15,71.

Profit & Loss
Account.

Net loss, 20,963. 5,204.

The assets have been reduced by £104,250 representing the book value of the Port property.

The ^{transfer} date of the property has been carried out and the Company has received its £50,000 from the K.U.R.H.

The Company has great hopes of increasing the value of Magadi-salt.

? Copy to Mr. Kenyon G. K
Ack with thanks.

(A. Greenwood
25/5/37)

Sir C. Bottomley

There is a good deal of general interest in this letter from Mr. Marriott. We all know that the market for Magadi soda is precarious. Up to now it has been kept up by sales to Australia and Japan, and, as a result, the Company has been able to send about 40,000 tons a year over the K.U.R. The agreement provides for 20,000 tons a

year in its present form (or rather 40,000 tons every two years), and I understand that this is not regarded as a profitable amount by the Railway. Hence, the K.U.R. management is anxious to make the Company rail more stuff. Of course the Company cannot because there is nowhere they can sell it. All the same, the Railway goes on with its curious attempts to ^{cut} ~~over~~ the Company in all sorts of directions.

It is interesting to see that the salt industry is promising well, and it should do quite reasonably well unless the Railway proceeds to kill it by charging excessive rates on salt.

The Company has sold its pier at Milindini for £50,000. You will remember that the Railway was quite prepared to pay more owing to a mistaken reading of the Agreement. The Company is, of course, not a particularly sound concern, but it goes on struggling, and as long as it does I think it must be described as an asset to Kenya though, possibly, the Railway does not regard it as such. ~~Anyhow~~, it is a commentary on the state of things that a large natural deposit cannot be worked at a profit against artificial competition.

J. E. W. Hand

26.5.

Return to me after
action is complete.

WES 27.5

To Marriott (1 ansd)

29.5.37

AIR MAIL 3 To Kenya - 443 - (4/19/22 ansd) A4 - (4/19/37)

4. HUGH F. MARRIOTT (S/O TO SIR C. BOTTOMLEY)..... 21.5.37.
Trs., with comments, three copies of a Circular which has been issued to Debenture Holders.

Pending the result of the offer to Debenture holders, which will not be known until after the 2/11/37 June, it seems somewhat premature to consider action in regard to paragraph 2 of the Marriott's letter.

C. F. Marriott
7/6/37

J. J. Bassin
7/6

When I.C.I. got all the Debentures & all the ordinary stock they will no doubt consider closing Tagabar. The K.U.R. will welcome that but change may not anyhow we can only wait & see

21.5.37

The question is whether its value as a reserve supply is great enough to justify its being worked up to the minimum which the Govt. requires.

Copy of my reply annexed.

WES.

8/6 am

5. To H. F. Marriott (Handed) 8th June 37

Recd: 5

in every two years. 4,000 tons won't fill this bill
 and unless salt (which we have said is extra goods
 for this purpose) comes to a huge tonnage, the K.M.R.
 will try to stop the agreement and will probably
 break the Company: the railway line may even be closed.

As to action I think we should send a
 copy to Kenya & one to the High Comm for Transport
 [remarking that the S. ops. has not yet heard whether
 the Co. proposes to reconstruct its finances.]

H. Harrison Oct. 1938.

J.E.D. Flood
 16/10/37
 Draft [J. I.] will write
 to Mr. Marriott ref. no. 4 and under cover
 this.

Sir Christopher
 I mentioned this letter (as you
 expected) when I sat on the
 minutes yesterday about those
 Ingeen + Income Tax.

The continuation of the business
 depends on the result of the Gilhodes
 review take note of it & (B) the extent
 to which J.C.I. wish to obtain it as
 an alternative to their current
 business for the supply of their
 rubber markets. ^{perhaps} They could live a
 set alone
 as indicated?
 Verbs. 17.12.37.

accl
 12/12/37
 [Signature]

Kenya No 1152

DESTROYED UNDER STATUTE

Kenya Transport Kenya-Uganda } No 131

W.P.C. and one
 copies of James' letter
 3. 11. 38

DESTROYED UNDER STATUTE

[Handwritten notes and signatures, partially illegible]

This came from this morning, &
 Mr. Marriott to be going that
 below being for America only -
 four months.

See end of February
 Verbs. 14.1.38
 [Signature]

Brought up as above

Dr. 29/ 8.3.38
 Copy of my letter [illegible]
 Verbs. 10.3.38

11 L. A. F. Marriott (no) 10.3.38

2/15/38

10th March, 1938.

My dear Mr. Marriott

You will remember that you wrote to us on the 15th December about the affairs of the Magadi Soda Company. I had intended to write to you before you went to America to ask what had happened as regards the financial arrangements which you had reported in your previous letter of May 31st (enclosing copies of a circular which had been issued to the debenture holders). The papers came to me for the purpose, however, on the day when you left for America.

I shall be very glad if you can tell us, in continuation of your previous letters, something about the position of the Company as you find it on your return. Possibly the time is inopportune as I.C.I. must, if the newspapers are a safe guide, be fully immersed in its own affairs.

I

H. F. MARRIOTT, ESQ.

I hope that you will have a successful trip to
America.

Yours truly,

John D. ...

I hope that you had a successful trip to
America.

Yours sincerely,

G. C. [Signature]

Hugh F. Marriott

8
8.

TELEPHONE HOLBORN 8846-7

RECEIVED
18 DEC 1937
C. O. REGY

AFRICA HOUSE,
KINGSWAY,
LONDON, W.C.2.

15th December 1937

The Under Secretary of State for the Colonies,
Colonial Office,
Downing Street,
S. W. 1.

*Imp. Chem. Inds.
700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000*

*P.C. ack
16/12*

Sir,

Maradi Soda Company Ltd.

I have to advise you of the recent changes in the financial position and outlook for this Company.

The new arrangement with the Debenture holders which has been the subject of negotiations for some time, has been carried through successfully and confirmed unanimously at a Debenture Stockholders Meeting held on 21st October 1937.

This arrangement which has now come into force is embodied in a Supplementary Trust Deed of which I enclose three copies for your information.

The Company has always carried a large cash balance and this has recently been augmented by the amount received from the Kenya and Uganda Railways for the transference to them of the Company's Port Works. It was therefore considered advisable to reduce the Debenture position and these have been redeemed to the nominal amount of £150,700, leaving Debentures to the amount of £275,000 still outstanding. Of these all but £4,750 have been acquired by Imperial Chemical Industries.

The Board have had before them for several years the prospect of further limitation of their markets in various

Copy of Trust Deed to Kenya and Uganda Railways
9
10

countries and the reductions already foreshadowed by me to you from time to time are now materialising.

Japan must be considered as out of the market at any rate for the forth-coming year and time alone will show if sales to that country can thereafter be resumed. This will reduce the output for 1938 by about 20,000 tons.

The arrangements for building a factory in Australia to meet all the soda needs of that country are now completed and the factory should be in working operation during 1939. This means a reduction of output for Magadi of a further 6,000 to 12,000 tons annually.

Arrangements are being made for a factory to be built in India which is estimated to be completed in 1941. This will result in a further reduction in the output of Magadi of 5,000 tons annually.

This leaves Magadi in the position of supplying little else besides South Africa and the eastern ports of South America.

In view of these forthcoming reductions, negotiations are in progress with Imperial Chemical Industries for a recast of the amount of the proportionate sales in these countries which have been the subject of ^a working agreement between Imperial Chemical Industries and Magadi for some years.

The total output for 1938 which includes both Australia and India is estimated to be within the region of 25,000 tons and in view of this reduction below the previous average, modifications are being made in the personnel at the Lake with a

- 3 -

view to reducing expenses.

The general outlook for the future, after Australia and India are no longer available to purchase our soda, appears to be that the salt industry which is developing into a healthy and profitable business in conjunction with a larger proportion of the sales of soda in those countries still open to our product will keep the Sagadi Soda Company in being and the works at the Lake in continuous operation and ready for renewed expansion in the event of a revival in trade.

Sincerely,

Your obedient servant,



W. H. Garrison

view to reducing expenses.

The general outlook for the future, after Australia and India are no longer available to purchase our soda, appears to be that the salt industry which is developing into a healthy and profitable business in conjunction with a larger proportion of the sales of soda in those countries still open to our product will keep the Magadi Soda Company in being and the works at the Lake in continuous operation and ready for renewed expansion in the event of a revival in trade.

I am,

Your obedient servant,

W. L. Harrison

W. L. Harrison

countries and the reductions already foreshadowed by me to you from time to time are now materialising.

Japan must be considered as out of the market at any rate for the forth-coming year and time alone will show if sales to that country can thereafter be resumed. This will reduce the output for 1938 by about 20,000 tons.

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- 3 -

view to reducing expenses.

The general outlook for the future, after Australia and India are no longer available to purchase our soda, appears to be that the salt industry which is developing into a healthy and profitable business in conjunction with a larger proportion of the sales of soda in those countries still open to our product will keep the Jagadi Soda Company in being and the works at the Lake in continuous operation and ready for renewed expansion in the event of a revival in trade.

I am,

Your obedient servant,



Hugh F. Marriott

15th December 1937

The Under Secretary of State for the Colonies,
Colonial Office,
Downing Street,
S. W. 1.

Sir,

Mogadi Soda Company Ltd.

I have to advise you of the recent changes in the financial position and outlook for this Company.

The new arrangement with the Debenture holders which has been the subject of negotiations for some time, has been carried through successfully and confirmed unanimously at a Debenture Stockholders Meeting held on 21st October 1937. This arrangement which has now come into force is embodied in a Supplementary Trust Deed of which I enclose three copies for your information.

The Company has always carried a large cash balance and this has recently been augmented by the amount received from the Kenya and Uganda Railways for the transference to them of the Company's Port Works. It was therefore considered advisable to reduce the Debenture position and these have been redeemed to the nominal amount of £150,700, leaving Debentures to the amount of £275,000 still outstanding. Of these all but £4,750 have been acquired by Imperial Chemical Industries.

The Board have had before them for several years the prospect of further limitation of their markets in various

countries and the reductions already foreshadowed by me to you from time to time are now materialising.

Japan must be considered as out of the market at any rate for the forth-coming year and time alone will show if sales to that country can thereafter be resumed. This will reduce the output for 1938 by about 20,000 tons.

The arrangements for building a factory in Australia to meet all the soda needs of that country are now completed and the factory should be in working operation during 1939. This means a reduction of output for Magadi of a further 6,000 to 12,000 tons annually.

Arrangements are being made for a factory to be built in India which is estimated to be completed in 1941. This will result in a further reduction in the output of Magadi of 5,000 tons annually.

This leaves Magadi in the position of supplying little else besides South Africa and the eastern ports of South America.

In view of these forthcoming reductions, negotiations are in progress with Imperial Chemical Industries for a recast of the amount of the proportionate sales in these countries which have been the subject of working agreement between Imperial Chemical Industries and Magadi for some years.

The total output for 1938 which includes both Australia and India is estimated to be within the region of 25,000 tons and in view of this reduction below the previous average, modifications are being made in the personnel at the Lake with a

view to reducing expenses.

The general outlook for the future, after Australia and India are no longer available to purchase our soda, appears to be that the salt industry which is developing into a healthy and profitable business in conjunction with a larger proportion of the sales of soda in those countries still open to our product will keep the Magadi Soda Company in being and the Works at Lake U. in continuous operation and ready for renewed expansion in the event of a revival in trade.

I am,

Your obedient servant,

Hugh P. Marriott

DATED 22ND NOVEMBER, 1937.

THE MAGADI SODA COMPANY LIMITED

— AND —

THE ROYAL EXCHANGE ASSURANCE.

Supplemental Trust Deed.

This Deed made the Twenty-second day of November One thousand nine hundred and thirty-seven BETWEEN THE MAGADI SODA COMPANY LIMITED whose registered office is at Imperial Chemical House Millbank in the City of Westminster (hereinafter called "the Company") of the one part and THE ROYAL EXCHANGE ASSURANCE of the Royal Exchange in the City of London (hereinafter called "the Trustees") of the other part SUPPLEMENTAL to an Indenture (hereinafter called "the Principal Trust Deed") dated the Third day of March One thousand nine hundred and twenty-five and made between the same parties being a Trust Deed securing a series of Debentures of the Company of the nominal amount of Five hundred thousand pounds carrying interest at the rate of six per centum per annum and to a Supplemental Trust Deed (hereinafter called "the Supplemental Trust Deed") dated the Fourteenth day of July One thousand nine hundred and thirty-two and made between the same parties as the Principal Trust Deed whereby the provisions of the Principal Trust Deed were modified in certain respects

WHEREAS:—

(A) Four hundred and ninety-nine thousand nine hundred and fifty pounds of the said Debentures have been issued and Two hundred and seventy-five thousand pounds thereof are now outstanding

(B) The Company is desirous of modifying the rights of the holders of the said Debentures and the provisions of the Principal Trust Deed and the Supplemental Trust Deed in manner hereinafter appearing

(C) At a meeting of the holders of the said Debentures duly convened for and held on the Twenty-first day of October One thousand nine hundred and thirty-seven in accordance with the provisions of Clause 14 of the Principal Trust Deed an Extraordinary Resolution of such holders within the meaning of Clause 17 thereof was duly passed in the terms of the Resolution set forth in the Schedule hereto

(D) The draft Supplemental Trust Deed referred to in the said Resolution was the draft of these presents

(E) Words and expressions defined in the Principal Trust Deed are intended to bear the same meaning in these presents where the context so admits

NOW THESE PRESENTS WITNESS and it is hereby agreed and declared as follows:—

1. CLAUSES 1 to 5 inclusive of the Supplemental Trust Deed shall be cancelled and shall cease to have effect and in lieu thereof the following provisions shall have effect that is to say:—

All liabilities and obligations of the Company (so far as the same have not been discharged or fulfilled) for or in respect of the payment or provision of interest on the Debentures in respect of the period of five years commencing on the First day of January One thousand nine hundred and thirty-two or any part thereof and all liabilities and obligations of the Company for or in respect of the payment or provision appropriation or application of any sum which during the period of ten years commencing on the First day of January One thousand nine hundred and thirty-two ought to have been or to be appropriated and applied by the Company in the purchase or redemption of Debentures whether the same shall have arisen or shall or would but for these presents arise under or pursuant to the conditions indorsed on the Debentures or the Principal Trust Deed or the Supplemental Trust Deed or the Agreement referred to in Clause 3 of the Supplemental Trust Deed or otherwise are hereby cancelled and determined and the Company shall be and it is hereby released therefrom accordingly and the omission or failure of the Company to pay or provide or to appropriate or apply any such interest or redemption or purchase moneys as aforesaid shall not constitute or be deemed to have constituted a default on the part of the Company rendering the security for the Debentures enforceable or the principal moneys thereby secured payable.

2. THE following provisions shall have effect in regard to the payment of interest on the Debentures in respect of the period of five years commencing on the First day of January One thousand nine hundred and thirty-seven that is to say:—

(A) Two-thirds only of such interest (namely interest at the rate of four per centum per annum) shall be payable in any event by equal half-yearly payments on the half-yearly dates for payment of interest fixed by the Debentures PROVIDED ALWAYS that the first of such half-yearly payments being that due on the Thirtieth day of June One thousand nine hundred and thirty-seven having been calculated and paid at the rate of three per centum

the second half-yearly payment to be due and payable on the Thirty-first day of December One thousand nine hundred and thirty-seven shall be calculated and paid at the rate of one per centum.

(B) The remaining one-third of such interest namely interest at the rate of two per centum per annum (hereinafter sometimes referred to as "the deferred interest") shall be payable only as and when and to the extent that the profits of the Company (as hereinafter defined) shall from time to time be sufficient to pay the same but so nevertheless that such deferred interest shall be cumulative and shall be paid in full (so far as accrued to date) before any dividend or bonus is at any time hereafter declared or paid upon any shares of the Company and any part thereof not previously paid shall become immediately payable (irrespective of whether there are profits of the Company available for paying the same) in the event of the security constituted by the Debentures and by the Principal Trust Deed as modified by the Supplemental Trust Deed and by these presents becoming enforceable whilst any such interest remains unpaid and any steps being taken to enforce such security.

(C) The expression "profits of the Company" as herein used shall mean as regards each such year as aforesaid the excess of the Company's income (exclusive of capital profits or losses) over its outgoings on a properly drawn revenue and profit and loss account to which there shall be charged all working and administration expenses of the Company in accordance with the Company's present practice and provision for depreciation and obsolescence of buildings at the rate of two and a half per centum per annum on the original cost of plant and machinery and other fixed assets at the rate of five per centum per annum on the original cost of moveable assets at rates substantially in accordance with the Company's existing practice and also interest on the Debentures for such year at the rate of four per centum per annum but before making any appropriation to reserve and so that the certificate of the Company's auditors as to the amount of the profits of the Company for each such year as aforesaid shall be binding and conclusive on the Company and the Debenture-holders.

3. NOTHING herein contained shall affect or derogate from the obligation of the Company to appropriate and apply the agreed sums which under the Agreement referred to in Clause 3 of the Supplemental

Trust Deed are due to be appropriated and applied annually by the Company in the purchase or redemption of Debentures during the period from the First day of January One thousand nine hundred and forty-two to the Thirty-first day of December One thousand nine hundred and forty-five (both days inclusive).

4. DURING the said period of five years from the First day of January One thousand nine hundred and thirty-seven and thereafter so long as any part of the deferred interest which shall become payable pursuant to the foregoing provisions hereof remains unpaid the deferred interest shall be paid by the Company (to the extent to which the profits of the Company are from time to time sufficient to provide the same) within one month after the accounts of the Company showing such profits are submitted to the Company in general meeting but not later in any event than the Thirtieth day of June next following the expiration of the year in which such accounts are submitted. PROVIDED that the deferred interest shall be paid only in amounts being one-quarter per centum or an exact multiple of one-quarter per centum upon the principal amount of the Debentures and so long as any of the deferred interest remains unpaid any profits or balance of profits of the Company for any year not sufficient to pay one-quarter per centum interest on the Debentures shall be carried forward to the accounts of the following year AND PROVIDED FURTHER that the obligations in respect of deferred interest imposed by this clause shall not apply in respect of Debentures redeemed by the Company while deferred interest is outstanding thereon.

5. THE Principal Trust Deed the Supplemental Trust Deed the Debentures and these presents shall be read together and the Principal Trust Deed and the Debentures shall have effect henceforth subject to and with the benefit of the provisions herein contained and so far as possible as though the provisions herein contained had originally been contained or embodied in the Principal Trust Deed and the Debentures as originally executed and the Principal Trust Deed and the Debentures shall be deemed to be modified accordingly.

6. EACH of the Debenture-holders shall as and when called upon by the Company so to do produce to the Company all the Debentures held by him and permit notice of these presents and of the provisions herein contained to be indorsed thereon.

IN WITNESS whereof the Company and the Trustees have hereunto caused their respective Common Seals to be affixed the day and year first above written.

THE SCHEDULE above referred to.

RESOLUTION.

"That this meeting of the holders of the Debentures of The Magadi Soda Company Limited secured by Trust Deed dated the 3rd March 1925 and made between the Company of the one part and The Royal Exchange Assurance as Trustees of the other part as modified by Supplemental Trust Deed dated the 14th July 1932 and made between the same parties hereby approves and sanctions the draft further Supplemental Trust Deed submitted to this meeting and for the purposes of identification signed by the Chairman thereof and all modifications of the rights of the said Debenture holders against the Company or its property and all modifications of the provisions of the said Trust Deed and Supplemental Trust Deed which are expressed to be effected thereby or are involved therein (including the release of the Company from and the cancellation of all obligations and liabilities of the Company under or by virtue of the said Trust Deed or Supplemental Trust Deed for or relating to any payments of interest or provisions for redemption or purchase on or of or in respect of the said Debentures or any of them for or during or in respect of the period from the 1st January 1932 to the 31st December 1936 both dates inclusive or any part thereof) and hereby authorises and directs the Trustees to concur with the Company in executing a further Supplemental Trust Deed in the form of the said draft with such modifications of detail (if any) as the said Trustees may approve and declares that the Supplemental Trust Deed so executed shall be binding upon all the said Debenture-holders."

THE COMMON SEAL of The Magadi Soda Company Limited was hereunto affixed in the presence of

A. E. GAWLER, *Director.*

J. D. EARLAM, *Secretary.*



(THE COMMON SEAL of The Royal
Exchange Assurance was hereunto
affixed in the presence of

RICHARD F. CAVENDISH,

Director.

(By Order of the Committee
in Waiting)

R. E. OLDFIELD,

Assistant General Manager.

720

RECEIVED
4 OCT 1937
C. O. REGY

OFFICE OF THE
CONFERENCE OF EAST AFRICAN GOVERNORS.
P. O. Box 601,
NAIROBI

REPLYING PLEASE
T/E/A.7.

23rd July, 1937

Subject S A L T

Reference ITEM XV No. of
GOVERNORS' CONFERENCE CONCLUSIONS, 1936.

Reference No. of

Enclosures

The Secretary to the Governors' Conference presents his compliments and has the honour to forward the accompanying copy of letters from and to the Government of the Tanganyika Territory, dated 10th May and 23rd July respectively, for information.

THE UNDER SECRETARY OF STATE,
COLONIAL OFFICE,
DOWNING STREET, S.W.1.

CF

CONFIDENTIAL.

10th May, 1937.

Sir,

I am directed to refer to your letter No. 27/A.7 of the 15th January concerning the taxation of salt in East Africa and to inform you that this Government has now considered the recommendations made in section B of memorandum CG(36)34. These recommendations were :-

- (1) that the Tanganyika Government be requested to enter into negotiations with the Nyansa Salt Mines (Tanganyika) limited, with a view to securing the agreement of the company to the imposition of an excise duty on salt produced at Uvinsa; and
- (2) that the Government of Tanganyika be requested to examine the position in all its aspects with a view to taking steps as soon as be possible to bring the measures taken to safeguard the Tanganyika salt industry within the scope of the Customs Agreements.

2. The former point was raised as a preliminary to the further consideration of the possibility of introducing such modifications of the existing laws as might be considered suitable for application over the Customs Agreement area, the suggestion having been made (but not fully examined) that the internal taxation of salt within that area might be placed on an excise duty basis and operated in accordance with the Excise Agreements. It will be sufficient to state, that on this matter, that the question has been put to the company concerned and that there is reason to believe that the company would agree to a modification in the terms of the present licence under which excise duty would become payable on Uvinsa salt against adjustment in the fixed annual sum payable under the licence. This present impediment to further consideration may therefore be treated as surmountable.

The Tanganyika Government does not, however, wish it to be inferred that it is prepared, without further examination, to accept in principle the introduction of a system of excise duties on salt. The considerations advanced in the subsequent paragraphs of this letter are relevant to this issue and it may also be added first that this Government sees no prospect of being able to collect effectively either royalty or excise duty on salt won by Africans from the sea or from inland lakes or pans (so that no comprehensive application of assimilated charges to all salt won in the Territory is possible), and secondly that the imposition of excise duty on a low-rated commodity such as salt presents special difficulties in practice.

S.The/

THE SECRETARY,
THE GOVERNORS' CONFERENCE,
NAIROBI.

3. The second recommendation is the more far-reaching. Certain essential facts regarding the Tanganyika salt industry were described in the memorandum in question, from which the following quotation is made for convenience of reference :-

"The salt industry in Tanganyika has been built up under the shelter of a heavy tax on all salt imported into the Territory in addition to the substantial Customs duty and private enterprise has relied upon this protection. The market is purely local except for the export of salt from Uvina to the Congo. So far as is known no Tanganyika salt has entered either Kenya or Uganda for many years.

It cannot be doubted that the Tanganyika Salt Tax is contrary to the spirit of the Customs agreements but it existed before these agreements were signed and has been allowed to continue in force as a consequence not only was the license to the Uvina salt mines completed when the salt tax was an essential part of the protection afforded to the industry at Uvina, but steps to rationalise the coastal salt industry have been taken comparatively recently which presuppose the continuance of this tax at least until the end of the five-year period covered by Government Notice No. 129 of the 19th August, 1933 which restricts prospecting for salt in the Eastern Province".

4. It will be apparent from the above description that the Tanganyika salt industry includes:-

(a) Production at the Uvina salt mines, whose local market is in the central and western parts of the Territory including the Lake Province and who export salt to the Belgian Congo and the Mandated Territory of Ruanda-Urundi; and

(b) Coastal production by licensees, whose market is in the eastern parts of the Territory.

There is also a third category, viz :-

(c) Production by natives of Africa from the sea or elsewhere, for consumption, barter or sale. This industry has existed from time immemorial and may be said to lie outside the scope of present discussions to the extent that its continuance is unlikely to be affected by any fiscal changes; but it is not an industry whose existence can be ignored in considering the Tanganyika salt industry as a whole. It is only necessary to add, in regard to this native production, that native rights are safeguarded by section 7 of the Mining Ordinance, 1929, which provides that "Nothing in this ordinance shall be deemed to prevent ... any native of the Territory from taking, subject to such conditions as may be prescribed, any non-precious mineral from lands in which it has been the custom of the members of the community to which that native belongs to take the same".

5. Coastal production by licensees has been made possible by high protective duties dating from before the British administration. This protection is essential to keep the industry alive against competition from the Benadir Coast, no other field having offered competition in the past. Although this industry, is at present protected by the imposition upon foreign salt of an import duty of Sh.1/- per 100 lbs. and the salt tax of Sh.2/3 per 100 lbs., the view taken by this Government is that the legitimate interests of this industry could be adequately served - after the 19th August, 1938 - by the acceptance of a basic plus suspended duty of Sh.2/30 per 100 lbs. in any proportion to suit the Governments of Kenya and Uganda, provided/

provided that salt produced at Magadi is colled upon to bear the normal tariff rate between Magadi and the coast. This Government is not aware of the present intention in this regard but notes from paragraph 2 of 90(36)18 that it was proposed to take action on these lines when the moratorium due to expire in 1936 came up for reconsideration. Under these conditions the view of the Tanganyika Government is that such measures as might be necessary to bring that portion of the Tanganyika salt industry which is conducted by licensees on the coast within the scope of the Customs agreements could in principle be applied with effect from August, 1938.

6. The case presented by production at the Nyansa salt mines is different, in its case market the company operates without tariff protection, because salt imported from Aden can pass through Tanganyika as goods in transit, its security in that market depends upon the acceptable quality of its products and its geographical position, the mines being some seventy miles only from Kigama. No tariff adjustment can effect its position in that market, and in respect of sales within the borders of Tanganyika it would become immediately vulnerable in one of its most important markets if the Tanganyika salt tax were removed and free competition from Magadi were to take place. The potential point of contact between Magadi and Uvinsa lies in the Lake province of this Territory. Uvinsa has not in the past been able to meet the demands of any part of the Kenya or Uganda market and does not expect to be able to do so in the future. But the Lake province provides a market and in that area Uvinsa satisfies fully so much of the local demand as is not served by salt won by natives from Lake Nyassi and other salt lakes in the neighbourhood. In the face of possible competition from Magadi, Uvinsa's position in that market must be undermined unless the Tanganyika salt tax is retained and the view held by this Government is that if the Uvinsa company is to suffer damage in that market there should be adequate compensating advantages elsewhere.

7. But there is no evidence that such compensating advantages will accrue. The consumer will not benefit, because salt is retailed in small quantities at so many cents a packet and the profit to the retailer is large. This is an old-established custom and the retail price is unlikely to be affected even by relatively substantial changes in the wholesale price; a reduction in wholesale price of Shs. 2.00 a ton, or 1 cent a lb., would not be passed on to the purchaser of a 4 oz. packet. Magadi will not benefit at any rate until production at Magadi exceeds the effective demand for Magadi salt in Kenya and Uganda, and it is to be noted that at no time has the question of the Tanganyika salt tax been raised by the Magadi Company. Until, at its normal prices, that company has satisfied the demand in Kenya and Uganda, it can achieve no special profit by invading Tanganyika markets.

8. These considerations lead this Government to the conclusion that although the Tanganyika salt tax is contrary to the spirit of the Customs agreements, it is doing no harm to any interests outside Tanganyika; and, as it was in existence before the Customs agreements were signed and formed a vital part of the circumstances in which the licence to the Uvinsa

company,

company was negotiated, that it should continue in force ²⁴ during the term of that licence, that is, until the 31st October, 1947. This Government fully recognises that the salt tax is a method of raising revenue or protecting local industries which is in many respects undesirable and it has no intention of proposing the application of a similar principle to any other Tanganyika industry; but it is considered that, in the light of the circumstances which have led to the existence of this tax and of the fact that it was in force before the Customs Agreements were made, there is strong case for the tax to be regarded as a solitary exception to the policy underlying those agreements for such period as is still required to complete the term of a licence issued at a time when the tax was recognised without question as a part of the fiscal system of this Territory. In short, this Government feels that the Tanganyika salt industry has, throughout its history, been developed on Tanganyika rather than on East African lines and that, inasmuch as it has never sought, and is not likely in the future to seek, a market for its product in Kenya or Uganda, this one commodity can, for the period up to November, 1947, be exempted from the full operation of the Customs Agreements without imperilling the major objectives involved.

I have the honour to be,

Sir,

Your obedient servant,

(sgd) J. J. Curridge

FOR CHIEF SECRETARY, GOVERNMENT.

7/7 .7.

27 6 July, 1947.

Sir,

With reference to your letter of the 10th May (No. 15535/595), regarding the taxation of salt in East Africa, I have the honour to state that I am now in possession of the views of the Governments of Kenya and Uganda upon the suggestions put forward by your Government.

2. The Government of Kenya informs me that, in view of the examination of the problem made by the Government of the Tanganyika Territory in so far as it affects that Territory, it no longer desires to press for the removal of the Consumption Tax imposed on salt imported into the Territory, and the substitution of uniform dues on this commodity. Subject to the concurrence of the Government of Uganda, the Government of Kenya is prepared to accept the suggestion made by your Government that salt should be exempted from the full operation of the policy underlying the Customs Agreements, for the period up to November, 1947.

3. The Government of Uganda informs me, in a letter dated the 19th July, that it is prepared to accept the suggestion made by your Government that salt should be exempted from the full operation of the policy underlying the Customs Agreements, for the period up to November, 1947.

A copy of this letter is being sent to the Governments of Kenya and Uganda, and a copy of the correspondence is being forwarded to the Under Secretary of State for information.

I have the honour to be,

Your obedient servant,

EXTRACT FROM SUMMARY OF ACTION TAKEN ON CONCLUSIONS OF GOVERNORS'
CONFERENCE, 1936.

See No 9
38/60/26.

II and XV SALT INDUSTRY IN EAST AFRICA

Appropriate action was taken by the Government of Kenya as regards the requests made by the Magadi Soda Company.

On the broader question of salt taxation, the Government of Tanganyika has recently suggested that salt produced in that territory can be exempted from the full operation of the Customs Agreements. This suggestion has been referred to the Governments of Kenya and Uganda.

8th June, 1937.

My dear Marriott,

Many thanks for your letter of the 31st May in which you sent me the papers about the I.C.I. offer to purchase the Magadi Debentures.

I do not think there is anything we can do at present but I agree that we shall have to have a talk when the transaction is completed and perhaps you will let me know to what extent the invitation has been accepted by the date fixed and we will then arrange a discussion.

Yours sincerely,

W. C. H. H. H. H.

H. J. MARRIOTT, ESQ.

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Hugh F. Marriott, H. MARSHALL, H. MARSHALL, H. MARSHALL, H. MARSHALL, H. MARSHALL

African

TELEPHONE HOLBORN 88.

AFRICA HOUSE,
KINGSWAY,
LONDON, W.C. 2

31st May 1937

Sir Cecil Bottomley, K.C.M.G., C.B.,
Colonial Office,
Downing Street,
London, S. W. 1.

RL
2 - JUN 1937
cc

Hugh F. Marriott
Magadi Soda Company Limited.

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111

The negotiations, the commencement of which I have already informed you, between the Board of Imperial Chemical Industries Ltd. and the Trustees for the Debenture Holders, backed by a Debenture Holders Committee, have now taken shape with the result that a Circular has been issued to the Debenture Holders by the Debenture Holders Committee strongly recommending Debenture Holders to accept an offer that has been made by Imperial Chemical Industries to purchase all of the outstanding Debentures at 75% of their face value. This is a considerably higher figure than the highest at which the Debenture Stock has stood in the market for several years and I should think that the Debenture Holders would be only too glad to accept it. I am confirmed in this opinion when I see that the Stock Exchange marking in "The Times" on 24th May was 74, the offer being 75.

This transaction is not a direct concern of the Company as it is, from their point of view, merely a change-over of a debt due by them from one holder to another, but when the

transaction is completed and Imperial Chemical Industries will then be holders of all the Debentures and all the ordinary shares I should think that the time would be opportune for a re-organisation of the finances of the Company on lines more in accordance with the commercial outlook. Then would be the time for us to confer together so as to safeguard the interests of the Colony in the matter.

I enclose three copies of the Circular that has been issued to Debenture Holders and two copies of my letter for your convenience in passing on the information contained therein if you desire to do so.

Yours very sincerely,

W. L. G. G. G.

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NO. 1, PINNER'S HALL,

GREAT WINCHESTER STREET,

LONDON, E.C. 2.

26th May, 1937.

To the holders of

6 PER CENT. MORTGAGE DEBENTURES OF

THE MAGADI SODA COMPANY LIMITED.

DEAR SIR (or MADAM),

The Moratorium in respect of partial payment of interest and provision of Sinking Fund on the Debentures expired on 31st December last.

The Company's Circular to Shareholders, dated 20th April, 1936, set out the constitution and history of the Company and dealt with its then position and prospects. The Circular, a reprint of which is enclosed, envisaged the necessity for the Company to re-open negotiations with the Debenture Holders.

In view of the expiry of the Moratorium, Royal Exchange Assurance, as Trustees, invited the following representatives of the Debenture Holders, Messrs. L. A. Stride of the Industrial & General Trust Ltd., F. R. Cottell of Anglo-French Exploration Company Ltd., A. S. Colley of the Trustees Corporation Ltd., to act as a Committee to assist them in negotiations on behalf of the Debenture Holders.

As Imperial Chemical Industries Ltd. are interested in the management and capital of your Company and as your Committee felt that Imperial Chemical Industries Ltd. might be disposed to consider the acquisition of your Debentures, they consulted with Imperial Chemical Industries Ltd., and arising out of these discussions it was agreed that the present position of the Company's affairs should be reported on by Messrs. Thomson McLintock & Company, Chartered Accountants, representing Imperial Chemical Industries, and Messrs. Brown, Fleming & Murray, Chartered Accountants, representing the Magadi Debenture Holders. It was also agreed at the time that their joint Report should be accepted as a basis for negotiation by both parties.

THE MAGADI SODA COMPANY, LIMITED.

IMPERIAL CHEMICAL HOUSE,
MILLBANK,
LONDON, S.W.1
20th April, 1937.

To the Shareholders of The MAGADI SODA CO., LTD.

The following notes on the constitution and history of the Company are circulated by the authority of the Board of Directors, for the information of the Shareholders.

The present Magadi Soda Company was incorporated in 1925 to take over the undertaking carried on by the former Company of the same name, which was at that time in liquidation. The latter was incorporated in 1911, and had operated continuously at a loss, with the result that no dividends had ever been paid on the shares and a considerable amount of the capital had been lost.

The new Company was formed under the management of Brunner, Mond & Co. Ltd. (now a subsidiary of Imperial Chemical Industries Ltd.), who were in no way connected with the old Company.

The Debenture-holders, Shareholders and Creditors of the old Company were allotted the following interests in the new Company:

OLD COMPANY.	NEW COMPANY HOLDING AND VALUE.
First Debentures	New 6 per cent. Debentures of an equivalent amount.
Second Debentures and certain Creditors.	6 per cent. First Preference Shares to an amount equal to 75 per cent. of the liability.
Ordinary and Deferred Shareholders...	6 per cent. Second Preference Shares to an amount equal to 25 per cent. of the value of the original shares.

Two new classes of Shares were also created, namely, 12½ per cent. Preferred Ordinary (£150,000) in 5s. Shares and Ordinary (£100,000) in £1 Shares. The Second Preference Shareholders in the new Company were invited to subscribe for the Preferred Ordinary issue in the proportion which each Shareholder's

The salient features of the present situation in so far as the Debenture Holders are concerned may be briefly summarised thus:—

(a) The Magadi Soda Company has not earned its Debenture Interest and Sinking Fund in full, after depreciation, from the time when Sinking Fund payments were due to commence, i.e. 1929.

(b) The Magadi Company's Annual Report for 1936, issued under date 21st April, 1937, shows some improvement, but even the interest at the reduced rate of Four per cent., amounting to £17,028 per annum, was not fully earned during 1936 or indeed in any single year of the period of the Moratorium. In the absence of any further arrangement, the amount required to meet interest and sinking fund payments in the present year will be at least £49,000.

(c) The prospects for the future in our opinion are not encouraging, and in this connection it is desirable to point out that it is expected that within the next two years the Australian trade is likely to disappear owing to the establishment of adequately protected local production. As the Australian market is, next to Japan, the largest for the Company's products, it is obvious that should this market disappear the effect on the profits of the Company will be a serious one, and whilst the full interest and Sinking Fund could be paid for a limited period out of the present liquid assets, this would very probably only lead to a further impairment of the capital position.

(d) Practically all the fixed assets appearing in the Balance Sheet are situated on leasehold property, and in the event of default in the terms of the Lease would be liable to revert to the Kenya Government.

(e) The price of the Debentures on the market at the time of the issue of the Company's 1936 Annual Report was about £55 per cent. and there have been recent markings in the neighbourhood of £60 per cent.

We are pleased to inform you that as a result of our conversations Imperial Chemical Industries have indicated that they are willing to purchase the whole of the outstanding Debentures at the rate of £75 per cent. cash, including all arrears of interest accrued and accruing and free to them of all costs and expenses except Stamp Duties and Transfer Fees. Should the whole of the Debentures outstanding not be made available for purchase by Imperial Chemical Industries that Company reserves the right either to withdraw from the whole transaction or to accept such Debentures as have been deposited at the 21st June, 1937.

We have satisfied ourselves that in the event of a complete default on the Debentures and the appointment of a Receiver, the Debenture Holders would be unlikely to recover as much as 75 per cent. of the face value of their Debentures.

holding bore to the total Second Preference issue. Actually only about 39 per cent. of the Preferred Ordinaries were taken up in this way, and Brunner, Mond & Co. Ltd. took up the remaining 61 per cent. as well as all the Ordinary Shares. The whole of the Ordinary Capital and 3s. of the 5s. nominal value of the Preferred Ordinary shares have been called up, so that the *new* cash invested in the present Company has been £190,000 made up (in round figures) as follows:—

Brunner, Mond & Co. Ltd. (now a subsidiary of I.C.I. Ltd.):	
Ordinary Shares	£100,000
Preferred Ordinary	£ 55,500
Total I.C.I.	£155,500
Other Shareholders:	
Preferred Ordinary Shares	£34,500
	<u>£190,000</u>

The Company works under concessions granted by the Kenya Government and its main activity is the manufacture of soda ash (sodium carbonate) from the natural deposits of crude soda (trona) found at Magadi in almost unlimited quantities. The process used is a simple washing and calcining operation, but has the disadvantage that it produces only a moderately pure product. Although soda ash is an industrial chemical of great importance and is consumed in large quantities, only a relatively small market exists for the Magadi product as it is impossible to produce a purified product equal in quality to that made by the ammonia-soda process, the principal source of supply, except at prohibitive cost.

It was mainly for these reasons and the added disadvantage of a rail haul of 380 miles to Mombasa, the nearest port, that the original company achieved unsatisfactory results.

When the new Company began operations, under the management of Brunner, Mond & Co. Ltd. (themselves large producers of alkali) it was found possible, with the aid of the technical advice and assistance thus made available, to effect a progressive improvement in costs. By exporting Magadi Soda to its natural economic markets (in order of importance: Japan, Australia, India, River Plate, Brazil, China, and South Africa), with the active help of the Brunner Mond selling organisations, it was also possible to build up a reasonably profitable trade.

Thus from 1925 to 1928 sales increased from 40,000 tons to 80,000 tons per annum at satisfactory prices, and full Dividends were paid on the 1st and 2nd Preference Shares in 1927, 1928 and 1929. A dividend was paid on the Preferred Ordinary shares in 1928, but no dividend has ever been paid on the Ordinary Capital. Debenture interest at the full rate of 6 per cent. was paid in respect of the year 1925 and from 1927 to 1931 inclusive. From 1932 onwards Debenture

interest has been paid at the rate of 4 per cent. under a Supplemental Trust Deed. Debentures to a nominal value of £74,250 were redeemed by purchase between 1929 and 1931 in accordance with the provisions of the original Debenture Trust Deed.

Japan being a large industrial market, was Magadi's best customer, and in 1928 took about 60 per cent. of the Company's total output, so that when Japan began manufacturing alkali on a large scale by the Ammonia Soda process, the Magadi tonnage was immediately affected. Since then, Japanese production has increased until that country is now almost self-supporting and in addition exports considerable quantities. Although by accepting very low prices some share of the Japanese market has been retained by Magadi, other markets have provided little compensation, partly because of the limited demand for Magadi Soda, and partly because Japanese, Russian and other competition have resulted in a considerable and apparently permanent fall in world prices.

To illustrate this the following table showing comparative nett costs and realisations in representative years will be of interest, the year 1925 being taken as the basis (= 100).

	Output Tonnage	Nett Manufacturing cost per Ton	Tonnage sold	Nett Realisation per ton
1925	100	100	100	100
1928	156	74	163	120
1931	92	91	86	100
1934	63	85	63	97
1935	93	61	76	69

It will be seen that realisations have since 1928 shown a progressive reduction, while costs (having regard to the fact that production in 1931, 1934 and 1935 was very much lower than that for the peak year 1928) have shown a notable improvement.

As the actual and potential demand for Soda in Magadi's home market (East Africa) is negligible, export markets must obviously be the Company's main outlet, and as productive capacity throughout the world is now almost everywhere in excess of consumption, it is possible at present to discern little prospect of improved conditions.

The raw materials available in the Lake Magadi deposit do not permit the manufacture of a wide range of products, but other types of Alkali have been developed in recent years, although the demand for these is relatively small. The only product other than natural Soda which is available in quantity is Salt but its separation presents certain special problems and the high cost of transport to the sea coast renders competition in export markets out of the question. The

internal market for Salt in Kenya and Uganda may be secured, but as this does not amount to more than 8,000/10,000 tons per annum, its complete diversion to Magadi Salt, while undoubtedly of financial benefit to the Company, would not alter the dividend prospects to any material extent.

All the Company's properties in Kenya Colony, including the Magadi Branch Railway, are held on 99-years leases from the Kenya Government, and by the terms of its concessions, the Company is liable to certain minimum payments on account of Royalties and Railage. As these minimum payments are based on an output far in excess of the market for the Company's present products, supplemental agreements have been made with the Kenya Government from time to time whereby the minimum payments have temporarily been fixed at a reduced level.

The establishment of alkali factories in increasing numbers throughout the world renders the position of the Company progressively more difficult, and while every endeavour is made to maintain existing business, the efforts of your Board and its technical advisers are necessarily directed to improving costs and methods of production, to developing Salt and secondary products, and to conserving the Company's resources.

In regard to the Debenture position, the outstanding balance of the present issue amounts to £425,700, and interest thereon is payable under the original Trust Deed at the rate of 6 per cent. per annum. By virtue of a Supplemental Trust Deed entered into by agreement with the Debenture holders in 1932, Debenture Redemption was suspended and 2 per cent. interest rebated for a period of 5 years ending 31st December, 1936, but the amount so rebated remains as a contingent liability to be discharged if and when the profits of the Company permit this to be done. As the Supplemental Deed expires at the end of this year, negotiations will shortly be reopened with the Debenture holders.

Accordingly, we have no hesitation in recommending you to sell your holdings of Debentures at the rate of £75 net for each £100 Debenture, and pro rata for other denominations.

We are authorised to inform you that the Royal Exchange Assurance as Trustees concur in our recommendation.

We shall, therefore, be glad if you will send, in the enclosed registered envelope, to the Union Bank of Scotland Ltd., 62, Cornhill, London, E.C.3, the enclosed form of offer of sale, duly completed, and blank transfer signed by you and duly witnessed, together with your Debentures, at the earliest possible moment, but in any event so as to reach that address not later than Monday, the 21st June, 1937.

It is essential that the Transfers should not be dated nor the name of the purchaser inserted, and any alterations initialled.

In the event of your offer being accepted your transfer will be completed with the name of Imperial Chemical Industries Ltd. as transferees, and you will receive a cheque for the amount of the purchase money. If your offer is not accepted your Debentures and the transfer and form of offer signed by you will be returned by registered post.

We are already advised by the holders of upwards of £60,000 Debentures of their willingness to sell their holdings at the above price.

We would urge on the Debenture Holders the advisability of their tendering the whole of their Debentures as suggested above, as unless 100 per cent. of the Debentures are available for purchase by Imperial Chemical Industries Ltd. that Company has the right to withdraw from the whole transaction.

The total purchase price has been deposited in the joint names of the Trustees and the Union Bank of Scotland Ltd. to complete the purchase subject to the above-mentioned conditions.

L. A. STRIDE.
F. R. COTTELL. } *Debenture Holders'*
A. S. COLLEY. } *Committee.*

31st May 1937

Sir Cecil Bottomley, K.C.M.G., C.B.,
Colonial Office,
Downing Street,
London, S. W. 1.

My dear Bottomley,

Magadi Soda Company Limited.

The negotiations, the commencement of which I have already informed you, between the Board of Imperial Chemical Industries Ltd. and the Trustees for the Debenture Holders, backed by a Debenture Holders Committee, have now taken shape with the result that a Circular has been issued to the Debenture Holders by the Debenture Holders Committee strongly recommending Debenture Holders to accept an offer that has been made by Imperial Chemical Industries to purchase all of the outstanding Debentures at 75% of their face value. This is a considerably higher figure than the highest at which the Debenture Stock has stood in the market for several years and I should think that the Debenture Holders would be only too glad to accept it. I am confirmed in this opinion when I see that the Stock Exchange marking in "The Times" on 28th May was 74, the offer being 75.

This transaction is not a direct concern of the Company as it is, from their point of view, merely a change-over of a debt due by them from one holder to another, but when the

transaction is completed and Imperial Chemical Industries will then be holders of all the Debentures and all the ordinary shares I should think that the time would be opportune for a re-organisation of the finances of the Company on lines more in accordance with the commercial outlook. Then would be the time for us to confer together so as to safeguard the interests of the Colony in the matter.

I enclose three copies of the Circular that has been issued to Debenture Holders and two copies of my letter for your convenience in passing on the information contained therein if you desire to do so.

Yours very sincerely,

HUGH F. MARRIOTT

NO. 1, PINNER'S HALL,
GREAT WINCHESTER STREET,
LONDON, E.C.2.

26th May, 1937.

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THE MAGADI SODA COMPANY, LIMITED.

IMPERIAL CHEMICAL HOUSE,
MILLBANK,
LONDON, S.W.1.
20th April, 1936.

The salient features of the present situation in so far as the Debenture Holders are concerned may be briefly summarised thus:—

(a) The Magadi Soda Company has not earned its Debenture Interest and Sinking Fund in full, after depreciation, from the time when Sinking Fund payments were due to commence, i.e. 1929.

(b) The Magadi Company's Annual Report for 1936, issued under date 21st April, 1937, shows some improvement, but even the interest at the reduced rate of Four per cent., amounting to £17,028 per annum, was not fully earned during 1936 or indeed in any single year of the period of the Moratorium. In the absence of any further arrangement, the amount required to meet interest and sinking fund payments in the present year will be at least £49,000.

(c) The prospects for the future in our opinion are not encouraging, and in this connection it is desirable to point out that it is expected that within the next two years the Australian trade is likely to disappear owing to the establishment of adequately protected local production. As the Australian market is, next to Japan, the largest for the Company's products, it is obvious that should this market disappear the effect on the profits of the Company will be a serious one, and whilst the full interest and Sinking Fund could be paid for a limited period out of the present liquid assets, this would very probably only lead to a further impairment of the capital position.

(d) Practically all the fixed assets appearing in the Balance Sheet are situated on leasehold property, and in the event of default in the terms of the Lease would be liable to revert to the Kenya Government.

(e) The price of the Debentures on the market at the time of the issue of the Company's 1936 Annual Report was about £55 per cent. and there have been recent markings in the neighbourhood of £60 per cent.

We are pleased to inform you that as a result of our conversations Imperial Chemical Industries have indicated that they are willing to purchase the whole of the outstanding Debentures at the rate of £75 per cent. cash, including all arrears of interest accrued and accruing and free to them of all costs and expenses except Stamp Duties and Transfer Fees. Should the whole of the Debentures outstanding not be made available for purchase by Imperial Chemical Industries that Company reserves the right either to withdraw from the whole transaction or to accept such Debentures as have been deposited at the 21st June, 1937.

We have satisfied ourselves that in the event of a complete default on the Debentures and the appointment of a Receiver, the Debenture Holders would be unlikely to recover as much as 75 per cent. of the face value of their Debentures.

To the Shareholders of THE MAGADI SODA CO., LTD.

The following notes on the constitution and history of the Company are circulated by the authority of the Board of Directors, for the information of the Shareholders.

The present Magadi Soda Company was incorporated in 1925 to take over the undertaking carried on by the former Company of the same name, which was at that time in liquidation. The latter was incorporated in 1911, and had operated continuously at a loss, with the result that no dividends had ever been paid on the shares and a considerable amount of the capital had been lost.

The new Company was formed under the management of Brunner, Mond & Co. Ltd. (now a subsidiary of Imperial Chemical Industries Ltd.), who were in no way connected with the old Company.

The Debenture-holders, Shareholders and Creditors of the old Company were allotted the following interests in the new Company:

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Ordinary and Deferred Shareholders...	6 per cent. Second Preference Shares to an amount equal to 25 per cent. of the value of the original shares.

Two new classes of Shares were also created, namely, 12½ per cent. Preferred Ordinary (£150,000) in 5s. Shares and Ordinary (£100,000) in £1 Shares. The Second-Preference Shareholders in the new Company were invited to subscribe for the Preferred Ordinary issue in the proportion which each Shareholder's

holding bore to the total **Second Preference issue**. Actually only about 39 per cent. of the Preferred Ordinaries were taken up in this way, and Brunner, Mond & Co. Ltd. took up the remaining 61 per cent. as well as all the Ordinary Shares. The whole of the Ordinary Capital and 3s. of the 5s. nominal value of the Preferred Ordinary shares have been called up, so that the *new cash invested* in the present Company has been £190,000 made up (in round figures) as follows:—

Brunner, Mond & Co. Ltd. (now a subsidiary of I.C.I. Ltd.):	
Ordinary Shares	£100,000
Preferred Ordinary	£ 55,500
Total I.C.I.	£155,500
Other Shareholders:	
Preferred Ordinary Shares	£34,500
	<u>£190,000</u>

The Company works under concessions granted by the Kenya Government and its main activity is the manufacture of soda ash (sodium carbonate) from the natural deposits of crude soda (trona) found at Magadi in almost unlimited quantities. The process used is a simple washing and calcining operation, but has the disadvantage that it produces only a moderately pure product. Although soda ash is an industrial chemical of great importance and is consumed in large quantities, only a relatively small market exists for the Magadi product as it is impossible to produce a purified product equal in quality to that made by the ammonia-soda process, the principal source of supply except at prohibitive cost.

It was mainly for these reasons and the added disadvantage of a rail haul of 380 miles to Mombasa, the nearest port, that the original company achieved unsatisfactory results.

When the new Company began operations, under the management of Brunner, Mond & Co. Ltd. (themselves large producers of alkali) it was found possible, with the aid of the technical advice and assistance thus made available, to effect a progressive improvement in costs. By exporting Magadi Soda to its natural economic markets (in order of importance: Japan, Australia, India, River Plate, Brazil, China, and South Africa), with the active help of the Brunner Mond selling organisations, it was also possible to build up a reasonably profitable trade.

Thus from 1925 to 1928 sales increased from 40,000 tons to 80,000 tons per annum at satisfactory prices, and full Dividends were paid on the 1st and 2nd Preference Shares in 1927, 1928 and 1929. A dividend was paid on the Preferred Ordinary Shares in 1928, but no dividend has ever been paid on the Ordinary Capital. Debenture interest at the full rate of 6 per cent. was paid in respect of the year 1925 and from 1927 to 1931 inclusive. From 1932 onwards Debenture

interest has been paid at the rate of 5 per cent. under a Supplemental Trust Deed. Debentures to a nominal value of £4,250 were redeemed by purchase between 1929 and 1931 in accordance with the provisions of the original Debenture Trust Deed.

Japan being a large industrial market, was Magadi's best customer, and in 1928 took about 60 per cent. of the Company's total output, so that when Japan began manufacturing alkali on a large scale by the Ammonia Soda process, the Magadi tonnage was immediately affected. Since then, Japanese production has increased until that country is now almost self-supporting and in addition exports considerable quantities. Although by accepting very low prices some share of the Japanese market has been retained by Magadi, other markets have provided little compensation, partly because of the limited demand for Magadi Soda, and partly because Japanese, Russian and other competition have resulted in a considerable and apparently permanent fall in world prices.

To illustrate this the following table showing comparative nett costs and realisations in representative years will be of interest, the year 1925 being taken as the basis (= 100).

	Output Tonnage	Nett Manufacturing cost per Ton	Tonnage sold	Nett Realisation per ton
1925	100	100	100	100
1928	150	74	163	120
1931	92	91	80	100
1934	63	85	63	97
1935	93	61	76	69

It will be seen that realisations have since 1928 shown a progressive reduction, while costs (having regard to the fact that production in 1931, 1934 and 1935 was very much lower than that for the peak year 1928) have shown a notable improvement.

As the actual and potential demand for Soda in Magadi's home market (East Africa) is negligible, export markets must obviously be the Company's main outlet, and as productive capacity throughout the world is now almost everywhere in excess of consumption, it is possible at present to discern little prospect of improved conditions.

The raw materials available in the Lake Magadi deposit do not permit the manufacture of a wide range of products, but other types of Alkali have been developed in recent years, although the demand for these is relatively small. The only product other than natural Soda which is available in quantity is Salt but its separation presents certain special problems and the high cost of transport to the sea coast renders competition in export markets out of the question. The

internal market for Salt in Kenya and Uganda may be secured, but as this does not amount to more than 8,000/10,000 tons per annum, its complete diversion to Magadi Salt, while undoubtedly of financial benefit to the Company, would not alter the dividend prospects to any material extent.

All the Company's properties in Kenya Colony, including the Magadi Branch Railway, are held on 99-years leases from the Kenya Government, and by the terms of its concessions, the Company is liable to certain minimum payments on account of Royalties and Railage. As these minimum payments are based on an output far in excess of the market for the Company's present products, supplemental agreements have been made with the Kenya Government from time to time whereby the minimum payments have temporarily been fixed at a reduced level.

The establishment of alkali factories in increasing numbers throughout the world renders the position of the Company progressively more difficult, and while every endeavour is made to maintain existing business, the efforts of your Board and its technical advisers are necessarily directed to improving costs and methods of production, to developing Salt and secondary products, and to conserving the Company's resources.

In regard to the Debenture position, the outstanding balance of the present issue amounts to 1,425,700, and interest thereon is payable under the original Trust Deed at the rate of 6 per cent. per annum. By virtue of a Supplemental Trust Deed entered into by agreement with the Debenture-holders in 1932, Debenture Redemption was suspended and 2 per cent. interest rebated for a period of 5 years ending 31st December, 1936, but the amount so rebated remains as a contingent liability to be discharged if and when the profits of the Company permit this to be done. As the Supplemental Deed expires at the end of this year, negotiations will shortly be reopened with the Debenture-holders.

Accordingly, we have no hesitation in recommending you to sell your holdings of Debentures at the rate of £75 net for each £100 Debenture, and pro rata for other denominations.

We are authorised to inform you that the Royal Exchange Assurance as Trustees concur in our recommendation.

We shall, therefore, be glad if you will send, in the enclosed registered envelope, to the Union Bank of Scotland Ltd., 62, Cornhill, London, E.C.3, the enclosed form of offer of sale, duly completed, and blank transfer signed by you and duly witnessed, together with your Debentures, at the earliest possible moment, but in any event so as to reach that address not later than Monday, the 21st June, 1937.

It is essential that the Transfers should not be dated nor the name of the purchaser inserted, and any alterations initialed.

In the event of your offer being accepted your transfer will be completed with the name of Imperial Chemical Industries Ltd. as transferees, and you will receive a cheque for the amount of the purchase money. If your offer is not accepted your Debentures and the transfer and form of offer signed by you will be returned by registered post.

We are already advised by the holders of upwards of 400,000 Debentures of their willingness to sell their holdings at the above price.

We would urge on the Debenture Holders the advisability of their tendering the whole of their Debentures as suggested above, as unless 100 per cent. of the Debentures are available for purchase by Imperial Chemical Industries Ltd. that Company has the right to withdraw from the whole transaction.

The total purchase price has been deposited in the joint names of the Trustees and the Union Bank of Scotland Ltd. to complete the purchase subject to the above-mentioned conditions.

L. A. STRIDE
F. R. COTTLE.
A. S. COLLEY. } *Debenture Holders
Committee.*

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TELEPHONE HOLBORN 8846 7

AFRICA HOUSE
KINGSWAY,
LONDON, W.C.2.

19th May 1937

The Under-Secretary of State for the Colonies,
Colonial Office,
Downing Street,
London, S. W. 1.

Sir,

Magadi Soda Company Ltd.

I have the honour to enclose herewith three copies of the Report of the Directors and the Balance Sheet for the year ended 31st December 1936 and three copies of the proceedings at the 12th Ordinary General Meeting of the Company held in London on 30th April 1937.

The output of soda for the past year has been maintained at the same level as in the previous year, the largest sales being as before to Japan and Australia.

In spite of many rumours to the contrary, Japan has maintained her purchases and the threatened action against soda importers into that country by increase of duties has not been brought into force. Japan has, for several years, been a very uncertain market and must be expected to remain so. Orders from Japan are useful in helping to maintain a higher rate of output and thus assist in keeping down the working costs per ton but the prices are cut very fine and there is little or no profit to the Company in the business done with that country.

There is a definite time limit to the business being

Sp. Recs. - to Kaya - (3) And 2

done with Australia as the soda factory being built there to supply their own requirements should be completed in the next two or three years.

It appears inevitable that the time will come and is not far distant when the output from the Lake will be restricted to those countries now being supplied by us which are not making any arrangements for their own manufacture and these markets will only be held by us in agreement with Imperial Chemical Industries under a partnership arrangement as exists to-day. Reduced output carries with it increased costs per ton and although there has been excellent work done in the past few years in the way of reducing the costs of manufacture, economies will have to be carried still further to meet the situation. In this connection the salt industry which is being built up at the Lake should be of material assistance. Its expansion has been agreed upon by the Board and further substantial outlay on capital account is now only awaiting the result of negotiations which are being carried on with the Debenture holders for a re-settlement of their position.

The Pier and Port Works at Kilindini have been disposed of to the Kenya and Uganda Railways and Harbour Administration for the sum of £50,000 and the liquid resources of the Company have been increased by this amount.

The financial structure of the Company will probably be subject to some alteration when a conclusion has been arrived at on the Debenture position. When this stage has been reached

3 -

I will report to you again on the subject.

I am,

Your obedient servant,

H. F. Marriott

Hugh F. Marriott.

THE MAGADI SODA COMPANY, LIMITED.

Directors :

J. G. NICHOLSON (*Chairman*).

P. F. FLETCHER.

A. E. GAWLER.

W. F. LUTYENS.

H. F. MARRIOTT.

C. G. SAUNDERS.

Secretary :

J. D. EARLAM.

REPORT OF THE DIRECTORS.

The Directors present herewith the Balance Sheet as at 31st December, 1936, together with the Auditors' Report thereon, and the Profit and Loss Account for the year ended 31st December, 1936.

The Profit and Loss Account shows a debit balance for the year of £5,204 after charging Obsolescence and Debenture Interest, and the Directors therefore regret that no dividends can be paid for the year under review.

The Port Depot and Works at Kilindini which were held by the Company on a 99 years Lease from 1st November, 1924, were acquired by the Kenya & Uganda Railways and Harbours on 31st December last. The assets covered by this transaction were valued in the Company's books at £104,256. After prolonged negotiations it was agreed to dispose of them for a cash payment of £50,000. The Company will not be placed at any disadvantage by the Surrender of the Lease, as a satisfactory Agreement running concurrently with the Leases of the Magadi Lake and Railway has been entered into, whereby the Port Administration will in future attend to the storage and shiploading of the Company's products at the Coast.

The Company's obligations to the Kenya Government and the Kenya & Uganda Railways have been met.

Provision has been made during the year for Obsolescence on Buildings and Plant amounting to £16,375 and, after writing off the book loss of £54,256 on the sale of the Kilindini property the total reserve on this account as at 31st December, 1936, was £66,724.

Debenture Interest amounting to £17,028 for the year has been paid, being at the rate of 4 per cent. in accordance with the moratorium scheme approved by the Debenture-holders on 8th July, 1932. A note has been inserted on the face of the Balance Sheet drawing attention to the contingent liability for Debenture Interest and Redemption payments remitted under this scheme. The moratorium expired on 31st December, 1936, and negotiations for the future have not yet been completed.

Net floating assets as at 31st December, 1936, stood at £207,316, against £146,200 at the end of 1935, the increase being accounted for in the main by the inclusion of the Kenya & Uganda Railways and Harbours as debtors for £50,000 in respect of the Kilindini property. The investments appearing at £49,754 were in securities of or guaranteed by the British Government and in Home Corporation Stocks or Mortgages, and at 31st December, 1936, the market value of these securities exceeded the book value.

Under the Articles of Association, Mr. W. F. Lutyens retires from the Board, and, being eligible, offers himself for re-election.

The Auditors, Messrs. Price, Waterhouse & Co., retire, and, being eligible, offer themselves for re-election.

By order of the Board,

J. D. EARLAM,
Secretary.

IMPERIAL CHEMICAL HOUSE,
MILLBANK,
WESTMINSTER, S.W.1.

21st April, 1937.

THE MAGADI SODA COMPANY, LIMITED.

PROFIT AND LOSS ACCOUNT for the year ended 31st December, 1936.

	£	s.	d.	£	s.	d.
To Head Office Salaries and Audit	290,000	0	0	1,511	0	0
Roast and Office Charge	330,000	0	0	1,000	0	0
General Expenses	1,884	3	5	638	3	5
Depreciation	5,384	16	3	1,884	16	3
Investment Depreciation	40	1	10	3	0	0
Transfer Fees	106	0	0	40	1	10
Dividends Interest	17,028	0	0	106	0	0
				17,028	0	0
	£25,092	8	2			
By Trading Profit for year	16,371	13	4			
Miscellaneous Receipts, including Rents	1,082	17	6			
Investment Revenue	781	12	6			
Gift (cash) on Reformation of Investments	451	6	0			
Transfer Fees	6,204	8	8			
Balance, being loss carried to Balance Sheet						
	£29,992	8	2			

BALANCE SHEET as at 31st December, 1936.

	£	s.	d.	£	s.	d.
LIABILITIES.						
ARRESTABLE CAPITAL:—						
100,000 6% First Cumulative Preference Shares of £1 each	320,000	0	0			
100,000 6% Second Cumulative Preference Shares of 5s. each	320,000	0	0			
100,000 10% Preferred Ordinary Shares of 5s. each, fully paid	160,000	0	0			
100,000 15% Preferred Ordinary Shares of 5s. each, 5s. called	100,000	0	0			
100,000 Ordinary Shares of £1 each	£380,000	0	0			
ISSUED CAPITAL:—						
210,000 6% First Cumulative Preference Shares of £1 each, fully paid	210,000	0	0			
1,312,140 6% Second Cumulative Preference Shares of 5s. each, fully paid	328,047	10	0			
228,124 10% Preferred Ordinary Shares of 5s. each, fully paid	89,570	5	0			
699,315 15% Preferred Ordinary Shares of 5s. each, 5s. called	100,000	0	0			
100,000 Ordinary Shares of £1 each, fully paid	737,095	15	0			
Called—Calls in arrear in respect of 124 1/2 Preferred Ordinary Shares	859	2	7			
	425,700	0	0	736,236	12	5
6% MORTGAGE DEBENTURES (redeemable 1st JANUARY, 1940, at 100% (Secured on all assets) as at 1st JANUARY, 1936)	17,042	7	0			
STURDY DEBTORS AND PROVIDORS FOR TAXATION AND CONTINGENCIES	5,587	7	4			
DEBTS TO THE TRUSTEES AND DIVIDEND WARRANTS UNREDEEMED	104,800	3	2			
UNREDEEMED RECEIPTS AS AT 1st JANUARY, 1936	16,374	16	10			
Add amount provided during 1936	120,880	2	0			
	54,255	16	7	68,734	5	5
Less loss on sale of Kilindini property						
	425,700	0	0	425,700	0	0
STAMP DUTIES ON EAST AFRICAN LEASES, at cost	17,042	7	0			
PROFIT AND LOSS ACCOUNT—						
Profit and Loss Account—December, 1935, brought forward	106,071	6	1			
Debit balance as at 31st December, 1935, brought forward	5,204	6	8			
Add Loss from Account				111,275	12	9
				116,275	12	9
ASSETS.						
BUILDINGS, PLANT, MACHINERY, RAILWAY, &c., IN EAST AFRICA and elsewhere—	641,652	15	0			
As at 1st JANUARY, 1936, at cost, less amounts written off	1,221	3	0			
Additions at cost	984,874	35	3			
Less Book value of Kilindini property sold	104,255	16	7			
(In deposit with Imperial Chemical Industries, Ltd., at call)				882,615	18	6
PREPAYED RECEIVING STOCKS, &c.	532	15	6			
TRADE MARKS, at cost	53,489	12	7			
Stocks of Manufactured Products, Repairs and Constructional Materials, as valued by the Company's Officials	79,488	1	1			
STURDY DEBTORS, including Bills Receivable, less Reserve	49,753	15	8			
INVESTMENTS IN GOVERNMENT AND OTHER SECURITIES, at cost						
CASH—						
At Backers and in hand in England and East Africa	17,375	4	3			
In deposit with Imperial Chemical Industries, Ltd., at call	30,228	17	6			
	47,603	11	9			
PRELIMINARY EXPENSES—						
At cost, less amounts written off						
STAMP DUTIES ON EAST AFRICAN LEASES, at cost						
PROFIT AND LOSS ACCOUNT—December, 1935, brought forward	106,071	6	1			
Debit balance as at 31st December, 1935, brought forward	5,204	6	8			
Add Loss from Account				111,275	12	9
				116,275	12	9

J. G. NICHOLSON,
PEVERIL F. FLETCHER,
Directors.

AUDITORS' REPORT.

To the Members of THE MAGADI SODA COMPANY, LIMITED.—We report that we have examined the above Balance Sheet with the books of the Company in England and with the audited Returns received from East Africa and that we have obtained all the information and explanations to which we had access in order to enable us to form an opinion as to whether the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the Company's affairs as at 31st December, 1936, according to the best of our information and the explanations given to us and as shown by the books of the Company in England and the audited Returns from East Africa.

3. PRINCIPALS: MESSRS. PRICE, WATERHOUSE & CO., Chartered Accountants, Auditors.

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£1,252,190 12 9

THE MAGADI SODA COMPANY, LIMITED.

IMPERIAL CHEMICAL HOUSE,
MILLBANK, LONDON, S.W.1.

REPORT OF THE DIRECTORS

AND

Balance Sheet

AND

Accounts

For the year ended 31st December, 1936.

47

THE MAGADI SODA COMPANY
LIMITED.

PROCEEDINGS
AT THE
TWELFTH ORDINARY
GENERAL MEETING

of the Company held at
CAXTON HALL, WESTMINSTER,
S.W.1.

On Friday, 30th April, 1937.

J. G. NICHOLSON, ESQ.,
Chairman.

THE MAGADI SODA COMPANY LIMITED.

The Twelfth Ordinary General Meeting of The Magadi Soda Company Limited was held on Friday, April 30th, 1937, at the Caxton Hall, Westminster, London, S.W. 1, the Chairman, Mr. J. G. NICHOLSON, presiding.

The Secretary having read the notice convening the meeting and the Auditors' Report THE CHAIRMAN addressed the meeting and said: -

Ladies and Gentlemen: With your permission I will take the Report and Accounts as read, as these have been in your possession for some days.

The Balance Sheet for the year under review shows a number of changes of exceptional interest and importance, and I therefore propose to deal with this section of the Accounts in rather more than ordinary detail. On the Liabilities side, apart from an increase of £53 in the paid up capital represented by the further payment of calls in arrears on the Preferred Ordinary Shares, the main items of interest are Sundry Creditors and the Obsolescence Reserve. Creditors have increased by £5,150, but this item consists almost entirely of day-to-day trade creditors and may be compared with a corresponding fluidity in respect of Debtors. On January 1st, 1936, the excess of Debtors over Creditors was £12,145, and on December 31st, 1936 (excluding a sum of £50,000 due to the Company on account of the sale of the Port property), it was £11,040; in other words a very small difference. The £50,000 to which I have just referred has, of course, since been paid to the Company.

For 1936 we have allotted a sum of £16,374 to Obsolescence Reserve, a figure calculated on our usual standard basis. At the same time we have made a large appropriation out of this reserve for reasons which I shall explain more fully later.

On the Assets side you will note that Buildings, Plant, etc., have been reduced by the sum of £104,255, representing the book value of our Port property, which has been acquired by the Kenya and Uganda Railways and Harbours Administration. The circumstances attending the disposal of this asset are as follows:

Our Port concession was held under a Lease from the Kenya Government operating for a period of 99 years as from November 1st, 1924, and at its expiry the Government

would have been entitled to take over the whole property free of any payment to the Company. The lease, however, also provided that during its currency Government could acquire the property at any time on payment to the Company of a sum representing the original cost of certain buildings and works, less depreciation, but with adjustments for additions and improvements.

In 1936 this sum stood at about £70,000. There was also in the Lease a provision that if the Government exercised its option to purchase during the currency of the lease, the Company would retain the right to use the property for its own purposes as heretofore.

Some time ago the Kenya and Uganda Railways and Harbours Administration (who represented the Government in this matter) intimated that they wished to acquire the property in pursuance of their plans for the further development of Kilindini Harbour in the general interests of the Colony. They pointed out, however, that there was no advantage to them in buying if the Company were to retain a measure of control over the property whilst using it for its own purposes. They therefore put forward a proposal which in brief entailed the handing over of the property free of any residual rights of enjoyment by the Company, but with an undertaking on the Railway's part to handle the Company's traffic on terms and conditions not less favourable than those which the Company could attain had it continued to operate on its own account.

Prolonged and detailed negotiations finally led to an agreement whereby the Company surrendered the property and all its residual rights therein for a lump sum payment of £50,000 together with a formal contract with the Administration which provides, after taking all relevant considerations into account, a satisfactory basis for handling our traffic at the port. Your directors are satisfied that it would have been impossible to secure any better terms, and that in choosing between an opportunity of converting a fixed asset into cash, or of retaining and working the Port Works as heretofore, the case in favour of the former course was clear, particularly when it is borne in mind that we have at all times received every consideration from the Government and the Railway in mitigating our minimum tonnage obligations under our Main Leases. Indeed, in the year under review, we have been able to negotiate a further extension for two years of the Agreement which substantially modifies our obligations in this respect.

The result of this transaction is that we have to dispose of a book loss of some £54,000, and your Directors have considered it appropriate that the whole of this sum should be debited against Obsolescence Reserve. Our new Agreement with the Railway, already mentioned, is of course an asset of considerable value to the Company, and although it might have been capitalised, so reducing or even eliminating the sum to be written off, your Board saw no particular object in taking this line, especially as it would be difficult to attach to it an actual money value.

For this reason also the disposal of the loss in Profit and Loss Account would not have been justified, and as your Directors are satisfied that the balance remaining in Obsolescence Account is adequate for the remainder of the assets they have little doubt that you will agree that the method adopted was in all the circumstances the best.

Of the other Assets, you will notice that Stores, Stocks of manufactured products, Furniture, etc., are reduced in value by £13,526, most of which is due to a drop in the stocks of finished products, an item governed largely by the incidence of shipping.

Sundry Debtors I have already dealt with, and in the remaining Floating Assets, namely, Investments and Cash, you will observe a net increase of £23,000 odd. Investments have been reduced by redemptions, but the money so released has not been re-invested pending a clearer outlook in the gilt-edged market position, but has been left on deposit at satisfactory interest rates. The aggregate increase of £23,000 is accounted for partly by the decrease in stocks and partly by improved trading results. The loss on the year of £5,204 is arrived at after allocating £16,374 to Obsolescence Reserve which is not a cash item and if added back would show a nett profit on the year of about £11,000.

In the Profit and Loss Account, the figures are very much on the same lines as in the past few years, except that the Trading Profit has increased by £13,492, due to an increased volume of sales and a further reduction in costs of production.

The output of Soda in 1936 amounted to 42,733 tons, 389 tons less than the 1935 output, while sales were 46,121 tons as against 37,688 tons, due mainly to increased shipments to Brazil and Australia.

The output and sales of salt amounted to 1,708 tons, and sales of sundry products totalled 688 tons.

With regard to the general market position, there are signs at long last of some improvement in prices. Against this, however, we shall have in future to set off a not inconsiderable advance in sea freights, whilst within the next two years our Australian trade is likely to disappear owing to the establishment of adequately protected local production.

Although the Japanese market has not yet been closed to us, it has again been necessary to accept very low realisations. Prices have recently advanced slightly, but it has now become essential to obtain licences for the sterling exchange required to pay for our goods.

With the Australian position as outlined, with the likelihood of local production in India now entering a more definite stage and with a continued increase in local manufacture

in Japan, I can only repeat what has been said from this Chair in previous years that our export trade seems bound to diminish, and that an important section of it may in fact disappear altogether in the not too distant future.

On the other hand, our investigations into Salt production have proved promising and we have decided that a further outlay of £17,000 in capital expenditure would now be justified to increase output to a level sufficient to supply most of the internal requirements of Kenya and Uganda, and it is calculated that this expenditure should show a reasonably satisfactory return. The export of salt from Magadi can never be economic owing to the distance of the Lake from the coast and the consequent heavy freight charges.

So far as our internal organisation is concerned, the work done on Salt production and the further reduction in costs is, I think, ample evidence that everything possible is still being done to improve the Company's position from a manufacturing point of view. For these results we are indebted to the work of our staff at Lake Magadi and the co-operation of the Technical Departments of Imperial Chemical Industries, Limited. The Producer Gas Plant burning wood fuel, which I mentioned last year, has proved an unqualified success, and helps to account for lower costs.

In general terms our policy must be governed by the situation that I have outlined, and this seems to point more and more in the direction of a limited and selective export of Soda to markets which can still be supplied economically and profitably, and the development of the trade in Salt. Even so, in view of our prior charges, the prospects of any dividends must, in the absence of any quite unforeseen eventuality, remain very problematical.

As you are aware, the five-year Debenture moratorium expired on December 31st, 1936, and technically the Company is once again in the position of having to pay 6 per cent. instead of 4 per cent. interest per annum, and to appropriate and apply a further sum of £24,000 this year for the purchase or redemption by drawing of Debentures. Negotiations for a fresh modification of the Trust Deed have been unavoidably protracted, but it is hoped that it will be possible to reach a new agreement before the next interest payment has to be made.

The CHAIRMAN then moved the adoption of the Report and Accounts. This Resolution was seconded by Mr. P. E. Fletcher and, after questions by Shareholders had been replied to, was put to the meeting and carried unanimously.

The re-election of Mr. W. F. Lutyens as a Director of the Company was proposed by the Chairman, seconded by Mr. H. F. Marriott, and carried unanimously.

Messrs. Price, Waterhouse & Co., were reappointed Auditors.