

1931.

Kenya

No. 17058 / A (Part 2.)

ENC

SUBJECT

CO533/407

Inagadi Soda Company Ltd

Previous

Part 1

Subsequent

Subfile B (Supplying  
Soda Ash for Paper  
City Works, Kisumu)

18074/32.

55. H. J. Marriott — 26-10-31

States position with regard to leases of buildings or at Kagiado and encloses copy of speech by chairman of I.C.I. to principal Debenture holders of Magadi — on 22 Oct. 1931

56. — Gov tel 338 Secret — 29 Oct

part of 346 Repeat. decode of Error discovered

The Director  
Mr. Allen

(See also No. 54 on Part (1) separately minuted).

I. No. 56 confirms the conjecture made in my minutes under 41 and 50; and the Governor's remarks which I have enclosed in a pencilled bracket in No. 50 can be ignored; but the rest of Part 1 of that telegram still calls for consideration.

The S. of S. has agreed with I.C.I. that, in the events described, the value of the Magadi Soda Company's assets should be agreed with I.C.I., with the obvious implication that the agreed amount (less any legitimate deductions by Government) should be paid over to I.C.I. and recovered from the new lessees. The Governor, on the other hand, suggests that the assets should be disposed of on such terms as it sees fit, which in the last resort might amount to confiscation. The Governor's proposal is, I think, indefensible; I.C.I. will have paid heavily to get into the undertaking, and can claim with justice that they should be paid to get out.

53 in 32  
part 2 in 35

A

It should be noted that the assets in question at the date when it is proposed to value them, i.e., more than 12 months before re-imposition of the terms of the leases, will include a great deal more than the movable assets which I.C.I. are entitled to retain when Government exercises its power of re-entry under the leases.

As far as can be seen, the point at issue is entirely academic, since it is highly improbable that any third party with the necessary backing will come forward during the moratorium. It will be enough, therefore, to write to the Governor stressing B rather than A, and saying that in the circumstances the S. of S. did not feel able to re-open the question with the Company.

15  
II. I submit a draft for consideration to I.C.I. The last sentence is intended to ensure that the £10,000 p.a. payable by I.C.I. becomes due as from the date mentioned in the Magadi Soda Company's letter of 17th September.

17  
III. When it has gone we must write to Crown Agents giving them instructions for the preparation of the Deed. Mr. Marriott was of the opinion that the small point referred to in para. 3 of No. 50 and page 1 of No. 55 could be left over for inclusion in the Deed, and need not be separately taken up with I.C.I.

*W. Allen*  
2/11/31

W. Allen

*Perhaps Tom & Mr. Freestone and I might discuss this when you have read the above minutes.  
4/11/31 H. Duncan*

Mr. Allen

We discussed with Mr. Duncan yesterday. As regards the difference of opinion between I.C.I. and the Government in respect of the disposal of the "assets." Mr. Duncan pointed out that it would be necessary to ascertain precisely what was meant by the use of the word in the third paragraph on page 4 of the Company's letter of 24th September.

(No. 52)

Through Mr. Marriott's intermediacy, it was arranged that Mr. Gawlor, Secretary of the Magadi Soda Company, should call at the Office. He came this afternoon, and the following points emerged:-

I. What I.C.I. are anxious to protect themselves against is the possibility that Government would make a present of the railway buildings, plant etc., connected with the Magadi concessions, on which I.C.I. have spent a great deal of money, to the hypothetical third party which is prepared to work the deposits. Such a course of action would, in effect, amount to subsidizing one of I.C.I.'s competitors at I.C.I.'s expense, and it was with a view to safeguarding themselves against this contingency that they thought it necessary to insist upon the agreed valuation. The "assets" in question include, in addition to all the movable assets which the Company is entitled to retain after Government's re-entry, all buildings, machinery, pipelines, the railways, the pier at Kilindini, and everything of a physical nature belonging to the Company.

II. I took the opportunity of raising the point about the date from which the £10,000 per annum should become payable. According to Mr. Gawlor, I.C.I. have had in mind the 1st January 1932, provided that by then their negotiations for buying out the debenture-holders and preference share-holders have been completed. (I

learnt

learned incidentally that the General Meeting of the debenture-holders is fixed for December 10th.

Mr. Gawlor agreed that the next step would be to get confirmation in writing on these two points, and I submit a draft to the Company, the general lines of which I discussed with Mr. Gawlor.

X  
III. During the discussion it emerged that I.C.I. are now advised that a formal Deed will be necessary to give effect to the arrangements; and they have already been in touch with their solicitors on the subject. It was suggested that the Deed should be drawn up by the Crown Agents' Solicitors and I.C.I.'s solicitors in conjunction. Provided that all points of principle are agreed beforehand, such a course would probably save time and money, and when we write to C.A. we can pose as the suggestion?

*B. Austin*  
10/11/31

I have initialled the draft letter referred to at X/above.

11/11/31. *A. Duncan*

*Sir J Campbell*

As this may develop into a troublesome matter, I think you should see at this stage. As Austin's line of counsel came out of the meeting.

*A. Duncan*  
11/11/31

I have initialled the draft, making one slight addition which is I think in accord with the intention of all of us.

I agree with Mr. Freeston's minutes.

The 12-11-31.

*[Signature]*  
12/11/31

*Draft passed*  
*12/11/31*  
*at once*

2 57

To J. & J. Cowie - 14 Nov 1931

No reply has yet been received to No 57.

*J. King*

<sup>28. 11. 31</sup>  
Mr. Gardner telephoned yesterday that the reply to 57 was held up for the approval of the Chairman, who is out of London. We may expect it early next week.

Mr. Gardner is sending us a copy of the letter sent to the Deb.-holders in regard to the General Meeting to be held on Dec. 10th.

Wait

*B. Austin*  
28/11/31

~~58 Tot 2000 (to be sent back) to London~~

58. Magadi Soda Co. 7/12/31  
 Enclose copy of final circular  
 & resolution as issued to the  
 debenture holders 7/12/31, in  
 connection with the proposed  
 compromise.

59. Extract from The Times 3/12/31  
 Part 4  
 11/12/31

60. To Gov. Kenya, Tel. Secret - 3/12/31  
 554

DESTROYED UNDER STATUTE

Magadi Soda Co. 4th December, 1931  
 States it is possible, for reasons stated, that  
 the proposed compromise will not prove acceptable  
 to a sufficient majority of Debenture holders.  
 Should this be so, anticipate that I.C.I.'s offer  
 will be withdrawn, which will involve abandonment  
 of moratorium scheme in present form. In such cases  
 it will be necessary for the Company to continue  
 trading upon such lease terms as may be acceptable.

Mr. Allen  
 ? We can only await events. It  
 would be premature to say anything to  
 Kenya.

11/12/31  
 7/12/31  
 H. Allen  
 7/12/31

Yes. There is a reference to this in the last  
 issue of the "Economist"--but it does not give  
 any fresh information. Would it not be well  
 to send Kenya a copy of the circular, etc, by air  
 mail?

11/12/31

62. Extract from Financial Times - 7/12/31  
 63. " Times - 7/12/31  
 64. " Times - 8/12/31

65. Copy of letter from W.A. Marriott  
 to Sir H. Theobald dated 8/12/31  
 66. Speech to be delivered by Sir H. Theobald to the  
 Deb. Holders on 17/12/31

67. 10 for Kenya - do - 8/12/31  
 (10 copies of documents  
 noted in schedule.)  
 By mail

68. Extract from Times - 11/12/31

69. Note of conversation  
 with Mr. Marriott. 14/12/31

70. I have written parents & wife  
 by telegram, as well.  
 Consider as to a telegram, that  
 should go, not later than Thursday.  
 15  
 25/12/31  
 Allen

71. For Kenya - Tel. Secret - 16/12/31  
 15  
 25/12/31  
 Allen  
 Has to know present position regarding  
 Soda Company earliest

DESTROYED UNDER STATUTE

72. Note of further conversation with Mr. Marriott 17.12.31

I have ascertained that the Air Mail of 8<sup>th</sup> Dec.  
 reached Kisumu this morning (one day late)

It is clear, therefore, that 71 was sent before 67  
was received.

Now litograph as in draft

73

J. P. French  
17/11

St. Allen  
17/12

W. C. Wood  
17.12.21  
a.c.w.

73  
~~SW~~

To Gen. Keyser. Tel. Number. Paris. 17.12.21

Si. D. 1000  
not attached

5

C. O.

RECEIVED  
18 DEC 1961

Mr. Frazer. 17/11

17058/31

Mr. Patten 17/12

Kenya.

Cashed  
5.26 pm 17.11  
[Signature]

Mr. Tomlinson.

X Sir O. Bottomley. 17.12/61

Sir J. Shuckburgh.

Sir G. Grindle.

Permi. U.S. of S.

Party. U.S. of S.

Secretary of State.

N<sup>o</sup> Personal. Following from Bottomley,

beginning Magadi Debenture holders at meeting of 10th December rejected

I.C.I. proposals. Enclosures 5 and 6

to my letter of 8th December were not

read at meeting. It is anticipated

that negotiations will be re-opened

and that work at Magadi will continue

for the at present. See my letter of 15th

December by air mail. will report

progress. Ends. This covers

your official telegram N<sup>o</sup> 380 sent

**DRAFT.**

TELEGRAM.

and must therefore  
not be regarded  
as forming part  
of the record

GOVERNOR

KENYA

BYA

PERSONAL

Recive quickly 18/12/61

Mr. Marriott rang me up this morning and explained that Sir Ernest Allen, who is the Director of Magadi Soda Company, representing the debenture holders, had been up to see him. They had a long talk, and as a result Sir Ernest Allen got into touch with Mr. Mackenzie Grieve, the Trustee, and has written him a letter strongly recommending him to go and have a talk with Mr. Marriott. That letter would have reached Mr. Mackenzie Grieve this morning, so, it is of course not known yet whether <sup>he</sup> will <sup>act on</sup> touch the suggestion.

Mr. Marriott apparently explained to Sir Ernest Allen that he could not see what the opposition to the I.C.I. proposals were driving at, (he said to me that even Sir E. Allen seemed somewhat ignorant of the position), and that in his opinion they were simply hanging themselves. They could, of course, do this if they liked, but they should do it with their eyes open, and he thought that a talk with Mr. Mackenzie Grieve would be useful in order that he (Mr. Marriott) might assure himself that the opposition <sup>were</sup> aware of exactly what they were doing. They seemed to have some curious misconception <sup>as to</sup> of the recent profits, and what they were in a position to do with the property if they took it over. [They seemed to be under the impression that they could take it from the I.C.I. and sell it to the Japanese or anybody else.]

Mr. Marriott also asked that if the debenture holders, as they may, approached the Colonial Office for information, they may be put on to him first as the independent Director of the Company. I said I would note this request for record in case



the occasion arose for considering it.

J. Allen

17/1/31

Downing Street,  
15th December 1921.

*My dear Sir,*

Haradi Soda Company.

I enclose a note which I prepared hurriedly yesterday after a telephone talk with Harriott, from which you will see that things are not going smoothly with the debenture holders. He shall wait a day or two to see if there are any further developments and then telegraph to you so as to coincide roughly with the arrival of my last week's air mail letter. But I send you this so that you may have the fullest information as soon as possible.

Harriott is confident that Imperial Chemical Industries will offer nothing more to the debenture holders, and he thinks that the latter will come to heel. He thinks it just possible, however, that they will themselves approach the Government, that is the Secretary of State, or more improbably, you, to see what they can get

His Excellency  
Brigadier-General  
Sir Joseph Byrne,  
K.C.M.G., K.B.E., C.B.

708

Downing Street,

15th December 1931.

*My dear Sir,*

Harold Soda Company.

I enclose a note which I prepared hurriedly yesterday after a telephone talk with Harriott, from which you will see that things are not going smoothly with the debenture holders. We shall wait a day or two to see if there are any further developments and then telegraph to you so as to coincide roughly with the arrival of my last week's air mail letter. But I send you this so that you may have the fullest information as soon as possible.

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His Excellency  
Brigadier-General  
Sir Joseph Byrnes,  
K.C.M.G., K.B.E., C.B.

out-

out of a threat of expropriation. That, of course, would need very serious consultation between you and the Secretary of State, and I think there are two points which would govern the concession.

The first is that our contracts are with the Nagadi Soda Company, and until that Company declares itself permanently broken we cannot deal with anybody else.

The second is that when the old Nagadi Soda Company broke down it was a question of transferring the concession either to an independent company or to a company controlled by Messrs. Brunner Mond and Company. Actually the matter was settled by the withdrawal of the independent promoters, but it had already been felt that only the very strongest financial combination could hope to succeed against resources and expert knowledge of Brunner Mond. If a third Nagadi Soda Company is to be started by the debenture holders it will certainly have the whole weight of I.C.I. against it, and it would start off in a time when marketing is more difficult than it has ever been before. The Government would require from such a company, or its backers, far more stringent guarantees of working and revenue than it has sought from the present company and I.C.I. on its behalf.

I hope sincerely that the matter will be settled without undue delay. It is an awkward complication of your general difficulties.

My best wishes to Mrs and Lady Byron for Christmas, and for a really prosperous New Year.

Yours sincerely,

W. Brown

P.S. It is unfortunate that the  
debenture holders would actually prefer  
they should get little more than scraps  
value for their assets; but calling my  
bluff is a serious matter

69

MAGADI SODA COMPANY

The following notes are based on telephone messages from Mr. Marriott, who is still confined to his house:-

Before the meeting with the debenture holders on 10th December, members had been circularised and asked to send in proxies in opposition to the I.C.I. scheme. As a result, Sir H. McGowan, who presided at the Meeting, found proxies to the extent of 26 per cent of the <sup>debenture</sup> voting interest against his own scheme, which therefore <sup>could not</sup> be carried. Consequently he announced that he was not going to make his speech, to the consternation of those who knew the contents of his speech and had apparently expected that it would serve as a basis for getting something more out of the I.C.I. It followed that Mr. Marriott's letter also was not read, and the Meeting negatived the I.C.I. scheme.

Sir H. McGowan saw Mr. Marriott yesterday (Sunday), and they formed the definite opinion that in the course of the next week or two the debenture holders would come to the former to open up negotiation in the hope of getting better terms. I.C.I. are determined not to give better terms and it is thought that the result will be that the original terms will be accepted. In the meantime the small uncalled capital of the Magadi Soda Company will be called up, and to the extent of its amount <sup>it</sup> will be carried on. Mr. Marriott will keep us informed, and as regards the Governor we must telegraph in order that he may not be misled by my air mail letter. The telegram

will

will have to make it clear that the proposal has been rejected by the debenture holders, but that it is anticipated that negotiations will continue; that the speech and Mr. Marriott's letter were not read at the Meeting and must therefore <sup>not</sup> be regarded as forming part of the <sup>record</sup> ~~letter~~, that the work ~~may~~ <sup>will</sup> be continued for the present, and that we expect to be able to report further very shortly.

Mr. Marriott said that he hoped that the Governor would let off the Magadi Soda Company with the 50,000 tons figure of output, and not insist on the application of the 100,000 output. We agreed, however, that it was unnecessary and perhaps undesirable to raise this point at present.

*Decided in  
copy for  
Said. Agnew*

*WCS  
14.12.41  
Gardner*

68<sup>13</sup>

Re Times. 11/12/31

**MAGADI SODA COMPANY**

**STATEMENT BY GOVERNOR OF KENYA**

FROM OUR CORRESPONDENT

NAIROBI, Dec. 10

A statement of the position of the Magadi Soda Company was made by the Governor to the Legislature to-day.

He explained that the company failed to carry out its programme to increase production as stipulated in the agreements with the Government. The company sought a revision of the agreement, which was resisted by the Government of Kenya. After prolonged negotiations a moratorium of 18 years had been granted to the company, with a guaranteed annual payment to Kenya of \$10,000, and the Government was at liberty to terminate the leases and dispose of the company's assets after a year's notice if they received a genuine offer. The Magadi Company, however, was first given the opportunity to resume operations. The Government decided that \$9,900 from the annual payment should go to the railway, which was the heaviest loser.

In reply to questions by elected Members the Governor said the effect of the suspension of operations of the Magadi Company on the Customs revenue would be about \$1,000 yearly. The position of the railway was unsatisfactory. A sum of \$150,000 had been invested from the loan funds for providing rolling stock for the Magadi branch line on which the railway must continue to pay \$14,000 annually in respect of interest and depreciation, for which it was receiving only \$9,000 in return.

111



67  
14  
Downing Street,

3 December, 1931.

My dear Byrne,

I am dictating this in a hurry in order to send you by this air mail a batch of papers which will show you the latest position about the Magadi Soda Company.

~~You~~ shall hear more after Thursday, but I hope that the enclosures to this letter may simplify matters if we have occasion to telegraph to you.

Unfortunately Harriott, the Government Director, is ill, and we shall not have the benefit of his advice if any quick decisions are necessary. But I do not expect that. I imagine his view would be that the debenture holders are quarrelling with their own best interests, but that is their affair.

As regards the letter from the Magadi Soda Company, you may rely on our not accepting any fresh scheme without the fullest consultation with you.

Yours sincerely,

(Sd) W.C. Bottomley

HIS EXCELLENCY  
SIR JOSEPH BYRNE, K.C.H.G., K.B.E., C.B.

LIST OF ENCLOSURES

to letter from Sir C. B. ...  
 Sir J. Byrnes, 8/12/31

by packet  
 behind 58

1. Magadi Soda Company Limited - Notice of General Meeting of Debenture holders.
2. Magadi Soda Company Limited - Circular letter of 1st December to Debenture holders.
3. Letter of 4th December from Magadi Soda Company to Colonial Office.
4. Press cuttings:-
  - (a) "The Times" (City Notes) - 7th December.
  - (b) "The Financial Times" - 7th December.
  - (c) "The Times" (City Notes) - 8th December.
5. Draft of Sir Harry McGowan's speech to the meeting of Debenture holders.
6. Letter from Mr. H. Marriott to Sir Harry McGowan.

**THE MAGADI SODA COMPANY LIMITED.**

**SPEECH** to be delivered  
by the Chairman, Sir **HARRY**  
**McGOWAN**, K.B.E., to the  
Debenture-holders at the  
**GENERAL MEETING** at  
Winchester House, Old Broad  
Street, E.C.2, on Thursday,  
the 10th December 1931.

GENTLEMEN,

## INTRODUCTORY.

The objects of this meeting will already have been made clear to you by the terms of the Resolution as set forth in the formal notice issued to all Debenture-holders. In addition you will have been made aware by the accompanying circular of the general sequence of events which have led up to the present position.

I accordingly propose to devote the greater part of my address to a further explanation of those points of detail which are most material to the decision which you will have to make.

## HISTORY.

The present issue of Magadi Debentures represents a security issued in 1924/5 in substitution for a similar amount of Debentures originally issued in 1919 by the former Magadi Soda Company, with which, incidentally, Brunner, Mond and Company Limited was in no way connected.

In 1923 the former Company passed into the hands of a Receiver owing to its heavy accumulated losses and the impossibility of meeting its Debenture interest, and in 1924 went into compulsory liquidation. In the same year Brunner, Mond & Company Limited put forward a scheme for the reconstruction of the old Company, which was accepted by the Debenture-holders and Shareholders and sanctioned by the Court, and it is worthy of comment that, notwithstanding the old Company's unfortunate history, the Debenture-holders were given 6% Debentures in the new Company to the par value of their old Debentures and lost nothing but their interest for two or three years.

Since that time the Company had been under the management of Brunner, Mond & Company Limited, and Imperial Chemical Industries Limited, and, as you are no doubt already aware, the Company was for a few years-enabled to do what it had never done before, namely, earn good profits. Whilst this was partly due to favourable market conditions, it was due even more, as has been explained to you in our two circulars, to the very great efforts made by the Managers, at no little sacrifice to their other interests, to place the Company on a really sound footing. In more recent years, however, even these great efforts have failed to stop the gradual depreciation of your Company as a profit-earning venture which has been due partly to general world conditions and partly to more permanent causes.

## PRESENT POSITION.

I need not re-state the factors (set out in the circular) which have hampered the Magadi Soda Company in the course of its business and have led to a serious contraction in profits of recent years, except to emphasise that this contraction is one which the Board is forced to regard as permanent. I do also wish, however, to stress the fact that the decline would have been far more serious but for the vigorous assistance given by I.C.I. selling companies in disposing of Magadi ash.

## FINANCE.

Nothing could demonstrate more clearly the present condition of the Company's fortunes than the actual and estimated profits and losses for the years 1930, 1931 and 1932.

In 1930 the net profit, after allowing for obsolescence but before charging Debenture Interest, was £9,176.

It is estimated that for the whole of the current year the net profit, after allowing for obsolescence but before charging Debenture interest, will be of the order of £40,000, but neither the 1930 nor the 1931 profit takes any account of a heavy merchandising loss in Japan, which has fallen and continues to fall on I.C.I. If this is taken into account a very substantial loss results in both years. If the I.C.I. merchandising company in Japan pay a price which will cover their expenses, it is estimated that the net loss of Magadi in 1932 will be considerable.

The annual Debenture charges are £49,079 on account of interest and redemption, and a reference to the published Balance Sheets of the Company will disclose that these have not been covered by profits since 1929. Since that time I.C.I. has provided the necessary moneys to pay Debenture interest up to 30th June, 1931, and to redeem the Debenture quota up to the end of 1931, by means of loans to Magadi. I.C.I. has thus provided Magadi with cash resources to cover interest and redemption as above and to provide working capital. This financial assistance is in addition to the indirect assistance afforded by carrying the loss on merchandising in 1930 and 1931 already mentioned.

## FUTURE POLICY.

As far as we can see, the Company has no future prospects, and the Directors have now been notified that Imperial Chemical Industries Limited are no longer prepared to finance any further trading losses, or to provide loans for the payment of unearned Debenture interest or for Debenture redemption.

In these circumstances the obvious course would, apparently, be for the Company to call up its uncalled capital. This amounts to £200,000, of which some £154,000 is contributable by Imperial Chemical Industries, who have acquired the shares in your Company formerly held by Brunner, Mond & Company Limited. If this were done the Company would have, after setting off its liability to I.C.I., a balance of some £77,000 of cash contributable by I.C.I., plus such proportion of the remaining £46,000 as would be recoverable from the public Preferred Ordinary shareholders. As the annual Debenture interest and redemption quota is £49,000 odd, and trading losses varying within wide limits are likely to be incurred, it is clear that the balance of cash remaining from the calls would hardly be sufficient to allow the Company to carry on for very long.

Clearly, if there were any prospect of the Company's re-establishing itself on a paying basis at the end of that time, the course of action I have outlined would be worth while, but the difficulty in which I and my colleagues are placed is that we can see no prospect of such a favourable result materialising.

We therefore have had to choose between what I may describe as this "constitutional" method of procedure, and the other alternative which we are in fact now recommending of affording the Debenture-holders the opportunity of avoiding a further deterioration of their security, and this we are able to do by means of I.C.I.'s offer of exchange.

### UNCALLED CAPITAL

May I turn aside here for a moment in order to explain why the Company has recently been financed by loans from I.C.I. instead of calling up its reserves of uncalled capital. The first consideration which influenced your Directors in this matter was that when the loan arrangements were first made in 1927, it was by no means certain that this additional capital would be required permanently. This view was justified by the fact that by the end of 1929 and for a few months in 1930 Magadi actually had spare cash on loan to I.C.I. Later, when further loans became necessary, the same principles were allowed to apply, and, in addition, it was decided that it was inadvisable to call up and immobilise a reserve of capital which it was anticipated would ultimately be required for defraying the cost of a new purification process. Finally, when the prospects of installing a new and economic process had disappeared and the loan appeared likely to become a permanent factor, it was felt that there was no justification for calling up capital the greater part of which would be payable by I.C.I., when the latter Company was by that time supporting, at considerable sacrifices to itself, the Magadi tonnage and the Magadi realisations in foreign markets. I and my colleagues felt and still feel that on these grounds a call on capital was only justified in the last resort. As I have indicated above, that stage has now been reached, but it was considered preferable to give the Debenture-holders the full advantages which the present position offers them, instead of first calling up the capital and clearing off I.C.I.'s loans.

### RELATIONS BETWEEN I.C.I. AND MAGADI.

At this point it would perhaps be opportune if I referred to the relations between I.C.I. and the Magadi Company. I am Chairman of both companies. My colleague, Mr. Nicholson, is on the Board of both Companies, whilst several other of the Magadi Directors are actively associated with the management of I.C.I.'s subsidiary company, Brunner, Mond & Company Limited. In addition, there are on the Board of the Magadi Company a Director nominated by the Colonial office and another nominated by the Trustees for the Debenture-holders. I need hardly assure you that we on the Board who are concerned with the management of I.C.I. have always in our capacity as Magadi Directors had careful regard to the interests of the Magadi Shareholders, and this is borne out by the fact that the outside Directors have always concurred in the policy that has been adopted. If any further proof is needed of the extent to which the Magadi interests have been safeguarded, it is to be found in the following recorded facts, namely:—

(1) That I.C.I. in its sales policy has invariably fostered the interests of Magadi.

(2) That the utmost resources of I.C.I. technical skill and knowledge have always been applied unsparingly to the solution of Magadi problems.

(3) That we have not waited until the Company's resources were completely dissipated before laying the whole story before you.

### ISSUE BEFORE THE MEETING.

The issue before the Debenture-holders at this meeting is whether they are prepared on the one hand to allow matters to continue until the appointment of a Receiver becomes inevitable or on the other to take advantage of the offer to acquire their Debentures.

### CHANGES SINCE SPEECH AT THE LAST ANNUAL GENERAL MEETING.

Now, an important feature of the Company's position is the rapidity with which it has deteriorated within the last few months, but it may now be of interest to recall certain relevant statements which I made in my speech at the Annual General Meeting of the Company held on 7th May last, copies of which address were subsequently circulated to all Debenture-holders. I then stated:—

(i) That owing to these defects in the quality of Magadi ash and the nature of the competition which it had to face, there was no doubt that no appreciable increase in sales could be anticipated for the present.

(ii) That we might shortly be faced with further technical difficulties in connection with the recovery of soda.

(iii) That irrevocable increases in the cost of delivery had recently taken place owing to the incidence of royalty and increased railrage rates.

(iv) That in consequence of the foregoing any increase in output, at least for some years to come, appeared to be an economic impossibility and that the Kenya Government had therefore been approached with proposals for a modification of the leases in respect of minimum output.

On the other hand, I also stated that the following favourable factors existed, namely:—

(i) That we hoped to achieve a substantial improvement in costs.

(ii) That sea freights were cheaper.

(iii) That certain obligations to former agents would lapse in two years and would favourably affect trading results.

(iv) That general economies were being effected.

Since that time the position has altered for the worse in the following way:—

Firstly, the visible tonnage has contracted to a still greater extent and the annual figure is now not likely to average more than 35/40,000 tons. At the same time, selling prices, particularly in Japan, have fallen still further, and it is in the highest degree improbable that the Company can, in these changed conditions, expect to make anything but a very small trading profit.

Secondly, although an improvement has recently been manifested in production costs, and general economies have been made, these advantages are counterbalanced by the increased overheads which are the inevitable result of a lower output and the incidence of increased railage rates and royalties.

### GENERAL CONCLUSION.

In short, then, the present position of the industry is that it is operating in a declining market, both as regards tonnage and price. We cannot at the present time see any prospect of an improvement sufficient to restore the Company to a basis upon which it can earn even its Debenture interest.

The prospects of better times ahead are being progressively diminished by the inherent failings in the Magadi Company's natural product, and this might be described as a fresh illustration of the general tendency for synthetic products to displace their natural rivals, owing to the fact that whereas the technical problems of the latter are confined to the mechanical difficulties of removing irregular quantities of impurities, the synthetic product is constantly improving its position by improvements in the chemistry of the process and a consequent steady cheapening of costs.

It is not overstating the case to say that in every single foreign market the synthetic product can now be delivered at a much cheaper cost than natural soda, besides commanding a higher price on account of quality. In these circumstances it is clear that even given unlimited market expansion and a very much higher price level, natural soda can only sustain its position with the help of and not in competition with the synthetic producers. That is to say, its market would always be an artificial one.

In these circumstances, it is only necessary for me to add that I and my colleagues are convinced that Magadi is at present a definitely uneconomic proposition and is likely to remain so.

### DEBENTURE-HOLDERS' POSITION.

Now, as regards the Debenture-holders, their security rests upon the value of the Company's assets. As there appears to be no possibility of a sale on a going-concern basis, that value must be a break-up value. The assets have already been classified for your convenience in the circular, and I will therefore deal with them seriatim.

First, the uncalled capital due upon the Preferred Ordinary and Ordinary Shares which are only 20% paid up. The remaining 80% represents £200,000 (nominal), of which I.C.I. are liable for some £154,000. This uncalled capital is however expressly excluded by the Trust Deed from the Debenture charge. It is therefore not intended to be a fund upon which the Debenture-holders are entitled to draw, and, in fact, it would only become available for the Debenture-holders in a liquidation of the Company, when it would be called up by the Liquidator for the benefit of the creditors generally and in this event the Debenture-holders would rank rateably with other unsecured creditors for the balance of their indebtedness remaining after the charged assets had been realised.

I will therefore leave this point for the moment and deal next with the charged assets. These automatically divide themselves into two parts; namely, the fixed assets, which, with one exception, are attached to the concessions leased from the Kenya Government, and the floating assets, consisting of stocks, stores, debtors, cash, etc., and it will be convenient if I explain these in the light of a rough balance sheet prepared up to 31st October last, as being more up-to-date than the last published balance sheets for 1930.

So far as the fixed assets are concerned, there is really very little change. These are as follows —

Irlam Works, Manchester	£	
Works Buildings		10,773
Plant and Machinery		142,961
Estates and Welfare Buildings	} in Kenya	133,395
Water Supply, Road and Sidings		101,692
Magadi Railway		77,857
		525,000
	Total	£1,000,678

With the exception of the Irlam Works, these assets are all situated upon land leased from the Kenya Government, and in accordance with the terms of the leases they revert to the Government if the leases are terminated, except in so far as they come within the scope of trade fixtures, and subject also to certain options to purchase contained in some of the leases.

Now the Kenya Government have the right to re-enter and terminate the lease upon the happening of any of the following events, namely:—

1. Failure to carry out minimum despatch clauses.
2. The appointment of a Receiver.
3. Liquidation.

As regards 1, the current minimum obligation is 100,000 tons per annum, a figure which is quite out of the question. It follows that, although the Government are not likely to foreclose for merely technical breaches of the leases, they will almost certainly take some action in self-protection unless they see any prospect of the concessions being worked in a satisfactory manner. This action might take the form of a re-entry under the leases, or, alternatively, the Kenya Government might prefer to treat the leases as still subsisting and to sue the Company as and when default is made in respect of its obligations under those leases.

As explained in the circular, I and my colleagues do not think that there is any company or individual in existence who under present conditions could satisfy the Government in this regard. Not only therefore is the Government unlikely to exercise any options to purchase, but we cannot see any outside purchaser coming forward who would be acceptable to the Government; and in these circumstances it is difficult to see how any value at all can be placed on the assets I have described.

True the Company is at liberty to tear up the Railway and to pull down its Port Depot and sell the material as scrap, but we cannot conceive any circumstances in which this could be done at a profit.

This only leaves the Irlam Works unaccounted for, and I can only say that the book value of £19,773 represents far more than could possibly be realised for this property to-day. In fact, since 1925 we have made repeated efforts to dispose of it, but no offer has been forthcoming. It is just possible that with a revival of demand for factory sites in the Manchester area a purchaser might ultimately be found, but the land would be all he would buy, for the buildings are derelict and have been ever since we took them over, as it was considered a waste of money to bring them up to their original condition again.

I therefore think that if we allow £5,000 on this account it is a generous estimate.

With regard to the floating assets, these have been valued on the following basis as at October 31st.

Manufactured Stocks (Full current market realisation at then current exchange rates)	£ 60,330
Stores Stocks (A) Bags, market price	8,500
(B) Oil	6,348
(C) General @ about 25% book value	11,075
Furniture @ about 25% book value	2,178
Rolling Stock @ about 27% book value	1,750
Sundry Debtors, book value	4,812
Cash, actual	7,038
	£102,031

Or, say, £92,000, after allowing for preferential creditors and realisation charges.

We thus arrive at the position that the realisable charged assets would, as at October 31st, have realised (including Irlam Works) a very doubtful £97,000, or, say, 22½% of the Debenture debt. It is likely moreover that the process of realisation would take at least two years, and it may well take longer. If due allowance is therefore made for the difficulties in disposing of manufactured stocks, I think we are justified in concluding that something very much under 20% of the Debenture debt ultimately could materialise.

This therefore represents the possibilities of realisation by a Receiver, and there then only remains to be assessed the percentage of uncalled capital which might accrue to the Debenture-holders in the event of a liquidation. In the latter event the Debenture-holders would rank as ordinary creditors (so far as concerns their rights in respect of the uncalled capital), and their proportion is estimated to be of the order of from 60% to 80% according to the proportion of contingent claims admitted under the Company's contracts and leases.

As I.C.I.'s contribution to the uncalled capital is £154,000, it follows from these percentages that the Debenture-holders could expect to receive in due

course of realisation (after allowing for liquidators' charges) anything from £92,000 to £123,000 out of this amount, i.e., a further 21½% to 29% of the Debenture debt.

In addition there is about £46,000 of uncalled capital leviable on those Preferred Ordinary Shares which are held by the public and the proportion of this which would be recovered is very problematical. But assuming that the whole were recovered and the Debenture-holders received 80% of it—£36,800—a further 8½% of this debt, it will be seen that even in the most favourable conditions 56% or 57% is the most that Debenture-holders could expect after a very prolonged period of receivership and liquidation.

This represents the best possible outcome. I have felt constrained to put that figure before you, but I cannot disguise my own view that it is very optimistic. A mean percentage figure of 50 was mentioned in the circular you have received, but a forced realisation is much more likely, in existing world conditions, to yield a net sum lying between 40% and 45% of the nominal value of the Debentures.

In these circumstances, I and my colleagues consider that the I.C.I. offer of 40% on the par-value of its 7% Preference Shares, plus the 3% Debenture interest which I.C.I. is prepared to guarantee for the second half of this year, represents a very fair basis of exchange, particularly when it is borne in mind that a higher rate of interest is provided on the I.C.I. Preference Shares, and the Debenture-holders receive a negotiable security which may in due course appreciate in capital value.

#### I.C.I.'s FINANCIAL POSITION.

I should now like to refer to I.C.I.'s financial position in this matter, as it may appear at first sight as though that Company were paying out £170,000 odd in order to acquire assets estimated to realise some £100,000 and to obtain relief from calls on capital of £154,000 (i.e., £254,000 in all). First of all then, I would remind you that if this Resolution goes through, I.C.I. will lose the amount of its loan to Magadi (about £77,000) which, if the business were continued, it could recover from its liability on the uncalled capital. This reduces the £254,000 to £177,000. In addition I.C.I.'s guarantee to the Government of £10,000 for ten years, and the annual cost of maintenance, represent a capital value to-day at 6% of some £96,000. Further, I.C.I. will have to bear the cost of closing the works, giving due notice to staff, repatriation and similar matters which it is estimated will require a further capital sum of some £33,000, besides which there may be certain heavy claims from contingent creditors to be met.

In these circumstances, while I.C.I. saves a net capital call of some £77,000 and receives a doubtful £100,000 worth of assets as well, making, say, £177,000 in all, it is committing itself to the following outlay:—

Acquisition of Debentures (approximately)	£170,300
Interest for second half of 1931	12,700
Capitalised value of payment to Government and cost of maintenance	96,000
Costs of closing down	35,000
	£314,000

Total

In addition to this, £314,000, I.C.I. will under the scheme take over any liabilities that may arise upon contingent claims from creditors. It will therefore be observed that so far from making a financial gain on the deal, I.C.I. will be making on balance a considerable capital outlay, viz., £137,000, which it has to take the risk of being able to support out of the manufacturing advantages to be anticipated from the proposed moratorium arrangement.

## CONCLUSION.

I have now given you a general outline of the proposals and the circumstances in which they have been made, and my colleagues and I trust that we shall have your full support for the Resolution now before you.

I feel, in conclusion, that I ought to make it quite clear that I.C.I. will in no circumstances vary or increase the offer which has been made—an offer which I hope you will agree is fair and generous under all the circumstances of the case. If this offer is not accepted and the resolution is not carried it will not be renewed and the Debenture-holders will then be left in the position of having to rely upon their security.

I shall now be pleased to answer any questions which you may wish to put.



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I shall now be pleased to answer any questions which you may wish to put.

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8th December 1931

Sir Harry McGowan, K.B.E.,  
Chairman of Magadi Soda Company, Ltd.,  
Imperial Chemical Industries, Ltd.,  
Millbank, S.W.1.

Dear Sir Harry McGowan,

It is a matter of great regret to me that I am unable to attend the Meeting of the Debenture-holders on 10th December. I would ask you therefore kindly to express my views to the Meeting on the proposals being put before them.

I am, as the Debenture-holders are probably aware, an independent member of the Board, and my first duty as representative of the Government of Kenya is to see that the business of the Magadi Soda Company is conducted in a manner that will be of greatest benefit to Kenya Colony.

I have been closely connected with Magadi ever since the first Company was formed and have had exceptional opportunities for studying the position as it has developed from year to year.

The Magadi Soda Company has only been able to carry on during the past few years because it has been

associated with I.C.I. interests and because it has received from that Corporation wholehearted co-operation and support in manufacturing and disposing of its product.

The present rate of production, which is the maximum that can be marketed even with the facilities now afforded, is not attractive to the Kenya Government on account of the higher transport costs and reduced royalties involved and the moratorium coupled with the annual payment arranged for has been arrived at as most suitable to keep the Company in existence.

The Government are willing to enter into this arrangement because the Imperial Chemical Industries have agreed to undertake the responsibility for the future of the Company.

I am definitely of the opinion that it is in the best interests of the Magadi Company that this arrangement should be confirmed and the interests of Kenya Colony will be best served by the adoption of the proposals now being submitted.

Yours very sincerely,

Hugh F. Marriott.

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THE TIMES, TUESDAY, DECEMBER 8, 1931

**The Magadi Soda Proposal**

To the circular issued by the Industrial and General Trust opposing the offer made to debenture-holders in the Magadi Soda Company the latter company has published a reply. This deals with the profit of £92,632, after providing for debenture interest, that was made by the Magadi Company in 1928. It is stated that for the years 1927 and 1928 Brunner, Mond were under contract to purchase from the Magadi Company such a volume of soda as would cover the service of the Debentures and of the First and Second Preference shares; and that the greater part of this exceptional profit would not have been earned under ordinary competitive conditions. While this statement is effective so far as it goes, it is still contended on behalf of the debenture-holders that they are being called upon to make an undue sacrifice in having to give up all rights as debenture-holders while having no share in the equity. If the outlook for the Magadi Company is hopeless, why, it is asked, should Imperial Chemical Industries agree to pay a fine of £10,000 a year to the Kenya Government for a waiving of the "full capacity production" clause in the lease? Another question raised on behalf of the debenture-holders concerns the effect upon the company's position of the fall in sterling. Has not this fall, it is asked, done something to override the tariffs of Japan and other countries and put the Magadi Company in a better position to compete with the synthetic product?

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THE TIMES, MONDAY, DECEMBER 7, 1931

**The Magadi Soda Proposal**

Opposition to the terms of compromise offered to debenture holders in the Magadi Soda Company is being organized by the Industrial and General Trust. It will be remembered that the Magadi Soda Company is controlled by Messrs. Magadi, now a constituent company in Imperial Chemical Industries, and that a meeting has been called for December 10 to obtain sanction for a proposal under which the debenture holders shall surrender their debentures for Imperial Chemical Seven per Cent. Preference shares at the rate of £100 Magadi Debentures for £40 Preference shares. The Industrial and General Trust points out that it was only three years ago that the Magadi Company made a profit, after providing for London and other expenses and debenture interest, of £22,532 and paid dividends amounting to £39,408 on its share capital. The fact that the company is suffering along with industrial undertakings everywhere is, it is contended, no reason why the debenture holders should accept £40 value for each £100 Debenture and leave the shareholders in full enjoyment of the property with a grossly decreased debt ahead of them. The organizers of the opposition urge that the scheme be amended in such a way that the difference between the debenture holders' claim and the amount of the Imperial Chemical offer should be represented either by a share interest in the capital of the Magadi Company or in some other form. The point is made, and it is probably the strongest bargaining weapon which the debenture holders possess, that under a receivership the shareholders, who are chiefly the L.C.I., would probably lose the whole of their investment in the property, including £200,000 of unpaid capital which would have to be called up.

**Assurance Scheme for Tax Payments**

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**THE FINANCIAL TIMES, Monday, 7th December, 1931.**

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### MAGADI SODA.

#### OFFER FOR DEBENTURES CRITICISED.

Mr. James F. Fletcher, in a letter to THE FINANCIAL TIMES on the offer by Imperial Chemical Industries to debenture holders in Magadi Soda, says he considers the offer is entirely inadequate and one which should be refused.

He urges debenture holders, even at some inconvenience, to attend the meeting, and if they are not able to do so to refrain from signing the proxies which were sent out, or if the proxies have been signed and forwarded to the company to write and cancel them.

He also suggests that debenture holders should write to the trustees for the debenture holders and ascertain their view.

The offer is 40 Imperial Chemical Industries Seven per Cent. Preference shares for each £100 nominal debentures of Magadi Soda.

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Mr. Fisher 2/12  
Mr. Allen 2/12  
Mr. [unclear]

Kemp

Board and  
1.10 P.M.  
2/12/51  
[Signature]

Mr. Tomlinson  
Sir C. Bottomley 2/12 [unclear] (if J.C. [unclear] in A.)

Sir J. Shuckburgh  
Sir G. Grindle  
Perm. U.S. of S.  
Parly. U.S. of S.  
Secretary of State.

**DRAFT** Tel.

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immediate Gov. Nairobi

Secret No 354. Your ltr. 29 Oct 538 0 in anticipation of meeting of 2 Magadi delinquent holders to be held 10<sup>th</sup> Dec. Imp. Chem. Industries Ltd have used circular to them which includes summary of "tentative arrangements" with your Government. <sup>with your contacts of</sup> This circular has become public. Need for secrecy therefore disappears and you are at liberty to publish outline of arrangements contemplated.

The folder (101)  
has concerned by [unclear]  
[Signature]  
12-0 noon

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Question of disposal of assets referred to in your

lat 22 Oct. 329 is still under  
completion

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SECRET



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Times 2/12/31

**Magadi Soda Debenture Proposal**

A meeting of holders of Six per Cent. Debentures of the Magadi Soda Company has been called for December 10 to consider an offer of compromise of their rights made by Imperial Chemical Industries. The offer involves the surrender by holders of their Debentures for cancellation in exchange for seven per cent. Preference shares of Imperial Chemical Industries at the rate of 40 £1 Preference shares for £100 nominal of Debentures. The circumstances that have led up to the proposal, and the considerations which should influence Debenture holders in judging the offer, are set out at length in a circular that has been drawn up by the Imperial Chemical Company, which through Brunner Mond and Co. controls the Magadi Company. The sole business of the Magadi Soda Company is the exploitation of the natural soda lake in Kenya Colony. In connexion with the present proposal I.C.I. and the Magadi Company have made a tentative arrangement with the Kenya Government for a moratorium in respect of the latter company's obligations under its leases, which call for a minimum output of 100,000 tons of soda goods per annum. During the period of the moratorium I.C.I. will make the Kenya Government an annual payment of £10,000. The moratorium is necessitated by the present world conditions, under which the working of the deposits is uneconomic owing to low prices, and what is thought to be a permanent contraction in the markets for this grade of soda. The directors of the Magadi Soda Company estimate, after careful consideration of all the factors, that in a liquidation some 50 per cent. of the par value of the Debentures might possibly be realized after crediting the Debenture holders with their rateable interest in the uncalled capital (which is excluded from the charge conferred by the trust deed). Against this the offer of I.C.I. is equivalent to an immediate realization of 40 per cent. of the par value of the Debentures, to which must be added the guarantee of Debenture interest (which has not been earned) for the current half-year.

U

# The Magadi Soda Company Limited.

~~SIR~~ DIRECTOR:  
~~MR. J. W. GOWAN, F.R.S. (M.A., F.I.C.)~~  
~~MR. W. NICHOLSON (DEPUTY CHAIRMAN)~~  
MR. E. K. ALLEN, C.B.E.  
MR. F. LUYERS.  
MR. F. HARRIOTT.  
MR. D. HARRIS.  
~~MR. J. W. GOWAN.~~  
~~MR. W. NICHOLSON.~~  
MR. G. SAUNDERS.

OUR REFERENCE  
YOUR REFERENCE

RECEIVED  
2-DEC-1931  
OGL OFFICE

Imperial Chemical House,

Millbank,

London, S.W.1

1st December 1931.

The Under Secretary of State,  
Colonial Office,  
London, S.W.1.

Dear Sir,

As promised by the writer in his interview with Mr. Freeston yesterday, we have pleasure in enclosing copy of final circular and resolution as issued to the Debenture-holders of the Magadi Soda Co., Ltd. to-day, in connection with the proposed offer of compromise.

Yours faithfully,  
FOR THE MAGADI SODA COMPANY LTD.

(A.E. Gawler)

Secretary.

28/11/31.

DRAFT

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**THE MAGADI SODA COMPANY LIMITED.**

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

1st December 1931.

DEAR SIR or MADAM,

**PROPOSED COMPROMISE WITH THE HOLDERS OF THE  
COMPANY'S 6 PER CENT. DEBENTURES.**

I am instructed by my Directors to inform you that the profits of the Magadi Soda Company Limited have shown a heavy and continuous decline since 1928, and are no longer sufficient to cover Debenture interest and Debenture redemption.

The reasons for the decline in the profits—which, in the view of the Directors, are likely to contract further—can be shortly summarised as follows:—

(1) The exploitation of the natural soda in Lake Magadi is the Company's sole business. Owing to the impurities present in the raw soda it has been impossible economically to produce soda equal in quality and appearance to synthetic soda. Although research has been carried on continuously no economic purification process has been discovered which would improve the quality of Magadi soda.

(2) This defect in the quality of the soda, coupled with considerations of cost and rail and sea freights, have definitely limited the markets for Magadi soda, and the Company has accordingly found the Far East—Japan in particular—and to a lesser extent South America, its main outlets.

(3) Even then, however, the steady increase in the Company's sales recorded up to 1928 was only obtained by a deliberate policy on the part of Brunner Mond & Co. Limited (as managers of the Company) of forcing sales by displacing as much as possible of their own products. The same policy has prevented sales since 1928 from falling to an even greater extent than has in fact been the case.

(4) There has recently, owing to causes over which the Company has no control, been a serious contraction in the markets for Magadi soda, which shows signs of permanence more especially in Japan, where the local producers, with the aid of a tariff, have been gradually increasing their share of the trade and are now in a position to produce approximately 80 per cent. of Japan's present requirements.

(5) Notwithstanding this contraction in the markets which take Magadi soda, the Company are obligated under their leases from the Kenya Government to double their present minimum output from the 1st November 1931 and to produce a minimum of 100,000 tons of soda goods per annum or to pay royalty and railway freight on such increased minimum quantity, if not produced.

(6) The prices for soda, even in such markets as are available for the Company, have declined to such an extent that in the aggregate Magadi soda cannot be sold at a figure which will cover overhead charges (including obsolescence) and debenture interest. On the other hand, Magadi prices have recently received special protection in that the aggregate price realised by the selling companies controlled by Imperial Chemical Industries Limited has been far less than the price returned to the Magadi Soda Co. Limited. This, together with the sales policy referred to above, has been due to the strong efforts made by Imperial Chemical Industries Limited and its subsidiary companies, such as Brunner Mond & Co. Limited, to give the Magadi Soda Co. Limited every possibility of making good.

(7) The indications now being that the Company is never likely to achieve success with the present quality of the product, Imperial Chemical Industries Limited have decided that, in fairness to their own shareholders, they cannot any longer show any special discrimination in favour of the Magadi Soda Co. Limited, with the result that the latter must now abide by the full economic results of the inherent defect of its product.

Since 1929, Imperial Chemical Industries Limited (which now controls the ordinary capital of your Company) has advanced the Company without security sufficient moneys to enable the Company to carry on its business. In view, however, of the circumstances mentioned above and the doubtfulness of the Company ever being restored to a profit-earning basis, Imperial Chemical Industries Limited has decided that it is no longer prepared to continue financing the Company under existing conditions.

Under these circumstances the alternatives before the Company, in the absence of some compromise with the Debenture-holders, are either to carry on its business with its own resources, which would necessitate calling up the uncalled capital (£200,000 nominal) on its ordinary shares and applying the money so obtained in repaying the balance of the advances of Imperial Chemical Industries Limited (£76,000) and meeting Debenture interest and sinking fund and any losses on working

the concessions with the increased output obligations in the hope of a change in conditions which would enable the Company once more to produce at a profit before the amount so obtained were exhausted, or else for the Company to default in payment of the Debenture interest and leave the Debenture-holders to take such steps as they might be advised to enforce their security.

Were the former alternative adopted, and no improvement in the existing conditions to take place, the result would be that the uncalled capital and the greater part of the manufactured stocks and other floating assets would in the opinion of the Directors be quickly exhausted, and there would then be few, if any, realisable assets to answer the Debentures then outstanding. Were the latter alternative adopted, the Debenture-holders would no doubt at once appoint a Receiver to safeguard their security, and at an early date this would probably be followed by a liquidation of the Company. The position would then be as follows:—

The Company's main assets fall into three classes—

- (A) The uncalled capital of the Company.
- (B) The concessions in Kenya Colony, including the factory at Lake Magadi, the railway and port works, all of which are held on lease from the Kenya Government for a term which has 92 years still to run.
- (C) Certain manufactured stocks, stores and floating assets.

The uncalled capital is specifically excluded from the charge conferred by the Trust Deed. Therefore in a liquidation of the Company it would be applicable rateably for the benefit of secured and unsecured creditors.

The concessions, including the factory, railway and port works, only represent realisable assets if a purchaser of them can be found or if the Kenya Government exercises options contained in certain of the leases to purchase the railway and port works at specified figures. As your Company with all its technical and other resources has been unable recently to work the concessions at a profit, the Directors cannot think that under existing conditions there is any prospect of either event occurring. If this view be well founded, the Company might, on the contrary, be faced with a very heavy claim from the Kenya Government in respect of accruing obligations, i.e., minimum royalties and railway freights under the leases for the 92 years still to run, and although the Kenya Government would only be unsecured creditors in respect of a claim of this nature it is evident that any such claim might very seriously diminish the value of the Debenture-holders' rateable interest in the uncalled capital.

As regards the manufactured stocks, stores and floating assets, it would be a lengthy, expensive and difficult matter to realise them and the ultimate realisation figure is extremely problematical.

Notwithstanding this, the Directors have made a study of the assets and liabilities as at the 31st October last, with the object of giving the Debenture-holders some indication as to the amount which they would be likely ultimately to receive on a realisation of the Company's assets. In computing the value to be attached to the various assets, and in making provision for preferential and contingent liabilities, the Directors have necessarily had to base their figures on estimates, but they have gone into all the facts and figures with their experts most carefully, and from every angle, and have taken due account of the Debenture-holders' rateable interest in the uncalled capital. It would appear from this study that there might possibly be, after a lengthy period of receivership and liquidation, a net realisation lying between £200,000 and £220,000 in favour of the Debenture-holders, the mean of which sums is equivalent to (say) 50 per cent. of the outstanding Debenture debt. The Directors consider this is a reasonable basis on which the Debenture-holders can form their own views as to the fairness of the offer made by Imperial Chemical Industries Limited which is detailed below.

In these circumstances, Imperial Chemical Industries Limited, which would be liable for some £154,000 of the uncalled capital in the event of the Company carrying on with its own resources without any compromise with the Debenture-holders (against which it would be entitled to be repaid thereout the unsecured advances of £ 75,992 ), have put forward the following proposal :—

(A) Imperial Chemical Industries Limited will place at the disposal of the Magadi Soda Co. Limited 170,280 7 per cent. cumulative preference shares of £1 each in Imperial Chemical Industries Limited credited as fully paid.

(B) These shares will be issued and allotted to the Debenture-holders in the Magadi Soda Co. Limited at the rate of 20 of such shares for every £50 nominal of Debentures, in satisfaction and discharge of these Debentures, which will be delivered up to the Magadi Soda Co. Limited for cancellation.

(C) The Debenture-holders will be paid on the 31st December next the half year's interest payable on the Debentures on that date, and the preference shares issued to them will carry dividend as from the 1st January 1932.

(D) In return for the foregoing, the Magadi Soda Co. Limited will issue a fresh series of 6 per cent. Debentures to Imperial Chemical Industries Limited to the aggregate nominal value of £250,000.

In making these proposals, Imperial Chemical Industries Limited have been influenced by the following factors :—

(1) They have, in conjunction with the Magadi Soda Co. Limited, arrived at a tentative arrangement with the Kenya Government, under which, in consideration of a fixed annual rent of £10,000 to be guaranteed by Imperial Chemical Industries Limited, and an undertaking by that Company that the property shall be maintained, the Government will be prepared to waive for a period up to ten years the covenants in the leases binding the Magadi Soda Co. Limited to work the concession to its best economic capacity, with a minimum output of 100,000 tons per annum, or to pay royalty and railway freight on that production. In the meantime, Brunner Mond & Co. Limited will endeavour to preserve for themselves at some manufacturing advantage a share in the present Far Eastern Magadi markets, and on this ground, Imperial Chemical Industries Limited feel justified in undertaking the obligations towards the Kenya Government, and the liability which will be entailed by the service of the preference shares proposed to be issued.

(2) This arrangement will enable the concessions to be kept alive with a view to the Magadi Soda Co. Limited re-commencing production should it, at some later date (contrary to present expectations) become an economic proposition to produce there.

Imperial Chemical Industries Limited have entered into an agreement with the Magadi Soda Co. Limited, designed to give effect to these proposals, but this agreement is, of course, conditional upon the proposals in question being sanctioned by the Debenture-holders by means of an Extraordinary Resolution. A meeting of the Debenture-holders will accordingly be held at Winchester House, Old Broad Street, E.C.2, on Thursday, the 10th day of December 1931, at 3 o'clock, when the history of the Magadi Soda Co. Limited and the nature and effect of the proposals will be gone into in further detail by the Chairman of the Company. In the meantime, I am instructed by my Board to send you herewith :—

(1) Formal notice of the meeting to be held on the 10th day of December 1931, which notice sets out the Extraordinary Resolution to be proposed at that meeting.

(2) Form of proxy, which it is hoped that you will sign and return forthwith if you are unable to be present at the meeting.

A copy of the agreement between the Company and Imperial Chemical Industries Limited referred to above is available for inspection at the registered office of the Company during working hours on any day prior to the date of the meeting.

In the event of the proposals being duly sanctioned, you will be asked to send in your Debentures for cancellation on or before the 1st January 1932. Certificates for the preference shares of Imperial Chemical Industries Limited to be issued to the individual Debenture-holders in exchange for their Debentures will be available on or before the 5th January. Application will be made in due course to the London Stock Exchange for an official quotation for the preference shares of Imperial Chemical Industries Limited proposed to be issued to give effect to these proposals. On the basis of the present market price for preference shares of Imperial Chemical Industries Limited ( ), the proposed offer is equivalent to £ for each £100 nominal Debenture. In addition, the Debenture-holders will receive 3 per cent. interest, less income tax, for the half year to the 31st December 1931 which will not have been earned, as well as dividends on the preference shares of Imperial Chemical Industries Limited during the period that would be required for the realisation of the Debenture-holders' security.

The proposals of Imperial Chemical Industries Limited have been carefully considered by the Board of the Magadi Soda Co. Limited. In all the circumstances the Directors are definitely of opinion that the offer is one which it would be in the interests of the Debenture-holders to accept.

Yours faithfully,

For THE MAGADI SODA COMPANY LIMITED,

By Order of the Board,

A. E. GAWLER,

Secretary.

## THE MAGADI SODA COMPANY LIMITED.

Notice is hereby given that a General Meeting of the holders of Debentures of the above-named Company constituted by Trust Deed dated the 3rd day of March 1925 and made between the Company of the one part and the Royal Exchange Assurance of the other part will be held at Winchester House, Old Broad Street, E.C.2, on Thursday, the 10th day of December 1931, at 3 o'clock in the afternoon, for the purpose of considering and, if thought fit, passing the following Resolution as an Extraordinary Resolution binding upon all the Debenture-holders, pursuant to Clause 16 (3) of the Trust Deed, namely:—

### RESOLUTION.

"That this meeting of holders of Debentures of the Magadi Soda Company Limited constituted by Trust Deed dated the 3rd day of March 1925 and made between the Company of the one part and the Royal Exchange Assurance as Trustees of the other part (which meeting has been duly convened pursuant to the provisions contained in Clauses 14 and 16 (3) of the Trust Deed) hereby sanctions and declares binding upon all the Debenture-holders the following compromise of the rights of the Debenture-holders against the Company and its property charged by the said Trust Deed proposed by the Company namely:—

(A) The Company shall procure Imperial Chemical Industries Limited (hereinafter called "Imperial") (in pursuance of the agreement between the Company and Imperial dated the 26th November 1931 which has been laid before this meeting), to allot and issue to the several persons who on the 1st January 1932 are the registered holders of the Debentures (hereinafter called "the Debenture-holders") £170,280 (nominal amount) of 7 per cent. preference shares of Imperial credited as fully paid up and ranking for dividend as from the 1st January 1932 in proportion to their respective holdings of the Debentures (going at the rate of £20 nominal amount of such preference shares for every £50 principal amount of Debentures held) such preference shares to rank *pari passu* in all respects with the issued 7 per cent. preference shares of Imperial. In the case of joint registered holders of Debentures the preference shares to which they are entitled shall be allotted to them as joint holders.

(B) The several Debenture-holders shall accept the allotment and issue to them respectively of fully paid 7 per cent. preference

shares of Imperial at the rate aforesaid in full satisfaction and discharge of the principal of their Debentures and any premiums thereon and all interest to accrue thereon subsequently to the 31st December 1931; and (subject to the due payment of the half-year's interest payable on the Debentures on the 31st December 1931 and to Imperial rendering the said preference shares available for issue to the Debenture-holders as aforesaid) the Debentures shall as from the 1st January 1932 confer upon the several holders the right and the right only to have allotted and issued to them the fully paid preference shares of Imperial to which they are entitled under the foregoing provision of this resolution.

(c) The register of the Debenture-holders shall be closed by the Company at midnight on the 29th December 1931, after which date no further transfers of any of the Debentures shall be recognised or registered.

(d) The certificates for the said £170,280 fully paid preference shares of Imperial shall be made out by Imperial in the names of the Debenture-holders to whom the same are allotted as aforesaid and delivered on the 5th January 1932 to the Company's bankers Lloyds Bank Limited, after which date the same shall be available for delivery to the several Debenture-holders upon their claiming the same in manner prescribed by the said Bank accompanied by delivery up of their Debentures for cancellation and such evidence of identity or title as the said Bank in any particular case may reasonably require.

(e) Upon its being proved to the reasonable satisfaction of the Trustees that the half-year's interest on the Debentures to the 31st December 1931 has been paid and that the said £170,280 fully paid preference shares of Imperial have been duly allotted and issued and the certificates therefor delivered to the Bankers aforesaid and upon payment by the Company of all costs charges and expenses payable to the Trustees under the said Trust Deed the Trustees shall at the request and cost of the Company surrender or release to the Company or as it shall direct all the property charged by the Trust Deed freed and discharged from the principal premiums and interest of the Debentures and all other moneys secured by the said Trust Deed and such release and surrender shall be binding upon all the Debenture-holders.

Dated the 1st day of December 1931.

By Order of the Board,

A. E. GAWLER,

Secretary.

shares of Imperial at the rate aforesaid in full satisfaction and discharge of the principal of their Debentures and any premiums thereon and all interest to accrue thereon subsequently to the 31st December 1931; and (subject to the due payment of the half-year's interest payable on the Debentures on the 31st December 1931 and to Imperial rendering the said preference shares available for issue to the Debenture-holders as aforesaid) the Debentures shall as from the 1st January 1932 confer upon the several holders the right and the right only to have allotted and issued to them the fully paid preference shares of Imperial to which they are entitled under the foregoing provision of this resolution.

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Dated the 1st day of December 1931.

By Order of the Board,

A. E. GAWLER,

Secretary.



O. O.



17058.

Downing St.

14 November 1933

- Mr. Freeston. 9/10/11
- Mr. Dunsan 11/10/31 *ND*
- Mr. Allen 11/10
- Mr. Tomlinson. *See Clantlett 12/11/31*
- Sir C. Bottomley. *11/11/31*
- Sir J. Shuckburgh.
- Sir G. Grindle.
- Perml. U.S. of S.
- Parly. U.S. of S.
- Secretary of State.

Sir,

I am directed by Secretary

Sir Philip Cunliffe-Lister to refer

to the correspondence terminating

with the letter of 9th October

from the Chairman of Imperial

Chemical Industries Limited in

regard to the arrangements to be

made in consequence of the anticipated

default of the Magadi Soda

Company Limited.

2) In Sir Harry McGowan's

letter of 24th September, the assumption

was expressed that the Govern-

ment of Kenya would be prepared,

prior to giving notice of the

termination of the moratorium on

receipt of an offer from a third

DRAFT.

THE SECRETARY,

IMPERIAL CHEMICAL  
INDUSTRIES, LTD.

*Hand 18074/32  
163*

(42)

(32)

X.

party, to agree with Imperial

Chemical Industries the valuation at which

the Magadi Soda Company's assets should

be taken over by the new lessees. In the

reply from this Office of October 2nd

(35)

the S. of S. expressed his readiness to

confirm that assumption, but reserved

the right to postpone his final accept-

ance of the <sup>various</sup> arrangements suggested until

the Governor of Kenya had had an opportunity

of expressing his views.

3) A telegram has now been received

from the Governor indicating that he is

not entirely satisfied with the arrange-

ments proposed for valuing the assets.

It would facilitate consideration by the

S. of S. of the views expressed by

Mr Joseph Byrne if he could be informed

precisely of the meaning attached by

Imperial Chemical Industries to the word

"assets" in their letter of 24th September,

(31)

I am to request that he may be

furnished with a detailed list of the assets (by categories)

which I.C.I. would prefer to include in  
the suggested valuation.  
4) I am to take this opportunity

of referring to Clause 2 in Sir

Harry McGowan's letter of 24th

September, in which it is <sup>proposed</sup> suggested

that Imperial Chemical Industries

should pay to the Government of Kenya

a sum of £10,000 per annum during

the currency of the moratorium.

Sir Philip Cunliffe-Lister suggests

that this annual payment should take

effect as from 1st January 1932.

I am to enquire whether the suggestion

is acceptable to Imperial Chemical

Industries Limited.

3, acceptance

DECODE

56'35

RECEIVED  
29 OCT 1931  
COL OFFICE

Telegram from the Governor of Kenya to the Secretary of State for the Colonies.

Dated 29 October 1931. Received 2.20 p.m. 29 October 1931.

No. 338. Secret. 51 17058/31

Your telegram No. 328 Secret paragraph (a) of your telegram No. 300 Secret was decoded here as follows. Begins:-  
"(a) My telegram No. 280 paragraph 2 I. C.I. presume Government would be prepared prior to moratorium to agree with them a valuation (to be fixed if necessary by arbitration) at which Magadi Soda Company's assets should be taken over by new lessees".

It has now been discovered that two groups representing words "given notice of termination" was omitted by a clerical error between "prior to" and "of moratorium".

55  
30

Hugh F. Marriott, M. Inst. M.E. (Past Pres.) M. Inst. C.E. A.R.S.M. A.R.C.E.M.  
Consulting Engineer

TELEPHONE GERRARD 5100-7.

14, WATERLOO PLACE,  
LONDON, S.W. 1.

26th October 1931

H. T. Allen, Esq.,  
Colonial Office,  
Downing Street,  
S. W. 1.

My dear Allen,

Arising out of our interview this morning, the lease of 742 acres at Kajiado runs concurrently with the main leases and for the same period of time.

The Company has leased some of the houses at Kajiado to the Government and this lease comes up periodically for reconsideration; hence the quotation in the telegram of the year 1936. It is evident that the Kenya Government are only concerned that their occupation of the houses and their supply of water shall go on uninterruptedly during the period of their lease. This is so. I. C. I. have undertaken to keep the position as it is at present.

I enclose a copy of the speech of the Chairman of I.C.I. to the principal Debenture holders of Magadi, read at the Meeting on 22nd October 1931. This

document was read and the information given to the Debenture holders was amplified by further remarks that came out in the discussion. These have already been mentioned to you in my letter of 23rd October 1931.

52

Yours sincerely,

*H. J. Harris*

MEMORANDUM FOR A MEETING OF THE MAGADI DEBENTURE HOLDERS  
TO BE HELD ON OCTOBER 22ND 1931

Purpose

The purpose of the meeting is to inform principal Debentureholders of the present position and prospects of the Company in order to decide if possible as to the best method of dealing with the situation.

History

The present issue of Magadi Debentures represent a security issued in 1924/5 in substitution for a similar amount of Debentures issued by the former Magadi Soda Company in 1919.

By the end of 1928 the nett cumulative working losses of the Old Company amounted to about £100,000, and by the end of 1922 (i.e. immediately prior to the Old Company's going into liquidation) the cumulative total loss amounted to £667,000. In 1924 Brunner Mond & Co., Ltd. put forward a scheme for the reconstruction of the Old Company, which was accepted by the Debentureholders and Shareholders, and in spite of the Old Company's trading results it is to be noted that the Debentures were exchanged at par value. In these circumstances it was clear from the outset that the security for the Magadi Debentures was represented by the

value of the undertaking as a going concern and not by the break-up value of realisable assets.

Industry

The exploitation of the natural soda in Lake Magadi has been by means of a purely mechanical process, and owing to the impurities present in the raw soda, it is physically impossible by these means to produce soda ash equal in quality and appearance with synthetic soda.

markets.

As the result of this quality defect the applications of Magadi Ash have been definitely limited, and furthermore considerations of cost and sea freights have made the Far Eastern and to some extent the South American markets the only possible outlets for Magadi. Of these Japan is by far the most important. Japan has taken about 66% of the Magadi output, the actual shipments of Magadi ash to this market during the past six years

having been as follows:

1925	33,304 tons.
1926	13,385 "
1927	44,526 "
1928	46,150 "
1929	34,500 "
1930	26,750 "
1931 (estimated)	31,060 tons.

Of this tonnage some 10,000 tons per annum have been sold at a low price to a Japanese Caustic works, who are now unlikely to carry on much longer owing to low Caustic prices.



It will be observed that in recent years the saleable tonnage has tended to fall steeply. The slight improvement in 1931 is purely a temporary phase.

The reason for this decline is that the total Japanese market is only capable of taking about 110,000 tons per annum, while the local Japanese producers with the aid of a tariff and subsidy have been gradually increasing their share of the trade and now have sufficient plant to produce 90,000 tons per annum. This market is also highly competitive owing to the fact that American Ash, Chinese Ash and Russian Ash are also being sold, and it follows that the sales of Magadi Ash instead of being round about 30,000 tons are not likely to be more than half this quantity in future.

Selling Arrangements

Magadi Soda Ash is at present sold outright to the various I.C.I. Overseas Companies who recall at sufficient margin to cover their selling expenses together with a small margin of profit. This profit however has not recently been made in Japan where the I.C.I. Company's loss on the sales of Magadi last year amounted to £20,000. That loss still continues and owing to reduced prices now amounts to about 25s/- per ton on the present transfer price of 125s/- per ton c.i.f. This loss is falling on I.C.I.

Prices

Up to 1928/29 prices in all markets were maintained at such a level that Magadi could be sold at a reasonable profit. Since then however there has been a steady decline with the result that at the present time, taking markets as a whole, Magadi can only be sold at little or no nett profit. As an example the following realised prices in Japan are indicative:

Price Yen per 100 lbs.

1929			1930			Present Time
July	Sept.	Nov.	June	Aug.	Dec.	
4.10	3.80	3.60	3.25	2.90	3.00	2.70

There is no reason to anticipate any general increase in prices in the near future, or if such took place that it will be sufficient to make Magadi once more an economic proposition.

ases

The Magadi Co. holds its property in Kenya Colony under leases issued by the Kenya Government. These stipulate that the concession shall be worked to its best economic capacity, with a minimum output of 50,000 tons per annum up to 31st October 1931 and 100,000 tons hereafter. It will be observed that under present conditions it is impossible to fulfil even the lower tonnage scale, thus leaving the higher scale a sheer impossibility. The latter,

point was foreseen many years ago and it was hoped by means of research to discover an economic purification process which would produce Magadi Ash equal in quality to that produced synthetically, thus enlarging its potential markets.

Research

This research was carried on until the middle of 1930 when it was finally established that no economic purification process could be found. This fact therefore left the Company faced with the impossibility of fulfilling its lease as from 1st November next, and the Government were at once approached with the request for a modification of the tonnage clause, the results of which will be mentioned later.

Profits.

The profits and losses for the years 1925 - 1930 and for the half-year 1931 (before providing for Debenture interest) have been as follows:-

<u>Tons</u>	<u>Year</u>	<u>£</u>	
49,427	1925	Profit 23,937	Interest paid in full
20,665	1926	Loss 35,490	No. Interest paid.
56,800	1927	Profit 56,876	Interest paid in full
80,766	1928	" 122,529	do.
54,875	1929	" 45,215	do.
44,664	1930	" 9,176	do.
22,332	Jan/June 1931	" 1,944	do.

It is estimated that for the current year on a tonnage of 50,000 the net profit will be £12,000. This profit takes no account of the merchandising losses in Japan,

which are falling on I.C.I. If they are taken into account a very substantial trading loss results. If the I.C.I. merchandising company in Japan pay a price which will cover their expenses, the nett loss of Magadi in 1932 is estimated, before providing debenture interest, at nearly £30,000 (on 32,000 tons);

C.I.  
financial  
support

The annual Debenture charges are £49,000 on account of interest and redemption, and a reference to the published Balance sheets of the Company will disclose that these have not been covered since 1929. Since that time I.C.I. has provided the necessary monies to pay Debenture interest up to 30th June 1931 and to redeem the Debenture quota up to the end of 1931, by means of loans to Magadi. I.C.I.'s loan as at 30th June 1931 amounted to £125,000 (unsecured) and has not substantially altered since. I.C.I. has thus provided Magadi with cash resources to cover interest and redemption as above and to provide working capital. Against this there is a set-off on account of sales to I.C.I. Subsidiary Companies of £55,000 leaving £70,000 of the loan entirely uncompensated. This financial assistance is in addition to the loss on merchandising of £20,000 in 1930 already mentioned. For 1931, the Japanese I.C.I. Company will again have to bear a further substantial loss.

On the financial side it is clear that I.C.I. cannot continue to finance the Magadi Company. In all the circumstances, a temporary moratorium involving cessation of output is inevitable. The Kenya Government has agreed to consider the closing down for the time being of the undertaking if I.C.I. can furnish the necessary guarantees.

Having laid these details before you I shall be glad to hear your views on the position.

---

CHAIRMAN - Pause here.

---

## I.C.I. PROPOSALS.

1. The grant of a moratorium by the Debentureholders on account of interest and redemption, the Debentureholders only receiving such profits as may be earned, is not considered feasible on the following grounds:

- (a) It is doubtful whether the Government would agree to work continuing on a reduced scale.
- (b) I.C.I. are not prepared to meet any losses which would quite likely occur under such a scheme, and
- (c) No provision would be made thereby for the Preference shareholders.

2. The only workable alternative therefore that we can see is to take advantage of the Government's attitude in relation to a moratorium and shut down production until such time as it may be possible to recommence production on an economic basis. In order to achieve this it is necessary that I.C.I. should be able to give the necessary guarantee and to compensate the Government for loss of royalty. The foregoing is contingent upon the necessary conversion schemes being carried out.

It is hoped that on this basis I.C.I. can substitute English ash for Magadi Soda, and the profits from this source would go some way, when normal conditions return, to satisfy the interest charges which I.C.I. would shoulder. This involves risk

to I.C.I., but in view of its relation with the Magadi Soda Co. it is prepared to take this responsibility.

3. There remains to be settled the consideration for this transfer and it is proposed to deal first of all with Debentureholders in General Meeting. We are advised that acceptance could be met by means of an extraordinary resolution and we are anxious to have the support of Debentureholders at this meeting representing £ . for the scheme and trust we can count on their support.

We therefore propose to send to those present to-day a draft of the circular to be issued to all Debentureholders.

I.C.I. Proposals.

I.C.I. proposes to offer to the stockholders in exchange for each £100 nominal 6% stock, forty (40) 7% Cumulative Preference shares of £1 in I.C.I., carrying interest from 1st January 1932 payable half yearly on 1st August and 1st February. The interest on the Debentures would be paid up to 31st December 1931 inclusive. This offer must be subject to its acceptance by holders of 75 per cent of the Debenture stock outstanding.

Having regard to the Present market value of Debentures (£55-59 1b August, latest quoted) no buyers, and

to I.C.I., but in view of its relation with the Magadi Soda Co. it is prepared to take this responsibility.

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Having regard to the Present market value of Debentures (£55-59 1b August, latest quoted) no buyers, and



the certain heavy depreciation when the present position becomes generally known, we feel that these terms represent a generous offer. At the present quotation for I.C.I. Preference shares, it amounts to practically 40% of the original and capital value of Debentures and may well rise to 50% when industrial conditions improve. On the present market of the debentures, it would represent an offer of 67 to 84 per cent.

The above offer would involve the issue of 170,600 I.C.I. Preference shares, the dividend cost of which would be £11,924 per annum.

Total Debentures outstanding	Conversion	Rate	Yield	Value	
				20s/-	25s/-
£426,500	I.C.I. Pref. shares,	40 shares per £100 Debs.	2.8%	£40 per £100 Debs.	£50 per £100 Debs.