

Subsequently passed over telephone verbatim. at
SECRET Request of Duty Dept. (1 del) (12 del) (13 del) (14 del) (15 del) (16 del) (17 del) (18 del) (19 del) (20 del) (21 del) (22 del) (23 del) (24 del) (25 del) (26 del) (27 del) (28 del) (29 del) (30 del) (31 del) (32 del) (33 del) (34 del) (35 del) (36 del) (37 del) (38 del) (39 del) (40 del) (41 del) (42 del) (43 del) (44 del) (45 del) (46 del) (47 del) (48 del) (49 del) (50 del) (51 del) (52 del) (53 del) (54 del) (55 del) (56 del) (57 del) (58 del) (59 del) (60 del) (61 del) (62 del) (63 del) (64 del) (65 del) (66 del) (67 del) (68 del) (69 del) (70 del) (71 del) (72 del) (73 del) (74 del) (75 del) (76 del) (77 del) (78 del) (79 del) (80 del) (81 del) (82 del) (83 del) (84 del) (85 del) (86 del) (87 del) (88 del) (89 del) (90 del) (91 del) (92 del) (93 del) (94 del) (95 del) (96 del) (97 del) (98 del) (99 del) (100 del)

DD OTTAWA 271030Z

GR 300

SECRET

DESKBY FCO 270930Z

DESKBY OTTAWA, UKMIS NEW YORK AND WASHINGTON 271030Z

FM HONG KONG 270850Z SEP 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 1418 OF 27 SEPTEMBER

AND TO IMMEDIATE OTTAWA (PERSONAL FOR PUS AND PS TO PM), UKMIS
NEW YORK (PERSONAL FOR PS TO S OF S), WASHINGTON (PERSONAL FOR PS
TO CHANCELLOR OF THE EXCHEQUER)

PERSONAL FOR CLIFT.

HAWK.

1. THE EXECUTIVE COUNCIL ADVISED THIS MORNING THAT THE HANG LUNG BANK (ACQUISITION) BILL 1983 SHOULD BE INTRODUCED INTO THE LEGISLATIVE COUNCIL AT A SPECIAL SITTING WHICH WILL TAKE PLACE AT 1800 HOURS HONG KONG TIME TODAY.

2. THE BANK AND ITS AUDITORS HAVE NOT YET REACHED AGREEMENT ON THE FINAL FORM OF THE ACCOUNTS, PARTICULARLY WITH REGARD TO THE QUALITY OF MANY OF THE BANK'S LOANS AND ADVANCES, IMPLYING THAT THE ACCOUNTS WHEN PUBLISHED AT THE END OF SEPTEMBER WILL BE SUBSTANTIALLY QUALIFIED, WHICH WOULD HAVE LED ALMOST CERTAINLY TO A RUN IN A FEW DAYS TIME. BUT IN ANY CASE THE BANK REPORTED TO THE COMMISSIONER OF BANKING THIS MORNING THAT THEY WERE OVER DOLLARS 50 MILLION OVERDRAWN ON THEIR CLEARING ACCOUNT WITH THE CHARTERED BANK. AT BEST THEY THOUGHT THEY COULD CLEAR HALF OF THIS LATER IN THE DAY. THE CHARTERED BANK THEN INFORMED US THAT THEY WERE NOT PREPARED TO OFFER COVER AND THAT THEY INTENDED TO INFORM THE CLEARING HOUSE THAT THE HANG LUNG BANK WAS UNABLE TO MEET THEIR CLEARING. TO AVOID THE INEVITABLE CONSEQUENCES THE GOVERNMENT HAS COVERED THE HANG LUNG BANK'S CLEARING FOR TODAY. SUBJECT TO THE LEGISLATIVE COUNCIL PASSING THE BILL THIS AFTERNOON THE BANK WILL BE ACQUIRED BY THE GOVERNMENT AND WILL BE OPENED UNDER A MANAGEMENT CONTRACT ENTERED INTO WITH THE HONG KONG BANK TOMORROW MORNING (WEDNESDAY).

SECRET

Seen 0630
Passed gift to No 10 office, Toronto,
without mentioning Bank's name or
details in para 2 of 0635, suggesting
not write special agency.
Someone there will receive message at about 0730 and
phone if they want
complete text copy.

IN 44A
Request of Duty Dept. Toronto.
No No effect
1 del
12 del
13 del
14 del
15 del
16 del
17 del
18 del
19 del
20 del
21 del
22 del
23 del
24 del
25 del
26 del
27 del
28 del
29 del
30 del
31 del
32 del
33 del
34 del
35 del
36 del
37 del
38 del
39 del
40 del
41 del
42 del
43 del
44 del
45 del
46 del
47 del
48 del
49 del
50 del
51 del
52 del
53 del
54 del
55 del
56 del
57 del
58 del
59 del
60 del
61 del
62 del
63 del
64 del
65 del
66 del
67 del
68 del
69 del
70 del
71 del
72 del
73 del
74 del
75 del
76 del
77 del
78 del
79 del
80 del
81 del
82 del
83 del
84 del
85 del
86 del
87 del
88 del
89 del
90 del
91 del
92 del
93 del
94 del
95 del
96 del
97 del
98 del
99 del
100 del

27/9

3. EXECUTIVE COUNCIL ADVICE WAS UNANIMOUS. MEMBERS WERE CONCERNED THAT THE PUBLIC RELATIONS ASPECTS WERE HANDLED IN SUCH A WAY AS TO STRESS THAT THIS SITUATION HAD ARISEN NEITHER FROM POLITICAL FACTORS, NOR AS A RESULT OF THE PRESENT DISTURBED STATE OF THE FOREIGN EXCHANGE MARKET. IT WILL BE STRESSED THAT THE SITUATION HAS ARISEN AS A RESULT OF MISMANAGEMENT AND THE POOR QUALITY OF THE BANK'S LOANS PORTFOLIO AND THAT, ALTHOUGH THE SITUATION HAS BEEN MONITORED CLOSELY FOR THE PAST 12 MONTHS, THE TAKEOVER SCHEME IS NOW NECESSARY TO SAFEGUARD DEPOSITORS.

YOUDE

SECRET

NNNN