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23 March 1983

*Agreed to*

*Told Miss O'Mara*

*Dear Michael,*

CABLE AND WIRELESS: PROPOSED HONG KONG ACQUISITION

The Prime Minister will wish to be aware that Cable and Wireless Limited propose to acquire 34.8 per cent of the equity in the Hong Kong Telephone Company (Telco), from Hong Kong Land, the present holders, who want to sell to strengthen their finances. Mr Sharp, C&W's chairman, has consulted the Treasury as holders of the Government's remaining 50.4 per cent stake in C&W. He has also talked to the Foreign Office and the Department of Industry.

C&W hold the international franchise of the Hong Kong telephone system and wish to maintain the present, satisfactory, links with its domestic network, which is owned by Telco. They are therefore anxious that the Hong Kong Land holding in Telco should not pass into rival hands such as AT&T. They are supported in this by the Hong Kong Government. Lord Belstead and Mr Kenneth Baker also support the proposal.

The C&W Board intend to finance the transaction by the allotment of some 30 million unissued C&W shares to Hong Kong Land who will renounce them immediately in favour of pre-arranged UK institutional purchasers. These shares were created for purposes of this kind at the time of the flotation of C&W and it is within the Board's discretion under the Articles of Association of the company to deploy them in this way.

They have asked whether the Government would wish to take up its half of the allotment to maintain its present proportionate holding in the company. The Foreign Office would prefer us to do so, in order to avoid possible objections by other overseas governments to a reduction in the UK Government's involvement in C&W.

/However we have



However, we have concluded that expenditure of some £50-60 million on the Treasury vote, in order to acquire shares in a successful and recently privatised company, cannot be considered a high priority, and lies uneasily beside our long-standing policy of disengaging from C&W's affairs. In the light of this, and of the initial reports which he has had from overseas, Lord Belstead has indicated that he would acquiesce in the consequent reduction in the Government's proportionate holding to about 46 per cent.

We shall stress to C&W the need for them to co-operate closely with the FCO in handling the reactions of other overseas governments. We must also obtain assurances from C&W that the transfer of shares to UK institutions will involve no significant discount on the present market price, thus ensuring that it cannot give rise to claims that the Government has allowed the value of its holding to be eroded by the transaction. (Indeed both the Department of Industry and the company believe the acquisition will strengthen C&W.)

Subject to these points, our aim is to give C&W the go-ahead later today and their intention is to make a low-key announcement at 9.30 am tomorrow, Thursday 24 March.

I am copying this to the Private Secretaries to the Minister of State, Foreign Office and the Minister for Information Technology.

*Yours sincerely,*

*Margaret O'Mara*

MISS M O'MARA  
Private Secretary