

**VODATEL NETWORKS HOLDINGS LTD :
DID CHAIRMAN JOSÉ MANUEL DOS SANTOS FORGET SOMETHING ?**

Vodatel Networks Holdings Ltd, one of the latest candidates for a place on the roll of The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd, has omitted to include a material piece of information in its Prospectus.

This piece of material information may have been overlooked by pure accident, of course, or, the Chairman of Vodatel Networks, Mr José Manuel dos Santos, was dead scared to include it in his Company's Prospectus, dated February 16, 2000, and, as such, the International Coordinator and Sponsor of the flotation, Core Pacific-Yamaichi Capital Ltd, had no knowledge of the matter.

But the information is so crucial that it is possible that it could affect the profits of Vodatel Networks in the Current Financial Year, ended June 30, 2000, and it is almost guaranteed to affect the profit of the 2001 Financial Year.

Vodatel Networks is trying to place a total of 150 million, 10-cent shares at a Premium of between 90 cents per share and \$HK1.35 per share in the hope of raising at least \$HK144 million, net of expenses.

Chairman José Manuel dos Santos is taking this opportunity to unload some of his personal holdings in the Company in the hope of raking in something in the neighbourhood of between \$HK40 million and \$HK69 million, depending on the level of acceptances which are received.

Dao Heng Bank Ltd owns between 3.37 percent and 4.20 percent of the Issued and Fully Paid-Up Share Capital of the Company, also depending on the level of acceptances.

There is no underwriter for this flotation – a very rare occurrence these days.

Vodatel Networks claims to be one of the leading network solution providers in the People's Republic of China (PRC), specialising in sales, design and installation of digital networks on the time-division multiplexing technology (TDM), the division of a transmission facility into 2 or more channels by allotting the facility to several different information channels, one at a time of concurrently.

One of its most important suppliers to Vodatel Networks is the Canadian telephone equipment manufacturer: Newbridge Networks Corporation.

But this Canadian company is about to be swallowed up by the French company, Alcatel SA, Europe's second largest telephone equipment manufacturer.

This is not a sudden development since the news of the proposed takeover of Newbridge was known back in November 1999 when the Founder and Chairman of Newbridge, Mr Terry Matthews, hung out the '*For Sale*' sign on his Company, which is listed on The New York Stock Exchange and The Toronto Stock Exchange.

Mr Matthews's decision to try to sell his Company came after a warning that the Company's profits were likely to fall, and that Newbridge was in danger of losing its market share to competitors.

An announcement of the takeover of Newbridge is expected tomorrow (Wednesday, Paris time), at the latest, TARGET has been told by a Paris source, thought to be close to the negotiations.

In the Prospectus of Vodatel Networks, on Page 103, under the heading, '*LARGEST CUSTOMERS AND SUPPLIERS*', it is stated:

'The Group (Vodatel Networks Group) obtains its supplies or network equipments from the leading suppliers in the world, which include Newbridge (Newbridge Networks Corporation), RAD (RAD Data Communications Ltd), Nokia Telephony System, Pairgain (PairGain Technologies Incorporated) and Picture Tel (PictureTel Corporation). For the three financial years ended 30th June, 1999, and the three months ended 30th September, 1999, the top five suppliers of the Group accounted for about 97.2%, 96.7%, 97.4% and 96.0%; and the largest supplier accounted for about 82.0%, 82.6%, 91.7% and 86.3% of the Group's total purchases, respectively ...'.

One cannot, of course, jump to conclusions to suggest that Newbridge is vital for the continuing financial viability of Vodatel Networks, but one may, reasonably, come to the conclusion, based on the amount of space, allotted to Newbridge by those parties, who put together this Prospectus, that Newbridge is very important to Vodatel Networks and that if Chairman José Manuel dos Santos did fall from grace in Mr Matthews's opinion, there would be an immediate and material impact on Vodatel Networks's Bottom Line.

On Page 68 and Page 69 of the Prospectus, an entire page is devoted to the '*RELATIONSHIP WITH NEWBRIDGE*'.

In view of the prospects of a material change in one of the major suppliers of the type of equipment that Vodatel Networks requires in order to stay in business and to turn a profit, TARGET takes the liberty of repeating this part of the Prospectus in full:

'Newbridge, the common shares of which are listed on both the New York Stock Exchange and The Toronto Stock exchange, is principally engaged in the design, manufacture, marketing and service end-to-end networking equipment and solutions. Since Newbridge was founded in 1986, its annual revenue has risen from CAN\$1 million (or HK\$5.37 million equivalent) in 1986 to CAN\$1.8 billion (or HK\$9.666 billion equivalent) in 1999, of which 14% i.e., approximately CAN\$251 million (or HK\$1,347.87 million equivalent), was attributable to sales derived in the Asia Pacific region. Newbridge's clients include some 350 of the world's largest telecommunication service providers and more than 10,000 corporations and government organisations. According to industry analysis, Newbridge holds a market leadership position, at more than 25% of the US\$1.5 billion (or HK\$11.649 billion equivalent) in ATM WAN machete and continues to demonstrate market strength in DDN, Frame Relay and IP solutions.

'Mr. Santos, the Chairman of the Group, has known Mr. Terence H. Matthews ("Mr. Matthews"), the Chairman of Newbridge, for about 15 years. Their business relationship can be traced back to the mid-1980's when Zetronic was a distributor of products manufactured by Mitel, where Mr. Matthews was one of the founders. In 1986, when Mr. Matthews founded Newbridge, Zetronic became one of the first agents for Newbridge in the Asia Pacific region. The first Newbridge DDN installed in Asia was brought through Zetronic to Macau in 1990 before the establishment of the Group.

'In 1992, when the Group was founded, Vodatel Networks launched the Newbridge's DDN equipment to Shanghai, marking the first entry of Newbridge into the PRC market. Given the Group's commitment to quality and its ability to provide high technical skills, the Group has maintained a strong relationship with Newbridge. Currently, the Group is one of Newbridge's largest distributors in the PRC and the Asia Pacific region.

'VHL entered into a two-year distribution agreement with Newbridge (Asia) on 1st December, 1999 for distribution of Newbridge's networking equipment in the PRC. Under that distribution agreement, the Group has exclusive distribution rights in certain provinces and municipalities in the PRC. The agreement may be renewed for an additional one year upon the written agreement of both parties. Either party has the right to terminate the agreement if (i) the other party breaches any of its material obligations under the agreement and fails to remedy such breach within thirty days of receipt of notice to do so by the non-defaulting party; or (ii) there is a change

in the control of other party. In any event, the agreement can be terminated by either party at any time for convenience by giving ninety days' prior written notice to the other party. The Group shall not promote and sell products which are competitive with Newbridge's products, comprising TDM, Frame Relay/ATM backbone systems, distributed by the Group.

'The Directors believe that with over seven years of solid business relationship between the Group and Newbridge, they do not anticipate that Newbridge will cease its business relationship with the Group. In addition, given the Group's premium customer base, experienced technical team, extensive business networks in the PRC and its expanding base of suppliers, the Directors do not anticipate any problem in securing other suppliers in the case that Newbridge terminates its business relationship with the Group.'

(The reference to Zetronic relates to the company, incorporated in the Macau Special Administrative Region (MSAR) of the PRC, Zetronic Comunicações Lda, owned as to 99 percent by Chairman José Manuel dos Santos and one percent by his wife, Madame Lei Hon Kin)

As may be easily deduced from the above, the importance of the Asia Pacific Region to Newbridge is very material and, by reading the Prospectus of Vodatel Networks, even a cursory reading of it, one is left ... [CLICK TO ORDER FULL ARTICLE](#)

