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COMBA TELECOM SYSTEMS HOLDINGS LIMITED

京信通信系統控股有限公司

(Incorporated in the Cayman Islands with limited liability)

CONNECTED TRANSACTION

The Directors announce that on 31 December 2003, Cascade, an indirect wholly-owned subsidiary of the Company, exercised the First Option under the Subscription Agreement to subscribe for a further 171 new shares of US\$1.00 each in WaveLab Holdings at a cash consideration of US\$2 million.

Prior to the exercise of the First Option, WaveLab Holdings had in issue 658 shares, of which 258 were held by Cascade, 320 by Mr. Zheng and 80 among three senior management staff, which represented approximately 39.21%, 48.63% and 12.16% of the then issued share capital of WaveLab Holdings, respectively. Pursuant to the Shareholders' Agreement, Cascade, notwithstanding that it did not have a controlling shareholding in WaveLab Holdings, had the right to nominate the majority of the directors on the board of WaveLab Holdings. On such basis, WaveLab Holdings was a non-wholly owned subsidiary directly of Cascade and indirectly of the Company.

Pursuant to the exercise of the First Option, WaveLab Holdings allotted and issued 171 new shares of US\$1.00 each to Cascade. Cascade's shareholding in WaveLab Holdings increased to 429 shares, representing approximately 51.75% of the enlarged issued share capital of WaveLab Holdings. As a result of the issue of new shares to Cascade, the shareholding of Mr. Zheng and of the three senior management staff in WaveLab Holdings decreased to approximately 38.6% and 9.65%, respectively.

Mr. Zheng is a substantial shareholder and a director of WaveLab Holdings and a director of two of its subsidiaries. He is, therefore, a connected person in relation to the Company within the meaning of the Listing Rules. Except for his shareholding interest and directorship in WaveLab Holdings and its subsidiaries, Mr. Zheng does not have any shareholding interest or directorship in the Company or any of its other subsidiaries.

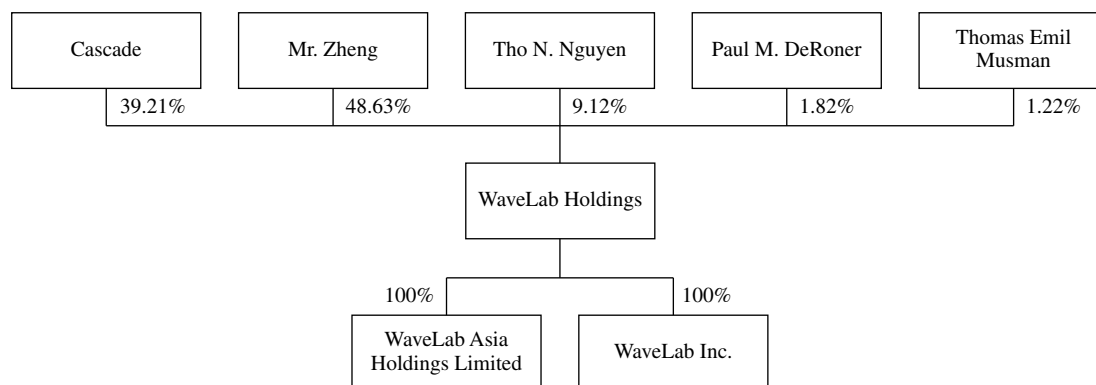
As Mr. Zheng has a shareholding of more than 30% in WaveLab Holdings, WaveLab Holdings is an associate of Mr. Zheng and is, therefore, a connected person in relation to the Company within the meaning of the Listing Rules.

The exercise of the First Option by Cascade constitutes a connected transaction of the Company under the Listing Rules. However, as the consideration payable by Cascade to WaveLab Holdings does not exceed the higher of HK\$10 million and 3% of the Net Tangible Assets of the Company of HK\$692,222,000, the exercise of the First Option is a connected transaction falling under Rule 14.25(1) of the Listing Rules which is exempt from any shareholders' approval requirement but is subject to disclosure by way of this announcement and in the Company's next published annual report and accounts.

Background

On 29 January 2003, Cascade (an indirect wholly-owned subsidiary of the Company), WaveLab Holdings, Mr. Zheng and others entered into the Subscription Agreement, pursuant to which Cascade subscribed for 258 new shares of US\$1.00 each in WaveLab Holdings.

After the completion of such subscription by Cascade, the shareholding structure of WaveLab Holdings was as follows:



Pursuant to the Subscription Agreement, WaveLab Holdings has granted Cascade (i) the First Option to subscribe for a further 171 shares in WaveLab Holdings on or before 31 December 2003 at a cash consideration of US\$2 million; and (ii) the Second Option to subscribe for a further 171 shares in WaveLab Holdings on or before 31 December 2004 at a cash consideration of US\$2 million. The Options may be exercised by Cascade in whole or in part at any time before the expiry of the relevant dates mentioned above.

Pursuant to the Shareholders' Agreement, Cascade, notwithstanding that it did not have a controlling shareholding in WaveLab Holdings, had the right to nominate the majority of the directors on the board of WaveLab Holdings. On such basis, WaveLab Holdings was a non-wholly owned subsidiary directly of Cascade and indirectly of the Company.

Details of the Subscription Agreement and the Options have been disclosed by the Company in the Prospectus.

Mr. Zheng is a substantial shareholder and a director of WaveLab Holdings and a director of two of its subsidiaries. He is, therefore, a connected person in relation to the Company within the meaning of the Listing Rules. Except for his shareholding interest and directorship in WaveLab Holdings and its subsidiaries, Mr. Zheng does not have any shareholding interest or directorship in the Company or any of its other subsidiaries.

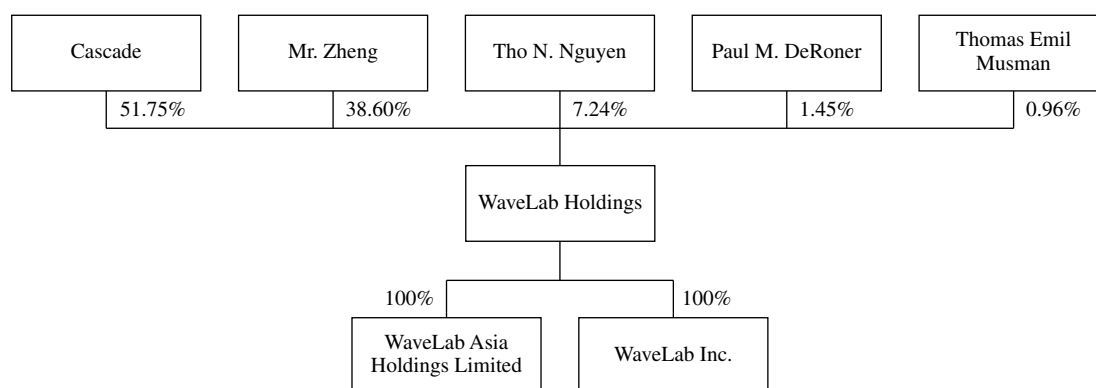
As Mr. Zheng has a shareholding of more than 30% in WaveLab Holdings, WaveLab Holdings is an associate of Mr. Zheng and is, therefore, a connected person in relation to the Company within the meaning of the Listing Rules.

Exercise of the First Option

Cascade exercised the First Option on 31 December 2003 at a cash consideration of US\$2 million in accordance with the Subscription Agreement, pursuant to which 171 new shares of US\$1.00 each were allotted and issued by WaveLab Holdings to Cascade. Such shares ranked pari passu with all other shares in issue in WaveLab Holdings. Cascade paid the full amount of the cash consideration on the same day. Such consideration was financed out of the net proceeds of the Global Offering.

After the exercise of the First Option, Cascade's shareholding in WaveLab Holdings increased to 429 shares, representing approximately 51.75% of the enlarged issued share capital of WaveLab Holdings. As a result of the issue of new shares to Cascade, the shareholding of Mr. Zheng and of the three senior management staff in WaveLab Holdings decreased to approximately 38.6% and 9.65%, respectively.

Immediately after the exercise of the First Option by Cascade, the shareholding structure of WaveLab Holdings became as follows:-



The WaveLab Group has been in its initial stages of development since Cascade first acquired its shareholding in WaveLab Holdings in January 2003. The WaveLab Group has so far been engaged in the research and development of outdoor units for microwave transmission in telecommunication systems. It has yet to commence production and sale (and therefore, has yet to generate any revenue or profit). Based on its unaudited management accounts for the period of eleven months ended 30 November 2003, the operating loss of the WaveLab Group was approximately HK\$8,354,000 and as at 30 November 2003, its net asset value was approximately HK\$13,369,000. The research and development of certain models of outdoor units have reached an advanced stage and these products are ready for commercial production. This has given rise to a further funding requirement of the WaveLab Group. The Directors (including the independent non-executive Directors) consider that it is in the interests of the Company and the WaveLab Group for such funding requirement to be met by way of the exercise of the First Option as this will enable the WaveLab Group to start commercial production and revenue generation and the Company to increase its interest in the WaveLab Group at a time when it is able to capitalise on its past investment in the research and development conducted by the WaveLab Group.

The Directors will determine whether to exercise the Second Option in the light of the business development and funding requirements of the WaveLab Group. Presently, the Directors have no immediate intention to exercise the Second Option.

The exercise of the First Option is an acquisition of assets by Cascade (a subsidiary of the Company), by way of the exercise of an option, from WaveLab Holdings (a connected person in relation to the Company

within the meaning of the Listing Rules by reason of its being an associate of Mr. Zheng as described above). It, therefore, constitutes a connected transaction of the Company under the Listing Rules.

However, as the consideration payable by Cascade to WaveLab Holdings does not exceed the higher of HK\$10 million and 3% of the Net Tangible Assets of the Company of HK\$692,222,000, the exercise of the First Option is a connected transaction falling under Rule 14.25(1) of the Listing Rules which is exempt from any shareholders' approval requirement but is subject to disclosure by way of this announcement and in the Company's next published annual report and accounts.

Definitions

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Cascade”	Cascade Technology Limited, a company incorporated with limited liability in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company;
“Company”	Comba Telecom Systems Holdings Limited, a company incorporated in the Cayman Islands, the ordinary shares of which are listed on the Stock Exchange;
“Directors”	the directors of the Company;
“First Option”	the option to subscribe for 171 shares of US\$1.00 each in the share capital of WaveLab Holdings on or before 31 December 2003 granted by WaveLab Holdings to Cascade pursuant to the Subscription Agreement;
“Global Offering”	has the meaning defined in the Prospectus;
“Hong Kong”	Hong Kong Special Administrative Region of the People's Republic of China;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Mr. Zheng”	Mr. Zheng Guobao, a substantial shareholder and director of WaveLab Holdings;
“Net Tangible Assets”	the adjusted net tangible assets of the Company and its subsidiaries as at 30 April 2003 as set out in the section headed “Financial Information” of the Prospectus and adjusted to take account of subsequent transactions in the manner described in Rule 14.04(6) of the Listing Rules;

“Options”	the First Option and the Second Option;
“Prospectus”	the prospectus dated 3 July 2003 issued by the Company;
“Second Option”	the option to subscribe for 171 shares of US\$1.00 each in the share capital of WaveLab Holdings on or before 31 December 2004 granted by WaveLab Holdings to Cascade pursuant to the Subscription Agreement;
“Shareholders’ Agreement”	the shareholders’ agreement dated 29 January 2003 and entered into between Cascade, Mr. Zheng, Tho N. Nguyen, Paul M. DeRoner and Thomas Emil Musman relating to WaveLab Holdings and its subsidiaries;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription Agreement”	the subscription agreement dated 29 January 2003 and entered into between Cascade, WaveLab Holdings, Mr. Zheng, Tho N. Nguyen, Paul M. DeRoner and Thomas Emil Musman;
“subsidiary”	has the meaning ascribed thereto under the Listing Rules;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules;
“US\$”	United States dollars, the lawful currency of the United States of America;
“WaveLab Group”	WaveLab Holdings and its subsidiaries; and
“WaveLab Holdings”	WaveLab Holdings Limited, a company incorporated with limited liability in the Cayman Islands and an indirect non wholly-owned subsidiary of the Company.

By order of the board
Fok Tung Ling
Chairman

Hong Kong, 31 December 2003

“Please also refer to the published version of this announcement in The Standard”.