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Comba

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)

(Stock Code: 2342)

CONTINUING CONNECTED TRANSACTIONS

On 1 March 2004, the Group, through Comba Systems Guangzhou, entered into the 2004 Product Sales Agreement with WaveLab Guangzhou, pursuant to which WaveLab Guangzhou has been selling ODUs and other microwave transmission products to the Group. WaveLab Guangzhou is a wholly-owned subsidiary of WaveLab Holdings which, in turn, is owned as to 60% by the Group, 32% by Mr. Zheng (who is an executive Director) and 8% by various Independent Third Parties. As Mr. Zheng is a substantial shareholder in WaveLab Holdings, both WaveLab Holdings and WaveLab Guangzhou are connected persons and the 2004 Product Sales Agreement is a continuing connected transaction of the Company within the meaning of the Listing Rules.

The Group obtained the Existing Waiver in respect of the 2004 Product Sales Agreement, which exempted it from strict compliance with the disclosure and shareholders' approval requirements under the Listing Rules. The Existing Waiver expired on 31 December 2006.

The Group has, since 31 December 2006, continued to purchase products from WaveLab Guangzhou under the 2004 Product Sales Agreement. On 21 June 2007, the Group entered into the New Product Sales Agreement with WaveLab Guangzhou for the sale of ODUs and other microwave transmission products to the Group. The New Product Sales Agreement replaced the 2004 Product Sales Agreement. The transactions carried out by the Group pursuant to the 2004 Product Sales Agreement since the expiry of the Existing Waiver on 31 December 2006 and the transactions to be carried out by the Group pursuant to the New Product Sales Agreement both constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules.

The Company proposes to seek the approval of the Independent Shareholders (a) to ratify and confirm the transactions carried out by the Group pursuant to the 2004 Product Sales Agreement since the expiry of the Existing Waiver on 31 December 2006; and (b) to approve the Continuing Connected Transactions to be carried out by the Group under the New Product Sales Agreement subject to the New Cap. Mr. Zheng and his associates will abstain from voting at the EGM to be convened for this purpose. The votes of the Independent Shareholders in the EGM will be taken by way of a poll.

A circular containing, among other things, details of the Continuing Connected Transactions, the advice of the IFA and the recommendation of the Independent Board Committee, together with a notice convening the EGM of the Company to approve the Continuing Connected Transactions subject to the New Cap will be dispatched to the Shareholders as soon as possible.

BACKGROUND

On 1 March 2004, the Group, through Comba Systems Guangzhou, entered into the 2004 Product Sales Agreement with WaveLab Guangzhou, pursuant to which WaveLab Guangzhou has been selling ODUs and other microwave transmission products to the Group. WaveLab Guangzhou is a wholly-owned subsidiary of WaveLab Holdings which, in turn, is owned as to 60% by the Group, 32% by Mr. Zheng (who is an executive Director) and 8% by various Independent Third Parties. As Mr. Zheng is a substantial shareholder in WaveLab Holdings, both WaveLab Holdings and WaveLab Guangzhou are connected persons and the 2004 Product Sales Agreement is a continuing connected transaction of the Company within the meaning of the Listing Rules.

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THE NEW PRODUCT SALES AGREEMENT

- Date : 21 June 2007
- Seller : WaveLab Guangzhou
- Purchaser : Comba Systems BVI or any Group companies except WaveLab Holdings and its subsidiaries
- Products : ODUs and such other products used in connection with microwave transmission as may be agreed between WaveLab Guangzhou and the purchaser in writing from time to time
- Price : To be agreed between WaveLab Guangzhou and the purchaser in writing from time to time in accordance with the New Product Sales Agreement
- Term : from 1 March 2007 to 31 December 2009, subject to the early termination provisions in the New Product Sales Agreement
- Exclusivity : The Purchaser has the sole and exclusive right to sell the Products in the Territory during the term of the New Product Sales Agreement
- Termination : (a) by mutual consent in writing; or
(b) if any party shall be in material breach of its obligations and such breach cannot be remedied or if the relevant breach can be remedied but that party shall fail to remedy such breach within 10 days after being notified in writing to do so by the other party;

The Products to be sold by WaveLab Guangzhou to the Purchaser will initially include ODUs manufactured by WaveLab Guangzhou for use in microwave transmission in telecommunications systems. The Purchaser will purchase the ODUs from WaveLab Guangzhou which it will integrate with the indoor units manufactured by it and will then sell to its customers in the form of digital microwave systems. It is currently intended that most of the Products acquired will be integrated with the products of the Group.

The price of the Products to be sold under the New Product Sales Agreement will be agreed between the Group and WaveLab Guangzhou based on the prevailing market rates and will, depending on market conditions, change from time to time over the term of that agreement. It is expected that the price of Products to be offered by WaveLab Guangzhou will be comparable to that being offered by WaveLab Guangzhou to Independent Third Parties.

THE EXISTING WAIVER

The Group obtained the Existing Waiver in respect of the 2004 Product Sales Agreement, which exempted the Group from strict compliance with the disclosure and shareholders' approval requirement under the Listing Rules. The Existing Waiver expired on 31 December 2006.

According to the audited consolidated financial statements of the Group for the three years ended 31 December 2004, 2005 and 2006, the total amount of purchases made by the Group from WaveLab Guangzhou pursuant to the 2004 Product Sales Agreement was:

Financial year ended 31 December	2004	2005	2006
Annual cap under the Existing Waiver (HK\$'000)	60,000	112,000	208,000
Transaction amount (HK\$'000)	1,872	6,268	29,680

The Group did not exceed any of the limits set out in the Existing Waiver.

The Group has continued to purchase Products from WaveLab Guangzhou pursuant to the 2004 Product Sales Agreement after the expiry of the Existing Waiver. The unaudited total amount of purchases made by the Group from WaveLab Guangzhou from 1 January 2007 to 31 May 2007 was HK\$6,419,000. Due to an inadvertent oversight, the Company failed to publish appropriate announcement and to seek independent shareholders' approval as prescribed under Chapter 14A of the Listing Rules regarding connected transaction in respect of the transactions with WaveLab Guangzhou at the time when the Existing Waiver expired on 31 December 2006.

NEW CAP FOR WHICH INDEPENDENT SHAREHOLDERS' APPROVAL IS PROPOSED TO BE SOUGHT

Given that the broadband services and applications are becoming more and more popular with the forthcoming launch of 3G services in the PRC, the demand for digital microwave transmission system products of the Group has shown an increasing trend. As the Existing Waiver expired on 31 December 2006 and it is expected that the Continuing Connected Transactions will continue in the years to come, the Directors believe that it is in the commercial interest of the Company to seek Independent Shareholders' approval for the continuation of the Continuing Connected Transactions up to the limits specified in the New Cap which are calculated based on (i) the historical transaction amount; (ii) the market trend for microwave transmission products; (iii) the estimated demand for the Group's products given the continue increase in the market demand for broadband services and applications related devices; and (iv) the estimated purchases of the Products from existing and new markets.

Financial year ended 31 December	2007 (MAR to DEC)	2008	2009
New Cap (HK\$'000)	52,500	85,000	100,000

The Directors, including the independent non-executive Directors, are of the opinion that the New Product Sales Agreement has been entered into in the usual and ordinary course of business of the Group, on normal commercial terms and the terms of the New Product Sales Agreement as well as the New Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The terms and conditions of each of the Transactions will be negotiated between the parties on an arm's length basis, and will be on no less favorable terms than those available to the Group from Independent Third Parties.

REASONS FOR AND BENEFITS OF THE NEW PRODUCT SALES AGREEMENT

The principal activity of the Company is investment holding while its subsidiaries are principally engaged in the research, development, manufacture and sale of wireless telecommunications network enhancement system equipment and the provision of relating engineering services.

WaveLab Holdings and its subsidiaries are principally engaged in the research and development of ODUs for microwave transmission in telecommunications systems.

WaveLab Guangzhou is principally engaged in the manufacture and sale of digital microwave system equipment.

The business transactions with WaveLab Guangzhou have been taking place since the year 2004 and are essential for the continued operation and overall growth of the business of the Group. The Directors are of the view that by launching the digital microwave systems, the Group continues to tap into the wireless technology market which contributes to the success of the Group in the telecommunications industry.

LISTING RULES COMPLIANCE IN RESPECT OF THE CONTINUING CONNECTED TRANSACTIONS

As the percentage ratios in respect of the above Continuing Connected Transactions on an annual basis exceeds 2.5%, the above Continuing Connected Transactions will constitute non-exempt "continuing connected transactions" of the Company under the Listing Rules, Independent Shareholders' approval are proposed to be sought in respect of the Continuing Connected Transactions.

GENERAL

As at the date of this Announcement, Mr. Zheng owns 1,450,000 shares of the Company, representing approximately 0.17% of the issued share capital of the Company.

Mr. Zheng and his associates will abstain from voting at the EGM to be convened for this purpose. The votes of the Independent Shareholders in the EGM will be taken by poll.

A circular containing, among other things, details of the Continuing Connected Transactions, the advice of the IFA and the recommendation of the Independent Board Committee, together with a notice convening the EGM of the Company to approve the Continuing Connected Transactions subject to the New Cap will be dispatched to the Shareholders as soon as possible.

DEFINITIONS

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

“2004 Product Sales Agreement”	the agreement dated 1 March 2004 and entered into between Comba Systems Guangzhou and WaveLab Guangzhou relating to the sale of ODUs and other microwave transmission products for a period of three years from 1 March 2004 to 28 February 2007;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Comba Systems BVI”	Comba Telecom Systems Investments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company;
“Comba Systems Guangzhou”	Comba Telecom Systems (Guangzhou) Limited, a wholly foreign enterprise established under the laws of the PRC 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;
“Continuing Connected Transactions”	the Transactions which constitute continuing connected transactions of the Company;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened to approve the Continuing Connected Transactions subject to the New Cap;
“Existing Waiver”	the waiver granted by the Stock Exchange in relation to the Continuing Connected Transactions, which expired on 31 December 2006;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“IFA”	the independent financial advisers of the Company, being CIMB-GK Securities (HK) Limited;
“Independent Third Parties”	means parties not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates;

“Independent Shareholders”	Shareholders other than Mr. Zheng;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Macau”	Macau Special Administrative Region of the PRC;
“Mr. Zheng”	Mr. Zheng Guobao, an executive Director and a substantial shareholder and director of WaveLab Holdings;
“New Cap”	the maximum value of the Continuing Connected Transactions for each of the three years ending 31 December 2009 as set out in this announcement;
“New Product Sales Agreement”	the agreement dated 21 June 2007 and entered into between Comba Systems BVI and WaveLab Guangzhou relating to the sale of the Products;
“ODU(s)”	digital microwave outdoor units;
“PRC”	the People’s Republic of China (which for this purpose, shall not include Hong Kong, Macau and Taiwan);
“Products”	ODUs and such other products used in connection with microwave transmission as may be agreed in writing by Comba Systems BVI and WaveLab Guangzhou from time to time under the New Product Sales Agreement;
“Shareholder(s)”	holder(s) of shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Territory”	the PRC, Hong Kong and Macau;
“Transactions”	sale and purchase of the Products entered into between Comba Systems BVI and WaveLab Guangzhou from time to time under the New Product Sales Agreement;
“WaveLab Guangzhou”	波達通信設備(廣州)有限公司 (WaveLab Telecom Equipment (Guangzhou) Limited), a wholly foreign owned enterprise established under the laws of the PRC and an indirect subsidiary of WaveLab Holdings and an indirect subsidiary of the Company; and
“WaveLab Holdings”	WaveLab Holdings Limited, a company incorporated with limited liability in the Cayman Islands and an indirect subsidiary of the Company, indirectly owned as to 60% by the Company.

By order of the board of Directors
Chan Kai Leung, Clement
Executive Director and Company Secretary

Hong Kong, 21 June 2007

As at the date of this announcement, the board of directors of the Company comprises the following executive Directors: Mr FOK Tung Ling, Mr ZHANG Yue Jun, Mr CHAN Kai Leung, Clement, Mr WU Jiang Cheng, Mr YAN Ji Ci, Mr ZHENG Guo Bao and Mr YEUNG Pui Sang, Simon; and the following independent non-executive Directors: Mr YAO Yan, Mr LAU Siu Ki, Kevin and Mr LIU Cai.

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