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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 TRANSACTIONS

The Directors announce that on 1st March, 2004, Comba Systems Guangzhou and Comba Technology Guangzhou, both being wholly-owned subsidiaries of the Company, entered into the following transactions, both of which constitute connected transactions within the meaning of the Listing Rules:

1. the Equipment Sale Agreement entered into between Comba Technology Guangzhou and WaveLab Guangzhou, pursuant to which Comba Technology Guangzhou agreed to sell certain production equipment and materials to WaveLab Guangzhou at a cash consideration of approximately RMB3,995,180; and
2. the Product Sales Agreement entered into between Comba Systems Guangzhou and WaveLab Guangzhou, pursuant to which WaveLab Guangzhou agreed to sell the Products to Comba Systems Guangzhou and to grant Comba Systems Guangzhou the sole and exclusive right to sell the Products in the Territory for a term of three years expiring 28th February, 2007.

Mr. Zheng is a substantial shareholder and a director of WaveLab Holdings and a director of all 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, neither Mr. Zheng nor his associates has 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. WaveLab Guangzhou is a wholly foreign owned enterprise established in the PRC on 2nd January, 2004 and a wholly-owned subsidiary of WaveLab Holdings and is also, therefore, a connected person in relation to the Company under the Listing Rules.

The consideration payable by WaveLab Guangzhou to Comba Technology Guangzhou under the Equipment Sale Agreement does not exceed the higher of HK\$10 million and 3% of the Net Tangible Assets. Hence, the Equipment Sale Agreement 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.

In relation to the Product Sales Agreement and the Transactions to be entered into pursuant thereto, the Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements of Rule 14.26 of the Listing Rules such that the written approval of the Product Sales Agreement and the Transactions of Mr. Fok will be accepted in lieu of holding a physical shareholders' meeting. Further details concerning the terms of the Product Sales Agreement and the Transactions and the grounds and conditions on and subject to which the waiver has been granted by the Stock Exchange are set out below.

The Company will send a circular to shareholders containing, amongst other things, further information in relation to the Product Sales Agreement and the Transactions, an opinion from an independent financial adviser on the Product Sales Agreement and the Transactions and a letter from the independent board committee of the Company.

The Equipment Sale Agreement

Date: 1st March, 2004

Seller: Comba Technology Guangzhou

Purchaser: WaveLab Guangzhou

Price: Approximately RMB3,995,180

Payment: immediately following the signing of the Equipment Sale Agreement

The Equipment which consists of a number of equipment which is key production equipment required by WaveLab Guangzhou for its operations including bonding machines, materials and office furniture. The Equipment was purchased by Comba Technology Guangzhou in the second half of 2003 from various suppliers, all of whom were Independent Third Parties, at the aggregate price of approximately RMB3,995,180.

The Equipment was first purchased by Comba Technology Guangzhou in preparation for the establishment of WaveLab Guangzhou as a wholly foreign owned enterprise in the PRC. As WaveLab Guangzhou has now been established, Comba Technology Guangzhou is transferring the Equipment to WaveLab Guangzhou at cost.

Comba Technology Guangzhou is an indirect wholly-owned subsidiary of the Company. Mr. Zheng is a substantial shareholder and a director of WaveLab Holdings and a director of its subsidiaries, namely WaveLab Asia Holdings Limited, WaveLab Inc. and WaveLab

Guangzhou. 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.

On 2nd January, 2004, WaveLab Guangzhou was established as a wholly foreign owned enterprise in the PRC. WaveLab Guangzhou is principally engaged in the manufacture of microwave transmission equipment. It is a wholly-owned subsidiary of WaveLab Holdings and hence, is also an associate of Mr. Zheng and a connected person in relation to the Company within the meaning of the Listing Rules. The Equipment Sale Agreement constitutes a connected transaction of the Company under the Listing Rules.

However, as the consideration payable by WaveLab Guangzhou to Comba Technology Guangzhou under the Equipment Sale Agreement does not exceed the higher of (i) HK\$10 million and (ii) 3% of the Net Tangible Assets of HK\$692,222,000, the Equipment Sale Agreement 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.

The Directors (including the independent non-executive Directors) consider that the terms of the Equipment Sale Agreement, which have been negotiated on an arm's length basis in accordance with normal commercial terms, are fair and reasonable so far as the shareholders of the Company are concerned.

The Product Sales Agreement

Date:	1st March, 2004
Seller:	WaveLab Guangzhou
Purchaser:	Comba Systems Guangzhou
Products:	ODUs and such other products used in connection with microwave transmission as may be agreed between WaveLab Guangzhou and Comba Systems Guangzhou in writing from time to time
Price:	To be agreed between WaveLab Guangzhou and Comba Systems Guangzhou in writing from time to time in accordance with the Product Sales Agreement
Term:	Three years from 1st March, 2004 to 28th February, 2007, subject to the early termination provisions in the Product Sales Agreement

- Exclusivity: Comba Systems Guangzhou has the sole and exclusive right to sell the Products in the Territory during the term of the Product Sales Agreement
- Minimum purchase requirement: Comba Systems Guangzhou undertakes to purchase a minimum quantity of the Products from WaveLab Guangzhou in each year during the term of the Product Sales Agreement. The minimum purchase quantity for the calendar years 2004, 2005 and 2006 is 2,000 ODUs, 4,000 ODUs and 8,000 ODUs respectively.
- Termination: (a) Either party may terminate upon giving at least 30 days' notice in writing if the other party shall be in material breach of its obligations and such breach cannot be remedied. If the relevant breach can be remedied, either party may terminate upon giving at least 30 days' notice in writing if the other party shall fail to remedy such breach within 10 days after being notified in writing to do so; or
- (b) WaveLab Guangzhou may terminate if Comba Systems Guangzhou shall fail to fulfil its minimum purchase requirement in any year.

The Products to be sold by WaveLab Guangzhou to Comba Systems Guangzhou will initially include ODUs manufactured by WaveLab Guangzhou for use in microwave transmission in telecommunications systems. Comba Systems Guangzhou will purchase the ODUs from WaveLab Guangzhou which it will integrate with the indoor units manufactured by it and which it will then sell to its customers in the form of digital microwave systems. It is currently intended that most, if not all, of the Products acquired will be integrated with the products of Comba Systems Guangzhou.

WaveLab Guangzhou intends to complete the establishment of its production facilities and commence production and sale of the ODUs in the second quarter of 2004.

The price of the Products to be sold under the Product Sales Agreement will be agreed between Comba Systems Guangzhou 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. Prior to entering into the Product Sales Agreement, Comba Systems Guangzhou has not purchased any Products from any Independent Third Parties.

While there is an annual minimum purchase quantity, the Product Sales Agreement does not fix the quantity of the Products to be purchased over the term of the agreement. The actual quantity of the Products to be purchased by Comba Systems Guangzhou will depend on market demand.

The Directors, including the independent non-executive Directors, are of the opinion that the 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 Product Sales

Agreement are fair and reasonable and in the interests of the Company and its 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 Comba Systems Guangzhou from Independent Third Parties.

Comba Systems Guangzhou is a wholly-owned subsidiary of the Company and is principally engaged in the provision of integrated wireless coverage solutions and the sale of wireless coverage products. WaveLab Guangzhou is a wholly-owned subsidiary of WaveLab Holdings and is 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. The Product Sales Agreement constitutes a connected transaction of the Company under the Listing Rules.

Waiver from compliance with the Listing Rules

The Company has applied to the Stock Exchange for waiver from strict compliance with the requirements of Rule 14.26 of the Listing Rules such that the written approval of the Product Sales Agreement and the Transactions of Mr. Fok will be accepted in lieu of holding a physical shareholders' meeting on the following grounds:

- (a) the connected person having an interest in the Product Sales Agreement and the Transactions is Mr. Zheng. He is a connected person in relation to the Company only by reason of his shareholding and directorship in WaveLab Holdings and its subsidiaries. He has confirmed to the Company that he does not hold any shares in the Company. Except for WaveLab Holdings and its subsidiaries, neither Mr. Zheng nor his associates holds any other shareholding interest or directorship in the Company or any of its other subsidiaries;
- (b) Mr. Fok has a shareholding of approximately 54.58% in the Company and is its controlling shareholder within the meaning of the Listing Rules. Mr. Fok does not have any shareholding in WaveLab Holdings or any of its subsidiaries (except indirectly by virtue of his shareholding interest in the Company). Neither Mr. Fok nor his associates is interested as a connected person in the Product Sales Agreement and the Transactions. Hence, if the Product Sales Agreement and the Transactions were to be subject to the approval of the shareholders of the Company in general meeting, no shareholders of the Company, including Mr. Fok, would be required to abstain from voting at such general meeting. Hence, Mr. Fok would be able to ensure that such approval is granted; and
- (c) Mr. Fok has signed and delivered to the Company a written approval of the Product Sales Agreement and the Transactions.

The Directors anticipate that the total annual expenditure in respect of the Products to be purchased by Comba Systems Guangzhou pursuant to the Transactions for the financial year ending 31st December, 2004 and each of the two financial years thereafter will exceed HK\$10 million or 3% of the Group's latest consolidated audited net tangible assets of that financial year.

The Company has therefore applied to the Stock Exchange for a waiver from strict compliance with the requirements of Rule 14.26 of the Listing Rules in respect of the three financial years ending 31st December, 2006 subject to the following conditions:–

- (i) the Transactions will be:
 - (a) entered into in the ordinary and usual course of business of the Group;
 - (b) conducted on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities), or (where there is no sufficient comparable transactions to judge whether they are on normal commercial terms) on terms no less favourable to the Group than terms available to or from Independent Third Parties; and
 - (c) the Transactions will be in accordance with the Product Sales Agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
- (ii) the Company's independent non-executive Directors will review annually the Transactions and confirm, in the Company's annual report and accounts, that such Transactions have been conducted in the manner stated in paragraphs (i) and (vii) below;
- (iii) the Company's auditors will carry out review procedures annually on the Transactions and will provide a letter to the board of directors of the Company, with a copy of that letter to the Stock Exchange, confirming that the Transactions:–
 - (1) have received the approval of board of directors of the Company; and
 - (2) have been entered into in accordance with the Product Sales Agreement or on normal commercial terms in the ordinary course of the Group's business; and
 - (3) have been entered into within the proposed limits stated in paragraph (vii) below,

where, for whatever reason, the auditors of the Company decline to accept the engagement or are unable to provide the above letter, the Directors shall contact the Stock Exchange immediately;

- (iv) for the purpose of the review and reporting on the Transactions by the auditors referred to in paragraph (iii) above, the Company will, and will procure that WaveLab Guangzhou will, undertake to the Stock Exchange that the auditors will have sufficient access to their respective accounting records in respect of the Transactions;
- (v) the Directors shall state in Company's annual report whether the auditors of the Company have confirmed the matters as set out in paragraph (iii) above;

- (vi) details of the Transactions in each financial year as required under Rule 14.25(A) to (D) of the Listing Rules shall be disclosed in the annual report and accounts of the Company for that financial year together with a statement of the opinion of the independent non-executive Directors referred to in paragraph (ii) above; and
- (vii) the total annual expenditure in respect of the Products to be purchased by Comba Systems Guangzhou pursuant to the Transactions in the financial year ending 31st December, 2004, 31st December, 2005 and 31st December, 2006 will not exceed HK\$60 million, HK\$112 million and HK\$208 million respectively (the “**Cap Amounts**”).

The Cap Amounts were determined based on the Company’s discussions with its customers and assessment of market trend and demand. In calculating the Cap Amounts, the Company has also taken into account the minimum purchase quantity under the Product Sales Agreement and the estimated pricing of the Products.

In the event that any future amendments to the Listing Rules imposing more stringent requirements than as at the date of this announcement on transactions of the kind to which the Transactions belong, the Company shall take immediate steps to ensure compliance with such requirements within a reasonable time.

If the Company knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters as forth in paragraphs (ii) and/or (iii) respectively, the Company shall notify the Stock Exchange immediately and publish an announcement in newspapers in relation thereto.

In the event that any of the Cap Amounts is exceeded, or in the event of any future changes to the terms governing the relevant Transactions, the Company must strictly comply with the relevant provisions of Chapter 14 of the Listing Rules.

General

The Company and its subsidiaries are principally engaged in the provision of integrated wireless coverage solutions and the sale of wireless coverage products.

The Company will send a circular to shareholders containing, amongst other things, further information in relation to the Product Sales Agreement and the Transactions, an opinion from an independent financial adviser on the Product Sales Agreement and the Transactions and a letter from the independent board committee of the Company.

Definitions

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

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| “associate(s)” | has the meaning ascribed thereto under the Listing Rules; |
| “Comba Systems Guangzhou” | Comba Telecom Systems (Guangzhou) Limited, a wholly foreign owned enterprise established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company; |

“Comba Technology Guangzhou”	Comba Telecom Technology (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;
“Directors”	the directors of the Company;
“Equipment”	means various production equipment to be sold by Comba Technology Guangzhou to WaveLab Guangzhou pursuant to the Equipment Sale Agreement;
“Equipment Sale Agreement”	the agreement dated 1st March, 2004 and entered into between Comba Technology Guangzhou and WaveLab Guangzhou relating to the sale of the Equipment;
“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;
“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;
“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. Fok”	Mr. Fok Tung Ling, the controlling shareholder (as defined in the Listing Rules) of the Company and a Director;
“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 30th April, 2003 as set out in the section headed “Financial Information” of the prospectus dated 3rd July, 2003 issued by the Company and adjusted to take account of subsequent transactions in the manner described in Rule 14.04(6) of the Listing Rules;
“ODUs”	outdoor units;

“PRC”	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 Guangzhou and WaveLab Guangzhou from time to time under the Product Sales Agreement;
“Product Sales Agreement”	the agreement dated 1st March, 2004 and entered into between Comba Systems Guangzhou and WaveLab Guangzhou relating to the sale of the Products;
“RMB”	Renminbi yuan, the lawful currency of the PRC;
“sq.m.”	square metres;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the meaning ascribed thereto under the Listing Rules;
“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 Guangzhou and WaveLab Guangzhou from time to time under the Product Sales Agreement;
“US\$”	United States dollars, the lawful currency of the United States of America;
“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 a direct 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 51.75% by the Company as at the date of this announcement.

By order of the board
Mr. Fok Tung Ling
Chairman

Hong Kong, 1st March, 2004

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