

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Comba Telecom Systems Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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

CONNECTED TRANSACTIONS

Independent financial adviser to the Independent Board Committee



A letter from the Board is set out on pages 5 to 11 of this circular. A letter from the Independent Board Committee is set out on page 12 of this circular.

A letter from Access Capital, the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee is set out on pages 13 to 19 of this circular.

23 March 2004

CONTENTS

	<i>Pages</i>
Definitions	1
Letter from the Board	5
Letter from the Independent Board Committee	12
Letter from Access Capital	13
Appendix – General Information	20

DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

“Access Capital”	Access Capital Limited, a deemed licensed corporation under the SFO for engaging in Type 1 (dealings in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities for the purpose of the SFO and the independent financial adviser to the Independent Board Committee
“Announcement”	the announcement dated 1 March 2004 issued by the Company containing, amongst others, details of the Product Sales Agreement and the Transactions
“associate(s)”	has the same meaning as ascribed thereto in the Listing Rules
“Board”	the board of Directors
“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 with limited liability, the shares of which are listed on the Stock Exchange
“controlling shareholder”	has the same meaning as ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	An independent committee of the Board comprising Messrs. Yao Yan, Lau Siu Ki, Kevin and Liu Cai, the independent non-executive Directors, appointed by the Board for the purpose of advising the Independent Shareholders in relation to the Product Sales Agreement and the Transactions
“Independent Shareholders”	Shareholders of the Company that are not interested in the Product Sales Agreement and the Transactions
“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
“Latest Practicable Date”	22 March 2004, being the latest practicable date prior to printing of this circular for ascertaining certain information contained herein
“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 of the Company and a Director
“Mr. Zhang”	Mr. Zhang Yue Jun, a substantial shareholder of the Company and a Director
“Mr. Zheng”	Mr. Zheng Guobao, a substantial shareholder and director of WaveLab Holdings
“ODUs”	outdoor units
“PRC”	People’s Republic of China (which for the purpose of this circular, shall not include Hong Kong, Macau and Taiwan)
“Prime Choice”	Prime Choice Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 22 April 2002 which is wholly owned by Mr. Fok

DEFINITIONS

“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 1 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the same meaning as ascribed thereto under the Listing Rules
“Territory”	the PRC, Hong Kong and Macau
“Total Master”	Total Master Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 22 April 2002 which is wholly owned by Mr. Fok
“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
“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
“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 Latest Practicable Date

DEFINITIONS

“Wise Logic” Wise Logic Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 22 April 2002 which is wholly owned by Mr. Zhang

“%” per cent

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese versions shall prevail.

For the purpose of this circular, translations of HK\$ into RMB or vice versa have been calculated by using an exchange rate of HK\$1.00 = RMB1.06

LETTER FROM THE BOARD



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

Executive Directors:

Fok Tung Ling (*Chairman*)
Zhang Yue Jun
Chan Kai Leung, Clement
Wu Jiang Cheng
Yan Ji Ci

Independent non-executive Directors:

Yao Yan
Lau Siu Ki, Kevin
Liu Cai

Registered Office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Cayman Islands
British West Indies

*Head Office and principal place of
business in Hong Kong:*

1503-1510, Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

23 March 2004

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS

INTRODUCTION

It was announced on 1 March 2004 that Comba Systems Guangzhou, a wholly-owned subsidiary of the Company, entered into the Product Sales Agreement with 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 on 28 February 2007.

The Product Sales Agreement constitutes a connected transaction, and the Transactions to be entered pursuant thereto will constitute ongoing connected transactions of the Company within the meaning of the Listing Rules.

LETTER FROM THE BOARD

The Independent Board Committee has been formed to review and consider the Product Sales Agreement and the Transactions. Access Capital has been appointed to advise the Independent Board Committee regarding the Product Sales Agreement and the Transactions.

The purpose of this circular is to provide you with further details of the Product Sales Agreement and the Transactions, to set out the recommendation of the Independent Board Committee to the Independent Shareholders and the opinion of Access Capital in respect of the terms and conditions of the Product Sales Agreement and the Transactions.

THE PRODUCT SALES AGREEMENT

Date: 1 March 2004

Parties: (i) WaveLab Guangzhou as the vendor
(ii) Comba Systems Guangzhou as the purchaser

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

The price of the Products sold under the Product Sales Agreement will be agreed between Comba Systems Guangzhou and WaveLab Guangzhou in writing based on the prevailing market rates and will, depending on market conditions, change from time to time over the term of the Product Sales 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.

Term

Three years from 1 March 2004 to 28 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.

LETTER FROM THE BOARD

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. 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.

Termination

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. WaveLab Guangzhou may also terminate if Comba Systems Guangzhou shall fail to fulfill its minimum purchase requirement in any year.

REASONS FOR THE TRANSACTIONS

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

Comba Systems Guangzhou is an indirect wholly-owned subsidiary of the Company and is principally engaged in the above-described business.

WaveLab Holdings and its subsidiaries are principally engaged in the research and development of ODUs for microwave transmission in telecommunication systems. The research and development of certain models of ODUs have now reached an advanced stage and they are ready for commercial production through WaveLab 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.

As mentioned in the prospectus of the Company dated 3 July 2003, the Directors intend to tap into other potential areas of wireless technology by enlarging and expanding its current product portfolio. With the launch of this new microwave transmission technology which the Group will integrate with its indoor units, the Group would like to expand its product portfolio by launching the DMS (digital microwave systems) product series.

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 integrate these ODUs with its indoor units and then sell the integrated products 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.

LETTER FROM THE BOARD

Prior to entering into the Product Sales Agreement, Comba Systems Guangzhou has not purchased any Products from any Independent Third Parties.

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 the Shareholders as a whole. The Directors, including the independent non-executive Directors, are also of the view that the terms and conditions of the Product Sales Agreement and the Transactions are fair and reasonable as far as the Independent Shareholders are concerned.

CONNECTED TRANSACTIONS

Mr. Zheng has a shareholding of more than 30% in WaveLab Holdings and he is also a director of WaveLab Holdings and its three wholly-owned subsidiaries, namely WaveLab Inc., WaveLab Asia Holdings Limited and WaveLab Guangzhou. Hence, by reason of both his shareholding interest and directorship in WaveLab Holdings and its three subsidiaries, Mr. Zheng is a connected person in relation to the Company within the meaning of the Listing Rules. As WaveLab Guangzhou is a wholly-owned subsidiary of WaveLab Holdings, WaveLab Guangzhou is also an associate (as defined in the Listing Rules) of Mr. Zheng and is also therefore, a connected person in relation to the Company within the meaning of the Listing Rules.

Given that WaveLab Guangzhou is a connected person in relation to the Company within the meaning of the Listing Rules as described above and it is expected 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 31 December 2004 and each of the two financial years thereafter ending 31 December 2006 will exceed HK\$10 million or 3% of the Group's latest consolidated audited net tangible assets of that financial year, the Product Sales Agreement constitutes a connected transaction, and the Transactions will constitute ongoing connected transactions, of the Company under the Listing Rules and are subject to the disclosure requirements and the Independent Shareholders' approval in general meeting under Rule 14.26 of the Listing Rules.

Neither Mr. Zheng nor any of his associates holds any shareholding interest or directorship in the Company. Since none of the Shareholders has any interest in the Product Sales Agreement and the Transactions, no Shareholders, including Mr. Fok, would be required to abstain from voting if a general meeting of the Shareholders has to be convened to approve the Product Sales Agreement and the Transactions. Mr. Fok, the controlling shareholder of the Company holding approximately 54.58% interest in the entire issued share capital of the Company and being one of the Independent Shareholders, has given written approval to approve the Product Sales Agreement and the Transactions.

LETTER FROM THE BOARD

APPLICATION FOR THE WAIVER

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 favourable terms than those available to Comba Systems Guangzhou from Independent Third Parties.

The Directors consider the Transactions will be of a recurring nature and it would be too costly, impracticable and unduly burdensome for the Company to a make regular disclosure of, and/or, where it is required under the Listing Rules, obtain approval from the Independent Shareholders for, the Transactions. Therefore, 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 in respect of the three financial years ending 31 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

LETTER FROM THE BOARD

- (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 31 December 2004, 31 December 2005 and 31 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 the granting of the waiver 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 set 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.

LETTER FROM THE BOARD

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.

RECOMMENDATION

Access Capital has been appointed to advise the Independent Board Committee with regard to the Product Sales Agreement and the Transactions. Access Capital is of the view that the terms of the Product Sales Agreement and the Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company. Access Capital also considers that the basis of determining the Cap Amounts for the Transactions for each of the three years ending 31 December 2006 is fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, Access Capital has advised the Independent Board Committee to recommend to the Independent Shareholders to accept and approve the Product Sales Agreement and the Transactions.

The Independent Board Committee, having taken into account the advice of Access Capital, considers the terms of the Product Sales Agreement and the Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company.

Your attention is drawn to the letter from the Independent Board Committee set out on page 12 and the letter from Access Capital to the Independent Board Committee set out on pages 13 and 19 of this circular.

Your attention is also drawn to the additional information set out in the Appendix.

Yours faithfully,
For and on behalf of
Comba Telecom Systems Holdings Limited
Fok Tung Ling
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

23 March 2004

To the Independent Shareholders

Dear Sir and Madam,

CONNECTED TRANSACTIONS

We refer to the circular to the Shareholders of the Comba Telecom Systems Holdings Limited dated 23 March 2004 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

We have been appointed by the Board to consider the Product Sales Agreement and the Transactions and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Product Sales Agreement and the Transactions. Access Capital has been appointed to advise the Independent Board Committee regarding the terms of the Product Sales Agreement and the Transactions. Details regarding the Product Sales Agreement and the Transactions are set out in the "Letter from the Board" on pages 5 to 11 of the Circular.

Having taken into account the advice and recommendation of Access Capital contained in its letter set out on pages 13 to 19 of the Circular, we consider that the terms of the Product Sales Agreement and the Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company. We also consider that the basis of determining the Cap Amounts for the Transactions for each of the three years ending 31 December 2006 is fair and reasonable so far as the Independent Shareholders are concerned.

Yours faithfully,

The Independent Board Committee
Yao Yan Lau Siu Ki, Kevin Liu Cai
Independent non-executive Directors

LETTER FROM ACCESS CAPITAL

The following is the text of a letter of advice to the Independent Shareholders from Access Capital dated 23 March 2004 prepared for incorporation in this circular.



Suite 606
6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

23 March 2004

To: *The Independent Board Committee of
Comba Telecom Systems Holdings Limited*

Dear Sirs,

CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee with regard to the terms of the connected transactions in relation to the Product Sales Agreement and the Transactions contemplated thereunder, details of which are contained in the “Letter from the Board” set out on pages 5 to 11 of a circular to the Shareholders dated 23 March 2004 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meaning as defined in the Circular, unless the context otherwise specifies.

Given that WaveLab Guangzhou is a connected person in relation to the Company within the meaning of the Listing Rules as described in the “Letter from the Board” and the Board expects 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 31 December 2004 and each of the two financial years thereafter ending 31 December 2006 will exceed HK\$10 million or 3% of the Group’s latest consolidated audited net tangible assets of that financial year, the Product Sales Agreement constitutes a connected transaction, and the Transactions will constitute ongoing connected transactions, of the Company under the Listing Rules.

LETTER FROM ACCESS CAPITAL

As stated in the “Letter from the Board”, since none of the Shareholders has any interest in the Product Sales Agreement and the Transactions, no Shareholders, including Mr. Fok, would be required to abstain from voting if a general meeting of the Shareholders has to be convened to approve the Product Sales Agreement and the Transactions. Mr. Fok, the controlling shareholder of the Company holding approximately 54.58% interest in the entire issued share capital of the Company and being one of the Independent Shareholders, has given written approval to approve the Product Sales Agreement and the Transactions.

II. WAIVER APPLICATION AND THE INDEPENDENT BOARD COMMITTEE

The Board is currently comprised of (i) five executive Directors, being Messrs. Fok Tung Ling, Zhang Yue Jun, Chan Kai Leung, Clement, Wu Jiang Cheng and Yan Ji Ci; and (ii) three independent non-executive Directors, being Messrs. Yao Yan, Lau Siu Ki, Kevin and Liu Cai.

An Independent Board Committee comprising Messrs. Yao Yan, Lau Siu Ki, Kevin and Liu Cai, has been established to consider the terms of the Product Sales Agreement and the Transactions.

We have been appointed by the Independent Board Committee to advise them as to whether the terms of the Product Sales Agreement and the Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion in relation to the Product Sales Agreement and the Transactions for the Independent Board Committee’s consideration in making their recommendation to the Independent Shareholders.

III. BASES OF THE OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

LETTER FROM ACCESS CAPITAL

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. **Background to the Product Sales Agreement and the Transactions, and reasons for the application for a waiver**

1.1 Background to the Product Sales Agreement and the Transactions

The Group is principally engaged in the provision of integrated wireless coverage solutions and the sale of wireless coverage products. In January 2003 (prior to the listing of the Shares on the Stock Exchange), the Group acquired a 39.21% interest in WaveLab Holdings, a company specialising in the research and development of ODUs for microwave transmission in telecommunication systems. Further, in December 2003, the Group increased its equity interest in WaveLab Holdings to 51.75%.

According to the Company's business plan as stated in its prospectus dated 3 July 2003, it is the Group's intention to tap into other potential areas of wireless technology by enlarging and expanding its current product portfolio.

With the expected commercial launch of the new microwave transmission equipment produced by WaveLab Guangzhou, an indirect wholly owned subsidiary of WaveLab Holdings (which in turn is an indirect non wholly-owned subsidiary of the Company) in the second quarter of 2004 as described in the "Letter from the Board", the Group wishes to apply such new products/technology by integrating the same with its indoor devices with an objective to expand the Group's product portfolio by launching the DMS (digital microwave systems) product series.

Given their specifications and the quality, the Products will constitute an essential component for the Group's new DMS product series. The Group, therefore, negotiated with WaveLab Guangzhou with a view to secure an exclusive supply of the Products at prices that are no less favourable than terms to be offered by WaveLab Guangzhou to Independent Third Parties and terms available to Comba

LETTER FROM ACCESS CAPITAL

Systems Guangzhou from Independent Third Parties. As a result, the Product Sales Agreement was entered into between WaveLab Guangzhou and Comba Systems Guangzhou.

Having taken into account the reasons stated above, we are of the view that it is reasonable for the Group to enter into the Product Sales Agreement and the Transactions with WaveLab Guangzhou.

1.2 Reasons for application for a waiver

As the Transactions will continue to occur in the ordinary course of business and on normal commercial terms for the financial year ending 31 December 2004 and thereafter, the Company has applied to the Stock Exchange for (i) a waiver from strict compliance with the disclosure and shareholders' approval requirements of the Listing Rules regarding the Transactions, and (ii) for the cap amounts for the Transactions ("Cap Amounts") for each of the three financial years ending 31 December 2006 not exceeding an amount as stated in the section headed "Application of the waiver" in the "Letter from the Board".

We believe that obtaining a waiver from strict compliance with the disclosure and shareholders' approval requirements with respect to the Transactions from the Stock Exchange is a practical solution for the Company to permit it to comply with the Listing Rules.

2. Terms of the Product Sales Agreement and the Transactions as well as the commercial justification for determining the Cap Amounts

2.1 Terms of the Product Sales Agreement and the Transactions

2.1.1 Pricing basis and payment terms

Given the DMS product series are an extension to the Group's current product portfolio, the Group has not purchased any products/technology comparable to the new microwave transmission equipment to be produced by WaveLab Guangzhou from any Independent Third Parties and integrated the same in the Group's indoor devices.

According to the Product Sales Agreement, the price of the Products is to be (i) agreed between WaveLab Guangzhou and Comba Systems Guangzhou in writing from time to time based on the then prevailing market rates of the Products; and (ii) offered on normal commercial terms that are no less favourable than terms to be offered by WaveLab Guangzhou to Independent Third Parties and terms available to Comba Systems Guangzhou from Independent Third Parties.

LETTER FROM ACCESS CAPITAL

On the basis of the abovementioned factors, the Directors, including the independent non-executive Directors, are of the opinion that the terms of the Product Sales Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have discussed with the Directors about the market prices of some of the products/technology currently available and comparable to the new microwave transmission equipment to be produced by WaveLab Guangzhou from any Independent Third Parties. We have also sought confirmation from the Directors that the specifications and quality of the Products to be produced by WaveLab Guangzhou are comparable with those currently available from Independent Third Parties. Taking into account the aforesaid background and confirmation from the Directors, we concur with the view of the Directors that the purchases to be made under the Transactions appear to be normal commercial arrangements between the Group and WaveLab Holdings, the terms of which are reasonable and in the interests of the Independent Shareholders and will be conducted on terms no less favourable than terms to be offered by WaveLab Guangzhou to Independent Third Parties and terms available to Comba Systems Guangzhou from Independent Third Parties.

2.1.2 Minimum annual purchase quantity

Comba Systems Guangzhou has been granted by WaveLab Guangzhou the sole and exclusive rights to sell the Products in the Territory during the terms of the Product Sales Agreement at a minimum annual purchase quantity of the Products for each of the three calendar years (i.e. 2,000 ODUs for 2004, 4,000 ODUs for 2005 and 8,000 ODUs for 2006). In determining the minimum annual purchase quantity, the Company has had discussions with the Group's existing and potential customers and conducted assessment on the market trend and demand for the Group's products in the coming years. As confirmed by the Directors, whilst there is a minimum purchase quantity prescribed under the Product Sales Agreement for each year over the term of the agreement, the actual quantity of the Products to be purchased by Comba Systems Guangzhou over the term of the Product Sales Agreement has not been fixed and will depend on market demand. Accordingly, we believe such term provides maximum flexibility of the Group to enjoy on the one hand the benefit of exclusive supply of the Products and on the other hand the option to source comparable products/technology from Independent Third Parties.

Having taken into account the reasons stated above, the Directors, including the independent non-executive Directors, are of the view that the minimum annual purchase quantity are fair and reasonable as far as the Independent Shareholders are concerned. We have discussed with the Directors the estimated purchases of the Products and the estimated demand of the DMS products (prepared by the Group based on the discussions with its existing and potential customers) in the coming years, and concluded the amount of minimum annual purchase quantity is acceptable.

LETTER FROM ACCESS CAPITAL

2.2 For the Cap Amounts

According to the Company, the Cap Amounts were determined with reference to the following factors:

- discussions with the Group's existing and potential customers (including mobile operators in the PRC and system integrators who may purchase the DMS products) with regard to their estimated growth of the PRC wireless coverage market in order to enable the Group to ascertain the estimated demand for the Group's products in coming years;
- assessment of the market trend and the overall demand for microwave transmission products (in particular, as broadband services and applications are becoming more and more popular in the PRC, it is logical to anticipate that demand for DMS products, which can enhance transmission speed and volume, will also increase) and the management's expectation of the growth of the wireless communications industry especially when new mobile and 3G licences are granted;
- the minimum annual purchase quantity as prescribed under the Product Sales Agreement; and
- the estimated pricing trend of the Products.

Having considered the abovementioned factors and our discussion with the Directors, in particular, in relation to (i) the market trend for microwave transmission products; (ii) the estimated demand for the Group's DMS products; (iii) the estimated purchases of the Products; and (iv) the estimated prices of the Products, we are of the view that the annual purchase amount for the Transactions for each of the financial year ending 31 December 2006 is justifiable. Accordingly, we concur with the view of the Directors and consider that the basis of determining the Cap Amounts for the Transactions for each of the three years ending 31 December 2006 is fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that the Cap Amounts will be subject to certain conditions as set out under the section headed "Application for the waiver" in the "Letter from the Board". We have discussed with the Company and noted that adequate internal control measures are in place to monitor the amount of purchases from WaveLab Guangzhou will not exceed the relevant Cap Amount for the year.

V. RECOMMENDATION

Having considered the above principal factors being (i) the background to the Product Sales Agreement and the Transactions and reasons for the waiver application; and (ii) the terms of the Product Sales Agreement and the Transactions and commercial justification for determining the Cap Amounts, we are of the view that the terms of the Product Sales Agreement and the Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company.

LETTER FROM ACCESS CAPITAL

Furthermore, in relation to compliance with the conditions set out in the section headed “Application for the waiver” in the “Letter from the Board”, the Directors confirm that the auditors of the Company shall review the Transactions and confirm that the terms of the Transactions have received the approval of the Board, 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 that the Transactions have been entered into within the Cap Amounts. In addition, in order to comply with this condition, the Directors confirm that the auditors of the Company will have sufficient access to the books and records of the Company and WaveLab Guangzhou for the purpose of the auditors’ review of the Transactions. On this basis, we believe that the aforesaid condition and right to access have been given in the interests of the Shareholders and provide additional safeguards to the Company.

Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to accept and approve the Product Sales Agreement and the Transactions.

Yours faithfully,
For and on behalf of
ACCESS CAPITAL LIMITED
Jeanny Leung
Managing Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company are deemed or taken to have under such provisions of the SFO) or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules were as follows:–

Interests and short positions in the shares, underlying shares and debentures of the Company*Long position in the Shares*

Name of Directors	<i>Notes</i>	Capacity/Nature of interests	Number of Shares held	Approximately % of shareholding
Mr. Fok	(i)	Interest of controlled corporations	453,000,000	54.58
Mr. Zhang	(ii)	Interest of a controlled corporation	117,000,000	14.10

Notes:

- (i) 390,000,000 Shares and 63,000,000 Shares are beneficially owned by Prime Choice and Total Master, respectively. By virtue of his 100% shareholding in each of Prime Choice and Total Master, Mr. Fok is deemed or taken to be interested in a total of 453,000,000 Shares owned by Prime Choice and Total Master.
- (ii) These Shares are beneficially owned by Wise Logic. By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 117,000,000 Shares owned by Wise Logic.

Long position in the underlying Shares

Name of Directors	Notes	Capacity/Nature of interests	Share options granted under the share option scheme of the Company adopted on 20 June 2003			Number of Shares in respect of share options outstanding as at the Latest Practicable Date
			Date of grant	Exercise price (HK\$)	Exercise period	
Chan Kai Leung, Clement	(1)	Beneficial owner	15 July 2003	2.25	15 July 2004 – 14 July 2008	2,000,000
Wu Jiang Cheng	(2)	Beneficial owner	15 July 2003	2.25	15 July 2004 – 14 July 2008	2,000,000
Yan Ji Ci	(3)	Beneficial owner	15 July 2003	2.25	15 July 2004 – 14 July 2008	2,000,000

Notes:

- (1) Pursuant to the share option scheme of the Company adopted on 20 June 2003 (the “Share Option Scheme”), Mr. Chan Kai Leung, Clement was granted options to subscribe for a total of 2,000,000 Shares.
- (2) Pursuant to the Share Option Scheme, Mr. Wu Jiang Cheng was granted options to subscribe for a total of 2,000,000 Shares.
- (3) Pursuant to the Share Option Scheme, Mr. Yan Ji Ci was granted options to subscribe for a total of 2,000,000 Shares.
- (b) Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.
- (c) The following contracts were entered into by members of the Group within two years preceding the date of this circular:
- (1) a deed of assignment dated 20 June 2003 made between Comba Telecom Systems Limited (“**Comba Hong Kong**”), Praises Holdings Limited (“**Praises Holdings**”) and Mr. Fok pursuant to which Mr. Fok assigned the rights to and benefits of the shareholder’s loan in the amount of HK\$37,200,000 owed to him by Comba Hong Kong to Praises Holdings in consideration of the allotment and issue of 8 shares of US\$1.00 each by Praises Holdings to Mr. Fok;

- (2) a deed of assignment dated 20 June 2003 made between Comba Hong Kong, Praises Holdings and Mr. Zhang pursuant to which Mr. Zhang assigned the rights to and benefits of the shareholder's loan in the amount of HK\$9,300,000 owed to him by Comba Hong Kong to Praises Holdings in consideration of the allotment and issue of 2 shares of US1.00 each by Praises Holdings to Mr. Zhang;
- (3) a subscription and deferral agreement dated 20 June 2003 made between Praises Holdings, Mr. Fok and Mr. Zhang pursuant to which (i) in consideration of the allotment and issue of 64 shares and 16 shares by Praises Holdings to Mr. Fok and Mr. Zhang, respectively, Mr. Fok and Mr. Zhang agreed to procure creation of 2 shares of HK\$1.00 each, to allot and issue the same for cash at par as to one share to Praises Holdings and one share to Mr. Fok (as nominee for Praises Holdings), and to convert the 10,000 shares of HK\$1.00 each in the share capital of Comba Hong Kong in issue prior to the allotment and issue of such 2 new shares and held as to 8,000 shares by Mr. Fok and 2,000 shares by Mr. Zhang into non-voting deferred shares (the "**Deferred Shares**"); (ii) in consideration of HK\$1.00 paid by Praises Holdings to Mr. Fok, Mr. Fok agreed to grant an option to Praises Holdings to require him to sell the Deferred Shares held by him to Praises Holdings at a consideration of HK\$1.00; and in consideration of HK\$1.00 paid by Praises Holdings to Mr. Zhang, Mr. Zhang agreed to grant an option to Praises Holdings to require him to sell the Deferred Shares held by him to Praises Holdings at a consideration of HK\$1.00;
- (4) a reorganization agreement dated 20 June 2003 made between the Company, Mr. Fok, Mr. Zhang, Prime Choice, Total Master, Wise Logic and Comba Telecom Systems Investments Limited ("**Comba BVI**") pursuant to which, among other things, the Company acquired the entire issued capital of Comba BVI from Prime Choice, Total Master and Wise Logic in consideration of the allotment and issue of 649 Shares, 149 Shares and 199 Shares, all credited as fully paid, by the Company to Prime Choice, Total Master and Wise Logic, respectively, and the crediting as fully paid of the three nil paid Shares previously transferred or, as the case may be, allotted and issued to Prime Choice, Total Master and Wise Logic, respectively; and
- (5) a deed of indemnity dated 2 July 2003 executed by Mr. Fok, Mr. Zhang, Prime Choice, Total Master and Wise Logic in favour of the Group containing certain estate duty and properties indemnities.

Save as disclosed above,

- (i) none of the Directors is materially interested in any contract or arrangement with any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group; and

- (ii) since 30 April 2003 (being the date to which the latest audited financial statements of the Group were made up), none of the Directors has any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to or by any member of the Group, or which are proposed to be acquired or disposed of or leased to or by any member of the Group.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital:

Name	Notes	Capacity/Nature of interest	Number and class of securities	Approximate % of shareholding
Prime Choice		Beneficial owner	390,000,000 Shares	46.99
Total Master		Beneficial owner	63,000,000 Shares	7.59
Mdm. Chen Jing Na	(a)	Interest of spouse	453,000,000 Shares	54.58
Wise Logic		Beneficial owner	117,000,000 Shares	14.10
Mdm. Cai Hui Ni	(b)	Interest of spouse	117,000,000 Shares	14.10
Mr. Zheng	(c)	Beneficial owner in WaveLab Holdings	320 shares	38.60
	(d)	Indirect interest in WaveLab, Inc.	One common stock	100
	(e)	Indirect interest in WaveLab Asia Holdings Limited	One share	100
	(f)	Indirect interest in WaveLab Guangzhou	N/A	100

Notes:

- (a) Mdm. Chen Jing Na is the wife of Mr. Fok and is deemed to be interested in the 453,000,000 Shares in which Mr. Fok is deemed or taken to be interested for the purposes of the SFO.
- (b) Mdm. Cai Hui Ni is the wife of Mr. Zhang and is deemed to be interested in the 117,000,000 Shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.
- (c) WaveLab Holdings is an indirect non wholly-owned subsidiary of the Company, owned as to 51.75% by the Company. Mr. Zheng is interested in 38.60% of the issued capital of WaveLab Holdings.
- (d) WaveLab, Inc. is a wholly-owned subsidiary of WaveLab Holdings and is therefore an indirect non wholly-owned subsidiary of the Company. By virtue of his interests in WaveLab Holdings as mentioned in Note (c) above, Mr. Zheng is taken to be interested in the one share in WaveLab owned by WaveLab Holdings.
- (e) WaveLab Asia Holdings Limited is a wholly-owned subsidiary of WaveLab Holdings and is therefore an indirect non wholly-owned subsidiary of the Company. By virtue of his interests in WaveLab Holdings as mentioned in Note (c) above, Mr. Zheng is taken to be interested in the one share in WaveLab Asia Holdings Limited owned by WaveLab Holdings.
- (f) WaveLab Guangzhou is a wholly foreign-owned enterprise established in the PRC on 2 January 2004. It is a wholly-owned subsidiary of WaveLab Asia Holdings Limited and is therefore an indirect non wholly-owned subsidiary of the Company. By virtue of his interests in WaveLab Asia Holdings Limited as mentioned in Note (e) above, Mr. Zheng is taken to be interested in the entire equity interest in WaveLab Guangzhou owned by WaveLab Asia Holdings Limited.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the persons or companies (not being a Director or chief executive of the Company) had or was deemed to have any interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 April 2003, the date to which the latest published audited consolidated accounts of the Group were made up.

SERVICE CONTRACT

Each of Mr. Fok, Mr. Zhang, Mr. Chan Kai Leung, Clement, Mr. Wu Jiang Cheng and Mr. Yan Ji Ci, being all the executive Directors, has entered into a service agreement with the Company for an initial term of three years commencing from 1 July 2003, and will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other. Each of the executive Directors is entitled to a basic salary which will be reviewed at the discretion of the board of Directors after he has completed 12 months of service. Each of the executive Directors is also entitled to a discretionary bonus, payable at the absolute discretion of the Board, in each financial year. The current

basic annual salary of Mr. Fok, Mr. Zhang, Mr. Chan Kai Leung, Clement, Mr. Wu Jiang Cheng and Mr. Yan Ji Ci is HK\$1,950,000, HK\$1,560,000, HK\$1,105,000, HK\$1,170,000 and HK\$1,001,000 respectively.

Save as disclosed above, none of the Directors has entered into or is proposing to enter into any service contract with any member of the Group other than contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiary was engaged in any litigation or arbitration of material importance and so far as the Directors are aware, no litigation or claims of material importance were pending or threatened by or against the Company or any of its subsidiary.

QUALIFICATIONS

The qualification of the expert who has given opinion in this circular and whose name is included in this circular is as follows:

Name	Qualification
Access Capital	Access Capital, the independent financial adviser appointed to advise the Independent Board Committee in connection with the Product Sales Agreement and the Transactions, a deemed licensed corporation under the SFO for engaging in Type 1 (dealings in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities for the purpose of the SFO

CONSENT

Access Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name included herein in the form and context in which they respectively included.

As at the Latest Practicable Date, Access Capital did not have any shareholding interest in any member of the Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which have been, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 30 April 2003 (being the date to which the latest audited financial statements of the Group were made up).

MISCELLANEOUS

- (a) (i) The head office and principal place of business of the Company in Hong Kong is at 1503-1510, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.
 - (ii) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Cayman Islands, British West Indies.
 - (iii) The principal share registrar and transfer office of the Company in the Cayman Islands is Bank of Butterfield International (Cayman) Ltd. at Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands, British West Indies.
 - (iv) The branch share registrars and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (b) The secretary of the Company is Chan Kai Leung, Clement, a member of the Institute of Chartered Accountants in England and Wales and an associate of the Hong Kong Society of Accountants.
- (c) The English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 1503-1510, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong up to and including 7 April 2004:

- (a) the Product Sales Agreement;
- (b) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 12 of this circular;
- (c) the letter of advice from Access Capital to the Independent Board Committee, the text of which is set out on pages 13 to 19 of this circular; and
- (d) the written consent referred to in the paragraph headed "Consent" in this appendix.