
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 what action to take, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other independent professional advisers.

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

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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 (ODU TRANSACTIONS
AND DIPLEXER TRANSACTIONS)
AND
CONNECTED TRANSACTION (LOAN TO A NON-WHOLLY OWNED SUBSIDIARY)**

**Independent financial adviser to the independent board committee
and the independent shareholders of the Company**



A notice convening an extraordinary general meeting of Comba Telecom Systems Holdings Limited to be held at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong on 9 September 2008 at 3:00 p.m. is set out on pages 25 to 26 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude shareholders from attending and voting in person at the meeting should they so desire.

A letter from the Board is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee is set out on page 11 of this circular.

A letter from Access Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 20 of this circular.

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DEFINITIONS

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

“Access Capital”	Access Capital Limited, a licensed corporation to conduct type 1 (securities dealing), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and Independent Shareholders
“associates”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Borrower”	WaveLab Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and an indirect subsidiary of the Company, in which the Company has an indirect 60% shareholding
“Comba Systems BVI”	Comba Telecom Systems Investments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Company”	Comba Telecom Systems Holdings Limited (京信通信系統控股有限公司), a company incorporated under the laws of the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Diplexer Agreement”	the agreement dated 1 August 2008 between Comba Systems BVI and WaveLab Holdings relating to the sale of the Diplexer Products by Comba Systems BVI or its subsidiaries (excluding WaveLab Holdings and its subsidiaries) to WaveLab Holdings or its subsidiaries
“Diplexer Cap”	the annual cap of the Diplexer Transactions to be entered into for each of the three financial years ending 31 December 2010 as set out in this circular
“Diplexer Products”	diplexers and such other components used in the manufacture of ODU and such other products used in connection with microwave transmission as may be agreed by Comba Systems BVI and WaveLab Holdings in writing from time to time
“Diplexer Transactions”	the sale of Diplexer Products under Diplexer Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held for the approving, amongst other things, Extension Agreement, Diplexer Agreement, ODU Revised Cap, Diplexer Cap and Loan Agreement
“Existing Loans”	the two loans of aggregate principal amounts of US\$5,500,000 (equivalent to approximately HK\$42,900,000) drawn by the Borrower under two loan agreements between the Borrower and the Lender dated 18 July 2007 and 25 June 2008
“Extension Agreement”	the agreement dated 1 August 2008 between Comba Systems BVI and WaveLab Guangzhou relating to the extension of the term of the ODU Agreement
“Group”	the Company and its subsidiaries

DEFINITIONS

“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all the three independent non-executive directors established by the Board for the purpose of advising the Independent Shareholders in relation to the ODU Transactions, ODU Revised Cap, Diplexer Transactions, Diplexer Cap and the Loan
“Independent Shareholders”	Shareholders other than Mr. Zheng and his associates
“Independent Third Parties”	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”	19 August 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Lender”	Cascade Technology Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the loan in principal amount of up to US\$3,000,000 (equivalent to approximately HK\$23,400,000) which the Lender has agreed to make available for the Borrower under the Loan Agreement
“Loan Agreement”	the agreement dated 1 August 2008 between the Borrower and the Lender in relation to the Loan
“Mr. Zheng”	Mr. Zheng Guo Bao, an executive Director and a Shareholder of the Company; and a substantial shareholder of WaveLab Holdings
“ODU(s)”	digital microwave outdoor unit(s)
“ODU Agreement”	the agreement dated 21 June 2007 between Comba Systems BVI and WaveLab Guangzhou relating to the sale of the ODU Products by WaveLab Guangzhou to Comba Systems BVI or its subsidiaries
“ODU Revised Cap”	the revised annual cap of the ODU Transactions to be entered into for each of the three financial years ending 31 December 2010 as set out in this circular
“ODU Products”	ODU and such other products used in connection with microwave transmission as may be agreed in writing by Comba Systems BVI and WaveLab Guangzhou
“ODU Transactions”	the sale of ODU Products under ODU Agreement
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Percentage Ratios”	the percentage ratios (other than profits ratio) under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the same meaning ascribed to it under the Listing Rules
“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
“WaveLab Holdings”	WaveLab Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability and an indirect subsidiary of the Company, in which the Company has an indirect 60% shareholding
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	USA dollars, the lawful currency of the United States of America
“%”	per cent

In this circular, unless otherwise stated, figures in US\$ are translated into HK\$ at the approximate exchange rate of HK\$7.80 to US\$1.00, for the purpose of illustration only and such translation does not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted at the above rate.

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. Fok Tung Ling
(Chairman and President)
Mr. Zhang Yue Jun
Mr. Wu Jiang Cheng
Mr. Yan Ji Ci
Mr. Zheng Guo Bao
Mr. Yeung Pui Sang, Simon

Independent non-executive Directors:

Mr. Yao Yan
Mr. Lau Siu Ki, Kevin
Mr. Liu Cai

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:

611 East Wing
No. 8 Science Park West Avenue
Hong Kong Science Park
Tai Po
Hong Kong

22 August 2008

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS (ODU TRANSACTIONS AND
DIPLEXER TRANSACTIONS) AND CONNECTED TRANSACTION
(LOAN TO A NON-WHOLLY OWNED SUBSIDIARY)**

INTRODUCTION

On 1 August 2008, the Company announced that on 1 August 2008, (i) Comba Systems BVI entered into Extension Agreement with WaveLab Guangzhou whereby the term of ODU Agreement was extended to 31 December 2010 so as to align with the periods of the ODU Revised Cap; (ii) Comba Systems BVI entered into Diplexer Agreement with WaveLab Holdings in relation to the sale of Diplexer Products; and (iii) the Lender (a wholly owned subsidiary of the Company) and the Borrower (60%-owned subsidiary of the Company) entered into the Loan Agreement in relation to the Loan with principal amount of up to US\$3,000,000 (equivalent to approximately HK\$23,400,000), all of the above three agreements are subject to the approval of the Independent Shareholders at the EGM.

The purpose of this circular is to provide you with further information relating to: (i) ODU Transactions and the ODU Revised Cap; (ii) Diplexer Transactions and the Diplexer Cap; (iii) the Loan; (iv) the recommendation from the Independent Board Committee; (v) the recommendation from Access Capital to the Independent Board Committee and the Independent Shareholders in respect of ODU Transactions, ODU Revised Cap, Diplexer Transactions, Diplexer Cap and the Loan; and (vi) a notice convening the EGM.

REVISED CAPS IN RESPECT OF ODU TRANSACTIONS

Reference is made to the Company's announcement dated 21 June 2007 and the Company's circular dated 13 July 2007 regarding the Company's continuing connected transactions of the ODU Transactions. On 31 July 2007, the Company has obtained the approval of the Independent Shareholders' approval for the ODU Transactions and the annual caps assigned to the transactions for the three financial years ending 31 December 2009.

LETTER FROM THE BOARD

Due to the stronger than expected sales figures in recent months, it is expected that the amount of purchase of ODU Products from WaveLab Guangzhou will be significantly higher than the previously forecast amounts, as such, the Directors are of the view that existing annual caps in respect of the ODU Transactions are no longer sufficient for the normal operations of the Group. In this regard, the Company will seek Independent Shareholders' approval of revised annual caps in respect of the ODU Transactions for the three financial years ending 31 December 2010.

Extension Agreement

Comba Systems BVI and WaveLab Guangzhou entered into Extension Agreement on 1 August 2008 whereby the term of ODU Agreement was extended from 31 December 2009 to 31 December 2010 so as to align with the periods of the revised annual caps. Other than the extension of the term and the Revised ODU Cap, all other terms of the ODU Agreement remain in force and unchanged. The Extension Agreement is conditional upon the approval of the Independent Shareholders on the Extension Agreement in the EGM. Under the ODU Agreement, Comba Systems BVI and its subsidiaries, as purchasers, will settle the purchase price of the ODU Products purchased from WaveLab Guangzhou, as vendor, within 60 days after delivery of the ODU Products by means of bank remittance, cheques or bank drafts.

ODU Revised Cap

Historical amounts of ODU Transactions for the two years 2006 and 2007 and the period ended 30 June 2008

Set out below are the historical amounts of ODU Transactions for the two years 2006 and 2007 and the period ended 30 June 2008 :-

	<u>Year ended</u> <u>31 December 2006</u>	<u>Ten months ended</u> <u>31 December 2007</u> <u>(Note)</u>	<u>Six months ended</u> <u>30 June 2008</u>
	(HK\$')	(HK\$')	(HK\$')
ODU Transactions	29,680,000	18,252,000	30,318,000

Note : Based on the circular of the Company dated 13 July 2007, the cap under Rule 14A.35(2) in respect of the ODU Transactions for the financial year ended 31 December 2007 which was duly approved by independent shareholders in the Company's extraordinary general meeting dated 31 July 2007 covers the period from 1 March 2007 (the date of commencement of the term of the ODU Agreement) to 31 December 2007.

Original and revised annual caps in respect of ODU Transactions for the three years 2008, 2009 and 2010

The amounts of the original annual caps and the ODU Revised Cap subject to the Independent Shareholders' approval for the three years ending 31 December 2010 are set out as below:

<u>Financial year ending 31 December</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(HK\$)	(HK\$)	(HK\$)
Original Annual Cap	85,000,000	100,000,000	N/A
ODU Revised Cap	144,000,000	532,000,000	668,000,000

The above ODU Revised Cap are revised based on: (i) historical transaction amount in the six months ended 30 June 2008; (ii) amount of sales orders on hand as confirmed by the customers; (iii) management experience of the market and market knowledge of the likely growth; and (iv) estimated demand for the Group's microwave transmission products based on the indication by a major customer of the future demand for the relevant products and given the continued increase in the market demand for broadband services and applications and related devices.

Reasons for and benefits of the ODU Revised Cap

Recently, the Group has successfully qualified as an approved vendor of ODUs, which form essential components of digital microwave systems, with a leading global core equipment manufacturer. The customer has

LETTER FROM THE BOARD

started placing volume orders for the Group's ODU's in the first half of 2008. Due to the stronger than expected sales figures in recent months, it is expected that the amount of purchase of ODU Products from WaveLab Guangzhou will be significantly higher than the previously forecast amounts. As such, the Directors are of the view that existing annual caps in respect of the ODU Transactions are no longer sufficient for the normal operations of the Group and will need to be increased accordingly for the three years ending 31 December 2010 to accommodate the increasing purchase commitments that the Group is expected to fulfill so as to meet the expected expansion in sales volume of ODU Products.

The Directors (including the independent non-executive Directors) consider that the ODU Agreement together with the Extension Agreement are entered into the usual and ordinary course of business of the Group, on normal commercial terms and the terms of the ODU Agreement together with the Extension Agreement and the ODU Revised Cap are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

DIPLEXER TRANSACTIONS

Diplexer is one of the essential components for the manufacture of ODUs. As one of the subsidiaries of the Company has recently started to manufacture diplexers, Comba Systems BVI has entered into the following Diplexer Agreement with WaveLab Holdings in relation to the supply of Diplexer Products :

- Date:** 1 August 2008
- Seller:** Comba Systems BVI and its subsidiaries (excluding WaveLab Holdings and its subsidiaries)
- Purchaser:** WaveLab Holdings and its subsidiaries (including WaveLab Guangzhou)
- Condition:** The Diplexer Agreement is conditional upon the obtaining of the approval of the Independent Shareholders of the Diplexer Agreement and the transactions contemplated thereunder on or before 30 September 2008 (or any other later date as agreed by the parties).
- Products:** diplexers and such other components used in the manufacture of ODUs and such other products used in connection with microwave transmission as may be agreed by the parties in writing from time to time
- Price:** determined on normal commercial terms and by arm's length negotiation, or on terms no less favourable to the Group than terms offered by the Group to other parties (based on products of same specification and quantity).
- Payment term:** within 60 days after delivery of the Diplexer Products by means of bank remittance, cheques or bank drafts.
- Term:** from the date of the fulfillment of the condition precedent to 31 December 2010 unless terminated earlier by written agreement of both parties.

Annual Caps in respect of Diplexer Transactions

The Company proposes to seek the Independent Shareholders' approval of the following amounts of the Diplexer Cap for the three years ending 31 December 2010:

<u>Financial year ending 31 December</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(HK\$)	(HK\$)	(HK\$)
Diplexer Cap	8,100,000	31,200,000	38,700,000

As the Group recently started the manufacture of diplexers, there is no historical figure on the sale of Diplexer Products by the Group. As diplexer is one of the essential components in manufacture of ODUs, the

LETTER FROM THE BOARD

above annual caps are proposed based on: (i) projected quantity of ODUs to be purchased from WavLab Guangzhou (the basis and factors of the projection are set out in the above paragraph headed “**ODU Revised Cap**”); and (ii) market price of Diplexer Products. The Diplexer Cap in respect of the Diplexer Products for the three years ending 31 December 2010 is in line with the increase in the ODU Revised Cap for the respective periods.

Reasons for and benefits of entering into Diplexer Agreement

By entering into Diplexer Agreement, the Group can secure the sale of the Group’s Diplexer Products and also acquire the purchase of ODU products manufactured from reliable supply of quality components. The Directors (including the independent non-executive Directors) consider that the Diplexer Transactions are on normal commercial terms and entered in the ordinary and usual course of business of the Group. In view of the above reasons, the Directors are also of the view that the Diplexer Transactions as well as the proposed Diplexer Cap in respect of the Diplexer Transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Implication under the Listing Rules

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

WaveLab Holdings and its subsidiaries are principally engaged in the research, development, manufacture and sale of digital microwave system equipment for microwave transmission in telecommunications systems. WaveLab Guangzhou is principally engaged in the manufacture and sale of digital microwave system equipment.

WaveLab Guangzhou is a wholly owned subsidiary of WaveLab Holdings which, in turn, is owned as to 60% by the Company, 32% by Mr. Zheng (who is an executive Director of the Company), 6% by a director of WaveLab Holdings and the remaining 2% by various Independent Third Parties. As Mr. Zheng is a substantial shareholder of WaveLab Holdings, both WaveLab Holdings and WaveLab Guangzhou are connected persons of the Company and ODU Transactions and Diplexer Transactions constitute continuing connected transactions of the Company under the Listing Rules.

As the aggregate of the revised annual caps of ODU Transactions and the annual caps of Diplexer Transactions will exceed the thresholds set out in Rule 14A.34 of the Listing Rules, ODU Transactions (including the relevant revised annual caps) and Diplexer Transactions (including the relevant annual caps) will be subject to the reporting, announcement and Independent Shareholders’ approval requirements pursuant to Rules 14A.35 of the Listing Rules. There was no other previous transaction between (i) the Company; (ii) WaveLab Guangzhou; and (iii) WaveLab Holdings (and/or its associates other than associates by the reason of the equity interest of the Group in WaveLab Holdings), other than the ODU Transactions and the Diplexer Transactions which may require aggregation under Rule 14A.25 of the Listing Rules.

LETTER FROM THE BOARD

LOAN AGREEMENT

Cascade Technology Limited, a wholly owned subsidiary of the Company, has entered into the following loan agreement (the “**Loan Agreement**”) with WaveLab Holdings:

- Date:** 1 August 2008
- Borrower:** WaveLab Holdings Limited (a 60%-owned subsidiary of the Company)
- Lender:** Cascade Technology Limited (a 100%-owned subsidiary of the Company)
- Condition:** The Loan Agreement is conditional upon the obtaining of the approval of the Independent Shareholders of the Loan Agreement and the transactions contemplated thereunder on or before 30 September 2008 or such other later date as agreed by the parties.
- Loan Amount:** The Borrower may draw the Loan up to US\$3,000,000 (equivalent to approximately HK\$23,400,000) during the availability period. Any portion of the Loan undrawn at the end of the availability period will be automatically cancelled.
- Interest:** LIBOR (as defined in the Loan Agreement) (for interest period of 6-month or 12-month period at the selection of the Borrower or other interest period as agreed between the Borrower and the Lender) plus 1.0% per annum.
- Available Period:** From the date of the fulfillment of the condition precedent to 31 December 2009.
- Repayment:** Lender may, at any time upon giving notice in writing, demand immediate repayment of all or part of the outstanding Loan and payment of any other amount (including interest) accrued thereon. Amounts repaid by the Borrower may not be re-borrowed under the Loan Agreement.
- Purpose:** Unless otherwise agreed by the Lender, the Loan shall be used for the working capital purpose of the Borrower and its subsidiaries.

Reasons for and benefits of entering into Loan Agreement

As mentioned in the paragraphs headed “ODU Revised Cap” and “Reasons for and benefits of ODU Revised Cap”, there will be significant growth in the business of digital microwave systems in the coming years. WaveLab Holdings and its subsidiaries need funding to finance their capital so as to capture the growth in this business. As the Company is the controlling shareholder of WaveLab Holdings, the Group is also one of the major customers of the WaveLab Guangzhou, which is wholly owned by WaveLab Holdings, in the ODU business and the Group will also be one of the major suppliers of diplexers to WaveLab Holdings and its subsidiaries (including WaveLab Guangzhou), the Company will derive significant business interest in the growth of the business of WaveLab Holdings and its subsidiaries. On this basis, the Directors (including the independent non-executive Directors) consider that the provision of the Loan is in the interest of the Company and the Shareholders as a whole and also of the view that the Loan Agreement is on normal commercial terms and fair and reasonable.

Implication under the Listing Rules

As WaveLab Holdings is a connected person of the Company, the Loan constitutes a connected transaction of the Company. The Loan will not be provided by the Lender in the ordinary and usual course of its business. Reference is made to the Company’s announcements dated 18 July 2007 and 25 June 2008 which were released under Listing Rule 14A.66(2). The Lender has advanced two loans (“**Existing Loans**”) in aggregate principal amount of US\$5,500,000 (equivalent to approximately HK\$42,900,000) to WaveLab Holdings pursuant to two loan agreements dated 18 July 2007 and 25 June 2008. As the Percentage Ratios in respect of the aggregate of the amounts of the Loan and the Existing Loans (totaling US\$8,500,000 or equivalent to approximately

LETTER FROM THE BOARD

HK\$66,300,000) exceed 2.5%, the Loan, being a connected transaction, is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules. There was no other previous transaction, other than the Existing Loans, between the Company, the Lender and the Borrower (including Mr. Zheng) which may require aggregation under Rule 14A.25 of the Listing Rules.

EGM

EGM will be held at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong on Tuesday, 9 September 2008 at 3:00 p.m. The notice of EGM (as set out on pages 25 to 26 of this circular) and the form of proxy are enclosed in this circular. You are requested to complete the form of proxy and return it to the Company's principal place of business in Hong Kong at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong, in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the EGM, whether or not you intend to be present at the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

The Company will seek the approval by the Independent Shareholders by way of a poll in the EGM of (i) Extension Agreement and ODU Revised Cap; (ii) Diplexer Agreement and Diplexer Cap; and (iii) the Loan Agreement. Pursuant to Rule 14A.54 of the Listing Rules, Mr. Zheng and his associates are required to abstain from voting in the EGM in respect of resolutions proposed for approval of the above continuing connected transactions and the connected transaction. As at the Latest Practicable Date, Mr. Zheng (including his associates) beneficially owned 1,450,000 Shares (representing approximately 0.17% of the issued share capital of the Company) and share options in respect of 1,000,000 Shares. There are no Shareholders other than Mr. Zheng (including his associates) who are required to abstain from voting in the EGM.

Procedure for demanding poll

Pursuant to Article 66 of the Articles, a resolution put to the vote of a general meeting of the Company shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or required under the Listing Rules. A poll may be demanded by :

- (i) by the chairman of such meeting; or
- (ii) by at least three Shareholders present in person or in the case of a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a Shareholder or Shareholders present in person or in the case of a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (iv) by a Shareholder or Shareholders present in person or, in the case of a corporation, by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring such right; or
- (v) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent (5%) or more of the total voting rights at such meeting.

RECOMMENDATIONS

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Yao Yan, Mr. Lau Siu Ki, Kevin and Mr. Liu Cai, has been established to advise the Independent Shareholders whether the terms of ODU Transactions, Diplexer Transactions and Loan Agreement and the ODU Revised Cap and the Diplexer Cap are fair and reasonable. All members of the Independent Board Committee do not have any interest in the proposed transactions mentioned in this circular. Access Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders. Your attention is also drawn to the letter from Access Capital as set out on pages 12 to 20 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders in this regard.

The Independent Board Committee, having taken into account the advice of Access Capital, is of the opinion that the terms of ODU Transactions, Diplexer Transactions and Loan Agreement and the ODU Revised Cap and the Diplexer Cap are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at EGM.

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

22 August 2008

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS (ODU TRANSACTIONS AND
DIPLEXER TRANSACTIONS) AND CONNECTED TRANSACTION
(LOAN TO A NON-WHOLLY OWNED SUBSIDIARY)**

We refer to the circular dated 22 August 2008 issued by the Company (the “Circular”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider Extension Agreement, Diplexer Agreement, Loan Agreement, ODU Revised Cap and Diplexer Cap and to advise the Independent Shareholders as to the fairness and reasonableness of the aforesaid matters, and to recommend how the Independent Shareholders should vote at the EGM. Access Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 10 of the Circular, and the letter from Access Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of Extension Agreement, Diplexer Agreement, Loan Agreement, ODU Revised Cap and Diplexer Cap, as set out on pages 12 to 20 of the Circular.

Having taken into account of the advice of Access Capital, we consider that (i) Extension Agreement and Diplexer Agreement to be entered into on normal commercial terms, and the continuing connected transactions contemplated thereunder to be entered into in the ordinary and usual course of business of the Group and they are fair and reasonable and in the interests of the Company and the Shareholders as whole, (ii) the ODU Revised Cap and the Diplexer Cap are fair and reasonable so far as the Company and the Shareholders are concerned; (iii) the Loan Agreement to be entered into upon normal commercial terms and it is fair and reasonable and in the interests of the Company and the Shareholders as whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve Extension Agreement, Diplexer Agreement, ODU Revised Cap, Diplexer Cap and Loan Agreement.

Yours faithfully,
the Independent Board Committee

Yao Yan
*Independent non-executive
Director*

Lau Siu Ki, Kevin
*Independent non-executive
Director*

Liu Cai
*Independent non-executive
Director*

LETTER FROM ACCESS CAPITAL

The following is the full text of the letter of advice to the Independent Board Committee and the Shareholders from Access Capital Limited prepared for the purpose of incorporation in this circular.



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

22 August 2008

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

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS (ODU TRANSACTIONS AND
DIPLEXER TRANSACTIONS) AND CONNECTED TRANSACTION
(LOAN TO A NON-WHOLLY OWNED SUBSIDIARY)**

I. INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Shareholders with regard to the terms of the continuing connected transactions and connected transaction, details of which are contained in the "Letter from the Board" in the circular to the Shareholders dated 22 August 2008 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

Continuing Connected Transactions

Revised Caps in respect of ODU Transactions

Reference is made to the Company's announcement dated 21 June 2007 and the Company's circular dated 13 July 2007 regarding the Company's continuing connected transactions of the ODU Transactions. On 21 June 2007, Comba Systems BVI entered into the ODU Agreement with WaveLab Guangzhou, which allowed the Group to continue to purchase the ODU Products from Wavelab Guangzhou. On 31 July 2007, the Company obtained the approval of the Independent Shareholders for the ODU Transactions and the existing caps assigned to the transactions ("Existing Caps") for the three financial years ending 31 December 2009. However, due to stronger than expected sales figures in recent months, it is expected that the amount of the purchase of ODU Products from WaveLab Guangzhou will be significantly higher than the previously forecast amount and the Directors are of the view that Existing Caps in respect of the ODU Transactions are no longer sufficient for the normal operations of the Group and are to be increased (the "Revised Annual Caps").

Consequently, Comba Systems BVI and WaveLab Guangzhou entered into the Extension Agreement on 1 August 2008 whereby the term of ODU Agreement was extended from 31 December 2009 to 31 December 2010 so as to align with the periods of the Revised Annual Caps. Therefore, the Revised Annual Caps in respect of the ODU Transactions for the three financial years ending 31 December 2010 are also subject to the Independent Shareholders' approval requirements under the Listing Rules.

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Diplexer Transactions

On 1 August 2008, Comba Systems BVI entered into the Diplexer Agreement with WaveLab Holdings and its subsidiaries (including WaveLab Guangzhou) in relation to sale of Diplexer Products and the proposed annual caps (the "Proposed Annual Caps") with respect to the amount of the sale of the Diplexer Products.

As the aggregate of the Revised Annual Caps of ODU Transactions and the Proposed Annual Caps of Diplexer Transactions exceed the thresholds set out in Rule 14A.34 of the Listing Rules, Diplexer Transactions (including the relevant Proposed Annual Caps) will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rules 14A.35 of the Listing Rules.

Connected Transaction

Loan Agreement

On 1 August 2008, the Borrower (a non wholly-owned subsidiary of the Company) and the Lender (a wholly-owned subsidiary of the Company) entered into the Loan Agreement pursuant to which the Borrower has agreed to make the Loan in a principal amount up to US\$3,000,000 (equivalent to approximately HK\$23,400,000) to WaveLab Holdings. As one or more of the relevant Percentage Ratios in respect of the aggregate of the maximum amount of the Loan and the Existing Loans (which amounts to US\$8,500,000 or equivalent to approximately HK\$66,300,000) exceed 2.5%, the Loan constitutes a connected transaction of the Company and is subject to, among others, the Independent Shareholders' approval requirements under the Listing Rules.

As a consequence of the above, the Company is seeking the approval by the Independent Shareholders by way of a poll in the EGM of :

Extension Agreement and Diplexer Agreement including the Revised Annual Caps and Proposed Annual Caps respectively for the three financial years ending 31 December 2010; and the Loan Agreement.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of six executive Directors, namely Messrs. FOK Tung Ling, ZHANG Yue Jun, WU Jiang Cheng, YAN Ji Ci, ZHENG Guo Bao and YEUNG Pui Sang, Simon, and three independent non-executive Directors, namely Messrs. YAO Yan, LAU Siu Ki, Kevin and LIU Cai. The Independent Board Committee comprising Messrs. YAO Yan, LAU Siu Ki, Kevin and LIU Cai, being the three independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Extension Agreement, Diplexer Agreement, the Revised Annual Caps and Proposed Annual Caps respectively for the three financial years ending 31 December 2010 and the Loan Agreement. None of the independent non-executive Directors has any material interest in the relevant transactions.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Extension Agreement and the Diplexer Agreement are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and to give our opinion in relation to the terms of the Extension Agreement, Diplexer Agreement as they relate to the Revised Annual Caps and Proposed Annual Caps respectively for the three financial years ending 31 December 2010 and the Loan Agreement for their consideration.

III. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information, expectations, 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, expectations, opinions and representations for matters relating to the Company and/or the Group contained or referred to in the Circular or otherwise provided or made or given by

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the Company and/or its senior management staff and/or the Directors and for which it is/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 for matters relating to the Company and/or the Group 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.

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 or the prospects of the Company, the Group, WaveLab Holdings, Cascade Technology Limited or any of their respective subsidiaries or associates.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation and in arriving at our opinion in respect of the Extension Agreement, Diplexer Agreement and the Revised Annual Caps and Proposed Annual Caps respectively for the three financial years ending 31 December 2010 and the Loan Agreement, we have considered the following principal factors and reasons:

1. Background and rationale

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

Since March 2004, Comba Telecom Systems (Guangzhou) Limited, a wholly owned subsidiary of the Company, has been purchasing products from WaveLab Guangzhou, an indirect non wholly owned subsidiary of the Company, pursuant to the terms of product sales agreements with appropriate caps for annual sales amounts of the ODU Products. On 21 June 2007, Comba Systems BVI entered into the ODU Agreement with WaveLab Guangzhou, which allowed the Group to continue to purchase the ODU Products from Wavelab Guangzhou. Subsequently, on 31 July 2007, the Company obtained the approval of the Independent Shareholders' approval for the ODU Agreement, the ODU Transactions and the Existing Caps for the sales of ODU Products for the three financial years ending 31 December 2009.

The following table sets out the respective Existing Caps under the ODU Agreement for the ten months ending 31 December 2007 and the two financial years ending 31 December 2009:

<u>Financial year ending 31 December</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(HK\$)	(HK\$)	(HK\$)
Existing Caps	52,500,000	85,000,000	100,000,000

2. Extension Agreement and Revision of Annual Caps to the ODU Agreement

As broadband services and applications are continuing to become more and more popular and their use is expected to further increase with the growth in demand for 3G services in the PRC, so the demand for high end digital microwave system ("DMS") products, which enhance transmission speed and volume, increases accordingly. Furthermore, recently the Group successfully qualified with a leading global core equipment manufacturer in the PRC ("New Customer"), as an approved vendor of ODUs which are an essential component of DMS products which has started to place volume orders for the Company's ODUs in the first half of 2008. Due to the stronger than expected sales figures in recent months, the Directors now expect that the amount of

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purchase of ODU Products from WaveLab Guangzhou will be significantly higher than the previously forecast amounts. As such, the Directors are of the view that Existing Caps in respect of the ODU Transactions are no longer sufficient for the forecast level of operations of the Group and will need to be increased accordingly for the three years ending 31 December 2010 to the level of the Revised Annual Caps in order to accommodate the increasing purchase commitments that the Group is expected to fulfill in satisfying the expected expansion in the volume in sales of ODU Products.

Set out below are the historical amounts of ODU Transactions for the two years 2006 and 2007 and the period ended 30 June 2008

	<u>Year ended</u> <u>31 December 2006</u>	<u>Ten months ended</u> <u>31 December 2007</u> <u>(Note)</u>	<u>Six months ended</u> <u>30 June 2008</u>
	(HK\$)	(HK\$)	(HK\$)
ODU Transactions	29,680,000	18,252,000	30,318,000

Note : Based on the circular of the Company dated 13 July 2007, the cap under Rule 14A.35(2) in respect of the ODU Transactions for the financial year ended 31 December 2007 which was duly approved by independent shareholders in the Company's extraordinary general meeting dated 31 July 2007 covers the period from 1 March 2007 (the date of commencement of the term of the ODU Agreement) to 31 December 2007.

Therefore, Comba Systems BVI and WaveLab Guangzhou entered into Extension Agreement on 1 August 2008 whereby the term of ODU Agreement was extended from 31 December 2009 to 31 December 2010 so as to align with the periods of the Revised Annual Caps. Other than the extension of the term and the Revised Annual Caps, all other terms of the ODU Agreement remain in force and unchanged.

According to the ODU Agreement, the price of the ODU Products will be:

- (i) agreed between the Group and WaveLab Guangzhou based on prevailing market rates and will, depending on market conditions, change from time to time over the term of the ODU Agreement; and
- (ii) no less favourable than that being offered by WaveLab Guangzhou to Independent Third Parties.

In addition to the sole and exclusive right to sell the ODU Products in the PRC, Hong Kong and Macau, the Purchaser also has the right to distribute the Products to overseas markets during the term of the ODU Agreement.

As noted from the Letter from the Board in the Circular of the Company dated 13 July 2007, on the basis of the above terms of the ODU Agreement, the Directors are of the opinion that the terms in regard to the price of the ODU Products to be sold under the ODU Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. As confirmed by the Directors, the Group has not previously purchased nor obtained quotations for the Products from other suppliers, who are Independent Third Parties. As an alternative, in assessing the fairness of the terms of the ODU Agreement, we have reviewed and compared the sales terms of ODUs offered by Wavelab Guangzhou to (i) the Group; and (ii) other Independent Third Party customer, and are satisfied that the terms of the ODU Agreement continues to be no less favourable than that being offered by WaveLab Guangzhou to other Independent Third Party customer.

3. Revised Annual Caps

The following table sets out the amounts of the Existing Caps and the Revised Annual Caps for the three years ending 31 December 2010 are set out as below :

<u>Financial year ending 31 December</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(HK\$)	(HK\$)	(HK\$)
Existing Caps	85,000,000	100,000,000	N/A
Revised Annual Caps	144,000,000	532,000,000	668,000,000

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4. Basis of Revised Annual Caps

Based on our discussions with the management of the Company, we note that the Revised Annual Caps are determined with reference to the following factors:

- historical and recent trend of the purchased amount of the ODU Products under the ODU Agreement;
- **the view of management of the estimated demand for the Group's ODU Products based on (i) their experience and market knowledge of the likely growth (ii) the market trend for microwave transmission products; and (iii) estimated demand for the Group's microwave transmission products based on the indication by a major customer (the "Major Customer") of the future demand for the relevant products and given the continued increase in the market demand for broadband services and applications and related devices;**
- the estimated purchase of the ODU Products from WaveLab Guangzhou based on correspondence between WaveLab Guangzhou and the Major Customer indicating the forecasts of the Major Customer for the purchase of ODU Products for the fourth quarter of 2008 and for the year 2009. It is anticipated that the Major Customer orders for ODU Products are likely to continue in 2009 to constitute approximately 90% of the orders for sales of ODU Products by the Group;
- evaluation of the Group's current undelivered units for confirmed orders on hand for the Products for the third quarter of 2008; and
- the Group has recently become a qualified DMS product supplier to one of the largest core equipment manufacturers in the PRC, the Major Customer.

The Directors (excluding the independent non-executive Directors who reserve their views pending the receipt of advice from the Independent Financial Adviser) consider that the Revised Annual Caps in respect of ODU Transactions are on normal commercial terms, fair, reasonable and realistic, and in the interest of the Company and the Shareholders as a whole. Further, the Directors (excluding the independent non-executive Directors who reserve their views pending the receipt of advice from the Independent Financial Adviser) also consider that the Revised Annual Caps are sufficient to accommodate the increasing purchase commitment that the Group is forecast to experience for the three years ending 31 December 2010.

5. View

Having considered the above factors, our discussion with the management of the Company in relation to the basis of the Revised Annual Caps as detailed above, and our review of (i) the Group's purchase orders undelivered units for the third quarter of 2008 on hand for the ODU Products, (ii) correspondence between the Company and the Major Customer indicating the forecasts for the fourth quarter of 2008 and for the year 2009 of the Major Customer for the purchase of ODU Products, we concur with the view of the Directors and consider that the basis of the Revised Annual Caps is fair, reasonable and realistic so far as the Company and the Shareholders are concerned.

However, as the Revised Annual Caps relate to future events and are based on assumptions that may or may not remain valid for the entire period up to 31 December 2010, we express no opinion as to how closely the actual purchase volume of the Transactions corresponds with the Revised Annual Caps.

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6. The Diplexer Agreement

Diplexers are one of the essential components for the manufacture of ODUs. As one of the subsidiaries of Comba Systems BVI, has recently started to manufacture diplexers, Comba Systems BVI has entered into the following Diplexer Agreement with WaveLab Holdings in relation to the supply of Diplexer Products by Comba Systems BVI:

- Date:** 1 August 2008
- Seller:** Comba Systems BVI and any of its subsidiaries (excluding WaveLab Holdings and its subsidiaries)
- Purchaser:** WaveLab Holdings and its subsidiaries (including WaveLab Guangzhou)
- Condition:** The Diplexer Agreement is conditional upon the obtaining of the approval of the Independent Shareholders of the Diplexer Agreement and the transactions contemplated thereunder on or before 30 September 2008 (or any other later date as agreed by the parties).
- Products:** Diplexers and such other components used in the manufacture of ODUs as may be agreed by the parties in writing from time to time
- Price:** Determined on normal commercial terms and by arm's length negotiation, or on terms no less favourable to the Group than terms offered by the Group to other parties (based on products of same specification and quantity).
- Payment Terms:** Within 60 days after delivery of the Diplexer Products by means of bank remittance, cheques or bank drafts.
- Term:** From the date of the fulfillment of the condition precedent to 31 December 2010 unless terminated earlier by written agreement of both parties.

7. Proposed Annual Caps in respect of Diplexer Transactions

The Company proposes the following amounts of the annual caps in respect of the Diplexer Transactions for the three years ending 31 December 2010:

<u>Financial year ending 31 December</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(HK\$)	(HK\$)	(HK\$)
Proposed Annual Caps	8,100,000	31,200,000	38,700,000

As the Group recently started the manufacture of diplexers, there is no historical figure on the sale of Diplexer Products by the Group. As diplexers are one of the essential components in manufacture of ODUs, the above Proposed Annual Caps are proposed based on: (i) projected quantity of ODUs to be purchased from WaveLab Guangzhou (the basis and factors of the projection are set out above in the paragraph headed "Revised Annual Caps"); and (ii) market price of Diplexer Products. The increase in the proposed annual caps year on year in respect of the Diplexer Products for the three years ending 31 December 2010 is in line with the increase in the Revised Annual Caps in respect of ODU Transactions for the respective periods.

8. Reasons for and benefits of entering into Diplexer Agreement

By entering into Diplexer Agreement, the Group can secure the sale of the Group's Diplexer Products and also acquire the purchase of ODU Products manufactured from reliable supply of quality components. The Directors consider that the Diplexer Transactions are on normal commercial terms and entered in the ordinary and usual course of business of the Group.

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9. Key Terms of the Diplexer Agreement

According to the Diplexer Agreement, the price of the Diplexer Products will be:

- (i) agreed between Comba Systems BVI and its subsidiaries (excluding WaveLab Holdings and its subsidiaries) (as seller) and WaveLab Holdings and its subsidiaries (as purchaser) on normal commercial terms and by arm's length negotiation, which may change from time to time over the term of the Diplexer Agreement; and
- (ii) no less favourable than that being offered by Comba Systems BVI and its subsidiaries to other parties.

As noted from the Letter from the Board of the Circular, on the basis of the above terms of the Diplexer Agreement, the Directors (excluding the independent non-executive Directors who reserve their views pending the receipt of advice from the Independent Financial Adviser) are of the opinion that the terms in regard to the price of the Diplexer Products to be sold under the Diplexer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. As confirmed by the Directors, the Group has previously purchased Diplexer Products from other suppliers, who are Independent Third Parties. The unit price of the Diplexer Products offered by those independent suppliers is similar to that offered by the Group under the Diplexer Agreement.

10. Views

Based on the terms of the Diplexer Agreement that the price of the Diplexer Products will be no less favourable than that being offered by Comba Systems BVI to Independent Third Parties, and considering that the Diplexer Agreement enables the Group to continue to purchase the Diplexer Products from Comba Systems BVI, we consider that the terms of the Diplexer Agreement are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the Proposed Annual Caps for the Diplexer Products is based on: (i) projected quantity of ODUs to be purchased from WavLab Guangzhou and (ii) market price of Diplexer Products, we concur with the view of the Directors and consider that the basis of the Proposed Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned.

However, as the Proposed Annual Caps relate to future events and are based on assumptions that may or may not remain valid for the entire period up to 31 December 2010, we express no opinion as to how closely the actual purchase volume of the Diplexer Products corresponds with the Proposed Annual Caps.

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11. Loan to WaveLab Holdings

Cascade Technology Limited, a wholly owned subsidiary of the Company, has entered into the Loan Agreement with WaveLab Holdings:

- Date:** 1 August 2008
- Borrower:** WaveLab Holdings Limited
- Lender:** Cascade Technology Limited
- Condition:** The Loan Agreement is conditional upon the obtaining of the approval of the Independent Shareholders of the Loan Agreement and the transactions contemplated thereunder on or before 30 September 2008 or any other later date as agreed by the parties.
- Loan Amount:** The Borrower may draw the Loan up to US\$3,000,000 (equivalent to approximately HK\$23,400,000) during the availability period. Any portion of the Loan undrawn at the end of the availability period will be automatically cancelled
- Interest:** LIBOR plus 1.0% per annum
- Available Period:** From the date of the fulfillment of the condition precedent to 31 December 2009
- Repayment:** Lender may, at any time upon giving notice in writing, demand immediate repayment of all or part of the outstanding Loan and payment of any other amount (including interest) accrued thereon. Amounts repaid by the Borrower may not be re-borrowed under the Loan Agreement
- Purpose:** Unless otherwise agreed by the Lender, the Loan shall be used for the working capital purpose of the Borrower and its subsidiaries

12. Reasons for and benefits of entering into Loan Agreement

WaveLab Holdings and its subsidiaries are principally engaged in the research and development of ODU's for microwave transmission in telecommunications systems. WaveLab Guangzhou is principally engaged in the manufacture and sale of digital microwave system equipment. WaveLab Guangzhou is wholly owned by WaveLab Holdings.

As mentioned in the paragraphs headed "Revised Annual Caps" and "Reasons for and benefits of Revised Annual Caps", there will be significant growth in the business of DMS in the coming years. WaveLab Holdings and its subsidiaries (being the flagship of the Group in the research and development and manufacture of products in digital microwave system equipment) require funding to finance their capital so as to capture the growth in this business. As the Company is the controlling shareholder of WaveLab Holdings, the Group is also one of the major customers of the WaveLab Guangzhou in the ODU's business and the Group will also be one of the major suppliers of diplexers to WaveLab Guangzhou (wholly-owned subsidiary of WaveLab Holdings), the Company will derive significant business interest from the growth of the business of WaveLab Holdings and its subsidiaries. Therefore the Company has prioritized the funding of its wireless transmission business while still seeking to support all business lines that it sees as promising and that have potential. In light of the need to service the order flow and business from the Major Customer the funding provided is important to allow the Company to perform in delivering the required ordered products. As such, the Directors consider that the provision of the Loan is in the interests of the Company and the Shareholders as a whole.

The Company has confirmed that WaveLab Holdings has not been and is not able to borrow funds in the amount required under the Loan Agreement and at a similar rate on a stand alone basis from independent third party lending sources. Terms of the loan are comparable terms to those which WaveLab Holdings would be able

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to obtain from independent third party lenders. In addition, the interest on the Loan charged by the Group to WaveLab Holdings is more than the cost of funds of the Group.

The Directors (excluding the independent non-executive Directors who reserve their views pending the receipt of advice from the Independent Financial Adviser) also of the view that the Loan Agreement are on normal commercial terms and fair and reasonable.

13. Views

Having considered the above factors, our discussion with the management of the Company in relation to the basis of the Loan as detailed above, we concur with the view of the Directors and consider that the terms of the Loan are on normal commercial terms and fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that the Extension Agreement, Diplexer Agreement and the Loan Agreement are on normal commercial terms, in the ordinary and usual course of business (other than as regards the Loan) and in the interests of the Company and the Shareholders as a whole and that the terms thereof as well as the Revised Annual Caps and Proposed Annual Caps are fair and reasonable so far as the Company and the Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the the Extension Agreement, Diplexer Agreement, their respective Revised Annual Caps and Proposed Annual Caps for the three financial years ending 31 December 2010 and the Loan Agreement.

Yours faithfully
For and on behalf of
Access Capital Limited
Alexander Tai
Principal 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 the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS**(a) Directors' and Chief Executive's Interests in the Company**

As at the Latest Practicable Date, the interests or short positions of the directors (the "Directors") and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of SFO), which (i) were required 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

Long positions in the Shares:

<u>Name of Director</u>	<u>Notes</u>	<u>Capacity / Nature of interest</u>	<u>Number of Shares held</u>	<u>Approximate % of shareholding</u>
Mr. Fok Tung Ling ("Mr. Fok")	(a)	Through controlled corporation Personal interest	366,386,000 <u>10,716,000</u>	42.83 1.26
			377,102,000	44.09
Mr. Zhang Yue Jun ("Mr. Zhang")	(b)	Through controlled corporation	98,986,000	11.57
Mr. Wu Jiang Cheng ("Mr. Wu")	(c)	Personal interest	1,800,000	0.21
Mr. Yan Ji Ci ("Mr. Yan")	(d)	Personal interest	1,700,000	0.20
Mr. Zheng Guo Bao ("Mr. Zheng")	(e)	Personal interest	1,450,000	0.17
Mr. Yeung Pui Sang, Simon ("Mr. Yeung")	(f)	Personal interest	500,000	0.06

Notes:

- (a) 365,588,000 Shares and 798,000 Shares are beneficially owned by Prime Choice Investments Limited ("Prime Choice") and Total Master Investments Limited ("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 the total of 366,386,000 Shares owned by Prime Choice and Total Master.
- (b) These Shares are beneficially owned by Wise Logic Investments Limited ("Wise Logic"). By virtue of his 100% shareholding in Wise Logic, Mr. Zhang is deemed or taken to be interested in the 98,986,000 Shares owned by Wise Logic.
- (c) In addition to 1,800,000 Shares, Mr. Wu has share options in respect of 2,600,000 Shares.
- (d) In addition to 1,700,000 Shares, Mr. Yan has share options in respect of 2,300,000 Shares.
- (e) In addition to 1,450,000 Shares, Mr. Zheng has share options in respect of 1,000,000 Shares.
- (f) In addition to 500,000 Shares, Mr. Yeung has share options in respect of 5,500,000 Shares.

In addition to the above, certain directors hold shares in certain subsidiaries of the Company, in a non-beneficial capacity, solely for the purpose of complying with minimum company membership requirements.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by the Directors, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required 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 they were taken or deemed to have under such provisions of the SFO); and (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

(b) Substantial shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, 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:

(i) Long positions in the Shares:

<u>Name</u>	<u>Notes</u>	<u>Capacity / Nature of interest</u>	<u>Number of Shares held</u>	<u>Approximate % of shareholding</u>
Prime Choice Investments Limited		Beneficial owner	365,588,000	42.74
Mdm. Chen Jing Na	(a)	Interest of spouse	377,102,000	44.09
Wise Logic Investments Limited		Beneficial owner	98,986,000	11.57
Mdm. Cai Hui Ni	(b)	Interest of spouse	98,986,000	11.57

Notes:

- (a) Mdm. Chen Jing Na is the spouse of Mr. Fok and is deemed to be interested in the 377,102,000 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 spouse of Mr. Zhang and is deemed to be interested in the 98,986,000 Shares in which Mr. Zhang is deemed or taken to be interested for the purposes of the SFO.

(ii) Long positions in the shares of subsidiaries of the Company:

<u>Name of subsidiary</u>	<u>Name of substantial shareholder</u>	<u>Approximate % of shareholding</u>
WaveLab Holdings Limited	Zheng Guo Bao	32%
DigiLab Holdings Company Limited	Advance Delta Limited	29%

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, 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.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation, other than statutory compensation).

COMPETING BUSINESSES

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

DIRECTORS' INTEREST IN ASSETS

The Directors confirm that none of the Directors has any interest, direct or indirect, in any assets which had been, since 31 December 2007, being the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

DIRECTORS' INTEREST IN CONTRACTS

Except for Mr. Zheng's interest in ODU Agreement, Extension Agreement, Diplexer Agreement and Loan Agreement, the Directors confirm that there is no other contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested which was significant in relation to the business of the Group.

QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given advice which is contained in this circular:

Name	Qualification
Access Capital Limited	Licensed corporation for type 1 (securities dealing), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

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

Access Capital does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Access Capital does not have any direct or indirect interests in any assets which have been, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

CORPORATE INFORMATION

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The head office and principal place of business in Hong Kong is located at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong.

- (c) The principal share registrar and transfer office of the Company is Butterfield Fund Services (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (d) The branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The secretary and qualified accountant of the Company is Mr. Tong Chak Wai, Wilson, who is a certified practising accountant of CPA Australia and a member of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is also an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Company were made up.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the letter from the Independent Board Committee, the text of which is set out on page 11 of this circular;
- (ii) the letter of advice from Access Capital, the text of which is set out on pages 12 to 20 of this circular;
- (iii) the written consent referred to in the paragraph headed "Qualification and consent of expert" in this appendix;
- (iv) ODU Agreement;
- (v) Extension Agreement;
- (vi) Diplexer Agreement;
- (vii) Loan Agreement;
- (viii) the loan agreement dated 25 June 2008 between WaveLab Holdings Limited as borrower and Cascade Technology Limited as lender in relation to the loan of principal amount up to US\$3,000,000; and
- (ix) the loan agreement dated 18 July 2007 between WaveLab Holdings Limited as borrower and Cascade Technology Limited as lender in relation to the loan of principal amount up to US\$2,500,000.

GENERAL

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

NOTICE OF EXTRAORDINARY GENERAL MEETING

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)

NOTICE IS HEREBY GIVEN (the “**Notice**”) that an extraordinary general meeting (the “**Meeting**”) of Comba Telecom Systems Holdings Limited (the “**Company**”) will be held at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong, on Tuesday, 9 September 2008 at 3:00 p.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (i) the extension agreement dated 1 August 2008 (the “**Extension Agreement**”) entered into between Comba Telecom Systems Investments Limited (a wholly-owned subsidiary of the Company) (“**Comba Systems BVI**”) and WaveLab Telecom Equipment (Guangzhou) Limited (波達通信設備(廣州)有限公司) (“**WaveLab Guangzhou**”, a non-wholly owned subsidiary of the Company) in relation to the extension of the original term of the agreement dated 21 June 2007 entered into by the aforesaid parties regarding the sale of digital microwave outdoor units and related products by WaveLab Guangzhou to Comba Systems BVI and its subsidiaries (details of the Extension Agreement are set out in the Company’s circular dated 22 August 2008 (the “**Circular**”), copies of the Extension Agreement and the Circular have been tabled at the meeting and marked “A” and “B” initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (ii) the ODU Revised Cap (as defined and more particularly described in the Circular) be and is hereby approved and confirmed; and
- (iii) the directors of the Company be and are hereby authorized to do such acts and execute such other documents as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Extension Agreement, the ODU Revised Cap and all transactions contemplated thereunder.”

2. **“THAT:**

- (i) the agreement dated 1 August 2008 (the “**Diplexer Agreement**”) entered into between Comba Telecom Systems Investments Limited (a wholly-owned subsidiary of the Company) (“**Comba Systems BVI**”) and WaveLab Holdings Limited (“**WaveLab Holdings**”, a non-wholly owned subsidiary of the Company) in relation to the sale of diplexers and related products by WaveLab Holdings and its subsidiaries to Comba Systems BVI and its subsidiaries (details of the Diplexer Agreement are set out in the Circular, copy of the Diplexer Agreement has been tabled at the meeting and marked “C” initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (ii) the Diplexer Cap (as defined and more particularly described in the Circular) be and is hereby approved and confirmed; and
- (iii) the directors of the Company be and are hereby authorized to do such acts and execute such other documents as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Diplexer Agreement, the Diplexer Cap and all transactions contemplated thereunder.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. **“THAT:**

- (i) the loan agreement dated 1 August 2008 (the **“Loan Agreement”**) entered into between Cascade Technology Limited (a wholly-owned subsidiary of the Company) as lender and WaveLab Holdings Limited (a non-wholly owned subsidiary of the Company) as borrower in relation to the loan of principal amount of up to US\$3,000,000 (United States Dollars Three Million Only) (details of the Loan Agreement are set out in the Circular, copy of the Loan Agreement has been tabled at the meeting and marked “D” initialled by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (ii) the directors of the Company be and are hereby authorized to do such acts and execute such other documents as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Loan Agreement and all transactions contemplated thereunder.”

By order of the Board
Comba Telecom Systems Holdings Limited
Fok Tung Ling
Chairman and President

Hong Kong, 22 August 2008

Registered office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business

611 East Wing, No. 8 Science Park West Avenue
Hong Kong Science Park
Tai Po
Hong Kong

Notes:

- (a) Any shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company. A form of proxy for use at the Meeting is enclosed herewith.
- (b) To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited at the Company’s principal place of business in Hong Kong at 611 East Wing, No. 8 Science Park West Avenue, Hong Kong Science Park, Tai Po, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned meeting.
- (c) Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened.
- (d) A form of proxy for use at the Meeting is enclosed with the circular of the Company dated 22 August 2008.

As at the date hereof, the Board of the Company comprises the following executive directors: Mr. FOK Tung Ling, Mr. ZHANG Yue Jun, 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.