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COMBATELECOM 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 Transaction

The Directors announce that on 11 October 2004, Cascade, an indirect wholly-owned subsidiary of the Company, exercised the Second Option under the Subscription Agreement to subscribe for a further 171 new shares of US\$1.00 each in WaveLab Holdings at a cash consideration of US\$2 million (equivalent to approximately HK\$15.6 million).

Prior to the exercise of the Second Option, WaveLab Holdings had in issue 829 Shares, of which 429 were held by Cascade, 320 by Mr. Zheng and 80 among three senior management staff, which represented approximately 51.75%, 38.60% and 9.65% of the then issued share capital of WaveLab Holdings, respectively. As such, WaveLab Holdings was a direct non wholly-owned subsidiary of Cascade and an indirect non wholly-owned subsidiary of the Company.

Pursuant to the exercise of the Second Option, WaveLab Holdings shall allot and issue 171 new Shares to Cascade. Upon Completion, Cascade's shareholding in WaveLab Holdings will increase to 600 Shares, representing 60% of the enlarged issued share capital of WaveLab Holdings. As a result of the issue of new Shares to Cascade upon Completion, the shareholding of Mr. Zheng and of the three senior management staff in WaveLab Holdings will decrease to 32% and 8%, respectively.

Mr. Zheng is a director of each of the Company, WaveLab Holdings and the three subsidiaries of WaveLab Holdings. He is also a substantial shareholder of WaveLab Holdings.

As Mr. Zheng is a connected person in relation to the Company at the Company's level and Mr. Zheng is entitled to exercise more than 10% of the voting power at the general meeting of WaveLab Holdings, WaveLab Holdings is a non wholly-owned subsidiary of the Company which falls within the meaning of Rule 14A.11(5) of the Listing Rules. As such, WaveLab Holdings is a connected person in relation to the Company.

In addition, as Mr. Zheng has a shareholding of more than 30% in WaveLab Holdings, WaveLab Holdings is also an associate of Mr. Zheng and hence a connected person in relation to the Company.

The exercise of the Second Option by Cascade constitutes a connected transaction of the Company under the Listing Rules. However, as each of the applicable percentage ratios is less than 2.5%, the exercise of the Second Option (in aggregation with the exercise of the First Option) is a connected transaction falling under Rule 14A.32 of the Listing Rules which is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules but is subject to disclosure by way of this announcement and in the Company's next published annual report and accounts.

Background

On 29 January 2003, Cascade (an indirect wholly-owned subsidiary of the Company), WaveLab Holdings, Mr. Zheng and others entered into the Subscription Agreement, pursuant to which Cascade subscribed for 258 new Shares, representing approximately 39.2% of the then enlarged issued share capital of WaveLab Holdings.

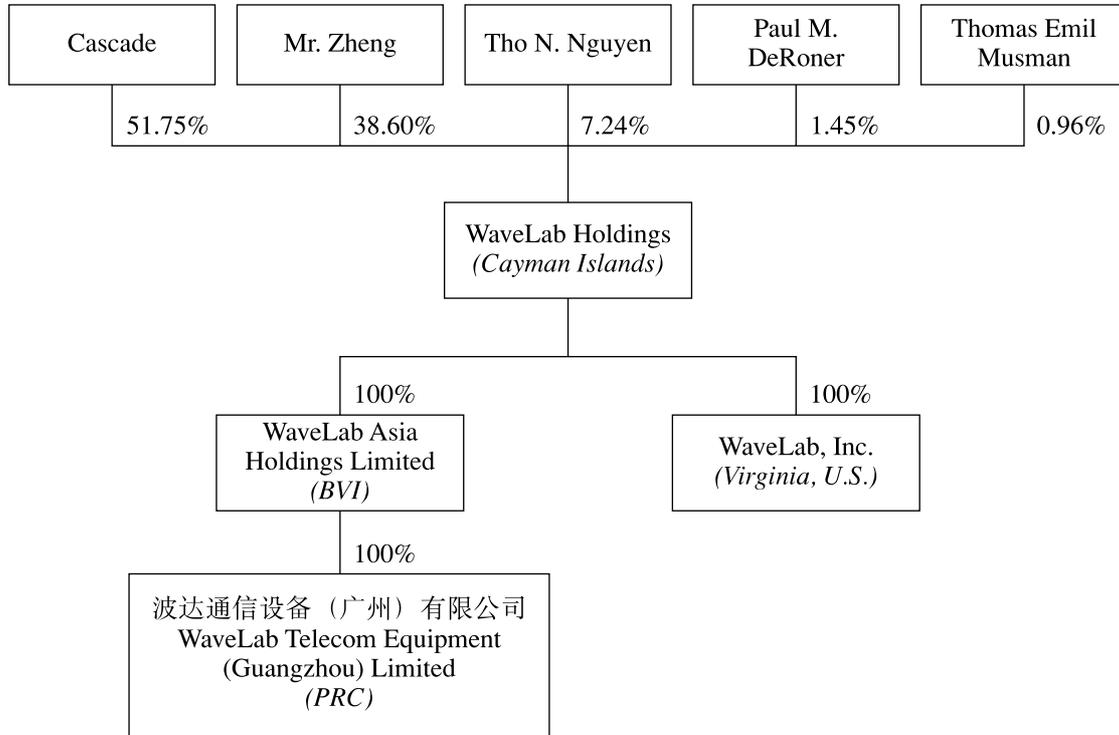
Pursuant to the Subscription Agreement, WaveLab Holdings has granted Cascade (i) the First Option to subscribe for a further 171 Shares on or before 31 December 2003 at a cash consideration of US\$2 million (equivalent to approximately HK\$15.6 million); and (ii) the Second Option to subscribe for a further 171 Shares on or before 31 December 2004 at a cash consideration of US\$2 million (equivalent to approximately HK\$15.6 million). The Options may be exercised by Cascade in whole or in part at any time before the expiry of the relevant dates mentioned above.

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

Cascade exercised the First Option on 31 December 2003, details of which were set out in the announcement issued by the Company on the same day.

Exercise of the Second Option

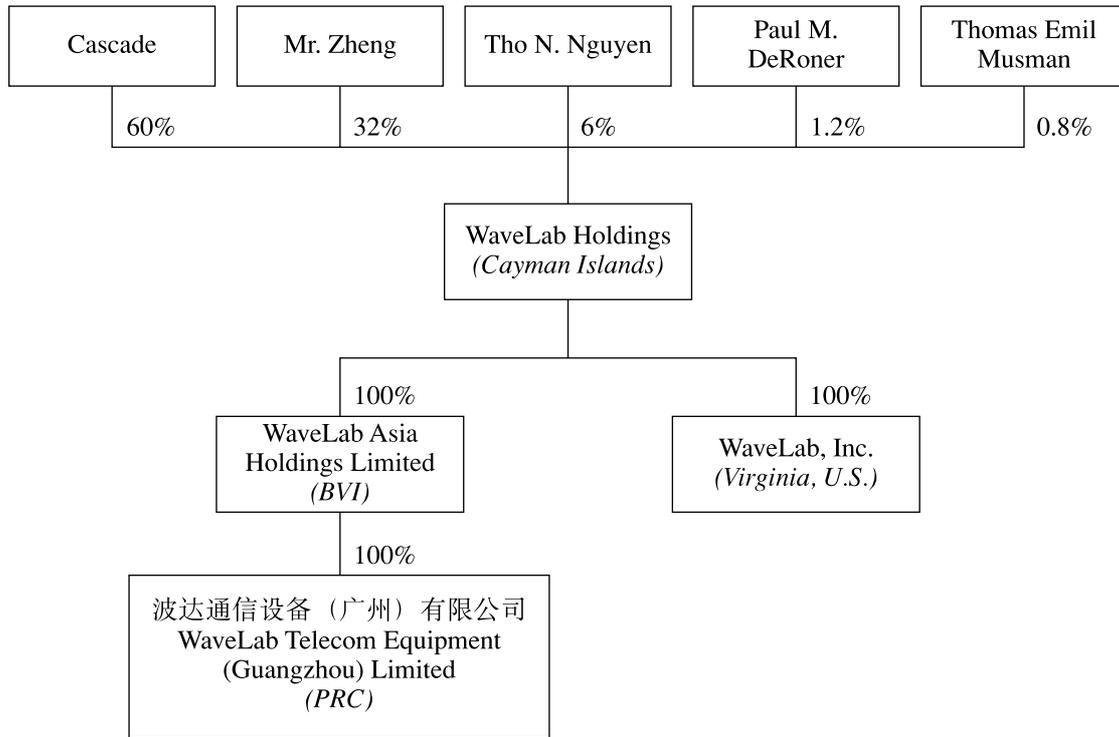
Immediately prior the exercise of the Second Option by Cascade, the shareholding structure of WaveLab Holdings was as follows:



Cascade exercised the Second Option on 11 October 2004 at a cash consideration of US\$2 million (equivalent to approximately HK\$15.6 million) in accordance with the Subscription Agreement, pursuant to which 171 new Shares will be allotted and issued by WaveLab Holdings to Cascade. Such Shares shall rank *pari passu* with all other Shares then in issue. Pursuant to the Subscription Agreement, Completion shall take place on or before 16 October 2004 whereupon the full amount of the cash consideration will be paid by Cascade to WaveLab Holdings. Completion has not yet taken place as at the date of this announcement. Such consideration will be financed out of the net proceeds of the Global Offering.

Immediately after Completion, Cascade's shareholding in WaveLab Holdings will increase to 600 Shares, representing 60% of the enlarged issued share capital of WaveLab Holdings. As a result of the issue of new Shares to Cascade upon Completion, the shareholding of Mr. Zheng and of the three senior management staff in WaveLab Holdings will decrease to 32% and 8%, respectively.

Immediately after Completion, the shareholding structure of WaveLab Holdings will become as follows:



Reasons for the transaction

The WaveLab Group has successfully developed ODU products for frequencies of 7GHz, 8GHz, 13GHz, 15GHz and 18GHz. 4 of these products have already obtained CE certification and sales in the international market have also commenced. Additional funding is now required (a) to make mass purchase of key components to reduce product costs and product lead-times; (b) to expand the product portfolio to cover 23GHz, 26GHz, 28GHz and 38 GHz outdoor units; (c) to investigate wireless technologies including *WiMax* and to identify potential product offerings; and (d) for sales and marketing activities in the international market.

The Directors (including the independent non-executive Directors) consider that it is in the interests of the Company and the WaveLab Group for such funding requirement to be met by way of the exercise of the Second Option as this will enable the WaveLab Group to raise the additional funding required and the Company to increase its interest in the WaveLab Group at a time when it is able to capitalise on its past investment in the research and development conducted by the WaveLab Group. The Directors (including the independent non-executive Directors) also consider that the exercise of the Second Option is in the ordinary and usual course of business of the Company, on normal commercial terms and is fair and reasonable and in the interests of the shareholders of the Company taken as a whole.

Connected transaction

Mr. Zheng is a director of each of the Company, WaveLab Holdings and the three subsidiaries of WaveLab Holdings. He is also a substantial shareholder of WaveLab Holdings.

As Mr. Zheng is a connected person in relation to the Company at the Company's level and Mr. Zheng is entitled to exercise more than 10% of the voting power at the general meeting of WaveLab Holdings, WaveLab Holdings is a non wholly-owned subsidiary of the Company which falls within the meaning of Rule 14A.11(5) of the Listing Rules. As such, WaveLab Holdings is a connected person in relation to the Company.

In addition, as Mr. Zheng has a shareholding of more than 30% in WaveLab Holdings, WaveLab Holdings is also an associate of Mr. Zheng and hence a connected person in relation to the Company.

Accordingly, the exercise of the Second Option constitutes a connected transaction of the Company under the Listing Rules.

However, as each of the applicable percentage ratios is less than 2.5%, the exercise of the Second Option (in aggregation with the exercise of the First Option) is a connected transaction falling under Rule 14A.32 of the Listing Rules which is exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules but is subject to disclosure by way of this announcement and in the Company's next published annual report and accounts.

General

The Company and its subsidiaries are principally engaged in the provision of integrated wireless coverage solutions and the sale of wireless coverage products. The WaveLab Group is principally engaged in the research and development, production and sale of the outdoor units and such other products used in connection with microwave transmission.

Based on its consolidated audited accounts for the year ended 31 December 2003, the WaveLab Group did not generate any revenue during the year and its net and total assets value as at 31 December 2003 was approximately HK\$27,589,000 and HK\$28,115,000 respectively. The net losses both before and after taxation and extraordinary item of the WaveLab Group for the period commencing from the date of incorporation of WaveLab, Inc., being 21 October 2002, to 31 December 2002, and the year ended 31 December 2003 was approximately HK\$1,679,000 and HK\$9,735,000 respectively.

Definitions

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors;
“Cascade”	Cascade Technology Limited, a company incorporated with limited liability in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company;
“Company”	Comba Telecom Systems Holdings Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange;
“Completion”	completion of the subscription of Shares pursuant to the exercise of the Second Option;
“connected person”	has the meaning ascribed thereto under the Listing Rules;
“Directors”	the directors of the Company;
“First Option”	the option to subscribe for 171 Shares on or before 31 December 2003 granted by WaveLab Holdings to Cascade pursuant to the Subscription Agreement;
“GHz”	Gigahertz, a measurement unit for frequency;
“Global Offering”	has the meaning defined in the Prospectus;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Zheng”	Mr. Zheng Guo Bao, a director of each of the Company, WaveLab Holdings and the three subsidiaries of WaveLab Holdings and a substantial shareholder of WaveLab Holdings;
“ODU”	outdoor unit;
“Options”	the First Option and the Second Option;
“percentage ratios”	has the meaning ascribed thereto under Chapter 14 of the Listing Rules;
“PRC”	People’s Republic of China (which for the purposes of this announcement, shall not include Hong Kong, the Macau Special Administrative Region and Taiwan);

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

By order of the Board
Fok Tung Ling
Chairman

Hong Kong, 12 October 2004

As at the date of this announcement, the Directors are:

Executive directors:

Mr. Fok Tung Ling
Mr. Zhang Yue Jun
Mr. Chan Kai Leung, Clement
Mr. Wu Jiang Cheng
Mr. Yan Ji Ci
Mr. Zheng Guo Bao

Independent non-executive directors:

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

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