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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 NON-WHOLLY OWNED SUBSIDIARY)**

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.

Due to the stronger than expected sales figures in recent months, the 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. The parties 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.

Diplexer Transactions

On 1 August 2008, Comba Systems BVI entered into the Diplexer Agreement with WaveLab Holdings in relation to sale of Diplexer Products. As the aggregate of the revised annual caps of ODU Transactions and the annual caps of Diplexer Transactions exceed the thresholds set out in Rule 14A.34 of the Listing Rules, 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.

Loan Agreement

On 1 August 2008, the Lender (a wholly-owned subsidiary of the Company) and the Borrower (a non-wholly owned subsidiary of the Company) entered into the Loan Agreement pursuant to which the Lender has agreed to lend the Loan of principal amount up to US\$3,000,000 (equivalent to approximately HK\$23,400,000) to the Borrower. 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 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.

General

The Company will seek the approval by the Independent Shareholders by way of a poll in the EGM of (i) Extension Agreement and Diplexer Agreement and their respective revised annual cap amounts and proposed annual caps for the three financial years ending 31 December 2010; and (ii) the Loan Agreement.

A circular containing, among other things, further information about Extension Agreement, Diplexer Agreement and the Loan Agreement, the letter from the independent financial adviser to the independent board committee and the Independent Shareholders and the recommendation from the independent board committee together with the notice of the EGM will be dispatched to the Shareholders as soon as possible in accordance with the Listing Rules.

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.

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. The Extension Agreement is conditional upon the approval of the Independent Shareholders on the Extension Agreement in the EGM. Under the ODU Agreements, 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.

Revised Annual Caps

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

	Year ended 31 December 2006	Ten months ended 31 December 2007 <i>(Note)</i>	Six months ended 30 June 2008
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 and the revised annual caps subject to the Independent Shareholders' approval for the three years ending 31 December 2010 are set out as below:

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

The above annual caps 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 the Revised Annual Caps

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 started placing volume orders for the Group's ODUs 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 (excluding 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 revised annual caps in respect of ODU Transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole. The independent board committee (comprising all the independent non-executive Directors as members) will issue an advice letter setting out their view on the above matters for inclusion in the circular of the Company at a later stage after taking into account the advice from the independent financial adviser.

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 dippers, 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 :	dippers 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 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 favorable 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 annual caps in respect of the Diplexer Transactions for the three years ending 31 December 2010 :			
Financial year ending 31 December	2008 (HK\$)	2009 (HK\$)	2010 (HK\$)
Annual Caps Proposed	8,100,000	31,200,000	38,700,000
As the Group recently started the manufacture of dplexers, 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 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 " Revised Annual Caps "); and (ii) market price of Diplexer Products. The annual caps 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.			
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. In view of the above reasons, the Directors (excluding the independent non-executive Directors) are also of the view that the Diplexer Transactions as well as the annual caps in respect of the Diplexer Transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole. The independent board committee (comprising all the independent non-executive Directors as members) will issue an advice letter setting out their view on the above matters for inclusion in the circular of the Company at a later stage after taking into account the advice from the independent financial adviser.			

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.

LOAN TO WAVELAB HOLDINGS

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 “Revised Annual Caps” and “Reasons for and benefits of revised annual caps”, there will be significant growth in the business of digital microwave systems in the coming years. The 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 ODUs 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 (excluding 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 are on normal commercial terms and fair and reasonable. The independent board committee (comprising all the independent non-executive Directors as members) will issue an advice letter setting out their into account the advice from the independent financial adviser.

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 the 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 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.

GENERAL

The Company will seek the approval by the Independent Shareholders by way of a poll in the EGM of (i) Extension Agreement and Diplexer Agreement and their respective revised annual cap amounts and proposed annual caps for the three financial years ending 31 December 2010; and (ii) the Loan Agreement. 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.

An independent board committee comprising all the three independent non-executive Directors (each of the three independent non-executive Directors does not have any material interest in the relevant transactions) will be formed to advise the Independent Shareholders on the terms of Extension Agreement, Diplexer Agreement and the Loan Agreement and an independent financial adviser will be appointed to advise the independent board committee in respect of the terms of the Extension Agreement, Diplexer Agreement and the Loan Agreement and the relevant cap amounts in relation to the two continuing connected transactions.

A circular containing, among other things, further information about Extension Agreement, Diplexer Agreement and the Loan Agreement, the letter from the independent financial adviser to the independent board committee and the Independent Shareholders and the recommendation from the independent board committee together with the notice of the EGM will be dispatched to the Shareholders in accordance with the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions having the following meanings:

“associates”	has the 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 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 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
“Director(s)”	the director(s) 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 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 the 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 terms of the ODU Agreement
“Group”	the Company and its subsidiaries
“Independent Shareholders”	Shareholders other than Mr. Zheng and his associates
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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

“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”	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 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
“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)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the 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 in 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\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

Unless otherwise stated, the conversion of US dollars into Hong Kong dollars are based on the exchange rate of US\$1 = HK\$7.80 for illustration purpose only

By Order of the Board
Fok Tung Ling
Chairman and President

Hong Kong, 1 August 2008

As at the date of this announcement, the Board 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.