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MAGICIAN INDUSTRIES (HOLDINGS) LIMITED

通達工業(集團)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 526)

ANNOUNCEMENT

PROPOSED CONTINUING CONNECTED TRANSACTIONS

Financial Advisor to the Company

CHANCETON CAPITAL

川盟融資有限公司

Reference is made to the announcement of the Company dated 2 November 2009 in relation to, amongst other things, the Acquisition, the Share Subscription and the Whitewash Waiver.

On Completion, members of the Target Group will become wholly-owned subsidiaries of the Company and the WFOE will become part of the Enlarged Group. As a condition to Completion, certain agreements shall be entered into between the WFOE (寧波利時日用品有限公司 formerly known as 寧波奧爾嘉新材料有限公司) and various entities affiliated with Lisi Group. As the Lisi Group is considered a connected person of the Company under the Listing Rules (by virtue of the Lisi Group being wholly-owned by Mr. Li Li Xin, who together with his spouse Ms. Jin Ya Er, holds beneficially the entire share capital of Big-Max, a substantial shareholder of the Company), the entering of the said agreements and the performance of the parties' respective obligations thereunder, will constitute continuing connected transactions under the Listing Rules.

As the maximum aggregate annual values of the proposed Continuing Connected Transactions will cause the applicable percentage ratios specified under Rule 14A.10 of the Listing Rules to exceed 2.5%, the proposed Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The SGM will be convened to approve the proposed Continuing Connected Transactions and the annual caps of the fees payable in respect of the proposed Continuing Connected Transactions. Big-Max and its associates shall abstain from voting in respect of the resolution(s) for approving the proposed Continuing Connected Transactions and the related annual caps at the SGM.

A circular containing, amongst others, further information on the Acquisition, the Share Subscription, the Whitewash Waiver and the Continuing Connected Transactions and a notice of SGM will be despatched to the Shareholders as soon as possible (the “Circular”).

INTRODUCTION

Reference is made to the announcement of the Company dated 2 November 2009 (the “Announcement”) in relation to, amongst other things, the Acquisition, the Share Subscription and the Whitewash Waiver. Unless otherwise indicated, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

As stated in the Announcement, the Target owns the entire issued and outstanding share capital of Golden Time, which in turn owns the entire issued and outstanding equity interest of the WFOE. The Target Group is currently undergoing the Assets and Business Transfer upon completion of which the Target Group will own (i) all of the manufacturing equipment of plastic and household products held by the PRC Vendors (namely Da Mei New Materials and Ningbo Hua Xing) as at 30 June 2009 and inventories; and (ii) all the business contracts held by the PRC Vendors.

On Completion, members of the Target Group will become wholly-owned subsidiaries of the Company and the WFOE will become part of the Enlarged Group. As a condition to Completion, certain agreements shall be entered into between the WFOE and various entities affiliated with Lisi Group. As the Lisi Group is considered a connected person of the Company under the Listing Rules (by virtue of the Lisi Group being wholly-owned by Mr. Li Li Xin, who together with his spouse Ms. Jin Ya Er, holds beneficially the entire share capital of Big-Max, a substantial shareholder of the Company), the entering of the said agreements and the performance of the parties’ respective obligations thereunder, will constitute continuing connected transactions under the Listing Rules (the “Continuing Connected Transactions”).

As the maximum aggregate annual values of the proposed Continuing Connected Transactions (details of which are set out below) will cause the applicable percentage ratios specified under Rule 14A.10 of the Listing Rules to exceed 2.5%, the proposed Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The following are the details of the proposed Continuing Connected Transactions:

(I) THE LEASE AGREEMENT

Date

It is expected that the Lease Agreement will be executed as soon as possible and the date of the Lease Agreement will be disclosed in the Circular.

Parties

- (i) Da Mei New Materials as the lessor
- (ii) WFOE as the lessee

Subject Matter

It is proposed that at Completion, the WFOE and the Da Mei New Materials will enter into a lease agreement (the “**Lease Agreement**”). Under the proposed terms of the Lease Agreement, Da Mei New Materials shall lease a property, namely 34,269 square meters of factory space and 3,200 square meters of office premises located in 518 Cheng Xin Lu, Yinzhou Investment & Business Incubation of Ningbo, PRC (中國寧波市鄞州區投資創業中心誠信路518號) (the “**Property**”) to the WFOE.

Term

The Lease Agreement is for a term of 3 years commencing from 1 January 2010 and ending on 31 December 2012.

The parties may enter into a new leasing agreement to renew the Lease Agreement before the expiry of the Lease Agreement. The Company will continue to comply with the Listing Rules at the time of renewal of the Lease Agreement, if required. Upon the Lease Agreement becoming effective (subsequent to the obtaining of the Independent Shareholders’ approval), the Lease Agreement will replace and supercede the lease agreement dated 27 July 2009 entered into between Da Mei New Materials and the WFOE in relation to the lease of certain floor areas of factory buildings within the Property to WFOE by Da Mei New Materials (the “**Previous Lease Agreement**”). The Previous Lease Agreement was entered because the lease of a property is a pre-requisite to the application of a business license in the PRC. Upon completion of the Acquisition, the Previous Lease Agreement will be superceded by the Lease Agreement and the rental fee charged for the period from 27 July 2009 to 31 December 2009 will be negated. The Property has always been utilized as a factory and office premises for the operations of Da Mei New Materials and Ningbo Hua Xing as these floor areas are vital for the continuance of the business. It is envisaged therefore that the renewal of the Lease Agreement will ensure the continuing smooth operations of the Target Group upon the completion of the Acquisition. The Directors considered it is to the benefit of the Company to rent the existing premises based on a market rental rate to avoid any business interruption. The Previous Lease Agreement has similar payment terms (rental payment on a quarterly basis payable in advance) and is for a term of 3 years from 27 July 2009.

Details of Property are set out below:

Address of Property	Approximate gross floor area “sq.m.”	Rent per month	Usage	Annual Rental (RMB)
1. 518 Cheng Xin Lu, Yinzhou Investment & Business Incubation of Ningbo, PRC (first floor)	25,248	RMB11 per sq.m	Factory buildings	3,332,736

Address of Property	Approximate gross floor area “sq.m.”	Rent per month	Usage	Annual Rental (RMB)
2. 518 Cheng Xin Lu, Yinzhou Investment & Business Incubation of Ningbo, PRC (second floor)	9,021	RMB7.5 per sq.m	Factory buildings	811,890
3. 518 Cheng Xin Lu, Yinzhou Investment & Business Incubation of Ningbo, PRC (office building 2nd – 5th floor)	3,200	RMB 23 per sq.m	Office	883,200

Consideration

The rent for the Property for each month shall be RMB 418,986, which is comparable to market rental charge for adjacent lands and buildings in the local property market. A deposit representing 1 month’s rental fee will be paid by the WFOE to Da Mei New Materials within 30 days from the effective date of the Lease Agreement. The rent payable to Da Mei New Materials will be on a quarterly basis in advance.

The Annual Caps

The respective amounts of rental fees payable to Da Mei New Materials during the term of the Lease Agreement are expected not to exceed the following amounts:

Period	Rental fee
From 1 January 2010 to 31 March 2010	RMB1,256,956
From 1 April 2010 to 31 March 2011	RMB5,027,826
From 1 April 2011 to 31 March 2012	RMB5,027,826
From 1 April 2012 to 31 December 2012	RMB3,770,870

The above proposed annual caps have been determined by the Directors with reference to the market rental fee for adjacent land and buildings in the local property market. The Directors (other than the independent non-executive Directors who will defer their recommendation to the Independent Shareholders until they have received the recommendation of the Independent Financial Adviser) are of the view that the terms of the Lease Agreement, including its annual caps, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

(II) THE EXPORT AGENCY AGREEMENT

Date

It is expected that the Export Agency Agreement will be executed as soon as possible and the date of the Export Agency Agreement will be disclosed in the Circular.

Parties

- (i) 寧波利時進出口有限公司Lisi Import and Export Company Limited* (“Lisi Import and Export”)
- (ii) WFOE

Subject Matter

It is proposed that at Completion, the WFOE and the Lisi Import and Export will enter into an export agency agreement (the “**Export Agency Agreement**”). Under the terms of this agreement, Lisi Import and Export shall provide export agency services. These services include assisting the WFOE on handling government applications, settlement services and other liaison services between local government departments and the customers.

Term

The Export Agency Agreement is for a term of 3 years commencing from 1 January 2010 and ending on 31 December 2012.

Consideration

For the provision of the export agency services, Lisi Import and Export will charge an amount equivalent to approximately 1.50% of the gross transactions amounts handled by Lisi Import and Export on behalf of the WFOE.

The Annual Caps

The respective amounts of export agency services fees payable to Lisi Import and Export during the term of the Export Agency Agreement are expected not to exceed the following amounts:

Period	Amount
From 1 January 2010 to 31 March 2010	RMB700,000
From 1 April 2010 to 31 March 2011	RMB3,000,000
From 1 April 2011 to 31 March 2012	RMB3,500,000
From 1 April 2012 to 31 December 2012	RMB3,000,000

The above proposed annual caps have been determined by the Directors with reference to (i) the market rates of comparable companies engaging in similar services, (ii) the estimated annual sales of the Target Group for the 3 months ended 31 March 2010, 12 months ended 31 March 2011 and 2012, and 9 months ended 31 December 2012 respectively, (iii) the previous similar transactions between Da Mei New Materials and Lisi Import and Export of approximately RMB 2,723,000

for the year 2007, approximately RMB 2,330,000 for year 2008 and approximately RMB 900,000 for the six months ended 30 June 2009, and (iv) the export agency service fees equivalent to approximately 1.50% of the gross transactions amounts handled by Lisi Import and Export. The Directors (other than the independent non-executive Directors who will defer their recommendation to Independent Shareholders until they have received the recommendation of the Independent Financial Adviser) are of the view that the terms of the Export Agency Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(III) THE IMPORT AGENCY AGREEMENT

Date

It is expected that the Import Agency Agreement will be executed as soon as possible and the date of such agreement will be disclosed in the Circular.

Parties

- (i) Lisi Import and Export *
- (ii) WFOE

Subject Matter

It is proposed that at Completion, the WFOE and the Lisi Import and Export will enter into an import agency agreement (the “**Import Agency Agreement**”). Under the terms of this agreement, Lisi Import and Export shall provide import agency services to the WFOE including the handling of government applications, settlement services and the provision of guarantees in respect of payment obligations under raw materials or goods purchase contracts entered into between the WFOE with other third parties.

Term

The Import Agency Agreement is for a term of 3 years commencing from 1 January 2010 and ending on 31 December 2012.

Consideration

For the provision of the import agency services, Lisi Import and Export will charge an amount equivalent to 0.6% of the gross transacted amount for each of the transaction handled by Lisi Import and Export on behalf of the WFOE.

The Annual Caps

The respective gross transacted amounts with Lisi Import and Export during the term of the Import Agency Agreement are expected not to exceed the following amounts:

Period	Amount
From 1 January 2010 to 31 March 2010	RMB15,000,000
From 1 April 2010 to 31 March 2011	RMB63,000,000
From 1 April 2011 to 31 March 2012	RMB75,600,000
From 1 April 2012 to 31 December 2012	RMB64,800,000

The above proposed annual caps have been determined by the Directors with reference to (i) the market rates of comparable companies engaging in similar services, (ii) the estimated value of purchases of approximately RMB 60 million annually, (iii) the previous similar transactions between Da Mei New Materials and Lisi Import and Export of approximately RMB 47,000,000 for the year 2007, approximately RMB 41,700,000 for year 2008 and approximately RMB 13,000,000 for the six months ended 30 June 2009, (iv) the Company expects that there will be a significant increase in the annual transaction value. Accordingly, the annual caps for three years ending 31 December 2012 will be significantly higher than those for the preceding years. Such increase in transaction values is mainly caused by the expected increase in the cost of raw materials, which would lead to a higher costs, and the increase in the transaction volume, (v) anticipated growth of the industry and (vi) the forecasted growth rate of the business of the WFOE of 20% per annum. The Directors (other than the independent non-executive Directors who will defer their recommendation to Independent Shareholders until they have received the recommendation of the Independent Financial Advisor) are of the view that the terms of the Import Agency Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

(IV) THE VALUE-ADDED PROCESSING CO-OPERATION AGREEMENT

Date

It is expected that the Value-Added Processing Co-operation Agreement will be executed as soon as possible and the date of such agreement will be disclosed in the Circular.

Parties

- (i) 寧波利時塑膠有限公司 Ningbo Lisi Plastics Company Limited * (“Lisi Plastics”)
- (ii) WFOE

Subject Matter

It is proposed that at Completion, the WFOE and the Lisi Plastics will enter into a value-added processing co-operation agreement (the “**Value-Added Processing Co-operation Agreement**”) pursuant to which Lisi Plastics agrees to provide processing services to the WFOE. Due to the business nature of the Target Group where from time to time the WFOE will require tailor-made production to customers, it is anticipated that the WFOE might require certain processing co-operation arrangements with Lisi Plastics which have a larger selection of moulds, equipment and machineries.

Term

The Value-Added Processing Co-operation Agreement is for a term of 3 years commencing from 1 January 2010 and ending on 31 December 2012. The payment will be settled per transaction basis after the parties have agreed on the service fee to be paid by WFOE, WFOE shall settle 20% of the services fee and settle the remaining balance upon completion of the processing services after the receipt of the relevant invoice from Lisi Plastics.

Consideration

Due to the variations as to the extent and the scope of the transactions under the Value-Added Processing Co-operation Agreement, the basis of the consideration of the transactions contemplated thereunder could not be formularized. However, the general principle for the pricing and the terms of the Value-Added Processing Co-operation Agreement is that the transactions shall be entered on normal commercial terms to be subsequently agreed once negotiations have been held between the relevant parties in good faith and at arms’ length with reference to the prevailing market prices. The terms to be offered by Lisi Plastics in relation to the Value-Added Processing Co-operation Agreement should not be less favourable than those offered to independent third parties.

Each specific transaction under the Value-Added Processing Co-operation Agreement shall be governed by a separate contract and that Lisi Plastics shall provide the processing services to the WFOE in accordance with the requirements set out in the contracts.

The Annual Caps

The respective amounts of services fees payable to Lisi Plastics during the term of the Value-Added Processing Co-operation Agreement are expected not to exceed:

Period	Service fees
From 1 January 2010 to 31 March 2010	RMB1,250,000
From 1 April 2010 to 31 March 2011	RMB5,250,000
From 1 April 2011 to 31 March 2012	RMB6,300,000
From 1 April 2012 to 31 December 2012	RMB5,400,000

The above proposed annual caps have been determined by the Directors with reference to the estimated price and volume after considering the growth trend of the businesses of the Target Group and a reasonable buffer to cater for potential increases in volume and variety of business activities that may generate the need and level of usage of the processing services, the Directors' are of the view that the annual cap is justifiable. The Directors (other than the independent non-executive Directors who will defer their recommendation to Independent Shareholders until they have received the recommendation of the Independent Financial Adviser) are of the view that the terms of the Value-Added Processing Co-operation Agreement, including its annual caps, are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

INFORMATION ON THE PARTIES TO THE TRANSACTIONS

The Group is principally engaged in the manufacturing and trading of plastic and metal household products.

Big-Max is an investment holding company incorporated in Hong Kong on 20 September 2002 with limited liability, and is currently beneficially owned as to 90% by Mr. Li Li Xin and as to 10% by his spouse, Ms. Jin Ya Er. Big-Max currently has two directors, namely Mr. Li Li Xin and his spouse Ms. Jin Ya Er.

Mr. Li Li Xin is the founder and chairman of the Lisi Group (a private group which is not listed on any stock exchange) established in the PRC, the principal businesses of which include the manufacturing and sale of plastic and hardware products, the operation of department stores and chain supermarkets, and investments in property development in the PRC. Lisi Group is beneficially and wholly owned by Mr. Li Li Xin, his spouse and his associates.

Lisi Plastics is an affiliate company of the Lisi Group, the principal businesses of which include the manufacturing and sale of plastic and hardware products.

Lisi Import and Export is an affiliate company of the Lisi Group, the principal businesses of which include the provision of import and export services.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Target Group is undergoing the Assets and Business Transfer pursuant to which the manufacturing equipment of plastic and household products, inventories and businesses of the PRC Vendors will be transferred to the WFOE upon completion of the Assets and Business Transfer. Upon the completion of the Assets and Business Transfer, the Target Group will be principally engaged in the manufacturing and sales of plastic and household products.

Given the fact that Lisi Group has been in the manufacturing industry for over 16 years and that its group members are equipped with a larger selection of moulds, equipment and machineries, an import and export agency with experience and resources, and large areas of offices and factory space, it is essential and in the interest for the Company to enter into the proposed Continuing Connected Transactions in order to ensure the smooth continuance in operations of the Target Group upon the completion of the Acquisition.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as defined under Rule 14A.10 of the Listing Rules) in respect of the proposed Continuing Connected Transactions exceed 2.5%, the proposed Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Further announcement will be made by the Company once the relevant agreements having been entered into between the relevant parties.

The Listing Rules Independent Board Committee has been formed to advise the Independent Shareholders, and the Independent Financial Adviser has been appointed to advise the independent board committee and the Independent Shareholders, as to whether the terms of the Lease Agreement, the Export Agency Agreement, the Import Agency Agreement and the Value-added Processing Co-operation Agreement are fair and reasonable and whether such transactions are in the interests of the Company and its Shareholders as a whole and in respect of the annual caps under these agreements.

A circular containing, among other things, (i) further information on the proposed Continuing Connected Transactions; (ii) the recommendation from the Listing Rules Independent Board Committee of the Company in relation to the proposed Continuing Connected Transactions; (iii) the advice of Independent Financial Adviser to the Listing Rules Independent Board Committee of the Company and the Independent Shareholders in relation to the proposed Continuing Connected Transactions; and (iv) other information as required under the Listing Rules, together with notice of the SGM will be despatched to the Shareholders as soon as practicable and in accordance with the Listing Rules.

As at the date of this announcement, the Lisi Group being wholly-owned by Mr. Li Li Xin and Mr. Li Li Xin is the beneficial owner of Big-Max, and is a substantial shareholder of the Company holding approximately 24.5% of the entire issued share capital of the Company and is a connected person of the Company under the Listing Rules. As such, the Continuing Connected Transactions constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. Therefore, Mr. Li Li Xin and its associates will abstain from voting on the resolutions in relation to the Continuing Connected Transactions and the proposed annual caps to be proposed at the SGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other than Mr. Li Li Xin and its associates, no connected person of the Company, Shareholder and their respective associates with a material interest in the Continuing Connected Transactions is required to abstain from voting at the SGM.

* *For identification only*

By Order of the Board
MAGICIAN INDUSTRIES (HOLDINGS) LIMITED
Li Li Xin
Chairman

Hong Kong, 13 November 2009

As at the date of this announcement, the Board comprises Mr Li Li Xin, being Chairman and non-executive Director, Mr Cheng Jian He being executive Director, Mr Xu Jin and Mr Lau Kin Hon being non-executive Directors, Mr He Chengying, Mr Chan Man Sum Ivan and Mr Cheung Kiu Cho Vincent being independent non-executive Directors.