

China Magnesium Corporation Limited ACN 125 236 731

Supplementary Prospectus

Statutory information

This document is a supplementary prospectus, which supplements and must be read together with a prospectus issued by China Magnesium Corporation Limited (**Company**) dated 20 September 2010 containing an invitation to subscribe for 48,000,000 Shares at \$0.25 per Share (**Prospectus**). This document is dated 22 October 2010 and was lodged with the ASIC on that date. ASIC takes no responsibility as to the contents of this Supplementary Prospectus. Terms used in this document have the same meaning as those expressions have in the Prospectus.

Offer update

The Directors are pleased to advise that there has been strong support for the Offer including a partial underwriting of the Offer for an amount of 7.2 million shares provided by the Hong Kong-based, Somerley Group Limited (see below). On the basis of Applications received, firm commitments and the partial underwriting, the Directors believe that the Offer will be successfully completed.

Extension of Closing Date

Due to other capital raisings and corporate activity in the market coinciding with the Offer Period, there has been a delay in the processing of some applications and the Company expects there will be a number of late applications. Accordingly, the Directors have resolved to extend the Closing Date of the Offer to 5.00pm Sydney time on **Wednesday 27 October 2010** in order to give investors the opportunity to participate in the Offer.

The Company expects that the Offer will be successfully completed and close on the revised Closing Date. Dates subsequent to the Closing Date in the indicative timetable in the Prospectus will be affected accordingly.

Partial underwriting

Somerley Group Limited (**Underwriter**) has agreed, subject to certain conditions and termination events (see below), to underwrite the invitation to apply for 7.2 million shares under the Offer. The Underwriter is the parent company of an investment and financial services group based in Hong Kong and holds 40% of Inteq Limited, the Company's Corporate Adviser and Lead Manager.

The material terms of the Underwriting Agreement are summarised below.

The Underwriter is entitled to an underwriting fee of 5% of the \$1.8 million underwritten amount. The underwriting fee is not payable if the Company terminates the Underwriting Agreement due to a material breach by the Underwriter or if the Underwriter terminates the Underwriting Agreement or if the Offer does not proceed.

The Underwriter may terminate its obligations under the Underwriting Agreement by notice to the Company at any time after the occurrence of any of the following events:

- **(Quotation approval)** approval is refused or not granted, other than subject to customary conditions, to the official quotation of all of the Offer Shares on ASX, or if granted, the approval is subsequently withdrawn, qualified or withheld before the allotment and issue of any Offer Shares;
- **(withdrawal)** the Company withdraws either the Prospectus or the Offer;
- **(suspends payment)** the Company or an entity in the Company's group (**Group**) suspends payment of its debts generally;
- **(insolvency)** the Company or an entity in the Group is or becomes insolvent within the meaning of the Corporations Act or is presumed to be insolvent under the Corporations Act;

- **(arrangements)** the Company or an entity in the Group enters into or resolves to enter into any arrangement, composition or compromise with, or assignment for the benefit of, its creditor or any class of them;
- **(judgment or process)** any judgement, distress, attachment, execution or other competent process is issued against, levied or enforced upon any of the assets of the Group and is not challenged, set aside or satisfied within five business days;
- **(receiver etc)** a receiver, receiver and manager, trustee, administrator or similar external manager is appointed, or steps are taken for such appointment, over any significant asset or undertaking of the Group;
- **(change in management)** a change in the board of Directors or senior management of the Company occurs;
- **(legal proceedings and offence or disqualification by Directors)** any of the following occurs:
 - a Director is charged with an indictable offence;
 - the commencement of legal proceedings against the Company or any Director; or
 - any Director is disqualified from managing a corporation under section 206A of the Corporations Act;
- **(change to constitution)** prior to the allotment date, a change to the constitution of the Company or the Company's capital structure occurs without the prior written consent of the Underwriter;
- **(Encumbrances)** except in the ordinary course of business of the Company, an encumbrance over all or any of the assets of the Group is created or comes into existence without the prior written approval of the Underwriter;
- **(buy back)** the Company or another entity in the Group takes any steps to undertake a proposal contemplated under section 257A of the Corporations Act without the prior written consent of the Underwriter;
- **(financial assistance)** the Company or another entity in the Group passes or takes any steps to pass a resolution under section 260B of the Corporations Act without the prior written consent of the Underwriter;
- **(compliance with regulatory requirements)** a contravention by the Company or any entity in the Group of its constitution, the Corporations Act, the Listing Rules or any other applicable law or regulation;
- **(representations and warranties or breach)** any representation or warranty contained in the Underwriting Agreement on the part of the Group is not true or correct when given or if there is any other breach by the Company of its obligations under this document. The Agreement contains representations and warranties in relation to the applications and firm commitments received by the Company and other customary representations and warranties;
- **(prescribed occurrence)** except as set out in the Prospectus, an event specified in section 652C(1) or section 652C(2) of the Corporations Act, amended by replacing 'target' with 'Company'; or
- **(Force Majeure)** an event or circumstance or a combination of events and/or circumstances occur that causes or results in preventing or delaying the Underwriter from performing any of its obligations in this Agreement (except an obligation to pay money) and which is beyond the reasonable control of the Underwriter and could not, or the effects of that event or circumstance, or that combination of events or circumstances, could not have been prevented or delayed, overcome or remedied by the exercise by the Underwriter of a standard of care and diligence consistent with good business practice, including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, act of terrorism, strike but not including a breach of this Agreement by the Underwriter.

The Underwriter has given and has not, prior to the lodgement of this Supplementary Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named.

Authorisation

This Supplementary Prospectus is authorised by the Company and is lodged with ASIC pursuant to section 718 of the Corporations Act 2001. The Directors have consented to the lodgement of this Supplementary Prospectus in the terms of section 720 of the Corporations Act 2001.

Signed pursuant to section 351 of the Corporations Act 2001



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Tom Blackhurst

Director

Dated 25 October 2010

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