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Proposed China Joint Venture Acquisition of a Pure Magnesium Plant

Quay Magnesium Limited (Quay) announced on 31 August 2007 that an MOU had been signed with a pure magnesium manufacturer to acquire 52.5% of a magnesium plant. It subsequently updated that to an 80% shareholding on 28 November 2007 when funding for the acquisition was secured.

Due diligence revealed issues with the title and permitting of the target plant and the JV vendor undertook to correct these shortcomings. Unfortunately, after several months of continued discussion, the lack of progress to correct the issues as well as some other significant commercial terms that could not be agreed have led Quay's Board to take legal advice on the outstanding matters. As a result of this advice, the Board of Quay considers by completing this transaction the risk to shareholders is unacceptable.

Quay's Board has resolved to terminate negotiations and not to acquire the proposed JV shareholding in the target business.

Additionally, the share subscription agreements with Sentient Executive GP II Limited and other institutional and sophisticated investors (which were also announced on 28 November 2007) have been terminated.

Whilst this is a short term setback to Quay's plans to vertically integrate a pure magnesium supply to support its Nanjing alloy plant, Quay's management has identified other opportunities in China including a greenfield project. Quay has commenced discussions with this potential JV partner to acquire a 49% share of the proposed facility. Quay is also reviewing other opportunities for securing pure magnesium supply that may be available.

Quay's management is taking appropriate action to ensure the Nanjing plant operates within currently available working capital and is seeking new working capital funding to increase export sales to the growing global markets. The selling price of pure magnesium year to date in China has reduced 15% from December 2007 after increasing by nearly 100% in 2007. This is having the effect of improving gross conversion margins for the business after the adverse conditions experienced last year.

Quay's high technology Nanjing plant has achieved ISO/TS quality and customer accreditations and is capable of delivering large volumes of quality product to the global automotive supply chain.

In light of this development, Quay will be reviewing its 2008 operating plan and requirements for funding the alternate options for vertical integration and its Nanjing plant's working capital requirements.

Further announcements will be made after the Board has fully considered all options available to the company.

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