

## ASX RELEASE

31 July 2008

### RETURN TO PRODUCTION IN NANJING PLANT

Quay Magnesium Limited (Quay) is pleased to announce that production and shipments have recommenced from its Nanjing alloy plant following a fire on 25 April.

Two containers, totalling 40 tonne, of AM60B alloy have been shipped to a leading European producer of automotive die castings. This return to manufacturing confirms the successful re-commissioning of the production equipment with product meeting Quay's internal quality control and ASTM standards. It is also pleasing that production process rates are similar to those achieved by the Nanjing plant before April's fire.

Whilst the production plant and equipment has been repaired, the building is still being modified to improve the fire safety of the facility. These modifications and repairs are ongoing and will be completed over the coming months. This work is expected to have minimal impact on production.

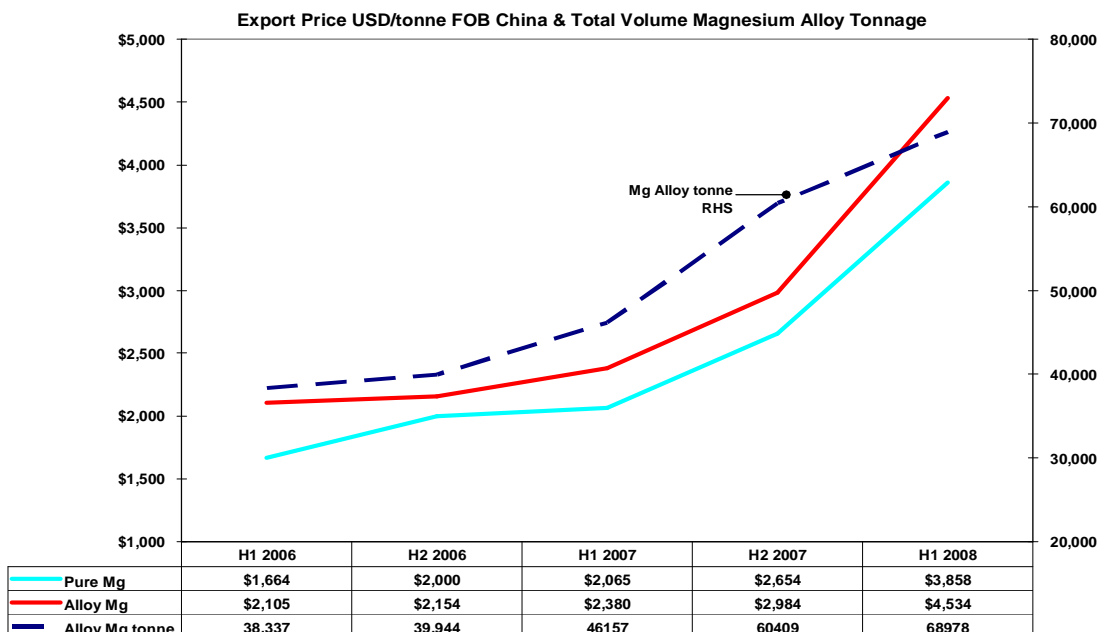
In the past week Quay has won a significant order from a new North American customer for immediate delivery. Quay's sales team is currently in negotiations with its existing customers for new orders now that Nanjing is operational again.

#### Magnesium Alloy Market Update

The magnesium alloy market continues to strengthen globally. In China this demand is directly linked to increasing local automotive manufacturing. According to the China Magnesium Association, the growth of magnesium alloy consumption in 2007 increased 80% over the previous year. Exports of magnesium alloy have also increased significantly and are expected to continue to grow as automotive companies seek lightweight alternatives for fuel efficiency and lower greenhouse gas emissions.

Current demand sees the alloy premium over pure magnesium reaching new highs. Alloy producers have been able to exploit strong demand by asking for higher margins. With energy prices remaining at historic highs it is expected that these trends will continue. Industry associations expect the amount of magnesium alloy used in cars should increase from today's level of around 4 kg per vehicle to at least 65 kg per vehicle by 2020.

The following table shows export prices for pure and alloy magnesium from China, highlighting the recent increase in export volumes. The period covers the extended lows which prompted Norsk Hydro to exit the magnesium industry and the subsequent recovery in prices over the last 12 months.



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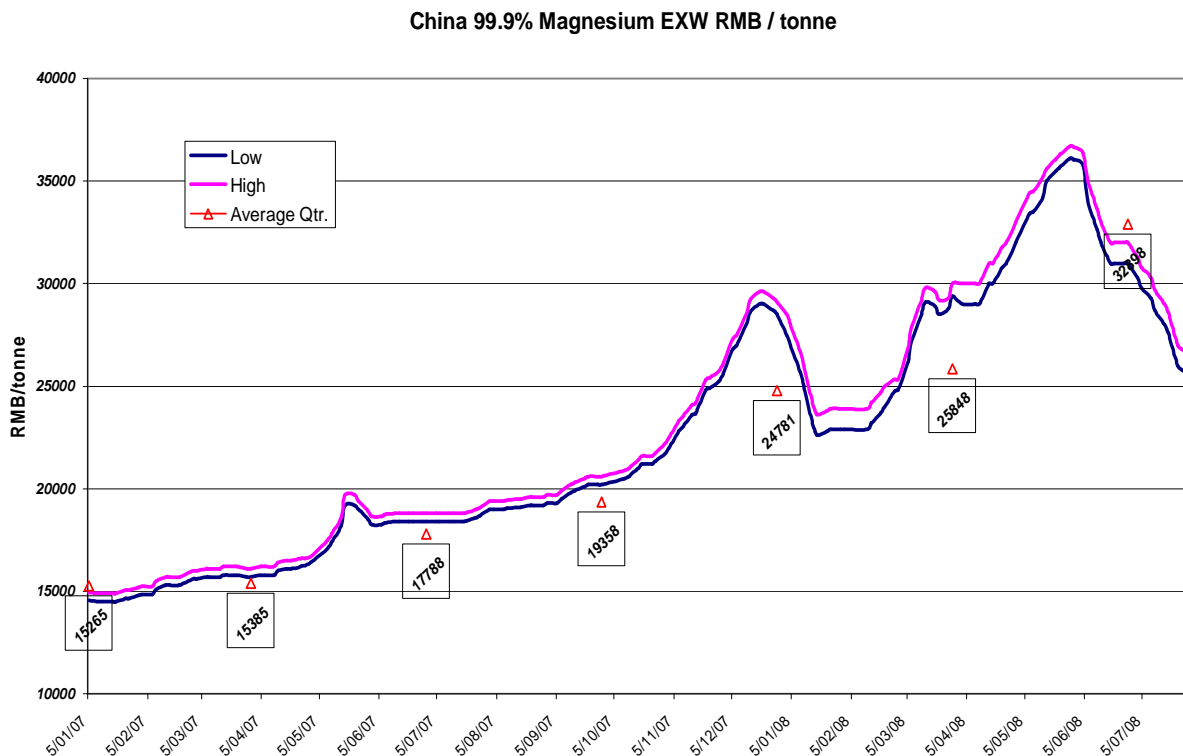
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## Magnesium Metal Market Update

Quay's largest input for its manufacturing process is pure magnesium metal.

The price of pure magnesium has exhibited considerable volatility over the past year. The exit of Norsk Hydro from the magnesium industry in H1 2007 triggered a steep rise in the price of pure magnesium. In 2007 the price of pure magnesium increased from 15,000 to over 35,000 RMB per tonne.

Recently, the price has retraced and pure magnesium is currently trading at approximately 26,000 RMB per tonne. The overbuying seen early this year and subsequent correction in part reflects European customers responding to anticipated production shutdowns in China around the time of the Olympics to reduce pollution. At this time no shutdowns have been reported and as a result excess stocks are currently being held by suppliers and consumers, putting downward pressure on prices. Magnesium prices have recovered from unsustainable lows seen in recent years and are now at a level which should see much more stability in the industry.



## Joint Venture Update

As announced to the ASX on 04 July, Quay and our intended partner in a pure magnesium plant, are proceeding with the drafting of joint venture documentation. This has not met with any significant problems and it is anticipated it will be complete in August, 2008.

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