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ASX RELEASE

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Update on Chinese Subsidiary

At Quay Magnesium Limited's (Quay) Annual General Meeting on 26th November, 2010 shareholders approved a subscription agreement between Quay and Quay's largest shareholder, Clever Talent Limited. Clever Talent subsequently failed to complete this agreement by depositing the required subscription funds with Quay by the due date. As these funds were critical for Quay's continuing operations the company's shares were placed into a trading halt and then suspended on 17th December, 2010.

In the weeks following Quay's suspension repeated attempts were made to encourage Clever Talent to perform – ultimately all proved unsuccessful. Quay terminated the subscription agreement on 1st February, 2011 and began to search for other sources of capital. Quay was not successful in sourcing new funds. Because these funds were essential for Quay's operations, the company defaulted on payments to both its bank and suppliers and as a result operations in Nanjing ceased and the workforce was laid off.

Directors have continued searching for new investors and discussions have been held with several interested parties over recent months but regrettably nothing has come to fruition. At the same time that these discussions were underway Quay's bank in Nanjing has embarked on legal action because of the default on the company's loan. This loan included a mortgage over the Nanjing plant land and buildings.

As reported in Quay's ASX release dated 19th May, 2011 the Board decided to start the process of liquidating Quay's Chinese subsidiary. This is a lengthy process and was done to protect the interests of shareholders in the event of failed capital raising negotiations. The Board has always considered that the liquidation of assets by an independent administrator may yield a better result for shareholders than having a bank foreclose on the land and buildings and acting unilaterally. Because of the time elapsed, impending action from the bank and the lack of success in securing new funding Quay applied for its Chinese subsidiary, Nanjing Quay Magnesium Co Ltd, to be placed in liquidation and the courts have now agreed to this request.

A recent valuation of the land and buildings and the book value of equipment held in Nanjing is substantially in excess of liabilities in China so it is hoped that on liquidation a surplus will result. Ultimately, however, there is considerable uncertainty as to what may be realised from any sale of assets in China and it is therefore impossible to predict a final outcome at this time.

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