

**ION Limited and its Australian
subsidiaries (In Administration)**

Creditors Update
31 January 2005

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1 Introduction

On 7 December 2004, Messrs Colin Nicol and Peter Anderson of McGrathNicol+Partners were appointed Administrators to ION Limited and all of its 22 Australian subsidiary companies as listed on Appendix 1 (collectively, "ION Group"). The following additional partners of McGrathNicol+Partners were appointed to ION Group subsidiaries as follows:

Robyn McKern (Melbourne) and Murray Smith (Sydney)	Cootes Holdings Pty Ltd Stevenson Transport Pty Ltd Cootes Tanker Services Pty Ltd Cootes Transport Pty Ltd IR Cootes Pty Ltd Liquip Sales Pty Ltd Liquip Service Pty Ltd Liquip Corp Pty Ltd Liquip Sales (Vict.) Pty Ltd Liquip Overseas Pty Ltd
Sam Davies (Adelaide)	Castalloy Limited Castalloy Wheels Pty Ltd Castalloy Manufacturing Pty Ltd
Michael Hill (Canberra)	ION Automotive Systems Pty Limited ION Transmissions Pty Ltd Thomson & Scougall Industries Pty Ltd

We have not been appointed to ION Limited's 7 subsidiaries in New Zealand and the USA, in respect of which alternative arrangements have been made as set out in this Update.

On 22 December 2004 the Administrators obtained Federal Court orders from His Honour, Justice Finkelstein, extending the period for convening the second meetings of creditors until 1 April 2005.

In our application for this extension, the Administrators indicated to the Court that they would be providing detailed monthly updates to creditors during any extended period for convening the second meetings of creditors. The first such update is set forth below. Further updates will be provided to creditors in due course.

Creditors should note that this is not the Report to Creditors pursuant to section 439A of the Corporations Act, which will be provided to creditors when the second creditors' meeting is convened.

2 Administrators' progress

To date, the Administrators have been concentrating on the following key areas:

- Stabilising the operations of ION Group in Administration;
- Strengthening controls, including financial control;
- Implementing Profit Improvement Programmes;
- Completing the sale of the ION Energy Services business;
- Preparing for sales of other ION Group businesses and/or recapitalisation, with the assistance of Credit Suisse First Boston ("CSFB");
- Resolving the Altona engine block plant's status;
- Resolving the status of ION Limited's subsidiaries in New Zealand and the USA;
- Liaising with creditors' committees; and
- Commencing our investigation into the affairs of ION Group and the events which led to its insolvency.

Further details on each of these headings is provided below, together with a summary of our next steps.

3 **Stabilisation of operations**

At the time of our appointment, ION Group's business operations were as follows:

<i>Group Head Office</i>	Centralised executive and financial management.
<i>ION Energy Services Group</i>	<p>Comprising operations in fuel transport, refuelling services and fuel equipment manufacture, trading as Cootes Transport, Stevenson Transport and Liquip.</p> <p>The Energy Services Group was sold on 27 January 2005.</p>
<i>ION Automotive Group</i>	<p>The Automotive Group comprises the following automotive component manufacturing operations:</p> <ul style="list-style-type: none"> ▪ ION Transmissions, which manufactures transmissions and related products at its Albury factory, with a research and development facility at Springvale, Victoria. ▪ The Castalloy business, comprising the Plympton casting foundry in South Australia, which manufactures motorcycle wheels and various automotive parts. A second factory at Kilkenny, South Australia, is part of the Castalloy business. ▪ The Auckland, New Zealand, factory produces alloy wheels for US and Australian markets. ▪ A factory is under construction at Warsaw, Kentucky, USA which will make large diameter alloy wheels for SUV markets in North America. ▪ At Wingfield in South Australia, a plant was recently constructed which manufactures automotive castings such as cylinder heads and inlet manifolds; and ▪ At Altona, Victoria, a site is under construction which is intended to manufacture cast alloy engine blocks.

Upon appointment, the Administrators took control of the management and operations of all of the companies to which we were appointed. We have teams on site at each Australian operating business. In addition, we have been liaising closely with the directors and management of the Auckland and Kentucky operations to ensure that the value of those businesses is preserved.

We have received pleasing cooperation and support from employees, their unions, and management.

In addition to the support and cooperation of employees, we have received pleasing support from ION Group's customers and suppliers.

The support of customers has been heartening, manifested by:

- uninterrupted production;
- sales volumes proceeding as normal;
- in some cases, acceleration of customer payments;
- acceptance of temporary price increases from the South Australian plants;
- assistance and advice in improving manufacturing performance in South Australia; and
- affirmation of support for the New Zealand and Kentucky operations.

The major customers are naturally concerned about the status of their supply chains and are therefore keenly interested in the process being undertaken to find new owners for the businesses.

With few exceptions, all suppliers have resumed normal trading terms with the Administrators.

We have received advisory assistance from State and Federal governments, including the identification of possible sources of government grants.

A line of credit in the amount of \$20 million will be made available to the Administrators of ION Limited by Westpac (with support from Commonwealth Bank and National Australia Bank) to assist in the ongoing funding of ION Group's businesses (including the New Zealand operations) during the administration period. In addition, Court orders were obtained on 12 January 2005 to facilitate the Administrators providing cashflow funding assistance by way of intercompany loan to ION Group companies with working capital requirements during the administration period (see 12 below).

Upon our appointment, the usual steps were taken to safeguard assets, address retention of title claims, obtain asset valuations and notify statutory and government authorities. We also took backups of all computer systems.

All insurances were reviewed and renewed. We have arranged increased cover where necessary.

At all sites where we are in control as Administrators, reviews of ION Group's occupational health and safety procedures have been undertaken with the advice of Richard Oliver International.

The operations in New Zealand and the USA have not been placed in any form of insolvency administration and therefore remain in the control of their local directors. Nevertheless, the Administrators have arranged for independent reviews of those operations. In the case of New Zealand, we have concluded that it is desirable to keep this business unit out of insolvency so as to maintain its value, particularly in view of New Zealand's insolvency laws not providing for a mechanism such as Voluntary Administration to facilitate reconstruction.

A Standstill Agreement has been negotiated with the former lenders to ION Group pursuant to which those lenders have agreed not to take any step during the standstill period to enforce the guarantees given to them by the New Zealand entities. In addition, the Administrators have put in place arrangements pursuant to which they are able to make limited funds available to the New Zealand operations on a secured basis to meet working capital needs. This additional

funding has been necessary principally because of a change in the trading terms (from 60 days to cash on delivery) of a major raw materials supplier (Comalco Aluminium) to this business.

Consequently, the New Zealand operations can continue to trade under the control of their directors. Detailed financial forecasts for New Zealand have been prepared, and the Administrators are monitoring the performance of its operations by comparison to forecast performance. We have the cooperation and support of the local directors.

In respect of the US operations, we have similarly reviewed its status and have obtained financial and technical advice. This is covered in more detail at 8 below.

In respect of the incomplete Altona plant, work has ceased on this site whilst a review of its viability and commercial arrangements is completed. This is also described further at 8 below.

4 Management and Financial control

We have reviewed the management of ION Group and made certain changes to improve its effectiveness under our control. In so doing, we identified a number of deficiencies in management which in our opinion have been a significant factor in the collapse of ION Group.

The changes we have implemented are principally as follows:

- the administrators have taken direct control of centralised management and also each key business unit in ION Group;
- the head of the ION Automotive Group, Mr Leon Andrewartha, now focuses exclusively on the South Australian plants in view of the significant attention they require. Mr Andrewartha joined Ion Group in November, 2004;
- Mr Mike Tamasi has been promoted to Head of Wheel Operations at North Plympton with a specific brief for quality and profit improvement in that critical business division;
- the heads of Ion Transmissions (Mike Turner) and Altona (Paul Bibby) now report directly to the Administrators;
- Neil Campbell, head of New Zealand and Kentucky (which are not in administration), is liaising closely with the Administrators to ensure that the value of those businesses is preserved;
- new Business Plans have been completed for each unit, incorporating revised forecasts;
- significant effort has gone into Profit Improvement Programmes in the South Australian units, so as to improve their viability and their value;
- a weekly progress reporting regime has been implemented; and
- new financial controls have been implemented across ION Group.

A detailed review of the events leading up to Administration has commenced, as set out in 9 below, and will be covered in detail in future reports to creditors.

It is already evident however that the following management shortcomings existed:

- ION Group's growth strategy greatly exceeded its management and financial capacity;
- the operations in South Australia were significantly unprofitable however ION Group did not provide requisite leadership nor deploy appropriate resources to improve performance, notwithstanding the large losses incurred;
- the evaluation of major new projects was flawed and optimistic;
- ION Group's performance in managing the implementation of new projects was poor, with the exception of Kentucky. The management at Wingfield and project management of Altona improved over time, however significant damage had already been suffered;
- Ion Group did not integrate new acquisitions effectively. Businesses which had been acquired from well managed companies (such as the New Zealand plant purchased from Ford) continued to operate well, however businesses which had a history of problems were not improved by ION Group, and there is little evidence of meaningful synergies being achieved across the Group;

- the financing strategies adopted to fund growth were too high risk and inconsistent with the economic value of the projects; and
- the effectiveness of financial management and financial reporting was weak in several key respects.

We commented on some of these concerns in our Creditors Meetings on 13 December, 2004. The role of the board of directors, and the respective CEOs, is also being reviewed. At the time of our appointment, the former CEO, Graeme Salthouse, was employed by ION Group as a consultant, however we terminated this consultancy. Mr Roger Flynn was appointed as CEO in August 2004. He is on leave pending the completion of the review referred to previously.

In respect of financial management, we had the following key concerns:

- Group financial management did not play an active, leadership role in managing operating performance in the business units and appeared to be relatively passive recipients of financial data, focussed on reporting;
- it is not evident that Group financial management provided strong leadership at Board and corporate level;
- financial forecasting and budgeting capabilities were not strong; and
- we are concerned that financial reports and related information did not accurately reflect the position of ION Group.

As a consequence of the foregoing, we have taken the following steps to improve financial control across the ION Group:

- the Administrators have taken control over all cash and bank transactions;
- new profit forecasts have been prepared;
- detailed cashflow forecasts have been prepared;
- the Administrators now control purchasing;
- the Administrators' staff perform a central Treasury function; and
- financial reporting from all operations is being closely reviewed and managed.

To summarise, our immediate focus has been on shoring up areas of weakness and commencing the work required to improve performance at the South Australian plants.

5 Financial performance and financial position

The financial results for ION Group (and for the Auckland and Kentucky operations) to 30 November 2004 are summarised and commented on below.

Creditors should note that these results were prepared by management prior to our appointment as Administrators, and we have included the results to 30 November 2004 below without review or adjustment except for certain reclassifications which are noted below.

We are currently awaiting Reports as to Affairs on each of the ION Group companies from the directors. Given the complexity and size of this task, the Administrators have extended the period for their completion to 31 January 2005.

5.1 Profit and loss

The results of ION Group for the 5 months to 30 November 2004 are summarised as follows, together with the results of its New Zealand and US subsidiaries:

	Consolidated \$000	Energy Services \$000	Albury Plant \$000	A'land Plant \$000	Plympton \$000	W'field \$000	Ken- tucky \$000	Altona \$000	Head Office \$000
Revenue									
Sales	274,125	79,588	98,074	48,854	35,716	11,893	-	-	-
Other	813	712	-	-	-	95	6	-	-
Depreciation and amortisation	14,194	2,246	6,280	1,871	2,332	947	-	-	518
EBIT from Operations	(6,044)	5,831	(46)	4,117	(10,279)	(3,805)	6	-	(1,668)
Non trading items									
ACIS grant revenue	13,626	416	5,882	-	5,163	-	-	2,165	-
Restructuring charges	(19,566)	-	(5,091)	-	-	(13,062)	-	-	(1,413)
EBIT	(11,984)	6,047	745	4,117	(5,116)	(16,867)	6	2,165	(3,081)
Interest	7,352	502	85	74	425	-	-	-	6,266
Net profit before tax	(19,336)	5,545	660	4,043	(5,541)	(16,867)	6	2,165	(9,347)

As can be seen from the foregoing information, ION Group incurred a loss before tax for the 5 months to 30 November 2004 of \$19.3 million prior to any adjustments as a consequence of the Administration.

We have isolated ACIS grants and restructuring costs in the summary above so as to reflect the underlying trading result. As reflected above, the losses incurred by the South Australian plants (Plympton and Wingfield) were substantial. The EBIT from the operations of the Automotive units amounted to a loss of \$11.7 million for the 5 months. Only the Auckland plant was profitable, albeit at lower levels than budget.

At the time of our appointment, there were neither the management resources nor an effective plan to reverse these losses, except for Albury as noted below. We have focussed on profit improvement initiatives since our appointment with encouraging early results as described at 6 below.

The results of the Albury and Auckland plants have declined over this 5 month period owing to the loss of volume from major customers at each plant. In the case of Albury, it was not profitable for the 5 months to 30 November 2004, however action taken to reduce costs in November has restored that unit to a profitable footing.

During the Creditors meetings on 13 December 2004, we advised creditors that ION Group's forecasts out to 2006 reflected the unexpected need for additional cash of \$183 million. It now appears that these forecasts were optimistic and the need for such cash would have materially exceeded \$183 million.

5.2 **Financial position**

We summarise below ION Group's consolidated balance sheet as at 30 November 2004, including the New Zealand and US subsidiaries which are not in Administration. Again, creditors should note that these figures were prepared by management prior to our appointment. No adjustments have been made to restate carrying values to realisable value or to adjust creditor claims in light of the Administration, however we anticipate that such adjustments will be required, and they will be substantial.

	Nov 2004 \$000
Trade working capital	
Trade receivables	58,476
Inventories	60,579
Trade payables	<u>(84,434)</u>
	34,621
Other working capital	
ACIS receivable	36,080
Other receivables and prepayments	29,863
Other payables and accruals	(31,883)
Provisions	<u>(29,251)</u>
	4,809
Total working capital	<u>39,430</u>
Non current assets	
Research and development	16,317
Fixed assets	520,101
Intangibles	14,295
Other assets and liabilities	<u>-</u>
Total non current assets	<u>550,713</u>
Total funds employed	<u>590,143</u>
Tax balances	9,122
Net debt*	<u>(330,210)</u>
Net assets	<u>269,055</u>

Note: Net debt includes debt of \$32.1 million related to the Altona project which was previously classified as Trade Creditors by ION Limited.

We set out below the carrying value of non current assets at each business unit, as reflected in ION Group's 30 November 2004 management accounts.

	Capitalised R&D	Fixed assets	Intangibles	Total Non current assets
	\$000	\$000	\$000	\$000
Energy Services	-	78,536	14,295	92,831
Albury	10,421	129,388	-	139,809
Auckland	5,804	84,455	-	90,259
Plympton	-	63,779	-	63,779
Wingfield	-	56,808	-	56,808
Kentucky USA	92	37,104	-	37,196
Altona	-	66,428	-	66,428
ION Head office*	-	3,603	-	3,603
	<u>16,317</u>	<u>520,101</u>	<u>14,295</u>	<u>550,713</u>

* Note: Land and buildings held by property subsidiaries have been reclassified to the relevant business units.

The Administrators are currently determining their strategies for the sale or recapitalisation of ION Group with advice from CSFB. We expect to be able to estimate a range of market values for ION Group's assets, however this process is not yet complete and disclosure of this information will need to be restricted so as not to prejudice the sale process.

We do however expect certain carrying values as reflected above to be significantly overstated in comparison to realisable values. Furthermore, there are contingent liabilities which may crystallise, which are not reflected above.

It is therefore premature to provide an estimate of likely return to creditors. Whilst we expect creditors to receive a return, it is likely that creditors will incur losses which may be considerable.

With regard to employee entitlements, it continues to be our view that ION Group's assets will realise sufficient value to meet entitlements in full. It may be necessary for Deeds of Company Arrangement which preserve employee entitlements to be adopted in this regard.

At this juncture it appears unlikely that shareholders will obtain any return.

5.3 **Cross guarantees**

5.3.1 **Class order guarantee**

Under ASIC Class Order 98/1418, relief is available to certain wholly owned subsidiaries of the same holding company from various reporting requirements under Chapter 2M of the Corporations Act if, among other things, the subsidiaries become a party to a prescribed form of Deed of Cross Guarantee with their holding company.

ION Limited and certain of its subsidiaries entered into such a Deed of Cross Guarantee in June 2001. Under Deeds of Assumption in June 2003 and June 2004, certain other companies in the ION Group became parties to the Deed of Cross Guarantee in addition to those that were originally a party to it.

All of the Australian ION Group entities in administration set out at Appendix 1 are parties to the Deed of Cross Guarantee except for ION Finance Pty Ltd, ION Holdings Pty Ltd, ION Investments Pty Ltd and Thomson & Scougall Industries Pty Ltd. In addition, one of the New

Zealand subsidiaries, ION Automotive (New Zealand) Limited (which is not presently in any form of external administration) is also a party to the Deed of Cross Guarantee.

In simple terms, the effect of the Deed of Cross Guarantee is that if a Cross Guarantee Entity is wound up, a creditor of that company is able to make a claim for the full amount owed to it not only against that company (being the principal debtor), but also against each of the other companies which are parties to the Deed of Cross Guarantee.

In the circumstances, it appears that each creditor of an Australian ION Group entity has a contingent claim in the administration of each other Australian ION Group entity which is a party to the Deed of Cross Guarantee. As such, each creditor will have an interest in considering the outcome for creditors of not only the entity with which they are most directly involved, but also the outcome for creditors of all the other Australian ION Group entities which are parties to the Deed of Cross Guarantee.

For this reason, the report to creditors for the second meetings of Creditors will need to deal with the position of creditors from a Group perspective rather than simply on a company by company basis. In addition, because ION Automotive (New Zealand) Limited is also a party to the Deed of Cross Guarantee, creditors of the Australian ION Group entities have an interest in ensuring that the value of the ION Group's New Zealand operations is preserved. As such, some reporting on those operations will also be necessary.

5.3.2 *Lenders' cross guarantees*

ION Group's lenders have the benefit of the Class Order Guarantee referred to above, however they also hold direct guarantees from each Australian subsidiary and from the subsidiaries in New Zealand and the USA. These guarantees are not secured by way of fixed or floating charges.

6 Profit Improvement Programme

Under our direction, each of ION Group's operating Automotive business units is preparing revised business plans which incorporate detailed new forecasts. These documents are being used as the basis for an Information Memorandum which will be made available to prospective purchasers. In addition, a revised business plan has been prepared by management of the Auckland operations to facilitate inclusion of those operations in the Information Memorandum.

The revised Business Plans also include the impact of steps being taken to improve operating performance. We comment briefly on each of the operating businesses below:

6.1 *Albury*

The Albury business unit is responsible for manufacturing transmissions. It is in the process of both updating and diversifying its product range.

The Albury operations are stable and operating smoothly. Since our appointment, production has continued without interruption, notwithstanding the very large number of suppliers involved. Production volumes have been slightly ahead of schedule, thanks to the efforts of its employees.

A small number of suppliers have sought increases in component prices, which we have been dealing with successfully.

Aggressive profit improvement reviews at this site were not necessary prior to a sale because it is running well. In November 2004 a redundancy programme was effected so as to re-align factory resources with current demand.

Volumes fell in 2004 as a consequence of the following:

- loss of volume to customers in North Asia, which are mainly attributed to vehicle model sales in Korea; and
- volumes of 4 speed transmissions sold to Ford have declined marginally as this transmission model approaches the end of its life (2008).

We continue to support the completion of the new 6 speed transmission ION has developed. The Melbourne research and development facility's operations continue to operate normally. Discussions with prospective Asian buyers of this product are continuing.

Since our appointment we have learned that Ford will not be a customer for ION's 6 speed transmission. Ford advised ION Group to this effect in September 2004. We are investigating this matter to ascertain whether it should have been disclosed to shareholders and/or financiers.

ION has commenced building a production line for rear axle differentials. We are currently reviewing the status of this line having regard to the arrangements in place with Holden.

6.2 *Auckland*

The Auckland operations conducted by ION Limited's New Zealand subsidiaries are also operating smoothly with no interruptions. Like Albury, Auckland's recent performance has been adversely affected by poor vehicle sales for some models it supplies.

Again like Albury, we do not anticipate there are substantial profit improvement gains to be derived from efficiency improvements or cost savings, prior to a sale.

As noted previously in this update, we have been able to keep the New Zealand subsidiaries out of an insolvency administration as a result of the following:

- banks agreeing to refrain from enforcing guarantees under a Standstill Agreement; and
- Administrators' funding short term working capital requirements on a fully secured basis.

Having regard to New Zealand's insolvency laws, we believe it is in ION Group's creditors' interests for those companies to continue operating under the control of their directors.

A revised budget has been prepared by New Zealand management. McGrathNicol+Partners' colleagues in New Zealand have been engaged to review these budgets and monitor performance so as to report to us as shareholders and providers of funding to the Auckland business.

6.3 **Plympton**

ION Group's operations at North Plympton are receiving a high degree of attention from the Administrators. They have continued to operate without disruption.

As shown at 5.1 above, the Plympton operations incur substantial losses. On a full year basis, these losses are in the vicinity of \$20 million per annum after removing the effect of ACIS grant revenue received in respect of Wingfield.

We have therefore adopted the following approach:

- we have increased selling prices for all customers so as to place Plympton on a cash neutral footing during the Administration, and so as to allow time to review its operations and improve its performance without diminishing creditor value. These price increases have been accepted by customers for the time being but may not be sustainable at this level in the long term;
- we have restructured the on-site management of this operation to give greater focus on its two core operations: Wheels and Hollow Casting. This restructure has been well received by customers, employees and unions.
- an intensive programme has commenced to review the operations of Plympton and improve its performance. In this regard we have had valuable assistance from the following sources:
 - major local and global customers have generously provided their manufacturing process expertise; and
 - employees and their unions have demonstrated their ability and willingness to achieve change.

Pleasingly there is clear scope to improve operating performance without significant capital expenditure. This process is by necessity being conducted in a compressed timeframe, and it is not realistic to expect it to be complete by the time the businesses are sold, however we anticipate being able to demonstrate the potential for more profitable operations by the time purchasers become involved.

We have already commented on ION Group's weak financial management capability. To illustrate this at a grass roots level, at Plympton it is currently impossible to determine the profitability of individual products, customers or production activities. This is naturally of concern in an industry where high volumes, relatively low margins and competitive price tendering are the norm, so remedial costing work is now being undertaken.

The last matter we note with regard to Plympton is that there is an environmental issue which as yet is unresolved. The EPA has taken action in respect of complaints from surrounding residents about noise and odour. This is being evaluated. The Administrators have engaged in dialogue with the EPA and are working through the issues to find an appropriate long term solution. This requires considerable work. It is imperative for a successful sale of Plympton that this issue be resolved in the near future. The Administrators have also pro-actively engaged in discussions with the local residents.

6.4 Wingfield

As creditors are aware, the Wingfield operation is one of ION Group's greenfield sites. The cost of its development to date is approximately \$93 million, of which \$36 million has been written off.

As noted at 5.1 above, Wingfield incurs substantial losses. Some of its issues are similar to Plympton, particularly in regard to depth of management capacity, product pricing and costing information. There are also certain manufacturing issues that will require capital expenditure to overcome. Pleasingly, recent management changes are having a beneficial impact.

We continue to work through these issues to determine whether it will be possible to find a buyer for the plant including whether production from other sites can be moved to Wingfield to achieve more acceptable results.

Again, to illustrate the ineffectiveness of ION Group's past operational control, in our work to find cost savings we have found an instance where equipment has been hired at a cost of approximately \$200,000 per month. We have sourced the same equipment at approximately one tenth of this cost. Naturally, we are investigating this to determine whether any improper transaction has occurred.

6.5 Combined cashflow

Based on the changes outlined above and our detailed re-forecasting, we anticipate that, on a combined basis, ION Group will trade on a cash positive basis for the six months ending 30 June 2005.

7 ION Energy Services

As previously announced, we agreed a sale of the ION Energy Services business to CHAMP Private Equity. This sale completed on 27 January 2005.

Prior to our appointment as Administrators, ION Group had negotiated a sale of the shares in those entities which operate the ION Energy Services business on terms which may be summarised as follows:

	\$000
Purchase price, net of leases to be assumed by purchaser	155,000
Minimum working capital to purchaser	<u>(16,000)</u>
Net price to ION Group	<u>139,000</u>

As part of this agreement, ION Group had agreed to provide extensive warranties, capped at \$100 million, and to provide a bank guarantee in respect of warranties of \$7 million.

The Administrators determined that consummating a sale to CHAMP Private Equity was in the best interests of creditors for the following principal reasons:

- advice from management and customers was that delaying this sale would jeopardise value owing to the critical strategic nature of ION Energy Services' business activities (fuel transport and aircraft refuelling in particular) in circumstances where the majority of revenue is under contracts which may be cancelled at the customers' option in the event of an Administration;
- the market appeared to have been widely canvassed prior to the appointment; and
- we entered into discussions with the underbidders and confirmed that they would not offer a superior contract.

Accordingly we agreed terms with CHAMP Private Equity which were as follows:

- the net price of \$139 million was unchanged except that a property was to be excluded from the sale (approximately \$4 million in value, which will be separately sold);
- the warranty cap has been reduced from \$100 million to \$15 million and no bank guarantee would be provided;
- the sale was changed from a sale of shares to a sale of assets since the Administration made a share sale impossible in the required time frame. There are consequential costs (notably stamp duty) amounting to approximately \$6 million flowing from this requirement which the Administrators agreed to meet, together with further adjustments for set offs and payments necessary to preserve goodwill; and
- \$15 million of the purchase price is to be paid over 2 years in equal instalments, by means of interest bearing vendor notes.

This gives rise to a surplus over net assets of approximately \$50 million and as noted previously it is a superior outcome to competing offers.

Distribution of these funds to creditors must await the outcome of the second meetings of creditors and determination of creditors' proofs of debt. As noted previously, the effect of the cross guarantees is that proceeds from the sale of the ION Energy Services business will be available to all ION Group creditors.

8 Sites under development

8.1 *Altona Engine Block Plant*

As creditors are aware, ION Group was well advanced in construction of a greenfield plant to manufacture aluminium engine blocks. The plant's principal customer was to be Holden, who recently constructed a nearby Engine Assembly Plant.

We have previously advised creditors that the construction duration and cost significantly exceeded forecasts, and that the underlying economics of the project were dubious prior to the overruns.

The plant's design capacity was extended from 200,000 units per annum to 350,000 units, in a building which could house a plant making 700,000 units. The original planned cost of \$90 million is now estimated at \$160 million. All of the funding for this expansion was to be borrowed.

Since our appointment we have taken the following action:

- site construction has been halted;
- plant suppliers were advised to cease manufacture and shipments to ION whilst we determined the Altona project's future;
- the project management status and capability were evaluated;
- we reviewed and revised the plant's financial projections;
- we entered into dialogue with Holden at senior levels to determine whether price and/or volume increases could be obtained which would make the project commercially viable;
- we spoke with government Ministers and various officials to determine what assistance may be available from State and Federal governments; and
- we met with representatives of certain Northern Hemisphere manufacturers of similar product to determine whether they may be interested in acquiring the plant.

The very significant price increases required to make the project viable at likely local volumes could not be accepted by Holden. Holden has worked with its parent company to determine whether additional volume can be put through the plant from General Motors' offshore affiliates, however ultimately this was not possible.

At the time of writing, one of the overseas manufacturers is in discussion with us and is reviewing the project to determine whether it may wish to take a financial interest in it.

8.2 *Kentucky, USA operations*

At the time of our appointment, ION Limited's subsidiaries in the United States were in the process of completing a new plant in Warsaw, Kentucky. This plant is intended to supply Ford with large diameter wheels for its SUV products. It would also have capacity to supply other customers.

The plant is a modern design with automated materials handling, and has reached the stage where wheel manufacture at small volumes has commenced. The cost of its development to date is AUD35 million, and AUD34 million is required to ensure the plant is operational by July 2005 to commence production on the timetable agreed with Ford. The facility will then ramp up over 3 stages with full commissioning expected to be completed in July 2006. It is estimated that the last stages will require an additional AUD 15 million to complete.

The Kentucky plant is not in an insolvency administration. Following our appointment, local management has engaged a financial adviser, Mesirow Financial, to review its operations, and we have had access to their work. We also have one of our McGrathNicol+Partners senior managers on site at Kentucky.

In order for the Kentucky plant to proceed, additional funding is required as mentioned above. Our enquiries indicated that third party funding is unlikely, noting the parent company, ION Limited, is in Administration and will be offering the Kentucky business for sale. The following work has been done to review the status of the Kentucky plant to assist us in deciding whether or not to provide financial support which would allow the project to proceed:

- we have obtained Ford's views on the plant and established its desire to take the product, with positive results;
- an independent engineering assessment has been completed on our behalf, which was also positive;
- we have reviewed the financial forecasts in detail. These were found to be inaccurate in respect of key assumptions. Revised forecasts have been prepared which remain positive; and
- we have obtained CSFB's views on the ability to sell Kentucky and its impact on the ability to sell other ION Group wheels units as a package.

These issues and related material have been discussed at length with the Creditors Committees.

We are most mindful of the risks involved in committing to fund this project, however on balance it is our judgement that it is in the best interests of creditors of the ION Group that the completion of the project be funded, provided Ford's commitment is assured. Completion of the Kentucky plant is likely to enable a combined wheels business to be assembled and sold. Market soundings from potential purchasers are clearly supportive of a wheels business which has the benefit of US presence, market access and growth potential. The investment in Kentucky is expected to have a positive impact on overall sale proceeds.

As noted previously, ION Limited's US subsidiaries are not party to the Deed of Guarantee flowing from the ASIC class order. As such, creditors of the Australian ION Group entities cannot rely on the Class Order Guarantee to make a claim for their debts against the US subsidiaries. However, these subsidiaries have provided guarantees to the former bankers to the ION Group and therefore, these banks are creditors of the US subsidiaries. Consequently, any surplus on sale of the US operations, after repayment of secured loans to be advanced by the Administrators, will flow to the banks and any trade or other creditors of the US subsidiaries.

This was discussed in depth with the Creditors Committees. It was considered to be in the interests of all creditors to proceed with funding the Kentucky plant's completion owing to the reduction in bank debt which may arise and in view of the anticipated beneficial impact of a

completed US plant on the values of the New Zealand and potentially Plympton operations, both of which are conducted by entities which are parties to the ASIC class order guarantees.

When Creditors Committees members' views were sought, a substantial majority in number and value supported proceeding with funding of the US plant's completion. A small number of Committee members (4) abstained from providing an opinion. No Committee member opposed the proposal.

We have consequently decided to proceed with completion of the Kentucky plant, provided we can obtain adequate assurance of Ford's support for ION Group's wheels business.

9 Forensic review

In accordance with their obligations under the Corporations Act, the Administrators have commenced an investigation into the affairs of the ION Group and, in particular, the events which led to its insolvency. The Administrators have retained Allens Arthur Robinson to assist in the conduct of the investigation and to identify potential claims which the ION Group companies (or any liquidator appointed to them) might have. Allens Arthur Robinson, have, in turn, engaged KPMG Forensic to assist them in the review of financial and other information relating to the investigation.

The matters being reviewed focus on the following:

- establishing the point at which ION Group became insolvent;
- determining whether there are any transactions which a liquidator would pursue for recovery (such as preference payments, uncommercial transactions, insolvent trading); and
- advising whether there are other causes of action against parties arising from the failure of ION Group.

As part of this process, there will be a detailed review of ION Group's governance and reporting.

This review process is gathering momentum. It has commenced with forensic examination of electronic records (as we had taken electronic images of all head office servers and computers) and already material of interest is emerging.

ASIC has met with the Administrators to obtain a briefing on the investigation being conducted and has requested to be kept informed of this review process.

10 Sale or recapitalisation

Preparations are well under way to place ION Group's businesses on the market together with the Auckland and Kentucky operations. As noted previously, revised business plans and information memoranda are well advanced.

The Administrators have engaged CSFB, the global investment bank, as our sale advisors.

CSFB is making good progress in reviewing the assets for sale and will shortly be advising us on the best method of realising the businesses. They are also advising us about the anticipated realisable values.

We have received encouraging interest on an unsolicited basis. A database of all the parties who have contacted us has been compiled and provided to CSFB.

At the end of January, CSFB anticipate commencing testing the markets for interest in the various businesses, canvassing both automotive industry companies and financial investors internationally.

The businesses to be offered for sale through this process are unlikely to include the Altona plant, which is being dealt with separately. The process is likely to allow prospective purchasers the flexibility to acquire the Automotive Group in its entirety, or in other combinations. In this regard, a combined Wheels business comprising the plants in Kentucky, New Zealand and Plympton is being considered.

We anticipate by late March or early April that the outcome of the sale process will be evident.

Creditors should also be aware that a small number of parties have raised the possibility of recapitalising ION Group or parts thereof. We welcome such initiatives, and will make the Information Memoranda available to parties who can demonstrate the ability to achieve such a restructure. In the event such a proposal emerges, creditors should note that a Deed of Company Arrangement would most likely be required to give effect to a recapitalisation. Creditors should also note that their interests will be superior to the interests of existing shareholders in the event of such a proposal. Clearly, a proposal which re-floats shareholder value at the expense of creditor returns is unlikely to find support amongst creditors at the second creditors meeting.

11 Creditors Committees

As creditors are aware, Creditors Committees were established for most of the ION Group companies involved in the following operations:

- ION Energy Services business;
- the Albury transmission business;
- the South Australian plants; and
- ION Head office, incorporating Altona.

Each Creditors Committee member has completed a Confidentiality Deed and has been advised of their statutory responsibilities.

The Committees comprise a good cross-section of suppliers, employee unions, financiers and government authorities.

Eight Creditors Committees meetings have been held to date. Except for the first meeting, Committee meetings have been held concurrently and from a practical perspective the Committees are working well.

In addition to keeping Creditors Committees informed about developments, views have been specifically obtained in relation to the following:

- the extension of the convening period for the second creditors' meeting;
- the Administrators' application to the Court in relation to the funding of ION Group's working capital requirements (see 12 below) and
- the decision to proceed with provision of funding to enable completion of the Kentucky plant.

The Administrators wish to acknowledge the time commitment and valuable input Committee members have provided.

12 Other matters

On 12 January 2005, the Federal Court heard the Administrators' application pursuant to section 447A of the Corporations Act in connection with the ongoing funding of the ION Group. As mentioned above, in order to fund the ongoing operations of the ION Group during the administration period, the Administrators of ION Limited have obtained a \$20million line of credit from Westpac, and the Administrators of the ION Group intend to make funds available by way of intercompany loan to those ION Group companies with working capital requirements.

The Court application heard on 12 January was made to ensure that the amounts borrowed by the Administrators (whether from Westpac or from a company within the ION Group) are regarded as debts for which the Administrators have personal liability and in respect of which the Administrators have an indemnity out of and a lien over all of the assets of the ION Group companies which are parties to the ASIC class order guarantee mentioned above.

The Court made the necessary orders on 12 January 2005 in respect of intercompany loan funding and is expected to make similar orders in relation to the Westpac funding shortly. In the meantime, we point out that creditors are at liberty to apply to the Court in relation to these orders on reasonable notice. We also advise creditors that the Administrators propose making a further application to the Court shortly in relation to their remuneration. In view of the lengthy period of this Administration, the Administrators intend to seek Court orders permitting their fees to be approved by Creditors Committees on a progressive basis. This application is likely to be made in early February and we ask that any creditor wishing to be heard in relation to this application contact our office no later than 7 February 2005.

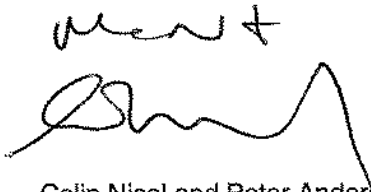
13 Next steps

The Administrators' immediate priorities are as follows:

- to continue managing the ION Group businesses towards improved performance;
- to advance the process of finding new owners for ION Group's businesses (including Auckland and Kentucky), with the assistance of CSFB;
- manage the completion of the Forensic review; and
- to prepare a detailed report for creditors in preparation for the second meeting of creditors.

At the second meetings of creditors you will be required to vote upon the outcome for ION Group's companies in Administration. By that time we anticipate that progress with the sale process will enable us to determine whether Deeds of Company Arrangement or Liquidations are in the best interests of creditors. It is too early to determine at this stage which of these alternate courses of action is likely to be recommended by the Administrators.

We will continue to keep creditors informed by means of further updates such as this, the second to be issued at the end of February. We will also continue to liaise with the Committees of Creditors as we go forward.



Colin Nicol and Peter Anderson
Joint Administrators

A Appendix 1

Administrators have been appointed to all of the companies set out below (collectively "ION Group")

Parties to Class Order Guarantees

	ACN
Ion Automotive Systems Pty Limited	104 930 109
Ion Transmissions Pty Ltd	099 982 180
Cootes Holdings Pty Ltd	005 912 934
Stevenson Transport Pty Ltd	006 271 352
Cootes Tanker Services Pty Ltd	004 495 765
Cootes Transport Pty Ltd	010 383 016
I.R. Cootes Pty Ltd	004 801 076
Liquip Sales Pty Ltd	001 595 222
Liquip Service Pty Ltd	082 859 989
Liquip Corp Pty Ltd	082 859 970
Liquip Sales (Vict.) Pty Ltd	005 691 761
Liquip Overseas Pty Ltd	094 440 589
Ion Limited	009 106 272
Ion Automotive Group Ltd	104 279 156
Ion Light Metal Castings Pty Ltd	104 930 181
Core Cast Ltd	097 447 660
Castalloy Limited	007 528 583
Castalloy Wheels Pty Ltd	007 894 984
Castalloy Manufacturing Pty Ltd	007 838 986

Not subject to Class Order Guarantees

Ion Finance Pty Ltd	102 217 694
Ion Holdings Pty Ltd	103 289 578
Ion Investments Pty Ltd	105 824 511
Thomson & Scougall Industries Pty Ltd	000 091 314