

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

Creditors Update
31 March 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 in 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)	XCHO Pty Ltd formerly Cootes Holdings Pty Ltd XST Pty Ltd formerly Stevenson Transport Pty Ltd XCTS Pty Ltd formerly Cootes Tanker Service Pty Ltd XCTA Pty Ltd formerly Cootes Transport Pty Ltd XIRC Pty Ltd formerly IR Cootes Pty Ltd XLS Pty Ltd formerly Liquip Sales Pty Ltd XLSE Pty Ltd formerly Liquip Service Pty Ltd XLC Pty Ltd formerly Liquip Corp Pty Ltd XLSV Pty Ltd formerly Liquip Sales (Vic.) Pty Ltd XLO Pty Ltd formerly 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 previous Updates.

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. On 22 March 2005, this convening period was extended for a further 29 days, until 29 April 2005, by His Honour, Justice Finkelstein.

We have been providing detailed monthly updates to creditors during the extended period for convening the second meetings of creditors. Our previous updates at 31 January 2005 and 28 February 2005 are available on the following websites: www.ionlimited.com.au and www.mcgrathnicol.com.au. The third update as at 31 March, 2005 is set out below.

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' meetings are convened. The second creditors meetings are likely to be held on 6 May 2005.

2 Administrators' progress

Since the February Update, the Administrators have been concentrating on the following key areas:

- Managing the operations of ION Group in Administration;
- Managing the process to sell the ION Group businesses, with the assistance of Credit Suisse First Boston ("CSFB");
- Implementing Profit Improvement Programmes in the Castalloy business in South Australia;
- Reviewing completion statements for the ION Energy Services sale and attending to post sale obligations and payment of administration creditors;
- Continuing to monitor the operation of ION Limited's subsidiaries in New Zealand and the development in the USA with a view to facilitating a sale of those businesses;
- Resolving the status of the Wingfield plant;
- Preparing for the second meetings of creditors;
- Liaising with Creditors' Committees; and
- Continuing with the investigations into the affairs of ION Group and the events which led to its insolvency.

Further details on each of these areas is provided below.

3 Management of operations

The ION Group businesses continue to operate smoothly with the support of employees, unions, suppliers, customers and financiers, which is greatly appreciated.

As previously reported, the sale of ION Energy Services occurred on 25 January 2005, and as a result we no longer manage those operations. The process of finalising net working capital collections and settling completion accounts is approaching conclusion.

The operations which are managed by the Administrators are as follows:

ION Transmissions This business produces transmissions at its Albury factory. Production is continuing at planned levels and profitability has met forecast levels. Development of new products continues at the Springvale site.

Castalloy The casting foundries at Plympton and Kilkenny in South Australia have also been operating smoothly. Progress in improving production efficiency and achieving cost reductions, is accelerating pursuant to a Profit Improvement Programme. A specialist adviser, Sydney Consulting, is assisting the Administrators to identify and implement improvements. There is considerable potential for ongoing performance gains, which will emerge over the months ahead.

In March there were a number of developments with regard to environmental issues at the North Plympton plant. Litigation continues in relation to appropriate noise and odour emission levels. Local residents have been active in raising these concerns for the last 1 to 2 years.

A new environmental licence could be obtained immediately were we to agree to plant modifications. The cost of remediation may be substantial.

We are considering alternative means of meeting the emissions requirements of the EPA

More time is required to work through these issues and determine an appropriate course of action. Determining the attitude of prospective purchasers, and the further cooperation of unions and the EPA, is necessary so as to arrive at an optimal outcome.

We anticipate the issues are capable of resolution such that Plympton remains operational and will be viable and saleable, however, more time will be required to reach that point.

Wingfield In late March it became necessary to abandon our efforts to sell this plant as a going concern, and we announced plans to close this operation with effect from July 2005. Further details are set out at section 6 below.

As noted in our previous Updates, ION Group's subsidiaries in New Zealand and the USA are not in any form of insolvency administration. Their status is as follows:

ION New Zealand This plant continues to operate profitably. Technical difficulties with machinery which were reported in February resulted in under performance against forecast, but this problem is being resolved. Representatives of McGrathNicol+Partners in New Zealand continue to monitor these operations and we have the co-operation of local management.

ION USA The work to complete this plant is on schedule with the ongoing support of Ford USA. Funding is being provided by the Administrators on a secured basis.

4 Financial performance

Set out below are the actual results for the month of February 2005, compared with the forecasts recently prepared by the Administrators:

Consolidated Automotive Group	Feb 05 Forecast \$'000	Feb 05 Actual \$'000
Sales	42,543	42,211
Depreciation and amortisation	<u>2,812</u>	<u>2,753</u>
Operating EBITDA	627	1,939
ACIS revenue	1,058	606
Administration costs	-	(1,567)
Restructuring	-	(3)
EBITDA	<u>1,685</u>	<u>975</u>
Movement in working capital	<u>12,286</u>	<u>7,035</u>
Trading cashflow	13,971	8,010
Capital Expenditure and Research & Development	<u>(7,848)</u>	<u>(8,414)</u>
Operating cashflow	<u>6,123</u>	<u>(404)</u>

As can be seen from the foregoing, operating Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) exceeded forecast during February.

ACIS revenue accrual fell below forecast, as we had forecast the continuation of the Differentials Project in Albury. It should be noted that the reported ACIS revenue represents entitlements which will ultimately be recovered over a period of 3 years provided the relevant businesses remain eligible.

Administration costs of approximately \$1.6 million recorded in February relate to the conduct of the Administration. These costs were principally legal fees, valuation costs, insurance, security and other advisers' fees incurred between 7 December 2004 and 28 February 2005. The consolidated forecasts do not include costs of the Administration process which will be accounted for as incurred.

The working capital variance is primarily a timing difference which will reverse in other periods.

Consolidated capital expenditure was broadly in line with forecast, and includes \$7.4 million capitalised costs associated with the Kentucky project. Favourable capital expenditure variances in Albury due to termination of the Differentials project are offset by higher than forecast capital expenditure in Kentucky due to the catch up of the project during February. The total cost of the Kentucky project remains in line with forecast. Funds of \$10.5 million have been advanced to ION in Kentucky on a secured basis to fund the project.

Energy Services working capital collection resulted in a net cash inflow of approximately \$5 million in February. This is not reflected in the consolidated automotive group results shown above. Closing cash for the consolidated ION Group amounts to approximately \$123.7 million.

The major contributors to operating EBITDA were as follows:

	Feb 05 Forecast \$'000	Feb 05 Actual \$'000
Albury	1,003	1,582
New Zealand	1,796	1,426
Plympton	195	394
Wingfield	(1,260)	(1,267)
Head office and other	<u>(1,107)</u>	<u>(196)</u>
	<u>627</u>	<u>1,939</u>

Albury's performance was very pleasing, while New Zealand's was approximately 20% down on expectations, largely caused by machine line performance issues (which are receiving management attention) and partly by variability in customer off take. Plympton was marginally ahead of forecast (effectively cash neutral after price surcharges) while Wingfield incurred a further substantial loss notwithstanding 50% price surcharges we were able to agree with customers.

With regard to forecasting, we noted in previous Updates that the financial accounting at Castalloy has significant shortcomings. It has therefore been necessary for the Administrators to develop new forecasting models and forecasts at this site, which has delayed the process, and continues to require our attention. In addition to the gaps in source information, forecasting is complicated by uncertainties surrounding the outcome of EPA issues and possible changes to product mix, amongst other things.

5 Sale of businesses

The process to sell or recapitalise ION Group and its off-shore operations is making satisfactory progress. During March, the following steps were achieved:

- Indicative bids were received from a pleasing number and quality of potential purchasers, and a shortlist of prospective purchasers has been approved;
- Data rooms have been opened containing a substantial volume of financial, commercial, legal and technical documents for each business unit;
- Shortlisted bidders have commenced the review of data room material; and
- Site visits, management presentations and key customer meetings are all in progress.

The indicative bids include several permutations, as follows:

- there is interest from both industry buyers and financial buyers;
- there were bids for the entire group including a recapitalisation proposal;
- there are bids for combinations of business units; and
- there are bids for individual business units.

We anticipate that final bids will be received by mid April.

It remains too early to determine the outcome of the sale process, although the present status is encouraging.

With regard to the operations at Plympton and Kilkenny, the inherent uncertainties concerning the EPA's requirements, and the extent of performance gains which can be achieved, amongst other things, may necessitate slowing down the process to sell this unit. It may achieve a better outcome with the benefit of a further 3 or 4 months to implement changes to enhance viability and value.

Unlike Wingfield, there is significant scope at Plympton to effect improvements which will make it more attractive and valuable to new owners.

6 Closure of Wingfield

On 29 March 2005 we announced that the efforts to sell Castalloy's Wingfield plant as a going concern were unlikely to succeed, consequently an orderly wind down of the facility is being implemented.

We had obtained indicative bids for the plant and initiated preliminary negotiations with those parties, however the bidders and the plant's major customers were not able to come to terms on viable future supply arrangements.

As a consequence of the substantial trading losses presently incurred at the Wingfield operation, it became necessary to prepare for the closure of this plant with effect from 31 July 2005.

Wingfield employs 150 permanent staff and a further 250 contractors or casual staff. Employee entitlements are secure and counselling and outplacement services for all employees are in place. Staffing at the plant has far exceeded the original business case for the plant which envisaged a workforce of approximately 80 staff.

We again thank employees for their efforts in very difficult circumstances and regret that Wingfield could not remain operational. Special thanks are due to those who worked tirelessly to overcome the many production problems.

The Wingfield plant is one of ION Group's greenfield projects and has been plagued with difficulties from the outset. The difficulties at Wingfield and the aluminium engine block project at Altona have been among the major causes of the collapse of the ION Group. Wingfield manufactures castings for cylinder heads, inlet manifolds and oil pans.

Since our appointment, we have increased customer selling prices by 50%, but despite this very significant price rise, the plant continues to operate at losses of approximately \$18 million per annum.

Since commencing operations in 2004, the Wingfield site has experienced difficulties, including:

- the original investment decision was based on flawed analysis (for example, it assumed a workforce of approximately 80 employees when the required number is presently 400);
- there were extensive delays and cost overruns in commissioning the plant. The final estimated capital cost is \$110 million compared with the original plan of \$65 million;
- further capital expenditure of \$15 million is required to complete the plant at which point it would remain uncompetitive on price and quality;
- there have been substantial difficulties with the plant's design and production technology;
- the plant has experienced crippling reject rates and ongoing quality and production problems; and
- as noted, financial losses have been unsustainable.

We acknowledge the strong support from key customers Holden and Bosch, the South Australian and Federal governments and the AWU, however the scale of Wingfield's difficulties proved insurmountable.

We have made arrangements to operate Wingfield until July, to facilitate an orderly closure of the facility and prevent disruption amongst customer supply lines. This arrangement has the support of the AWU and of the major customers Holden and Bosch, who will absorb the costs of this run-off plan. An immediate reduction of 60 casual staff is unavoidable. Arrangements are well advanced with the remaining employees to retain their services during the run-off period. Again, pleasing commitment is evident from employees.

We have pursued every available option to avoid closing the Wingfield plant and were left with no alternative but to take this regrettable action to arrest losses for the benefit of creditors.

The plant remains on the market and our sale advisers, CSFB, continue to treat with prospective purchasers who will consider alternative uses for the facility.

7 Forensic review

As previously reported, KPMG Forensic's findings are currently being reviewed in conjunction with Allens Arthur Robinson. Arrangements are being sought to interview present and certain past directors during April, in connection with the findings of KPMG Forensic's review. At the time of writing, these arrangements had not been settled and we foresee the necessity to conduct public examinations pursuant to Part 5.1 Division 1 of the Corporations Act.

Based on the review's findings, it does not appear that there will be a material advantage to creditors arising from liquidation in terms of recoveries from voidable transactions or insolvent trading, which actions are only available to Liquidators.

The report from KPMG Forensic raises a number of concerns about ION's disclosure to financial markets and financiers prior to its insolvency, and provides a wealth of factual material about the shortcomings in the Group's management practices.

We will comment more comprehensively on these matters in our statutory report to creditors pursuant to Section 439 of the Corporations Act.

ASIC is being kept informed of this review process.

8 Creditors' Committees

The Creditors' Committees established for most of the ION Group companies continue to work well.

13 Creditors' Committees meetings have been held to date. The support of the Creditors Committees was obtained prior to seeking the Court Orders to further extend the convening period until 29 April 2005.

9 Shareholders

The Administrators have received many enquiries from shareholders about the status of their shares, and about our intentions with regard to declarations about their value for tax purposes.

In March 2005 legislation came into effect empowering Administrators to declare shares in insolvent companies worthless. Previously this power was restricted to liquidators.

It is premature to make such a declaration until the outcome of the sale process is clearer and until the second meetings of creditors are held. Nevertheless, we continue to believe it is unlikely that the shares will have value, and it would be our intention to decide upon this matter and make the relevant declaration after the second creditors' meetings. We intend to review this matter prior to 30 June 2005.

10 Second Creditors' meetings

The second statutory meetings of creditors are required to be held no later than 6 May, 2005, after Court approval was obtained for the second extension.

Preparations are under way for the meetings and for the material required to be presented to creditors, including the Section 439A report to Creditors.

In the meantime, the Administrators request that any party which intends to put forward a proposal for a Deed of Company Arrangement in relation to any ION Group entity, provide details of that proposal to the Administrators no later than 15 April 2005.



Colin Nicol and Peter Anderson
Administrators

A Appendix 1

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

Parties to Class Order Guarantee

	ACN
Ion Automotive Systems Pty Limited	104 930 109
Ion Transmissions Pty Ltd	099 982 180
XCHO Pty Ltd* formerly Cootes Holdings Pty Ltd	005 912 934
XST Pty Ltd formerly Stevenson Transport Pty Ltd	006 271 352
XCTS Pty Ltd formerly Cootes Tanker Service Pty Ltd	004 495 765
XCTA Pty Ltd formerly Cootes Transport Pty Ltd	010 383 016
XIRC Pty Ltd formerly IR Cootes Pty Ltd	004 801 076
XLS Pty Ltd formerly Liquip Sales Pty Ltd	001 595 222
XLSE Pty Ltd formerly Liquip Service Pty Ltd	082 859 989
XLC Pty Ltd formerly Liquip Corp Pty Ltd	082 859 970
XLSV Pty Ltd formerly Liquip Sales (Vic.) Pty Ltd	005 691 761
XLO Pty Ltd formerly 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 Guarantee

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

* Subject to final legal advice, this entity appears not to be a party to the ASIC Class Order Cross Guarantee, as discussed in previous Updates.