

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

**(All subject to Deed of Company Arrangement)  
(Collectively "ION DOCA Group")**

## **Deed Administrators' Update**

**7 July 2005**

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## 1 Introduction

The Deed of Company Arrangement ("DOCA") for the ION DOCA Group was executed on 27 May 2005. A copy of the DOCA is available on the websites [www.mcgrathnico.com](http://www.mcgrathnico.com) and [www.ionlimited.com.au](http://www.ionlimited.com.au).

This is the first Update to creditors since the DOCA became effective and provides a summary of the Deed Administrators' recent progress.

## 2 Trading results

The Group's trading results since our last report to creditors have been pleasing. The Group's manufacturing operations have generally performed well notwithstanding the Group's insolvency and the uncertainty caused by the sale of business process.

The ION Consolidated Group trading results (i.e. excluding costs of the administration) for the 3 months ended 31 May 2005 are summarised as follows:

	Forecast	Actual
	000's	000's
Sales Revenue	124,223	136,045
ACIS Revenue	897	891
Dep'n & Amort'n	8,251	8,306
EBITDA	(5,742)	10,546
Movem't in working cap		18,501
<b>Trading Cashflow</b>		29,047
Capital Exp and R&D		(15,270)
<b>Operating Cashflow</b>		13,777

In the 3 months to 31 May 2005, the ION Consolidated Group generated cash earnings (EBITDA) of \$10.5 million and reduced its total working capital requirement by approximately \$18.5 million. Much of the improvement against forecast earnings can be attributed to arrangements put in place by the Administrators to stem trading losses at Plympton and, in particular, Wingfield.

Approved expenditure on the Kentucky project accounted for approximately \$12 million or 78% of capital expenditure during the period.

Comments on each of the Group's trading operations are set out below.

## **2.1 ION Transmissions**

Operations at the Albury factory and the Springvale development facility have been pleasing. Production performance has been excellent and trading forecasts have been met. A quality control concern has arisen in respect of components purchased from a third party supplier and exported to Asia. It appears the quality problem has been rectified, and subsequent discussions between ION and its customer, and with the third party supplier, have been constructive. The fault is attributable to the supplier and we are presently reviewing the financial implications.

## **2.2 Wingfield**

As previously announced, the closure of this facility is planned for 31 July 2005. Production has been on schedule, reflecting excellent commitment from employees. The arrangements with customers to ensure the run-off does not diminish value for creditors are working well.

## **2.3 North Plympton**

The operations at North Plympton and Kilkenny continue to receive a great deal of attention. Production is continuing to operate smoothly. We have ascertained the relative profitability of the major products and customers, and pricing has been revised correspondingly.

Our discussions with the EPA have made pleasing progress such that a programme to reduce emissions and noise levels to acceptable levels is close to agreement. This will result in the need for operational change and for capital expenditure, but pleasingly the capital requirement will be significantly reduced. Another key project in hand is the ongoing operational improvement work with the assistance of Sydney Consulting.

This is a challenging slate of works, but it is progressing steadily. Pleasingly we have been able to maintain key customer confidence and there is increasing evidence to support the long term viability of this business. Achieving this goal is dependent upon the satisfactory completion of further restructuring, however we are getting closer to being able to put a profitable investment proposition to the market.

We continue to receive excellent cooperation from employees.

## **2.4 ION NZ**

As creditors would be aware, ION NZ is not in an insolvency administration, and it is a wholly owned subsidiary of the ION DOCA Group. We therefore monitor its operations and have the cooperation of its directors.

ION NZ's operational and financial performance has not met expectations in recent months. Tooling difficulties in the plant (subsequently resolved) in March and April followed by manufacturing problems with a new product, have affected performance. We have recommended action to address the most recent issues which should see production and financial performance back on track in July 2005.

## **2.5 ION USA**

Commissioning of the plant in Kentucky is continuing on schedule and continues to have the support of the major customer. The Administrators have advanced A\$26 million as at 31 May 2005 to fund the plant's completion and as noted at 3.2 below, a sale is imminent.

## **3 Sales of businesses**

Since our last contact with creditors, we have been continuing to pursue sales of businesses with the assistance of CSFB. The sale process has not been assisted by the well publicised difficulties in the auto sector which emerged in 2005, however CSFB have been persistent in pursuing and negotiating sale transactions. When sales are completed, financial details will be provided to creditors. In the interim, creditors should note that the sale values being negotiated are consistent with the range of estimated returns to creditors set out in our Administrators' Section 439A report. Brief details of our progress are set forth below.

### **3.1 ION Transmissions**

We have entered into an Exclusivity Agreement with an international industrial company which submitted a satisfactory offer for ION Transmissions. This offer was subject to further due diligence, which is largely complete. Final discussions with this party are currently in progress, and there are good prospects for a mutually satisfactory agreement being reached in the near future.

We have also provided information to a second international company which has expressed interest in ION Transmissions, and dialogue with the second party has been maintained.

### **3.2 ION USA**

Negotiations are complete for the sale of ION USA on a basis which would recover all funds advanced by the Administrators and which will yield a further return to the creditors of ION USA. This agreement should be consummated in mid July 2005.

### **3.3 ION NZ**

Despite an intense search over the last six months, we have not yet received offers which reflect the going concern value of this business, nor were there acceptable offers for ION NZ as part of a combined wheels business. Competitive issues including lower cost materials, energy and labour from other regions, combined with the high value of the New Zealand dollar and uncertainty of existing contracts continuing, had impacted adversely on potential buyer interest. With the company's existing supply agreements progressively coming to an end and little prospect of the company being able to profitably replace these contracts, the directors have no alternative but to plan for the orderly wind down of the business.

ION NZ announced on Friday 1 July 2005 that it is planning to wind down its operations through an orderly managed process. There will be an opportunity to re-market this plant once the restructure of North Plympton is closer to completion and other genuine expressions of interest received in the short-term will be considered. However, in the interim ION NZ will be working closely with its major customers Ford US and Ford Australia to agree a process that will allow for a smooth and managed transition to new suppliers. This process is expected to take approximately 12 months.

Whilst disappointed at the news, ION NZ's workforce of over 500 staff have responded constructively to Friday's announcement and have indicated a willingness to support the orderly wind-down. Among other employee support initiatives, a career planning programme will be made available to staff offering them counselling and workshops to assist them to find new jobs.

### **3.4 Wingfield**

Since withdrawing Wingfield from the going concern sale process, we have invited offers from parties who may wish to purchase the plant (once closed) in its entirety. This process has resulted in offers being received, however they are not sufficient to match independent valuations of the plant and real estate. Discussions with these parties are ongoing, however if no acceptable offers are forthcoming, the Wingfield assets will be sold on a break up basis after operations have ceased.

### **3.5 Altona**

The Altona site has been marketed and general expressions of interest have been received. We anticipate a satisfactory sale of this property in the near future.

## **4 Investigation**

Since the Second Creditors Meetings, the following key steps have been taken with respect to the investigation process:

- Allens Arthur Robinson (AAR) and KPMG Forensic have completed certain aspects of the forensic review that required follow up;
- we have instructed AAR to provide us with further legal analysis and advice, and to brief Senior Counsel as part of this process; and
- there has been further dialogue with the regulatory authority, ASIC.

Our recommended approach in this matter will be discussed with the Creditors Committees once we have settled our views. The outcome of this process will be communicated to creditors in due course.

## **5 Proofs of Debt**

On 28 June 2005 we issued a formal notice calling for creditors of the ION DOCA Group who have not already proved their claim to submit Proofs of Debt on or before 15 July 2005.

Colin Nicol and Peter Anderson  
*Deed Administrators*

7 July 2005