

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
15 September 2005**

Contents

1	Introduction	1
2	Trading results	1
2.1	ION Transmissions	2
2.2	Wingfield	2
2.3	North Plympton	2
2.4	ION NZ	2
2.5	ION USA	3
3	Sales of businesses	3
3.1	ION Transmissions	3
3.2	ION USA	3
3.3	ION NZ	3
3.4	Wingfield	4
3.5	Altona	4
4	Investigation	4
5	Proofs of Debt	4
6	Shareholders	4
7	DOCA Creditors Committees	5

1 Introduction

The Deeds of Company Arrangement ("DOCA") for the ION DOCA Group were executed on 27 May 2005. A copy of the DOCA is available on the websites www.mcgrathnicoi.com and www.ionlimited.com.au.

This is the second 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 report to creditors dated 7 July 2005 have been in line with forecasts. The Group's manufacturing operations have generally continued to perform well notwithstanding the uncertainty caused by the sales of businesses and the difficult trading conditions in the automotive industry.

The ION Consolidated Group trading results (i.e. excluding costs of the administration) for the 2 months ended 31 July 2005 are summarised as follows:

	Forecast \$'000	Actual \$'000
Sales revenue	87,353	89,035
ACIS revenue	1,604	2,398
Depreciation and amortisation	5,159	4,678
EBITDA	3,004	2,905
Movement in working capital		(1,721)
Trading cashflow		1,184
Capital expenditure and R&D		(11,094)
Operating cashflow		(9,910)

In the 2 months to 31 July 2005, the ION Consolidated Group generated cash earnings (EBITDA) of \$2.9 million while working capital requirements increased by approximately \$1.7 million.

Approved expenditure on ION USA's Kentucky project accounted for approximately \$9.5 million during the period, prior to the handover to the new owner. Capital expenditure in Kentucky was recovered from the sale of ION USA's operations as set out at 3.2 below.

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

2.1 ION Transmissions

Notwithstanding lower unit sales in July, production performance has been good and trading forecasts have been met.

Quality control concerns attributable to a third party supplier referred to in our previous report have been rectified.

2.2 Wingfield

The previously announced closure of this facility went without incident on 31 July 2005. Production prior to closure achieved required volumes and quality, reflecting excellent commitment from employees, who have since received their entitlements in full. The final accounting for Wingfield will be reflected in the August accounts and is expected to be in line with our forecasts.

2.3 North Plympton

We recently announced a number of important developments affecting the North Plympton and Kilkenny operations. The key developments were as follows:

- a new 10 year licence was issued to North Plympton by the EPA, satisfactorily concluding a long running dispute. The conditions for reinstatement of the licence require a combination of capital works and operational change. The capital expenditure required to comply with the licence is significantly lower than amounts previously disputed between the parties;
- it has not been possible to profitably manufacture Holden's products at North Plympton at prices which are internationally competitive, consequently plans are in progress to phase out Holden production in 2006. This will unfortunately result in the loss of approximately 200 jobs, of which 144 are permanent positions. This was announced in August, and arrangements have been made with employees and their unions to assist with outplacement support. Pleasingly, the South Australian Government has extended its automotive industry support initiatives to ION's affected employees. The ongoing support for the business from the workforce and the AWU has been gratifying, given the difficult circumstances. As noted previously, employee entitlements are secure;
- Harley-Davidson has reviewed its requirements and has re-affirmed its intention to continue purchasing from ION's plants; and
- as a result of the foregoing, it is planned to put the North Plympton and Kilkenny operations back on the market to find a suitable long term owner for the business. Preparations for this process are under way, and a sale campaign is expected to commence in October.

In a similar manner to Wingfield, prices for products which are slated to be discontinued are being temporarily increased to ensure creditor value is maintained during the run off.

2.4 ION NZ

As previously advised, 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.

Since our previous report, the following key developments have occurred:

- arrangements were made with the major customers to confirm their volume requirements for the remaining periods of the contracts, and prices were adjusted to ensure a satisfactory wind-down;
- progress has been made in overcoming production difficulties which arose in previous months;
- production of Harley-Davidson wheels is being repatriated to North Plympton;
- a planned 10 day shutdown took place in July consistent with the summer shutdown at Ford USA.

2.5 ION USA

Commissioning of the plant in Kentucky continued on schedule until it was handed over to the new owner on 6 August 2005.

3 Sales of businesses

3.1 ION Transmissions

The previous report to Creditors noted that an Exclusivity Agreement had been reached with a prospective purchaser of the ION Transmissions operations in Albury and Springvale. Subsequently, a contract for sale has been entered into with that party, Powertrain Products International, which is a consortium backed by Marubeni Corporation of Japan.

A number of important conditions precedent are required to be satisfied before this sale can be consummated, including the necessity for the purchaser to be further satisfied about the prospects for exporting ION Transmissions' new generation 6 speed products to Asia.

Presuming the sale completes, the sale price will be \$48 million. In addition, the sale will result in the release of cash on hand and collection of net working capital balances by the Deed Administrators. There is the possibility of a further amount being received under the sale as a result of ACIS duty credits being generated from pre-completion investments.

Work is taking place to satisfy the conditions precedent, which are due for completion in mid October, and further progress will be announced in due course.

3.2 ION USA

As previously announced, the sale of ION USA to a multinational wheels producer was completed on 6 August 2005. The price agreed was USD28 million plus working capital balances, thus fully recovering the amounts advanced by the Administrators to complete the plant of approximately USD20 million.

3.3 ION NZ

As noted in the last report, arrangements have been made for a managed wind down of ION NZ over a period of 12 months. Transitional plans have been put in place with Ford USA and Ford Australia as referred to above.

We are in the meantime continuing to deal with parties who have expressed interest in acquiring the New Zealand operations. If a sale can be agreed which approximates the value to be realised in the wind down, we would naturally prefer to achieve a going concern sale, and interested parties have been advised accordingly.

3.4 Wingfield

The closure of Wingfield went smoothly and the factory is being prepared for a sale, with the advice of a plant auctioneer and a real estate firm.

The timing of the sale of Wingfield has not been decided upon as some interest has been expressed from parties who may wish to bid for the Wingfield assets together with the North Plympton business.

3.5 Altona

The Altona site has been sold to Australia Post for the sum of \$9.6 million, which exceeded the valuations we had obtained.

4 Investigation

Since the completion of our July update to creditors, our solicitors, Allens Arthur Robinson, have been undertaking further analysis of the material emanating from the investigations conducted to date. Our next steps will not be decided until the legal analysis is complete. This will take into account recent developments with regard to the position of shareholders (see 6 below).

5 Proofs of Debt

The review of proofs of debt has been progressing since our last report. Insofar as suppliers of goods and services are concerned, few major issues have arisen to date.

Presently we have substantial funds on hand from the sales of ION Energy Services and ION USA which will increase further if the sale of ION Transmissions is completed. We are presently considering the timing of commencing interim distributions to creditors and will make an announcement in that regard in due course.

6 Shareholders

The rights of shareholders to be treated as creditors in ION's DOCA have been uncertain. A recent judgment in the Federal Court has assisted in clarifying the position.

Earlier this year, in the Media World Communications case Justice Finkelstein of the Federal Court was asked to address a hypothetical question of whether transferee shareholders who purchased shares on the open market in reliance on public statements by a company, which they asserted were false or misleading, and suffered damage as a consequence, were creditors. His Honour expressed an affirmative opinion on the question which, while not binding, was intended to give guidance to the administrators of Media World Communications.

On 15 September 2004, Justice Emmett of the Federal Court, in an application by the administrator of Sons of Gwalia Ltd (Administrators Appointed), determined that a shareholder who claimed to have been misled by the company's alleged failure to comply with ASX continuous disclosure obligations, and suffered damage as a consequence, was entitled to be

listed as a creditor for the purposes of that company's DOCA. His Honour also determined that the shareholder's claim was not postponed to the claims of external creditors under the DOCA.

Given the importance of the decision in Sons of Gwalia to the Australian commercial and financial markets, we anticipate that Justice Emmett's decision will be appealed to the Full Court of the Federal Court. We are following these developments closely and seeking legal advice on the implications of the Sons of Gwalia judgment for the administration of ION's DOCA. We will advise all persons who have lodged proofs of debt (or given notice that they will be doing so) of our next steps as soon as possible.

7 DOCA Creditors Committees

Meetings of the DOCA Creditors Committees were held on 30 June 2005 and 19 August 2005.

The first meeting's business focussed on constituting the Committees' workings and obtaining updated confidentiality undertakings. In the second meeting, the Committees were briefed on the status and key terms of the sale of ION USA and ION Transmissions, and on the status of trading operations.

Another Creditors Committee meeting will be held in the near future; when further updates of progress will be provided.



Colin Nicol and Peter Anderson
Deed Administrators

15 September 2005