

**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**

**28 November 2005**

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## 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.mcgrathnicol.com](http://www.mcgrathnicol.com) and [www.ionlimited.com.au](http://www.ionlimited.com.au).

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

## 2 Trading results

The ION Consolidated Group trading results (i.e. excluding costs of the administration) for the 2 months ended 30 September 2005 are summarised as follows:

	Forecast \$'000	Actual \$'000
Sales revenue	72,696	76,171
Depreciation and amortisation	4,664	4,705
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Operating EBITDA	7,056	9,866
ACIS revenue	1,631	1,591
Restructuring charges		(15,204)
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EBITDA	8,687	(3,747)
Movement in working capital		(4,462)
Reversal of non cash restructuring charges		13,772
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<b>Trading cashflow</b>		5,563
Proceeds from asset sales		41,672
Other capital expenditure and R&D		(897)
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<b>Operating cashflow</b>		46,338

ION Consolidated Group's trading performance for the 2 months ended 30 September 2005 was ahead of forecast.

Substantial restructure costs were recorded, primarily being employee redundancies in New Zealand of A\$1.1 million and the write down on sale of the Altona site of \$13.8 million. The carrying value of this property significantly exceeded independent valuations and the sale proceeds of approximately \$10 million, following the sale by tender described in our previous Update.

Asset sale proceeds of \$41.7 million are primarily represented by the proceeds received to date from the sale of the Kentucky operations of A\$30.9 million and the aforementioned sale of the Altona land and buildings.

## **2.1 ION Transmissions**

It was necessary to implement a substantial employee redundancy programme at the Albury plant in October 2005. This was primarily caused by the decline in volumes of Ford product due to a mid life upgrade of the Falcon vehicle where a competitor's six speed transmission replaced the ION four speed transmission in the high-end vehicles. The volume drop was known prior to the Administration of ION.

A total of 205 employees were made redundant in Albury, out of a complement of 750. Voluntary redundancies accounted for the majority of the job losses. All areas of the business were affected – production, administration and sales; unionised and non-unionised. All of the redundant employees have received their entitlements.

Despite the unwelcome necessity of redundancies, production performance continues to be excellent.

## **2.2 Wingfield**

Maintenance and other preparations for sale of the Wingfield assets have been carried out. The final accounting for Wingfield is in line with our forecasts.

## **2.3 North Plympton**

As reported in our previous Updates, there has been extensive change and restructuring at the North Plympton and Kilkenny facilities, including:

- agreement with the EPA for reinstatement of the environmental licence;
- ongoing implementation of a long term programme to achieve extensive operational improvements; and
- the decision to phase out manufacture of unprofitable product.

This process continues to make pleasing progress thus allowing us to re-market the Castalloy business for sale as a going concern (refer 3 below).

## **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, a revised programme has been implemented with Ford to ensure profitable operations whilst the contracts run down.

## **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**

On 28 October 2005, we announced an unexpected delay in the completion of the sale of ION Transmissions to Powertrain Products International ("PPI"). This delay arose because of changes in PPI's bid financing, which were attributed to adverse developments in the U.S automotive markets.

During November, PPI has been making progress in resolving those issues and remains committed to completion of the purchase. We are being kept informed about its progress.

In the interim, a second party has emerged as a potential purchaser. We have also entered into discussions with that group and permitted it to undertake due diligence work.

We anticipate a resolution of the sale process in December 2005.

#### **3.2 Castalloy**

The wheel manufacturing operations at North Plympton and Kilkenny have been put back on the market. We have received expressions of interest from a range of potential purchasers. Due diligence is currently being conducted by shortlisted parties. We anticipate being able to announce a sale in the first quarter of 2006.

#### **3.3 Wingfield**

The closure of Wingfield went smoothly and the factory is being prepared for a sale, under the advice of plant auctioneers and a real estate firm. A sale by tender process is about to commence.

### **4 Investigations**

As noted previously, our solicitors, Allen Arthur Robinson, have been undertaking further legal analysis of the material emanating from the investigations conducted to date. That analysis is continuing.

### **5 Proofs of Debt**

The review of proofs of debt has been continuing satisfactorily. Insofar as suppliers of goods and services are concerned, arrangements are in place to obtain requisite information or resolve queries with those creditors whose proofs of debt have not yet been agreed.

### **6 Shareholders**

The rights of shareholders to be treated as creditors in ION's DOCA continue to be uncertain.

In our previous Update, we summarised the findings of the Federal Court in two recent cases on this issue, involving *Media World Communications* and *Sons of Gwalia*. In the *Sons of Gwalia* case Justice Emmett determined that a transferee 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. The Court also determined that the shareholder's claim was not

postponed to the claims of external creditors under the DOCA. Appeals from Justice Emmett's judgment by the Deed Administrators and an external creditor are scheduled to be heard by the Full Court of the Federal Court on 1 December 2005.

In another development, on 23 November 2005, Justice Gzell of the New South Wales Supreme Court delivered judgment in *Johnston v McGrath & Ors* [2005] NSWSC 1183 in which his Honour expressed disagreement with Justice Emmett's decision in *Sons of Gwalia* regarding the postponement of transferee shareholders' claims. In Justice Gzell's view, the claims of transferee shareholders against the company for damages in respect of misleading and deceptive conduct are postponed under section 563A of the *Corporations Act* to the claims of external creditors. The case arose in the context of the insurer, HIH, of which McGrathNicol+Partners' Tony McGrath is a liquidator.

Justice Gzell's comments were not necessary for his decision and, therefore, are not binding legal authority. This was because they arose in a case where his Honour held that the shareholder did not make out his claim to have suffered loss by reason of the admittedly misleading conduct. However, although not legally binding, the Judge's views were expressed at length in a detailed analysis of the relevant legal authorities. His Honour commenced his comments on this subject matter in his judgment by noting the confused state of the law.

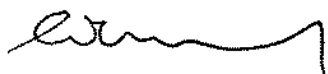
The next chapter in consideration of these issues starts with the appeals in the *Sons of Gwalia* case on 1 December 2005. It is likely that, whatever the decision of the Full Court, there will be an application for leave to appeal to the High Court. We are following these developments closely and seeking legal advice on their implications for the administration of ION's DOCA.

In the meantime, we are reviewing proofs received from shareholders. To date some 2,500 proofs have been received totalling approximately \$113 million.

In view of the significant uncertainty with respect to shareholder claims, it is not yet possible to commence paying interim distributions to creditors. We will report further in this regard once the legal issues relating to shareholders' claims are clarified by the Courts.

## 7 DOCA Creditors Committees

Meetings of the DOCA Creditors Committees were held when the Administrators updated the Committees on progress, invited and responded to questions, and obtained the approval of the Committees for Administrators' remuneration for the period 28 May 2005 to 2 September 2005. Copies of the minutes of the Committee meetings have been lodged with ASIC.



Colin Nicol and Peter Anderson  
*Deed Administrators*

28 November 2005