

ION Limited (ACN 009 106 272)
Yollatsac Limited (formerly Castalloy Limited) (ACN 007 528 583)
Yollatsac Manufacturing Pty Ltd (formerly Castalloy Manufacturing Pty Ltd) (ACN 007 838 986)
Yollatsac Wheels Pty Ltd (formerly Castalloy Wheels Pty Ltd) (ACN 007 894 984)
Core Cast Limited (ACN 097 447 660)
ION Light Metal Castings Pty Ltd (ACN 104 930 181)
ION Automotive Group Limited (ACN 104 279 156)
XIAS Pty Ltd (formerly ION Automotive Systems Pty Ltd) (ACN 104 930 109)
XITMS Pty Ltd (formerly 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 March 2007

This report contains 12 pages
ION 15 March 2007 Creditors Update_LS

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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 and www.ionlimited.com.au.

This is the sixth general update to creditors since the DOCA became effective, providing a summary of the Deed Administrators’ recent progress.

There have been a number of particularly significant events since we lodged our last general update in October 2006, namely:

- + the sale of the Kilkenny land & building in January 2007 and the Kilkenny plant & equipment in February 2007;
- + the resolution of ION Energy Services’ vendor note dispute in January 2007;
- + the High Court ruling in the Sons of Gwalia shareholder case on 31 January 2007 and the subsequent formulation of the Administrators’ approach to adjudicating on shareholders’ claims;
- + the declaration of a NZD 25 million liquidation dividend from ION New Zealand to the ION DOCA Group; and
- + the public examination of directors and senior management of the ION Group during November and December 2006 and February 2007.

2 Trading results

2.1 The ION Consolidated Group trading results for the 3 months ended 31 December 2006 are summarised as follows:

	Actual
	\$'000
Sales Revenue	-
Depreciation & Amortisation	24
Operating EBITDA	(39)
ACIS Revenue	-
Restructuring	-
EBITDA	(39)
Movement in working capital	1,352
Trading Cashflow	1,313
Proceeds from asset sales	293
Other capex and R&D	-
Operating Cashflow	1,606
Administration costs	(1,528)
Other	2,437
Total Cashflow	2,515

The ION Consolidated Group's trading performance for the 3 months ended 31 December 2006 includes the final post sale working capital adjustments for the Castalloy Manufacturing business sold in September 2006, which were in line with expectations.

Proceeds from asset sales represent some settlement funds received from the sale of the IES Spotswood site (\$293,000). Other includes interest received from cash on hand.

As all entities have now ceased trading, trading reports previously prepared on a monthly basis are prepared quarterly, to decrease Administrators' time and expenses.

2.2 ION Transmissions and Wingfield

We previously reported on the sale of the ION Transmissions business (February 2006) and the Wingfield assets (April/July 2006), hence there are no trading results for same.

2.3 North Plympton

After significant restructuring of the operations of Castalloy's North Plympton production facility, the wheels production facility was sold to Harley-Davidson in August 2006 (see 3.2 below). Final settlement occurred on 29 September 2006 and the final working capital adjustments were settled in the last quarter of calendar year 2006.

2.4 ION NZ

The Liquidator appointed to ION NZ on 30 June 2006 has largely completed his duties.

Plant decommissioning and the net proceeds from the sale of ION NZ's land, buildings and equipment has been more successful than initially anticipated. Consequently, we learnt that the liquidation dividend payable to the ION DOCA Group will total circa NZD 25 million, which is NZD 3 million above our previous estimate outlined in our last creditors update.

Payment of the liquidation dividend to the ION DOCA Group is expected mid March 2007.

2.5 ION US

As previously reported, on completion of the sale of the Kentucky plant in August 2005 it was handed over to its new owner. We were subsequently notified that the plant encountered teething problems since handover and that its volumes have been affected by Ford's restructuring in the USA. The purchaser is withholding payment of the earn-out and escrow portion of the purchase price. The contract of sale does not entitle the purchaser to do so, however to curtail costs we have instructed our US lawyers to commence arbitration, the outcome of which will be binding on both parties.

The arbitration hearing is scheduled to take place in May 2007.

3 Sales of businesses

3.1 ION Transmissions

As previously reported, the sale of ION Transmissions was completed on 23 February 2006 for a headline price of \$48 million.

3.2 Yollatsac (previously Castalloy)

Following the sale of the North Plympton business to the Harley-Davidson subsidiary, the Administrators continued to provide chroming services to that business from the Kilkenny premises. These services were provided until 28 February 2007 and the Harley-Davidson subsidiary met all costs associated with ongoing operations.

Advertising of the sale of the Kilkenny land, plant and equipment commenced in November 2006, with tenders sought from interested parties by mid January 2007.

A number of bids were received for parts of the Kilkenny plant and equipment. After a short period of negotiation, a sale of the entire plant was made to the Harley-Davidson subsidiary in February 2007. The Harley-Davidson subsidiary has since relocated the plant to its North Plympton premises. A confidentiality provision prevents the public disclosure of the sale transaction details, however we can disclose that the sale price was well above valuation. Following the sale of Castalloy's Kilkenny assets, the company's name has changed in accordance with the terms of the North Plympton sale agreement.

Several bids were also received for the Kilkenny land. A contract for the sale of the land was executed in January 2007. The sale is due to settle on 16 March 2007 and all pre-settlement matters have been completed. The sale price of \$1.56 million was well above valuation and is considered to be an excellent outcome given the publicly known environmental issues associated with the land.

3.3 Wingfield

As previously reported, the Wingfield land & building and plant & equipment were sold in April 2006 and July 2006 respectively for values approximating formal valuations. Settlement on the land sale occurred in late September 2006.

3.4 ION Energy Services

The terms of the sale of the IES business included two vendor notes each of \$7.5 million payable in January 2006 and January 2007 respectively.

As previously advised, a claim amounting to approximately \$3.6 million had been made by the purchaser of ION Energy Services against the January 2006 vendor note, which was held as security against warranty claims. The claims related to alleged representations made as to the value of certain properties recorded in the company's balance sheet prior to the appointment of the administrators. The purchasers alleged that such representations amounted to misleading and deceptive conduct and/or a breach of the sale warranties. Following lengthy correspondence, an informal mediation held on 5 October 2006 failed to resolve the dispute. A formal mediation of the dispute was initially scheduled for 27 November 2006 but was deferred due to the unavailability of the agreed mediator, Tony Fitzgerald QC. The mediation was finally held on 31 January 2007 and the dispute settled with an amount to be paid on 15 April 2007.

The terms of the settlement prevent further public disclosure, however the Deed Administrators consider the outcome favourable to creditors.

The second vendor note, which was due on 25 January 2007, has been paid in full.

Subject to the receipt of the settlement sum on 15 April 2007, all matters relating to the IES business sale are now concluded.

4 Investigations

As foreshadowed in our last update, as part of our ongoing investigations into ION's business, property, affairs and financial circumstances, public examinations of the former directors of ION were conducted in November and December 2006 and February 2007 in the Federal Court of Australia.

The former directors (Mr Salthouse, Mr Pizzey, Mr McComas, Mr Klinger, Mr Peters, Mr Beer and Mr Cootes) and former CFOs (Mr Smith and Mr Nagul) have been examined. For the time being the Administrators do not propose to examine the members of senior management (Mr Haverkamp, Mr Winfield, Mr Clark, Mr Morrissey, Mr Mlinarevic and Mr Woolford) who were also summonsed for public examination.

As we have reported previously, the purpose of the public examinations was to reconstruct the corporate memory of ION and to consider whether successful claims may be brought against ION's directors. We are evaluating with our legal advisors the information gained on oath through the public examination process to determine: whether such claims might be brought; and whether it is in the interests of creditors to bring any such claims against directors having regard to the cost/benefit analysis of any such claims. A significant level of useful information has been obtained through this process. We anticipate being in a position to make a decision in this regard in the near future.

All summonses in respect of the former directors and officers of ION have been adjourned for a period of 6 months. The adjournments enable us to recommence the examinations if we form the view that this would assist our investigations or the reconstruction of other aspects of the corporate memory necessary for us to determine the admissibility of any proofs of debt lodged on behalf of creditors.

5 Proofs of Debt

The review of trade proofs of debt has been continuing satisfactorily and is mostly complete with a small number of complex claims currently being resolved and agreed.

From our assessments to date, the amount of admissible claims from suppliers of goods and services will fall within the estimates made in our s439A Report to Creditors issued on 15 April 2005.

Proofs of debt in excess of \$110 million have been received from shareholders. We have now commenced adjudication on these claims (see 6 below).

6 Shareholder claims

In our Update of 31 January 2007 we reported that the High Court had handed down its decision in the proceeding instituted by the Deed Administrators of Sons of Gwalia and by ING. The High Court held that a transferee or subscriber shareholder who has a claim against a company for misleading or deceptive conduct or breach of continuous disclosure obligations can prove in the administration or liquidation of the company, and will rank equally with unsecured creditors in respect of that claim.

We also reported that the outcome of the Sons of Gwalia decision now gives the Deed Administrators of the ION DOCA Group certainty that shareholders can be creditors of the ION DOCA Group.

We indicated that:

- + the Deed Administrators will now proceed to determine the shareholder proofs (which total in excess of 3,000) according to law as confirmed by the High Court, and that adjudication of the shareholder claims would occur in the most expeditious manner consistent with those principles; and
- + as part of the process of determining all shareholder claims it would be expedient for the Deed Administrators to seek assistance from the Court in relation to certain of those claims and proceed to formulate the precise terms of the assistance required from the Court.

In this Update we report further about the general framework of the process that the Deed Administrators are adopting in adjudicating on the shareholder proofs of debt.

6.1 Allegations of fact

The shareholder proofs of debt collectively contain a large number of allegations of fact which underpin those proofs and various assertions about the legal consequences of those facts which, if established, the shareholders say give rise to an entitlement on their part to be admitted as 'Creditors' under the DOCAs and included on the 'Admitted List' which means they can participate in the distribution from the Administration.

The priority task for the Deed Administrators in adjudicating on the shareholder proofs is to form a concluded view about the merits of each of those allegations of fact based on information from all sources reasonably available to them. The Deed Administrators' concluded views about those allegations will then form the basis of their determination of any applicable legal consequences which individual shareholders say follow from those facts.

The Deed Administrators recognise that many of the allegations raised by shareholders have their genesis in their report to creditors of ION pursuant to s 439A of the *Corporations Act 2001* dated 15 April 2005 (**s 439A Report**). In the s 439A Report the Deed Administrators expressed a number of preliminary observations for the benefit of creditors relevant to the expressed purposes of that report. In the s 439A Report the Deed Administrators indicated that:

- + the investigations, although extensive, were incomplete;
- + the directors' views as to the events or the context of the events had not been obtained; and
- + no conclusion had been reached as to whether the findings provide evidence or sufficient evidence of wrongdoing or breach of duty by any party.

Since the issue of the s 439A Report, the Deed Administrators have continued with their investigations with an immediate focus on determining whether there are any causes of action that might be brought in the name of ION to augment the Fund available for the benefit of all Creditors who are entitled to be admitted to the Admitted List. Those investigations (which have included public examinations in November and December 2006 and February 2007) are reaching their conclusion. Once concluded, the Deed Administrators will take advice and determine whether, in all the circumstances, it is appropriate for them to pursue any available causes of action having regard to the cost/benefit of any such claims.

While the public examinations conducted to date have been directed primarily at assisting the Deed Administrators to determine whether they will issue proceedings against any directors or officers of ION, those examinations have touched upon some matters that may be relevant to some of the allegations raised by shareholders in their proofs of debt.

In the period since the issue of the s 439A Report, the Deed Administrators have conducted further investigations into the reasons for the insolvency of the ION Group. Some aspects of those investigations have also allowed the Deed Administrators to form more definite views about matters raised initially in the s 439A Report (which are reflected in the proofs of a number of shareholders).

Following the decision of the High Court in *Sons of Gwalia*, the Deed Administrators are now moving to marshal the information currently available to them which may be relevant to the allegations in the shareholder proofs. The Deed Administrators presently anticipate that it will take some months before they are in a position to identify whether further information is needed to enable them to form concluded views about each of the factual allegations in the shareholder proofs.

To the extent that the Deed Administrators consider that it is necessary or desirable, they may conduct targeted public examinations of some of the directors and executive officers of ION seeking any further relevant information. The Deed Administrators presently expect that any further public examinations would be confined to a period of less than one month.

Once this process is concluded, the Deed Administrators expect to have a solid foundation to adjudicate upon each of the factual allegations in the shareholder proofs and take advice as to whether the facts substantiate claims for misleading or deceptive conduct or failures to disclose in breach of relevant legislation as alleged by shareholder claimants. As part of that process, the Deed Administrators may seek clarification of particular matters in shareholder proofs.

6.2 **Causation and loss**

Assuming, for present purposes, that instances of misleading or deceptive conduct or failure to disclose are established in the terms alleged by some shareholders, two further matters raised by the shareholder proofs need to be adjudicated upon by the Deed Administrators before the proofs can be finally determined, namely:

- + causation (ie. that the relevant conduct by ION about which a shareholder complains was in fact the cause of the shareholder's loss); and
- + the measure of the shareholder's loss for which the shareholder seeks to prove as a Creditor under the DOCAs.

6.3 Test case(s)

The legal representatives for some shareholders have suggested to the Deed Administrators that it would be appropriate to conduct a test case or cases to determine if particular principles relating to the concept of 'fraud on the market' can be applied as a means of establishing causation, thereby avoiding the necessity for each shareholder to satisfy the Deed Administrators in the context of his, her or its individual circumstances that the shareholder relied on relevant conduct by ION which caused its loss.

The Deed Administrators see benefit in conducting a test case or cases to determine whether the 'fraud on the market' principle can be applied as a means of establishing causation. The Deed Administrators are not aware of any instance in Australia where the Courts have directly addressed the concept of 'fraud on the market' as being an appropriate means of establishing causation in the circumstances asserted by shareholders of ION. Given the uncertainty surrounding the application of the 'fraud on the market' concept and its potential significance for the determination of the shareholder proofs, it may be appropriate for the Court to determine the issue through a test cases or cases.

The Deed Administrators are concerned to ensure that any decision of the Court in a test case or cases proceeds on an appropriate factual basis. In particular, the Deed Administrators wish to avoid a scenario where a test case is rejected by a Court, or appellate Court, on the basis that it is hypothetical or not sufficiently founded on facts, such that it is contrary to judicial process.

Consequently, the Deed Administrators are of the view that it will facilitate the conduct of any 'fraud on the market' test case or cases if they first form concluded views about the factual allegations in certain shareholders' proofs and identify a particular allegation or allegations that they believe may establish misleading or deceptive conduct or a failure to disclose in breach of relevant legislation. In this way, the Deed Administrators wish to be able to proceed to the Court on the basis of an actual factual scenario against which submissions can then be made as to the applicability of the 'fraud on the market' concept as a means of establishing causation.

The Deed Administrators will then select a small number of shareholders whose proofs of debt would be rejected on an agreed basis relating to the concept of 'fraud on the market'. That rejection would then form the basis for an appeal by those shareholders to the Court. In this way, there would be no doubt that the Court would have before it an actual set of circumstances arising out of proofs of debt lodged for adjudication by the Deed Administrators, on which the Court would be able to form concluded views about the applicability of the 'fraud on the market' concept.

The Deed Administrators envisage that in the course of preparing for the test case(s), certain factual matters could be agreed and would form the basis of a statement of agreed facts, so as to narrow the issues in dispute and the matters in relation to which evidence needs to be tendered. It is possible that expert evidence will be required in connection with the operation of the Australian stock market, including its application in the context of the factual circumstances being addressed by the Court.

As to the nature of these factual matters, in forming their views about the allegations in proofs of debt the Deed Administrators will be required to address two related but distinct types of question. The first type is purely factual: whether or not a certain event occurred at a particular time, and other questions of that nature. The second type has both factual and legal aspects: for example, whether, a certain event having occurred at a particular time, there was a duty to disclose it to the market. It may be more difficult to reach any agreement about the latter type of question than the former, and if differences of principle become apparent, then it may be

necessary to select the test cases so as to raise those issues as well as the 'fraud on the market' issue.

The Deed Administrators are still considering whether it is appropriate for the Court to grant representative orders or, indeed, whether a Court would be prepared to do so. This is a matter that will be considered further in the course of preparing the test case(s) for trial.

Aside from the question of causation, the test case(s) selected by the Deed Administrators will also need to adduce appropriate evidence to enable the Court to determine the proper measure of loss arising. Again, the Deed Administrators expect that there will be an opportunity to agree, as far as possible, the relevant facts concerning loss and damage so as to narrow the issues in dispute and the matters in relation to which the Court might require evidence to be tendered.

6.4 Defective proofs of debt

In our last Update the Deed Administrators noted that:

- + many shareholder proofs are either defective in some way, or lack appropriate particulars, so as to enable the Deed Administrators to make a proper determination of those proofs; and
- + shareholders can expect to be given a reasonable opportunity to address those matters once they receive correspondence from the Deed Administrators.

The Deed Administrators do not propose to write to relevant shareholders immediately regarding such defective proofs until the above issues have been determined, in order to minimise costs.

6.5 Retention of documents supporting shareholder proofs

Shareholders should retain all information and documentation (hard copy or electronic) relating to their proofs and their claim for damages, so that they are in a position to provide further details in support of their proof if and when it is requested by the Deed Administrators.

6.6 Timing of determination of shareholder proofs

As mentioned in our last Update, it will be apparent that the exercise the Deed Administrators are undertaking to determine the shareholder proofs according to law will take some time to complete. The Deed Administrators appreciate the patience of all creditors while this process is undertaken.

From time to time, as the Deed Administrators advance the abovementioned process, they will provide further Updates. If, for any reason, the Deed Administrators determine that it is appropriate to depart in any material way from the process outlined above further information will be provided in an Update.

7 Distributions to Creditors

The Deed Administrators consider that they are unable to make a distribution to creditors at the present time given the present uncertainty of the quantum of shareholder claimants that will ultimately be admitted as creditors. The estimated return to creditors, and the proposed timeframe for the making of a distribution, are dependent on the processes outlined above being undertaken. Creditors will be kept apprised of the Deed Administrators' views in this regard in future Updates.

8 Others matters

8.1 *Income tax*

With the completion of the income tax returns for the year ended 30 June 2005 (covering all pre-appointment activities), the Administrators expect a refund of income tax instalments paid by ION in respect of the 2004 and 2005 tax years, in addition to a possible refund of tax paid following an adjustment to the 2003 tax year return. The final amount is not clear, pending further discussions with the ATO.

8.2 *ACIS claims*

Since the previous Deed Administrators' Update ION received and on-sold the final tranche of ACIS credits to which it was entitled up to the quarter ending 31 December 2005 (the date the ION group has ceased to meet the minimum eligibility criteria for claiming ACIS benefits).

The Administrators reviewed an audit finding by AusIndustry that certain claims made prior to the appointment of the Administrators were not valid, and received legal advice on whether it was appropriate to challenge certain aspects of the AusIndustry determination. Having regard to: the limited upside to the creditors from any successful action (noting that the ACIS credits concerned expired on 31 December 2006 and were hence losing value); the risk of the Group's pre-appointment records being insufficient to support the points of fact contested; and the likely costs involved in the challenge (which would have required both Federal Court and Administrative Appeals Tribunal action); the Administrators decided it was not in the creditors' best interest to challenge the audit findings.

The sale of the Albury business included the transfer of assets that give rise to future ACIS benefits. The Administrators will continue to receive deferred consideration until the end of the 3rd quarter of 2008 as the purchaser of the business realises the transferred ACIS benefits.

9 DOCA Creditors Committees

A meeting of the DOCA Creditors Committees was held on 14 March 2007 during which 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 1 August 2006 to 31 January 2007. Copies of the minutes of the Committee meetings are routinely lodged with ASIC.

Colin Nicol and Peter Anderson
Deed Administrators

15 March 2007