

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

Creditors Update  
28 February 2005

## Contents

1	Introduction	1
2	Administrators' progress	2
3	Management of operations	3
4	Management and Financial control	5
5	Sale of Businesses	6
6	Forensic review	7
7	Creditors' Committees	8
8	Other matters	9
9	Second Creditors' Meetings	10

## 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 on 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 this Update.

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.

In our application for this extension, the Administrators indicated to the Court that they would be providing detailed monthly updates to creditors during any extended period for convening the second meetings of creditors. The first such update was provided as at 31 January 2005 ("the January Update") and is available on the following websites: [www.ionlimited.com.au](http://www.ionlimited.com.au) and [www.mcgrathnicol.com.au](http://www.mcgrathnicol.com.au). The second update and at 28 February, 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.

## 2 Administrators' progress

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

- Managing the operations of ION Group in Administration;
- Implementing Profit Improvement Programmes in the South Australian plants;
- Completing the sale of the ION Energy Services business;
- Preparing revised financial forecasts for the ION Group;
- Managing the process to sell the ION Group businesses, with the assistance of Credit Suisse First Boston ("CSFB");
- Resolving the Altona engine block plant's status;
- Continuing to monitor the operation of ION Limited's subsidiaries in New Zealand and the USA;
- Liaising with Creditors' Committees; and
- Continuing with the investigation into the affairs of ION Group and the events which led to its insolvency, with the assistance of Allens Arthur Robinson and KPMG Forensic.

Further details on each of these areas is provided below, together with a summary of our next steps.

### 3 Management of operations

The stabilisation processes which were outlined in the January Update have been successful, and the ION Group businesses continue to operate smoothly. The Administrators continue to receive pleasing support from employees, unions, suppliers, customers and financiers, which is greatly appreciated.

As previously reported, the sale of ION Energy Services was completed on 5 January 2005, and as a result we no longer manage those operations.

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 is being maintained. ION Transmissions also has a technical development facility in Springvale, Victoria where the development of a new 6 speed transmission and a transmission for hybrid powered vehicles, continues on schedule. Pleasing progress has been made in prototype testing and in commercial discussions for the sale of new products to certain offshore customers. Regretably it appears ION will not be able to retain the work to make rear axles for Holden.
Castalloy	The casting foundries at Plympton and Kilkenny in South Australia have also been operating smoothly. Pleasing progress is being made in improving production efficiency and in cost reduction, pursuant to a Profit Improvement Programme that is under way (refer further details below). The customers for this business continue to support it, including providing assistance with continuous improvement expertise. Customers have also accepted a selling price surcharge to enable the Administrators to operate Castalloy at a break even EBITDA (it previously incurred substantial losses).
Wingfield	Management is making good progress in improving production capability at this plant, which is now able to produce cylinder heads. Unfortunately it lacks sufficient volume to be profitable notwithstanding the acceptance by customers of very significant price surcharges.

As noted in the January Update, 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 normally and profitably. It has experienced some technical difficulties with tooling which are receiving management attention. A Standstill Agreement was executed with the Banks who hold guarantees, and the Administrators have advanced working capital funding as planned on a secured basis. Representatives of McGrathNicol+Partners in New Zealand monitor its operations and we have the co-operation of local management.
-----------------	---

## ION USA

In the January Update, we advised creditors that it was our intention to fund the completion of the factory under development in Warsaw, Kentucky, provided satisfactory support could be obtained from Ford USA about future offtake of the wheels this plant will produce. This decision was supported by the Creditors' Committees. We have now obtained satisfactory support from Ford, and the work to complete the plant has re-commenced and is on schedule. Funding is being provided by the Administrators on a secured basis.

We referred above to efforts being made to improve the profitability of the operations of Castalloy and Wingfield. The Castalloy operations have a history of poor management, which, as noted in the January Update, we have strengthened. There is considerable potential to improve the performance of this business without significant capital expenditure. The efforts to improve results have focussed on:

- improved production efficiency (where Harley Davidson and Holden's expertise has been most helpful and is already showing results);
- better procurement; and
- more effective rostering.

We have developed a programme which indicates there are good prospects of achieving a substantial turnaround. This material is being made available to potential purchasers.

We have engaged an independent consulting firm, Sydney Consulting, to assist us in further implementation of this programme.

Creditors should also be aware that discussions have been held with the EPA to explore ways to overcome concerns about noise levels and odour emissions at the Plympton site. These discussions were constructive, and further work is being done in this area. It is clear, however, that considerable capital expenditure would be required to resolve the concerns.

At Wingfield, similar work to improve performance is in progress. Unlike Plympton, considerable further capital expenditure (in the vicinity of \$17 million) is required to be capable of profitable production.

During February we announced that it was not possible to salvage the ION V6 Block project at Altona. We explored the possibility of selling ION Group's interest in the project to companies who are global leaders in complex automotive castings. Unfortunately, none of the parties with whom we discussed this possibility considered the project to be viable.

We have completed revised forecasts of profit and cash flow for the period ending 30 June 2005. These forecasts reflect that trading will be profitable and cash flow positive for the period, in part because of the temporary price increases we have instituted. January's actual results were marginally ahead of forecast.

With regard to forecasting, we noted in the January Update 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.

#### **4 Management and Financial control**

In the January Update we summarised the steps taken to strengthen management under the Administrators' control. We are pleased to advise that these revised arrangements are working satisfactorily.

As noted earlier in this Update, financial forecasting and reporting in South Australia remains a challenge, but considerable progress has been made. The South Australian operations continue to receive significant management focus.

In the January Update, it was noted that the former CEO, Mr Roger Flynn, was on leave pending the completion of the review of events leading up to the insolvency of the ION Group. Mr Flynn's employment has subsequently ceased.

## 5 Sale of Businesses

Since the January Update, considerable progress has been made in preparing and offering the ION Group businesses for sale.

During January, CSFB searched extensively in Australasia, Asia, North America and Europe for potential buyers in the automotive industry and also for potential financial investors. Parties who were likely to show interest were provided with a concise document by CSFB highlighting the investment opportunities presented by the ION Group. The businesses' availability for sale was also advertised.

Following this process, numerous expressions of interest were received. During February, detailed Information Memoranda were prepared for each business. These were distributed to relevant interested parties in late February, following receipt of Confidentiality Agreements.

CSFB has asked interested parties to submit indicative bids by mid March. At that juncture we will be able to form preliminary views on:

- the likelihood of each business being sold;
- the combination of businesses likely to obtain the best results; and
- the range of possible sale values.

At this point, it is premature to predict the outcome of the sale process.

As noted previously, the sale of ION Energy services was completed on 5 January 2005 and we are in the process of finalising completion adjustments (e.g. stock, employee entitlements, fixed assets and stamp duty), collecting accounts receivable and paying suppliers. Creditors may have read an article in Business Review Weekly Magazine (BRW) (the February 17 Edition), which compared the price obtained by the Administrators to the amounts agreed in principle with the buyer prior to our appointment. Creditors should note that the BRW article is factually incorrect in this regard and significantly overstates the reduction in value caused by ION Group's insolvency. The analysis provided to creditors on Page 15 of the January Update is correct.



## 6 Forensic review

In accordance with our obligations under the Corporations Act, the Administrators are continuing with their investigation into the affairs of the ION Group and, in particular, the events which led to its insolvency. The Administrators have retained Allens Arthur Robinson to assist in the conduct of the investigation and to identify potential claims which the ION Group companies (or any liquidator appointed to them) might have. Allens Arthur Robinson, have, in turn, engaged KPMG Forensic to assist them in the review of financial and other information relating to the investigation.

The matters being reviewed focus on the following:

- explaining in detail the key developments in the business and the related information flows in the period leading up to the re-financing in September 2004 and the appointment of Administrators;
- establishing the point at which ION Group became insolvent;
- determining whether there are any transactions which a liquidator would pursue for recovery (such as preference payments, uncommercial transactions, insolvent trading); and
- advising whether there are other causes of action against parties arising from the failure of ION Group.

As part of this process, a detailed review of ION Group's governance and reporting is under way.

KPMG Forensic's findings are currently being reviewed in conjunction with Allens Arthur Robinson.

ASIC has met with the Administrators to obtain briefings on the investigation being conducted and has requested to be kept informed of this review process.

## 7 Creditors' Committees

As creditors are aware, Creditors' Committees were established for most of the ION Group companies involved in the following operations:

- ION Energy Services business;
- the Albury transmission business;
- the South Australian plants; and
- ION Head office, incorporating Altona.

The Committees comprise a good cross-section of suppliers, employee unions, financiers and government authorities.

Ten Creditors' Committees meetings have been held to date, with the eleventh scheduled for 4 March, 2005. The Committees continue to work well.

As foreshadowed in the January Update, on 15 February, 2005 the Administrators obtained orders in the Federal Court enabling the Creditors' Committees to approve the Administrators' fees. This was necessary as a consequence of the extension of the convening period by 90 days.

Creditors' Committees were provided with detailed information about the Administrators' fees and work done for the period ended 28 January, 2005 and the approval of the Committees was obtained for fees of \$3,425,114 plus GST. These fees were calculated at the discounted rates advised to creditors in the meetings held on 13 December, 2005.

## 8 Other matters

As foreshadowed in the January Update, the Federal Court made orders on 15 February, 2005 to ensure that the amounts borrowed by the Administrators from Westpac are regarded as debts for which the Administrators have personal liability and in respect of which the Administrators have an indemnity out of and a lien over all of the assets of the ION Group companies which are parties to the ASIC Class Order guarantee (see Appendix 1). The Administrators have a line of credit from Westpac in the amount of \$20 million, although it has not been necessary to draw on that facility to date. The Administrators consider it prudent to have standby funding available.

During February, information revealed during legal due diligence conducted by our solicitors, Allens Arthur Robinson, disclosed that there is some doubt about whether one of the ION Group entities, Cootes Holdings Pty Ltd, is a party to the ASIC class order guarantee. This matter is still under review and further information will be included in the section 439A Report to Creditors.

We have sought relief from ASIC under Class Order 03/392 from half year reporting in respect of the half year to 31 December 2004 on the grounds of our appointment as Administrators. Consequently, we have applied to the ASX for a waiver of Listing Rule 4.2A relating to the lodgement of half year reports and information set out in Appendix 4D of the Listing Rules.

## **9 Second Creditors' Meetings**

The second statutory meetings of creditors are required to be held no later than 8 April, 2005, unless Court approval is obtained for a further extension.

Preparations are under way for the meetings and for the material required to be presented to creditors, including the Section 439A reports. It is however possible that an application for a further short extension of the period for the convening of these meetings may be required. The Creditors' Committees will be consulted should such an application be required and creditors will be notified if the Court grants a further extension.

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 Tuesday, 15 March 2005.

Colin Nicol and Peter Anderson  
*Joint Administrators*

## A Appendix 1

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

### Parties to Class Order Guarantee

	<b>ACN</b>
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 investigation. This entity may not be a party to the Class Order Guarantee (see section 8 above).