

**Lift Capital Partners Pty Limited
ACN 111 015 500
Lift Capital Nominees No.1 Pty Limited
ACN 112 913 532
(Administrators Appointed)
("Lift" or "the Companies")**

Second Supplementary Report to Creditors

Pursuant to s.439A of the Corporations Act 2001

4 November 2008

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1 Introduction and overview

This is the second Supplementary Report to creditors prepared pursuant to section 439A of the Corporations Act 2001 (“the Act”) and should be read in conjunction with our previous report dated 4 July 2008 (“Previous Report”), the first Supplementary Report dated 11 July 2008 (“Supplementary Report”) and the Circulars to Creditors dated 2 September and 9 September 2008. We have applied the same glossary terms in this report.

We have posted a copy of this report to all known creditors and will post the report on the McGrathNicol and Lift websites.

The Previous Report was a comprehensive report on the business, property, affairs and financial circumstances leading to the appointment of the Administrators. The Supplementary Report provided information on the Deed of Company Arrangement (“Original DOCA”) proposal received prior to the second creditors meetings on 16 July 2008. These reports are available on both the McGrathNicol and Lift websites.

The second creditors’ meetings held on 16 July 2008 were, at the request of creditors, adjourned for 43 business days until 15 September 2008. The purpose of the adjournment was to:

- + allow creditors more time to consider the terms of the Original DOCA; and
- + enable the Administrators to provide more information to creditors concerning the specific nature of the proposed mutual releases between ML, Lift and the Lift directors in the Original DOCA.

As outlined in the Circular to creditors dated 2 September 2008, ML requested the Administrators apply for a further adjournment of the second creditors meetings for 2 months from 15 September 2008, to enable ML sufficient time to further consider proposing an enhanced DOCA (“Enhanced DOCA”). On 4 September 2008, the Court granted a further adjournment of the second creditors meetings to 12 November 2008.

This report provides an update on the Administration, the Administrators’ dealings with ML, a revised estimated return to creditors and an update on the various courses of action in respect of which creditors of Lift are entitled to vote at the second creditors’ meetings on 12 November 2008.

At the date of this report ML have indicated that a further DOCA proposal will likely be provided to the Administrators prior to the meeting. We have been discussing the terms of that foreshadowed proposal with ML and, based on the discussions to date, once it is made it is possible the Administrators will be in a position to recommend it to creditors. We will endeavour to update creditors regarding this foreshadowed proposal once it is made, in a further Supplementary Report prior to the meeting.

If there is no DOCA proposal for creditors to consider at the creditors meetings, in our opinion, it is in the interests of creditors to resolve that the Companies are wound up.

2 Deed of Company Arrangement (“DOCA”)

2.1 Original DOCA

The terms of the Original DOCA contemplated that potential claims by Lift against the Directors and ML would be released. The terms and benefits of the Original DOCA were set out in the Supplementary Report.

The Original DOCA did not release any potential claims that Lift Clients may have against ML or the Directors, in particular any claims in respect of securities they had mortgaged to Lift, which had subsequently been transferred by Lift to ML and which ML has sold (“**Share Loss Claims**”). Accordingly, clients could continue to pursue ML and / or the Directors in respect of any potential Share Loss Claims.

Since the creditors meetings we have continued to liaise with ML in relation to the Original DOCA, including seeking clarification of the specific nature of the releases sought by ML, and have continued our investigations. As our work progressed it became clear that there were unresolved issues and uncertainties concerning the ML conduct of the sell down process, and numerous questions in relation to the Major Client Group. Having regard to these issues, we formed the opinion it may not be appropriate for the Companies to provide fulsome releases in exchange for the relatively modest financial offer made in the DOCA. Accordingly we prepared and provided to ML draft release terms under the Original DOCA which excluded these matters from any releases. ML has since confirmed to us that the Enhanced DOCA Proposal would be provided in substitution for (rather than as an enhancement to) the Original DOCA.

As such the Original DOCA proposal is no longer available for consideration by creditors.

2.2 Enhanced/Revised DOCA

Since the creditors meeting, the Administrators have attempted to facilitate an arrangement with ML, whereby a fund could be provided in exchange for releases that Lift creditors with Share Loss Claims might choose to provide to ML.

During early August 2008 we proposed an outline of an Enhanced DOCA, the key features of which included:

- + ML providing a further additional fund (over and above the Original DOCA fund) in exchange for releases that Lift creditors with Share Loss Claims might choose to provide to ML. We proposed to ML an additional fund equal to 12 cents in the dollar on creditor claims; and
- + the additional fund would become available should the proposal receive an appropriate acceptance rate by Lift creditors. We proposed a threshold acceptance rate of 70% of creditors by value.

We outlined to ML the advantages of such a proposal, including:

- + the claims by creditors with Share Loss Claims can be adequately addressed commercially having regard to risks to ML that such claims could succeed if litigated and the costs and time involved in conducting and defending such litigation;
- + the process could achieve an outcome quickly for all parties;
- + an early settlement with a high take up rate would diminish the prospects of a class action claim being pursued. We have indicated to ML that, following consultation with the Committee and other key creditors, we consider that, absent the Enhanced DOCA, a class action may be commenced; and
- + based on our soundings, a proposal with a significant additional fund has good prospects of being approved by creditors, resulting in ML obtaining releases from creditors with Share Loss Claims in a seamless way.

We have also indicated to ML that:

- + we consider there to be a real risk for ML that it may ultimately be found liable to Lift creditors for losses following the collapse of Lift;
- + our views on the issue are supported by the recent developments in the WA Proceedings; and
- + we expected the Original DOCA would not be approved by creditors on 12 November 2008 and so the Companies will be wound up, unless a better offer was formulated.

We asked ML to consider our proposal. After several discussions and meetings with ML and their legal advisors, on 22 August 2008, ML advised that they were considering whether to make an improved offer subject to creditor releases and could see the benefits that such an offer would bring to all stakeholders. However, ML advised they have not had sufficient opportunity to form a view regarding the terms of the Enhanced DOCA, and requested that we seek from the Court an extension of 2 months from 15 September 2008 for the re-convening of the Creditors meeting, to enable ML to conclude its deliberations.

We forwarded a copy of the ML request to the Committee of Creditors on 26 August 2008, and convened a meeting with the Committee on 28 August 2008 to consider the request to extend the second creditors meetings. The Committee and the major creditors agreed with this course of action, and the Australian Securities and Investments Commission ("ASIC") had no objection to the extension of the creditors meetings to enable ML to conclude its deliberations.

We ultimately received approval from the Court for the extension to re-convene the meeting on 12 November 2008. In order that we have time to consider the merits of the offer and report to the committee and creditors prior to the meeting, we requested a proposal be finalised and provided to us by 15 October 2008.

We have had numerous discussions with ML from August 2008 onwards. On Friday, 31 October 2008 we were informed that ML were working on the terms of a revised DOCA proposal, and on Monday, 3 November 2008 we were informed a proposal was being finalised by ML. However, at the time of finalising this report, a formal proposal has not been received by the Administrators. However, based on the broad terms discussed between the Administrators and ML to date, and subject to an analysis of the detailed terms when received, it is possible the Administrators will be in a position to recommend to creditors that Lift execute a DOCA based on the foreshadowed proposal.

We expect to receive the formal ML proposal on Wednesday, 5 November 2008. In that regard we will need to provide creditors a further Supplementary Report setting out the terms of the proposal and our recommendation, prior to the 12 November 2008 meeting.

We are conscious that the final proposal (and our recommendation thereon) may only be received by the creditors in the days leading up to the meeting, and so creditors will not have a lengthy period in which to consider its terms. In that regard, we will post the details on the McGrathNicol and Lift websites as soon as they are available.

3 Merrill Lynch issues

3.1 Securities held at ML and status of Court Declarations

ML provides a daily valuation report on the quantum and value of the securities it continues to hold (“**ML Surplus Securities**”). As at 27 October 2008, the ML Surplus Securities were valued at \$33m, including Bravura Solutions Limited (BVA) shares valued at \$15m.

The Court Declarations were listed for directions on Monday 11 August 2008. On 11 August 2008 Justice Hammerschlag made orders for further directions and stood the proceedings over for directions on 15 September 2008. The proceedings are set for a trial date commencing on 11 November 2008.

There are approximately 125 different securities, including ASX-listed shares, options and bonds, held at ML which make up the ML Surplus Securities. These securities include:

- + those which have not been traded at all by ML;
- + those that have been heavily sold such that only a minimal proportion of the aggregate of all client’s 10 April 2008 holdings remain; and
- + those where only a small number of the shares held by ML have been sold.

A sub-set of 3 of the 125 securities are the subject of the Court Declarations.

It is expected that the Court Declarations will result in one of three outcomes:

1. ML will return the cash equivalent of the securities to Lift;
2. ML will return the securities to Lift; or
3. if (2), then the Court is being asked to make declarations as to whether the particular securities in question are the property of Lift or belong to the relevant Lift clients involved in the proceeding.

As the issues in the Court Declaration proceedings include whether securities mortgaged by Lift Clients to Lift and transferred by Lift to ML remained subject to proprietary claims (eg an equity of redemption) by Lift Clients, the outcome of the Court Declarations will be of interest to Category 2 and Category 3 Lift Clients, including those Lift Clients who do not have any proprietary claim over any of the 125 ML Surplus Securities.

3.2 Berndale Securities

The position in relation to the Berndale securities is dealt with in Section 4.4 below.

3.3 Swaby and Crabb proceedings

The parties to the Swaby and Crabb proceedings are Mr Crabb and Ms Swaby (being Lift Clients) as claimants and Lift and ML as defendants. These proceedings may assist in clarifying any potential claims that other creditors whose securities were transferred by Lift to ML and then sold by ML for its own benefit, may have against ML and/or Lift. An update on the proceedings is detailed below:

- + the matter was before the Federal Court in Perth on 6 August 2008 for a conference hearing;
- + the timetabling of the matter has been impacted by the requirement for a new Judge (as Justice French has been appointed to the High Court). Further directions were heard on 17 September 2008;
- + the administrators have caused Lift to make extensive discovery of Lift's relevant documents (including communications between Lift and ML) to Ms Swaby and Mr Crabb and to ML. This has been a time consuming and detailed process but has assisted the parties in the proceedings in gaining a detailed understanding of the events surrounding Ms Swaby and Mr Crabb's Share Loss Claim;

- + following completion of the main discovery of documents process, on Lift's application (and to reduce Lift's legal costs), the Court has made orders allowing Lift to withdraw from the proceedings on its undertaking to abide by the Court's determination and to continue to provide documentary evidence as required;
- + Swaby and Crabb have now filed an amended application and statement of claim, in which they make further and more detailed claims regarding ML's and Lift's conduct, having regard to the document discovery which the administrators have caused Lift to make. As the Swaby and Crabb proceedings are in the Federal Court, the administrators' understanding is that under the Federal Court Rules (unlike the NSW Supreme Court), interested creditors should be able to obtain a copy of the amended application and statement of claim in the Swaby and Crabb proceedings by request to the Court Registry.
- + a further extension was recently granted by the Court to allow ML until 7 November 2008 to file and serve any amended defence; and
- + the next case management conference is to be held on 13 November 2008.

The outcome of the Swaby and Crabb proceedings will be of interest to Category 2 and Category 3 clients in assessing the strengths and any weaknesses of their Share Loss Claims.

4 Client Administration and return of securities

As previously advised Lift clients fall into three broad categories, as follows:

- + Category 1: Clients whose portfolio contains no securities transferred to ML;
- + Category 2: Clients whose portfolio contains at least one security transferred to ML; and
- + Category 3: Clients whose entire portfolio was transferred to ML.

Clients are able to check their classification, which will be updated in due course following recent activities relating to the return of Identifiable Securities to certain Category 2 clients, discussed below, on the McGrathNicol and Lift websites.

4.1 Interest calculations

As we indicated at the 12 July 2008 creditors meetings, updates have been issued setting out the proposed calculation and application of interest on the Facility Amount Outstanding from 10 April 2008. The update has been posted on the websites. For clients who are being asked to repay loans and receive securities, we have implemented a regime incorporating a concessional interest rate of 7.5% on outstanding Category 1 and Category 2 client loans.

4.2 Updates to clients on Administration process

Updates for all three categories of clients have been posted on our website at www.mcgrathnicol.com.au. The key points from these updates and the current status of releasing clients Identifiable Securities is detailed below:

- + all Category 1 and Category 2 clients with no loan have either had their Identifiable Securities returned to them, subject to finalisation of the Deed with Berndale, or are yet to respond to our communications;
- + Category 1 clients with positive loan balances have all been asked to confirm in writing that they wish to repay their loan and provide a refinance date or, alternatively, instruct the Administrators to redeem their securities and apply sufficient of the sale proceeds to repay their loan in full. Further details on this process are detailed in section 6.3 below;
- + a small number of Category 1 clients are yet to respond to our communications in relation to the point above and we will commence a process of formally notifying these clients that Lift intends to take such steps as necessary under its powers to seize and realise value for these securities from 21 November 2008;
- + we have returned or are in the process of returning securities to all Category 1 clients who have responded, which has resulted in 187 clients having had all of their securities returned and no longer being classified as creditors;
- + Category 2 clients with loans should note that there is a revision to the repayment assumptions we made for Category 2 clients. Rather than repaying their loans in order to receive back their Identifiable Securities, we now consider it likely that Category 2 clients will instead exercise statutory rights of set-off.

The right of set-off is available once Lift either goes into liquidation or enters a DOCA. The effect of set-off will be to reduce the value of loans ultimately collected from Category 2 clients, with corresponding reductions in the level of client claims and the estimated return to creditors.

Having had further time to consider Category 2 clients' position it is difficult to envisage those clients repaying loans prior to effecting this right of set-off. Accordingly, certain Category 2 clients will not have their Identifiable Securities returned to them until either their loan is repaid, which we consider an unlikely course, or they are able to set-off the value of Non-Identifiable Securities against their loan. This matter is discussed in further detail below; and

- + the value of Category 3 client claims will be affected by the outcome of the Court Declarations in relation to the ML Surplus Securities and the value to be attributed to

those securities transferred to and sold by ML. No interest will be charged on Category 3 clients outstanding loan balances, where the value of the securities exceeds the loan balance.

The revision to the Category 2 client loan repayment assumption results in a reduction in the estimated returns to remaining creditors. This is set out in section 6 of this Report.

4.3 Category 2 clients – return of certain securities

We have considered each Category 2 client's position on a case by case basis and in instances where there are no client loans, Identifiable Securities have been returned. Additionally, we continue to return Identifiable Securities to clients where we consider there to be no risk, from a loan recovery perspective, to the general body of Lift's creditors.

To date, we have identified approximately 150 clients to whom securities can be and are being returned and this process continues. We are utilising the following characteristics to determine Category 2 clients able to have some of their Identifiable Securities returned:

- + clients with negative loans (ie Lift's records indicate that Lift owes them money), no loans or loans under \$50; and
- + clients who on any view will not receive back any of the ML Surplus Securities, in the event the Court declares the shares to be the property of Lift clients, since all their initial holdings have been sold; and
- + the proceeds of the sale of a client's original portfolio of securities (before they were sold by ML) significantly exceeds their loan balance.

The Administrators are under no obligation to commence this process prior to Lift going into either liquidation or a DOCA and the statutory rights of set off becoming available to creditors and are only doing so where, in their absolute discretion, they deem it appropriate to do so. However, in order to assist creditors as much as possible, we consider this approach appropriate in order to keep the administration moving forward whilst we await the outcome of the second creditors' meetings and the Court Declarations.

4.4 Completing the return of all Identifiable Securities

We have written to all Category 1 clients seeking instructions as to how to satisfy the outstanding loan balances and have their Identifiable Securities returned. Upon the receipt of client instructions we are generating client statements and updating their loan balances to the advised date of repayment / refinance of their outstanding loan balances. We expect all Category 1 arrangements to be finalised, or in the alternative, recovery action commenced, by the end of November 2008

As set out above, we continue to deal with Category 2 clients on a case by case basis.

The major outstanding issue has been the treatment of the Berndale securities. In this regard, after several requests, the issue of withdrawal notices and extensive discussions with Berndale's solicitors, Berndale have now returned the majority of securities, and we have completed ASTF's to transfer the securities to the relevant client. We are dealing with clients on a case by case basis in this regard.

At the time of writing, Berndale retain approximately a third of all securities it held as at 10 April 2008. However, we have now executed a Deed resolving all outstanding issues with Berndale, thereby allowing Lift access to all the remaining securities for provision to Lift clients.

4.5 Administrative matters

4.5.1 Client Statements

Client Facility Statements for the period 1 July 2007 to 10 April 2008 from Lift's records have recently been issued.

We are currently unable to provide statements for the period 11 April 2008 to 30 June 2008 as the Court Declarations are yet to be received. The Declarations are likely to impact on the ownership of share dividends received by Lift and/or ML since Administration. Further tax information is provided below for clients' information.

4.5.2 Dividends

Securities mortgaged by Lift Clients with a dividend record and payment date pre-appointment have been recorded in Lift's accounting software on a business as usual basis by Lift staff.

However, insofar as client securities that are held by third parties with a dividend payment date on or post appointment are concerned, those dividends cannot be returned to clients until the funds are received from third parties.

ML has applied dividends it received following our appointment against Lift's outstanding debt and accordingly these funds will not be returned to clients. These clients will be eligible to either set-off dividend proceeds against outstanding loan balances or alternatively submit a claim for the value of the proceeds, provided the clients are able to prove the securities were not disposed of by ML before the record date. Further investigations will be made by a Liquidator or Deed Administrator upon receipt of the Court Declarations to assist clients in this process.

On release of the remaining Berndale Securities we will be able to confirm the status of these dividends. We expect that all dividends from the Securities held by Berndale will be able to be either returned to clients with no loans or set-off against clients' loan balances. Further information will be provided shortly.

4.5.3 Preliminary draft tax advice

In response to the tax queries raised we have engaged a tax consultant to provide general advice on the capital gains on disposal of the pledged securities.

Based on the preliminary advice received, we note the following:

- + the Capital Gains Tax (CGT) provision deems Lift's clients to have disposed of the securities rather than Lift or ML (CGT event A1);
- + clients ceased to have ownership of the pledged securities at the time ML disposed of them during the 2008 financial year. Therefore, clients may be required to include the relevant capital gains or losses in their 2008 income tax returns;
- + it is a capital gain if capital proceeds of disposal exceeds the cost base, and it is a capital loss if capital proceeds are less than their reduced cost base;
- + the capital proceeds would constitute:
 - any cash received from Lift during the administration or in a liquidation or under a DOCA; and
 - value of client loans set-off against the proceeds from the sale of the securities.
- + the majority of clients would include the full proceeds received by ML as proceeds from the sale of their securities, including value of loans set-off;
- + as clients are currently not in a position to determine with accuracy the amount they will ultimately receive it will not be possible to determine their final capital gains tax position when required to lodge their income tax returns;
- + one solution would be to estimate the gain or loss in the 2008 income tax return and when the final entitlements are received from the Administrators, it may be necessary to amend the income tax returns to reflect the correct gain or loss; and
- + due to the volume of clients, our tax consultant recommends we discuss the issue with the Australian Taxation Office ("ATO") for the purpose of obtaining an agreement on an acceptable approach which could be communicated to Lift's clients.

We intend to shortly contact the ATO and open discussions regarding these issues that clients and their tax accountants are currently having to deal with.

As each client's position is different clients should seek their own independent tax advice in regards to the treatment of any distributions, returns of securities or dividends they receive. This preliminary advice is provided to all creditors as a a general guide only and does not constitute tax advice.

5 Famularo Group

As outlined at the creditor meetings, there is a considerable exposure to a group of twenty six (26) entities associated with Mr Tony Famularo (“the Famularo Group”), whose debts to Lift, of approximately \$32m, were crystallised when ML closed out the trading positions, including options sold shortly after our appointment.

We have been in regular communication with Mr Famularo’s solicitor and have provided a significant amount of documentation to his solicitor, which sets out the contractual rights and obligations that exist between each of the entities and Lift and how the claim has been calculated. At this stage however, it appears that court proceedings will need to be commenced in order to resolve the matter.

We have issued letters of demand to each entity for repayment within three business days, and to Mr Famularo as guarantor for the debts. We have allowed Mr Famularo until 4 November 2008 to repay the outstanding debt before commencing formal proceedings. A Statement of Claim has been prepared and will be filed unless the payment is made.

We have sought a statement of the assets of the Famularo group and Mr Famularo personally but that information has not been provided as at the date of this report. Accordingly, we have filed an application asking the Court to issue a Section 596B Examination Summons requiring Mr Famularo to attend at Court for a public examination. In this regard we wish to examine Mr Famularo under oath concerning his financial position and capacity to meet a claim.

In addition, we have written to ML seeking information regarding ML’s relationship with the Famularo Group including the close out of the exchange traded options and the sale of ASX listed securities. Should we not receive a satisfactory response, and should Lift proceed into Liquidation we will consider preparing an Examination Summons seeking to examine ML officers and/or former officers in relation to these issues.

Our projections in section 7 of this report have been calculated before assessing returns from the Famularo Group, as this position has a substantial impact on the funds available to creditors. In this regard, based on claims of \$150m, every \$3m recovered from the Famularo Group is equivalent to an increase in the creditor returns by approximately 2 cents in the dollar.

Further information will be provided at the creditors' meetings on 12 November 2008.

6 Estimated return to unsecured creditors

6.1 Original calculations

In our Supplementary Report, we included our then estimates of returns to creditors under two scenarios; firstly assuming the Companies were wound up and secondly if creditors resolved that the Companies execute the DOCA, as proposed. These two low case scenarios estimated returns of 60 and 63 cents in the dollar respectively to all Category 2 and Category 3 clients.

6.2 Revised calculations: major assumption

In our Circular dated 9 September 2008, we included commentary on the revised estimated returns to creditors of between 50 and 53 cents in the dollar for low case liquidation and DOCA scenarios.

It was assumed that Category 2 clients whose portfolio contained Identifiable Securities with a market value, as at 10 April 2008, that exceeded their loan balances would elect to repay the loans in order to receive the Identifiable Securities back during the period of Voluntary Administration. As such, our estimates included loan repayments from some Category 2 clients.

Rather than repaying their loans in order to receive back their Identifiable Securities, we now consider it more likely that Category 2 clients will exercise a right of set-off. Our revised projections assume all Category 2 clients elect to apply set-off once the Companies are either wound up or execute a DOCA.

6.3 Loan repayments

The expected client loan recoveries is summarised as follows:

Client Category	Client Loans at Book Value \$M	Estimated Client Loan Recoveries \$M	Actual Loans Collected \$M
Category 1	29	28	14
Category 2	12	12	-
Category 3	2	1	-
Total	43	41	14

Source: Lift records / Administrators' estimates

As outlined in section 6.2, the above loans have been adjusted to take into account a notional offset that Category 2 and 3 clients will apply to their Facility Amount Outstanding in respect of their Non-Identifiable Securities.

With this adjustment, clients' loans based on Lift's records as at 10 April 2008 totalled \$43m. Whilst we are confident of collecting all clients' Facility Amounts Outstanding, we have made a provision of \$2m for the estimated return to creditors.

Certain Category 1 clients either have repaid or are in the process of repaying their loans to allow for the return of their Identifiable Securities. Other Category 1 clients have instructed Lift to redeem those securities and apply the proceeds to their client loans.

The key points to note are as follows:

- + there were 239 Category 1 clients with loans totalling \$29m. To date, we have collected \$14m in loans from Category 1 clients;
- + 107 clients have repaid their loans in full, totalling \$11m with the remaining balance representing partial loan repayments and redemptions;
- + 70 clients with loans totalling \$10m have been unable to comply with their advised refinance date, which has resulted in some delays in realising funds from Category 1 clients. We continue to work with these clients and their advisors to effect repayment where possible prior to Lift enforcing its rights.
- + 56 clients have redemption programs in place, with expected future realisations of \$5m.
- + 6 clients yet to respond to our enquiries, with loans totalling \$0.6m. Where necessary we will enforce Lift's rights to seize and dispose of their securities.

6.4 Revised estimated return to creditors

Set out in the table below is a comparison between the low case estimate in liquidation as at 11/07/08 and our revised estimate as at 31/10/08.

Revised Estimated Return to Creditors – liquidation scenario comparison		
	Liquidation Scenario 11/07/08 \$M	Liquidation Scenario 31/10/08 \$M
Assets		
ML Surplus Securities	28	19
BVA shares	45	20
Cash loan repayments	68	41
Cash/option proceeds	6	6
	147	86
Less: costs of administration/operational costs	(10)	(10)
	138	76
Liabilities		
Unsecured creditors		
Client equity (claims)	217	147
Trade creditors	3	3
Provision for unknown claims	10	-
	230	150
Return to creditors (¢ in the \$)	60¢	50¢

Source: Administrators' estimates

6.5 Commentary and assumptions

The revised estimated returns to creditors are highly sensitive to the assumptions made for both the receipt of the Merrill Lynch surplus, and recovery of loans, as well as the calculation of client equity.

Following a revision to our assumptions for repayment of Category 2 clients as outlined in our Circular dated 9 September 2008, currently estimated returns to remaining creditors are lower than previously estimated. We comment on the changes as follows:

- + a reduction in recoveries from ML Surplus Securities of \$9m reflecting changes in market conditions from 11 July 2008;
- + a reduction in loan repayments of \$27m, reflecting the revised assumptions for Category 2 clients who it is expected will exercise their right of set-off;

- + different assumptions in relation to the BVA shares. BVA are currently trading at \$0.30 per share, and the current market value of the BVA shares held by ML is \$13.2m. However, we have agreed in principle terms with BVA facilitating the repayment of the loan of \$20M by March 2009 and the return of the shares. Repayment of the loan also reduces the calculation of claims significantly.
- + a decrease in the calculations of client claims of \$70m, reflecting the reduction in client equity associated with set off of Category 2 client loans and the reduction of client equity from BVA claims as detailed above; and
- + the revision of our unknown creditor estimates.

We note the following assumptions upon which the projections rely:

- + BVA shares held by ML are realised at the client loan value, as detailed above;
- + other ML Surplus Securities will remain the subject of the Declarations and are assumed to be the property of Lift and realisable at their 27 October 2008 market values. The majority of these securities are highly illiquid securities and may not be realisable at the current market price;
- + the ML Surplus Securities are available for the benefit of all creditors and are not returnable to specific clients. Should the court declaration indicate that we should return the ML Surplus Securities to clients, it would result in less assets being available for all clients and to a lesser extent a lower client equity claim, resulting in a lower return to all clients;
- + creditor claims are calculated as the difference between the market value of securities at 10 April 2008, and the value of the loan assuming all clients apply set-off. This assumption will be reviewed when adjudicating client claims as the date securities are valued may be the date ML disposed of clients securities;
- + an estimate of interest accruing on client loans has not been included for the purpose of the analysis;
- + loan recoveries are forecast from Category 1 clients, with appropriate provisions made for known/expected bad debts;
- + there is a decrease in estimated loan recoveries from Category 2 clients as outlined above. However, in instances where a client's loan exceeds the value of the ML Surplus Securities an appropriate estimate of recoveries has been included;
- + there is a corresponding decrease in our estimated level of client claims, since clients whose ML Surplus Securities value exceeds the amount of their client loan will likely choose to set off the value of those securities against their loan; and
- + as with our previous estimates, we assume no recovery from the Famularo Group debt.

Changes to the assumptions have an impact on the returns to creditors. For example, if different assumptions are made in relation to the treatment of the ML Surplus Securities (in so far as the surplus is not the property of Lift) and so the proceeds from the sale of the securities are available to individual clients, there will be no such realisations available to the general pool of creditors, and there will be a reduction in client equity.

There is additional work involved, and assumptions to be made in calculating the reductions in client equity however, the impact will be a further reduction in the estimated return to creditors below the estimates in section 6.4, as some clients would be receiving favourable treatment given they are receiving back identifiable securities for that element of their holding.

6.6 Issues that may affect the return to creditors

The external issues that may affect the ultimate return to creditors remain as set out previously and are as follows:

- + whether creditors resolve the Companies execute a DOCA, if proposed, and any revised or additional DOCA proposal;

- + the realisation of the BVA client loans;
- + the value obtained on the disposal of the non-Bravura ML Surplus Securities, whether realised by ML or by Lift;
- + the value obtained should Lift realise securities held by Category 1 clients who do not elect to repay their margin loan in full;
- + realisations from debtors - for the purposes of the scenarios above we have assumed either nil or minimal recoveries;
- + the level of the cash amounts held by ML currently and to be returned to Lift;
- + additional claims that may be submitted in addition to those calculated by reference to the securities and loan positions; and
- + the recoveries from the Famularo Group.

The timing of any dividends to creditors under liquidation or a DOCA, interim or final, will be dependent on the realisation of assets for the distribution pool.

7 Alternative Courses of action and recommendation

In our Previous Report dated 4 July 2008, we set out and provided our opinion on each of the courses of action on which creditors are entitled to vote at the meetings. In the absence of a DOCA proposal, our recommendation was that it was in the best interests of the Companies' creditors for those Companies to be wound up.

On 10 July 2008, we received the DOCA proposal as outlined in the Supplementary Report. On review of the DOCA proposal we revised our recommendation to creditors in our Supplementary Report dated 11 July 2008 that they resolve that the Companies execute the DOCA as, on balance, the value of any claims that may be available to Lift (as distinct from Lift clients) in a liquidation, and that would be released pursuant to that proposed DOCA, are highly uncertain.

As set out above, we await from ML the detailed terms of a revised DOCA proposal. Based on the broad terms discussed between the Administrators and ML to date, and subject to an analysis of the detailed terms when received, it is possible the Administrators will be in a position to recommend to creditors that Lift execute a DOCA based on the foreshadowed proposal. We expect to receive the formal ML proposal on Wednesday, 5 November 2008.

In that regard we will endeavour to provide creditors a further Supplementary Report setting out the terms of the proposal and our recommendation on each of the options available to creditors, prior to the 12 November 2008 meeting.

8 Committee of inspection

At the creditors' meetings, the current Committee automatically dissolves pursuant to the Act and a new committee of inspection (creditors) may be formed, if creditors so chose. We will advise creditors of a committee's role and functions at the meetings, following which we will call for nominations for creditors who wish to be members of the committee.

9 Administrators' remuneration

An administrator's remuneration can only be fixed by resolution of a committee of creditors, the company's creditors or by application to the Court.

In accordance with section 449E of the Act and the IPA COPP, a Schedule of Remuneration Methods and Hourly Rates was provided with our initial communication and tabled at the first creditors meetings. A schedule setting out the hourly rates we propose to charge from 30 June 2008 was provided in our Previous Report.

9.1 Work Completed

9.1.1 LCP Approval Sought

In addition to the activities set out in our Previous Report and Supplementary Report, the main additional areas of work undertaken are as follows:

- + processing the documentation and loan repayments / refinances for the return of Category 1 clients' Identifiable Securities;
- + redemption of Category 1 clients securities for loan repayments to return Category 1 clients' Identifiable Securities;
- + numerous discussions and correspondence with clients, advisors, legal representatives and refinancing representatives to facility loan repayments and the transfer of securities;
- + analysing and processing the documentation for the return of certain Category 2 clients' Identifiable Securities;
- + recording of dividends received by Lift and updating clients accounts / forwarding dividend proceeds to clients;
- + progressing further discussions in relation to securing the release of the BVA shares;
- + agreeing realisation strategy for the BVA shares;
- + finalisation of claims against the Famularo Group;
- + communication with the Famularo Group and legal representatives;
- + securing the release of the Berndale securities;
- + ongoing preparations for trial in the Court Declarations proceedings;
- + attending to ongoing operational issues; and
- + dealing with regulators and providing information when required.

Approval is being sought for remuneration of \$3,682,336.50 (excluding GST), with the following resolutions to be proposed at the forthcoming meeting:

“That the remuneration of the Administrators of Lift Capital Partners Pty Limited for the period 10 April 2008 to 12 November 2008 in the amount of \$3,682,336.50 excluding GST, is hereby approved for payment.”

This figure comprises of work undertaken during the following periods:

Period of work undertaken	Annexure	Amount (\$)
10 April to 27 June 2008	A	1,501,888.25
28 June to 24 October 2008	C	1,830,448.25
25 October to 12 November 2008 (Estimate)	E	350,000.00
Total (10 April to 12 November 2008)		\$3,682,336.50

This remuneration has been calculated in accordance with the Schedule of Remuneration Methods and Hourly Rates previously provided in the administration.

A summary which details the fees incurred / expected to be incurred during the Administration from 10 April 2008 to 12 November 2008 are attached as **Annexure A**, **Annexure C** and **Annexure E**. A summary which details the work performed / tasks expected to be undertaken during the same period are attached as **Annexure B**, **Annexure D** and **Annexure F**.

The actual fees charged for the period from 25 October 2008 to the date of the meeting will be advised at the meeting.

The disbursements of the Administrators of Lift Capital Partners Pty Limited for the period from 10 April 2008 to 24 October 2008 are \$9,056.

An information sheet for creditors, provided by the IPAA is attached as **Annexure O** in relation to approving an administrators' remuneration. Further information is available for creditors on the IPA website (www.ipaa.com.au) and ASIC website (www.asic.gov.au/insolvencyinfosheets).

9.1.2 Independent Fee Review

As creditors are aware, during the Administration, we have been working with a Committee of Creditors, who have assisted us with the aspects of the Administration.

During a meeting of the creditors' committee, issues were raised concerning the approval of the Administrators' remuneration. Given the enquiry (and the quantum of fees for which the Administrators are seeking approval) the Administrators consider it prudent to engage an independent insolvency practitioner to conduct a review of the remuneration being sought by the Administrators, and report to Lift creditors on the following issues:

- + whether the information being provided to creditors complies with the requirements of section 449E(7) of the Act, being that the report must set out sufficient information to enable the company's creditors to make an informed assessment as to whether the proposed information is reasonable;
- + whether the Report complies with the applicable principle set out in the IPA guidelines (having regard to the guidance contained in the IPA guidelines), being that a claim by a practitioner for remuneration must provide sufficient, meaningful, open and clear disclosure to the approving body to allow that body to make an informed decision;
- + whether any additional information should be made available to creditors; and
- + having regard the Expert's experience of insolvency administrations analogous to the administration of Lift Capital, whether the remuneration appears to be generally reasonable.

The Administrators have asked that the independent insolvency practitioner prepare a short report on these issues with a view to that report being made available to creditors prior to the second creditors' meeting.

We have engaged Mr Stephen Parbery of PPB Chartered Accountants to perform the review and comment on the level of information provided in our reports for creditors to make an informed decision about our remuneration.

9.1.3 LCN Approval Sought

Approval is being sought for remuneration of \$26,978.00 (excluding GST), with the following resolutions to be proposed at the forthcoming meeting:

“That the remuneration of the Administrators of Lift Capital Nominees No.1 Pty Limited for the period 10 April 2008 to 12 November 2008 in the amount of \$26,978.00 excluding GST, is hereby approved for payment.”

This figure comprises of work undertaken during the following periods:

Period of work undertaken	Annexure	Amount (\$)
10 April to 27 June 2008	G	8,838.00
28 June to 24 October 2008	I	13,140.00
25 October to 12 November 2008 (Estimate)	K	5,000.00
Total (10 April to 12 November 2008)		\$26,978.00

This remuneration has been calculated in accordance with the Schedule of Remuneration Methods and Hourly Rates previously provided in the administration.

A summary which details the fees incurred / expected to be incurred during the Administration from 10 April 2008 to 12 November 2008 are attached as **Annexure G, Annexure I** and **Annexure K**. A summary which details the work performed / tasks expected to be undertaken during the same period are attached as **Annexure H, Annexure J** and **Annexure L**.

The actual fees charged for the period from 25 October 2008 to the date of the meeting will be advised at the meeting.

The disbursements of the Administrators of Lift Capital Nominees No.1 Pty Limited for the period from 10 April 2008 to 24 October 2008 are \$1,565.

9.2 Future Fees – Liquidators’ Remuneration

Should creditors resolve that the Companies be wound up, the basis on which remuneration would be sought would be remuneration based on time incurred calculated in accordance with rates set by McGrathNicol in accordance with the IPA’s COPP.

The IPA’s COPP recommends the disclosure of estimated future fees and provides standard templates as a guide for Insolvency Practitioners to follow. This information and these templates were also provided in our Previous Report and Supplementary Report to creditors.

Accordingly, we estimate that the remuneration of the liquidators from 12 November 2008 to completion to be \$2,500,000. This estimate is based on our view of required tasks and cost estimates set out in the table below.

The key tasks that a Liquidator, if appointed, would perform may include the following:

- + further investigations into potential actions against ML, including the public examination of ML directors and officers;
- + further investigations into potential actions against the Lift directors and the commercial benefit of pursuing any action;
- + investigations into clients claims that a previous Lift employee misrepresented the ownership of clients securities, and the commercial benefit to creditors;
- + debt collection and litigation against the Famularo Group;
- + debt collection and litigation against the BVA loans;

- + debt collection and possible litigation against all client accounts with outstanding loan balances after applying set-off, post 12 November 2008;
- + review and application of the Court Declarations hearing;
- + monitoring the outcome of the Western Australian Court proceedings;
- + continuing to return Identifiable Securities to Category 1 clients and some Category 2 clients;
- + the adjudication of all clients and unsecured creditors claims against Liff's records;
- + convening and holding further creditors and committee meetings, when required;
- + the declaration and distribution of dividend(s) to unsecured creditors;
- + attending to operational and employee issues; and
- + attending to statutory and day to day matters of the liquidation.

The tasks to be undertaken from 12 November 2008 to completion of the liquidation are detailed in the seven task categories outlined below in accordance with the IPA COPP.

9.2.1 LCP

A summary of the tasks to be undertaken from 12 November 2008 to completion is detailed below.

Remuneration estimates for the Liquidation of LCP (12 November to completion)

Task categories	Liquidators' Estimate (GST exclusive) \$
Assets	1,075,000
Creditors	800,000
Employees	62,500
Trade-on	125,000
Investigations	250,000
Statutory and reporting	62,500
Administration	125,000
Total	\$2,500,000

Source: Administrators' estimates

We advise that approval is not being sought for future Liquidators fees at the creditors meetings on 12 November 2008. The fee estimates for the liquidation period are included for creditors' information. Liquidators' fees will be proposed to be approved at a future creditors meeting or by the committee of inspection, if one is appointed.

9.2.2 LCN

A summary of the tasks to be undertaken from 12 November 2008 to completion is detailed below.

Time estimates for the Administration of LCN (12 November to completion)

Task categories	Liquidators' Estimate (GST exclusive) \$
Creditors	15,200
Trade-on	2,000
Statutory and reporting	18,000
Administration	4,800
Total	\$40,000

Source: Administrators' estimates

Similarly to LCP, we advise that approval is not being sought for future Liquidators fees at the creditors meetings on 12 November 2008. The fee estimates for the liquidation period are included for creditors' information. Liquidators' fees will be proposed to be approved at a future creditors meeting or by the committee of inspection, if one is appointed.

10 Summary of Receipts and Payments

A summary of the Administrators' receipts and payments for the period from 10 April 2008 to 24 October 2008 is attached as **Annexure M** and **Annexure N**.

11 Website Updates

The Previous Report outlined three broad categories of clients in the administration (Category 1, 2 and 3). For creditors information we have recently updated the websites www.liftcapital.com.au and www.mcgrathnicol.com.au to include client account numbers and the corresponding client categories. Clients should note that this information has been provided from Lift's records and may be subject to amendment, as some discrepancies have been identified between Lift and third party records. Clients should review the websites for updates on the Administration.

12 Creditor meeting details

The second statutory meetings of the Companies' creditors have been re-convened to be held at Wesley Centre, 220 Pitt Street, Sydney NSW 2000, on 12 November 2008, commencing at 2:00pm, at which we will present the material in our reports to creditors.

For creditors who are interstate and unable to attend the meeting, a copy of the minutes of the meetings will be made available on the website shortly after the meetings.

Creditors who require further details in relation to the meetings should contact Adrian Koochew of this office on (02) 9338 9946.



A G McGrath
Joint Administrator



J D Hayes
Joint Administrator