

11 August 2010

TO CREDITORS AND INVESTORS

Dear Sir/Madam

**RE: SONRAY CAPITAL MARKETS PTY LTD
(ADMINISTRATORS APPOINTED)
ACN 104 482 993****SONRAY ADVISORY PTY LTD
(IN LIQUIDATION)
ACN 121 868 826****SONRAY CAPITAL MARKETS (QLD) PTY LTD
(IN LIQUIDATION)
ACN 119 300 300****SONRAY CAPITAL MARKETS NOMINEES PTY LTD
(IN LIQUIDATION)
ACN 134 965 754****COLLECTIVELY REFERRED TO AS "THE GROUP" OR "SONRAY"**

We refer to our previous correspondence, and now provide investors and creditors with a further update.

1. Company status

As foreshadowed in our first meeting of creditors, we have made an application to Court for an extension of the convening period to hold a second creditors meeting for Sonray Capital Markets Pty Ltd while we carry out our investigations and look at opportunities for a Deed of Company Arrangement. That extension was granted and a copy of the order was placed on our website for your reference.

Each of Sonray Advisory Pty Ltd, Sonray Capital Markets (Qld) Pty Ltd and Sonray Capital Markets Nominees Pty Ltd were placed into Liquidation on 27 July 2010 and John Lindholm and I were appointed as Liquidators of those companies.

2. Investigations***Allegations of a rogue trader***

Following our appointment, allegations were made that during 2008 a rogue trader at Sonray conducted unauthorised trading in some client accounts which resulted in Sonray having to "reimburse" affected clients in the amount of approximately \$5.9 million. The allegation went further, that the "reimbursements" were the commencement of the deficiency in the client funds. We have interviewed the alleged rogue trader, several other employees, Mr Russell Johnson and Mr Scott Murray in relation to these allegations. The verbal accounts provided by Mr Johnson and Mr Murray differed to those provided by the other employees.

From our investigation into the books and records of Sonray we identified a total of 19 clients who had complained to Sonray in relation to the alleged rogue trader. Our investigations identified that whilst a small number of these complaints related to unauthorised trading, the majority were in respect of a failure to place stop-loss positions in client accounts.

The total value of **book entry** reimbursements given to the identified clients was approximately \$1.3 million. It is clear from the evidence before us that Sonray never deposited any funds into the client segregated funds account to cover the reimbursements given.

Accordingly, while there is some substance to the allegations made, we have found that the deficiency in client funds commenced back in 2006. Accordingly, we are convinced the trader was not the catalyst for the deficiency in client funds.

Deficiency in client funds

We have since our appointment spent a considerable amount of time considering the deficiency in the client segregation account. Our investigations have so far identified:

- Over 280 possible unfunded deposits and reimbursements totalling approximately \$56 million
- Approximately 80 possible unfunded withdrawals totalling approximately \$15 million
- Over 145 client accounts which appear to have had unfunded transactions processed through them

By unfunded, we mean there was no physical cash movement in the client segregated funds. We are currently in the process of performing a cash-tracing exercise in relation to these transactions to confirm that they were truly unfunded.

There appears to be at least six client accounts which capture the majority of unfunded transactions both in quantity and in value. Further, we have identified numerous occasions where actual cash withdrawals have been made from these client accounts, increasing the deficiency in client funds.

We have also found instances where client funds have been withdrawn directly from the segregated account and have been deposited into Sonray's cheque account. It would appear that some of these withdrawals from client funds were used:

- As working capital to fund the operations of Sonray
- To repay loans unrelated to the Group
- To fund personal withdrawals
- To pay Sonray's commission

We are investigating all of these withdrawals and in particular whether the commissions have been legitimately withdrawn.

Further, ANZ is assisting our investigations by tracing a number of large deposits into Sonray's cheque account to advise us where the monies came from. In some instances, the deposits appear to be linked to withdrawals made from certain client accounts. Hence, the funds have indirectly been withdrawn from the client segregated funds.

Our investigations into these matters are ongoing.

3. Investor positions

We have continued our interrogation of Sonray's information systems in order to ascertain each investor's position at the date of our appointment, 22 June 2010. At this stage, we are unable to provide a meaningful summary to creditors and investors, as there are still a number of reconciliations to be undertaken to reach a final position. We expect to be in a position to provide additional information in our next circular.

4. Sale of trading platform

Following our appointment we obtained eight unsolicited enquiries for the acquisition of Sonray's yet-to-be commissioned trading platform. On 15 July 2010 we advertised in the Australian Financial Review and a further 15 expressions of interest were received.

We have prepared a presentation document which highlights the key features of the trading platform. This will be sent to interested parties this week as we begin to seek formal expressions of interest for the trading platform on its own, and also in conjunction with Sonray's client list, for which there have been 15 separate expressions of interest.

5. Staffing

At the date of this circular, only four Sonray staff remain in employment, assisting us with various aspects of the financial investigation into the collapse of Sonray. It is not surprising that many of the staff who were retained after our appointment have accepted other opportunities which provide more long-term certainty than working for a company in administration. We appreciate the efforts of the staff that have assisted, and continue to assist, the unravelling of a complex situation for the benefit of investors.

6. Legal update

As previously foreshadowed, the Administrators are hopeful of reaching negotiated settlements with some parties in an attempt to improve the return to investors. As part of that process, it will be necessary for us to obtain Court directions in relation to a number of issues including, but not limited to, the following:

- How to determine the value of the assets held by counterparties and whether positions held may be closed and liquidated.
- Whether the financial instruments ought to be separated into separate pools on trust for separate classes of beneficiaries or treated as a pool on trust with one class of beneficiaries.
- How to determine who are the beneficiaries of the assets in the account.
- What the appropriate method is to assess the entitlement of beneficiaries to assets and funds in the account.

We also propose to seek orders from the Court that the costs and expenses in determining issues in relation to the trusts, be paid out of those trust assets.



We anticipate providing creditors with an update on these legal issues within the next 2-3 weeks.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'G. Georges', with a stylized flourish at the end.

GEORGE GEORGES
ADMINISTRATOR