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15 **UNITED STATES DISTRICT COURT**
 16 **CENTRAL DISTRICT OF CALIFORNIA**
 17 **WESTERN DIVISION**

18 SECURITIES AND EXCHANGE
 19 COMMISSION,

20 Plaintiff,

21 v.

22 WORLD CAPITAL MARKET INC.;
 23 WCM777 INC.; WCM777 LTD. d/b/a
 24 WCM777 ENTERPRISES, INC.; and
 25 MING XU a/k/a PHIL MING XU,

26 Defendants,

27 KINGDOM CAPITAL MARKET, LLC;
 28 MANNA HOLDING GROUP, LLC;
 29 MANNA SOURCE INTERNATIONAL,
 30 INC.; WCM RESOURCES, INC.;
 31 AEON OPERATING, INC.; AND
 32 PMX JEWELS, LTD.,

33 Relief Defendants.

Case No. CV-14-2334-JFW-MRW

**NOTICE OF FILING OF
 RECEIVER'S FORENSIC
 ACCOUNTING REPORT**

Ctrm: 16-Spring St. Floor
 Judge: Hon. John F. Walter

1 **PLEASE TAKE NOTICE** that, pursuant to the Court's Preliminary
2 Injunction Order, Part XII.E. (Dkt. No. 33), Krista L. Freitag ("Receiver"), the
3 Court-appointed receiver for Defendants World Capital Market Inc. ("WCM"),
4 WCM777 Inc. ("WCM777"), and WCM777 Ltd. d/b/a WCM777 Enterprises, Inc.
5 ("WCM777 Enterprises"), and Relief Defendants Kingdom Capital Market, LLC
6 ("KCM"); Manna Holding Group, LLC ("MHG"); Manna Source International, Inc.
7 ("MSI"); WCM Resources, Inc. ("WCM Resources"); To Pacific, Inc.; ToPacific,
8 Inc.; and their subsidiaries and affiliates, hereby files her forensic accounting report
9 attached hereto as Exhibit A.

10
11 Dated: February 27, 2015

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP

12
13 By: _____ /s/ Ted Fates

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Attorneys for Receiver
KRISTA L. FREITAG

EXHIBIT A

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8 **UNITED STATES DISTRICT COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA**
10 **WESTERN DIVISION**

11 SECURITIES AND EXCHANGE
COMMISSION,

12 Plaintiff,

13 v.
14

15 WORLD CAPITAL MARKET INC.;
WCM777 INC.; WCM777 LTD. d/b/a
16 WCM777 ENTERPRISES, INC.; and
MING XU a/k/a PHIL MING XU,

17 Defendants,

18 KINGDOM CAPITAL MARKET, LLC;
MANNA HOLDING GROUP, LLC;
19 MANNA SOURCE INTERNATIONAL,
INC.; WCM RESOURCES, INC.;
20 AEON OPERATING, INC.; AND
PMX JEWELS, LTD.,
21

22 Relief Defendants.
23
24
25
26
27
28

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**RECEIVER'S FORENSIC
ACCOUNTING REPORT**

Ctrm: 16-Spring St. Floor
Judge: Hon. John F. Walter

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I. INTRODUCTION

1
2 On March 27, 2014, the Court appointed Krista L. Freitag ("Receiver")
3 temporary receiver for Defendants World Capital Market Inc. ("WCM"),
4 WCM777 Inc. ("WCM777"), and WCM777 Ltd. d/b/a WCM777 Enterprises, Inc.
5 ("WCM777 Enterprises"), and Relief Defendants Kingdom Capital Market, LLC
6 ("KCM"), Manna Holding Group, LLC ("MHG"), Manna Source International, Inc.
7 ("MSI"), WCM Resources, Inc. ("WCM Resources"); and their subsidiaries and
8 affiliates. On April 10, 2014, the Court entered a Preliminary Injunction Order,
9 which included appointment of the Receiver on a permanent basis. Dkt. No. 33. On
10 May 21, 2014, the Court entered a Preliminary Injunction Order against additional
11 Relief Defendants Vincent Messina ("Messina"), International Market Ventures
12 ("IMV"), ToPacific, Inc. and To Pacific, Inc. and expressly appointed the Receiver
13 for WCM affiliates ToPacific, Inc. and To Pacific, Inc. ("ToPacific Order").¹
14 Dkt. No. 75.

15 The Preliminary Injunction Order directs the Receiver to "make an
16 accounting, as soon as practicable, to this Court of the assets and financial condition
17 of the Receivership Entities and to file the accounting with the Court and deliver
18 copies thereof to all parties." As discussed below, the Receiver has (a) reviewed
19 and analyzed the Receivership Entities' bank records and books and records of the
20 various Receivership Entities, (b) evaluated the Receivership Entities' sources of
21 funds, and (c) evaluated the Receivership Entities' use of funds. This Report covers
22 the transactional history of the Receivership Entities for the period from January 1,
23 2013² to March 27, 2014 (the date of entry of the TRO) and summarizes the
24

25 ¹ Hereinafter, the TRO, Preliminary Injunction Order, and ToPacific Order will be collectively referred to as the
26 "Orders." Hereinafter, the Defendants, Relief Defendants (including To Pacific, Inc. and ToPacific, Inc.
27 (collectively "ToPacific"), and their subsidiaries and affiliates, are referred to collectively as the "Receivership
28 Entities" or individually as a "Receivership Entity." When used in this Report, "Receivership Entities" does not
include Relief Defendants Aeon Operating, Inc., IMV, PMX Jewels or Messina.

² January 1, 2013, was deemed an appropriate starting point for the accounting because the bank records show the
Receivership Entities began raising significant amounts of money in March 2013, and the Receiver observed
minimal bank activity prior to 2013.

1 Receiver's findings based on the accounting work performed to date. The
2 Receivership Entities and bank accounts covered by this report are listed on
3 **Exhibit 1.**

4 The Receiver's findings from her forensic accounting are summarized below.
5 Her main overarching findings are as follows:

- 6 1. The Receivership Entities' primary source of income was investor
7 deposits, which was also the primary source of virtually all funds distributed to the
8 investors;
- 9 2. The vast majority of the Receivership Entities' business activities
10 revolved around raising and distributing investor funds;
- 11 3. Investor funds were so materially commingled between and among the
12 Receivership Entities that the entities operated as a unitary enterprise, rather than as
13 separate entities.

14 **II. SUMMARY OF RECEIVER'S FINDINGS**

15 This receivership is comprised of a complex and wide ranging group of
16 entities and assets which have been funded by numerous investor deposits made
17 (directly and indirectly) into banking institutions in the United States and Hong
18 Kong. Although both domestic and foreign bank accounts were used as part of the
19 same enterprise, the accounting analysis provided herein is broken down between
20 domestic accounts and foreign accounts because, at this stage, the Receiver has
21 significantly more documentation and detail for domestic accounts.³

22 While the Receiver could continue to obtain, review and analyze additional
23 bank records and establish further details concerning sources and uses of funds, the
24 Receiver believes the present accounting is complete and further analysis will not
25 appreciably change the findings herein. Accordingly, aside from forensic
26

27 ³ To date, HSBC-Hong Kong has not responded to the Receiver's requests/subpoena; however, the Receiver's
28 efforts to gather documentation regarding the Hong Kong bank accounts are ongoing for purposes of the investor
distribution and claims process, recovery of funds, and third-party claims.

1 accounting work associated with the investor claims and distribution process,
 2 recoveries, and specific third-party claims, the Receiver has completed her forensic
 3 accounting work. If during the course of the Receiver's ongoing work, it is
 4 determined any part of this Report is materially inaccurate, the Receiver will update
 5 and/or supplement this Report.

6 **Summary of Findings**

7 *Bank Account Activity Summary – Domestic*

8 To date, the Receiver has performed an accounting on 77 domestic and
 9 23 foreign⁴ bank accounts. The following is a summary of the total deposits and
 10 disbursements into and out of the 77 domestic bank accounts:

<i>Domestic Bank Account Transaction Summary</i>	Gross Totals	Totals Net of Intercompany Transfers
January 1, 2013 Beginning Balance Total	\$401,651	\$401,651
January 1, 2013 – March 27, 2014 Deposit Total	\$132,792,261	\$54,378,990
January 1, 2013 – March 27, 2014 Disbursement Total	\$128,755,480	\$50,342,209
March 27, 2014 Ending Balance Total	\$4,438,432	\$4,438,432

16 Included in the Deposit and Disbursement totals above is \$78,413,271 in
 17 funds transferred between and among the various Receivership Entity domestic
 18 accounts, resulting in \$54,378,990 of actual deposits and \$50,342,209 of actual
 19 disbursements.

20 The \$54,378,990 of actual deposits primarily came from the following
 21 sources:

- 22 • Investor Deposits (includes Cash Deposits) - \$45,818,828
- 23 • UBS-Hong Kong funds transfer - \$2,532,722 (funds used to purchase
 24 Walnut Property)
- 25 • Golf Course Operations - \$1,732,614

26
 27
 28 ⁴ Unless otherwise specifically stated, for purposes of this presentation, foreign currency amounts are reflected in US Dollar equivalents based upon exchange rates as of March 27, 2014.

- 1 • Real Estate Escrow Funds Returned (primarily Norumbega Property) -
- 2 \$1,627,052
- 3 • Investments and Third-Party Transfer Funds Returned - \$1,168,706
- 4 • Other/Uncategorized - \$1,499,068

5 The \$50,342,209 of actual disbursements were primarily made to the
6 following:

- 7 • Investments and Transfers to Third-Parties⁵ - \$18,240,119
- 8 • Real Estate Purchases - \$15,566,166
- 9 • Investor Payments (includes Global Payout payments – see Section VII) -
- 10 \$8,235,376
- 11 • Enterprise Operating Expenses - \$4,349,016⁶
- 12 • Golf Course Operating Expenses - \$2,017,710
- 13 • Other/Uncategorized - \$1,933,822

14 *Bank Account Activity Summary - Foreign*

15 The following is a summary of the total deposits and disbursements into and
16 out of the 23 foreign bank accounts:

<i>Foreign Bank Account Transaction Summary</i>	Gross Totals (USD)	Totals Net of Intercompany Transfers (USD)
January 1, 2013 Beginning Balance Total	\$0	\$0
January 1, 2013 – March 27, 2014 Deposit Total	\$86,397,346	\$56,992,350
January 1, 2013 – March 27, 2014 Disbursement Total	\$80,380,792	\$50,975,796
March 27, 2014 Ending Balance Total	\$6,016,554	\$6,016,554

23 Included in the Deposit and Disbursement totals above is \$29,404,996 in
24 funds transferred between and among the various foreign bank accounts, resulting in
25 \$56,992,350 of actual deposits and \$50,975,796 of actual disbursements. The entire
26 amount of foreign bank account transfers (a) occurred in US Dollars, (b) originated

27 _____
28 ⁵ For purposes of this summary, the \$5 million transfer to Vincent J. Messina is included in this category.

⁶ Includes payments made on Defendant Xu’s credit cards.

1 from the HSBC WCM777, Ltd. account included in the TRO, and (c) were made to
2 HSBC accounts held in six other Receivership Entities and one individual's name,
3 Mr. Xu Suozhong.

4 The \$56,992,350 of actual deposits primarily came from the following
5 sources:

- 6 • Investor Deposits - \$11,356,557
- 7 • Horsman Law Firm⁷ (return of funds previously wired) - \$4,655,975
- 8 • Uncategorized - \$40,979,818

9 The \$50,975,796 of actual disbursements were primarily made to the
10 following:

- 11 • Horsman Law Firm - \$15,712,000
- 12 • Investments and Transfers to Third-Parties - \$4,050,000⁸
- 13 • Investor Payments (Global Payout payments - see Section VII) -
14 \$10,310,053
- 15 • PMX Jewels, Ltd. - \$550,000
- 16 • Uncategorized - \$20,353,743

17 The large amount of "uncategorized" deposits and disbursements is due to the
18 lack of documentation and detail for foreign HSBC accounts; thus, the Receiver was
19 unable to ascertain whether the funds were received from and/or sent to investors,
20 insiders, third-parties or other commercial interests. The Receiver believes
21 obtaining these UBS and HSBC Hong Kong documents may lead to the
22 identification of fraudulent transfers to third parties, and identification of investor
23 deposits and disbursements necessary to determine investor claims and distributions.
24 However, the cost of tracing these funds overseas will be very expensive.
25 Preliminary estimates are the costs would exceed \$100,000 in overseas and domestic
26 attorney fees, translation costs and bank charges. If the Receiver considers this

27 _____
28 ⁷ See Section XII regarding the role of the Horsman Law Firm.

⁸ Transfers of \$4,050,000 were first made to the Horsman Law Firm and then to third parties.

1 expense justifiable, she will seek authorization to engage counsel in Hong Kong for
 2 the purpose of having the Orders recognized in Hong Kong as necessary to obtain
 3 bank records from UBS and HSBC Hong Kong.

4 *Bank Account Activity Summary – Consolidated Domestic and Foreign*

5 The following is the summary of the total deposits and disbursements into and
 6 out of these 77 domestic and 23 foreign accounts:

Consolidated Domestic and Foreign Bank Account Transaction Summary	Gross Totals (USD)	Totals Net of Intercompany Transfers (USD)
January 1, 2013 Beginning Balance Total	\$401,651	\$401,651
January 1, 2013 – March 27, 2014 Deposit Total	\$219,189,607	\$111,371,340
January 1, 2013 – March 27, 2014 Disbursement Total	\$209,136,272	\$101,318,005
March 27, 2014 Ending Balance Total	\$10,454,986	\$10,454,986

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 13 Of the total Deposits and Disbursements above, \$107,818,267 was transferred
 14 between and among the various Receivership Entity bank accounts, resulting in
 15 \$111,371,340 of actual deposits and \$101,318,005 of actual disbursements.

16 The \$111,371,340 (USD equivalent) of actual deposits primarily came from
 17 the following sources:

- 18 • Investor Deposits (includes Cash Deposits) - \$57,175,385
- 19 • Horsman Law Firm (return of funds previously wired) - \$4,655,975
- 20 • UBS-Hong Kong funds transfer - \$2,532,722 (funds used to purchase
 21 Walnut Property)
- 22 • Golf Course Operations - \$1,732,614
- 23 • Real Estate Escrow Funds Returned (primarily Norumbega Property) -
 24 \$1,627,052
- 25 • Investments and Third-Party Transfer Funds Returned - \$1,168,706

26
 27
 28

1 • Uncategorized⁹ - \$42,478,886 (primarily foreign accounts)
2 The \$101,318,005 (USD equivalent) of actual disbursements were primarily
3 made to the following:

- 4 • Horsman Law Firm - \$15,712,000
- 5 • Investor Payments (includes payments processed by Global Payout) -
6 \$18,545,429
- 7 • Investments and Transfers to Third Parties - \$22,290,119¹⁰
- 8 • Real Estate Purchases - \$15,566,166
- 9 • Enterprise Operating Expenses - \$4,349,016
- 10 • Golf Course Operating Expenses - \$2,017,710
- 11 • PMX Jewels, Ltd. - \$550,000
- 12 • Uncategorized - \$22,287,565 (primarily foreign accounts)

13 Note, based on the information gathered and analyzed thus far, the
14 Receivership Entities received more than \$57 million from investors, generated
15 revenue from operations (all from the golf courses) of about \$1.73 million, and
16 distributed more than \$18.5 million to investors.

17 *Funds Commingled - One Enterprise*

18 The Receivership Entities' books and records indicate the Receivership
19 Entities commingled assets and operated in concert as one large, unitary enterprise.
20 Specific examples reflecting the commingling and unitary enterprise include the
21 following:

22 1) During the period from August 2013 through January 2014, a net amount
23 of \$13,939,114 in real estate purchases (**see Exhibit 12**) were funded by investor
24 funds from accounts bearing the names of WCM, ToPacific, WCM777, and
25 WCM777, Ltd. (see Section IX) but title to the real properties was held in a different
26

27 ⁹ The large amount of uncategorized deposits and disbursements is primarily due to the lack of documentation and
28 detail for foreign accounts; thus, the Receiver was unable to ascertain whether the funds were received from
and/or sent to investors, insiders, third-parties or other commercial interests.

¹⁰ Transfers of \$4,050,000 were first made to the Horsman Law firm and then to third parties.

1 entity's name (either Kingdom Capital Market, LLC or Manna Holding
2 Group, LLC);

3 2) WCM777 Massachusetts investor rescission payments (which were made
4 pursuant to a Consent Order issued by the Massachusetts Securities Division) were
5 made out of a WCM bank account which received funds from a ToPacific account;
6 and

7 3) The golf courses (which were owned by KCM) had some expenses paid
8 out of WCM (rather than KCM); and investments were funded by one entity but
9 held in the name of a different entity (*e.g.*, 12 Zodiacs, Inc. entered into a
10 Co-Production Agreement with WCM, an investment which was funded with funds
11 from an account in the name of ToPacific).

12 In particular, material sums of money flowed into and out of ToPacific bank
13 accounts. Overall, the Receivership Entities domestically transferred approximately
14 \$18.2 million to at least 20 different third parties, with approximately \$10.6 million
15 flowing through ToPacific. In January, February, and March 2014, two domestic
16 accounts held in the name of ToPacific had deposits totaling \$19,578,322 and
17 disbursements totaling \$19,574,694. The Receiver's accounting for these two
18 accounts identified the following commingled transaction example:

- 19 • On January 23, 2014, ToPacific transferred \$2,000,000 from a bank
20 account at Comerica Bank into an account of WCM, also located at
21 Comerica Bank, via check. This same WCM account at Comerica was
22 opened on January 23, 2014, with the \$2,000,000 deposit from ToPacific.
- 23 • On January 24, 2014, WCM paid \$700,000 from the same new WCM
24 Comerica account to 12 Zodiacs, Inc. via check. On January 25, 2014,
25 12 Zodiacs, Inc. and WCM entered into a Co-Production Agreement; the
26 \$700,000 was to be an investment by WCM in which WCM was to be a
27 co-producer of a concert in Las Vegas, Nevada scheduled for
28 December 24, 2014, for the "Opus Jay 2014 World Tour Live Concert in

1 Las Vegas." The concert and co-production thereof did not occur.

2 12 Zodiacs, Inc. then transferred \$695,000 of the \$700,000 to a WCM
3 Chinese bank account at Defendant Xu's direction.

- 4 • On January 28, 2014, WCM then transferred another \$1,000,000 from this
5 same WCM Comerica bank account to another WCM Comerica account,
6 and then used all or a portion of the money to make rescission payments to
7 investors in accordance with a Consent Order between WCM and
8 WCM777 and the Massachusetts Securities Division.

9 *Investor Deposits & Payments*

10 Other than the golf courses, the Receiver has found no actual revenue-
11 generating business operations related to the WCM777 enterprise, other than the
12 pyramid-like scheme for raising money. Records of the Receivership Entities
13 indicate investor deposits were made into the Receivership Entities' bank accounts
14 via multiple methods, including from direct wire, check, cash, and credit card
15 payments. Investor payments also came in indirectly via wire, check, cash and
16 credit card payments from 'leaders' or 'upline sponsors'. These leaders or upline
17 sponsors would generally aggregate funds received from investors and deposit them
18 in batches into the Receivership Entities' bank accounts.

19 Similarly, the payment methods with which investors payments were made
20 varied from third-party electronic disbursement (primarily Global Payout) to
21 physical checks written directly on Receivership Entity bank accounts. There does
22 not appear to be any consistency in the bank accounts from which investor checks
23 were written. Rather, bank records indicate payments were made to investors from
24 whichever accounts happen to have funds available at the time the payments were
25 made. For example, rescission payments were made to WCM777 investors in
26 accordance with the Consent Order issued by the Massachusetts Securities Division.
27 Bank records show that funds from ToPacific bank accounts were used to make
28 payments to the Massachusetts WCM777 investors.

III. DOMESTIC BANK ACCOUNT OBSERVATIONS

As noted above, the Receiver has performed an accounting of 77 domestic bank accounts used by the Receivership Entities.¹¹ The vast majority of the deposit and disbursement activity in domestic bank accounts transacted through bank accounts under the names of the Defendants and Relief Defendants. Substantially all of the Investor & Cash Deposits activity (99.1%) went through two entities - WCM777 and ToPacific.

The following discussion highlights the domestic transactional bank activity of the Receivership Entities. The various categories of deposits and disbursements are discussed below and the detailed schedules are presented in Exhibits 2 to 5.

DOMESTIC BANK ACCOUNTS				
	Defendants	Relief Defendants	Other Affiliates	Total
Bank Balance - 1/1/2013	\$37,579	\$6,314	\$357,758	\$401,651
<u>Deposits:</u>				
Investor Deposits	28,442,348	16,750,919	99,970	45,293,237
Cash Deposits	429,591	96,000	0	525,591
Intercompany Bank Transfers In	53,818,271	20,449,506	4,145,494	78,413,271
Escrow Refunds from Real Estate Purchases	269,356	0	1,357,696	1,627,052
Return of Funds - Transfers for Investments or to Third Parties ¹²	0	1,098,706	70,000	1,168,706
Golf Course Deposits	0	1,732,614	0	1,732,614
UBS – Hong Kong Transfer In ¹³	2,532,722	0	0	2,532,722
Other Deposits ¹⁴	406,867	112,511	73,328	592,706
Uncategorized Items	255,007	342,772	308,583	906,362
Total Deposits	\$86,154,162	\$40,583,028	\$6,055,071	\$132,792,261

¹¹ The 77 accounts analyzed include 25 Defendant bank accounts, 16 Relief Defendant bank accounts, and 36 affiliated entity bank accounts.

¹² These funds were not 'returns' earned on investments, but rather simply returns of funds originally transferred out of the Receivership Entities to third parties who returned the funds or situations in which the transfer to third parties failed.

¹³ Deposits of \$2,532,722 were made into Comerica Account No. 0300 for the purchase of the Walnut House. Although the Receiver is still working to obtain Hong Kong records, it appears that these funds were sent from a UBS account in Hong Kong.

¹⁴ Examples of other deposits include returned checks/wires totaling \$287,000 and the change in the Merrill Lynch account market value of \$84,848.

DOMESTIC BANK ACCOUNTS				
	Defendants	Relief Defendants	Other Affiliates	Total
<u>Disbursements:</u>				
Intercompany Bank Transfers Out	(62,337,486)	(14,000,506)	(2,075,279)	(78,413,271)
Funds Used for Real Estate Purchases	(12,519,178)	(3,046,988)	0	(15,566,166)
Investments and Transfers to Third Parties	(2,231,050)	(14,804,069)	(1,205,000)	(18,240,119)
Operating Expenses ¹⁵	(2,436,491)	(1,444,849)	(467,676)	(4,349,016)
Golf Course Expenses	(7,498)	(2,010,212)	0	(2,017,710)
Investor Payments (Commissions)	(3,167,334)	(605,468)	(73,728)	(3,846,530)
Investor Payments (Refunds/Rescissions)	(2,425,246)	0	0	(2,425,246)
Investor Payments (Global Payout) ¹⁶	0	(1,963,600)	0	(1,963,600)
Uncategorized Items	(628,857)	(581,731)	(723,234)	(1,933,822)
Total Disbursements	(85,753,140)	(38,457,423)	(4,544,917)	(128,755,480)
Bank Balance - 3/27/2014	\$438,601	\$2,131,919	\$1,867,912	\$4,438,432¹⁷

Domestic Bank Deposits Observations and Assumptions

The following discussion highlights the Receiver's Observations and Assumptions related to the domestic bank deposit analysis performed.

- "Investor Deposits" – The payment methods with which investor deposits were made into the Receivership Entities' bank accounts varied from direct wire, check, cash, and credit card payments to indirect wire, check, cash and credit card payments which were made to an investor's 'leader' or 'upline sponsor', who then deposited collective funds into Receivership Entity bank accounts. Similarly, the payment methods with

¹⁵ Operating expenses reflect operational activity associated with general and administrative expenses incurred in connection with the enterprise/scheme.

¹⁶ Global Payout was a third-party payment processing company who received \$1.96 million from ToPacific and \$10.3 million (USD equivalent) from HSBC Hong Kong accounts and who ultimately paid the majority of these funds received to investors on behalf of the Receivership Entities.

¹⁷ The TRO identified \$2,260,096 of cash in the various bank accounts. As discussed in Section IX below, these amounts are included in the accounts/funds recovered by the Receiver.

1 which investors payments were made varied from third-party electronic
2 disbursement to physical checks written directly on a Receivership Entity
3 bank account. Due to the varying methods with which investors made
4 deposits into the Receivership Entities, the deposit amounts ranged from
5 small (*e.g.*, \$399 to \$1,999) to very large (often over \$100,000) - see
6 page 12 of the attached **Exhibit 16**, which is a copy of the PowerPoint
7 presentation (found among the Receivership Entities books and records)
8 that describes the WCM777 offering and its investment tiers. As of the
9 date of this report, the Receiver is in the process of attempting to tie
10 specific deposited and disbursed funds to specific individual investors for
11 purposes of the investor claims process. The majority of Investor
12 Deposits (99.1%) went through two entities - WCM777 and ToPacific.

- 13 ➤ "Cash Deposits" represent deposits in "Cash" that the Receiver is
14 attempting to, but may be unable to, tie to specific investor payments.
15 As noted above, many investors gave cash to the company and to their
16 leaders (or upline sponsors) who then deposited the cash along with other
17 investor funds.
- 18 ➤ "Intercompany Bank Transfers In" totaling \$78,413,271 represents
19 transfers between the Receivership Entities' bank accounts. This total
20 amount is offset by the "Intercompany Bank Transfers Out" amount of
21 \$78,413,271 listed in the disbursement section.
- 22 ➤ "Escrow Refunds from Real Estate Purchases" represents deposits that
23 offset the disbursement category "Funds Used for Real Estate
24 Purchases." An example would be the return of funds totaling
25 \$1,352,641 for the failed purchase of the property located at
26 974 Norumbega Drive in Monrovia, California. Additional detail on
27 these transactions is included in **Exhibit 12** to this report.
28

- 1 ➤ "Return of Funds - Transfers for Investments or to Third Parties"
2 represents deposits that offset the disbursement category "Investments
3 and Transfers to Third Parties." Additional detail on these transactions is
4 included in **Exhibit 13** to this report.
- 5 ➤ "Golf Course Deposits" represent funds from the operation of the golf
6 courses that were purchased and operated by KCM.
- 7 ➤ "UBS - Hong Kong Transfer In" represents \$2,532,722 deposited into the
8 WCM Comerica Account No. 0300 for the purchase of the Walnut
9 House. While the Receiver is still working to obtain bank records from
10 Hong Kong, it appears these funds were sent from a WCM UBS - Hong
11 Kong account.
- 12 ➤ "Other Deposits" represent items such as returned checks/wires totaling
13 \$287,000 and the change in the Merrill Lynch account market value of
14 \$84,848.
- 15 ➤ "Uncategorized Items" - As of the date of this report, the Receiver has
16 not obtained sufficient information to identify the source or purpose of
17 these deposits.

18 **Domestic Bank Disbursement Observations and Assumptions**

19 The following highlights the Receiver's Observations and Assumptions
20 related to the domestic bank disbursement analysis performed.

- 21 ➤ "Intercompany Bank Transfers Out" is an offset to the "Intercompany
22 Bank Transfers In" amount recorded in the deposit section.
- 23 ➤ "Funds Used for Real Estate Purchases" represents disbursements out to
24 purchase 8 properties with a total purchase price paid of \$15,566,166
25 (\$14,889,137 directly from the Receivership Entities and \$677,029 from
26 the Horsman Law Firm IOLTA account). Additional detail on these
27 transactions is included in **Exhibit 12** to this report.
- 28

- 1 ➤ "Investments and Transfers to Third Parties" represents payments to
2 various entities and individuals (*i.e.*, the \$5,000,000 transfer to Vincent
3 Messina) of which the Receiver has either taken control or is assessing
4 the viability of recovery of the funds disbursed. Additional detail on
5 these transactions is included in **Exhibit 13** to this report.
- 6 ➤ "Operating Expenses" represent general and administrative expenses
7 (*e.g.*, payroll, rent, etc.) incurred in connection with the operation of the
8 enterprise's scheme - the Investor Deposit/Disbursement operations.
- 9 ➤ "Golf Course Expenses" represent business expenses incurred to operate
10 the two golf courses purchased in the name of KCM.
- 11 ➤ "Investor Payments (Commissions)" represent payments to investors
12 from the Receivership Entities. These payments were separately
13 classified as "Commissions" in the Defendants' accounting records.
- 14 ➤ "Investor Payments (Refund/Rescission)" represent payments to
15 investors from the Receivership Entities. As of the date of this report,
16 the Receiver has traced and tested approximately \$1.3 million in
17 payments to the Consent Order reached with the Commonwealth of
18 Massachusetts Securities Division. Pursuant to the Consent Order, the
19 Receivership Entities agreed to fully refund amounts deposited by
20 investors located in Massachusetts who accepted the refund offer.
- 21 ➤ "Investor Payments (Global Payout)" represent payments to investors
22 through Global Payout, which is discussed further in Section VII of this
23 report. Note that an additional \$10.3 million (USD equivalent) flowed
24 from HSBC-Hong Kong accounts to Global Payout.
- 25 ➤ "Uncategorized Items" - As of the date of this report, the receiver has not
26 obtained sufficient information to identify the purpose of these
27 disbursements.
- 28

1 **IV. FOREIGN BANK ACCOUNT OBSERVATIONS**

2 This section discusses the foreign bank account activity (by currency) of the
3 Receivership Entities. The Receiver has performed an accounting on HSBC - Hong
4 Kong bank accounts held in the name of the following: ToPacific Ltd., Agape
5 Technology Ltd., Manna Technology, Ltd., WCM777 Ltd.,¹⁸ World Capital Market
6 Group, Ltd., World Capital Market Holding, Ltd., World Cloud Media Ltd., and
7 Mr. Xu Suozhong. These 8 entities/individuals had a total of 23 HSBC bank
8 accounts with funds held in United States Dollars (USD), Hong Kong Dollars
9 (HKD), Swiss Francs (CHF), British Pounds (GBP), and Euros (EUR) most of
10 which were opened in July 2013.

11 To date, HSBC Bank in Hong Kong has not responded to the Receiver's
12 subpoena, and therefore the Receiver has only obtained limited financial
13 information related to the activity in these accounts. The financial information
14 obtained consists primarily of the bank statements plus limited underlying wire
15 transfer information the Receiver was able to obtain in the books and records of the
16 Receivership Entities. The Receiver is evaluating options to obtain the UBS and
17 HSBC bank account records through the Hong Kong courts in order to identify the
18 sources and uses of funds in these accounts for purposes of the investor claims
19 process and identifying fraudulent transfers/potential third-party claims. If and
20 when these records are obtained, the Receiver may supplement this report.

21 Based on the bank records obtained to date, the various categories of deposits
22 and disbursements from January 1, 2013, to March 27, 2014, are summarized below
23 and detailed in **Exhibits 6 and 7**:

24
25
26

27 ¹⁸ This WCM777, Ltd. is a named Defendant in this case, and this specific WCM777 Ltd account analyzed was
28 included in the TRO. Each of the non-WCM777 Ltd accounts analyzed received transfers from the WCM777 Ltd
account in the total amount of \$29,404,996.

FOREIGN BANK ACCOUNTS (HSBC BANK) (1/1/13 TO 3/27/14)						
	USD	HKD¹⁹	CHF²⁰	GBP²¹	EUR²²	TOTAL (USD)
Bank Balance - 1/1/2013	\$0	0	0	0	0	\$0
<u>Deposits:</u>						
Investor Deposits	11,356,557					11,356,557
Intercompany Bank Transfers In	29,404,996	0	0	0	0	29,404,996
Horsman Law Firm ²³	4,655,975	0	0	0	0	4,655,975
Uncategorized Items	39,391,948	9,804,284	18,976	8,574	209,906	40,979,818
Total Deposits	84,809,476	9,804,284	18,976	8,574	209,906	86,397,346
<u>Disbursements:</u>						
Intercompany Bank Transfers Out	(29,404,996)	0	0	0	0	(29,404,996)
Transfer to PMX Jewels Ltd.	(550,000)	0	0	0	0	(550,000)
Investor Payments (Global Payout)	(10,135,980)	(1,350,500)	0	0	0	(10,310,053)
Investments and Transfers to Third Parties	(4,050,000)					(4,050,000)
Horsman Law Firm	(15,712,000)	0	0	0	0	(15,712,000)
Uncategorized Items	(19,635,197)	(5,272,902)	0	0	0	(20,353,743)
Total Disbursements	(79,488,173)	(6,623,402)	0	0	(28,297)	(80,380,792)
Bank Balance - 3/27/2014	\$5,321,303	3,180,882	18,976	8,574	181,609	\$6,016,554

Foreign Bank Deposits Observations

The following discussion highlights the Receiver's observations related to the foreign bank deposit analysis performed.

¹⁹ For purposes of the Total (USD) column, the March 27, 2014 exchange rate of 7.7582 was used.

²⁰ For purposes of the Total (USD) column, the March 27, 2014 exchange rate of 0.8866 was used.

²¹ For purposes of the Total (USD) column, the March 27, 2014 exchange rate of 0.6021 was used.

²² For purposes of the Total (USD) column, the March 27, 2014 exchange rate of 0.7276 was used.

²³ This amount represents return of funds previously wired - see Section XII regarding the role of the Horsman Law Firm.

- 1 ➤ "Investor Deposits" – As discussed above, the Receiver has received
2 very limited financial records related to the activities of the foreign
3 HSBC bank accounts. The receiver was able to obtain partial bank
4 deposit records for the WCM777, Ltd. bank account for the period
5 July 2013 to October 2013; these records reflect "investor deposits."
6 ➤ "Intercompany Bank Transfers In" totaling \$29,404,996 represent
7 transfers between the Receivership Entities' HSBC bank accounts. This
8 total amount is offset by the "Intercompany Bank Transfers Out" amount
9 of \$29,404,996 listed in the disbursement section. All transfers
10 originated from the WCM777, Ltd. account included in the TRO.
11 ➤ "Horsman Law Firm" – This represents a wire transfer that failed, was
12 reversed, and transferred back to the Receivership Entities from the
13 Horsman Law Firm. See Section XII regarding the role of the Horsman
14 Law Firm.
15 ➤ "Uncategorized Items" – To date, other than the deposit records
16 discussed above the Receiver has obtained limited detailed transactional
17 information related to the deposits into these bank accounts. As a result,
18 there are a significant number of "Uncategorized Items" which the
19 Receiver was unable to ascertain whether the funds were received from
20 investors, insiders, third-parties or other commercial interests.

21 **Foreign Bank Disbursement Observations**

22 The following discussion highlights the Receiver's observations related to the
23 foreign bank disbursement analysis performed.

- 24 ➤ "Intercompany Bank Transfers Out" are an offset to the "Intercompany
25 Bank Transfers In" amount recorded in the deposit section.
26 ➤ "Transfer to PMX Jewels Ltd." represents a transfer of \$550,000 from
27 WCM777, Ltd. to PMX Jewels Ltd.
28

- 1 ➤ "Investor Payments (Global Payout)" represent payments to investor
2 individuals/entities from Global Payout. Global Payout is discussed
3 further in Section VII of this report. Note that an additional
4 \$1.96 million flowed from a domestic ToPacific bank account to Global
5 Payout.
- 6 ➤ "Horsman Law Firm" – Payments to the Horsman Law Firm were used
7 for the purchase of various real estate assets and investments;
8 approximately \$11 million of these funds were ultimately recovered by
9 the Receiver (from Horsman's Union Bank IOLTA). These transactions
10 are discussed in Section XII of this report.
- 11 ➤ "Uncategorized Items" – To date, the Receiver has obtained limited
12 detailed transactional information related to the disbursements from these
13 bank accounts. As a result, there are a significant number of
14 "Uncategorized Items" which the Receiver was unable to ascertain
15 whether the funds were sent to investors, insiders, third parties or other
16 commercial interests.

17 **HSBC Bank Account Activity - Post Receivership**

18 The deposit and disbursement activity in the HSBC Hong Kong bank
19 accounts continued after the date of the TRO (March 27, 2014) through April 4,
20 2014. The various categories of deposits and disbursements after March 27, 2014
21 ("Post Receivership") are summarized below. As discussed above, the Receiver has
22 limited documents related to the deposits and disbursements from the HSBC Hong
23 Kong accounts. If these records become available, the Receiver may supplement
24 this report. As evidenced by the April 4, 2014 closing bank statements, all of these
25 accounts were closed as of the date of this report. The various categories of deposits
26 and disbursements after the date of Receivership are summarized below and detailed
27 in **Exhibits 8 and 9**.

28

FOREIGN BANK ACCOUNTS (HSBC BANK) (POST RECEIVERSHIP) (3/28/14-4/4/14)						
	USD	HKD²⁴	CHF²⁵	GBP²⁶	EUR²⁷	TOTAL (USD)
Bank Balance - 3/27/14	\$5,321,303	\$3,180,882	\$18,976	\$8,574	\$181,608	\$6,016,554
<u>Deposits:</u>						
Intercompany Bank Transfers In	0	0	0	0	0	0
Horsman Law Firm	0	0	0	0	0	0
Uncategorized Items	992,198	6	0	0	0	992,200
Total Deposits	992,198	6	0	0	0	992,200
<u>Disbursements:</u>						
Intercompany Bank Transfers Out	0	0	0	0	0	0
Transfer to PMX Jewels Ltd.	0	0	0	0	0	0
Investor Payments (Global Payout)	0	0	0	0	0	0
Horsman Law Firm	0	0	0	0	0	0
Uncategorized Items	6,313,501	3,180,888	18,976	8,574	181,608	7,008,754
Total Disbursements	6,313,501	3,180,888	18,976	8,574	181,608	7,008,754
Bank Balance - 4/4/2014	\$0	\$0	\$0	\$0	\$0	\$0

V. TRANSFERS AND COMMINGLING BETWEEN RECEIVERSHIP ENTITIES

To date, the Receiver has respectively reviewed a total of \$29,404,996 and \$78,413,271 in transfers between and among the foreign and domestic bank accounts used by the Receivership Entities. In the foreign accounts, the entire amount of \$29,404,996 in funds transferred originated from the WCM777 Ltd. account included in the TRO. In the domestic accounts, \$36,978,271 of transfers were made between accounts held by the same entity and \$41,435,000 in transfers

²⁴ For purposes of the Total (USD) column, the April 4, 2014 exchange rate of 7.7582 was used.

²⁵ For purposes of the Total (USD) column, the April 4, 2014 exchange rate of 0.8866 was used.

²⁶ For purposes of the Total (USD) column, the April 4, 2014 exchange rate of 0.6021 was used.

²⁷ For purposes of the Total (USD) column, the April 4, 2014 exchange rate of 0.7276 was used.

1 were made between the 17 different Receivership Entities. In total, transfers of
2 \$107,818,267 represented **49%** of the total deposits (\$219,189,607) and **52%** of the
3 total disbursements (\$209,136,272) accounted for herein.

4 Further, funds were transferred through numerous entities on the same day
5 before being deposited into the account from which the money was ultimately
6 disbursed. The following highlights an example of how funds were transferred
7 between the Receivership Entities on the same day, in this case, on February 3,
8 2014:

- 9 1. \$500,000 transferred from MSI Wells Fargo account ending 6080 to
10 MSI Wells Fargo accounting ending 2000;
- 11 2. \$500,000 transferred from MSI Wells Fargo account ending 2000 to
12 World Cloud Media, Inc. Wells Fargo account ending 4747;
- 13 3. \$500,000 transferred from World Cloud Media, Inc. Wells Fargo
14 account ending 4747 to WCM Wells Fargo account ending 8959;
- 15 4. \$500,000 transferred from MSI Wells Fargo account ending 2000 to
16 WCM Wells Fargo account ending 8959 (\$500,000 was transferred
17 from MSI Wells Fargo account ending 6080 to MSI Wells Fargo
18 account ending 2000 on January 31, 2014); and
- 19 5. \$1 million transferred from WCM Wells Fargo account ending 8959 to
20 WCM Comerica accounting ending 0300.

21 **VI. TOPACIFIC'S ROLE IN THE ENTERPRISE**

22 In the Receiver's review of (a) documents and bank records seized from the
23 Defendants' El Monte and Pasadena office locations, (b) WCM e-mail
24 correspondence, and (c) bank records received via subpoena, the Receiver has
25 observed numerous documents and correspondence which clearly demonstrate that
26 ToPacific is not only an affiliate of the Defendants and Relief Defendants, and
27 therefore a Receivership Entity, but also an extension of the WCM scheme. The
28 information gathered to date suggests ToPacific is in fact part of the enterprise and

1 did not have a separate business purpose or an independent operation. Facts
2 demonstrating ToPacific's role in the unitary enterprise include:

- 3 • ToPacific was the lessee under the Pasadena Office lease, the same office
4 which also served as headquarters for WCM777, World Capital Market,
5 Kingdom Capital Market, etc. Defendant Xu signed the lease as Chairman
6 and CEO of ToPacific.
- 7 • WCM emails between Defendant Xu and other personnel associated with
8 the Receivership Entities discuss how investors can "redeem points earned,
9 which were transferred from WCM777 or Kingdom Card business for
10 Company (ToPacific, Inc.) stocks" and how "members swap their points
11 for our shares." Included in the WCM e-mails is also a message from an
12 investor asking for a refund of his purchase of "To Pacific, Inc. pre-stock."
- 13 • The World Capital Market, Inc. Consultant Agreement introductory
14 paragraph states the agreement is "between World Capital Market, Inc.
15 (the 'Company' or its affiliates such as 'WCM777 Inc.' and 'To
16 Pacific Inc.')."
- 17 • Correspondence from the independent third party payroll processing
18 company who performed payroll services for the Receivership Entities
19 shows the last pre-receivership payroll for all non-KCM, MSI and
20 WCM Resources employees was processed from ToPacific. On March 27,
21 2014, the payroll processing company was asked by a representative of the
22 Receivership Entities to replicate the same payroll from WCM rather than
23 ToPacific. *Individuals, including Defendant Xu himself, paid through the*
24 *ToPacific payroll were the same individuals who ran the WCM777*
25 *scheme.*
- 26 • The Receiver has reviewed bank records for ToPacific and observed
27 commingling of assets among and between the Receivership Entities,
28 including ToPacific. For example, \$3,155,000 in investor funds were

1 transferred out of ToPacific to 7 other related entities (WCM, Inc., Manna
2 Source International, Kingdom Healthcare, Genergia, Inc., Kingdom Golf,
3 Kingdom Capital Market, and World Cloud Media). The entities in turn
4 advanced the funds to at least 12 additional entities/individuals.
5 Additionally, numerous other related transfers were made out of ToPacific,
6 including, but not limited to, a \$5 million wire transfer to insider,
7 Vincent J. Messina. The Receiver has summarized these transactions (the
8 \$3,155,000 and the \$5,000,000 mentioned above) in a flow chart in
9 **Exhibit 10**. A material specific example of the comingling of assets
10 among the Receivership Entities, including ToPacific relating to
11 12 Zodiacs, Inc. was also described above in the Receiver's Findings
12 section herein.

13 **VII. GLOBAL PAYOUT**

14 The Receivership Entities used Global Payout, an independent payment
15 processor, to distribute payments to investors. Approximately 9,000 payments to
16 investors and/or leaders totaling \$12,346,529 were made through Global Payout.
17 These payments were made to investors both in the United States (\$6,475,148) and
18 other countries throughout the world (\$5,871,381). The primary sources of funds
19 for these payments were \$1,963,600 from a domestic ToPacific bank account and
20 \$10,309,920 (USD Equivalent) from the various HSBC-Hong Kong bank accounts.
21 The Global Payout payment activity is summarized in **Exhibit 11** hereto.

22 **VIII. KINGDOM PAY**

23 At takeover, Defendant Xu claimed that WCM owns 50% of a payment
24 processor called AsiaWallet or EuroWallet or e-wallet ("AsiaWallet"). A Share
25 Purchase Agreement located in the Receivership Entities' records indicates that
26 AsiaWallet owed WCM \$4 million and that WCM agreed to forgive the debt and
27
28

1 contribute another \$760,000²⁸ to AsiaWallet in order to acquire 50% of AsiaWallet's
2 stock. *AsiaWallet also processed payments to WCM from investors via the Kingdom*
3 *Pay platform*, and purchased "Kingdom Points" (points sold to investors in the
4 WCM777 scheme) and resold them to investors. The Receiver has reviewed data
5 provided, has requested additional documents and as of the date of this report, is
6 reviewing payment processing data received via subpoena. If material findings
7 result from the Receiver's further review of the Kingdom Pay transactional activity,
8 the Receiver may supplement this Report.

9 **IX. SUMMARY OF FUNDS USED FOR REAL ESTATE**
10 **PURCHASES (NET)**

11 The Receivership Entities disbursed a net amount of \$13,939,115
12 (\$14,889,137 disbursed from the Receivership Entities directly, plus \$677,028
13 disbursed from WCM through the Horsman Law firm, less deposits back into the
14 Receivership Entities of \$1,627,051) to purchase 8 properties. The following is a
15 listing of the properties purchased and the net amounts paid (**Exhibit 12**):

- 16 ➤ Vacant Land on Wasioja Road in New Cuyama, CA - \$702,028
17 ○ Ownership – Kingdom Capital Market, LLC
18 ○ Bank Account(s) from which funds for the purchase were
19 transferred - \$677,028 from WCM, Inc. through the Horsman Law
20 Firm and \$25,000 from ToPacific, Inc.
21 ➤ Warehouse at 3620 Cypress Avenue in El Monte, California -
22 \$1,060,946
23 ○ Ownership – Kingdom Capital Market, LLC
24 ○ Bank Account(s) from which funds for the purchase were
25 transferred - \$1,060,946 from ToPacific, Inc.
26 ➤ Glen Ivy Golf Course in Corona, California - \$6,401,798
27

28 ²⁸ This transfer has not been identified.

- 1 o Ownership – Kingdom Capital Market, LLC
- 2 o Bank Account(s) from which funds for the purchase were
- 3 transferred - \$5,150,000 from WCM, Inc. and \$1,400,000 from
- 4 WCM777, Inc. less a refund of \$148,201.
- 5 ➤ Water Company Deposit for the Glen Ivy Golf Course - \$125,000
- 6 ➤ Links at Summerly Golf Course in Lake Elsinore, California -
- 7 \$1,628,845
- 8 o Ownership – Kingdom Capital Market, LLC
- 9 o Bank Account(s) from which funds for the purchase were
- 10 transferred - \$1,650,000 from WCM, Inc. and \$100,000 from
- 11 WCM777, Inc. less a refund of \$121,155.
- 12 ➤ Liquor License for the Links at Summerly Golf Course - \$25,000
- 13 o Ownership – Kingdom Capital Market, LLC
- 14 o Bank Account(s) from which funds for the purchase were
- 15 transferred - \$25,000 from WCM, Inc.
- 16 ➤ Home at 16114 Grand Avenue in Lake Elsinore, California - \$505,000
- 17 o Ownership – Kingdom Capital Market, LLC
- 18 o Bank Account(s) from which funds for the purchase were
- 19 transferred - \$505,000 from WCM, Inc. through Kingdom Capital
- 20 Market, LLC
- 21 ➤ Home at 307 Elfwood Drive in Monrovia, California - \$985,398
- 22 o Ownership – Manna Holding Group, LLC
- 23 o Bank Account(s) from which funds for the purchase were
- 24 transferred - \$990,000 from WCM, Inc. less a refund of \$4,602.
- 25 ➤ Home at 710 Arabian Lane in Walnut, California - \$2,401,696
- 26 o Ownership – Manna Holding Group, LLC
- 27 o Bank Account(s) from which funds for the purchase were
- 28 transferred - \$2,402,149 from WCM, Inc. less a refund of \$453.

1 ➤ Home at 974 Norumbega Drive in Monrovia, California - \$103,400. The
 2 purchase of this home did not close. The purchase price was \$1,456,041,
 3 of which \$1,352,641 was returned to the Receivership Entities prior to
 4 the appointment of the Receiver; these funds were recovered by the
 5 Receiver. Of the \$103,400 difference, the Receiver was able to recover
 6 the \$40,000 escrow holdback; the balance of \$63,400 had been forfeited
 7 to the seller prior to the Receiver's appointment.

- 8 o Intended Ownership – Manna Holding Group, LLC
- 9 o Bank Account(s) from which funds for the purchase were
- 10 transferred - \$1,456,041 from WCM, Inc. through Kingdom Capital
- 11 Market, LLC

12 **X. SUMMARY OF INVESTMENTS AND TRANSFERS**
 13 **TO THIRD PARTIES (NET)**

14 The Receivership Entities disbursed a net amount of \$23,032,412
 15 (\$18,240,119 disbursed from the Receivership entities directly, \$4,050,000
 16 disbursed through the Horsman Law firm, \$1,911,000 disbursed from unknown
 17 sources that the Receiver is still researching (possibly the HSBC accounts), less
 18 return of funds back to the Receivership Entities of \$1,168,706²⁹). See **Exhibit 13**
 19 for the full list of disbursements. The Receiver's Interim Reports further describe
 20 these investments and transfers and the current recovery status of the
 21 transfer/investment.

22 As part of the Receiver's ongoing accounting efforts related to the investor
 23 claims process and third-party claims, the Receiver intends to continue to investigate
 24 transfers made to leaders (aka 'upline' sponsors) and other insiders.

27 ²⁹ These funds were not 'returns' earned on investments, but rather simply returns of funds originally transferred out
 28 of the Receivership Entities to third parties who returned the funds or situations in which the transfer to third
 parties failed.

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XI. INSIDER TRANSFERS

As part of the Receiver's accounting efforts, the Receiver has identified payroll and payments made on credit cards (categorized above as "Enterprise Operating Expenses") in the name of Defendant Xu. The Receiver has also identified transfers made to family members of Defendant Xu. As mentioned above, the Receiver intends to continue to investigate and pursue transfers made to insiders.

The Receivership Entities also made notable transfers to other insiders, including, but not limited to, the following:

- **\$5 million to Relief Defendant Vincent J. Messina** - As described in prior reports to the Court, the Receiver traced a \$5 million transfer to in-house attorney, Vincent J. Messina. On February 4, 2015, the Court ordered Messina to disgorge the full \$5 million to the Receiver by February 17, 2015. To date, \$2.133 million has been transferred to the Receiver.
- **\$1.3 million to Relief Defendant PMX Jewel's** - As described in prior reports to the Court, the Receiver traced approximately \$1.3 million to a related entity, PMX Jewels, Ltd. On February 4, 2015, the Court ordered Defendant PMX Jewels, Ltd. to disgorge \$1.3 million to the Receiver by February 17, 2015. No funds have been received to date; although the Receiver is in the process of recovering a diamond purchased by PMX and held by a diamond cutter in New York.
- **\$3 million to Relief Defendant Aeon Operating, Inc.** - As described in prior reports to the Court, the Receiver traced approximately \$3 million to Relief Defendant, Aeon Operating, Inc. via WCM Resources, Inc. The Receiver has been working to investigate and understand the underlying oil and gas investments made with these funds, and while the investigation is ongoing, a significant loss is anticipated.

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XII. HORSMAN LAW FIRM

The Horsman Law Firm was retained by World Capital Market, Inc. to perform transactional legal services related to investments. As a result, the Horsman Law Firm received funds from the enterprise which were placed in a Union Bank IOLTA account and assisted in closing several investment transactions. At the time of the Receiver's appointment, a material amount of funds (approximately \$11.28 million - see below) remained in the Horsman Law Firm IOLTA account, which funds the Receiver recovered for the benefit of the receivership estate.

In summary, the Receiver traced disbursements totaling \$16,106,025 (\$1,000,000 from World Capital Market, Inc. and \$15,106,025 from various HSBC accounts) to the Horsman Law Firm. The Receiver has summarized the payments to/from the Horsman Law Firm in **Exhibit 14**. The use of the funds transferred to the Horsman Law Firm was as follows:

- Wasioja Road, Cuyama, CA Property Purchase - \$677,028
- Frequency Networks, Inc. Investment - \$3,000,000
- MycoTechnology Investment - \$1,050,000
- Cash Recovered by and controlled by the Receiver - \$11,281,453
- Legal fees and expenses (net) - \$97,544

XIII. CASH RECOVERED BY THE RECEIVER

Collectively, the Receivership Entities had a US account bank balance as of March 27, 2014, of \$4,438,432 (**Exhibit 15**). Of this amount, a total of \$4,236,562 was recovered by the Receiver. The difference of \$201,870 is attributable to the fact that the Receiver's forensic accounting includes several bank accounts that received funds from the Receivership Entities, but were not controlled by the Receivership Entities. Thus, the balances in those accounts were not recovered by the Receiver during her takeover.

With the exception of immaterial amounts due to bank fees incurred and the HSBC Hong Kong account balance, the \$2,260,096 of funds located in bank

1 accounts listed in the TRO is included in the \$4,438,432 recovered by the Receiver.
2 The additional \$2,178,336 (\$4,438,432 - \$2,260,096) was held in additional bank
3 accounts which were subsequently identified and recovered by the Receiver. As
4 noted above, the Receiver also recovered \$11,281,453 from the Horsman Law Firm
5 Union Bank IOLTA account.

6 **XIV. TESTING PROCEDURES PERFORMED BY RECEIVER**

7 The Receiver performed the following testing procedures and data
8 reconciliation procedures (at a minimum) without a material exception to ensure
9 accuracy of the figures provided in this report and the exhibits:

10 ***Domestic Bank Account Testing Procedures***

- 11 ➤ Summarized the bank information (beginning bank balances, total
12 deposits, total disbursements and ending bank balances) of 32 separate
13 domestic Receivership Entities and 77 different domestic bank accounts.
- 14 ➤ Traced and categorized a total of approximately 5,300 deposits
15 (\$132,792,261) and 4,900 disbursements (\$128,755,480) from the
16 domestic bank statements for these 77 bank accounts (564 individual
17 monthly statements).
- 18 ➤ Reconciled approximately 145 transfers in and transfers out between the
19 Receivership Entities domestic bank accounts totaling \$78,413,271.
- 20 ➤ Reconciled \$1,963,600 in transfers from ToPacific, Inc.'s domestic bank
21 accounts to the supporting financial information provided by Global
22 Payout. Also reconciled the total amount deposited to Global Payout
23 from both domestic and foreign (HSBC) bank accounts to a total of
24 approximately 9,000 disbursements (\$12,346,529) from Global Payout to
25 investors.
- 26 ➤ Reconciled the initial purchase price, escrow costs, and escrow refund
27 payments for a total of 8 real estate properties purchased (net amount of
28 \$13,939,115) by the Receivership Entities to the escrow closing

1 statements and the Receivership Entities' disbursement or deposit
2 supporting documentation.

3 ➤ Reconciled approximately 55 investments and transfers to third parties
4 and insiders to the underlying bank disbursements.

5 ➤ Traced and agreed all domestic disbursements to the Horsman Law Firm.
6 Also reconciled the total amount deposited to the Horsman Law Firm
7 from both domestic and foreign (HSBC) bank accounts to the underlying
8 investments (\$4,050,000) and real estate purchases (\$677,029) and to the
9 funds recovered by the Receiver (\$11,281,452).

10 ➤ Agreed and identified the ending cash balances as of March 27, 2014
11 (appointment date of Receiver) from the underlying bank statements for
12 each respective entity and ultimately to the amounts recovered by the
13 Receiver.

14 ➤ Utilized the Receivership Entities' QuickBooks records obtained for the
15 seven largest Receivership Entities for classification of certain deposits
16 and disbursements (investor deposits, operating expenses, commissions,
17 transfers, etc.). The QuickBooks bank account activity detail was tested
18 as follows:

- 19 ▪ Reconciled the January 2013 beginning balance, total deposits and
20 disbursements by month, and the ending balance as of March 27,
21 2014 to the bank statements.
- 22 ▪ Tested, at minimum, two months of detailed individual account
23 activity (deposits and disbursements) to the respective Receivership
24 Entity's bank accounts. These procedures included reconciling the
25 individual disbursement or deposit amounts from QuickBooks to the
26 underlying bank account statements, examining the opening bank
27 account documents, signature cards, deposit slips and copies of
28 checks deposited, copies of cancelled checks, wire transfers,

1 withdrawal slips, bank closing documents, bank transfer documents
2 and various other supporting documentation.

3 ***Foreign Bank Account (HSBC) Testing Procedures***

- 4 ▪ Summarized the bank information (beginning bank balances, total
5 deposits, total disbursements and ending bank balances) of
6 23 different foreign bank accounts held in the name of
7 7 Receivership Entities and 1 individual.
- 8 ▪ Reconciled approximately 25 transfers in and transfers out of the
9 HSBC bank accounts totaling \$29,404,996 for 7 Receivership
10 Entities and 1 individual.
- 11 ▪ Traced and categorized a total of approximately 4,400 deposits
12 (\$86,397,346 USD) and 270 disbursements (\$80,380,792 USD) to
13 and from approximately 130 monthly HSBC bank statements.
- 14 ▪ Categorized and agreed a total of 120 deposits (HKD, EUR, GBP &
15 CHF) and 145 disbursements (HKD, EUR, GBP & CHF) to the
16 HSBC bank statements.
- 17 ▪ Traced, tested and categorized approximately 950 investor deposits
18 (totaling \$11,356,557) to the bank transfer remittance advice (wire
19 transfer support) noting the investor name, transfer date, transfer
20 amount and wire transfer recipient entity.
- 21 ▪ Traced and agreed all HSBC disbursements (totaling \$19,762,000)
22 to the Horsman Law Firm IOLTA account, including review of
23 supporting documentation and receipts (totaling \$4,655,975)
24 transferred from the Horsman Law Firm IOLTA account back to the
25 HSBC bank accounts as a result of a failed wire transfer.
- 26 ▪ Reconciled a total of approximately 55 transfers from 5 separate
27 HSBC bank accounts to the financial information provided by
28 Global Payout.

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XV. CONCLUSION

Additional accounting work is being performed for the purposes of identifying the sources and uses of funds in Hong Kong accounts, properly identifying transfers to and from investors (to the extent possible) for purposes of the investor claims process and pursuing claims against third parties to recover amounts improperly transferred to them. As appropriate, the Receiver may supplement this report and anticipates the accounting of investor deposits/disbursements and other transfers to third parties will play a key role in the investor claims process and efforts to recover additional sums for the benefit of the receivership estate.

Dated: February 27, 2015

By: 
KRISTA L. FREITAG
Receiver