

1 ALLEN MATKINS LECK GAMBLE  
MALLORY & NATSIS LLP  
2 DAVID R. ZARO (BAR NO. 124334)  
TIM C. HSU (BAR NO. 279208)  
3 515 South Figueroa Street, Ninth Floor  
Los Angeles, California 90071-3309  
4 Phone: (213) 622-5555  
Fax: (213) 620-8816  
5 E-Mail: dzaro@allenmatkins.com  
thsu@allenmatkins.com

6 EDWARD G. FATES (BAR NO. 227809)  
7 501 West Broadway, 15th Floor  
San Diego, California 92101-3541  
8 Phone: (619) 233-1155  
Fax: (619) 233-1158  
9 E-Mail: tfates@allenmatkins.com

10 Attorneys for Receiver  
KRISTA L. FREITAG

11  
12 **UNITED STATES DISTRICT COURT**  
13 **CENTRAL DISTRICT OF CALIFORNIA**  
14 **WESTERN DIVISION**

15 SECURITIES AND EXCHANGE  
COMMISSION,

16 Plaintiff,

17 v.

18 WORLD CAPITAL MARKET INC.;  
19 WCM777 INC.; WCM777 LTD. d/b/a  
WCM777 ENTERPRISES, INC.; and  
20 MING XU a/k/a PHIL MING XU,

21 Defendants,

22 KINGDOM CAPITAL MARKET, LLC;  
MANNA HOLDING GROUP, LLC;  
23 MANNA SOURCE  
INTERNATIONAL, INC.;  
24 WCM RESOURCES, INC.; AEON  
OPERATING, INC.; PMX  
25 JEWELS, LTD.; TOPACIFIC INC.;  
TO PACIFIC INC.; VINCENT J.  
26 MESSINA; and INTERNATIONAL  
MARKET VENTURES,

27 Relief Defendants.  
28

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

**RECEIVER'S TENTH INTERIM  
REPORT**

Ctrm: 16  
Judge: Hon. John F. Walter

1 **I. EXECUTIVE SUMMARY**

2 This equity receivership involves a large, complex, and wide ranging group of  
3 enterprises and assets associated with the Ponzi scheme that is the subject of the First  
4 Amended Complaint filed by the Securities and Exchange Commission  
5 ("Commission"). This report covers the Receiver's activities during the second  
6 quarter of 2016, during which time, having obtained approvals and authorization  
7 from the Court, the Receiver primarily focused on (a) executing Phase II of the  
8 investor claims process, (b) completing the sale of the Frequency Networks stock,  
9 (c) finalizing efforts to resolve two receivership assets/claims - collection of Sue  
10 Wang, *et al.* and James Dantona/Governmental Impact remaining balances owed,  
11 (d) monitoring other assets and claims (*e.g.*, Diamex Diamonds and Santa Barbara  
12 Property), and (e) closing the sales of two of the three remaining real property  
13 assets –the Glen Ivy Golf Course and the El Monte Warehouse.

14 This report should be read in conjunction with the Receiver's nine prior interim  
15 reports, as well as the Receiver's Forensic Accounting Report, all of which contain  
16 substantial background and detail on assets recovered and secured. Dkt. Nos. 28,  
17 129, 258, 302, 324, 359, 376, 404, 443 and 449. Effort has been made not to repeat  
18 the content of these prior reports.

19 **II. SUMMARY OF RECEIVER'S ACTIVITIES**

20 **A. Cash Recoveries**

21 During the second quarter of 2016, the Receiver recovered the \$50,000  
22 balance due from the Court-approved settlement with James Dantona/Governmental  
23 Impact, Inc.,<sup>1</sup> \$1,000,002 from the Court-approved sale of the Frequency Networks  
24 stock, \$1,490,155 of net proceeds from the sale of the El Monte Warehouse, and  
25 \$3,995,290 of net proceeds from the sale of the Glen Ivy Golf Course. The Receiver  
26 also made progress toward the sale of the Santa Barbara Property and a material cash

27 \_\_\_\_\_  
28 <sup>1</sup> Note, the Receiver recovered the amount owing in full as a result of a sale of the  
property securing the Receiver's settlement amount.

1 recovery of the remainder of the \$1.125 million settlement with Sue Wang (discussed  
2 below).

3 **B. Real Property**

4 During a portion or all of the second quarter of 2016, the Receiver continued  
5 to manage and operate the following real properties owned by the Receivership  
6 Entities:

- 7  3620 Cypress Avenue, El Monte, California, (property owned by  
8 Receivership Entities and the location of the accounting and other  
9 operations for certain Receivership Entities) ("El Monte Warehouse").  
10 During the second quarter, on May 10, 2016, the Receiver closed on the  
11 Court-approved sale of this asset.
- 12  24400 Trilogy Parkway, Corona, California ("Glen Ivy Golf Course").  
13 During the second quarter, on April 1, 2016, the Receiver closed on the  
14 Court-approved sale of this asset.
- 15  Wasioja Road, New Cuyama, Santa Barbara County, California (vacant  
16 raw land) ("New Cuyama Property"). As previously discussed, in the first  
17 quarter 2015, the Receiver engaged a broker for the sale of this property,  
18 subject to Court approval. To help improve the marketability of this  
19 property, the Receiver engaged a water management company to  
20 investigate the site wells in order to offer an opinion as to the suitability of  
21 the wells to provide water for agricultural and various other purposes.  
22 During the second quarter of 2016, the Receiver entered into a contract to  
23 sell this asset and is currently preparing to seek Court approval of the sale  
24 now that buyer has waived its contractual contingencies.

25 **C. Investments, Loans, and Other Transfers to Third Parties**

26 Through her investigation, interviews, forensic accounting, and document  
27 review, the Receiver identified a large number of investments, loans, and other  
28 transfers to third parties. The following is an updated summary of transfers made to

1 Relief Defendants and other third parties, which the Receiver is actively  
2 investigating and pursuing.<sup>2</sup>

3 PMX Jewels and PMX Holdings

4 The full background regarding the \$1.3 million transferred to PMX Jewels  
5 from the Receivership Entities is provided in the Receiver's Third Interim Report.  
6 The Receiver is advised that the Los Angeles diamond cutter received the special  
7 wheels ordered from Israel; however, such wheels were not strong enough to  
8 complete the polishing and cutting of the stones. A master gemologist appraiser in  
9 Los Angeles, who was engaged to ultimately assist with marketing and selling the  
10 (flawed) Diamex Diamonds upon completion of the polishing and cutting process,  
11 has conferred with several entities to determine what, if anything, can be done with  
12 the stones at this point. To finish the cutting and polishing of the stones, it is  
13 estimated the estate would incur approximately \$12,000 of additional costs - \$10,000  
14 of labor and \$2,000 to purchase a set of stronger wheels from Belgium. However, it  
15 is not believed, given the softening of the diamond market and the lack of quality in  
16 the stones, that they would obtain \$12,000 on the open market upon completion (of  
17 course, assuming the stronger wheels are effective at completing the cutting and  
18 polishing).

19 As discussed in the Receiver's Ninth Interim Report, the appraiser has  
20 researched several other disposition options. She conferred with two well-known  
21 auction houses, Heritage and Bonham's, both of whom declined a potential  
22 consignment citing the following salability issues, (1) the original rough diamond  
23 crystal was sawn and pre-formed so a crystal or mineral collector would not be  
24 interested, and (2) the diamonds are not finished so there would be no interest from  
25 jewelry or diamond buyers (again it is not believed the stones would fetch an amount

26 \_\_\_\_\_  
27 <sup>2</sup> Note, the Receiver is actively investigating and pursuing various other transfers,  
28 including transfers identified through her forensic accounting; however, due to  
ongoing investigation and/or lack of material changes to information provided in  
prior reports, those transfers are not specifically discussed herein.

1 greater than what it is estimated cost to complete them). A well-known rough stone  
2 dealer in Florida also is not interested in the stones.

3 Since then, the Receiver received a small offer from one individual for the  
4 stones in their as-is state. Although the offer is small, significant effort has already  
5 been made to generate a recovery from the diamonds and it does not appear  
6 additional time and expense will produce a greater recovery. Therefore, the Receiver  
7 is preparing to seek authority to complete the sale of the diamonds.

8 WCM Resources and Aeon Operating

9 The Receivership Entities' records and Xu indicated that \$4.3 million was  
10 transferred to Relief Defendant WCMR. WCMR then invested approximately  
11 \$3.1 million of these funds in oil and gas leases in Texas and Louisiana and  
12 contracted with Aeon Operating Inc., located in Texas ("Aeon"), to operate the  
13 leases. The Receiver secured approximately \$1.2 million remaining in the WCMR  
14 account upon her appointment.

15 The Receiver investigated the oil and gas lease interests and worked to recover  
16 some value from them. The interests were all severely impaired, but the Receiver  
17 was able to recover some value from the Cameron Parish and Davis leases (and  
18 minimize the receivership estate's exposure to claims relating to the projects) by  
19 assigning them to others involved in the projects. On January 22, 2016, the Receiver  
20 filed her Motion for Approval of Assignments of Oil and Gas Lease Interests. Dkt.  
21 No. 405. The Motion was granted on February 3, 2016. Dkt. No. 408. In the first  
22 quarter of 2016, the Receiver collected the \$25,000 from Merkaz Oil & Gas  
23 Development regarding the Davis lease. The Receiver hopes to complete the  
24 assignment of the Cameron Parish lease interest, although the proposed assignee has  
25 since expressed concerns with the overall status of the lease with the lessor and is  
26 attempting to secure such status.

27  
28

1           Governmental Impact/James Dantona

2           As previously reported, on April 23, 2015, the Receiver filed a motion for  
3 approval of settlement with GII and Dantona. Dkt. No. 325. The motion was  
4 granted, GII and Dantona made payment to the Receiver pursuant to the settlement,  
5 and they were dismissed from the action on May 1, 2015. Since then, Dantona has  
6 continued to make monthly settlement payments to the Receiver, which payments are  
7 secured by a deed of trust encumbering real property owned by Dantona. Late in the  
8 first quarter 2016, the Receiver learned that Dantona secured a buyer to sell the  
9 property securing the monthly settlement payments, which sale generated sufficient  
10 proceeds to fully pay off the remaining balance of the monthly settlement obligation  
11 in the second quarter of 2016.

12           Aberin and ZHB failed to respond to the Receiver's complaint and failed to  
13 appear to defend this action. Their defaults were entered, and, on the Receiver's  
14 motion, a default judgment was entered against them for \$325,000. Since the default  
15 judgment was entered, the Receiver's counsel was contacted by counsel purporting to  
16 represent Aberin and ZHB to discuss the judgment and possible settlement based on  
17 claims that Aberin and ZHB have limited net worth and no significant assets or  
18 equity in their home. While Aberin and ZHB produced some documents, said  
19 production was deficient in making a determination. Aberin and ZHB have since  
20 filed a number of motions with the Court seeking to set aside their defaults, but these  
21 motions have each been stricken by the Court for procedural deficiencies. On  
22 May 11, 2016, Aberin and ZHB refiled their motion to set aside their defaults. The  
23 Receiver opposed and on June 17, 2016, the Court ordered the parties to mediation.  
24 In such mediation, conducted on July 14, 2016, the parties reached a settlement. On  
25 July 28, 2016, the Receiver filed her Motion for Approval of Settlement Agreement  
26 with Zayda Aberin and ZHB International Corp. (Dk. No. 459), which was approved  
27 by the Court on August 17, 2016. Dkt. No. 462.

28

1           Sue Wang/MaNa Fashion/JJ Sparkles/Yuanhao

2           As previously reported, the Receiver sought and attained asset freezes on three  
3 single-family homes purchased with funds transferred from ToPacific to Defendant  
4 Ming Xu's sister, Sue Wang, their mother, Xiaomei Deng, and several interrelated  
5 persons and entities. In August 2015, the Receiver learned that Sue Wang attempted  
6 to transfer title to these two properties on the same date the Court ordered a freeze  
7 thereon (April 1, 2015). The Receiver also sought permission to pursue claims  
8 against Sue Wang, Xiaomei Deng, and related persons and entities. The Court  
9 granted the motion on January 22, 2015, and gave the Receiver 60 days to file her  
10 complaint. The Receiver filed her Complaint on March 23, 2015. Dkt. No. 273.

11           All but three defendants - JJ Sparkles, Genergeia, and Jianjun Wang - filed  
12 answers to the Complaint. While Sue Wang, Xioamei Deng, MaNa Fashion, and  
13 Saza Investment ("Wang Defendants"), answered the Complaint, they failed to  
14 otherwise defend the action and a default judgment was entered against the Wang  
15 Defendants, along with the three defendants who failed to answer the Complaint, on  
16 January 4, 2016. The Receiver proceeded with the action as to the remaining  
17 defendants Huajian Wu and Yuanhao ("Wu Parties") and filed her motion for  
18 summary judgment as to the Wu Parties on November 16, 2015. The Court granted  
19 summary judgment in favor of the Receiver as against the Wu Parties on  
20 December 1, 2015. The Receiver and the Wu Parties previously engaged in  
21 settlement discussions on the basis of the Wu Parties' claim that they had no  
22 substantial assets to satisfy the judgment. However, these discussions were  
23 terminated when the Receiver independently discovered real property partially  
24 owned by Huajian Wu, which was not disclosed to the Receiver. The Receiver is  
25 now proceeding with steps necessary to recover on the judgment through a forced  
26 sale of the property.

27           As for the Wang Defendants, and notwithstanding the entry of default  
28 judgment, the Receiver successfully negotiated the terms of a cash settlement after

1 many months of discussions, and on February 18, 2016, the Receiver filed her  
2 Motion for Approval of Settlement with Wang Defendants (Dkt. No. 414). The  
3 settlement contemplates the payment of \$1,125,000 to the receivership, which  
4 payment is secured by three real properties owned by the Wang Defendants. The  
5 Motion was approved by the Court and the Wang Defendants made the initial  
6 \$50,000 payment in the first quarter of 2016. Although not received prior to the  
7 payment deadline in the settlement agreement or prior to the end of the second  
8 quarter 2016, the remaining \$1,075,000 has been received.

9 Frequency Networks

10 On or about August 12, 2013, KCM entered into an agreement to purchase a  
11 number of series A preferred shares ("Stock Purchase Agreement") of Frequency  
12 Networks, Inc. ("Frequency Networks"), a company engaged in providing for the  
13 sharing of video via social media. Pursuant to the terms of the purchase, KCM paid  
14 \$3,000,000 for approximately 7,000,000 shares in Frequency Networks, which  
15 originally represented approximately 10.2% of the outstanding shares. The Receiver  
16 met with the company's executives, assumed a seat on the Frequency Networks board  
17 of directors, requested numerous documents, and monitored the company's activities  
18 to determine how best to maximize the recovery from KCM's shares.

19 On March 14, 2016, after receiving this Court's approval to file under seal, the  
20 Receiver filed a motion seeking approval of a sale of the shares of Frequency  
21 Networks (Dkt. No. 431). This Court granted the Receiver's motion and approved  
22 the sale of shares on April 5, 2016 (Dkt. No. 440). The sale has since closed and  
23 funds have been paid to the receivership estate.

24 **D. Investor Communications**

25 The Receiver established a dedicated web page on her website, which provides  
26 case information, updates, and answers to frequently asked questions to investors and  
27 creditors. The Internet address for the webpage is  
28 [www.worldcapitalmarketreceivership.com](http://www.worldcapitalmarketreceivership.com). In addition, the Receiver continues to



1 maintain a dedicated e-mail address and telephone line for investor inquiries and  
2 regularly returns a significant volume of emails and phone calls from investors in  
3 both English and Spanish.

4 **E. Investor Claims Process**

5 Subsequent to this Court's July 13, 2015 order granting the Receiver's motion  
6 for approval of the claim process setting the deadline to submit claims to the  
7 Receiver as November 9, 2015, as later extended to December 24, 2015, and during  
8 the fourth quarter 2015, the Receiver worked diligently with the Court-approved  
9 claims administrator, Epiq, to implement Phase I of the approved claim process. The  
10 Receiver and Epiq's efforts resulted in receipt of over 35,000 claims representing  
11 over 72,000 claimed investments. Late in the fourth quarter and primarily during the  
12 first quarter of 2016, the Receiver worked with Epiq to assess and analyze the  
13 voluminous claims data and prepared her report on Phase I of the claims process and  
14 recommendation regarding Phase II, which was filed and approved by the Court on  
15 March 11, 2016 (Dkt. Nos. 427, 430). The Receiver and Epiq thus commenced the  
16 claims review and on July 22, 2016, the Receiver filed an Ex Parte Application to  
17 Extend Deadline to File Motion to Allow and Disallow Claims; such Application  
18 was approved by the Court on July 25, 2015. As such, the Receiver will file her  
19 motion to allow and disallow claims on or before October 14, 2016.

20 **III. POST-RECEIVERSHIP RECEIPTS AND DISBURSEMENTS**

21 The following summary reflects the Receivership Entities' consolidated cash  
22 balance as of June 30, 2016:

23  
24  
25  
26  
27  
28

1	Manna Holding (closed)	\$0
2	Manna Source International (closed)	0
3	WCM Resources	1,279,433
4	World Capital Market	24,889,468
5	Kingdom Capital Market (non-golf - closed)	0
6	Kingdom Capital Market (golf)	34,865
7	<b>Grand Total</b>	<b>\$26,203,766</b>

8  
9 The following is a summary of the consolidated cash activity in the Receiver-  
10 controlled Receivership Entities' bank accounts for the period from March 27, 2014  
11 through June 30, 2016:

12	<b>TRO Account Cash Balance at 3/27/14</b>	<b>\$2,242,756</b>
13	Recovery – Horsman Law Firm	11,281,453
14	Recovery – First General Bank	1,502,355
15	Recovery – Defendant and Affiliate Accounts	419,862
16	Recovery – Baseballers Against Drugs	100,000
17	Recovery – Undisbursed Funds Held by Global Payout	56,396
18	Recovery – Funds Left in Escrow from Failed Real Estate Purchase	40,000
19	Recovery – Pasadena Office Security Deposit	10,455
20	Recovery – Monrovia Property Net Sale Proceeds	957,333
21	Recovery – Walnut Property Net Sale Proceeds	2,334,617
22	Recovery – Lazarus Third-Party Transfer	750,000
23	Recovery – Personal Property Sale Proceeds (includes garments)	313,855
24	Recovery – Vincent J. Messina Transfer	2,133,214
25	Recovery – Links at Summerly Golf Course Net Sale Proceeds	651,309
26	Recovery – Links at Summerly Golf Course Liquor License Sale Proceeds	24,500

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

Recovery – Lake Elsinore Property Net Sale Proceeds	425,042
Recovery – Wellman & Warren Retainer	71,063
Recovery – James Dantona/Governmental Impact, Inc. Settlement Funds	94,534
Recovery – Formerly Jointly Held Funds (Governmental Impact, Inc.)	40,466
Recovery – MycoTechnology Settlement Funds	500,000
Recovery – Employee Dishonesty Insurance Claim Settlement	25,000
Recovery – Merkaz Oil and Gas	25,000
Recovery – Sue Wang, et al Settlement Proceeds	50,000
Recovery – Glen Ivy Golf Course Net Sale Proceeds	3,995,290
Recovery – El Monte Warehouse Net Sale Proceeds	1,490,155
Recovery – Frequency Stock Sale	1,000,002
Other Misc. (Incl. Interest Income)	94,664
Golf Revenues	5,256,659
Golf Expenses	(6,809,715)
Real & Personal Property Expenses (Non-Golf)	(319,660)
WCM One-Time Payroll & Related	(46,809)
WCM Moving & Storage	(21,983)
Other Miscellaneous Expenses	(66,173)
Epiq - Claims Process (incl. Notice Publication)	(285,405)
Receiver Legal Fees & Expenses	(1,185,066)
Receiver Fees & Expenses	(947,508)
<b>Cash Book Balance at 6/30/16</b>	<b>\$26,203,661</b>

As of June 30, 2016, outstanding checks relating to receivership and golf course operations were \$105, resulting in a bank cash balance of **\$26,203,766**.

1 **IV. RECOMMENDATIONS**

2 As a general matter, the Receiver recommends the receivership continue and  
3 she be authorized to continue to marshal, preserve and protect the assets of the  
4 Receivership Entities, investigate and pursue recovery of transfers to third parties,  
5 gather financial records and complete her accounting for purposes of asset  
6 identification/recovery and the investor claims process, and carry out her other duties  
7 under the Court's orders.

8 **A. Document Recovery Efforts**

9 As reasonably necessary, the Receiver will continue to obtain records from all  
10 financial institutions where the Receivership Entities maintained accounts as well as  
11 from attorneys and accountants engaged by the Receivership Entities. The Receiver  
12 has served subpoenas on certain institutions, individuals, and entities and proposes to  
13 proceed with these efforts to obtain documents, assets, and information.

14 **B. Receivership Asset Recovery Efforts and Investigation**

15 The Receiver will seek to locate any presently unaccounted for receivership  
16 assets that may exist and will continue efforts to efficiently maximize recovery of  
17 assets located, to the extent reasonably possible. The Receiver also recommends  
18 continuing to explore whether there are third parties who aided Xu in connection  
19 with this enterprise. The Receiver will continue to evaluate whether such third  
20 parties should be liable for damages caused to the Receivership Entities and their  
21 investors. The Receiver will seek Court approval before pursuing any such claims.

22 **C. Maximize Value of Commercial and Residential Properties**

23 The Receiver will continue her efforts to maximize the value and/or potential  
24 recovery of all investments made and/or owned by the Receivership Entities and will  
25 seek Court approval of any action taken, as appropriate. The Receiver is also  
26 proceeding with efforts to market and sell the remaining real property asset, the New  
27 Cuyama Property in Santa Barbara County.

28

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**D. Quarterly Reports**

Pursuant to the June 10, 2014 Order, the Receiver will continue to file, on a quarterly basis, interim reports and interim fee applications for herself and her counsel.

Dated: August 19, 2016

By:   
KRISTA L. FREITAG  
Receiver

Dated: August 19, 2016

ALLEN MATKINS LECK GAMBLE  
MALLORY & NATSIS LLP

By: /s/ Edward Fates  
EDWARD G. FATES  
Attorneys for Receiver  
KRISTA L. FREITAG