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File ref.: 4/1
document : report01e

LIQUIDATOR'S FIRST REPORT

(pursuant to section 255 of the Companies Act 1993)

to the Creditors and Shareholders of

**QUANTUM GLOBAL NEW ZEALAND
(In Receivership) and (In Liquidation)**

Gerard Hulst, Chartered Accountant of Auckland, was appointed Liquidator of the above company pursuant to an order of the High Court at Auckland on 21 August 2003. The order was timed at 10.10 am.

The Liquidator takes no responsibility for any misinformation contained in this report that has been supplied by the company, its officers or other persons.

COMPANY INFORMATION

Company Number :	1128815	
Date of Incorporation :	29 March 2001	
Trading Address :	39 – 41 College Hill, Auckland	
Type of Business :	Direct Marketing	
Date trading ceased :	28 July 2003	
Share parcels		Shares held
Parcel 1	Quantum NZ Holdings Limited	10,000
Directors :	Brian FRAIDIN	appointed 12 May 2003
	Michael GRANDUSKY	appointed 12 May 2003
High Court Reference :	CIV3581-03	
Petitioning Creditor :	The company was placed in Liquidation on the petition of Stephen Hill and Raj Ranchhod. The application was sought pursuant to Section 241 (4)(d) – <i>“It is just and equitable that the company be put into liquidation”</i> . The issue as to costs has yet to be determined.	

A statement of the company's financial position (assets and liabilities) at the date of liquidation is included with this report.

OBSERVATIONS

On 17 July 2003 the plaintiffs applied for an order appointing an Interim Liquidator. Extracts from the Judgement of Harrison J give background information to the company.

[1] – Quantum Global New Zealand (QGNZ) is in the business of promoting the sale of or selling consumer products.

[6] QGNZ has operated in new Zealand since the mid 1990's. Messrs Ranchhod and Hill have worked for the company for some years. Its original parent was American with associated companies in Japan, Malaysia and Australia. Some time in 2000 the parent failed. In early 2001 a company known as VI Holdings, owned and controlled by Mr Fraidin, bought the parent and its associates or subsidiaries including QGNZ. Mr Fraidin owns 80% of the parent, its associates and subsidiaries. Messrs Ranchhod, Hill and others control the remaining 20%.

[7] VI Holdings financed its acquisition of the Global companies with the assistance of the parent's previous financier, Foothill Capital Corporation, also an American company. On 4 May 2001 QGNZ executed a guarantee of the primary loan agreement from Foothill to VI Holdings to repay an advance of US\$5.875 million. This agreement is secured by a first ranking debenture charged against the company's assets and registered in the Companies Office. Since VI's acquisition the company has made substantial payments towards reduction of Foothills loan. However, as at 17 March 2003 VI was apparently in default of its contractual obligations in failing to pay periodical sums of interest due from August 2002. At that time, and apparently for the purposes of restructuring debt arrangements, Foothill submitted what is described as a "Sixth Amendment to Loan and Security Agreement" for execution by all the Global borrowers including QGNZ.

[8] Messrs Ranchhod and Hill were concerned about the terms of this deed, principally because it accelerated the date for repayment of Foothills loan to mid 2004. In their opinion VI would not be in a position to redeem the debt on that date. They were reluctant to execute the amending deed. Nevertheless, Mr Fraidin directed them to do so. On 8 April 2003 he delivered them an ultimatum which they rejected. On 12 May 2003 Mr Fraidin removed Messrs Ranchhod and Hill as directors. He replaced them with himself and Mr Grandusky.

[9] On 3 June 2003 Mr Fraidin terminated the authority previously enjoyed by Messrs Ranchhod and Hill to pay QGNZ's trading debts. Among other things he directed cancellation of all automatic payments and direct debits.

[10] A number of creditors have taken the step of issuing statutory demands pursuant to s289 Companies Act 1993.

[11] At short notice Mr Prabhakar Kadavasal, a financial analyst employed by VI, has prepared a draft balance sheet for QGNZ as at 30 June 2003. In total, the company's local trade, statutory and term debts are \$968,850.

[12] Mr Kadavasal has also valued the company's New Zealand assets. They are principally cash on hand of \$233,316, accounts receivable of \$319,997, and inventory on hand of \$168,865. It is obvious that QGNZ's New Zealand liabilities exceed New Zealand assets by a substantial margin.

[13] Mr Kadavasal has also undertaken a wider valuation of the company's position including what are euphemistically described as acquisition receivable and payable financing issues. These items relate to acquisition costs and liabilities. He has assessed that the company's balance sheet shows a net negative position of \$1.409 million.

[14] By way of elaboration, the company has three local principal tangible assets. One is a sum of \$175,000 deposited with the High Court.

[16] A second major asset is QGNZ's accounts receivable. Wholesale debtors owe about \$303,711. Both counsel have advised from the bar that neither the debts nor the debtor's ability to pay are in issue. The third substantial item is inventory on hand. I assume that these assets will be easily realisable or liquidated.

[17] QGNZ has one other asset. But it is intangible and of uncertain value. It constitutes the goodwill which may attach to distribution rights for certain branded products such as Natural Glow and Fast Burner. The company is concerned that an order, either winding it up or appointing an interim liquidator, will jeopardise the value of these rights.

[20] It is common ground between counsel that the plaintiffs must satisfy three criteria:

- a) The existence of a valid application for liquidation
- b) The application will probably succeed.
- c) Interim control of the company is necessary or expedient for the purposes of maintaining its assets.

[22] The plaintiffs have filed a valid application for liquidation. Two other issues thus remain. First, is an application likely to succeed? This is another expression of the good prima facie case argument. In my judgement, on the evidence presently available, an application will probably be granted. I reach that conclusion on these grounds:

- a) First, the company presently has cash resources of \$233,316. Its current trade and statutory indebtedness exceeds \$675,000. The company has significant term liabilities.
- b) Second, the uncontested evidence is that QGNZ has followed a deliberate course of not settling debts as they fall due during the past six weeks. Over the same time its trading activities have been reduced to a minimal level. Unless revived by a substantial injection of capital, it will cease business altogether.
- c) Third, on a balance sheet test the company has a substantial net deficit of liabilities over assets – estimated at \$1.409 million.

[23] Accordingly, I must now consider the second question – is an appointment of an interim liquidator necessary or expedient to maintain the value of the company's assets? Most of QGNZ's cash resources, amounting to \$175,000, are now under the Court's control. Effectively this asset is secured. However, it still falls well short of the amount now necessary to meet current and overdue liabilities. This leaves two other tangible assets, receivables and inventory, together with the intangible item of distribution rights.

[24] I am satisfied that those assets require formal interim protection. In my judgement, entirely provisional, there is a risk that Mr Fraidin will arrange for funds to be removed from this jurisdiction. One of QGNZ's associates was Quantum Global Australia ("QGA"). It failed last year.

What is material is that in the period immediately prior to QGA's liquidation, Mr Fraidin removed US\$125,000 from its asset base. On 11 November 2002 the company's administrator prepared an extensive report of his investigations into its affairs. In his opinion these payments may have constituted transactions to defeat creditors. In this respect, of course, I am not expressing a confirmatory opinion. I am simply identifying a risk.

[25] My reservations in this respect are reinforced by Mr Fraidin's conduct since 3 July 2003. His directions to company officers not to pay trade debts when they fall due is unusual. Its continuation over a period of six weeks is remarkable. During the same time, as noted, he has allowed staff numbers to reduce to skeletal levels. These circumstances give rise to the inference, that he is in fact arranging for an informal liquidation or break up of QGNZ's assets.

[26] ...I take account of the reality that this is not an operational or active company in any sense of the word. To the contrary, it is moribund. An interim liquidator will cause no difficulties for Mr Fraidin if indeed he is acting in good faith and has no intentions of removing assets from the jurisdiction.

[29] I make a provisional order appointing Gerard Hulst to be interim liquidator of QGNZ, subject to this condition. I direct that the order is to lie in Court until 9.00 am. on Monday 28 July 2003. Suspension of the order will give Mr Fraidin and his interests adequate time to determine whether or not to inject further cash into QGNZ or to let it slide into liquidation.

At the resumed hearing on 28 July 2003, no new matters were presented to the court save to say that Mr Fraidin had not injected any funds into the company.

The company's counsel delivered an ultimatum to the Court to the effect that:

- (i) A receiver has been appointed; and
- (ii) If the appointment of the interim liquidator is withdrawn then the appointment of the receiver will be withdrawn.

The Court rejected the ultimatum and confirmed the appointment of the interim liquidator to be effective from 4.00 pm 28th July 2003.

At 3.00 pm 28th July I was given notice as to the details of the Receiver. He is Steven Blaustein, an American resident in Baltimore, Maryland. Information provided to me suggests that Blaustein has a business association with Fraidin.

On 4 August 2003 I was advised that John Vague and John Whitfield of McDonald Vague were appointed the New Zealand agents of Mr Blaustein.

Since my appointment as liquidator I have established that:

The Sixth Amendment to the Loan and Security Agreement;

1. is dated 17 March 2003.
2. was conditional on the guarantors signing on or before 27 March 2003.
3. was signed by Fraidin (of VI Holdings) on 25 March 03 and signed by Teresa Bolick (of Foothill) on 26th March 03.
4. was not signed by the Guarantors on 27th March 03.

With respect to the guarantee

1. On 28th March 2003 Hill & Ranchhod advised Foothill that the QGNZ could not execute the guarantee.
2. On 12 May 2003, Hill & Ranchhod were removed as directors and Fraidin & Grandusky were appointed.
3. Some time after 12 May 03 Fraidin signed the guarantee.

The original loan between Foothill and VI Holdings dated 4 May 2001 that was guaranteed by QGNZ was USD12.0 million. During the next 20 months the Quantum Global group remitted USD4.8 million to VI Holdings ostensibly to reduce the bank borrowings.

Foothill have advised that the indebtedness of VI Holdings as at 31 July 2003 was USD12,139,171.

I have also sighted correspondence whereby Mr Fraidin expected cash to be remitted to VI Holdings to meet loan commitments. Why the guarantor should become the principal repayer of the loan is difficult to understand.

Information provided to me shows that Hill and Ranchhod acted in the best interests of Quantum Global New Zealand to protect the assets to ensure that the New Zealand creditors were paid. Their initial actions caused them to be dismissed as Directors of the company. They then initiated the Court application to protect the assets from being transferred to a foreign jurisdiction.

The validity of the Sixth Amended Loan agreement is to be challenged as this was given at a time when the company was insolvent. If the agreement is invalid, then the appointment of the receiver would also be invalid. I have asked the receiver's agent for an undertaking that no funds will be remitted to a foreign jurisdiction until such time as the question as to the validity of the security is determined. John Vague and John Whitfield have refused to provide that undertaking.

COMPANIES WITH WHICH THE DIRECTORS HAVE AN ASSOCIATION

A search of www.companies.govt.nz shows that Brian Fraidin and Michael Grandusky are not Directors of any other New Zealand Companies.

FINANCIAL INFORMATION

The last set of financial information prepared for the company was as at 30 June 2003. This was prepared by Ranchhod and Hill and adopted by Kadavasal of VI Holdings and commented on by Harrison J in his judgement of 18 July 2003.

A copy of the accounts showing a negative equity position of \$1,409,320 are attached.

PROPOSALS FOR CONDUCTING THE LIQUIDATION

DISPOSAL OF ASSETS

The receiver is attending to the disposal of the assets.

OTHER ACTIONS OF THE LIQUIDATOR

I will conduct an investigation into the affairs of the company;

My primary focus will be on the validity of the guarantee and the subsequent appointment of the receiver.

I will also look into the various intercompany current account balances.

As Quantum Global New Zealand is a guarantor of the VI Holdings loan to Foothill I have asked Foothill to advise:

1. What other companies have guaranteed the Foothill loan.
2. What actions Foothill have taken in respect of securing repayment of their advance direct from VI Holdings.
3. What actions Foothill have taken in respect of securing repayment of their advance from other guarantors.

Foothill has failed to respond to these issues. I believe that they are critical as to whether local creditors will be paid and whether Quantum Global New Zealand has any subrogation rights.

ESTIMATED COMPLETION DATE

It is inevitable that some form of litigation will ensue, consequently I am unable to determine when this liquidation will conclude.

PROSPECT OF DIVIDEND

The only possibility of a dividend to creditors is if the loan guarantee can be set aside.

NOTICE REGARDING MEETINGS

Having regard to the assets and liabilities of the company, the likely result of the liquidation and other relevant matters, the Liquidator considers in accordance with section 245 of the Companies Act 1993 that no meeting of creditors should be held at this time.

Consequently, a meeting of creditors will not be held unless within 10 working days after receiving this notice a creditor gives notice in writing to the Liquidator requiring a meeting to be called.

LIQUIDATION COMMITTEE

At any time during the liquidation, any creditor may in writing request the Liquidator to call a meeting of creditors to consider whether a Liquidation Committee should be appointed, and if so, to choose the members of the committee.

A Liquidation Committee has certain powers set out in s315 of the Companies Act 1993, including to assist the Liquidator as appropriate in the conduct of the liquidation.

In the absence of a liquidation committee, the Liquidator will work closely with the petitioning creditor.

Gerard Hulst

**Gerard Hulst
Liquidator**

Dated this 15th day of September 2003.

**QUANTUM GLOBAL NEW ZEALAND
BALANCE SHEET AS AT 30 JUNE 2003**

Year to Date

EQUITY

4000	0000	Issued Capital	10,000
4100	0000	Retained Income	(1,419,320)
			<u>(1,409,320)</u>

NET ASSETS

Cash

0060	0001	CHEQUE 00 QGNZ	182,046
0070	0001	HSBC QGNZ USD 252	37
0090	0085	Foreign Currency	607
0114	0000	FB Caps Recall Clearing Account	50,689
0116	0000	Dishonoured Chqs Clearing	(64)
			<u>233,316</u>

CASH

0100 Trade Debtors (sys)

0100	1101	QGNZ DRTV	15,762
0100	1108	Franchise Stores	504
0100	1110	Wholesale Debtors	303,711
			<u>319,977</u>
0100		Total Trade Debtors	

0105 Trade Debtor Non Sys

0105	1150	Quantum Global Ltd	6,086,524
0105	1152	Quantum Global Japan Ltd	146,335
0105	1153	Quantum Far East Malaysia	466,194
			<u>6,699,053</u>
0105		Total Trade Debtors Non Sys	

*Owing by QGL to
Co - Interest debt
issue*

Other Debtors & Prepayments

0200	1135	Sundry Debtors	1,100
0300	3000	Prepaid Bonds	11,500
0360	0000	Deferred Interest	14,555
			<u>27,155</u>
		Total Other Debtors & Prepayments	

ACCOUNTS RECEIVABLE

7,046,186

**QUANTUM GLOBAL NEW ZEALAND
BALANCE SHEET AS AT 30 JUNE 2003**

Year to Date

Stock On Hand

0600	3100	Finished Goods Inventory	226,439
0670	0000	Provision Stock Obsolescence	(57,574)

Total Stock on Hand

<u>168,865</u>
<u>168,865</u>

INVENTORY AND GIT

TOTAL CURRENT ASSETS

<u>7,448,366</u>

Fixed Assets - Cost

1000	4110	Computer Hardware	340,914
1000	4120	Computer Software	414,360
1000	4130	Editing Suite	364,360
1000	4140	Furniture and Fittings	55,884
1000	4150	General Office Equipment	112,006
1000	4200	Moulds	146,362
1000	4220	Plant and Equipment	44,022
			<u>1,477,908</u>

Fixed Assets - Accumulated Depreciation

1100	4110	Computer Hardware	(304,924)
1100	4120	Computer Software	(392,968)
1100	4130	Editing Suite	(325,807)
1100	4140	Furniture and Fittings	(39,707)
1100	4150	General Office Equipment	(56,369)
1100	4150	General Office Equipment	(132,608)
1100	4200	Moulds	(21,797)
1100	4220	Plant and Equipment	<u>(1,274,180)</u>

FIXED ASSETS BOOK VALUE

<u>203,728</u>

**QUANTUM GLOBAL NEW ZEALAND
BALANCE SHEET AS AT 30 JUNE 2003**

Year to Date

2000 Trade Creditors (sys)

2000 5100 Local Creditors	537,633
2000 5110 Overseas Creditors	29,295
	<hr/>
2000 Total Trade Creditors	<u>566,928</u>

2005 Trade Creditor Non-syssys

2005 1150 Quantum Global Limited	7,357,660
2200 0000 Loans	204,605
2300 0000 Current Portion of Term Liabilities	10,330
3100 0000 Term Liabilities	62,141
	<hr/>
Total Trade Creditors Non-sys	<u>7,634,736</u>

Owing by Co to
QGL on acquisition
of assets

2100 Accruals

2100 5120 Salaries Accrual	46,910
2100 5121 Holiday Pay Accrual	75,453
2100 5125 FBT Accrual	8,924
2100 5128 ACC Accrual	7,087
2100 5139 Other Accruals	679,849
2100 5310 Accrued Other NZ	29,293
	<hr/>
2100 Total Accruals	<u>847,515</u>

We had a reversal
puts this balance
the time. Royalty
to to QGL
suspended so low
a control
returned.
Page 39 a 2
Freiden. dk.

TOTAL CREDITORS AND ACCRUALS

9,049,179

2400 GST

2400 5210 GST Output (sales) sys	37,840
2400 5220 GST Input (purchases) sys	(13,349)
2400 5230 GST Customs	(8,586)
2410 5220 GST Input	(137)
	<hr/>
2400 Total GST	<u>15,768</u>

2500 Income Tax Provision (b/s)

2500 5310 Resident Withholding Tax Paid	(3,533)
	<hr/>
Total Tax Payable	<u>(3,533)</u>

TOTAL CURRENT LIABILITIES

9,061,415

NET ASSETS

(1,409,320)

UNSECURED CREDITOR'S CLAIM

Section 304(1) Companies Act 1993

Quantum Global New Zealand (In Liquidation)

P.O Box 6901 Wellesley Street, Auckland 1

Creditor details

The name of your business		
The postal address of your business		
Telephone number	Facsimile number	e-mail address

Amount Claimed:

\$

Name of person completing the form, _____

(your title in the firm you represent) _____

claim that the company was at the date it was put into liquidation indebted to the above named creditor for the amount claimed. We hold no security for the amount claimed.

PARTICULARS OF CLAIM

Invoice Date	Invoice Number	Brief Description of Goods or Services Provided	Invoice Amount

Attach separate sheet if space is insufficient

You are not required to attach any supporting documents at this stage, but you may attach them now, if you think it would expedite the processing of the claim. The liquidator may require the production of all documents.

WARNING: It is an offence under the Companies Act to make or authorise the making of, a claim that is false or misleading in a material particular knowing it to be false or misleading; or Omit, or authorise the omission from a claim of any matter knowing that the omission makes the claim false or misleading in a material particular.

Signed:

Date:

RESERVED FOR LIQUIDATOR'S DECISION

CLAIM ADMITTED FOR PAYMENT

OR

CLAIM REJECTED FOR PAYMENT

Preferential Claim

Ordinary Claim

Deferred Claim

\$

\$

\$

Signed Liquidator:

Dated: