

ROBB EVANS
Receiver of Millennium Diamond, Inc. et al.

REPORT OF RECEIVER'S ACTIVITIES
May 28, 2003 through August 22, 2003

Appointment of Receiver

On May 28, 2003, and confirmed on June 11, 2003, the Superior Court of California, County of Los Angeles, appointed Robb Evans as Receiver over Millennium Diamond, Inc., et al. (the Company) for the purposes of liquidating the collateral of the secured party, Bank Leumi, USA (the Bank).

This report covers the activities of the Receiver since his appointment. This is the first and final Report to the Court on the progress of the receivership. It does not constitute an audit of financial condition and is intended only to provide information for use by the Court in assessing the progress of the receivership and determining if this receivership should be closed and the Receiver discharged.

Custody, Control and Possession

On May 28, 2003, the Receiver's Deputies entered and took control of the company's facility located in the International Jewelry Center Building in downtown Los Angeles. Mrs. Nauka V. Shah, principal of the company and defendant, was present and fully cooperative with the Receiver's requests. Vipul Shah, the other company principal and defendant, was reportedly in India attempting to conclude a major business transaction there.

The inventory, comprised mainly of loose diamonds, was secured in the presence of Mrs. Shah and placed in double custody in the safe deposit facilities of Bank of America located in the same building. Locks were changed on the offices and the property manager, building security and the U.S. Postal facility in the building were notified of the Receivership status of the company.

Inventory

The Receiver engaged the services of a Certified Gemologist Appraiser to give an independent Fair Market Value, on a liquidation basis, of the entire inventory. That report indicated a value of approximately \$600,000, which could be discounted from 5% to 15% if one entity were willing to purchase the entire collection.

The defendants, having a desire to resolve their issue with the Bank as quickly as possible, contacted sources known to them as potential buyers of the entire collection. The Receiver's deputy presented the inventory to three individuals, acting as one buyer, who were recommended by the defendants and received an offer of \$550,000 for the entire lot. The defendants initially encouraged the Receiver to accept this offer, which was not sufficient to retire the entire bank obligation, including related fees. They pledged to fund the difference owed from other personal resources. It was soon discovered by the Receiver that this was not an arms-length transaction, requiring the defendants to give some percentage of future earnings in addition to the present inventory. The Receiver, therefore, rejected the offer.

Other interested buyers were approached with the clear understanding that the purchase must be a clean transaction, with no strings attached. Through a series of presentations and negotiations by the Receiver's deputy offers were received for \$575,000, \$600,000, \$615,000 and finally \$620,000, which was accepted by the Receiver. A cashier's check was presented for the full \$620,000 and the sale was concluded, for an amount that exceeded the appraised value of the inventory. This amount was sufficient to fully pay the Bank debt, including interest, related legal expenses and the Receiver's fees and costs.

Accounts Receivable

On June 17, 2003 demand letters were sent to all of the debtors listed in the most recent aging of accounts receivable available, as prepared by the company and verified by the Bank's audit report. Collections have been very poor, as most debtors have disputed the balances due for various reasons, such as, unrecorded payments, credits due, consignment items, etc. The Receiver's deputies and staff did expend a considerable amount of time and effort reconciling the balances due to the company's inaccurate hand posted and incomplete computer records. The Receiver also engaged outside counsel to assist in collecting from a select few of the major debtor accounts.

Conclusions

Since the Bank's obligation (principal and interest) was paid in full effective 8/15/03, and sufficient funds are available to pay all other obligations of this Receivership estate, it is the Receiver's opinion that additional collection efforts on the remaining accounts receivable would not be in the best interests of the estate. It is therefore recommended that the accounts receivable records be returned to the defendants for them to determine the best course of action.

Use of the offices in the International Jewelry Center Building was returned to the defendants on 8/18/03.

It should also be noted that the parties to this action have signed a Stipulation authorizing the Receiver to pay directly to the Bank their legal fees as related to this action.

Financial Report

Under Tab 1 is the Receiver's Report of Sales and Collections from the inception of the receivership through August 22, 2003. Also included under Tab 1 is the Report of Receivership Administration Expenses.

Requests of the Court

The Court is respectfully requested to:

1. Approve this Report and confirm the actions of the Receiver described therein.
2. Authorize payment of the expenses of the Receiver as detailed under Tab 1.
3. Authorize payment of the Bank's legal expenses to be made directly to the Bank by the Receiver in accordance with the Stipulation signed by both parties.
4. Authorize payment of any residual funds that are held by the Receiver after closing of this estate to be distributed directly to the defendant, Millennium Diamond, Inc. et al.
5. Authorize the Receiver to return all accounts receivable records to the defendant, Millennium Diamond, Inc. et al.
6. Upon faithful completion of the above items, to discharge and relieve Robb Evans, as Receiver, his agents, employees and representatives of all duties, liabilities and responsibilities and exonerate the Receiver's bond.

Robb Evans
Receiver