

**Nathans Finance NZ Limited (In Receivership) (“Nathans”) – Update to Investors**

23 September 2010

Dear Investor

We write to provide an update to Nathans secured debenture investors on the progress of the receivership.

**Background to this update**

At the date of receivership Nathans had advanced \$171m of debt to VTL, 24seven Australia, 24seven USA, Shop 24 (“the Business Units”), their franchisors and franchisees, and other borrowers.

Where possible the Business Units have been sold as going concerns and certain loans recovered. However as previously advised it is clear that, in light of the pre-receivership losses reported by the directors of VTL and the impact of worsening global economic conditions on our ability to realise the assets of Nathans and VTL, investors are likely to face a significant loss.

**Receivers initiate legal action against Nathans directors and auditors**

Since our last report we have focussed on legal action against various parties. The principal legal action is a claim against the directors, a former director, and the auditors of Nathans for breaches of the Companies Act 1993 and their common law obligations (in relation to the directors) and for breach of contract and negligence (in relation to the auditors). The claim is for damages of \$74.6m (or a maximum of \$73.2m against the auditors).

For legal reasons we are unable to disclose further details of the case, as we are in the early stages of the claim. No hearing date has been set. The claims involve complex legal issues and we are unable to accurately predict a timeframe for their resolution. It is clear however that the outcome of the legal action will have a material impact on the amount and timing of any dividends ultimately available for Nathans investors.

**Nathans directors to face criminal and civil charges**

Following receivership the receivers initiated an investigation into the affairs of both Nathans and VTL. As a result of those investigations (which are ongoing), a number of serious matters came to our attention and were referred to appropriate Government agencies.

On 23 December 2008 the Securities Commission announced that it laid criminal charges and issued civil proceedings against Nathans directors John Hotchin, Donald Young, Kenneth Moses and Mervyn Doolan. The Securities Commission alleges (amongst other things) that the directors made untrue statements in the registered prospectus and investment statement. The charges relate to statements concerning:

- Lending to related parties;
- Nathans' bad debts disclosure;
- Nathans' liquidity;
- The diversification of Nathans' lending;
- Management of the loans in accordance with robust policies and processes; and
- Nathans' disclosure of all material matters.

The Securities Commission also alleges that letters sent to members of the public advertising Nathans Finance debenture stock contained untrue statements about some of the matters referred to above. These claims do not apply to Mr Hotchin who had resigned his directorship by the time the letters were sent out.

Three of Nathans' directors (Hotchin, Young and Moses) appeared in the Auckland District Court on 23 January 2009 in respect of the above charges. They entered no plea and were granted bail.

In February 2010 there was a depositions hearing in which it was determined that there was a case to be answered by the Nathans directors in respect of their actions. The trial is due to start on 14 March 2011.

We will continue to update investors on a regular basis. Should you wish to contact us, please do so via our website, telephone, facsimile, or private bag address, as follows:

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We would like to take this opportunity to thank you for your ongoing patience and support.

Yours faithfully  
Nathans Finance NZ Limited (In Receivership)



Colin McCloy  
Receiver