

## Nathans Finance NZ Limited (In Receivership)

23 November 2007

### Report to Investors

#### 1. Introduction

As you are aware Colin McCloy and John Waller were appointed receivers of Nathans Finance NZ Limited (“Nathans” or “the Company”) by Perpetual Trust Limited (“the Trustee”), on 20 August 2007. We have taken this opportunity to provide Nathans secured debenture investors with a formal report on progress with the receivership and outline our initial view on the nature and potential timing of returns to secured debenture investors. This report is subject to the restrictions at Appendix I.

Nathans is a subsidiary of VTL Group Limited, which is an NZX listed company, although trading in VTL Group Limited shares is currently suspended. VTL Group Limited owns a number of vending machine related businesses which operate in New Zealand, Australia, North America and Europe, and fixed assets which are predominantly vending machines. Prior to receivership Nathans had provided \$171m of debt to VTL Group Limited, parties associated with it and various VTL franchisees.

The Nathans receivers have reached agreement with VTL Group Limited to continue to provide limited funding to enable it to continue to trade pending the sale of certain of its business units, including vending machines, by way of a managed process of realising value over time. Proceeds generated from the business sales will be used to reduce VTL Group Limited debt due to Nathans. In the meantime we continue to assess the best strategy to realise value in loans to related parties and franchisees on a case by case basis. In our view this overall approach offers the best opportunity to maximise returns to Nathans secured debenture investors.

Ultimately the outcome of the sale processes will determine the amount and timing of returns to Nathans secured debenture investors. Until that process is complete it is difficult to assess potential returns. Having said that we appreciate that investors want an indicative recovery range, even if that range is caveated.

Based on the information available to us we anticipate that investors could recover an initial dividend of 10 to 15 cents in the dollar during the first quarter of 2008. There will be further dividends, which will depend on recoveries from related party loans, franchisee loans, vending machine sales and the ultimate proceeds from an investment known as Shop24.

Shop24 is an automated convenience store system based in North America and Europe. We consider that this business has significant growth potential and is the subject of discussions with potential strategic investors, which if concluded could in our view add significant value to Shop24 and ultimately Nathans secured debenture investors.

Until negotiations are complete it is premature to assess the value in Shop24 except that it could be significant in the medium term, being a two to three year period. On that basis we believe the ultimate return to Nathans secured debenture investors will exceed the 10 to 15 cents referred to above, but at this stage it is difficult to assess the nature and timing of the ultimate return. This will become clearer in the first quarter of 2008.

## 2. Group Structure

### 2.1 Introduction

VTL Group Limited is a New Zealand registered company, listed on the NZX. The Company was established in 1997 as a vending machine operator and technology development company.

VTL Group has an international presence, with its vending technology and brands predominantly being used in New Zealand, Australia, North America and Europe.

VTL Group's operating structure involves franchising, technology development, the manufacture and distribution of automated convenience stores and of course Nathans. VTL Group has four principal business segments, as illustrated in the diagram (and explained in the commentary) below:

*VTL Group Principal Business Segments*



## 2.2 24seven

VTL Group Limited operates its vending franchising business under the 24seven brand in the United States, Australia and New Zealand.

The New Zealand and Australia vending franchise business consist of almost 2,600 sited vending machines, under 76 franchises, providing royalty and rental fees of approximately \$3.2m per annum, before sales of new franchises. The New Zealand and Australian businesses have been offered for sale as a going concern by way of a competitive tender basis. Indicative non binding bids were due on 16 November 2007. The process is being managed by PwC. There has been strong interest in the opportunity.

The United States 24seven franchise business is based in California and Texas. Negotiations are continuing with a number of interested parties.

## 2.3 Shop24

Shop24 is an automated convenience store system originating in Belgium. Acquired by VTL Group in 2003, Shop24 units are installed in around 190 locations worldwide, with the majority of stores being in European countries. These self-contained, un-manned stores are designed to capitalise on the gap between manned convenience stores and traditional vending machines. The self-retail concept provides a robotic delivery system, with approximately 200 product facings being available. Shop24 stores are located in key high traffic locations, such as universities, airport and train terminals and service stations.

The Shop24 business is very much in a development phase and requires further equity and a strategic partner to drive significant growth targets. Shop24 is starting to realise its market potential and the business's medium term outlook is encouraging. PwC are involved in discussions with potential strategic investors which if concluded could in our view add significant value to Shop24 and ultimately Nathans secured debenture holders. In our view this strategy offers the best opportunity to maximise value. The alternative of an immediate sale would not in our view maximise value for Nathans secured debenture investors.

## 2.4 VTL Technologies

VTL Group's technology is integrated into both 24seven and Shop24 vending products via a control board, enabling vending machine operators (such as 24seven franchisees) to remotely monitor and manage large numbers of machines. VTL Group's technology provides performance tracking, database management and category management tools. The plan is to retain ownership of VTL Technologies but licence user rights to purchasers of 24seven and Shop24 etc. Again in our view the alternative of an immediate sale would not maximise value for Nathans secured debenture investors.

### **3. Events Following Our Appointment**

Following our appointment as receivers we attended the Nathans offices to secure the assets and records, pending determination of the most appropriate method of realisation. Our actions have included:

- Communications with investors and the Trustee
- Securing the key assets
- Upon our appointment, all records of the Company held at their premises were secured and an electronic back-up copy of computer records was obtained
- Undertaking an initial investigation into the financial standing of Nathans
- Developing an asset realisation strategy
- Securing a mandate for PwC to manage the sales process of the VTL business units

We have continued to receive the full cooperation of the directors and management of VTL Group Limited and Nathans.

### **4. Financial Standing**

#### **4.1 Nathans Management Unaudited Balance Sheet**

Presented in the table overleaf is a summary of Nathans management unaudited balance sheet as at 20 August 2007. We stress that total actual recoveries from the assets are expected to be less than book value.

The Nathans balance sheet has been prepared from the Company's accounting records and information supplied to us by both the Company and its directors. Please note that we have not audited the balance sheet and it is subject to the restrictions at Appendix I.

Nathans Finance NZ Limited (In Receivership) Management Unaudited Balance Sheet At 20 August 2007	Book value NZ\$'000
Cash	7,589
VTL Group Limited – loan	54,081
Other VTL Group company loans	57,854
Master franchisee loans	38,893
Franchisee loans	11,364
Lease machine loans	3,000
Machine finance leases	540
Related party loans	3,732
Commercial loans	5,298
Assigned loan receivable	1,349
Fixed Assets (net of depreciation)	10,830
<b>Total Assets at Book Value</b>	<b>194,534</b>
Secured Debenture Holders	174,462
Preferential Creditors	902
Unsecured Creditors	132
<b>Total Creditors</b>	<b>175,496</b>
<b>Net Shareholders Funds at Book Value</b>	<b>19,038</b>

#### 4.2 Proposals for Disposal of Receivership Property

The NZ\$7.6m in funds in Nathans' various current, term deposit and foreign exchange accounts with various banks were frozen upon our appointment and have subsequently been secured by the receivers.

Recovery of the VTL Group Limited loan of \$54.1m, Other VTL Group company loans of \$57.9m, VTL Group master franchisee loans of \$38.9m, VTL Group franchisee loans of \$11.4m, VTL Group lease machine loans of \$3.0m, VTL Group machine finance loans of \$540k and related party loans of \$3.7m, will depend on the outcome of the sales process for each of the business units referred to in section 2 of this report. We do not wish to disclose our assessments of potential recoveries from individual assets as to do so is likely to have an adverse impact on negotiations with interested parties.

Out of total loans of \$176m, Nathans had only six loans to unrelated third parties totalling \$5.3m as at 20 August 2007. Most of these third party commercial loans mature before the end of March 2008 and so are being recovered over the period of the loan.

The assigned loan receivable of \$1.3m is being actively managed to generate recoveries.

Fixed assets with a book value of \$10.8m comprise primarily 1,700 sited vending machines i.e. on site and operating vending machines producing rental income. The receivers propose to realise these machines in conjunction with the sale of the business assets of VTL.

We have omitted certain details concerning our proposal for the disposal of receivership property as we believe that their inclusion would materially prejudice the exercise of our functions and in particular our duty to obtain the best price reasonably obtainable for the sale of receivership property.

## 5. Other Matters

Upon our appointment, all records of Nathans held at their premises were secured and a full electronic back-up of computer records was obtained.

The receivers are conscious of a number of concerns raised by investors and other parties in respect of the activities of the Companies and third parties prior to receivership. Any potential breaches of legislation or the Companies' Trust Deed identified during the course of our investigations will be referred to the appropriate Government authorities. Those authorities may take such actions as they deem appropriate.

Furthermore, where our investigations result in the identification of actions which may be taken by the receivers directly, such actions will be pursued based upon an assessment of the legal position and available remedies, including (but not limited to) potential recoveries for secured debenture investors through court action.

We will endeavour to keep investors informed on a regular basis and expect to issue a further update prior to Christmas. In the meantime, should investors or other stakeholders have any queries arising from this report, please contact Colin McCloy or John Waller on (09) 355 8000, or in writing via our website, facsimile, or private bag address, as follows:

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Private Bag 92-162

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Facsimile: +64 9 355 8013

Website: [www.pwc.com/nz/nathansfinance](http://www.pwc.com/nz/nathansfinance)

## Appendix I

### Restrictions

This report has been prepared for Nathans secured debenture investors. We specifically disclaim any liability to any other party seeking to rely on this report.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Nathans. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

We have relied on forecasts and assumptions prepared by Nathans about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

In addition the following should be noted:

- Certain numbers included in tables throughout this report have been rounded and therefore do not add exactly.
- Unless otherwise stated all amounts are stated in New Zealand Dollars.