

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

December 2008

Dear Investor

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

### **Background to this update**

Nathans is a subsidiary of VTL Group Limited (In Receivership) (“VTL”), which is an NZX listed company. At the date of Nathans’ receivership VTL owned a number of vending machine franchise businesses which operated in New Zealand and Australia (“24seven Australasia”), North America (“24seven US”), and Shop 24 Europe and US (“Shop24”).

This report provides an update, the potential returns for Nathans investors and the receivers’ investigations into the financial affairs of Nathans in the period prior to receivership.

At the date of receivership Nathans had advanced \$171m of debt to VTL, 24seven Australasia, 24seven US, Shop 24, their franchisors and franchisees. In addition Nathans owned \$10m of fixed assets, mainly vending machines. Accordingly, Nathans’ vending-related assets at receivership totalled \$181m, or 93% of its total assets, which were recorded at a book value of \$194m. Recoveries from Nathans’ vending assets will therefore have the single largest impact on the ultimate returns for Nathans investors.

In our view the recoverable value of the assets of Nathans was materially overstated at 20 August 2007, being the date of our appointment as receivers of Nathans. In this regard we note that shortly after the receivership of Nathans, the directors of VTL reported a loss of \$133m for the 14 month period ended 31 August 2007. The loss will have a direct impact on the potential recoveries for the Nathans receivers and ultimately Nathans investors. The magnitude of the loss is a serious

concern and has been the subject of investigation by the receivers of Nathans. A number of matters of concern have since been reported to certain Government Authorities, who are investigating the matters.

As mentioned in our previous updates, Nathans' receivers have continued to provide funding to VTL to enable it to trade pending the sale of its 24seven and Shop24 business by way of a managed process. At the same time we have sought to recover the loans to VTL and related parties. However, this has been increasingly difficult given worsening global economic conditions. As a result, the directors of VTL have requested that receivers be appointed to manage the affairs of VTL. Accordingly, Colin McCloy and Anthony Boswell of PricewaterhouseCoopers were appointed receivers of VTL Group Limited on 5 November 2008. We will operate the receiverships of Nathans and VTL in conjunction with each other to enable both receiverships to be managed as effectively and cost efficiently as possible.

### **Progress of VTL's Sale and Restructuring Processes**

Ultimately the recoveries for Nathans investors will be determined by recoveries from VTL's 24seven Australasia, 24seven US and Shop24 business units; and recovery of other assets. We comment on each below:

#### ***24seven Australasia (Australia and New Zealand)***

24seven Australasia was offered for sale by way of a formal competitive tender process, managed by PwC Auckland. A number of bids were received and a sale as a going concern was concluded at the end of May 2008.

#### ***24seven US (California and Texas)***

The 24seven US business comprises operations in California and Texas. 24seven California was sold as a going concern with the proceeds of sale received in late April. The business operations in Texas are the subject of continued negotiations.

#### ***Shop24 (Europe and United States)***

As previously advised, the Shop24 business is in a development phase and required funding and a strategic partner in order to realise maximum value for Nathans secured debenture investors. A detailed fund raising information memorandum was prepared and issued to interested parties. A number of parties expressed interest and are currently evaluating the opportunity. Unfortunately in the current volatile economic environment it is difficult to assess the ultimate outcome of the process. As a result we are reassessing the sales strategy for Shop24.

### **Recovery of Other Assets**

We continue to assess the best strategy to realise value in Nathans' commercial loans, and loans to related parties and VTL franchisees on a case by case basis.

Some of Nathans' franchisee loans were realised in conjunction with the sale of the 24seven Australasia and 24seven US California businesses.

Please note that 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 duties to obtain the best price reasonably obtainable for the sale of receivership property.

### **Anticipated Initial Dividend**

We had previously advised secured debenture investors that we were hopeful the sale of the 24seven Australasia and 24seven US business units would be completed by June 2008. This has been successfully achieved. However in both cases a number of contingent creditors remain to be resolved. We are aware of secured debenture investors' desire that the matters be resolved at the earliest opportunity and confirm that we are working to this result.

At present we hold around \$8m of funds, including the proceeds of sale from the 24seven Australasia and California businesses. The \$8m equates to an interim dividend of 4.6% of the \$174m due to secured debenture holders. However the ultimate level of interim dividend that can be released to investors will depend on the outcome of the contingent creditors referred to above, recoveries from Shop24, commercial loans, related party loans and franchisee loans.

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 face a significant loss and in our view it is unlikely that secured debenture investors will recover more than 10% of their principal investment and the return could be less than this.

We are hopeful that an interim dividend can be paid before 31 December 2008. However, this dividend is unlikely to exceed 2.5% of secured debenture investors' principal investment.

### **Investigation into VTL's \$133m Loss**

As mentioned above, VTL reported a loss of \$133m for the 14 month period ended 31 August 2007. The magnitude of the loss is of serious concern and remains the subject of a thorough investigation by the receivers of Nathans.

As receivers of VTL we will continue to investigate the affairs of VTL. If any further matters of concern are discovered they will be reported to the relevant Government Authorities.

We will continue to update investors on a regular basis via our website and anticipate a further formal update will be distributed by post prior to 25 December 2008. Should you wish to contact us, please do so via our website, telephone, facsimile, or private bag address, as follows:

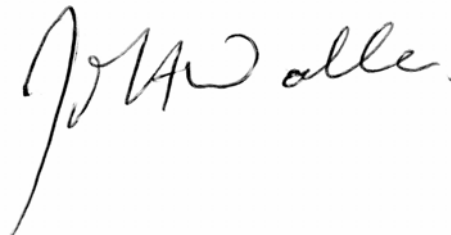
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We would like to take this opportunity to thank you for your ongoing patience and support.

Yours faithfully  
Nathans Finance NZ Limited (In Receivership)



Colin McCloy  
Receiver



John Waller  
Receiver