

27 November 2007

**Chancery Finance Limited**

Formerly VTL Group Finance Limited  
(name changed 18 December 2006)

Suite 2, Level 2, Building A  
The Millennium Centre, Phase 2  
600 Great South Road  
Greenlane 1051  
P O Box 304  
AUCKLAND

TEL +64 9 589 8901  
FAX +64 9 525 0612

Dear Investor

**RE Update on VTL Group Limited and your Bondholding in Chancery Finance Limited  
(previously VTL Group Finance Limited)**

VTL Group Limited ("VTL Group") is the parent company of Chancery Finance Limited ("Chancery") and Nathans Finance NZ Limited (in Receivership) ("Nathans"), both New Zealand based finance companies, which raised funds from the public.

**Why we are writing to you**

As a result of VTL Group's current business situation, the directors of Chancery have elected to suspend the payment of interest to Bondholders in accordance with clause 4.2 of the Trust Deed. In addition during this period no payments of principal will be paid to Bondholders.

**What is the background**

On 20 August 2007, as a result of action taken by the New Zealand Registrar of Companies the directors of Nathans agreed with the Trustee of Nathans, Perpetual Trust Limited, to place Nathans into receivership.

As a result of the receivership VTL Group was required to review the carrying value of its investment in Nathans, which was now considered impaired and declared itself to be insolvent because of the impact of its equity position. It is important to note that both Nathans and VTL Group had sufficient funds to meet obligations at the time. VTL Group's shares were suspended from trading on the New Zealand Stock Exchange.

On 24 August 2007, VTL Group's directors confirmed that the company was working closely with the receivers of Nathans, Mr. C T McCloy and his colleague, Mr. J A Waller from PricewaterhouseCoopers ("PwC"), to restructure VTL Group to allow its vending businesses to continue to trade pending a sale of VTL Group's international businesses in a controlled manner.

On 5 September 2007, VTL Group confirmed that its directors had completed funding arrangements so that the company's businesses would be able to continue to trade.

VTL Group's directors and Chancery's directors are working with both PwC and the Trustee for the Chancery Bonds, Covenant Trustee Company Limited to preserve value for the bondholders. Please find enclosed communication from the Trustee.

As a result of the current situation Chancery has elected to suspend the payment of interest in accordance with clause 4.2 of the Trust Deed, which states;

*4.2.1 The Company may elect to suspend payment of that amount of Accrued Interest or any part of such interest on the relevant Interest Payment Date if the Board believes on reasonable grounds that:*

- (a) the Company or Guarantor has breached, or making the payment of interest, or such part of the interest (as the case may be), would, or would be likely to, result in the Company or Guarantor breaching the solvency test set out in section 4 of the Companies Act; or*
- (b) the Company or Guarantor has breached, or the payment of interest, or such part of the interest (as the case may be), would, or would be likely to, result in the Company or Guarantor breaching any covenant, warranty or undertaking it has given to a Senior Creditor; or*
- (c) the Company or Guarantor has breached, or the payment of the interest, or such part of the interest (as the case may be), would, or would be likely to, breach any other legal obligation of the Company or Guarantor.*

In addition during this period no payments of principal will be made to Bondholders.

Whilst the company is unable to advise how long the sale process is likely to take or what the outcome is likely to be, we can confirm that as more information comes to hand it will be communicated to all Bondholders.

Yours sincerely

  
**Gary Stevens**  
Chairman



# *Covenant Trustee Company*

26 November 2007

Dear Investor,

**Re: Chancery Finance Limited (Formerly VTL Group Finance Limited)**

You are likely to be aware that in August 2007 PricewaterhouseCoopers were appointed receivers of Nathans Finance NZ Limited (Nathans). Nathans parent company is VTL Group Limited (VTL), which is also the parent company of Chancery Finance Limited (Chancery). Covenant Trustee Company Limited is the trustee for the Chancery unsecured subordinated bonds. On 23 August 2007 Chancery defaulted on repayments of maturing bonds to some investors. This was a breach of the bonds trust deed and potentially gave Covenant the right to seek to have a liquidator appointed.

There are 1374 bond holders and 17.4 million bonds outstanding. The assets of Chancery are loans (direct and indirect) to VTL. Your bonds are also guaranteed by VTL. This guarantee is subordinated and unsecured and is enforceable only on liquidation of VTL or Chancery. Covenant is only entitled to claim from VTL the principal amount of your bond plus any accrued interest on commencement of a liquidation of VTL and/or Chancery and only after all senior creditors claims have been met.

Since August 2007 when the difficulties first arose we have consulted on numerous occasions with the receivers for Nathans (PricewaterhouseCoopers) and with the directors of VTL and Chancery. Based on the information presented to us, we have come to the conclusion that the liquidation of Chancery would provide little if any immediate benefit to investors in the bonds, in fact could well compromise investor value which is reliant in protecting the going concern value of the businesses owned by VTL.

We, along with the receivers of Nathans, and the directors of VTL considers that value will best be achieved by taking a longer term view of the VTL businesses.

The directors of VTL have undertaken to report to us monthly on the progress being made with respect to these matters.

In this way we are seeking to optimise the potential returns to you as an investor.

Yours faithfully,

**COVENANT TRUSTEE COMPANY LIMITED**

**Graham Miller**  
Managing Director

COVENANT TRUSTEE COMPANY LIMITED  
LEVEL 34, VERO CENTRE  
48 SHORTLAND STREET, AUCKLAND, N.Z. P.O. BOX 4243, SHORTLAND STREET, AUCKLAND 1140  
TELEPHONE: (09) 302-0638. FAX: (09) 302-1037