

TARGET STATEMENT
MEDICAL SCIENCE AUSTRALIA LIMITED
ACN 085 039 818

**THIS DOCUMENT CONTAINS IMPORTANT INFORMATION AND REQUIRES
YOUR IMMEDIATE ATTENTION.**

If you are in doubt about how to deal with this document, you should consult your legal, financial or other professional adviser immediately.

IMPORTANT NOTICES

This Target's Statement is dated 22 September 2008 and is given under Part 6.5 of the *Corporations Act* by MEDICAL SCIENCE AUSTRALIA LIMITED ACN 085 039 818 (MSA) in response to the Bidder's Statement of VentureAxess Group Limited ACN 087 426 953 (VAG) dated 14 August 2008.

You should read the Target's Statement in its entirety.

Australian Securities and Investments Commission

A copy of this Target's Statement was lodged with the Australian Securities and Investments Commission on 22 September 2008. Neither ASIC nor any of its officers takes any responsibility for the content of this Target's Statement.

Investment Decision

This Target Statement does not take into account the individual investment objectives, financial situation and particular needs of each MSA Shareholder and MSA Optionholder. You may wish to seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer for your MSA Shares or MSA Options.

Defined Terms

Terms used in this Target's Statement are defined in Section 1 below.

Information line and website

If you have any questions in relation to the Offer you can contact the offer enquiry line operated by VAG on (02) 9999 0720 (or +61 2 9999 0720 for callers outside Australia). In accordance with legal requirements, calls to these numbers will be recorded. Further information relating to the Offer can also be obtained from VAG's website on www.ventureaxess.com.au.

Forward Looking Statements

This Target's Statement contains forward looking statements. Such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which MSA is involved as well as general economic conditions and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected. None of MSA, any of its officers, or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (either expressed or implied) as to the accuracy or likelihood in any forward looking statement, and you should not place undue reliance on these statements.

Forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

1. INTERPRETATION

1.1 In this Statement unless the contrary intention appears the following words have the following meanings:

ASIC means Australian Securities and Investments Commission;

Bidder's Statement means that Bidder's Statement dated 14 August 2008 given by VAG to MSA on 14 August 2008 in accordance with the provisions of Part 6.5 of the *Corporations Act*;

Corporations Act means the *Corporations Act 2001 (Cwlth)*;

Directors means the directors of MSA;

Listing Rules means the Listing Rules of the NSX;

MSA means Medical Science Australia Limited ACN 085 039 818 a company duly incorporated in the State of Western Australia and having its registered office at Suite 303, 20 Bungan Street, Mona Vale, Sydney, New South Wales;

MSA 2009 Options means all of the options granted over unissued MSA Shares exercisable at \$0.20 per Share on or before 31 December 2009;

MSA Directors Options means all of the options granted to directors or former directors of MSA (which have not lapsed) over unissued Shares exercisable at \$0.10, \$0.15 or \$0.16 at various dates up to 30 June 2011;

MSA Options means the MSA 2009 Options and the MSA Directors Options;

MSA Shares means all of the fully paid ordinary shares in the issued capital of MSA;

MSA Shareholder means a holder of MSA Shares;

MSA 2009 Optionholder means a holder of MSA 2009 Options;

MSA Directors Optionholder means a holder of MSA Directors Options;

MSA Optionholder means the MSA 2009 Optionholder and the MSA Directors Optionholder;

NSX means The National Stock Exchange of Australia Limited ACN 009 851 653;

Offer means the off market offers referred to in the Bidder's Statement and made by VAG to the holders of MSA Shares, MSA 2009 Options and MSA Directors Options to acquire all of the MSA Shares, all of the MSA 2009 Options and all of the MSA Directors Options;

Offer Period means the period commencing on 29 August 2008 and ending on 3 October 2008 or such later date to which the Offer has been extended;

Takeover Bid means the off market takeover bid made by VAG pursuant to the Bidder's Statement to acquire all of the MSA Shares, all of the MSA 2009 Options and all of the MSA Directors Options;

Target's Statement means this document;

VAG means VentureAcess Group Limited ACN 087 426 953 a company duly incorporated in the State of Queensland and having its registered office at Suite 303, 20 Bungan Street, Mona Vale, Sydney, New South Wales;

VAG Shares means all of the fully paid ordinary shares in the issued capital of VAG

VAG Options means all of the options granted over unissued VAG Shares exercisable at \$0.20 per share on or before 31 December 2009.

1.2 In this Statement, unless the contrary intention appears:

- (a) the singular includes the plural and vice versa;
- (b) words and expressions defined in the *Corporations Act* have the same meanings;
- (c) headings used in this Statement are for ease of reference only and do not affect the meaning or interpretation of this Statement.

2. INTRODUCTION

2.1 Information on MSA

MSA is an unlisted public company and carries on the business of a seed to early stage venture capital fund.

MSA commenced business in 1999 under the name of Add Venture Capital Limited and was housed in Western Australia. By June 2003 the company had 35 shareholders, five small investments and assets of approximately \$900,000. Add Venture Capital was a registered Pooled Development Fund.

In September 2003 management of the Company was assumed by the VentureAxess group of companies through its newly acquired funds management company, VentureAxess Fund Managers Limited and Add Venture Capital Limited changed its name to VentureAxess Capital Limited. Since this change in management took place, VentureAxess Capital has:

- Relinquished its Pooled Development Fund Status and re-positioned itself to be an early stage venture capital fund;
- Grown its shareholder numbers from 35 to in excess of 600;
- Increased its asset base to exceed A\$14.5m;
- Increased its investment portfolio;
- Obtained a holding of approximately 38% of the issued capital of VentureAxess Group Limited, a company listed on the NSX, and the ultimate holding company of the Fund Manager, VentureAxess Fund Managers Limited; and
- Changed its name to Medical Science Australia Limited in 2008 with the goal of focusing investment in outstanding emerging medical science companies from Australia and preparing them for commercialisation and ultimate “spin off” (usually by listing on international stock exchanges or trade sale to large multinational corporations)

2.2 The Offer

VAG is offering to acquire all of your MSA Shares and is offering 7 fully paid ordinary shares in VAG for every 6 fully paid ordinary shares in MSA. VAG is also offering to acquire all of your MSA 2009 Options and is offering 1 (one) option in VAG (exercisable at \$0.20 on or before 31 December 2009) for every 1 (one) MSA Option. Additionally, subject to 90% acceptance of the Offer by MSA Shareholders, VAG intends to allow MSA to make a capital distribution of the VAG securities it holds on the basis of 0.97 VAG fully paid ordinary shares and 0.61 VAG Options (exercisable at \$0.20 on or before 31 December 2009) for every 6 issued MSA Shares you hold.

VAG is also offering to acquire the MSA Directors Options on the basis of:

- 0.6667 fully paid ordinary shares in VAG for each MSA Directors Option exercisable at 10¢
- 0.3333 fully paid ordinary shares in VAG for each MSA Directors Option exercisable at 15¢
- 0.2667 fully paid ordinary shares in VAG for each MSA Directors Option exercisable at 16¢

The Offer is subject to a number of conditions. Those conditions are set out in full in Section 6.6 of the Bidder's Statement.

2.3 Assessment of the Offer

Before making a decision whether to accept or reject the Offer for your MSA Shares, MSA 2009 Options and MSA Director's Options, you should read this Target's Statement, and the Independent Expert's Report in Section 11, carefully and seek independent financial and taxation advice.

2.4 Director's Recommendations

Geoff Mullins, Emyr Jones and Trevor Nink are Directors of both VAG and MSA and will not make a recommendation to MSA Shareholders in respect of this Offer. Section 640 of the *Corporations Act* requires that where the Bidder (VAG) and the Target (MSA) have a common director, this Target's Statement must include an Independent Expert's Report stating whether, in the expert's opinion, the takeover offers are fair and reasonable and gives the reasons for forming that opinion.

The Independent Non-Executive Directors of MSA, Robin Forbes and Leonie Kramer have commissioned an Independent Expert's Report from VMC Global Pty Ltd on whether the offer is fair and reasonable to non-associated shareholders of MSA, and a copy of their Report is reproduced in Section 11 of this Target's Statement. The Independent Expert's Report concludes that the Offer is fair and reasonable to MSA Shareholders.

In relation to the offer for the MSA 2009 Options, the Independent Expert has valued each MSA Share in the range of \$0.125 to \$0.140 on an undiluted basis. With the MSA 2009 Options exercisable at a price of \$0.20 on or before 31 December 2009, these options are well out of the money and are considered to have a value, if any, that is insignificant. In paragraph 7.2 of the Independent Expert's Report they consider that the value of the VAG Options, if any, to be insignificant in determining a valuation of the VAG Shares based on recent capital raisings. On the basis of the VAG offer of one VAG Option for every one MSA 2009 Option, with both having insignificant, if any, value the Independent Non-Executive Directors of MSA consider this offer to be fair and reasonable after taking into account the improved liquidity offered by the VAG Options being listed on the NSX.

In relation to the offer for the MSA Directors Options, taking into account the knowledge of the holders of these options as Directors of MSA about the affairs of MSA, and the significant additional cost of an Independent Expert to value these MSA Directors Options, the Independent Non-Executive Directors of MSA did not request the Independent Expert to form a view on whether the offer for the MSA Directors Options was fair and reasonable.

Accordingly, in view of the Independent Expert's opinion, and in the absence of a superior offer for all of the MSA Shares, MSA 2009 Options and MSA Directors Options, the Independent Non-Executive Directors of MSA unanimously recommend that you accept the Offer for the MSA Shares. The Independent Non-Executive Directors of MSA also unanimously recommend that you accept the Offer for the MSA 2009 Options and the MSA Directors Options.

The Directors of MSA intend accepting the Offers in respect of their MSA Shares, MSA 2009 Options and MSA Directors Options.

The reasons why the MSA Independent Directors recommend accepting the Offer are set out in section 3 below.

2.5 Accepting the Offer

To accept the Offer you must follow the instructions set out on the Acceptance Form attached to the Bidder's Statement.

2.6 Rejecting the Offer

To reject the Offer you need not take any action.

3. RECOMMENDATION OF THE INDEPENDENT DIRECTORS OF MSA

3.1 VAG Offer

The following are Directors of MSA as at the date of this Target's Statement:

Mr Geoff Mullins – Non-Executive Chairman

Mr Emyr Jones – Non-Executive Director

Mr Trevor Nink – Non-Executive Director

Mr Robin Forbes – Independent Non-Executive Director

Dame Leonie Kramer – Independent Non-Executive Director

Messrs Mullins, Jones and Nink make no recommendation to MSA Shareholders or MSA Optionholders because of their Directorships with the Bidder (VAG).

The Independent Non-Executive Directors of MSA unanimously recommend that MSA Shareholders accept the Offer in the absence of a superior offer for the MSA Shares and the MSA Options.

The Independent Non-Executive Directors of MSA make this recommendation:

- based on the opinion contained in the Independent Experts Report that the Offer is fair and reasonable to MSA Shareholders.
- as acceptance of the Offer will provide MSA Shareholders with NSX listed shares and listed options in VAG.
- based on reference in Section 1.3 of the Bidder's Statement by VAG that without acceptance of their offer MSA's continuing going concern status may be jeopardised. In particular they draw attention to \$684,766 owing to VentureAxess Fund Managers Limited (VAFM - a subsidiary of VAG) and that discussions between the parties to settle this debt by the issue of MSA ordinary shares may not lead to a final agreement. Acceptance of the Offer will lead to the elimination of the debt between MSA and VAFM on consolidation within the enlarged Group.
- based on the secured borrowing facility of \$200,000 from Bendigo & Adelaide Bank Limited (Bendigo Bank) having been due for repayment on 31 July 2008, and that in order for Bendigo Bank to consider extending the terms of the facility, VentureAxess Group Limited has agreed to provide a guarantee to Bendigo Bank in return for a second charge over the assets of MSA (ranking behind the Bendigo Bank charge). If the Offer is not successful and MSA falls behind with the repayment terms of the loan leading to Bendigo Bank calling in the guarantee given by VAG, VAG may be able to acquire some of the MSA assets at fire-sale valuations under the terms of its second charge.
- as the MSA Shareholders will, on successful completion of the Offer, control approximately 83% of the ordinary share capital of the enlarged VentureAxess Group Limited and will accordingly have a continuing capacity to influence the future direction and management of VAG if the Offer is successful;

In making their recommendation that MSA Shareholders accept the Offer, the Independent Non-Executive Directors of MSA advise that they are unable to form an opinion on the following matters.

- The Independent Non-Executive Directors have no information on the activities of

VAG other than the role of its subsidiary, VentureAxess Fund Managers Limited, in managing the MSA investment portfolio and other than the information included in the Bidder's Statement.

- The Directors have no information other than that included in the Bidder's Statement on the financial position, ongoing prospects and capabilities of the directors of VAG.
- The Directors cannot form an opinion as to whether the conditions of the Offer, in particular the 90% acceptance by MSA Shareholders, will be met and hence whether the Offer will be finalised.

3.2 Assessment of Comparative Value

In assessing the Offer by VAG, the Independent Directors have commissioned an Independent Expert's Report to provide further guidance on the Offer and the comparative value of MSA Shares and VAG Shares.

The Independent Directors believe that in assessing the Offer based on the Independent Expert's Report, in the absence of a superior offer, the Independent Directors would recommend the Offer due to the higher value represented by the Offer and the potential for receiving securities in VAG which are listed on NSX and thereby have greater liquidity.

3.3 Advantages and Disadvantages in Respect of Acceptance of the Offer

In making the recommendations the MSA Independent Directors have had regard to the following:

- Acceptance of the Offers may afford the following advantages:
 - the opportunity for MSA Shareholders to receive securities in VAG which are listed on NSX and thereby having potentially greater liquidity than they currently enjoy;
 - the opportunity for MSA 2009 Optionholders to hold options in a NSX listed company and thereby having potentially greater liquidity;
 - the debt of \$684,766 owing to VentureAxess Group Limited (a subsidiary of the Bidder) will be eliminated on consolidation within the merged group.
- Acceptance of the Offers may afford the following disadvantage:
 - although VAG is listed on the NSX, no guarantee can be given that the market for securities of VAG will be liquid.

These are not an exhaustive statement of all factors which may have impacted on the recommendations made by the MSA Independent Directors but are considered to be the material matters which have resulted in the recommendations made.

3.4 Intention of MSA Directors

In the absence of a superior offer to the Offer, each Director of MSA, by whom or on whose behalf MSA Shares, MSA 2009 Options and MSA Directors Options are held, does intend to accept the Offers in respect of those MSA Shares, MSA 2009 Options and MSA Directors Options.

4. INFORMATION ON SHARES AND OPTIONS

4.1 Marketable Securities of MSA held by or on behalf of the Directors of MSA

The number, description and amount of marketable securities of MSA held by or on behalf of each Director of MSA (including marketable securities held by or on behalf of a corporation controlled by that Director) are as follows:

Director	Ordinary Shares	2009 Share Options	Directors Options exercisable at 10¢	Directors Options exercisable at 15¢	Directors Options exercisable at 16¢
Geoff Mullins	337,500	-	155,820	69,850	97,671
Emyr Jones	14,036,582	3,125,000	100,647	44,400	65,114
Robin Forbes	1,587,500	-	105,497	47,580	65,114
Leonie Kramer	337,500	-	31,266	-	65,114
Trevor Nink	-	-	-	-	-

Geoff Mullins and Emyr Jones have an interest in 4,409,795 MSA ordinary shares held by VA1 Pty Ltd, a company in which they have an indirect controlling interest.

Emyr Jones is interested in \$10,000 of the Loan Notes of MSA, which convert into MSA ordinary shares at 12.5¢ each.

4.2 Dealings in Shares and Options in MSA by MSA Directors or Associates

There have been no acquisitions or disposals of MSA Shares and MSA Options by any MSA Director or any person associated with the MSA Directors in the period of four (4) months ending on the date immediately before the date of this Target's Statement other than as shown below:

- On 20 June 2008, Jones Family PSF (of which Emyr Jones is a Trustee and beneficiary) acquired 10,000 MSA ordinary shares from a friend for \$2,000.
- On 19 September 2008, 337,500 MSA ordinary shares were issued to each of Geoff Mullins, Emyr Jones, Robin Forbes and Leonie Kramer in respect of Directors Fees for the two years ended 30 June 2007 and 2008. The Directors fees are \$30,000 per annum in respect of each Director and for the 2007 fees the MSA ordinary shares were issued at 16¢ each and for the 2008 fees the MSA ordinary shares were issued at 20¢ per share.

4.3 MSA Shares, Options and Loan Notes in issue

As at 19 September 2008 the securities of MSA on issue are:

Ordinary Shares		68,706,045
Share options exercisable at \$0.20 on or before 31 December 2009 (MSA 2009 Options)		14,397,485
Convertible Loan Notes convertible into ordinary shares at \$0.125 per share.		\$165,000
Directors Options exercisable at various dates up to 30 September 2011, exercisable at	\$0.10	594,782
	\$0.15	306,260
	\$0.16	358,127

5. NO PAYMENTS OR BENEFITS

It is not proposed that a prescribed benefit as defined in the Corporations Act (not being an excluded benefit) will or may be given to a person in connection with the retirement of a person from a prescribed office in relation to MSA or that a prescribed benefit will or may be given to a prescribed person in relation to MSA in connection with the transfer of the whole or any part of the undertaking or property of MSA.

6. NO AGREEMENT OR ARRANGEMENT WITH ANY DIRECTOR OF MSA

There is no agreement or arrangement made between any Director of MSA and any other person in connection with or conditional upon the outcome of the Offers.

7. INTERESTS HELD BY DIRECTORS OF MSA IN ANY CONTRACT ENTERED INTO BY MSA

A Fund Management contract exists between MSA and VentureAxess Fund Managers Limited, a subsidiary of the Bidder. The contract was originally entered into in March 2001 for a fixed term of 10 years, subject to termination on an earlier date in certain circumstances. The contract was amended in October 2005, at the time that MSA was pursuing a listing on the Australian Securities Exchange, to bring it into line with acceptable corporate governance standards. Geoff Mullins, Emyr Jones and Trevor Nink are Directors of the Bidder and are therefore deemed to be interested in this contract.

8. FINANCIAL POSITION OF MSA

The last published audited financial results of MSA were for the year ended 30 June 2006.

WHK Greenwoods were appointed on 27 July 2006 as Auditors to Medical Science Australia Limited and were responsible for the 2005/06 audit. The charge for the audit for the year ended 30 June 2006 was \$8,000 as per the audited accounts for that year. On 1 July 2007 WHK Greenwoods changed their name to WHK Horwath to reflect their international association and prior to commencement of the 2006/07 audit provided an estimate of \$28,000 for the audit fee for that year. The Directors of MSA considered this audit fee to be unacceptable compared with the charge for the prior year. The MSA Directors obtained an estimate of \$10,000 for the MSA 2006/07 audit (itself a 25% increase on the prior year fee) from a local Sydney Registered Auditor and requested the resignation of WHK Horwath as auditors to MSA. WHK Horwath tendered their resignation as auditors to MSA, subject to ASIC approval and MSA provided the 2007 audit working papers to the proposed replacement auditors. As required by the Corporations Act, WHK Horwath wrote to ASIC requesting permission to resign as auditors to MSA, but for reasons that ASIC are not required to disclose to MSA, they refused the WHK Horwath request to resign as auditors to MSA.

On 18 September 2008 Jones Family PSF, the largest shareholder in MSA, wrote to MSA under Subsection 329(1A) of the Corporations Act requesting that the Directors convene a General Meeting of the Company to consider and, if thought fit, pass a resolution that WHK Horwath be removed as auditor of MSA. Enclosed with this Target's Statement you will find a Notice of General Meeting to be held on 22 October 2008 to consider the resolution proposed by Jones Family PSF.

Set out below are the unaudited management accounts and notes thereto of Medical Science Australia Limited for each of the two years ended 30 June 2007 and 30 June 2008.

MEDICAL SCIENCE AUSTRALIA LIMITED
(unaudited management accounts for 2007 and 2008)
CONSOLIDATED INCOME STATEMENT
FOR YEAR ENDED 30 JUNE 2008

	Year to 30 June 2008 \$	Year to 30 June 2007 \$
Revenue from ordinary activities	77,606	3,558
Change in Fair Value of Investments	(2,922,460)	(226,184)
Increase/(decrease) in value of patents	(2,488,514)	587,273
Expenses from ordinary activities		
- Administrative Expenses	(403,067)	(232,169)
- Annual Fund Manager Fee	(96,941)	(234,299)
- (Provision)/Credit for Fund Manager Success Fee	776,463	94,518
- Directors Fees/Share option charge	(120,000)	(118,470)
- Listing costs incurred	-	(115,347)
- Interest paid	(57,145)	(60,778)
Profit/(loss) before income tax expense	(5,234,058)	(301,898)
Income tax (expense)/credit	1,011,524	(459,340)
Profit/(loss) after income tax	(4,222,534)	(761,238)
(Profit)/loss attributable to minority interests	2,519,047	(354,433)
Profit/(loss) attributable to members	(1,703,487)	(1,115,671)

MEDICAL SCIENCE AUSTRALIA LIMITED

CONSOLIDATED BALANCE SHEET FOR YEAR ENDED 30 JUNE 2008

	2008 \$	2007 \$
CURRENT ASSETS		
Cash and cash equivalents	53,217	48,606
Trade and other receivables	122,224	50,977
TOTAL CURRENT ASSETS	175,441	99,583
NON CURRENT ASSETS		
Other financial assets	6,819,075	9,741,535
Equipment	7,545	6,679
Goodwill arising on consolidation	3,656,161	1,650,991
Patents	5,806,534	8,295,048
TOTAL NON CURRENT ASSETS	16,289,315	19,694,253
TOTAL ASSETS	16,464,756	19,793,836
Trade and other payables	626,602	843,903
Short term borrowings	365,000	410,000
TOTAL CURRENT LIABILITIES	991,602	1,253,903
NON-CURRENT LIABILITIES		
Related parties	385,475	-
Deferred tax liabilities	-	1,011,524
Provisions	329,893	1,106,356
TOTAL NON-CURRENT LIABILITIES	715,368	2,117,880
TOTAL LIABILITIES	1,706,970	3,371,783
NET ASSETS	14,757,786	16,422,053
EQUITY		
Contributed equity	9,589,127	9,213,878
Retained earnings	309,877	2,013,364
Parent interest	9,899,004	11,227,242
Option holders equity	39,440	39,440
Minority interest	4,819,342	5,155,371
TOTAL EQUITY	14,757,786	16,422,053

MEDICAL SCIENCE AUSTRALIA LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR YEAR ENDED 30 JUNE 2008

Economic Entity

	Contributed equity	Option holders equity	Retained Earnings (Losses)	Minority Interests	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2007	9,213,878	39,440	2,013,364	5,155,371	16,422,053
Profit/(loss) attributable to members	-	-	(1,703,487)	-	(1,703,487)
Shares issued by consolidated entity during the year and attributable minority interest				2,183,018	2,183,018
Profit/(loss) attributable to minority interests	-	-	-	(2,519,047)	(2,519,047)
Shares issued during the year	375,249	-	-	-	375,249
Balance at 30 June 2008	9,589,127	39,440	309,877	4,819,342	14,757,786

Notes to the management accounts

1. The management accounts of Medical Science Australia Limited (MSA) for 2007 and 2008 have been produced using the same Accounting Policies as for the Audited Accounts for the year ended 30 June 2006.
2. The consolidated management accounts for 2007 include the results of VentureAxess Group Limited (VAG - formerly Jab Technologies Limited) for the period from 1 May 2007 when MSA took control of the company owning 71.8% of the VAG ordinary shares. On 1 November 2007 VAG acquired VentureAxess Limited by the issue of VAG ordinary shares which diluted the MSA holding in VAG to 38.19%. Although VAG then ceased to be a subsidiary, it remained a controlled entity due to certain Directors of MSA owning sufficient shares in VAG to give overall control. VAG continued to be consolidated in the MSA 2008 management accounts with an amount of 61.81% being attributed to minority interests. As the Fund Manager to MSA was effectively acquired from 1 November 2007 the fees charged by the Fund Manager to MSA from that date have been reversed on consolidation. VAG is listed on The National Stock Exchange of Australia (NSX).
3. The consolidated management accounts for 2007 and 2008 include the results of Heart Assist Technologies Pty Ltd (HAT) from 22 February 2007 when the MSA shareholding in HAT became 38.01%. At that time certain Directors of MSA owned sufficient shares in HAT to give it overall control of HAT, which then requires to be consolidated as a controlled entity with an amount of 61.99% being attributed to minority interests. HAT is the owner of the Patents appearing in the 2007 MSA consolidated management accounts based on an independent valuation dated 17 August 2007.
4. In the 2007 MSA management accounts Other Financial Assets (investments in unlisted entities) were valued by the Directors in accordance with its accounting policies on the basis of cost, recent prices paid by third parties, independent valuations, discounted future cash flow or written down values. The Directors wrote down the values of non-core investments in Data-Cast.Net Limited, Telroy Pty Ltd, Lumitex Limited, EON Pty Ltd, and Virtual Meeting Online Pty Ltd to nil resulting in an overall fair value decline of \$226,184 in Other Financial Assets. The remaining investments were included at a fair value of \$9,741,535 at 30 June 2007.
5. The Directors of MSA are aware that during the period from 1 July 2007, the value of listed and unlisted investments, have declined considerably as a result of turmoil in the world financial markets. This makes valuation of investments in individual private companies considerably more difficult than usual and has led the Directors to consider that it is more appropriate to consider a general provision against the pool of investments to reflect the changed worldwide investment background.

6. *At 2 July 2007 the ASX All Share Index stood at 6,310.6 and had fallen by 15.5% to 5,332.9 at 30 June 2008. Since 30 June 2008 the All Share Index has fallen further to 5,038.9 as at 15 August 2008 (a total fall of 20.2% since 2 July 2007). A more appropriate ASX Index for comparison with MSA would be the ASX Small Ordinaries Index which stood at 3,978.6 at 2 July 2007. At 30 June 2008 this index had fallen to 3,051.3 (down 23.3%) and at 15 August 2008 had fallen further to 2,816.1 (down 29.2% since 2 July 2007). The MSA Directors have considered it appropriate to make a provision of 30% against the value of the unlisted investment portfolio of MSA at 30 June 2007 and the value of patents held by HAT at 30 June 2007 to reflect the general fall in company values to be incorporated into the MSA 2008 management accounts. The resulting fair value decrease in Other Financial Assets is \$2,922,460 and decrease in value of patents \$2,488,514.*

Within the knowledge of each of the Directors of MSA, the financial position of MSA has not materially changed since 30 June 2006 (the date of the last annual financial reporting to the holders of MSA in accordance with Section 315 of the *Corporations Act* was on 9 November 2006), save and except as shown in the unaudited management accounts reproduced above and as noted elsewhere in this Target's Statement. The Directors of MSA draw your attention in particular to Section 3.1 and the Loan from Bendigo Bank which is overdue for repayment and the significant debt owed to VentureAcess Fund Managers Limited, a subsidiary of the Bidder.

9. OTHER INFORMATION MATERIAL TO THE MAKING OF A DECISION BY A HOLDER OF MSA SHARES AND OPTIONS

There is no other information material to the making of a decision by holders of MSA Shares, MSA 2009 Options and MSA Directors Options, which MSA Shareholders, MSA 2009 Optionholders and MSA Directors Optionholders their professional advisers would reasonably require to make an informed assessment whether or not to accept the Offers and reasonably expect to find in this document being information that is within the knowledge of any of the Directors of MSA and has not previously been disclosed to the holders of MSA Shares and MSA Options or disclosed under the *Corporations Act* save and except as disclosed in the Target's Statement, the Bidder's Statement and the Offer.

10. CONSENTS

This Target's Statement contains statements made by, or statements said to be based on statements made by the MSA Directors. Each MSA Director has consented to the inclusion of each statement he or she has made in the form and context in which each statement appears and has not withdrawn that consent at the date of this Target's Statement.

As permitted by ASIC Class Order 01/1543, the Target's Statement contains statements which are made, or based on statements, made, in documents lodged by VAG with ASIC or NSX. Pursuant to the Class Order, the consent of VAG is not required for the inclusion of such statements in the Target's Statement. Any Shareholder who would like to receive a copy of any of those documents may obtain a copy free of charge during the Offer Period by calling the offer enquiry line operated by VAG on (02) 9999 0720 (or +61 2 9999 0720 for callers outside Australia). In accordance with legal requirements, calls to these numbers will be recorded.

SIGNED for and on behalf of MEDICAL SCIENCE AUSTRALIA Limited by Dame Leonie Kramer who is authorised so to sign pursuant to a resolution passed at a meeting of the Independent Non Executive Directors held on 22 September 2008.



Dame Leonie Kramer

DATED the 22 day of September 2008.

11. INDEPENDENT EXPERT'S REPORT