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business restructuring & insolvency

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28 May 2010

<u>TO THE CREDITOR AS ADDRESSED</u>

Dear Sir/Madam

RE: VENTUREAXESS GROUP LIMITED (ADMINISTRATORS APPOINTED) ACN 087 426 953

I refer to my report to creditors dated 24 May 2010.

As you are aware, in my report I advised that it was the directors' intention to submit a proposal for a Deed of Company Arrangement.

I advise that a proposal has now been submitted for creditors' consideration. A copy of the proposal is attached to this report for your review.

In general, the proposal requires for companies known as Custodian Company Pty Ltd and Credit Elect Pty Ltd to pay to the Administrators the amounts of $50,000 and $35,000 respectively for distribution as follows:

1. The funds contributed by Custodian Company Pty Ltd will be distributed to priority and unsecured creditors, after allowing for the disbursements and approved remuneration of the Voluntary Administrators and Deed Administrators and in accordance with the priority provisions set out at Section 556 of the Corporations Act, 2001.

2. The funds contributed by Credit Elect Pty Ltd will be paid to unsecured creditors which, in the opinion of Credit Elect Pty Ltd, are essential creditors in respect of maintaining the company as a listed company. Such funds will only be paid after execution of a non binding agreement between the company, Credit Elect Pty Ltd and major shareholders of Credit Elect Pty Ltd.

3. Any funds remaining after the payments of the claims set out at Points 1 and 2 above, will be distributed to ordinary unsecured creditors on a pro-rata basis.

4. Subject to the approval of shareholders being obtained at an Extraordinary General Meeting, shares will be issued to the unsecured convertible note holders and former employees with respect to loans made to the company, equal to 15% of the company's fully diluted shares after the conversion of the company's secured convertible notes.

5. The secured convertible note holders will not pursue their entitlements against the company until points 1 to 3 above have been dealt with. The secured convertible notes

convert and sufficient shares are to be issued to enable such note holders to hold 50% of the company's shares.

Control of the company will revert to the directors upon payment of the amounts referred to in Points 1 and 2.

Benefits of Deed Proposal

I consider that the Deed proposal offers the following benefits:

1. The proposed Deed offers a greater return to creditors than if the company were to be wound up as the contribution amounts are being derived from third parties rather than assets of the company. Such funds would not be available in a liquidation scenario.

2. As discussed in my previous report, due to the lack of company records in my possession, I have been unable to conduct a thorough analysis of such records to assess whether there were any transactions entered into prior to my appointment which may be recoverable by a liquidator for the benefit of creditors.

   As noted however, as the company was not a trading entity, I would consider the possibility of identifying any such transactions to be remote.

   To alleviate any concerns creditors may hold, the Deed should provide for the antecedent transaction provisions of the Corporations Act, 2001 to apply in order that further investigations may be conducted by the Deed Administrator.

   I note however, that the funds to be contributed under the Deed proposal would not be applied to fund costs associated with any antecedent funding proceedings.

   The instigation of any recovery action would require sufficient funding to be contributed by creditors or a litigation funder.

3. The directors consider the planned acquisition of Credit Elect Pty Ltd to be an opportunity for the company going forward. The proposal offers the prospect of a return to those creditors who will be offered shares in the company should the value of those shares increase. In a liquidation scenario, it is unlikely that creditors would receive any return.

Disadvantages of Deed Proposal

The company's investments in Medical Science Australia Pty Ltd and Venture Access Fund Managers Pty Ltd would not be available for realisation under the Deed proposal.

As discussed in my previous report however, I have been advised that the investments held by MSA will not generate returns without the investment of further capital, and there are pressing issues with respect to the creditors of MSA which need to be dealt with.

Accordingly, I do not consider MSA to be an immediate source of income or realisation in a liquidation scenario.

VAFM's value apparently lies with its status as a holder of an Australian Financial Services License which, I am advised, is not easily transferable. I have been advised that VAFM is not currently producing any income and its main asset is a management fee payable to it by MSA.

Accordingly, I do not consider VAFM to be an immediate source of income or realisation in a liquidation scenario.

Estimated Dividend

I detail below the estimated dividends that could be expected to be paid to creditors in a Deed of Company Arrangement and Liquidation scenario.

Deed Scenario

Application of Monies to be Contributed by Custodian Company Pty Ltd

	ERV – Deed ($)	**ERV – Liquidation ($)**
Deed Contributions	50,000	0
Cash at Bank		0
Investments in Subsidiaries		0
Antecedent Transaction Recovery		0
Assets Available for Distribution	**50,000**	**0**
Less		
Payment of petitioning creditors taxed costs (est)	4,000	
Appointees' Remuneration and Disbursements	20,000	
Employee Entitlements	25,927	
Amount Remaining for Unsecured Creditors	**Nil**	**Nil**

Application of Monies to be contributed by Credit Elect Pty Ltd

	ERV – Deed ($)	**ERV – Liquidation ($)**
Deed Contributions	35,000	0
Cash at Bank		0
Investments in Subsidiaries		0
Antecedent Transaction Recovery		0
Assets Available for Distribution	**35,000**	**0**
Less		

"Essential" unsecured creditors*	21,830	
Amount Remaining for Unsecured Creditors	**13,170**	
Unsecured Creditor Claims	93,981	
Estimated Dividend	**14 cents**	**Nil**

The directors consider the following to be "essential" unsecured creditors of the company whose claims must be paid in order to retain the company's listed status:

Creditor	**Claim Amount($)**
ASX	6,423
ASIC	1,600
NSX	13,807
Total	**21,830**

Creditors whose Claims shall be dealt with by way of Approved Distribution of Shares

Creditor		**Claim Amount ($)**
Jason Agapiou		14,559
Kate Roach		1,390
Karalyn Day		24,428
Unsecured Convertible Note Holders (excl outstanding interest)		
	Janet Roche	1,000
	Geoff Mullins	26,000
	Jeannette Harvison	5,000
	Ralph Mervyn Greenham	5,000
	Richard Green	10,000
	Stephen G Bauer	5,000
	Ianaki Semerdziev	5,000
	Balyata Pty Ltd	500
	Anaric Pty Ltd	2,500
	Stuart Arthur Burton	2,000
	Raymond Domenico Furfaro	2,000
	Murray George Dowdle	2,500
	Sigrid and Christopher Semmens	2,500
	Geoff Mullins	2,000
	ANZ Nominees Ltd	2,500
	Keith and Juliet Osborne	2,500
	Graham Wallace Smith	5,000
	David Herbert Freemantle and	2,000

	Norma Freemantle	
	Kobler Superannuation Fund	10,000
	ANZ Nominees Ltd	2,000
	ANZ Nominees Ltd	250,000
	Michelle Wallin	500

In a Liquidation scenario, in the absence of any antecedent transaction recovery or other successful legal action, there would be no return to unsecured creditors.

In a Deed scenario, it is expected that subject to no further claims emerging, employee creditors would receive full payment of their priority claims against the company, whilst participating ordinary unsecured creditors would receive a dividend of approximately fourteen cents in the dollar.

Subject to the approval of shareholders, certain unsecured creditors (detailed above) and the unsecured convertible note holders would receive capital in the company, equal to 15% of the company's shares, after the conversion of the secured convertible notes.

Conditions Precedent

Should creditors accept the above proposal, in order for the Deed to come into effect, the following is required:

- The company will be required to convene an extraordinary meeting of shareholders and obtain the approval of the shareholders to the allotment of new shares and the consequent dilution of existing shares in the company;

- Employee creditors must agree to the terms of the Deed at a separate meeting. Depending on the level of claims lodged, the terms of the Deed may result in employee creditors receiving a lesser dividend rate than what the essential creditors may receive. Further, it may also result in employees receiving a lesser dividend than what may be received in a liquidation scenario if they were to lodge an approved claim under the GEERS scheme.

Recommendation

Based on the above factors, it is my opinion and recommendation that it is in the best interests of creditors to accept the proposal for a Deed of Company Arrangement which has been submitted by the directors.

Creditors will be requested to consider a resolution proposing that the company be required to execute a Deed of Company Arrangement in this form at the forthcoming meeting or any adjournment thereof.

Should you have any queries, please contact Ms Danielle Roche of my office on (03) 9793 5588.

Yours faithfully

PETER VINCE
ADMINISTRATOR

Ventureaxess Group Limited
(Administrators Appointed)
ACN 087 426 953

PROPOSAL FOR DEED OF COMPANY ARRANGEMENT

The directors of Ventureaxess Group Limited (Administrators Appointed) ("Ventureaxess") ("the directors") submit this proposal for the purpose of dealing with the claims of the creditors of Ventureaxess via a Deed of Company Arrangement.

PREAMBLE

It is the directors' intention to realise the investments held in Medical Science Australia ("MSA") and then acquire an interest in a unique financial services company, with the long term intention to move from Ventureaxess's listing with the Newcastle Stock Exchange to a listing with the Australian Stock Exchange.

However, the assets held by MSA will take further time and funding to realise. Bendigo Bank is the holder of a debenture charge over the assets and undertakings of MSA and claims an amount of $215,000 plus interest from MSA. That claim is under investigation.

Without immediate access to assets or funding to deal with the claims of VentureAxess, the directors resolved to appoint Administrators to the company.

The directors wish to deal with the claims of the company's creditors by way of a Deed of Company Arrangement ("DOCA"), in order that their original intention may be achieved.

TERMS TO ENABLE DIVIDEND TO CREDITORS

- Ventureaxess shall obtain from Custodian Company Pty Ltd, the holder of a secured convertible note, the sum of $50,000. Such funds are to be paid to the Administrators by 24 May 2010 and secured by way of the existing secured convertible note.
- Ventureaxess shall obtain from Credit Elect Pty Ltd funds of $50,000. Such funds are to be paid after the execution of the non binding Heads of Agreement between Ventureaxess, Credit Elect Pty Ltd and the major shareholders of Credit Elect Pty Ltd. Such funds are to be secured by way of a secured convertible note being issued in favour of Credit Elect Pty Ltd.
- The funds contributed by Custodian Company Pty Ltd and Credit Elect Pty Ltd are to be paid into a bank account registered to Ventureaxess and under the Deed Administrators' control and distributed in the following order:
    - $50,000 will form a fund to be distributed to priority and unsecured creditors after allowing for the disbursements and approved remuneration of the Voluntary Administrators and Deed Administrators and in view of the priorities afforded under Section 556 of the Corporations Act, 2001 ("Fund A");
    - $35,000 will form a fund to be paid to essential unsecured creditors and thereafter on a pro-rata basis to ordinary unsecured creditors, as detailed at Schedule A of this proposal ("Fund B");
- Any surplus existing in the above cash categories after payment of its claims shall be transferred to the other category for distribution to creditors of such category.
- In addition to the above contributions, Credit Elect Pty Ltd shall pay to the Deed Administrators an amount determined to be sufficient to pay in full any liabilities incurred by Ventureaxess during the Voluntary Administration period. Alternatively, the directors of Ventureaxess may provide to the Deed Administrators documentary evidence of any such expenses being paid.

- The unsecured convertible note holders and staff loans are to convert to equity in the company representing 15% of the adjusted ordinary capital after dealing with the allotment of capital to secured convertible note holders.
- The secured convertible note holders are not entitled to participate for a dividend or pursue recovery of their claims against Ventureaxess until the terms of the Deed have been satisfied. These note holders will be offered equity in the company once the DOCA has been fully effectuated.
- The voidable transaction provisions of the Corporations Act, 2001 do not apply to this proposal.
- The insolvent trading provisions of the Corporations Act, 2001 do not apply to this proposal.
- The company's creditors are to receive a dividend under the Deed in full and final satisfaction and discharge of their claims against Ventureaxess.
- The dividends payable under the terms of the proposal are to be distributed to creditors upon the Deed Administrators settling creditor claims and admitting such claims for the purposes of paying a dividend under the proposed Deed.

CONDITIONS PRECEDENT

- Prior to the creditors meeting to be held on 2 June 2010, or any adjournment of that meeting, employee creditors shall provide their consent to the terms of the Deed at a separate meeting, given that depending on the extent of claims lodged, the terms of the Deed may result in them receiving a lesser dividend rate than what the essential creditors may receive. Further, it may also result in employees receiving a lesser dividend than what may be received in a liquidation scenario if they were to lodge an approved claim under the GEERS scheme.

CONDITIONS SUBSEQUENT

- The directors shall cause VentureAxess's subsidiary, Medical Science Australia Pty Ltd to deal with the claims of its creditors within three (3) months of the execution of the Deed, otherwise shall appoint a Voluntary Administrator to deal with its affairs.

CONTROL

- Control of Ventureaxess reverts to the directors as at the date of the execution of the Deed and provided the amount payable of $50,000 by Custodian Company Pty Ltd has been received.

RESPONSIBILITY FOR DEBTS INCURRED DURING DEED PERIOD

- Ventureaxess and the directors in their fiduciary capacity, are responsible for the debts incurred by Ventureaxess from the date of execution of the Deed.
- The Deed Administrators take no responsibility for debts incurred by Ventureaxess from the date of execution of the Deed.

OBLIGATIONS TO DEED ADMINISTRATORS

Ventureaxess and its directors have the following obligations to the Deed Administrators during the Deed period:

- Ventureaxess is to provide the Deed Administrators with full and unfettered access to its books and records for the purpose of assisting in the adjudication of creditors' claims;

DEED ADMINISTRATORS' REMUNERATION

- The Deed Administrators' remuneration will be subject to the approval of creditors or a committee of creditors pursuant to Section 449E of the Corporations Act, 2001.

- The Deed Administrators will be entitled to draw their disbursements and properly approved remuneration from Fund A on a periodic basis prior to any distribution being made to the creditors who are entitled to prove for against Fund A.

SECURITY

- The right of indemnity afforded to the Voluntary Administrators under Section 443D of the Corporations Act, 2001 and the right to a lien to secure such indemnity under Section 443F is acknowledged by the directors.

PROVISIONS APPLICABLE

- Schedule 8A of the Corporations Act, 2001 will apply.

BREACH OF TERMS OF DEED

- The following will constitute breaches of the terms of the Deed:

  - ➢ Ventureaxess failing to procure payment from Custodian Company Pty Ltd and Credit Elect Pty Ltd pursuant to the terms of the Deed

- Upon the identification of any such breach, the Deed Administrators will be required to send written notice to Ventureaxess advising of the breach and providing fourteen (14) days for Ventureaxess to rectify the breach.

ACTION IN EVENT BREACH NOT REMEDIED

- In the event that Ventureaxess does not rectify the breach within the fourteen (14) day period or other agreed period, the Deed Administrators may consider convening a meeting for the variation or termination of the Deed pursuant to Section 445F of the Corporations Act, 2001.

TERMINATION

- Following the distribution of the monies held in Funds A and B, the Deed will terminate pursuant to Section 445C(c) of the Corporations Act, 2001. The Deed Administrators will lodge a certificate with the Australian Securities and Investments Commission confirming same accordingly.

Ventureaxess Group Limited
(Administrators Appointed)
ACN 087 426 953

DATED this 25 day of May 2010

DAVID MICHAEL HICKIE

CHARLES WANTRUP

KARALYN JEANETTE DAY K. Day

RICHARD RANDALL GREEN

SIMON HENRY VAN ASSCHE