

***Nexus Bonds Limited***

ABN 23 101 744 389

**Interim financial report for the half-year ended  
31 December 2006**

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***Nexus Bonds Limited***  
**Directors' report**

The directors present their report together with the financial report of Nexus Bonds Limited ("the Company") for the half-year ended 31 December 2006 and the auditor's report thereon.

**Directors**

The directors of the Company at any time during or since the end of the financial period are:

| <b>Name and Qualifications</b> | <b>Experience and special responsibilities</b>  |
|--------------------------------|---|
| Mr Richard J Nettleton<br>LLB  | A solicitor with over 40 years legal experience. A director of a number of companies including JPMorgan Trust Australia Limited and Marathon Asset Management (Australia) Limited. Director since 19 August 2002.   |
| Mr Douglas W O'Neill           | A corporate finance specialist with 35 years industry experience and has been involved in over 150 stock market takeovers. Director since 19 August 2002.   |
| Mr Stephen J Treanor           | A financial consultant who has advised numerous corporations on debt financing alternatives and risk management. He has extensive expertise in the securitisation of financial assets. In addition to a lengthy career in commercial banking in the United States he worked for Moody's Investors Service until 1993 where he held various roles including managing director of its Australasian operations. Director since 19 August 2002. |

**Principal activities**

The principal activities of the Company from its establishment on 19 August 2002 has been the issuance of portfolio linked notes (ie. notes linked to the creditworthiness of a portfolio of companies), the placement of note proceeds on deposit, and entering into portfolio agreements.

There have been no significant changes in the nature of the activities of the Company since establishment. There have been no note issuances or changes in investments during the half-year.

**Review and result of operations**

The profit after income tax amounted to **\$1,174** (Half-year 2005: \$1,970).

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***Nexus Bonds Limited***  
**Directors' report**

**Rounding of Amounts**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and director's report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Auditor's independence declaration**

A copy of the auditors' independence declaration is set out on page 4 and forms part of the Directors' report for the half-year ended 31 December 2006.

Dated at Sydney this 9<sup>th</sup> day of March 2007.

Signed in accordance with a resolution of the directors:



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R J Nettleton  
*Chairman*



*Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001 to the directors of Nexus Bonds Limited*

I declare that, to the best of my knowledge and belief, in relation to the review for the financial period ended 31 December 2006, there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

*KPMG*

KPMG

Malcolm Ashcroft  
*Partner*

Sydney

*9th* March 2007

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*Nexus Bonds Limited*

**Income Statement**

For the half-year ended 31 December 2006

|   | Note | Half-year      |                |
|---|------|----------------|----------------|
|   |      | 2006<br>\$'000 | 2005<br>\$'000 |
| Interest income   | 2    | 7,087          | 7,415          |
| Interest expense  | 2    | (5,936)        | (6,260)        |
| <b>Net interest income</b>  |      | <b>1,151</b>   | <b>1,155</b>   |
| Net trading income  | 2    | -              | -              |
| Administrative and other expenses   |      | (1,149)        | (1,152)        |
| <b>Profit before income tax</b>   |      | <b>2</b>       | <b>3</b>       |
| Income tax expense  |      | (1)            | (1)            |
| <b>Profit for the half-year attributable to members of<br/><i>Nexus Bonds Limited</i></b> |      | <b>1</b>       | <b>2</b>       |

The above income statement should be read in conjunction with the accompanying notes set out on pages 9 to 19.

***Nexus Bonds Limited***  
**Balance Sheet**  
As at 31 December 2006

|   | Note | 31 December<br>2006<br>\$'000 | 30 June<br>2006<br>\$'000 |
|---|------|-------------------------------|---------------------------|
| <b>ASSETS</b>   |      |                               |                           |
| Cash and cash equivalents                                   | 3    | 142                           | 94                        |
| Trade receivables   | 4    | 57                            | 50                        |
| Current tax asset   | 4    | 1                             | 38                        |
| Derivative financial instruments                            | 5    | 4,285                         | 6,299                     |
| Long term receivables                                       | 4    | 165,464                       | 165,444                   |
| Financial assets at fair value through profit and loss      | 6    | <u>58,460</u>                 | <u>67,150</u>             |
| <b>Total assets</b>   |      | <u><b>228,409</b></u>         | <u><b>239,075</b></u>     |
| <b>LIABILITIES</b>  |      |                               |                           |
| Trade and other payables                                    | 7    | 249                           | 232                       |
| Derivative financial instruments                            | 5    | 4,285                         | 6,299                     |
| Interest-bearing liabilities                                | 8    | 165,341                       | 165,321                   |
| Financial liabilities at fair value through profit and loss | 9    | <u>58,460</u>                 | <u>67,150</u>             |
| <b>Total liabilities</b>                                    |      | <u><b>228,335</b></u>         | <u><b>239,002</b></u>     |
| <b>Net assets</b>   |      | <u><b>74</b></u>              | <u><b>73</b></u>          |
| <b>EQUITY</b>   |      |                               |                           |
| Share capital   | 10   | -                             | -                         |
| Retained earnings   |      | <u>74</u>                     | <u>73</u>                 |
| <b>Total equity</b>   |      | <u><b>74</b></u>              | <u><b>73</b></u>          |

The above balance sheet should be read in conjunction with the accompanying notes set out on pages 9 to 19.

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***Nexus Bonds Limited***

**Statement of changes in equity**

For the half-year ended 31 December 2006

|   | Note | Half-year      |                |
|---|------|----------------|----------------|
|   |      | 2006<br>\$'000 | 2005<br>\$'000 |
| Total equity at the beginning of the half-year        |      | <u>73</u>      | <u>67</u>      |
| Net income recognised directly in equity              |      | -              | -              |
| Profit for the half-year                              |      | <u>1</u>       | <u>2</u>       |
| Total recognised income and expense for the half-year |      | <u>1</u>       | <u>2</u>       |
| Total equity at the end of the half-year              |      | <u>74</u>      | <u>69</u>      |

The above Statement of changes in equity should be read in conjunction with the accompanying notes set out on pages 9 to 19.

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***Nexus Bonds Limited***

**Cash flow statement**

For the half-year ended 31 December 2006

|  |        | <b>Half-year</b>  |            |
|--|--------|-------------------|------------|
|  | Note   | <b>2006</b>       | 2005       |
|  |        | <b>\$'000</b>     | \$'000     |
| <b>Cash flows from operating activities</b>                  |        |                   |            |
| Cash payments in the course of operations                    |        | <b>(1,091)</b>    | (895)      |
| Interest received  |        | <b>7,067</b>      | 6,987      |
| Derivative premium received                                  |        | <b>4,498</b>      | 4,542      |
| Interest paid  |        | <b>(10,415)</b>   | (10,374)   |
| Income tax instalments paid                                  |        | <b>(11)</b>       | (38)       |
| <b>Net cash inflow from operating activities</b>             | 12(ii) | <u><b>48</b></u>  | <u>222</u> |
| <br>   |        |                   |            |
| <b>Net increase in cash and cash equivalents</b>             |        | <b>48</b>         | 222        |
| Cash and cash equivalents at the beginning of the half-year  |        | <b>94</b>         | 14         |
| <b>Cash and cash equivalents at the end of the half-year</b> | 12(i)  | <u><b>142</b></u> | <u>236</u> |

The above cash flow statement should be read in conjunction with the accompanying notes set out on pages 9 to 19.



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*Nexus Bonds Limited*

**Notes to the financial statements**

For the half-year ended 31 December 2006

**1. Summary of significant accounting policies**

Nexus Bonds Limited (“the Company”) is a company domiciled in Australia. The interim financial report was authorised for issue by the Directors on 9th March 2007.

**(a) Statement of compliance**

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting (“AASB 134”) and the Corporations Act 2001. The interim financial report of the Company also complies with International Financial Reporting Standards and the interpretations adopted by the International Accounting Standards Board.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by the Company during the half-year.

The following standards and amendments were available for early adoption but have not been applied by the Company in these financial statements:

- AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company as the standard and the amendment are concerned only with disclosures.

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***Nexus Bonds Limited***  
**Notes to the financial statements**  
For the half-year ended 31 December 2006

**1. Summary of significant accounting policies (continued)**

**(b) Basis of preparation of the half-year financial report**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated. The financial report is presented in Australian dollars, which is the Company's functional and presentation currency.

The financial report has been prepared on the basis of historical costs except that derivative financial instruments and financial instruments designated at fair value through profit and loss are stated at their fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Director's Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of this financial report in conformity with AASB 134 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial report are the valuation of derivatives measured at fair value (refer to note 5, 6 & 9).

**(c) Revenue recognition**

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST).

Interest from interest-bearing assets and liabilities, including financial instruments designated at fair value through profit and loss, is recognised on an accrual basis over the life of the asset or liability based on the constant effective yield reflected in the terms of the contract.

Financial instruments at fair value through profit and loss: Net trading income comprises realised and unrealised gains and losses from derivatives and other financial instrument at fair value through profit and loss. Derivative premium is treated as realised gains and losses on derivatives.

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*Nexus Bonds Limited*

**Notes to the financial statements**

For the half-year ended 31 December 2006

**1. Summary of significant accounting policies (continued)**

**(d) Income Tax**

Income tax on the profit for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(e) Cash and cash equivalents**

Cash includes cash on hand and at bank and short-term deposits at call.

**(f) Receivables**

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost less impairment losses.

**(g) Payables**

Payables include amounts to be paid in the future for goods or services received and are initially recognised and subsequently measured at cost.

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*Nexus Bonds Limited*

**Notes to the financial statements**

For the half-year ended 31 December 2006

**1. Summary of significant accounting policies (continued)**

**(h) Interest-bearing liabilities**

Interest-bearing liabilities are classified as other financial liabilities and are recognised initially at fair value, net of the fair value of embedded derivatives. Subsequent to initial recognition, they are stated at amortised cost with interest recognised as Interest expense, using the effective interest method.

**(i) Financial instruments at fair value through profit and loss**

This category has two sub-categories: financial assets and liabilities held for trading and those designated at fair value through profit and loss at inception. Derivatives are categorised as held for trading unless they are designated as hedges.

**(i) Financial assets at fair value through profit and loss**

The credit linked deposit (the Deposit Account for Nexus4 Topaz Notes) is designated at fair value through profit and loss and initially recognised at fair value. Subsequent to initial recognition, it is stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement as Net trading income. Fair value is determined by reference to the market price of the related Nexus4 Topaz Notes, or the value determined by use of a pricing model if a quoted market price is not available, on the basis that it is an offsetting risk position.

**(ii) Financial liabilities at fair value through profit and loss**

The Nexus 4 Topaz Notes are designated at fair value through profit and loss and are recognised initially at fair value. Subsequent to initial recognition, they are stated at fair value with the gain or loss on re-measurement to fair value recognised immediately in the Income Statement as Net trading income. Fair value is calculated based on the mid price quoted on the ASX if an active market exists for the Note. If an active market does not exist, management establishes fair value by use of a valuation technique, such as a pricing model that incorporates market data and discounted cash flow techniques.

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*Nexus Bonds Limited*  
**Notes to the financial statements**  
For the half-year ended 31 December 2006

**1. Summary of significant accounting policies (continued)**

**(i) Financial instruments at fair value through profit and loss (continued)**

**(iii) Derivatives**

The Company is exposed to credit risk from its activities of entering into portfolio agreements (as part of the Nexus1 Notes, Nexus2 Notes and Nexus3 Notes issues). The Company has not applied hedge accounting.

Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement as Net trading income. Fair value is the estimated amount that the entity could receive or pay to terminate the derivative at the Balance sheet date, using pricing models incorporating market data and discounted cash flow techniques.

The interest-bearing liabilities issued by the Company are determined to contain embedded derivatives that must be bifurcated and recognised at fair value if the instrument is not designated as a financial instrument at fair value through profit and loss. These derivatives may have a fair value of zero at the date of initiating the transaction. The change in fair value of bifurcated derivatives will substantially or fully offset the change in fair value of other derivatives transacted by the Company. The portion of any coupon payments made on interest-bearing liabilities that relate to an embedded derivative that has been recognised separately are included in the determination of the fair value of the derivative and therefore not recognised within interest expense.

**(j) Impairment**

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. Significant receivables are individually assessed for impairment. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred.

**(k) Administrative and other expenses**

Services fees arise under a Services Deed whereby a servicer has been appointed to administer the Company. The Services Deed includes the provision of general administrative support and assistance as well as the payment of various fees and expenses, including audit fees on behalf of the Company. These transactions are on normal commercial terms.

***Nexus Bonds Limited***  
**Notes to the financial statements**  
For the half-year ended 31 December 2006

**2. Profit before income tax expense**

Profit before income tax expense has been arrived at after crediting/(expensing) the following items:

|  |       | <b>Half-year<br/>2006<br/>\$'000</b> | <b>Half-year<br/>2005<br/>\$'000</b> |
|--|-------|--------------------------------------|--------------------------------------|
| Interest income                                  |       |                                      |                                      |
| - Cash   |       | 5                                    | 4                                    |
| - Long term receivables – related party          | (i)   | 7,082                                | 7,411                                |
|  |       | <u>7,087</u>                         | <u>7,415</u>                         |
| Net trading income / (expense)                   |       |                                      |                                      |
| - Derivatives – related party                    | (ii)  | 2,484                                | 3,774                                |
| - Embedded derivatives                           | (iii) | (2,484)                              | (3,774)                              |
| - Financial assets at fair value – related party | (iv)  | (8,538)                              | (1,229)                              |
| - Financial liabilities at fair value            | (iv)  | 8,538                                | 1,229                                |
|  |       | <u>-</u>                             | <u>-</u>                             |
| Interest expense                                 |       |                                      |                                      |
| - Interest-bearing liabilities                   | (v)   | (5,936)                              | (6,260)                              |

Explanation of significant components of profit before income tax expense:

- (i) Long term receivables: Interest income consists of interest earned on deposits or loans to related parties.
- (ii) Derivatives: Derivative premium of \$4,498,000 (2005: \$4,542,000) and unrealised losses of (\$2,014,000) (2005: (\$768,000)) on portfolio agreements were recognised during the period as Net trading income.
- (iii) Embedded derivatives: Imputed derivative premium paid of (\$4,498,000) (2005: (\$4,542,000)) and unrealised gains of \$2,014,000 (2005: \$768,000) were recognised during the period. The loss recognised on embedded derivatives that are recognised separately from the related note security fully offsets the gain recognised on derivatives.
- (iv) The credit linked deposit and related Nexus 4 Topaz Notes (NXHBD) are remeasured to their fair value resulting in offsetting trading expense and income of \$8,538,000 (2005: \$1,229,000), respectively. The movement in fair value consists of the unrealised movement attributable to market price movements, net of the decrease in accrued interest of \$151,000 (2005: increase \$439,000). Interest is recognised separately in interest income or expense, respectively, in accordance with the Company's accounting policy.
- (v) Interest expense recognised on Interest-bearing liabilities is the total amount due to noteholders in relation to the current period of \$(10,435,000) (2005: (\$10,815,000)). This excludes imputed derivative premium of (\$4,498,000) (2005: (\$4,555,000)) on the embedded derivatives, which is recognised separately in trading income (refer iii above).

***Nexus Bonds Limited***  
**Notes to the financial statements**  
For the half-year ended 31 December 2006

|                                     |                    |               |
|-------------------------------------|--------------------|---------------|
| <b>3. Cash and cash equivalents</b> |                    |               |
|                                     | <b>31 December</b> | 30 June       |
|                                     | <b>2006</b>        | 2006          |
|                                     | <b>\$'000</b>      | <b>\$'000</b> |
| Current account                     | <u>142</u>         | <u>94</u>     |

All cash assets are interest bearing and are held with large banks which have an investment grade credit rating. The carrying value of cash assets approximates its fair value.

|                               |                |                |
|-------------------------------|----------------|----------------|
| <b>4. Receivables</b>         |                |                |
| <b>Short term receivables</b> |                |                |
| Current tax asset             | 1              | 38             |
| Trade receivables             | <u>57</u>      | <u>50</u>      |
|                               | <u>58</u>      | <u>88</u>      |
| <b>Long term receivables</b>  |                |                |
| Loans – related party         | <u>165,464</u> | <u>165,444</u> |

The credit risk on the loans is Deutsche Bank AG.

|  |                |                |
|--|----------------|----------------|
| <b>5. Derivative financial instruments</b>   |                |                |
| Portfolio credit default swaps – related party   | <u>4,285</u>   | <u>6,299</u>   |
| Portfolio credit default swaps – embedded derivatives separated from notes issued (refer note 8) | <u>(4,285)</u> | <u>(6,299)</u> |

The Company has entered into a number of portfolio agreements, also referred to as portfolio credit default swaps, with Deutsche Bank AG which expose the Company to the creditworthiness of a portfolio of companies ('reference entities'). The Company may be obligated to make payments to the Counterparty in the event of one of the reference entities under the portfolio credit default swap defaulting. The fair value of the portfolio agreements is determined by using pricing models incorporating market data and discounted cash flow techniques.

*Nexus Bonds Limited*

**Notes to the financial statements**

For the half-year ended 31 December 2006

**6. Financial assets at fair value through profit and loss**

|                                       | 31 December<br>2006<br>\$'000 | 30 June<br>2006<br>\$'000 |
|---------------------------------------|-------------------------------|---------------------------|
| Credit linked deposit – related party | <u>58,460</u>                 | <u>67,150</u>             |

The Company has entered into a credit linked deposit with Deutsche Bank AG which has exposed the Company to the creditworthiness of a portfolio of companies ('reference entities'). Interest is receivable based on a floating interest rate which reflects changes in the credit market's view of the reference entities and changes in market interest rates.

**7. Trade and other payables**

|   |            |            |
|---|------------|------------|
| Accrued management fees – related party | <u>249</u> | <u>232</u> |
|   | <u>249</u> | <u>232</u> |

**8. Interest-bearing liabilities**

|              |                |                |
|--------------|----------------|----------------|
| Notes issued | <u>165,341</u> | <u>165,321</u> |
|--------------|----------------|----------------|

**Notes issued**

The Company has issued 4 series of notes. Three note series are classified as interest bearing liabilities:

- (1) Nexus Yield Bonds: Notes issued amounting to \$60,000,000 that are 5 year, interest-bearing securities paying interest at a fixed rate of 10.25% per annum semi-annually over their term and maturing on 4 December 2007;
- (2) Portfolio linked floating rate notes: Notes issued amounting to \$70,000,000 that are 6 year, interest-bearing securities paying interest at a floating rate of 3.25% over the 90 day Bank Bill Rate quarterly over their term and maturing on 16 December 2009;
- (3) Nexus 3 notes: Notes issued amounting to \$35,000,000 that are 6 year, interest-bearing securities paying interest at a floating rate of 2.75% over the 90 day Bank Bill Rate quarterly over their term and maturing on 14 December 2010.

Nexus Topaz 4 Notes with principal value of \$79,000,000 are classified as a financial liability at fair value through profit and loss (refer Note 9).

The Company's ability to pay enhanced returns on the notes is a result of Noteholders being exposed to the creditworthiness of a portfolio of companies. Interest amounts and principal outstanding may be reduced if one or more of the companies experiences a severe weakening in its financial position to the extent that its senior unsecured debt may not be repaid in full when due.



*Nexus Bonds Limited*  
**Notes to the financial statements**  
For the half-year ended 31 December 2006

**8. Interest-bearing liabilities (continued)**

For accounting purposes, the notes issued are deemed to contain an embedded derivative. If the note is designated at fair value through profit and loss (refer Notes 6 and 9) the embedded derivative is not split out and accounted for separately. An embedded derivative is a feature that can modify the cash flows of that contract in a similar way to a derivative contract. The nature of the derivative that is split from the note issued is a credit derivative or financial guarantee with the same terms as the corresponding portfolio agreement.

Interest payments will generally be sourced from interest received from Deutsche Bank by the Company under Deposit Agreements and derivative premium receipts from Portfolio Agreements.

Each series of notes is legally segregated. Noteholders of one series have no claim to any assets of the Company in respect of any other series, including in the event of liquidation.

**9. Financial liabilities at fair value through profit and loss**

|   | <b>31 December<br/>2006<br/>\$'000</b> | 30 June<br>2006<br>\$'000 |
|---|--|---------------------------|
| Credit linked note – Nexus4 Topaz Notes | <u><b>58,460</b></u>                   | <u>67,150</u>             |

Nexus Topaz 4 Notes: Notes issued amounting to \$79,000,000 that are 10 year, interest-bearing securities paying interest at a floating rate of 2.60% over the 180 day Bank Bill Rate for the first half year period. Thereafter interest is payable based on a floating interest rate which reflects changes in the credit market's view of companies in the portfolio as well as changes in the market interest rates. The notes mature on 23 June 2015. These notes have been designated as financial liabilities at fair value through profit and loss. The notes and related credit linked deposit are managed and their performance monitored on a fair value basis (refer Note 6).

**10. Share capital**

|   |                 |                 |
|---|-----------------|-----------------|
| <b>Issued and paid-up share capital</b> | <b>\$</b>       | <b>\$</b>       |
| 1 ordinary share, fully paid            | <u><b>1</b></u> | <u><b>1</b></u> |

There have been no movements in share capital since incorporation. The share capital is held by J.P. Morgan Trust Australia Limited as trustee for Select Access 3 Ownership Trust on trust for charitable purposes.

**11. Segment Information**

*Geographical segment*

The Company's operations are conducted solely in Australia.

*Business segment*

The Company operates solely in the financial services sector.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
For the half-year ended 31 December 2006

**12. Notes to the Cash flow statement**

**(i) Reconciliation of cash**

For the purposes of the Cash flow statement, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts repayable on demand. Cash as at the end of the financial period as shown in the Cash flow statement is reconciled to the related items in the balance sheet as follows:

|             | Half-year      |                |
|-------------|----------------|----------------|
|             | 2006<br>\$'000 | 2005<br>\$'000 |
| Cash assets | 142            | 236            |

**(ii) Reconciliation of profit after income tax to net cash provided by operating activities**

|  |      |       |
|--|------|-------|
| Profit after tax                           | 1    | 2     |
| <i>Changes in assets and liabilities:</i>  |      |       |
| Increase in interest receivable            | (20) | (164) |
| Increase in derivative premium receivable  | (5)  | (12)  |
| Decrease / (increase) in other receivables | 30   | (57)  |
| Increase in interest payable               | 25   | 174   |
| Increase in other payables                 | 17   | 282   |
| Decrease in current tax liabilities        | -    | (3)   |
| Net cash provided by operating activities  | 48   | 222   |

**13. Dividends**

No dividends were paid during the half-year.

**14. Taxation**

Income tax expense for the half-year presented is the expected tax payable on the taxable income for the half-year, calculated as the estimated average annual effective income tax rate applied to the profit before income tax for the half-year. Current tax for the current and prior periods is classified as a current liability to the extent that it is unpaid. Income tax instalments paid that exceed amounts due at the period end are recognised as a current tax asset.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using the estimated average annual effective income tax rate for the half-year. The primary component of the entity's recognised deferred tax assets and liabilities include temporary differences related to the remeasurement of derivatives at fair value. The change in deferred tax asset was \$nil during the half-year.

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*Nexus Bonds Limited*

**Notes to the financial statements**

For the half-year ended 31 December 2006

**15. Related parties**

**Key management personnel**

The directors are the key management personnel of the Company. The names of each person holding the position of director of the Company during the financial period are Messrs RJ Nettleton, DW O'Neill and SJ Treanor. No director has entered into a material contract with the Company during the financial period.

**Transactions**

The Company has significant transactions and a management agreement with Deutsche Bank AG (Sydney). Balances with related parties are detailed in Notes 4, 5, 6 and 7.

For the half-year ended 31 December 2006 the Company received from Deutsche Bank AG (Sydney) interest of \$7,802,000 (2005: \$7,411,000) and premiums under the portfolio agreements of \$4,498,000 (2005: \$4,555,000).

For the half-year ended 31 December 2006 the Company incurred expenses of \$1,149,000 (2005: \$1,152,000) in relation to a management fee for services provided to it by Deutsche Bank AG (Sydney). Of this amount, \$249,000 remains unpaid at period end (2005: \$232,000).

**17. Additional Information**

Nexus Bonds Limited, is incorporated and domiciled in Australia.

The registered office:

Level 16  
Deutsche Bank Place  
126 Phillip Street  
Sydney NSW 2000

The number of employees at year end was Nil.

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***Nexus Bonds Limited***  
**Directors Declaration**

In the opinion of the directors of Nexus Bonds Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 5 to 19 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the Company as at 31 December 2006 and of its performance, as represented by the results of its operations and its cash flows for the half-year ended on that date; and
  - (ii) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 9<sup>th</sup> day of March 2007

Signed in accordance with a resolution of the directors:



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R J Nettleton  
*Chairman*



## Independent auditor's review report to the members of Nexus Bonds Limited

We have reviewed the accompanying interim financial report of Nexus Bonds Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other explanatory notes 1 to 17 and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### *Directors' Responsibility for the Financial report*

The directors of the company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Nexus Bonds Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Nexus Bonds Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Malcolm Ashcroft  
Partner

Sydney

March 2007