

**Nexus Bonds Limited**

ACN 101 744 389

**Half Year Financial Report**

31 December 2003

## **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 to 31 December 2003 and the auditor's review thereon.

#### **Directors**

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

<b>Name and Qualifications</b>	<b>Experience and special responsibilities</b>
Mr Richard J Nettleton LLB	A solicitor with 40 years legal experience. A director of a number of companies, mainly in the financial services industry. Director since 29 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 29 August 2002.
Mr Stephen J Treanor	A credit risk specialist who has advised corporates on financing and securitisation as well as risk management through insurance based capital structures since 1993. Director since 29 August 2002.

#### **Principal activities**

The principal activities of the Company during the course of the financial period were the issuance of limited recourse bonds, the placement of bond proceeds on deposit, and the entering into of portfolio agreements whereby bondholders are exposed to the creditworthiness of a number of investment grade Australian and International Companies.

There were no significant changes in the nature of the activities of the Company since establishment.

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

**Review and result of operations**

The profit from ordinary activities after income tax amounted to \$63,543.

**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.

Dated at Sydney this 16 day of March 2004.

Signed in accordance with a resolution of the directors:



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R J Nettleton  
*Director*

**Nexus Bonds Limited**  
**Statement of Financial Performance**  
**For the half-year ended 31 December 2003**

	6 months to 31/12/2003 \$'000
Interest Revenue	1,575
Derivative Revenue	2,422
Total Revenue	<u>3,997</u>
Interest Expense	(3,369)
Service Fee	(385)
Other expenses from ordinary activities	<u>(152)</u>
<b>Profit from ordinary activities before related income tax expense</b>	91
Income tax expense relating to ordinary activities	<u>(27)</u>
Net Profit	<u>64</u>
Basic earnings per share	<u>64</u>
Diluted earnings per share	<u>64</u>

The statement of financial performance is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 12.

**Nexus Bonds Limited**  
**Statement of Financial Position**  
**As at 31 December 2003**

	Note	31/12/2003 \$'000
<b>Current assets</b>		
Cash assets		51
Receivables		951
<b>Total current assets</b>		<u>1,002</u>
<b>Non current assets</b>		
Receivables	2	<u>130,000</u>
<b>Total non current assets</b>		<u>130,000</u>
<b>Total assets</b>		<u><u>131,002</u></u>
<b>Current liabilities</b>		
Payables		897
Current tax liabilities		27
<b>Total current liabilities</b>		<u>924</u>
<b>Non current liabilities</b>		
Interest bearing liabilities	3	<u>130,000</u>
<b>Total non-current liabilities</b>		<u>130,000</u>
<b>Total liabilities</b>		<u><u>130,924</u></u>
Net assets		<u><u>78</u></u>
<b>Equity</b>		
Contributed equity		-
Retained profits	4	<u>78</u>
<b>Total equity</b>		<u><u>78</u></u>

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 12.

**Nexus Bonds Limited**  
**Statement of Cash Flows**  
**For the half-year ended 31 December 2003**

	Note	6 months to 31/12/2003 \$'000
<b>Cash flows from operating activities</b>		
Cash payments in the course of operations		(522)
Interest received		1,399
Derivative revenue received		2,256
Borrowing costs paid		<u>(3,083)</u>
<b>Net cash provided by operating activities</b>	5(ii)	<u>50</u>
<b>Cash flows from financing activities</b>		
Proceeds from bond issuance		<u>70,000</u>
<b>Net cash provided by financing activities</b>		<u>70,000</u>
<b>Cash flows from investing activities</b>		
Placement of funds on deposit		<u>(70,000)</u>
<b>Net cash provided by investing activities</b>		<u>(70,000)</u>
<b>Net increase/(decrease) in cash held</b>	5(i)	50
<b>Cash at the beginning of the financial year</b>		<u>1</u>
<b>Cash at the end of the financial year</b>		<u><u>51</u></u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 12.

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the half-year ended 31 December 2003**

**1. Statement of significant accounting policies**

The significant policies which have been adopted in the preparation of this financial report are:

**(a) Basis of preparation**

The financial report is a general purpose financial report, which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 30 June 2003 Annual Financial Report.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the previous year.

**(b) Revenue recognition**

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

*Interest Revenue*

Interest revenue includes interest received on loans and is recognised on an accruals basis, taking into account the effective yield on the financial asset.

*Derivative Revenue*

Derivative revenue includes premiums received on portfolio agreements that are recognised on an accruals basis, taking into account the effective yield on the financial asset.

**(c) Borrowing costs**

Borrowing costs include interest expense on bonds issued. Borrowing costs are expensed on an accruals basis.

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the half-year ended 31 December 2003**

(d) Taxation

The Company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

(e) Receivables

The collectability of outstanding balances is assessed at year-end and specific provision is made for any doubtful accounts.

The Company has entered into a Deposit Agreement. This agreement is referred to as a Loan within the Financial Report.

The carrying amount of receivables approximates net fair value.

(f) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 90 days. The carrying amount of accounts payable approximates net fair value.

(g) Interest bearing liabilities

Interest bearing liabilities includes issued bonds which are recorded at cost.

(h) Accounting Period

Nexus Bonds Limited was incorporated on 19 August 2002 and this is the Company's first set of interim accounts. Accordingly, comparative financial information has not been provided as per AASB1029.



**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the half-year ended 31 December 2003**

(i) Derivatives

The Company has entered into credit derivative portfolio agreements. Derivatives are accounted for on an accruals basis and are recorded as either current receivables or current payables in the Statement of Financial Position. Premiums on derivatives are recorded in either derivative revenue or borrowing costs in the Statement of Financial Performance.

(j) Service Fees

Service fees arise under a Servicing Agreement whereby a servicer has been appointed to assist on the administration of the Company. The service agreement 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 and forming part of the financial statements**  
**For the half-year ended 31 December 2003**

**2. Receivables**

	2003
	\$'000
<b>Non-Current</b>	
Loans	<u>130,000</u>

The ultimate credit risk on the loans is to Deutsche Bank AG.

**3. Interest-bearing liabilities**

<b>Non-current</b>	
Bonds issued	<u>130,000</u>

***Bonds issued***

The Company has issued 2 series of limited recourse bonds:

- (1) Bonds 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;
- (2) Bonds 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 the term.

The Company's ability to pay these enhanced returns is the result of Bond holders being exposed to the creditworthiness of a portfolio of well-known Australian and international companies with investment grade credit ratings from Standard & Poor's. Interest amounts and principal outstanding may be reduced if one or more of the above 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. Interest payments will generally be sourced from interest received from Deutsche Bank by the Company under Deposit Agreements and derivative premium income 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.

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the half-year ended 31 December 2003**

**4. Retained profit**

	2003 \$'000
Retained profits at beginning of period	14
Net profit	64
Retained profits at the end of the year	<u>78</u>

**5. Notes to the statement of cash flows**

**(i) Reconciliation of cash**

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

	2003 \$'000
Cash assets	<u>51</u>

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

	31/12/2003 \$'000
Profit from ordinary activities after tax	64
Changes in assets and liabilities:	
Increase in interest receivable	(176)
Increase in derivative premium receivable	(166)
Increase in other receivables	(35)
Increase in interest payable	285
Increase in other payables	57
Increase in current tax liabilities	21
Net cash provided by operating activities	<u>50</u>

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the half-year ended 31 December 2003**

**6. Segment Reporting**

**Geographical segment**

The Company's operations are conducted solely in Australia.

**Business segment**

The Company operates in the financial services sector.

**7. Segment Reporting**

The Company has entered into portfolio agreements with Deutsche Bank which has exposed the Company to the creditworthiness of well known Australian and International companies with investment grade credit ratings. The Company receives semi annual premiums and may become obligated to make payments to the Counterparty in the event of one of the Company's defaulting.

The current valuation of this agreement as at 31 December 2003 was:

	\$'000
Fair value of portfolio agreement	7,831

## Directors' declaration

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

- (a) the financial statements and notes, set out on pages 4 to 12 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 2003 and of its performance, as represented by the results of its operations and its cash flows for the period ended on that date; and
  - (ii) complying with Accounting Standards in Australia 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.

Signed in accordance with a resolution of the directors:



R J Nettleton  
Director

20 March 2004

Dated



## Independent review report to the members of Nexus Bonds Limited

### Scope

We have reviewed the financial report of Nexus Bonds Limited (“the Company”) for the half-year ended 31 December 2003, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes and the directors’ declaration set out on pages 4 to 13. The Company’s directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 “Interim Financial Reporting” and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company’s financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investment Commission.


Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Nexus Bonds Limited is not in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company’s financial position as at 31 December 2003 and of its performance for the half-year ended on that date; and
  - ii. complying with Australian Accounting Standard AASB 1029 “Interim Financial Reporting” and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

  
KPMG

  
Andrew Dickinson  
Partner

Sydney

*rcb* March 2004

