

30 September 2008

The Manager  
Company Announcements Office  
Australian Stock Exchange Limited  
20 Bridge Street  
SYDNEY NSW 2000

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Dear Sir / Madam,

**2008 FINANCIAL REPORT**

Attached please find the 2008 Financial Report to 30 June 2008 on behalf of Nexus Bonds Limited.

Yours faithfully,  
NEXUS BONDS LIMITED

  
Ian S. Thompson  
Company Secretary

Att

***Nexus Bonds Limited***

ABN 23 101 744 389

**Financial report for the year ended  
30 June 2008**

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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 year ended 30 June 2008 and the auditor's report 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 over 40 years legal experience. A director of a number of companies including BNY 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 and is a director of several associated special funding corporations. 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.

#### **Directors' meetings**

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

	<b>Meetings Held</b>	<b>Meetings Attended</b>
Mr R J Nettleton	2	1
Mr D W O'Neill	2	2
Mr S J Treanor	2	1

#### **Company Secretary**

Ian Thompson, BEc was appointed to the position of Company Secretary on 23 January 2003. He has worked in a range of roles including Research and Policy Officer, Senior Administration Officer and Assistant Company Secretary in the State Superannuation Board, Local Government Superannuation Board, Public Authorities Board, State Superannuation Investment and Management Corporation and Axiom Funds Management Limited prior to being appointed as Company Secretary to various Group companies of Deutsche Bank in 2000.

#### **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. Information pertaining to the structure and related risks of each series of notes can be obtained in the prospectus for each series of notes along with information disclosed by the Company to ASX in respect of the series from time to time.

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 year.

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

### **Review and result of operations**

The profit after income tax amounted to \$20,313 (2007: \$3,777).

### **State of affairs**

In the opinion of the Directors there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

### **Environmental regulation**

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

### **Events subsequent to balance date**

#### Portfolio credit events

During September 2008, two Portfolio Companies in the Nexus 4 Topaz Notes Portfolio (NXHBD) filed for bankruptcy (one on 15 September for Lehman Brothers Holdings Inc and one on 26 September for Washington Mutual Inc). These credit events have triggered a reduction in the future interest payments on those Notes. The income factor used to calculate the interest payable will reduce from 76.376 to 29.716. If there are no other changes to the income factor to the end of the current interest period on 20 November 2008, then the resulting interest applicable for the current period will be 4.1486%.

It has no impact on the repayment of the full principal amount of the Notes at their maturity date. The other two series of notes are not affected.

Apart from the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

### **Directors Interests and Benefits**

Except as disclosed in this report or in the notes to this report, since the end of the previous financial year no director has received or become entitled to receive any benefit because of a contract made by the Company or a related entity with a director or with a firm of which a director is a member, or with an entity in which the director has a substantial interest.

### **Likely developments**

The provision of information regarding likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

### **Indemnification of officers and auditors**

The Company has agreed to indemnify the following current directors of the Company, Mr R J Nettleton, Mr D W O'Neill and Mr S J Treanor, against all liabilities to another person (other than the Company) that may arise from their positions as directors of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

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

**Dividends**

No dividends have been paid or proposed since establishment.

**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 5 and forms part of the Directors' report for the year ended 30 June 2008.

Dated at Sydney this 30th day of September 2008 .

Signed in accordance with a resolution of the directors:



Director



*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

To: the directors of Nexus Bonds Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

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

KPMG

KPMG

Malcolm Ashcroft  
*Partner*

Sydney

30 September 2008

*Nexus Bonds Limited*  
**Income Statement**  
For the year ended 30 June 2008

	Note	2008 \$'000	2007 \$'000
Interest income	2	14,287	13,791
Net trading income	2	-	-
<b>Total Revenue</b>		<u>14,287</u>	<u>13,791</u>
Interest expense	2	(12,546)	(11,471)
Administrative and other expenses		(1,712)	(2,314)
<b>Profit before income tax</b>		<u>29</u>	<u>6</u>
Income tax expense	3	(9)	(2)
<b>Profit for the year attributable to members of <i>Nexus Bonds Limited</i></b>		<u>20</u>	<u>4</u>

The above income statement should be read in conjunction with the accompanying notes set out on pages 10 to 27.

*Nexus Bonds Limited*  
**Balance Sheet**  
As at 30 June 2008

	Note	2008 \$'000	2007 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	4	363	294
Trade receivables	5	-	7
Current tax asset	3	11	46
Derivative financial instruments	6	9,061	1,723
Long term trade receivables	5	105,336	165,439
Financial assets at fair value through profit and loss	7	<u>55,300</u>	<u>63,200</u>
<b>Total assets</b>		<u><b>170,071</b></u>	<u><b>230,709</b></u>
<b>LIABILITIES</b>			
Trade and other payables	8	319	386
Derivative financial instruments	6	9,061	1,723
Interest-bearing liabilities	9	105,294	165,323
Financial liabilities at fair value through profit and loss	10	<u>55,300</u>	<u>63,200</u>
<b>Total liabilities</b>		<u><b>169,974</b></u>	<u><b>230,632</b></u>
<b>Net assets</b>		<u><b>97</b></u>	<u><b>77</b></u>
<b>EQUITY</b>			
Share capital	11	-	-
Retained profit		<u>97</u>	<u>77</u>
<b>Total equity</b>		<u><b>97</b></u>	<u><b>77</b></u>

The above balance sheet should be read in conjunction with the accompanying notes set out on pages 10 to 27.



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*Nexus Bonds Limited*  
**Statement of changes in equity**  
For the year ended 30 June 2008

	Note	2008 \$'000	2007 \$'000
Total equity at the beginning of the year		<u>77</u>	<u>73</u>
Profit for the year		<u>20</u>	<u>4</u>
Total equity at the end of the year		<u><u>97</u></u>	<u><u>77</u></u>

The above statement of changes in equity should be read in conjunction with the accompanying notes set out on pages 10 to 27.

***Nexus Bonds Limited***  
**Cash flow statement**  
For the year ended 30 June 2008

	Note	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>			
Cash payments in the course of operations		(1,747)	(2,126)
Interest received		14,391	13,796
Derivative premium received		6,421	8,998
Interest paid		(18,994)	(20,466)
Income tax paid		(2)	(2)
<b>Net cash inflow from operating activities</b>	14(ii)	<u>69</u>	<u>200</u>
<b>Cash flows from investing activities</b>			
Proceeds from Loans		<u>60,000</u>	-
<b>Net cash inflow from investing activities</b>		<u>60,000</u>	-
<b>Cash flows from financing activities</b>			
Repayment of bond upon maturity		<u>(60,000)</u>	-
<b>Net cash outflow from financing activities</b>		<u>(60,000)</u>	-
<b>Net increase in cash and cash equivalents</b>		69	200
Cash and cash equivalents at the beginning of the year		294	94
<b>Cash and cash equivalents at the end of the year</b>	14(i)	<u>363</u>	<u>294</u>

The above cash flow statement should be read in conjunction with the accompanying notes set out on pages 10 to 27.

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*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

**1. Summary of significant accounting policies**

Nexus Bonds Limited ("the Company") is a company domiciled in Australia. This financial report was authorised for issue by the Directors on 30<sup>th</sup> September 2008.

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

**(a) Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial reports of the Company also comply with International Financial Reporting Standards and the interpretations adopted by the International Accounting Standards Board.

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

*(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

*(ii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101*

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Company intends to apply the revised standard from 1 July 2009.

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*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

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

**(b) Basis of preparation of the annual financial report (continued)**

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 AIFRS 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 financial instruments measured at fair value (refer to note 5,6,7 and 10).

**(c) Revenue recognition**

Revenues are recognised at 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 instruments 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**  
30 June 2008

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

**(d) Income Tax**

Income tax on the income statement 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 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.

**(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.

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*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

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

**(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 designated at fair value through profit and loss is 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 Nexus 4 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.

**(iii) Derivatives**

The Company is exposed to credit risk from its activities of issuing portfolio agreements. The Company has not adopted hedge accounting under AIFRS. Therefore, all derivatives held for economic hedging purposes are accounted for as trading instruments.

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 swap at the Balance sheet date, using pricing models incorporating market data and discounted cash flow techniques.

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*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

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

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

**(iv) Embedded Derivatives**

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**  
30 June 2008

**2. Profit before income tax expense**

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

		<b>2008</b>	2007
		<b>\$'000</b>	\$'000
Interest income			
- Cash		32	10
- Loans – related party	(i)	14,255	13,781
		<u>14,287</u>	<u>13,791</u>
Net trading income / (expense)			
- Derivatives – related party	(ii)	3,006	4,422
- Embedded derivatives	(iii)	(3,006)	(4,422)
- Financial assets at fair value – related party	(iv)	(9,412)	4,704
- Financial liabilities at fair value	(iv)	9,412	(4,704)
		<u>-</u>	<u>-</u>
Interest expense			
- Interest-bearing liabilities	(v)	(12,546)	(11,471)

Explanation of significant components of profit before income tax:

- (i) Loans: Interest income consists of interest earned on deposits or loans to related parties.
- (ii) Derivatives: Derivative premium of \$6,420,788 and unrealised losses of \$(3,414,483) on portfolio agreements were recognised during the period as Net trading income.
- (iii) Embedded derivatives: Imputed derivative premium paid of (\$6,420,788) and unrealised gains of \$3,414,483 were recognised during the period. The loss recognised on embedded derivatives that are recognised separately from the host debt contract, fully offsets the gain recognised on derivatives.
- (iv) The credit linked deposits and related Nexus 4 Topaz Notes (NXHBD) are remeasured to their fair value resulting in offsetting trading income and expense of \$9,411,888. The movement in fair value consists of the unrealised movement attributable to market price movements, net of the increase in accrued interest of \$172,507. 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 note holders in relation to the current period of \$(18,966,723), excluding imputed derivative premium of (\$6,420,788) on the embedded derivatives, which is recognised separately in trading income (refer iii above).



*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

**3. Income tax**

**(a) Income tax expense**

	2008 \$'000	2007 \$'000
Income tax expense	9	2
	<u>9</u>	<u>2</u>
Total income tax expense is made up of:		
Current income tax provision	<u>9</u>	<u>2</u>

The temporary differences related to the remeasurement of financial instruments at fair value give rise to deferred tax income and deferred tax expense. The balances fully offset and have been net to \$nil in accordance with the Company's accounting policies (refer Note 16).

**(b) Current tax asset**

*Provision for current income tax*

Movements during the year were as follows:

Balance at beginning of the year	46	38
Income tax paid during the year	2	2
Income tax instalments paid to tax authority	(28)	8
Current period's income tax expense on profit from ordinary activities	(9)	(2)
Balance at end of the year	<u>11</u>	<u>46</u>

**4. Cash and cash equivalents**

Current account	<u>363</u>	<u>294</u>
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Cash assets are interest bearing and held with large banks which have an investment grade credit rating. The carrying value of cash assets approximates its fair value.

**5. Receivables**

**Trade receivables**

Other debtors	-	7
	<u>-</u>	<u>7</u>

**Long term trade receivables**

Loans – related party	<u>105,336</u>	<u>165,439</u>
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The ultimate credit risk on the loans is Deutsche Bank AG.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

**6. Derivative financial instruments**

	2008 \$'000	2007 \$'000
Portfolio credit default swaps – related party	9,061	1,723
Portfolio credit default swaps – embedded derivatives separated from notes issued (refer note 9) – related party	(9,061)	(1,723)

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.

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

Credit linked deposit – related party	55,300	63,200
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The Company has entered into a credit linked deposit with Deutsche Bank AG which exposes the Company to the creditworthiness of a portfolio 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.

**8. Trade and other payables**

Accrued management fees – related party	319	367
Other payables	-	19
	319	386

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

**9. Interest-bearing liabilities**

Notes issued	<u>105,294</u>	<u>165,323</u>
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Notes issued

The Company has issued 4 series of notes:

- (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 which matured 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; and
- (4) Nexus Topaz 4 Notes with principal value of \$79,000,000 classified as a financial liability at fair value through profit and loss (refer Note 10)

The Company's ability to pay these enhanced returns are a result of Note-holders being exposed to the creditworthiness of a portfolio of companies. 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.

For accounting purposes, the notes issued are deemed to contain an embedded derivative which is split out and accounted for separately, if the note is not designated at fair value through profit and loss (refer Notes 6 and 10). 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 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. Note-holders of one series have no claim to any assets of the Company in respect of any other series, including in the event of liquidation. Under the Master Trust Deed executed by the Company, Permanent Nominees (Aust) Ltd, and Deutsche Bank AG, Permanent is appointed Security Trustee to hold the benefit of the Master Trust Deed for the secured creditors of the Company, including note holders of each series. A single fixed and floating charge over the assets of the Company is granted to Permanent as Security Trustee as security for specified payments to be made by the Company, including amounts owing under each series of notes, amounts owing to Deutsche Bank, Permanent and others. Some assets of the Company are excluded from the charge such as goodwill, money of the Company not related to issues of securities and some future-acquired real property.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

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

	2008 \$'000	2007 \$'000
Credit linked note – Nexus4 Topaz Notes	<u>55,300</u>	<u>63,200</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 Notes 2 and 7).

**11. Share capital**

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

There have been no movements in share capital since incorporation.

**12. Segment Information**

*Geographical segment*

The Company's operations are conducted solely in Australia.

*Business segment*

The Company operates solely in the financial services sector.

**13. Auditors Remuneration**

Fees for services rendered to the Company by the auditors are borne by Deutsche Bank AG, a related party of the Company. The audit fee payable by Deutsche Bank AG on the Company's behalf for the year ended 30 June 2008 is \$15,840 (2007: \$17,168).

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

**14. 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 year as shown in the Cash flow statement is reconciled to the related items in the statement of financial position as follows:

	<b>2008</b> <b>\$'000</b>	2007 \$'000
Cash assets	<u>363</u>	<u>294</u>

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

Profit after tax	<b>20</b>	4
<i>Changes in assets and liabilities:</i>		
Decrease in interest receivable	<b>104</b>	5
(Increase) in derivative premium receivable	<b>308</b>	19
Decrease in other receivables	<b>28</b>	66
Increase / (Decrease) in interest payable	<b>(160)</b>	(17)
Increase / (Decrease) in other payables	<b>(239)</b>	116
Decrease / (Increase) in current tax asset	<b>8</b>	7
Net cash provided by operating activities	<u>69</u>	<u>200</u>

**15. Dividends**

No dividends were paid during the year.

**16. Taxation**

Income tax expense for the financial period presented is the expected tax payable on the taxable income for the year, calculated as the estimated average annual effective income tax rate applied to the profit before income tax for the year. Current tax for the current and prior periods is classified as a current liability to the extent that it is unpaid.

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 financial period. 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.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

**17. Additional financial instruments disclosure**

**Risk Management**

Risk is inherent in the entity's operating activities but is managed through a process of ongoing identification, measurement and monitoring. The independent risk controls process does not include business risk such as changes in environment, technology and industry which are part of the entity's strategic planning process.

The Company transacts financial instruments in respect of each series of notes issued (refer Note 9). Each series of notes is legally segregated and the Company is a bankruptcy remote entity, such that its obligations under each series of notes is limited in recourse to the assets of that series. Note-holders of one series have no claim to any assets of the Company in respect of any other series, including in the event of liquidation. The Company is not exposed to the financial risks arising from the financial instruments of each series, as those risks are ultimately borne by the noteholders of each series.

The Board of Directors is responsible for the overall risk management approach and for approving the risk and strategies and principles.

The entity has risk management policies for the following exposures:

**Credit Risk**

Credit risk is the risk that the entity will incur a loss as a result that a counterparty fails to meet its obligations to the entity when due. The Company credit risk is limited to its net assets held as cash with large banks that have an investment grade credit rating. As noted above, all credit risk in respect of financial assets transacted by the Company in respect of each legally segregated series of notes is ultimately borne by the noteholders. There is no credit risk exposure to the Company for those financial instruments.

**Maximum credit risk exposure**

The table below shows the maximum exposure to the credit risk for the components of the balance sheet, including derivatives, that is borne by the noteholders. The company has no credit risk exposure to these financial instruments that is not ultimately borne by noteholders. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements:

	Note	2008	2007
		\$	\$
Derivative financial instruments		9,061	1,723
Long term trade receivables		104,944	165,439
Financial assets at fair value through profit and loss	7	55,300	63,200

Where financial instruments are recorded at fair value, the amounts above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The financial assets transacted by the Company are neither past due nor impaired.

**Nexus Bonds Limited**  
**Notes to the financial statements**  
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**17. Additional financial instruments disclosure (continued)**

**Liquidity Risk**

Liquidity risk is the risk that the entity will be unable to meet payment obligations when they fall due. The liquidity risk in respect of financial assets and liabilities transacted by the Company in respect of each legally segregated series of notes is ultimately borne by the noteholders.

The contractual maturity of all liabilities held are outlined below:

**30 June 2008**

	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Financial Liabilities</b>						
Payables – management fees	8	-	(319)	-	-	(319)
Derivatives	6	-	-	(9,061)	-	(9,061)
Financial liabilities at fair value	10	-	-	-	(55,300)	(55,300)
Interest bearing liability-bond	9	-	-	(105,294)	-	(105,294)
		-	(319)	(114,355)	(55,300)	(169,974)

**30 June 2007**

	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Financial Liabilities</b>						
Payables – management fees	8	-	(386)	-	-	(386)
Derivatives	6	-	(1,641)	(82)	-	(1,723)
Financial liabilities at fair value	10	-	-	-	(63,200)	(63,200)
Interest bearing liability-bond	9	-	(60,117)	(105,206)	-	(165,323)
		-	(62,144)	(105,288)	(63,200)	(230,632)

**Market Risk**

Market risk is the risk that the fair value of future cash flows of the financial instruments held by the entity will fluctuate due to changes in equity prices, credit spreads or interest rates. The market risk in respect of financial assets and liabilities transacted by the Company in respect of each legally segregated series of notes is ultimately borne by the noteholders. There is no market risk exposure to the Company for those financial instruments that is not ultimately borne by noteholders.

Changes to the fair value as a result of financial assets have offsetting impact from the changes in fair value of financial liabilities. As a result, any reasonable change in interest rates or equity prices would not affect the profit and loss and equity of the Company.

**Nexus Bonds Limited**  
**Notes to the financial statements**  
30 June 2008

**17. Additional financial instruments disclosure (continued)**

**Interest rate risk exposures**

The Company's exposure to interest rate risk is limited to the exposure to interest rate risk for classes of financial assets and financial liabilities, which is ultimately borne by the noteholders, and is set out below:

30 June 2008	Note	Fixed interest maturing in:				Non-interest bearing	Total	Effective interest rate
		Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years			
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
<b>Financial Assets</b>								
Cash assets	4	363	-	-	-	-	363	5.00
Receivables - trade	5	-	-	-	-	-	-	-
Current tax asset	3	-	-	-	-	11	11	-
Derivatives	6	-	-	9,061	-	-	9,061	5.45
Receivables – loan	5	-	-	105,336	-	-	105,336	5.30
Financial assets at fair value	7	55,300	-	-	-	-	55,300	6.98
		55,663	-	114,397	-	11	170,071	
<b>Financial Liabilities</b>								
Payables – management fees	8	-	-	-	-	(319)	(319)	-
Derivatives	6	-	-	(9,061)	-	-	(9,061)	5.45
Financial liabilities at fair value	10	(55,300)	-	-	-	-	(55,300)	6.98
Interest bearing liability-bond	9	-	-	(105,294)	-	-	(105,294)	4.47
		(55,300)	-	(114,355)	-	(319)	(169,974)	
<b>30 June 2007</b>								
	Note	Fixed interest maturing in:				Non-interest bearing	Total	Effective interest rate
		Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years			
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
<b>Financial Assets</b>								
Cash assets	4	294	-	-	-	-	294	5.00
Receivables - trade	5	-	-	-	-	7	7	-
Current tax asset	3	-	-	-	-	46	46	-
Derivatives	6	-	-	1,723	-	-	1,723	5.45
Receivables – loan	5	105,247	-	60,192	-	-	165,439	5.61
Financial assets at fair value	7	63,200	-	-	-	-	63,200	5.72
		168,741	-	61,915	-	53	230,709	
<b>Financial Liabilities</b>								
Payables – management fees	8	-	-	-	-	(386)	(386)	-
Derivatives	6	-	-	(1,723)	-	-	(1,723)	5.45
Financial liabilities at fair value	10	(63,200)	-	-	-	-	(63,200)	5.72
Interest bearing liability-bond	9	(105,206)	-	(60,117)	-	-	(165,323)	7.91
		(168,406)	-	(61,840)	-	(386)	(230,632)	



*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

17. **Additional financial instruments disclosure (continued)**

**Fair values of financial assets and liabilities**

	2008		2007	
	Carrying \$'000	Fair value \$'000	Carrying \$'000	Fair value \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	363	363	294	294
Trade receivables	-	-	7	7
Current tax asset	11	11	46	46
Derivative financial instruments	9,061	9,061	1,723	1,723
Long term trade receivables	105,336	105,257	165,439	164,878
Financial assets at fair value through profit	55,300	55,300	63,200	63,200
	<u>170,071</u>	<u>169,992</u>	<u>230,709</u>	<u>230,148</u>
<b>Financial Liabilities</b>				
Trade and other payables	(319)	(319)	(386)	(386)
Derivative financial instruments	(9,061)	(9,061)	(1,723)	(1,723)
Interest-bearing liabilities	(105,294)	(84,000)	(165,323)	(166,480)
Financial liabilities at fair value through	(55,300)	(55,300)	(63,200)	(63,200)
	<u>(169,974)</u>	<u>(148,508)</u>	<u>(230,632)</u>	<u>(231,789)</u>

Monetary financial assets and liabilities are determined by valuing them at the present value of contractual future cash flows discounted at applicable market yields. The carrying amounts of cash, amounts payable or receivable with financial institutions and trading securities approximate their fair values.

The fair value of the bonds have been calculated using the closing price on the ASX as at 30 June 2008 and 2007, net of amounts reported separately for embedded derivatives. The fair values of derivatives are calculated based on valuation techniques where the model inputs are observable in the market.

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*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

**18. Related parties**

**Key Management Personnel**

**Directors**

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 year are Messrs RJ Nettleton, DW O'Neill and SJ Treanor. No director has entered into a material contract with the Company during the financial year.

**Non-Key Management Personnel**

**Transactions**

The Company has significant transactions and a management agreement with Deutsche Bank AG (Sydney). Balances with related parties are detailed in notes 2, 5, 6, 7 and 8.

For the financial period ended 30 June 2008 the Company received from Deutsche Bank AG (Sydney) interest of \$14,287,000 (2007:\$13,791,000) and premiums under the portfolio agreements of \$6,420,788 (2007: \$8,997,000).

For the year ended 30 June 2008 the Company incurred expenses of \$1,709,000 (2007:\$2,310,000) in relation to a management fee for services provided to it by Deutsche Bank AG (Sydney). Of this amount, \$319,000 (2007:\$243,000) remains unpaid at period end.

***Nexus Bonds Limited***  
**Notes to the financial statements**  
30 June 2008

**19. Director and executive disclosures**

**Remuneration of specified directors**

*Non-executive directors*

Non-executive directors do not receive performance related remuneration. Directors' fees cover all main board activities.

Details of the nature and amount of each major element of remuneration of each director of the Company ("specified directors") are:

	Year	Short-term employment benefit			Post-employment		Equity compensation	Other compensation		Total \$
		Salary & fees (A) \$	STI cash bonus \$	Non-monetary benefits \$	Super-annuation benefits \$	Pre-scribed benefits \$	Value of options \$	Termination benefits \$	Insurance premiums \$	
<b>Specified directors</b>										
<i>(Non-executive)</i>										
Mr R J Nettleton	2008	36,697	-	-	3,303	-	-	-	-	40,000
	2007	36,697	-	-	3,303	-	-	-	-	40,000
Mr D W O'Neill	2008	36,697	-	-	3,303	-	-	-	-	40,000
	2007	36,697	-	-	3,303	-	-	-	-	40,000
Mr S J Treanor	2008	36,697	-	-	3,303	-	-	-	-	40,000
	2007	36,697	-	-	3,303	-	-	-	-	40,000
Total all specified directors	2008	110,091	-	-	9,909	-	-	-	-	120,000
	2007	110,091	-	-	9,909	-	-	-	-	120,000

*Notes in relation to the table of specified director's remuneration*

(A) Salary and fees are for directors' duties in addition to an additional fee for each new issuance. The fee for the issuance is agreed with the director at the time the new trade is done.

*Executive directors or executives*

There are no executive directors or executives in the Company.

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*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

**21. 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.

**22. Events subsequent to balance sheet date**

Portfolio credit events

In September 2008, two Portfolio Companies in the Nexus 4 Topaz Notes Portfolio (NXHBD) filed for bankruptcy (one on 15 September for Lehman Brothers Holdings Inc and one on 26 September for Washington Mutual Inc). These credit events have triggered a reduction in the future interest payments on those Notes. The income factor used to calculate the interest payable will reduce from 76.376 to 29.716. If there are no other changes to the income factor to the end of the current interest period on 20 November 2008, then the resulting interest applicable for the current period will be 4.1486%.

It has no impact on the repayment of the full principal amount of the Notes at their maturity date. The other two series of notes are not affected.

Except for the above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

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*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2008

*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 6 to 27 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 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards 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 30<sup>th</sup> day of September 2008

Signed in accordance with a resolution of the directors:



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R J Nettleton  
*Director*



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

### **Report on the financial report**

We have audited the accompanying financial report of Nexus Bonds Limited (the Company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 22 and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of Nexus Bonds Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Malcolm Ashcroft  
*Partner*

Sydney

30 September 2008