

**Nexus Bonds Limited**  
**(formerly known as Select Access Investments (No. 3) Limited)**

ACN 101 744 389

**Financial Report**  
For the period from incorporation on 19 August 2002 to 30 June 2003

## **Nexus Bonds Limited**

### **Directors' report**

The directors present their report together with the financial report of Nexus Bonds Limited ("the Company") for the period from 19 August 2002 to 30 June 2003 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 40 years legal experience. A director of a number of companies including Standard Chartered Bank Australia Limited, Standard Chartered Grindlays Bank Limited, Guardian Trust Australia Limited and Marathon Asset Management (Australia) Limited. 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.

#### **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	10	9
Mr D W O'Neill	10	10
Mr S J Treanor	10	10

#### **Principal activities**

The Company was established on 19 August 2002 and the principal activities of the Company during the course of the financial period were the issuance of bonds, the placement of bond proceeds on deposit, and the entering into of a portfolio agreement whereby the Company is 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 \$14,234.

### **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 period 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**

There has not arisen in the interval between the end of the financial period 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 periods.

### **Directors Interests and Benefits**

Except as disclosed in this report or in the notes to the financial report, since the end of the previous financial period 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.

### **Dividends**

No dividends have been paid or proposed since establishment.

## **Nexus Bonds Limited**

### **Directors' report**

#### **Insurance Premiums**

Since the beginning of this financial period, the Company has paid insurance premiums of \$29,117 in respect of directors' liability insurance contracts.

The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome
- other liabilities that may arise from their position, with the exception of conduct involving a willful breach of duty or improper use of information or position to gain personal advantage.

The premiums were paid in respect of the following officers of the Company:

- premiums totalling \$29,117 in respect of the following current directors of the Company: Mr R J Nettleton, Mr D W O'Neill and Mr S J Treanor

#### **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 8 day of September 2003.

Signed in accordance with a resolution of the directors:



R J Nettleton  
*Director*

**Nexus Bonds Limited**  
**Statement of Financial Performance**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

	Note	19 August 2002 to 30 June 2003 \$'000
Interest Revenue	2	1,592
Derivative Revenue	2	2,577
<b>Total Revenue</b>		<u>4,169</u>
Interest Expense	2	(3,522)
Service Fee		(321)
Other expenses from ordinary activities		<u>(306)</u>
<b>Profit from ordinary activities before related income tax expense</b>		20
Income tax expense relating to ordinary activities	3(a)	<u>(6)</u>
<b>Net Profit</b>		<u>14</u>
<b>Basic earnings per share</b>		<u>14</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 8 to 19.

**Nexus Bonds Limited**  
**Statement of Financial Position**  
**As at 30 June 2003**

	Note	2003 \$'000
<b>Current assets</b>		
Cash assets	4	1
Receivables	5	<u>573</u>
<b>Total current assets</b>		<u>574</u>
<b>Non current assets</b>		
Receivables	5	<u>60,000</u>
<b>Total non current assets</b>		<u>60,000</u>
<b>Total assets</b>		<u>60,574</u>
<b>Current liabilities</b>		
Payables	6	553
Current tax liabilities	3(b)	<u>6</u>
<b>Total current liabilities</b>		<u>559</u>
<b>Non current liabilities</b>		
Interest bearing liabilities	7	<u>60,000</u>
<b>Total non-current liabilities</b>		<u>60,000</u>
<b>Total liabilities</b>		<u>60,559</u>
Net assets		<u>15</u>
<b>Equity</b>		
Contributed equity	8	1
Retained profits	9	<u>14</u>
<b>Total equity</b>		<u>15</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 8 to 19.

**Nexus Bonds Limited**  
**Statement of Cash Flows**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

	Note	19 August 2002 to 30 June 2003 \$'000
<b>Cash flows from operating activities</b>		
Cash payments in the course of operations		(569)
Interest received		1,392
Derivative revenue received		2,244
Borrowing costs paid		<u>(3,066)</u>
<b>Net cash provided by operating activities</b>	10(ii)	<u>1</u>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of equity		-
Proceeds from bond issuance		<u>60,000</u>
<b>Net cash provided by financing activities</b>		<u>60,000</u>
<b>Cash flows from investing activities</b>		
Placement of funds on deposit		<u>(60,000)</u>
<b>Net cash provided by investing activities</b>		<u>(60,000)</u>
<b>Net increase/(decrease) in cash held</b>	10(i)	1
<b>Cash at the beginning of the financial year</b>		-
<b>Cash at the end of the financial year</b>		<u>1</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 8 to 19.

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 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 Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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 as it accrues, taking into account the effective yield on the financial asset.

*Derivative Revenue*

Derivative revenue includes premiums received on portfolio agreements and is recognised as it accrues, 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 period from incorporation on 19 August 2002 to 30 June 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 debts 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. This financial report has been prepared for the period from this date until 30 June 2003, and this is in compliance with Section 323D of Corporations Act 2001.

## **Nexus Bonds Limited**

### **Notes to and forming part of the financial statements**

**For the period from incorporation on 19 August 2002 to 30 June 2003**

(i) Derivatives

The Company has entered into a credit derivative portfolio agreement. 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. The fair value of the credit derivative portfolio agreement is disclosed in Note 13.

(j) Service Fees

Services 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 period from incorporation on 19 August 2002 to 30 June 2003**

**2. Profit from ordinary activities before income tax expense**

Profit from ordinary activities before income tax expense has been arrived at after receiving/(expensing) the following items:

	19 August 2002 to 30 June 2003 \$'000
Interest income	
- Related party	1,546
- Other	46
Derivative income	
- Related party	2,577
Borrowing costs	
- Related party	(1,074)
- Other	(2,448)

**3. Income tax**

**(a) Income tax expense**

Prima facie income tax expense calculated at 30% on the profit from ordinary activities	6
Total income tax expense attributable to profit from ordinary activities	<u>6</u>
Total income tax expense is made up of:	
Current income tax provision	<u>6</u>

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

**(b) Current tax liabilities**

*Provision for current income tax*

2003  
\$'000

Movements during the period were as follows:

Balance at beginning of period	-
Current period's income tax expense on profit from ordinary activities	(6)
Balance at end of the period	<u>(6)</u>

**4. Cash assets**

Cash at bank and on hand	<u>1</u>
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All cash assets are held with large banks which have an acceptable credit rating. The carrying value of cash assets approximates for fair value.

**5. Receivables**

**Current**

Accrued interest – Related party	200
Accrued derivative premium – Related party	333
Other debtors	40
	<u>573</u>

**Non-Current**

Loans – Related party	<u>60,000</u>
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The weighted average effective interest rate on loans at 30 June 2003 was 4.50%.  
The ultimate credit risk on the loans is Deutsche Bank AG. The loans are fully repaid on 4 December 2007.

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

**6. Payables**

	2003 \$'000
Accrued interest payable	455
Other creditors and accruals	98
	<u>553</u>

**7. Interest-bearing liabilities**

<b>Non-current</b>	
Bonds issued	<u>60,000</u>

***Bonds issued***

Bonds issued amounting to \$60,000,000 are 5 year, interest-bearing securities that pay interest at a fixed rate of 10.25% per annum semi-annually over their term. The Company's ability to pay this enhanced return is a result of Bondholders being exposed to the creditworthiness of 40 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 the Deposit Agreement and derivative premium income from the Portfolio Agreement.

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

**8. Contributed equity**

	2003
	\$
<b>Issued and paid-up share capital</b>	
1 ordinary share, fully paid	<u>1</u>
There have been no movements in share capital since incorporation	

**9. Retained profit**

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

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

**10. 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>1</u>

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

	19 August 2002 to 30 June 2003 \$'000
Profit from ordinary activities after tax	14
Changes in assets and liabilities:	
Increase in interest receivable	(200)
Increase in derivative premium receivable	(333)
Increase in other receivables	(40)
Increase in interest payable	455
Increase in other payables	99
Increase in current tax liabilities	6
Net cash provided by operating activities	<u><u>1</u></u>

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

**11. Directors' remuneration**

**Directors' income**

The number of directors whose income from the Company or any related party falls within the following bands:

			19 August 2002 to 30 June 2003 No.
\$0	-	\$9,999	-
\$10,000	-	\$19,999	-
\$20,000	-	\$29,999	3

Total income paid or payable under the Servicing Agreement, or otherwise made available, to all directors of the Company or any related party.	\$'000 71
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**12. 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 period ended 30 June 2003 is \$8,000.

**13. Derivatives**

The Company has entered into a portfolio agreement with Deutsche Bank which has exposed the Company to the creditworthiness of 40 well known Australian and International companies with investment grade credit ratings. The Company receives semi annual premiums over a 5 year period and becomes 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 30 June 2003 was:

Fair value of portfolio agreement	\$'000 655
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**14. Segment Reporting**

**Geographical segment**

The Company's operations are conducted solely in Australia.

**Business segment**

The Company operates in the financial services sector.



**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

**15. Additional financial instruments disclosure**

**(a) Interest rate risk exposures**

The Company's exposure to interest rate risk for classes of financial assets and financial liabilities is set out below:

30 June 2003	Note	Fixed interest maturing in:					Non-interest bearing	Total	Weighted average 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	1	-	-	-	-	1	3.76	
Receivables – interest	5	-	-	-	-	533	533	-	
Other assets	5	-	-	-	-	40	40	-	
Receivables – loan	5	-	-	60,000	-	-	60,000	4.50	
		1	-	60,000	-	573	60,574		
<b>Financial Liabilities</b>									
Payables – interest	6	-	-	-	-	(455)	(455)	-	
Other liabilities	6	-	-	-	-	(98)	(98)	-	
Interest bearing liability-bond	7	-	-	(60,000)	-	-	(60,000)	10.25	
		-	-	(60,000)	-	(553)	(60,553)		
Portfolio agreement	13	-	-	60,000	-	-	60,000	7.50	

**(b) Net fair values of financial assets and liabilities**

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 net fair values.

	30 June 2003	
	Carrying value \$'000	Net fair value \$'000
<b>Financial Assets</b>		
Cash assets	1	1
Receivable – interest	533	533
Other assets	40	40
Portfolio agreement	-	655
Receivables – loans	60,000	59,204
	60,574	60,433
<b>Financial Liabilities</b>		
Payables – interest	(455)	(455)
Other liabilities	(98)	(98)
Interest bearing liabilities - bond	(60,000)	(62,400)
	(60,553)	(62,953)

The fair value of the bond has been calculated using the closing price on the ASX as at 30 June 2003.

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

**(c) Maturity analysis of assets and liabilities**

The Company's maturity analysis of the carrying amounts of the following assets and liabilities is set out below:

30 June 2003	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Not specified \$'000	Total \$'000
<b>Financial Assets</b>							
Cash assets	4	1	-	-	-	-	1
Receivables – interest	5	-	533	-	-	-	533
Other Assets	5	-	40	-	-	-	40
Receivables – loan	5	-	-	60,000	-	-	60,000
		1	573	60,000	-	-	60,574
<b>Financial Liabilities</b>							
Payables – interest	6	-	(455)	-	-	-	(455)
Other liabilities	6	-	(98)	-	-	-	(98)
Interest bearing liabilities - bond	7	-	-	(60,000)	-	-	(60,000)
		-	(553)	(60,000)	-	-	(60,553)

**16. Related parties**

**Directors**

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.

Details of directors remuneration are set out in Note 11.

No director has entered into a material contract with the Company during the financial year.

**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 and 6.

During the period from incorporation on 19 August 2002 to 30 June 2003 the Company received from Deutsche Bank AG (Sydney) interest of \$1,346,301 and premiums under the portfolio agreement of \$2,243,836. Since the last settlement date on 4 June 2003 an additional \$532,602 has been accrued.

During the period from incorporation on 19 August 2002 to 30 June 2003 the Company incurred expenses of \$321,484 in relation to a management fee for services provided to it by Deutsche Bank AG (Sydney). Of this amount, \$98,412 remains unpaid at year end.

Baincor Nominees Pty Limited, a subsidiary of Deutsche Securities Australia Limited, is holding \$18,303,800 of the Company's bonds at year end and received interest on these bonds of \$939,312 during the year.

**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
**For the period from incorporation on 19 August 2002 to 30 June 2003**

**17. Dividends**

**Dividend franking account**

	2003
	\$'000
Franking credits available to shareholders for subsequent financial periods	-

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

**18. Additional Information**

Nexus Bonds Limited, is incorporated and domiciled in Australia.

The registered office:  
Level 18  
Grosvenor Place  
225 George Street  
Sydney NSW 2000

The number of employees at period end was Nil.

## **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 30 June 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*

8 September 2003  
Dated



**Independent audit report to the members of Nexus Bonds Limited (formerly known as Select Access Investments (No.3) Limited)**

***Scope***

We have audited the financial report of Nexus Bonds Limited (formerly known as Select Access Investments (No.3) Limited) ("the Company") for the period 19 August 2002 to 30 June 2003, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 18 and the directors' declaration set out on pages 5 to 20. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards 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.

The audit opinion expressed in this report has been formed on the above basis.

***Audit opinion***

In our opinion, the financial report of Nexus Bonds Limited (formerly known as Select Access Investments (No.3) Limited) is in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's financial position as at 30 June 2003 and of its performance for the period 19 August 2002 to 30 June 2003; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

KPMG

Andrew Dickinson  
Partner

Sydney  
8 September 2003

