

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

ACN 101 744 389

Financial Report
30 June 2004

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 2004 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:

Name and Qualifications	Experience and special responsibilities
Mr Richard J Nettleton LLB	A solicitor with 40 years legal experience. A director of a number of companies including JPMorgan 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:

	Meetings Held	Meetings Attended
Mr R J Nettleton	7	7
Mr D W O'Neill	7	7
Mr S J Treanor	7	7

Principal activities

The principal activities of the Company from its establishment on 19 August 2002 has been the issuance of bonds, the placement of bond proceeds on deposit, and the entering into portfolios agreement whereby the Company is exposed to the creditworthiness of a number of Australian and International Companies.

There have been 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 \$43,216 (2003: \$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

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 16th day of September 2004.

Signed in accordance with a resolution of the directors:



R J Nettleton
Director

Nexus Bonds Limited
Statement of Financial Performance
For the year ended 30 June 2004

		2004 \$'000	2003 \$'000
Interest Revenue	2	4,784	1,592
Derivative Revenue	2	6,399	2,577
Total Revenue		11,183	4,169
Interest Expense	2	(9,472)	(3,522)
Service Fee		(1,648)	(627)
Other expenses from ordinary activities		(1)	-
Profit from ordinary activities before related income tax expense		62	20
Income tax expense relating to ordinary activities	3(a)	(19)	(6)
Net Profit		43	14
Basic earnings per share		43	14

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 2004

	Note	2004 \$'000	2003 \$'000
Current assets			
Cash assets	4	350	1
Receivables	5	941	573
Total current assets			
Non current assets			
Receivables	5	130,000	60,000
Total non current assets			
Total assets		131,291	60,574
Current liabilities			
Payables	6	1,215	554
Current tax liabilities	3(b)	19	6
Total current liabilities			
Non current liabilities			
Interest bearing liabilities	7	130,000	60,000
Total non-current liabilities			
Total liabilities		131,234	60,560
Net assets		57	14
Equity			
Contributed equity	8	-	-
Retained profits	9	57	14
Total equity			

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 year ended 30 June 2004

	2004	2003
	\$'000	\$'000
Cash flows from operating activities		
Cash payments in the course of operations	(1,315)	(569)
Interest received	4,641	1,392
Derivative revenue received	6,268	2,244
Borrowing costs paid	(9,239)	(3,066)
Tax paid	(6)	
Net cash provided by operating activities	<u>10(ii) 10,389</u>	<u>10,201</u>
Cash flows from financing activities		
Proceeds from the issue of equity	-	
Proceeds from bond issuance	70,000	60,000
Net cash provided by financing activities	<u>70,000</u>	<u>60,000</u>
Cash flows from investing activities		
Placement of funds on deposit	(70,000)	(60,000)
Net cash provided by investing activities	<u>(70,000)</u>	<u>(60,000)</u>
Net increase/(decrease) in cash held	349	
Cash at the beginning of the financial year		
Cash at the end of the financial year	<u>10(i) 350</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 year ended 30 June 2004

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 year ended 30 June 2004

(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

This financial report has been prepared for the year ended 30 June 2004, 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 year ended 30 June 2004

(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. The fair value of the credit derivative portfolio agreement is disclosed in Note 13.

(j) Service Fees

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.

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:

	2004 \$'000	2003 \$'000
Interest income		
- Related party	4,781	
- Other	3	46
Derivative income		
- Related party	6,399	
Borrowing costs		
- Related party	(2,841)	(1,074)
- Other	(6,631)	(2,448)

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

3. Income tax

(a) Income tax expense

Prima facie income tax expense calculated at 30% (2003: 30%) on the profit from ordinary activities	19	6
Total income tax expense attributable to profit from ordinary activities	<u>19</u>	<u>6</u>
Total income tax expense is made up of:		
Current income tax provision	<u>19</u>	<u>6</u>

(b) Current tax liabilities

Provision for current income tax

	Note	2004 \$'000	2003 \$'000
Movements during the period were as follows:			
Balance at beginning of period		(6)	
Income tax paid during the year		6	
Current period's income tax expense on profit from ordinary activities		(19)	(6)
Balance at end of the period		<u>(19)</u>	<u>(6)</u>

4. Cash assets

Cash at bank and on hand	<u>350</u>
--------------------------	------------

The weighted average interest rate on cash assets at 30 June 2004 was 4.16% (2003: 3.76%)

All cash assets are held with large banks which have an acceptable credit rating. The carrying value of cash assets approximates for fair value.

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

5. Receivables

Current

Accrued interest – Related party	343	200
Accrued derivative premium – Related party	464	333
Other debtors	134	40
	<hr/>	<hr/>

Non-Current

Loans – Related party	130,000	60,000
	<hr/>	<hr/>

The weighted average effective interest rate on loans at 30 June 2004 was 5.00% (2003: 4.50%)

The ultimate credit risk on the loans is Deutsche Bank AG. The loans are fully repaid on 4 December 2007.

6. Payables

	Note	2004 \$'000	2003 \$'000
Accrued interest payable		689	456
Accrued management fees		520	98
Other creditors and accruals		6	-
		<hr/>	<hr/>
			554

7. Interest-bearing liabilities

Non-current

Bonds issued	60,000	60,000
Bonds issued	70,000	
	<hr/>	<hr/>

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

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.

Bonds issued amounting to \$70,000,000 are 6 year, interest-bearing securities that pay interest at a floating rate of 3 month BBSW + 3.25% per annum quarterly over their term. The Company's ability to pay this enhanced return is a result of Bondholders being exposed to the creditworthiness of a portfolio of international 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. 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.

8. Contributed equity

	2004	2003
	\$	\$
Issued and paid-up share capital		
1 ordinary share, fully paid	1	1

There have been no movements in share capital since incorporation

9. Retained profit

	2004	2003
	\$'000	\$'000
Retained profits at beginning of period	14	-
Net profit	43	14
Retained profits at the end of the year	57	14

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

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:

	2004 \$'000	2003 \$'000
Cash assets	350	

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

	2004 \$'000	2003 \$'000
Profit from ordinary activities after tax	43	14
Changes in assets and liabilities:		
Increase in interest receivable	(143)	(200)
Increase in derivative premium receivable	(131)	(333)
Increase in other receivables	(94)	(40)
Increase in interest payable	233	455
Increase in other payables	428	99
Increase in current tax liabilities	13	6
Net cash provided by operating activities	349	1

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

Directors' remuneration

Directors' income

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

		30 June 2004	30 June 2003
		No.	No.
\$20,000	\$29,999	-	3
\$40,000	\$49,999	3	
		\$'000	\$'000
Total income paid or payable under the Servicing Agreement, or otherwise made available, to all directors of the Company or any related party.		120	71

In 2004, fees for directors' services rendered to the Company were borne by Deutsche Bank AG, a related party of the Company.

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 2004 is \$8,000 (2003: \$8,000).

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 was:

	2004	2003
	\$'000	\$'000
Fair value of portfolio agreement	7,379	655

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

14. Segment Reporting

Geographical segment

The Company's operations are conducted solely in Australia.

Business segment

The Company operates in the financial services sector.

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 2004	Note	Fixed interest maturing in:					Total \$'000	Weighted average interest rate %
		Floating interest rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000	Non- interest bearing \$'000		
Financial Assets								
Cash assets	4	350	-	-	-	-	350	4.16
Receivables – interest	5	-	-	-	-	807	807	-
Other assets	5	-	-	-	-	134	134	-
Receivables – loan	5	-	-	130,000	-	-	130,000	5.00
		<u>350</u>	<u>-</u>	<u>130,000</u>	<u>-</u>	<u>941</u>	<u>131,291</u>	
Financial Liabilities								
Payables – interest	6					(689)	(689)	
Payables – management fees	6					(520)	(520)	
Other liabilities	6			-		(6)	(6)	-
Interest bearing liability-bond	7			(130,000)		-	(130,000)	9.5
		<u>-</u>	<u>-</u>	<u>(130,000)</u>	<u>-</u>	<u>(1,215)</u>	<u>(131,215)</u>	
Portfolio agreement	13	-	-	130,000	-	-	130,000	6.2

(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.

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

	30 June 2004	
	Carrying value	Net fair value
	\$'000	\$'000
Financial Assets		
Cash assets	350	350
Receivable – interest	807	807
Other assets	134	134
Portfolio agreement	-	7,379
Receivables – loans	130,000	121,274
	<u>131,291</u>	<u>129,944</u>
Financial Liabilities		
Payables – interest	(689)	(689)
Payables – management fees	(520)	(520)
Other liabilities	(6)	(6)
Interest bearing liabilities - bond	(130,000)	(132,070)
	<u>(131,215)</u>	<u>(133,285)</u>

The fair value of the bond has been calculated using the closing price on the ASX as at 30 June 2004.

(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 2004	Note	At call	Less than 1 year	1 to 5 years	Over 5 years	Not specified	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets							
Cash assets	4	350	-	-	-	-	350
Receivables – interest	5	-	807	-	-	-	807
Other Assets	5	-	134	-	-	-	134
Receivables – loan	5	-	-	130,000	-	-	130,000
		<u>350</u>	<u>941</u>	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>131,291</u>
Financial Liabilities							
Payables – interest	6		(689)				(689)
Payables – management fees	6		(520)				(520)
Other liabilities	6		(6)	-			(6)
Interest bearing liabilities - bond	7		-	(130,000)			(130,000)
		<u>-</u>	<u>(1,215)</u>	<u>(130,000)</u>	<u>-</u>	<u>-</u>	<u>(131,215)</u>

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

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.

For the year ended 30 June 2004 the Company received from Deutsche Bank AG (Sydney) interest of \$4,780,618 and premiums under the portfolio agreement of \$6,398,630. Since the last settlement date on 16th June 2004 an additional \$464,384 in derivative income and \$342,958 in interest income has been accrued.

For the year ended 30 June 2004 the Company incurred expenses of \$1,647,942 in relation to a management fee for services provided to it by Deutsche Bank AG (Sydney). Of this amount, \$520,000 remains unpaid at year end.

Baincor Nominees Pty Limited, a subsidiary of Deutsche Securities Australia Limited, is holding \$21,445,800 of the Company's bonds at year end.

17. Dividends

Dividend franking account

	2004	2003
	\$'000	\$'000
Franking credits available to shareholders for subsequent financial periods	3	

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

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the year ended 30 June 2004

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 2004 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

16 September 2004
x September 2004
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 financial year ended 30 June 2004, 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 2004 and of its performance for the financial year ended on that date; 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
16 September 2004

