

nexusbonds

Nexus Bonds Limited

ACN 101 744 389

Half-year Financial Report

31 December 2004

Nexus Bonds Limited Directors' report

The directors present their report together with the financial report of Nexus Bonds Limited ("the Company") for the half-year ended to 31 December 2004 and the auditor's review thereon.

Directors

The directors of the Company at any time during or since the end of the financial period 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 JP Morgan Trust Australia 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 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 19 August 2002.

Principal activities

The principal activities of the Company during the course of the financial period were the issuance of notes, the placement of note proceeds on deposit, and the entering into of portfolio agreements whereby the Company is exposed to the creditworthiness of a number of 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

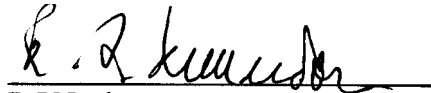
The profit from ordinary activities after income tax amounted to \$2,573 (2003: \$63,543).

Rounding of amounts

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

Dated at Sydney this 11th day of March 2005.

Signed in accordance with a resolution of the directors:



R J Nettleton
Director

Nexus Bonds Limited
Statement of Financial Performance
For the half-year ended 31 December 2004

	6 months to 31/12/2004 \$'000	6 months to 31/12/2003 \$'000
Interest Revenue	3,380	1,575
Derivative Revenue	4,033	2,422
Total Revenue	7,413	3,997
Interest Expense	(6,257)	(3,369)
Service Fee	(1,152)	(385)
Other expenses from ordinary activities	-	(152)
Profit from ordinary activities before related income tax expense	4	91
Income tax expense relating to ordinary activities	(1)	(27)
Net Profit	3	64
Basic earnings per share	3	64
Diluted earnings per share	3	64

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

Nexus Bonds Limited
Statement of Financial Position
As at 31 December 2004

	Note	31/12/2004 \$'000	30/06/2004 \$'000
Current assets			
Cash assets		455	350
Receivables		1,021	941
Total current assets		<u>1,476</u>	<u>1,291</u>
Non current assets			
Receivables	2	<u>165,000</u>	<u>130,000</u>
Total non current assets		<u>165,000</u>	<u>130,000</u>
Total assets		<u>166,476</u>	<u>131,291</u>
Current liabilities			
Payables		1,415	1,215
Current tax liabilities		1	19
Total current liabilities		<u>1,416</u>	<u>1,234</u>
Non current liabilities			
Interest bearing liabilities	3	<u>165,000</u>	<u>130,000</u>
Total non-current liabilities		<u>165,000</u>	<u>130,000</u>
Total liabilities		<u>166,416</u>	<u>131,234</u>
Net assets		<u>60</u>	<u>57</u>
Equity			
Contributed equity			
Retained profits	4	<u>60</u>	<u>57</u>
Total equity		<u>60</u>	<u>57</u>

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

Nexus Bonds Limited
Statement of Cash Flows
For the half-year ended 31 December 2004

	Note	6 months to 31/12/2004 \$'000	6 months to 31/12/2003 \$'000
Cash flows from operating activities			
Cash payments in the course of operations		(1,087)	(522)
Interest received		3,271	1,399
Derivative revenue received		4,023	2,256
Borrowing costs paid		(6,102)	(3,083)
Net cash provided by operating activities	5(ii)	105	50
Cash flows from financing activities			
Proceeds from note issuance		35,000	70,000
Net cash provided by financing activities			
Cash flows from investing activities			
Placement of funds on deposit		(35,000)	(70,000)
Net cash provided by investing activities		(35,000)	(70,000)
Net increase in cash held		105	50
Cash at the beginning of the financial period		350	1
Cash at the end of the financial period	5(i)	51	51

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

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

The half-year financial report is a general purpose financial report, which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 30 June 2004 Annual Financial Report.

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

The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with those of the 30 June 2004 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

(b) Revenue recognition

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

Interest Revenue

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

Derivative Revenue

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

(c) Borrowing costs

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

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the half-year ended 31 December 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 outstanding balances are 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 notes which are recorded at cost.

(h) Accounting Period

This half-year report has been prepared for the period from 30 June 2004 until 31 December 2004.

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

(j) Service Fees

Services fees arise under a Services Deed whereby a servicer has been appointed to assist on the administration of the Company. The Service 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 arrangements are on normal commercial terms.

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the half-year ended 31 December 2004

2. Receivables

	31/12/2004	30/06/2004
	\$'000	\$'000
Non-Current		
Loans – Related party	165,000	130,000

The ultimate credit risk on the loans is to Deutsche Bank AG. The loans are fully repaid in 6 December 2010.

3. Interest-bearing liabilities

Non-current		
Bonds issued	165,000	130,000

Bonds issued

The Company has issued 3 series of bonds:

- (1) Bonds issued amounting to \$60,000,000 that are 5 year, interest-bearing securities paying interest at a fixed rate of 10.25% per annum semi-annually over their term; and;
- (2) Bonds issued amounting to \$70,000,000 that are 6 year, interest-bearing securities paying interest at a floating rate of 3.25% over the 90 day Bank Bill Rate quarterly over their term.
- (3) Bonds 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.

The Company's ability to pay these enhanced returns are a result of Noteholders being exposed to the creditworthiness of a portfolio of Australian and 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 Deposit Agreements and derivative premium income from Portfolio Agreements. Each series of notes is legally segregated. Noteholders of one series have no claim to any assets of the Company in respect of any other series, including in the event of liquidation.

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the half-year ended 31 December 2004

4. Retained profit

	31/12/2004	30/06/2004
	\$'000	\$'000
Retained profits at beginning of the half-year	57	14
Net profit	3	43
Retained profits at the end of the half-year	<u>57</u>	<u>57</u>

5. Notes to the statement of cash flows

(i) Reconciliation of cash

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

	31/12/2004	30/06/2004
	\$'000	\$'000
Cash assets	<u>455</u>	<u>51</u>

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

	31/12/2004	31/12/2003
	\$'000	\$'000
Profit from ordinary activities after tax	3	64
Changes in assets and liabilities:		
Increase in interest receivable	(109)	(176)
Increase in derivative premium receivable	(10)	(166)
Increase/(decrease) in other receivables	40	(35)
Increase in interest payable	155	285
Increase in other payables	43	57
Increase/(decrease) in current tax liabilities	(17)	21
Net cash provided by operating activities	<u>50</u>	<u>50</u>

Nexus Bonds Limited
Notes to and forming part of the financial statements
For the half-year ended 31 December 2004

6. Segment Reporting

Geographical segment

The Company's operations are conducted solely in Australia.

Business segment

The Company operates in the financial services sector.

7. Derivatives

The Company has entered into portfolio agreements with Deutsche Bank which has exposed the Company to the creditworthiness of well known Australian and International companies. The Company receives premiums over the term of the notes issued and may become obligated to make payments to the Counterparty in the event of a Company's default.

The current valuation of these obligations were:

	31/12/2004	30/06/2004
	\$'000	\$'000
Fair value of portfolio obligations		

8. Events subsequent to reporting date

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This half-year financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ending on 31 December 2004.

The entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

The key potential implications of the conversion to IFRS on the entity are as follows:


financial instruments must be recognized in the statement of financial position and all derivatives and most financial assets must be carried at fair value; income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognized in equity; and changes in accounting policies will be recognized by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

Directors' declaration

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

- (a) the financial statements and notes, set out on pages 4 to 12 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 31 December 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

11 March 2005
Dated

Independent review report



Independent review report to the members of Nexus Bonds Limited

Scope

We have reviewed the financial report of Nexus Bonds Limited (“the Company”) for the half-year ended 31 December 2004, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes and the directors’ declaration set out on pages 4 to 13. The Company’s directors are responsible for the financial report.

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

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

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

(a) the Corporations Act 2001, including:

giving a true and fair view of the Company’s financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and

ii. complying with Australian Accounting Standard AASB 1029 “Interim Financial Reporting” and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.


KPMG


Andrew Dickinson
Partner

Sydney
15 March 2005