

***Nexus Bonds Limited***

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

ABN 23 101 744 389

**Financial report for the year ended  
30 June 2006**

---

## ***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 2006 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 JPMorgan 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	6	6
Mr D W O'Neill	6	6
Mr S J Treanor	6	5

### **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.

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.

---

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

**Review and result of operations**

The profit after income tax amounted to **\$5,723** (2005: \$10,061).

The issuance of two series of notes during the prior year has resulted in an increase in interest receipts and payments in the current year.

Portfolio credit events

On 3<sup>rd</sup> March 2006, a Portfolio Company in the Nexus 4 Topaz Notes Portfolio (NXHBD) filed for bankruptcy. This credit event has triggered a reduction in the future interest payments on those Notes, however, it has no impact on the repayment of the full principal amount of the Notes at their maturity date. The other three series of notes are not affected.

Impact of adoption of AIFRS

There has been no significant impact on the financial position or performance of the company as a result of the change in the accounting policy for financial instruments, upon implementation of Australian equivalents to International Financial Reporting Standards ('AIFRS'). The accounting policy for financial instruments was changed from 1 July 2005 upon adoption of AASB 139 Financial Instruments: Recognition and Measurement. The implementation of the new accounting policy resulted in no net adjustment in retained earnings at 1 July 2005.

However, the application of AIFRS has resulted in significant changes to the presentation of the financial position and results of the company, which are explained below.

At the date of transition to AIFRS, the Company had four series of notes on issue (refer Note 9). The return on three of the notes is generated by the company separately entering into a portfolio agreement (refer Note 6) and placing funds on deposit with Deutsche Bank AG (refer Note 5). The return on the fourth series of notes is generated by an investment in a credit linked deposit (refer Note 7).

Under previous Australian Generally Accepted Accounting Principles ("AGAAP"), these notes and the related investments were accounted for on an accrual basis. Under AIFRS, the portfolio agreements and the credit linked deposit are recorded on a fair value basis. The three deposits with Deutsche Bank AG continue to be accounted for on an accrual basis.

The notes issued by the Company contain an embedded credit derivative. Under AIFRS, for accounting purposes, the notes are required to either be split into two parts reflecting the embedded derivative feature (recognized at fair value) and a host debt instrument (recognized on an accrual basis) or recognised as a single financial instrument at fair value.

The accounting treatment that has been applied to the notes replicates the accounting treatment applied to the corresponding investments. Three series of notes are split into a host debt instrument and a credit derivative that are accounted for separately. The fourth series of notes, Nexus 4 Topaz Notes (NXHBD), are accounted for as a single financial instrument at fair value (refer Note 10).

The adjustments required to restate the various financial instruments to their fair value at 1 July 2005 are outlined in Note 20(d). Subsequent changes in the fair value of the financial instruments recorded at fair value are recognised in the income statement as trading income, which is a new Income Statement line item.

---

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

**Review and result of operations (continued)**

Impact of adoption of AIFRS (continued)

As the company is economically hedged, the adjustments fully offset against each other at the date of transition to AIFRS and at the end of the reporting period. Correspondingly, the Company has recognised no net trading income for the period.

The premium receivable from portfolio agreement counterparties, that was previously presented in the Income statement as Derivative revenue, is also now recognised as trading income.

The interest accrued on the deposits and host debt instruments continue to be recognized as interest income and interest expense respectively. Accrued interest balances were previously recognised separately as either a receivable or payable. They have been reclassified from 1 July 2005 to form part of the carrying value of the related financial instrument.

**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**

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.

---

***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 6 and forms part of the Directors' report for the year ended 30 June 2006.

Dated at Sydney this 26<sup>th</sup> day of September 2006.

Signed in accordance with a resolution of the directors:



---

R J Nettleton  
*Chairman*



*Lead Auditor's Independence Declaration under Section 307C of the Corporation 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 2006 there have been:

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

KPMG

Malcolm Ashcroft  
*Partner*

Sydney

24 September 2006

*Nexus Bonds Limited*

**Income Statement**

For the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
Interest income	2	13,819	7,806
Derivative revenue	2	-	8,540
Net trading income	2	-	-
<b>Total Revenue</b>		<u>13,819</u>	<u>16,346</u>
Interest expense	2	(11,499)	(14,045)
Administrative and other expenses		(2,312)	(2,287)
<b>Profit before income tax</b>		<u>8</u>	<u>14</u>
Income tax expense	3	(2)	(4)
<b>Profit for the year attributable to members of Nexus Bonds Limited</b>		<u>6</u>	<u>10</u>

The above income statement should be read in conjunction with the accompanying notes set out on pages 11 to 30.

***Nexus Bonds Limited***  
**Balance Sheet**  
As at 30 June 2006

	Note	2006 \$'000	2005 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	4	94	14
Trade receivables	5	50	1,256
Current tax asset	3	38	34
Derivative financial instruments	6	6,299	-
Long term trade receivables	5	165,444	244,000
Financial assets at fair value through profit and loss	7	<u>67,150</u>	<u>-</u>
<b>Total assets</b>		<u><b>239,075</b></u>	<u><b>245,304</b></u>
<b>LIABILITIES</b>			
Trade and other payables	8	232	1,237
Derivative financial instruments	6	6,299	-
Interest-bearing liabilities	9	165,321	244,000
Financial liabilities at fair value through profit and loss	10	<u>67,150</u>	<u>-</u>
<b>Total liabilities</b>		<u><b>239,002</b></u>	<u><b>245,237</b></u>
<b>Net assets</b>		<u><b>73</b></u>	<u><b>67</b></u>
<b>EQUITY</b>			
Share capital	11	-	-
Retained profit		<u>73</u>	<u>67</u>
<b>Total equity</b>		<u><b>73</b></u>	<u><b>67</b></u>

The above balance sheet should be read in conjunction with the accompanying notes set out on pages 11 to 30.



***Nexus Bonds Limited***  
**Statement of changes in equity**  
For the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
<b>Total equity at the beginning of the year</b>		<b>67</b>	<b>57</b>
Adjustment on adoption of AASB 132 and AASB 139, net of tax:			
Retained earnings	20 (d)	-	-
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>-</b>
<b>Profit for the year</b>		<b>6</b>	<b>10</b>
<b>Total equity at the end of the year</b>		<b>73</b>	<b>67</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes set out on pages 11 to 30.

***Nexus Bonds Limited***

**Cash flow statement**

For the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
<b>Cash flows from operating activities</b>			
Cash payments in the course of operations		(2,234)	(2,680)
Interest received		13,926	7,565
Derivative premium received		8,985	8,574
Interest paid		(20,593)	(13,776)
Income tax paid		(4)	(19)
<b>Net cash inflow from operating activities</b>	14(ii)	<u>80</u>	<u>(336)</u>
<b>Cash flows from financing activities</b>			
Proceeds from note issuance		-	114,000
<b>Net cash inflow from financing activities</b>		<u>-</u>	<u>114,000</u>
<b>Cash flows from investing activities</b>			
Placement of funds on deposit		-	(114,000)
<b>Net cash (outflow) from investing activities</b>		<u>-</u>	<u>(114,000)</u>
<b>Net increase in cash and cash equivalents</b>		<b>80</b>	<b>(336)</b>
Cash and cash equivalents at the beginning of the year		<b>14</b>	<b>350</b>
<b>Cash and cash equivalents at the end of the year</b>	14(i)	<u><b>94</b></u>	<u><b>14</b></u>

The above cash flow statement should be read in conjunction with the accompanying notes set out on pages 11 to 30.

***Nexus Bonds Limited***  
**Notes to the financial statements**  
30 June 2006

**1. Summary of significant accounting policies**

Nexus Bonds Limited (“the Company”) is a company domiciled in Australia. The interim financial report was authorised for issue by the Directors on 26 September 2006.

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.

Early adoption: The Company has elected to apply the following accounting standards to the reporting period commencing 1 July 2005:

- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.

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

- AASB 7 Financial instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2006

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

**(a) Statement of compliance (continued)**

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company as the standard and the amendment are concerned only with disclosures.

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

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.

*Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards ("AIFRS")*: This annual financial report is the first *Nexus Bonds Limited* annual financial report to be prepared in accordance with AIFRS's. AASB 1 has been applied in preparing these financial statements.

Financial statements of the Company until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("AGAAP"), which differs in certain respects from AIFRS. When preparing the Company's annual financial report for the year ended 30 June 2006, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The company has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* ("AASB132") and AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB139") from 1 July 2005. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the company is provided in note 20.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2006

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

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

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) Comparatives**

Certain comparative balances presented in the financial statements and notes, set out on pages 7 to 30, have been reclassified to conform to the current year presentation format.

**(d) 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.

*From 1 July 2004 to 30 June 2005*

Derivatives: Derivative revenue includes premiums received on portfolio agreements and is recognised as it accrues, taking into account the effective yield on the financial asset.

*From 1 July 2005*

Financial instruments at fair value through profit and loss: Net trading income comprises realised and unrealised gains and losses from derivatives and other financial instrument at fair value through profit and loss. Derivative premium is treated as realised gains and losses on derivatives.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2006

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

**(e) 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 liability 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.

**(f) Cash and cash equivalents**

Cash includes cash on hand and at bank and short-term deposits at call.

**(g) Receivables**

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost less impairment losses.

**(h) Payables**

Payables include amounts to be paid in the future for goods or services received and are initially recognised and subsequently measured at cost.

**(i) 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.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2006

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

**(j) 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.

*From 1 July 2004 to 30 June 2005*

The company has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The company has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Derivatives are accounted for on an accruals basis with derivative premium receivable recorded as a current receivable. Credit linked deposits and Nexus 4 Topaz Notes were recognised at amortised cost.

*Adjustments on transition date: 1 July 2005*

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that financial instruments at fair value through profit and loss, which include derivatives, are measured on a fair value basis. At the date of transition changes to the carrying amounts of instruments at fair value are taken to retained earnings. Embedded derivatives are recognised separately from the host contract at fair value (refer Note 1(j)(iv)). Accrued interest is reclassified from current receivables or payables to form part of the carrying value of the related financial instrument.

*From 1 July 2005*

**(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.

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2006

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

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

**(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 hedging purposes under previous AGAAP 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.

**(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.

**(k) 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.

**(l) 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.

**(m) Accounting Period**

This annual report has been prepared for the period from 1 July 2005 until 30 June 2006.



***Nexus Bonds Limited***  
**Notes to the financial statements**  
30 June 2006

**2. Profit before income tax expense**

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

		2006 \$'000	2005 \$'000
Interest income			
- Cash		10	12
- Loans – related party	(i)	13,809	7,794
		<u>13,819</u>	<u>7,806</u>
Derivative premium – related party	(ii)	-	8,540
Net trading income / (expense)			
- Derivatives – related party	(ii)	6,737	-
- Embedded derivatives	(iii)	(6,737)	-
- Financial assets at fair value – related party	(iv)	(12,631)	-
- Financial liabilities at fair value	(iv)	12,631	-
		<u>-</u>	<u>-</u>
Interest expense			
- Interest-bearing liabilities	(v)	(11,499)	(14,045)

Explanation of significant components of profit before income tax:

- (i) Loans: Interest income consists of interest earned on deposits or loans to related parties. Interest income was significantly higher than the comparative period due to the placement on deposit for the full year the funds raised through the issuance of two series of notes during the comparative period.
- (ii) Derivatives: Derivative premium of \$8,997,000 and unrealised losses of \$(2,260,000) on portfolio agreements were recognised during the period as Net trading income. In the comparative period, derivative premium of \$8,540,000 was recognised as Derivative revenue.
- (iii) Embedded derivatives: Imputed derivative premium paid of (\$8,997,000) and unrealised gains of \$2,260,000 were recognised during the period. The loss recognised on embedded derivatives that are recognised separately from the host debt contract from 1 July 2005, 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 \$12,631,000. The movement in fair value consists of the unrealised movement attributable to market price movements, net of the increase in accrued interest of \$386,000. 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 noteholders in relation to the current period of \$(20,496,000), excluding imputed derivative premium of (\$8,997,000) on the embedded derivatives, which is recognised separately in trading income (refer iii above).

***Nexus Bonds Limited***  
**Notes to the financial statements**  
30 June 2006

**3. Income tax**

**(a) Income tax expense**

	2006 \$'000	2005 \$'000
Prima facie income tax expense calculated at 30% (2005: 30%) on the profit from ordinary activities	2	4
Total income tax expense attributable to profit from ordinary activities	<u>2</u>	<u>4</u>
Total income tax expense is made up of:		
Current income tax provision	<u>2</u>	<u>4</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	(4)	(19)
Income tax paid during the year	4	19
Income tax installments withheld by tax authority	40	38
Current period's income tax expense on profit from ordinary activities	(2)	(4)
Balance at end of the year	<u>38</u>	<u>34</u>

**4. Cash and cash equivalents**

Current account	<u>94</u>	<u>14</u>
-----------------	-----------	-----------

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**

Accrued interest – related party	-	584
Accrued derivative premium – related party	-	499
Other debtors	50	173
	<u>50</u>	<u>1,256</u>

**Long term trade receivables**

Loans – related party	<u>165,444</u>	<u>244,000</u>
-----------------------	----------------	----------------

***Nexus Bonds Limited***  
**Notes to the financial statements**  
30 June 2006

**5. Receivables (continued)**

The ultimate credit risk on the loans is Deutsche Bank AG. Credit linked deposit with principal value of \$79,000,000 has been reclassified as a financial asset at fair value through profit and loss from 1 July 2005 (refer Note 7)

**6. Derivative financial instruments**

	2006 \$'000	2005 \$'000
Portfolio credit default swaps – related party	6,299	-
Portfolio credit default swaps – embedded derivatives separated from notes issued (refer note 9) – related party	(6,299)	-

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	67,150	-
---------------------------------------	--------	---

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 interest – related party	-	959
Accrued management fees – related party	232	278
	232	1,237

*Nexus Bonds Limited*  
**Notes to the financial statements**  
30 June 2006

**9. Interest-bearing liabilities**

Notes issued	<u>165,321</u>	<u>244,000</u>
--------------	----------------	----------------

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 and maturing on 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 have been reclassified as a financial liability at fair value through profit and loss from 1 July 2005 (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.

***Nexus Bonds Limited***  
**Notes to the financial statements**  
30 June 2006

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

	2006 \$'000	2005 \$'000
Credit linked note – Nexus4 Topaz Notes	67,150	-

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 Note 7).

**11. Share capital**

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

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 2006 is \$26,500 (2005: \$17,000).

***Nexus Bonds Limited***  
**Notes to the financial statements**  
30 June 2006

**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:

	2006 \$'000	2005 \$'000
Cash assets	<u>94</u>	<u>14</u>

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

Profit after tax	6	10
<i>Changes in assets and liabilities:</i>		
Decrease / (increase) in interest receivable	140	(241)
(Increase) in derivative premium receivable	-	(34)
Decrease / (increase) in other receivables	113	(39)
(Decrease) / increase in interest payable	(139)	269
(Decrease) in other payables	(36)	(249)
(Increase) in current tax asset	(4)	(52)
Net cash provided by operating activities	<u>80</u>	<u>(336)</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, which include the recognition of a deferred tax asset of \$nil at 1 July 2005 (refer note 20) and a reduction in deferred tax asset of \$nil during the year.

**Nexus Bonds Limited**  
**Notes to the financial statements**  
30 June 2006

**17. 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 2006	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	94	-	-	-	-	94	5.00	
Receivables - trade	5	-	-	-	-	50	50	-	
Current tax asset	3	-	-	-	-	38	38	-	
Derivatives	6	-	-	6,299	-	-	6,299	5.45	
Receivables – loan	5	105,252	-	60,192	-	-	165,444	5.23	
Financial assets at fair value	7	67,150	-	-	-	-	67,150	7.23	
		<u>172,496</u>	<u>-</u>	<u>66,491</u>	<u>-</u>	<u>88</u>	<u>239,075</u>		
<b>Financial Liabilities</b>									
Payables – management fees	8	-	-	-	-	(232)	(232)	-	
Derivatives	6	-	-	(6,299)	-	-	(6,299)	5.45	
Financial liabilities at fair value	10	(67,150)	-	-	-	-	(67,150)	7.23	
Interest bearing liability-bond	9	(105,203)	-	(60,118)	-	-	(165,321)	9.28	
		<u>(172,353)</u>	<u>-</u>	<u>(66,417)</u>	<u>-</u>	<u>(232)</u>	<u>(239,002)</u>		
<b>30 June 2005</b>									
	Note	Floating interest rate	1 year or less	Over 1 to 5 years	Over 5 years	Non-interest bearing	Total	Effective interest rate	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	
<b>Financial Assets</b>									
Cash assets	4	14	-	-	-	-	14	4.83	
Receivables – interest	5	-	-	-	-	1,083	1,083	-	
Receivables – trade	5	-	-	-	-	173	173	-	
Current tax asset	3	-	-	-	-	34	34	-	
Receivables – loan	5	184,000	-	60,000	-	-	244,000	5.25	
		<u>184,014</u>	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>1,290</u>	<u>245,304</u>		
<b>Financial Liabilities</b>									
Payables – interest	8	-	-	-	-	(959)	(959)	-	
Payables – management fees	8	-	-	-	-	(278)	(278)	-	
Interest bearing liability-bond	9	(184,000)	-	(60,000)	-	-	(244,000)	8.95	
		<u>(184,000)</u>	<u>-</u>	<u>(60,000)</u>	<u>-</u>	<u>(1,237)</u>	<u>(245,237)</u>		
Portfolio agreement		184,000	-	60,000	-	-	244,000	4.71	

***Nexus Bonds Limited***

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

30 June 2006

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

**(b) 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 fair values.

	30 June 2006	
	Carrying value \$'000	Fair value \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	94	94
Trade receivables	50	50
Current tax asset	38	38
Derivative financial instruments	6,299	6,299
Long term trade receivables	165,444	163,988
Financial assets at fair value through profit and loss	67,150	67,150
	<u>239,075</u>	<u>237,619</u>
<b>Financial Liabilities</b>		
Trade and other payables	(232)	(232)
Derivative financial instruments	(6,299)	(6,299)
Interest-bearing liabilities	(165,321)	(161,550)
Financial liabilities at fair value through profit and	(67,150)	(67,150)
	<u>(239,002)</u>	<u>(235,231)</u>

The fair value of the bonds have been calculated using the closing price on the ASX as at 30 June 2006, net of amounts reported separately for embedded derivatives.

	30 June 2005	
	Carrying value \$'000	Fair value \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	14	14
Receivable – interest	1,083	1,083
Trade receivables	173	173
Current tax asset	34	34
Derivative financial instruments	-	8,558
Long term trade receivables	244,000	230,005
	<u>245,304</u>	<u>239,867</u>
<b>Financial Liabilities</b>		
Payables – interest	(959)	(959)
Trade and other payables	(278)	(278)
Interest-bearing liabilities	(244,000)	(246,620)
	<u>(245,237)</u>	<u>(247,857)</u>

The fair value of the bonds have been calculated using the closing price on the ASX as at 30 June 2005.



**Nexus Bonds Limited**  
**Notes to and forming part of the financial statements**  
30 June 2006

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

**(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 2006**

	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Financial Assets</b>						
Cash assets	4	94	-	-	-	94
Receivables – trade	5	-	50	-	-	50
Current tax asset	3	-	38	-	-	38
Derivatives	6	-	-	6,299	-	6,299
Receivables – loan	5	-	-	165,444	-	165,444
Financial assets at fair value	7	-	-	-	67,150	67,150
		94	88	171,743	67,150	239,075
<b>Financial Liabilities</b>						
Payables – management fees	8	-	(232)	-	-	(232)
Derivatives	6	-	-	(6,299)	-	(6,299)
Financial liabilities at fair value	10	-	-	-	(67,150)	(67,150)
Interest bearing liability-bond	9	-	-	(165,321)	-	(165,321)
		-	(232)	(171,620)	(67,150)	(239,002)

**30 June 2005**

	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Financial Assets</b>						
Cash assets	4	14	-	-	-	14
Receivables – interest	5	-	1,083	-	-	1,083
Receivables – trade	5	-	173	-	-	173
Current tax asset		-	34	-	-	34
Receivables – loan	5	-	-	130,000	114,000	244,000
		14	1,290	130,000	114,000	245,304
<b>Financial Liabilities</b>						
Payables – interest	8	-	(959)	-	-	(959)
Payables – management fees	8	-	(278)	-	-	(278)
Interest bearing liabilities - bond	9	-	-	(130,000)	(114,000)	(244,000)
		-	(1,237)	(130,000)	(114,000)	(245,237)

---

*Nexus Bonds Limited*

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

30 June 2006

**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 2006 the Company received from Deutsche Bank AG (Sydney) interest of \$13,809,000 and premiums under the portfolio agreements of \$8,997,000.

For the year ended 30 June 2006 the Company incurred expenses of \$2,310,000 in relation to a management fee for services provided to it by Deutsche Bank AG (Sydney). Of this amount, \$232,000 remains unpaid at period end.

## *Nexus Bonds Limited*

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

30 June 2006

#### 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 \$	
Specified directors <i>(Non-executive)</i>										
Mr R J Nettleton	2006	32,110	-	-	2,890	-	-	-	-	35,000
	2005	46,360	-	-	3,640	-	-	-	-	50,000
Mr D W O'Neill	2006	32,110	-	-	2,890	-	-	-	-	35,000
	2005	46,360	-	-	3,640	-	-	-	-	50,000
Mr S J Treanor	2006	32,110	-	-	2,890	-	-	-	-	35,000
	2005	46,360	-	-	3,640	-	-	-	-	50,000
Total all specified directors	2006	96,330	-	-	8,670	-	-	-	-	105,000
	2005	139,080	-	-	10,920	-	-	-	-	150,000

###### *Notes in relation to the table of specified directors 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.

*Nexus Bonds Limited*

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

30 June 2006

**20. Explanation of transition to Australian equivalents to IFRSs**

As stated in significant accounting policies note 1(b), these are the first annual financial statements prepared in accordance with AIFRSs.

The policies set out in the Significant accounting policies section of this report have been applied in preparing the financial report for the year ended 30 June 2006 and the comparative information presented in these financial statements and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the Company's date of transition).

In preparing its opening AIFRS balance sheet, the Company has adjusted amounts reported previously in financial reports prepared in accordance with its old basis of accounting (previous AGAAP). An explanation of how the transition from previous AGAAP to AIFRSs has affected the Company's financial position, financial performance and cash flows is set out as follows:

**(a) Reconciliation of equity reported under previous AGAAP to equity under AIFRSs**

The adoption of AIFRS has not resulted in any material adjustments to equity at the end of the last reporting period under previous AGAAP: 30 June 2005, or at the date of transition to AIFRS: 1 July 2004.

**(b) Reconciliation of profit under previous AGAAP to profit under AIFRSs**

The adoption of AIFRS has not resulted in any material adjustments to profit for the year ended 30 June 2005.

**(c) Reconciliation of cash flow statements under previous AGAAP to cash flow statements under AIFRSs**

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statements for any period.

*Nexus Bonds Limited*

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

30 June 2006

20. **Explanation of transition to Australian equivalents to IFRSs (continued)**

(d) **Application of AASB 132 and AASB 139 prospectively from 1 July 2005**

The company has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The adjustments to reflect the first time application of these standards are reflected in the Statement of Changes in Equity and are reconciled below.

**Adjustment on adoption of AASB 132 and AASB 139 to retained earnings as at 1 July 2005:**

Instrument	<u>1 July 2005</u>		Transition Adjustment (\$'000)
	AGAAP (\$'000)	AIFRS (\$'000)	
Trade receivables	(i) 165,000	165,939	939
Derivative financial instruments	(ii) -	8,558	8,558
Interest-bearing liabilities	(i) (165,000)	(165,814)	(814)
Financial assets at fair value through profit and loss	(iii) 79,000	79,395	395
Derivative financial instruments - liabilities (bifurcated)	(iv) -	(8,558)	(8,558)
Financial liabilities at fair value through profit and loss	(iii) (79,000)	(79,395)	(395)
Accrued interest receivable	(i) 1,083	-	(1,083)
Accrued interest payable	(i) (958)	-	958
Adjustment to deferred tax	-	-	-
Adjustment to retained earnings			<u>-</u>

- (i) Accrued interest balances are reclassified to form part of the carrying value of the related financial instrument.
- (ii) Derivative financial instruments (portfolio credit default swaps) are recognised at their fair value.
- (iii) Credit linked deposits and the related Nexus4 Topaz Note of principal value \$79,000,000 are restated from amortised cost to their fair value.
- (iv) Embedded derivatives that are separated from financial liabilities (notes issued) and are recognised at their fair value.

---

*Nexus Bonds Limited*

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

30 June 2006

**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**

There were no events subsequent to the balance sheet date.

***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 7 to 30 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 2006 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 26<sup>th</sup> day of September 2006

Signed in accordance with a resolution of the directors:



\_\_\_\_\_  
R J Nettleton  
Chairman



## Independent Audit Report to the members of Nexus Bonds Limited

### *Scope*

We have audited the financial report of Nexus Bonds Limited ("the Company") for the financial year ended 30 June 2006, consisting of the income statement, balance sheet, cash flow statement, statement of changes equity, accompanying notes 1 to 22 and the directors' declaration set out on pages 7 to 31. The company's directors are responsible for the financial report and the remuneration disclosures. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

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 remuneration disclosures, 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 Australian 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 their operations and their cash flows. The audit opinion expressed in this report has been formed on this above basis.

### *Audit opinion*

1. In our opinion, the financial report of Nexus Bonds 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 2006 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) other mandatory financial reporting requirements in Australia.

KPMG

Malcolm Ashcroft  
*Partner*

Sydney

24 September 2006