

Nexus Bonds Limited

ABN 23 101 744 389

**Financial report for the year ended
30 June 2007**

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 2007 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 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:

	Meetings Held	Meetings Attended
Mr R J Nettleton	3	3
Mr D W O'Neill	3	3
Mr S J Treanor	3	3

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 \$3,777 (2006: \$5,723).

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

Since balance date, global financial markets have displayed unusual volatility that has affected credit spreads and liquidity in debt capital markets. Between balance date and the date of this report, the Company has not been advised of any credit events for the reference entities in the portfolios linked to the Notes issued by the Company.

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

Directors Interests and Benefits

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

Likely developments

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

Indemnification of officers and auditors

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

Nexus Bonds Limited
Directors' report

Dividends

No dividends have been paid or proposed since establishment.

Rounding of Amounts

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

Auditor's independence declaration

A copy of the auditors' independence declaration is set out on page 5 and forms part of the Directors' report for the year ended 30 June 2007.

Dated at Sydney this 25th day of September 2007 .

Signed in accordance with a resolution of the directors:


Director



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

To: the directors of Nexus Bonds Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

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

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'MA', with a large, sweeping flourish extending to the right.

Malcolm Ashcroft
Partner

Sydney

25 September 2007

Nexus Bonds Limited
Income Statement
For the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
Interest income	2	13,791	13,819
Net trading income	2	-	-
Total Revenue		<u>13,791</u>	<u>13,819</u>
Interest expense	2	(11,471)	(11,499)
Administrative and other expenses		<u>(2,314)</u>	<u>(2,312)</u>
Profit before income tax		<u>6</u>	<u>8</u>
Income tax expense	3	<u>(2)</u>	<u>(2)</u>
Profit for the year attributable to members of <i>Nexus Bonds Limited</i>		<u><u>4</u></u>	<u><u>6</u></u>

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

Nexus Bonds Limited
Balance Sheet
As at 30 June 2007

	Note	2007 \$'000	2006 \$'000
ASSETS			
Cash and cash equivalents	4	294	94
Trade receivables	5	7	50
Current tax asset	3	46	38
Derivative financial instruments	6	1,723	6,299
Long term trade receivables	5	165,439	165,444
Financial assets at fair value through profit and loss	7	63,200	67,150
Total assets		230,709	239,075
LIABILITIES			
Trade and other payables	8	386	232
Derivative financial instruments	6	1,723	6,299
Interest-bearing liabilities	9	165,323	165,321
Financial liabilities at fair value through profit and loss	10	63,200	67,150
Total liabilities		230,632	239,002
Net assets		77	73
EQUITY			
Share capital	11	-	-
Retained profit		77	73
Total equity		77	73

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

Nexus Bonds Limited
Statement of changes in equity
For the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
Total equity at the beginning of the year		<u>73</u>	<u>67</u>
Profit for the year		<u>4</u>	<u>6</u>
Total equity at the end of the year		<u>77</u>	<u>73</u>

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

Nexus Bonds Limited
Cash flow statement
For the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
Cash flows from operating activities			
Cash payments in the course of operations		(2,126)	(2,234)
Interest received		13,796	13,926
Derivative premium received		8,998	8,985
Interest paid		(20,466)	(20,593)
Income tax paid		(2)	(4)
Net cash inflow from operating activities	14(ii)	<u>200</u>	<u>80</u>
Net increase in cash and cash equivalents		200	80
Cash and cash equivalents at the beginning of the year		94	14
Cash and cash equivalents at the end of the year	14(i)	<u>294</u>	<u>94</u>

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

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

1. Summary of significant accounting policies

Nexus Bonds Limited (“the Company”) is a company domiciled in Australia. This financial report was authorised for issue by the Directors on 25th September 2007.

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

(a) Statement of compliance

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

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

- 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 2007

1. Statement of significant accounting policies (continued)

(a) Statement of compliance (continued)

- AASB8 Operating Segments replaces the presentation requirements of segment reporting in AASB114 Segment Reporting. AASB 8 is applicable for annual period beginning on or after 1 January 2009.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 Non-current Assets Held for Sales and Discontinued Operations, AASB 6 Exploration for and Evaluation of Mineral Recourses, AASB 102 Inventories, AASB 107 Cash Flow Statements, AASB 119 Employee Benefits, AASB 127 Consolidated and Separate Financial Statements, AASB134 Interim Financial Reporting, AASB 136 Impairment Assets, AASB1023 General Insurance Contracts and AASB1038 Life Insurance contracts. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 Operating segments.

The initial application of AASB 7, AASB 2005-10 and AASB 8, 2007-3 is not expected to have an impact on the financial results of the Company and the consolidated entity 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.

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.

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

1. Summary of significant accounting policies (continued)

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

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 6 to 27, 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.

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

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

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 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 2007

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.

(i) Financial assets at fair value through profit and loss

The credit linked deposit designated at fair value through profit and loss is initially recognised at fair value. Subsequent to initial recognition, it is stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement as Net trading income. Fair value is determined by reference to the market price of the related Nexus 4 Topaz Notes, or the value determined by use of a pricing model if a quoted market price is not available, on the basis that it is an offsetting risk position.

(ii) Financial liabilities at fair value through profit and loss

The Nexus 4 Topaz Notes are designated at fair value through profit and loss and are recognised initially at fair value. Subsequent to initial recognition, they are stated at fair value with the gain or loss on re-measurement to fair value recognised immediately in the Income Statement as Net trading income. Fair value is calculated based on the mid price quoted on the ASX if an active market exists for the Note. If an active market does not exist, management establishes fair value by use of a valuation technique, such as a pricing model that incorporates market data and discounted cash flow techniques.

(iii) Derivatives

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

Derivatives are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the Income Statement as Net trading income. Fair value is the estimated amount that the entity could receive or pay to terminate the swap at the Balance sheet date, using pricing models incorporating market data and discounted cash flow techniques.

1. Summary of significant accounting policies (continued)

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

(iv) Embedded Derivatives

The interest-bearing liabilities issued by the Company are determined to contain embedded derivatives that must be bifurcated and recognised at fair value if the instrument is not designated as a financial instrument at fair value through profit and loss. These derivatives may have a fair value of zero at the date of initiating the transaction. The change in fair value of bifurcated derivatives will substantially or fully offset the change in fair value of other derivatives transacted by the Company. The portion of any coupon payments made on interest-bearing liabilities that relate to an embedded derivative that has been recognised separately are included in the determination of the fair value of the derivative and therefore not recognised within interest expense.

(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 2006 until 30 June 2007.

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

2. Profit before income tax expense

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

		2007 \$'000	2006 \$'000
Interest income			
- Cash		10	10
- Loans – related party	(i)	13,781	13,809
		<u>13,791</u>	<u>13,819</u>
Net trading income / (expense)			
- Derivatives – related party	(ii)	4,422	6,737
- Embedded derivatives	(iii)	(4,422)	(6,737)
- Financial assets at fair value – related party	(iv)	4,704	(12,631)
- Financial liabilities at fair value	(iv)	(4,704)	12,631
		<u>-</u>	<u>-</u>
Interest expense			
- Interest-bearing liabilities	(v)	(11,471)	(11,499)

Explanation of significant components of profit before income tax:

- (i) Loans: Interest income consists of interest earned on deposits or loans to related parties.
- (ii) Derivatives: Derivative premium of \$8,997,000 and unrealised losses of (\$4,575,000) on portfolio agreements were recognised during the period as Net trading income.
- (iii) Embedded derivatives: Imputed derivative premium paid of (\$8,997,000) and unrealised gains of \$4,575,000 were recognised during the period. The loss recognised on embedded derivatives that are recognised separately from the host debt contract, fully offsets the gain recognised on derivatives.
- (iv) The credit linked deposits and related Nexus 4 Topaz Notes (NXHBD) are remeasured to their fair value resulting in offsetting trading income and expense of \$4,704,000. The movement in fair value consists of the unrealised movement attributable to market price movements, net of the increase in accrued interest of \$35,000. 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 \$(20,468,000), 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 2007

3. Income tax

(a) Income tax expense

	2007 \$'000	2006 \$'000
Income tax expense	2	2
	<u>2</u>	<u>2</u>
Total income tax expense is made up of:		
Current income tax provision	2	2
	<u>2</u>	<u>2</u>

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

(b) Current tax asset

Provision for current income tax

Movements during the year were as follows:

Balance at beginning of the year	38	(4)
Income tax paid during the year	2	4
Income tax installments paid to tax authority	8	40
Current period's income tax expense on profit from ordinary activities	(2)	(2)
Balance at end of the year	<u>46</u>	<u>38</u>

4. Cash and cash equivalents

Current account	<u>294</u>	<u>94</u>
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Cash assets are interest bearing and held with large banks which have an investment grade credit rating. The carrying value of cash assets approximates its fair value.

5. Receivables

Trade receivables

Other debtors	7	50
	<u>7</u>	<u>50</u>

Long term trade receivables

Loans – related party	<u>165,439</u>	<u>165,444</u>
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The ultimate credit risk on the loans is Deutsche Bank AG.

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

6. Derivative financial instruments

	2007 \$'000	2006 \$'000
Portfolio credit default swaps – related party	1,723	6,299
Portfolio credit default swaps – embedded derivatives separated from notes issued (refer note 9) – related party	(1,723)	(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	63,200	67,150
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The Company has entered into a credit linked deposit with Deutsche Bank AG which exposes the Company to the creditworthiness of a portfolio companies ('reference entities'). Interest is receivable based on a floating interest rate which reflects changes in the credit market's view of the reference entities and changes in market interest rates.

8. Trade and other payables

Accrued management fees – related party	367	232
Other payables	19	-
	386	232

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

9. Interest-bearing liabilities

Notes issued	165,323	165,321
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Notes issued

The Company has issued 4 series of notes:

- (1) Nexus Yield Bonds: Notes issued amounting to \$60,000,000 that are 5 year, interest-bearing securities paying interest at a fixed rate of 10.25% per annum semi-annually over their term 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 classified as a financial liability at fair value through profit and loss (refer Note 10)

The Company's ability to pay these enhanced returns are a result of Note-holders being exposed to the creditworthiness of a portfolio of companies. Interest amounts and principal outstanding may be reduced if one or more of the above companies experiences a severe weakening in its financial position to the extent that its senior unsecured debt may not be repaid in full when due.

For accounting purposes, the notes issued are deemed to contain an embedded derivative which is split out and accounted for separately, if the note is not designated at fair value through profit and loss (refer Notes 6 and 10). An embedded derivative is a feature that can modify the cash flows of that contract in a similar way to a derivative contract. The nature of the derivative that is split from the note issued is a credit derivative with the same terms as the corresponding portfolio agreement.

Interest payments will generally be sourced from interest received from Deutsche Bank by the Company under Deposit Agreements and derivative premium receipts from Portfolio Agreements.

Each series of notes is legally segregated. Note-holders of one series have no claim to any assets of the Company in respect of any other series, including in the event of liquidation.

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

10. Financial liabilities at fair value through profit and loss

	2007 \$'000	2006 \$'000
Credit linked note – Nexus4 Topaz Notes	<u>63,200</u>	<u>67,150</u>

Nexus Topaz 4 Notes: Notes issued amounting to \$79,000,000 that are 10 year, interest-bearing securities paying interest at a floating rate of 2.60% over the 180 day Bank Bill Rate for the first half year period. Thereafter interest is payable based on a floating interest rate which reflects changes in the credit market's view of companies in the portfolio as well as changes in the market interest rates. The notes mature on 23 June 2015. These notes have been designated as financial liabilities at fair value through profit and loss. The notes and related credit linked deposit are managed and their performance monitored on a fair value basis (refer Note 7).

11. Share capital

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

There have been no movements in share capital since incorporation

12. Segment Information

Geographical segment

The Company's operations are conducted solely in Australia.

Business segment

The Company operates solely in the financial services sector.

13. Auditors Remuneration

Fees for services rendered to the Company by the auditors are borne by Deutsche Bank AG, a related party of the Company. The audit fee payable by Deutsche Bank AG on the Company's behalf for the year ended 30 June 2007 is \$17,168 (2006: \$26,500).

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

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:

	2007 \$'000	2006 \$'000
Cash assets	294	94

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

Profit after tax	4	6
<u>Changes in assets and liabilities:</u>		
Decrease in interest receivable	5	140
(Increase) in derivative premium receivable	19	-
Decrease in other receivables	66	113
Increase / (Decrease) in interest payable	(17)	(139)
Increase / (Decrease) in other payables	116	(36)
Decrease / (Increase) in current tax asset	7	(4)
Net cash provided by operating activities	200	80

15. Dividends

No dividends were paid during the year.

16. Taxation

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using the estimated average annual effective income tax rate for the financial period. The primary component of the entity's recognised deferred tax assets and liabilities include temporary differences related to the remeasurement of derivatives at fair value.

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

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 2007	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	%
Financial Assets								
Cash assets	4	294	-	-	-	-	294	5.00
Receivables - trade	5	-	-	-	-	7	7	-
Current tax asset	3	-	-	-	-	46	46	-
Derivatives	6	-	-	1,723	-	-	1,723	5.45
Receivables – loan	5	105,247	-	60,192	-	-	165,439	5.61
Financial assets at fair value	7	63,200	-	-	-	-	63,200	5.72
		<u>168,741</u>	<u>-</u>	<u>61,915</u>	<u>-</u>	<u>53</u>	<u>230,709</u>	
Financial Liabilities								
Payables – management fees	8	-	-	-	-	(386)	(386)	-
Derivatives	6	-	-	(1,723)	-	-	(1,723)	5.45
Financial liabilities at fair value	10	(63,200)	-	-	-	-	(63,200)	5.72
Interest bearing liability-bond	9	(105,206)	-	(60,117)	-	-	(165,323)	7.91
		<u>(168,406)</u>	<u>-</u>	<u>(61,840)</u>	<u>-</u>	<u>(386)</u>	<u>(230,632)</u>	

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	%
Financial Assets								
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>	
Financial Liabilities								
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>	

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

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 2007	
	Carrying value	Fair value
	\$'000	\$'000
Financial Assets		
Cash and cash equivalents	294	294
Trade receivables	7	7
Current tax asset	46	46
Derivative financial instruments	1,723	1,723
Long term trade receivables	165,439	164,878
Financial assets at fair value through profit and loss	63,200	63,200
	<u>230,709</u>	<u>230,148</u>
Financial Liabilities		
Trade and other payables	(386)	(386)
Derivative financial instruments	(1,723)	(1,723)
Interest-bearing liabilities	(165,323)	(166,480)
Financial liabilities at fair value through profit and	(63,200)	(63,200)
	<u>(230,632)</u>	<u>(231,789)</u>
	30 June 2006	
	Carrying value	Fair value
	\$'000	\$'000
Financial Assets		
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>
Financial Liabilities		
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 2007 and 2006, net of amounts reported separately for embedded derivatives.

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

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 2007

	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial Assets						
Cash assets	4	294	-	-	-	294
Receivables – trade	5	-	7	-	-	7
Current tax asset	3	-	46	-	-	46
Derivatives	6	-	1,641	82	-	1,723
Receivables – loan	5	-	60,192	105,247	-	165,439
Financial assets at fair value	7	-	-	-	63,200	63,200
		294	61,886	105,329	63,200	230,709
Financial Liabilities						
Payables – management fees	8	-	(386)	-	-	(386)
Derivatives	6	-	(1,641)	(82)	-	(1,723)
Financial liabilities at fair value	10	-	-	-	(63,200)	(63,200)
Interest bearing liability-bond	9	-	(60,117)	(105,206)	-	(165,323)
		-	(62,144)	(105,288)	(63,200)	(230,632)

30 June 2006

	Note	At call \$'000	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial Assets						
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
Financial Liabilities						
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)

Nexus Bonds Limited
Notes to the financial statements
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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 2007 the Company received from Deutsche Bank AG (Sydney) interest of \$13,791,000 (2006:\$13,819,000) and premiums under the portfolio agreements of \$8,997,000 (2006: \$8,997,000).

For the year ended 30 June 2007 the Company incurred expenses of \$2,310,000 (2006:\$2,310,000) in relation to a management fee for services provided to it by Deutsche Bank AG (Sydney). Of this amount, \$243,000 (2006:\$232,000) remains unpaid at period end.

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

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	2007	36,697	-	-	3,303	-	-	-	-	40,000
	2006	36,697	-	-	3,303	-	-	-	-	40,000
Mr D W O'Neill	2007	36,697	-	-	3,303	-	-	-	-	40,000
	2006	36,697	-	-	3,303	-	-	-	-	40,000
Mr S J Treanor	2007	36,697	-	-	3,303	-	-	-	-	40,000
	2006	36,697	-	-	3,303	-	-	-	-	40,000
Total all specified directors	2007	110,091	-	-	9,909	-	-	-	-	120,000
	2006	110,091	-	-	9,909	-	-	-	-	120,000

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 the financial statements
30 June 2007

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

Since balance date, global financial markets have displayed unusual volatility that has affected credit spreads and liquidity in debt capital markets. Between balance date and the date of this report, the Company has not been advised of any credit events for the reference entities in the portfolios linked to the Notes issued by the Company.

Nexus Bonds Limited
Notes to the financial statements
30 June 2007

Nexus Bonds Limited
Directors' declaration

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

- (a) the financial statements and notes, set out on pages 6 to 27 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 25th day of September 2007

Signed in accordance with a resolution of the directors:


Director



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

Report on the financial report

We have audited the accompanying financial report of Nexus Bonds Limited ("the Company"), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 22 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

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



Auditor's opinion

In our opinion:

- (a) the financial report of Nexus Bonds Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

KPMG

KPMG

Malcolm Ashcroft
Partner

Sydney

25 September 2007