

Nexgen Financial Holdings Limited

Interim Report

For the half year ended 30 June 2004

CONTENTS

	Page
DIRECTORS AND OTHER INFORMATION	2
OPERATING REVIEW	3-4
POSITION AND RISKS	5-6
INDEPENDENT REVIEW REPORT	7
CONSOLIDATED PROFIT AND LOSS ACCOUNT	8
CONSOLIDATED BALANCE SHEET	9
NOTES TO THE ACCOUNTS	10-16

DIRECTORS AND OTHER INFORMATION

Board of Directors as at 30 June 2004

Mr Anthony Orsatelli	Non-Executive	Chairman
Mr Tay Siew Choon	Non-Executive	Co-chairman (1)
Mr Peter Blessing	Non-Executive	(2)
Mr Etienne Bur	Non-Executive	Chairman Executive Committee (1)
Mr John Donnelly	Non-Executive	Chairman Audit Committee (2)
Mr Luc Giraud	Executive	Joint Chief Executive Officer (1)
Prof Annie Koh	Non-Executive	(2)
Mr André Rolland	Non-Executive	
Mr Lee Ming San	Non-Executive	(1)
Prof Marti Subrahmanyam	Non-Executive	(2)
Mr Goh Yew Lin	Non-Executive	Appointed 20 April 2004
Mr Victor Liew	Non-Executive	
Mr Ravi Viswanathan	Executive	Joint Chief Executive Officer (1)

(1) Member of the Executive Committee of the board

(2) Member of the Audit Committee of the board

Company Secretary and Registered Office

Ms Nicola O'Connell
Ormonde House
12 Lower Leeson Street
Dublin 2

Bankers

CDC Ixis
26/28 Rue Neuve Tolbiac
75658 Paris Cedex 13
France

Office Address

Ormonde House
12 Lower Leeson Street
Dublin 2

BNP Paribas London
10 Harewood Avenue
London NW16AA
UK

Registered Number

336054

External Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Wilton Place
Dublin 2
Ireland

Internal Auditors

Deloitte & Touche
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
Ireland

Solicitors

A&L Goodbody
International Financial Services Centre
North Wall Quay
Dublin 1
Ireland

OPERATING REVIEW

The Interim Report presents a summary of the results for the principal business activity during the six month period ended 30 June 2004 and details the risks and positions at 30 June 2004. A summary of the main Profit and Loss and Balance Sheet movements is provided below.

ACTIVITY

Income generation

The group operating income for the period was \$11.7m, a 10% decrease compared to the previous year.

Activity in the period was good with more than 20 new transactions executed.

Equity Linked Transactions

New equity linked transactions were executed in Europe mainly with Italian and French corporate clients. The continuous drop in short term implied volatilities accelerated during the month of June and severely hit the operating income arising from these transactions which nevertheless totalled \$7m for the period.

There was only one new equity linked transaction in Asia during the period, due in part to a more selective attitude towards the quality of counterparties and underlying securities. In April 2004, we experienced a default on an exchangeable bond acquired in December 2002. The bond issuer defaulted as a result of a poor performance of the assets acquired with the bond subscription money, coupled with a fall in price of the Hong Kong listed share into which the bond was exchangeable. Nexgen is vigorously pursuing recovery from the bond issuer and its guarantors, and is pursuing litigation in a number of jurisdictions.

Other Asian operations generated an operating income of \$1.9m

CDO's / Credit Derivatives

Nexgen structured several tranching CDO transactions for various clients. These deals together with the management of similar transactions entered into in previous years generated \$8.6m operating income.

Reinsurance

No new transactions were executed.

During the period the relationship with Lazard continued to develop within the framework of the cooperation arrangement signed at the end of last year to jointly provide corporate clients in major European markets with structured capital market, derivative and reinsurance financing and risk management solutions.

A cooperation agreement was signed in February with CDC Ixis Capital Markets, with the objective of providing corporate clients with structured finance products.

General and resources

Staff numbers increased marginally (64 as at end June compared to 61 as at end December 2003) after the strong increase in 2003. Recruitments were made to complement various operational and marketing teams.

A marketing agreement was concluded with CDC Ixis Capital Market Tokyo in order to promote Nexgen's equity derivative products in Japan.

There was no significant change to the Group's organisation.

Corporate governance and risk management

There were no significant changes to the corporate governance / risk management set-up as described in the Financial Statements 2003.

A review of the capital markets VaR tool was initiated in June. Emphasis was put on the way to simulate volatility behaviours and to capture more efficiently the associated risks. An updated methodology became operational in mid August.

RESULT FOR THE PERIOD AND STATE OF AFFAIRS AT 30 JUNE 2004

The net profit after tax for the half year to June 2004 was \$1.3m compared to \$3.9m for the half year to 2003.

Before allowing for the cost of the client default mentioned above (in respect of which a provision of \$6.3m (2003: \$8.8m) has been made), the trading income for the 2004 half year was \$18m compared to \$21.9m for the year 2003, derived mainly from capital markets client transactions (2004: \$9.4m compared to 2003: \$7.7m), CDO activity (2004: \$8.6m compared to 2003: \$9.2m) and arbitrage (2004: \$0.1m compared to 2003: \$4.1m). There was no income from reinsurance (2003: \$(0.1)m). Remuneration of own funds was the same as last half year at \$1.9m.

The net trading income for the 2004 half year is \$11.7m (2003 half year: \$13.0m).

Operating expenses rose to \$10m (2003: \$8.5m), mainly as a result of increases in staff numbers. Staff costs were \$6.5m (2003: \$5.4m) and other administrative expenses were \$3.3m (2003: \$2.9m).

BALANCE SHEET

Total assets rose by 42% during the half year ended 30 June 2004, to \$884m (31 December 2003: \$622m). This was mainly attributable to the good level of activity for the period. The main variation was an increase of \$210m of short position in trading shares (and the related increase of \$206m in deposits with financial institutions arising from the repo facilities available to the company). The balance of long positions in derivative financial instruments also increased significantly and was financed through an increase in loans from financial institutions.

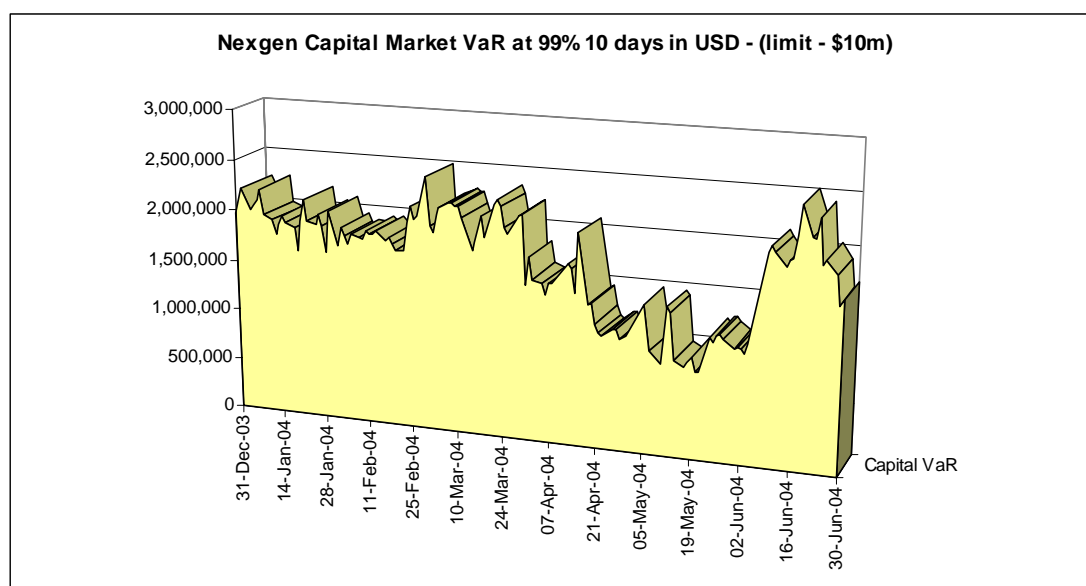
Shareholders' funds at 30 June 2004 are \$203.5m compared to \$202.2m at the end of 2003.

Positions and risks

Capital Markets Risks

Value-at-Risk (VaR) simulates the potential decline in the value of a position or a portfolio over a ten-day holding period, at a 99% confidence level under worst case scenario. The Value-at-Risk method incorporates the sensitivities of the trading portfolio with the volatilities and correlations of the underlying risk factors. As at 30 June 2004, the capital market VaR was \$1.6m (31 December 2003: \$2m) compared to an internal limit of \$10.0m. The maximum VaR figure over the period was \$2.5m. Capital Market VaR is computed at Nexgen Capital's level only, as Nexgen Re's market exposures are not material.

Actual daily P&L movements remained within the range of the VaR figures, except for very significant movements of implied volatilities in June. Most of the exceptions were explained by the fact that volatility updates were less frequent than the horizon used to compute the VaR. This resulted in P&L impacts being concentrated on specific dates in June instead of being spread daily. As already mentioned, a review of the VaR framework was initiated at that time to determine how such elements could be captured more precisely.



Reinsurance Risks

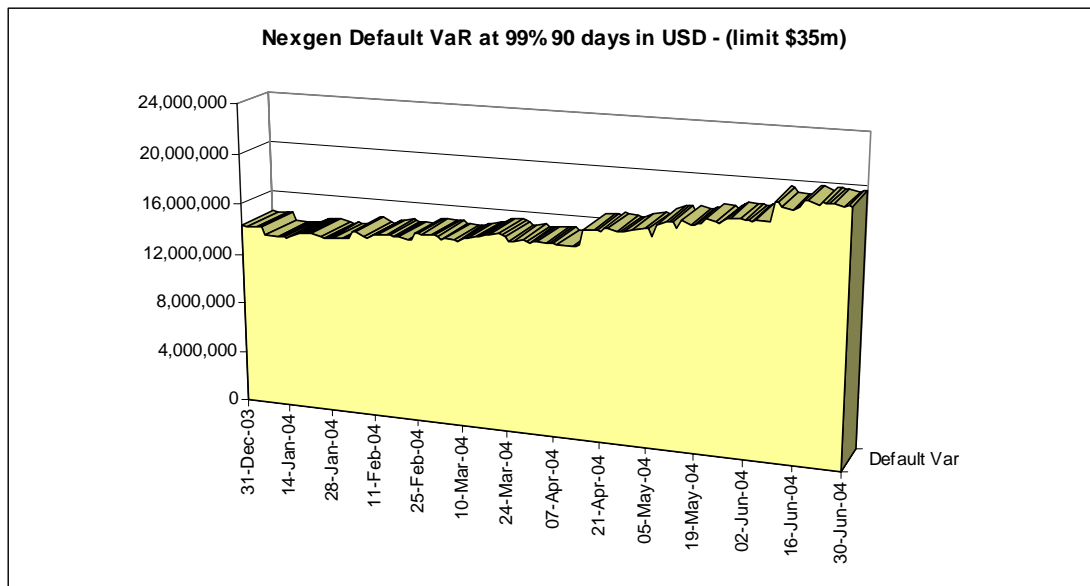
The reinsurance VaR (at a 99% confidence level over the period to maturity) was nil at 30 June 2004 (31 December 2003: nil) compared to an internal limit of \$30m.

Credit Risk - Credit Derivatives

The risks on this type of transactions are monitored through 2 different VaR indicators which were developed at the end of last year. Default VaR captures the impact of unexpected immediate defaults on the Group P&L. Defaults are simulated using probabilities of default implied from credit default swap spreads and correlations between underlying names implied from equity markets. The Spreads VaR captures the impact of adverse credit market spreads behaviour on the Group P&L. Spread variations are simulated using both historical volatilities and correlations. Both indicators are measured over a 90 days holding period, at a 99% confidence level and are subject to independent limits. Default VaR limit was raised from \$30m to \$35m in June.

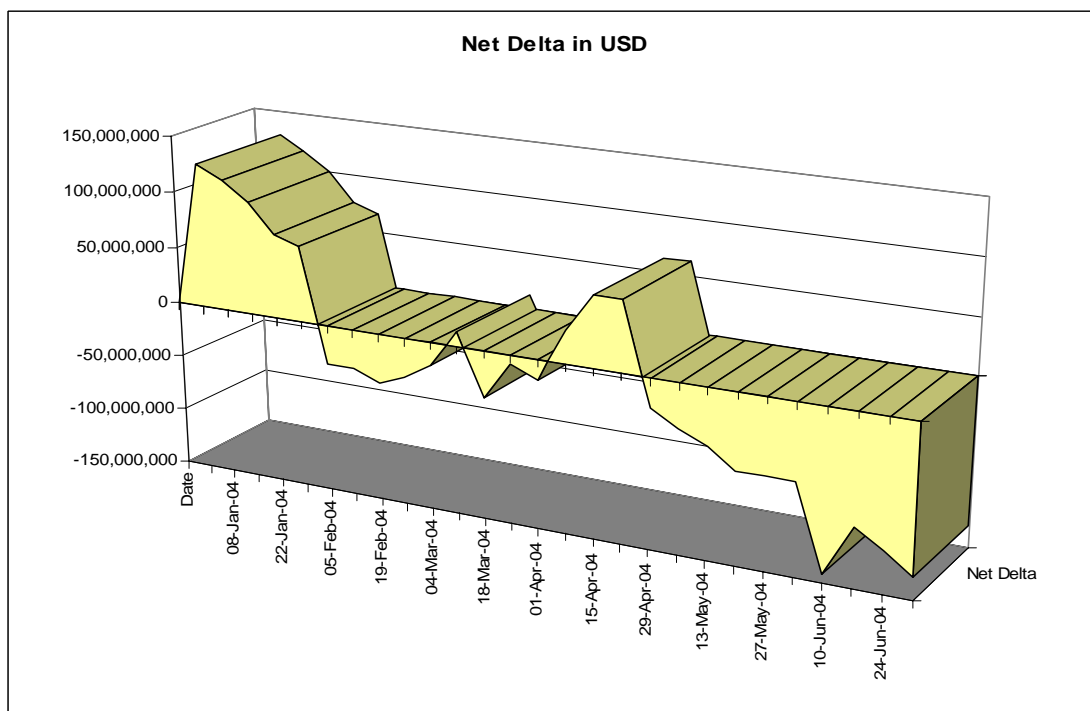
At 30 June 2004, the corresponding figures were:

VaR Default (limit: \$35m) \$19.6m (31 December 2003 \$14.3m)
 VaR Spreads (limit: \$10m) \$ 4.0m (31 December 2003 \$ 2.9m)



Another key risk management measure is the hedge ratio sensitivity analysis. A summary of this is as follows:

	30 June 2004	31 December 2003
Sum of Long delta (\$'000)	474,000	623,000
Sum of Short delta (\$'000)	(583,000)	(495,000)
Net delta (\$'000)	(109,000)	128,000
Sensitivity to +1bp CDS Spreads (\$'000)	49	(60)



Independent Review Report to the members of Nexgen Financial Holdings Limited

Introduction

We have been instructed by the Group to review the financial information set out on pages 8 to 16. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the board of directors. The directors are responsible for preparing the interim report in accordance with the accounting policies and the presentation applied to the interim figures which should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board applicable in Ireland. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards applicable in Ireland and, therefore, provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information. This report has been prepared for and only for the company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin
17 September 2004

CONSOLIDATED PROFIT & LOSS ACCOUNT

Half Year ended 30 June 2004		Half Year ended 30 June 2004 USD'000	Half Year ended 30 June 2003 USD'000
	Notes		
Operating income	3	11,746	12,975
Operating expenses	4	(10,033)	(8,522)
Profit on ordinary activities before taxation		<u>1,713</u>	<u>4,453</u>
Taxation		(403)	(562)
Profit retained for the half year		<u>1,310</u>	<u>3,891</u>
Profit and loss account at the beginning of year		12,664	154
Profit and loss account at the end of the half year		<u><u>13,974</u></u>	<u><u>4,045</u></u>

CONSOLIDATED BALANCE SHEET

30 June 2004		30 June 2004	31 December 2003
	Notes	USD'000	USD'000
Assets			
Cash at Bank and in hand		7,529	5,209
Deposits with financial institutions	6	323,460	117,048
Trading securities – long positions	7	377,258	394,672
Derivative financial instruments – long positions	8	172,981	102,436
Reinsurer's share of technical provision		-	-
Debtors	9	2,201	2,179
Tangible fixed assets	5	728	913
Total Assets		884,157	622,457
Liabilities			
Trading securities - short positions	10	282,378	112,555
Derivative financial instruments – short positions	11	77,789	90,301
Loans from financial institutions	12	316,294	211,384
Reinsurance liabilities		-	-
Creditors	13	4,181	5,996
Total Liabilities		680,642	420,236
Net Assets		203,515	202,221
Capital and reserves			
Called up share capital	14	1,861	1,861
Share premium	15	187,632	187,632
Other reserves	15	48	64
Profit and loss account	15	13,974	12,664
Equity shareholders' funds	16	203,515	202,221
Total shareholders' funds		203,515	202,221

Nexgen Financial Holdings Limited

1. Accounting Policies

There has been no change to our accounting policies since the year end 31 December 2003.

2. Companies consolidated in the Group Financial Statements

Nexgen Financial Holdings Limited	% Interest	% Interest	Amount of Investment	Country of incorporation and principal area of operation	Nature of Business
	30 June 2004	31 December 2003			
Nexgen Re Limited	100%	100%	USD185,942,275	Ireland	Reinsurance
Universe Holdings Limited	100%	100%	USD1	Cayman Islands	Financial Structures
Nexgen Mauritius Limited	100%	100%	USD2	Mauritius	Dormant
Nexgen Capital Limited*	100%	100%	NIL	Ireland	Financial Structures
Nexgen Financial Solutions Limited*	100%	100%	NIL	Ireland	Financial Structuring
Nexgen Financial Solutions (Asia) Pte Limited*	100%	100%	NIL	Singapore	Financial Structuring
Biltmore 2002-1 Limited **	100%	100%	USD3,500,000	Cayman Islands	SPV
Mango CDO Limited	100%	100%	NIL	Jersey	SPV
Lime CDO Limited	100%	100%	NIL	Jersey	SPV

*indirect holding

**collateralized debt obligations

3 Operating income

	Half Year ended 30 June 2004 USD'000	Half Year ended 30 June 2003 USD'000
Group:		
Operating income comprises:		
Trading income analysed by origin:		
- client transactions	9,383	7,736
- credit charge on client transaction	(6,300)	(8,884)
- arbitrage positions	115	4,118
- residual positions management	(1,173)	(532)
- remuneration own funds	1,888	1,910
Collateralised debt obligations	8,562	9,230
Reinsurance technical income	-	(144)
Other income	20	-
Transaction related professional fees	(748)	(459)
	<u>11,746</u>	<u>12,975</u>

4 Operating expenses	Half Year ended	Half Year ended
Group:	30 June	30 June
	2004	2003
	USD'000	USD'000
Operating expenses comprises:		
Staff Costs	6,458	5,357
Auditors' remuneration	283	165
Depreciation	307	269
Other administrative expenses		
- Professional fees	851	373
- Directors emoluments	248	210
- Travel and subsistence	558	796
- Rent and Office expenses	746	572
- Data Information and Research	225	110
- Other administrative expenses	357	670
	<u>10,033</u>	<u>8,522</u>
Staff costs comprise:		
Wages and salaries	4,466	4,202
Social welfare costs	909	530
Pension Costs	639	431
Other staff costs	444	194
	<u>6,458</u>	<u>5,357</u>

The number of persons employed by the Group at 30 June 2004 was 64.

5 Tangible fixed assets	Computer Equipment USD '000	Office Equipment USD '000	Computer Software USD '000	Total USD '000
Cost				
At 31 December 2003	867	753	509	2,129
Additions	51	16	56	123
fx gains/losses	(4)	(3)	-	(7)
At 30 June 2004	<u>914</u>	<u>766</u>	<u>565</u>	<u>2,245</u>
Accumulated Depr				
At 31 December 2003	473	358	385	1,216
Charge for the year	136	94	76	306
fx gains/losses	(3)	(2)	-	(5)
At 30 June 2004	<u>606</u>	<u>450</u>	<u>461</u>	<u>1,517</u>
Net Book Value				
At 31 December 2003	<u><u>394</u></u>	<u><u>395</u></u>	<u><u>124</u></u>	<u><u>913</u></u>
At 30 June 2004	<u><u>308</u></u>	<u><u>316</u></u>	<u><u>104</u></u>	<u><u>728</u></u>

6 Deposits with financial institutions

30 June 2004 USD'000	31 December 2003 USD'000
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Amounts falling due within one year

Group:

- unsecured	58	59
- deposit Biltmore	45,500	45,500
- collateralised deposits	<u>277,902</u>	<u>71,489</u>
	<u><u>323,460</u></u>	<u><u>117,048</u></u>

7 Trading securities – long positions

30 June 2004 USD'000	31 December 2003 USD'000
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Shares:

- listed	153,228	151,192
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Bonds and convertibles

- listed and/or indexed to listed shares	206,561	199,652
- non listed corporate	17,389	-
- government bonds	<u>80</u>	<u>43,828</u>
	<u><u>377,258</u></u>	<u><u>394,672</u></u>

Nexgen Financial Holdings Limited

8 Derivative financial instruments – long positions	30 June 2004 USD'000	31 December 2003 USD'000
Analysed by:		
Categories of counterparty:		
- financial institutions	31,008	45,567
-other institutions	141,973	56,869
	<u>172,981</u>	<u>102,436</u>
Analysed by maturity:		
Less than 1 year	36,302	1,481
Between 1 and 5 years	129,005	96,039
Greater than 5 years	7,674	4,916
	<u>172,981</u>	<u>102,436</u>
9 Debtors	30 June 2004 USD'000	31 December 2003 USD'000
Amounts falling due within one year		
Other debtors	1,971	1,869
Amounts falling due after one year		
Other debtors and advances	230	310
	<u>2,201</u>	<u>2,179</u>
10 Trading securities - short positions	30 June 2004 USD'000	31 December 2003 USD'000
Shares:		
- listed	279,687	68,273
Bonds and convertibles		
- government bonds	80	43,828
Sold listed options	2,611	454
	<u>282,378</u>	<u>112,555</u>

11 Derivative financial instruments – short positions	30 June 2004 USD'000	31 December 2003 USD'000
Analysed by categories of counterparty:		
- Financial institutions	7,356	6,010
- Other institutions	70,433	84,291
	<u>77,789</u>	<u>90,301</u>
Analysed by maturity:		
Less than 1 year	24,134	7,293
Between 1 and 5 years	39,752	83,008
Greater than 5 years	13,903	-
	<u>77,789</u>	<u>90,301</u>
12 Loans from financial institutions	30 June 2004 USD'000	31 December 2003 USD'000
Amounts falling due within one year:		
- loans	38,088	10,013
- collateralised loans	263,206	186,371
- loan note Biltmore	15,000	15,000
	<u>316,294</u>	<u>211,384</u>
13 Creditors	30 June 2004 USD'000	31 December 2003 USD'000
Accruals and deferred income	2,871	3,800
Other creditors	490	247
Provisions for deferred tax	180	600
Corporation tax due	642	1,349
	<u>4,181</u>	<u>5,996</u>
Provision for deferred tax	USD'000	USD'000
At 1 January 2004	600	436
Charged to the profit and loss account	(407)	600
Utilised during the year	(13)	(436)
At 30 June 2004	<u>180</u>	<u>600</u>

14 Share capital	Half Year ended 30 June 2004 USD'000	Year ended 31 December 2003 USD'000
Authorised:		
Ordinary shares of USD0.01 each	6,000	6,000
Founders shares of USD0.01 each	<u>3</u>	<u>3</u>
	<u><u>6,003</u></u>	<u><u>6,003</u></u>
Issued		
Ordinary shares of USD0.01 each	1,860	1,860
Founders shares of USD0.01 each	<u>1</u>	<u>1</u>
	<u><u>1,861</u></u>	<u><u>1,861</u></u>

The Ordinary shares carry the right to 80% of the votes of the shareholders at a general meeting of the Company and to 80% of any dividend declared. The Founders shares carry the right to 20% of the votes of the shareholders at a general meeting of the Company and to 20% of any dividend declared.

Warrants

The Company has granted to each Ordinary shareholder one warrant for every three Ordinary shares held, giving the right, expiring in December 2005, to subscribe for one Ordinary Share at a subscription price of USD 1.

The Company issued warrants expiring in December 2009 to the holders of Founders shares, giving the right to subscribe for ordinary shares at a subscription price of USD 1.50 and USD 2.50.

There were USD 62,007,970 warrants issued which mature in 2005 and USD 15,194,200 warrants issued maturing in 2009.

All of the warrants currently issued by the Company are physically-settled only, and their terms are adjustable only to take account of dividends, distributions and extraordinary events.

15 Reserves

Group	Share Premium Account USD '000	Other Reserves USD '000	Profit and Loss Account USD '000	Total USD '000
At 31 December 2003	187,632	64	12,664	200,360
Issue of new shares	-	-	-	-
Profit retained for the year	-	-	1,310	1,310
Currency translation difference on foreign currency net investments	-	(16)	-	(16)
At 30 June 2004	<u>187,632</u>	<u>48</u>	<u>13,974</u>	<u>201,654</u>

16 Reconciliation of movement in equity shareholders' funds	Half Year ended 30 June 2004 USD'000	Year ended 31 December 2003 USD'000
Opening shareholders' funds	202,221	193,781
Share capital issued	-	-
Profit for the financial year	1,310	8,416
Exchange translation adjustment	(16)	24
Closing shareholders' funds	<u>203,515</u>	<u>202,221</u>

17 Derivative Contracts

Dealing in derivative instruments forms a fundamental part of the Group's activities. Accordingly, the Group has a number of interest rate swaps, equity swaps, equity forwards, equity options, equity index futures and foreign exchange spot and forward contracts and credit default swap contracts at 30 June 2004. Gains and losses arising on marking these financial instruments to market are included in dealing profits in accordance with the Group's accounting policies.

The notional amounts and fair value amounts of the contracts are shown below:

	<u>30 June 2004</u>			<u>31 December 2003</u>		
	Notional Amount USD'000	Fair Value Asset USD'000	Fair Value Liability USD'000	Notional Amount USD'000	Fair Value Asset USD'000	Fair Value Liability USD'000
Interest Rate Swap contracts	355,185	412	1,628	185,807	266	625
Foreign Exchange contracts	177,468	69	544	71,013	23	1,499
Equity Derivative contracts	1,826,446	89,996	47,051	500,045	59,917	82,258
Credit Derivative contracts	1,668,000	82,504	28,566	415,268	42,230	5,919
Total contracts	<u>3,967,099</u>	<u>172,981</u>	<u>77,789</u>	<u>1,172,133</u>	<u>102,436</u>	<u>90,301</u>