

Asian Income Plus

Asian Income Plus is an offer to invest in Yield Income Enhanced Listed Deferred Securities III (YIELDS3), a hybrid security issued by Citigroup Global Markets Australia Pty Limited (CGMA). Lonsec Limited (Lonsec) has reviewed this latest capital protected offering from CGMA. YIELDS3 is an invitation to purchase a six-year product that provides exposure to the performance of a diversified portfolio of stocks drawn from the MSCI All Country Asia Index. YIELDS3 targets a 12% pa (net of fees) return, payable quarterly in arrears, whilst providing investors with a Capital Guarantee covering 100% of the initial investment amount. Following our review, Lonsec has added YIELDS3 to the Lonsec Recommended List with an 'Investment Grade' rating.

Given the structure of the Capital Guarantee, this investment is only suitable for investors who are comfortable with the creditworthiness of Citigroup. Investors need to be aware that they cannot rely on YIELDS3 solely as an income product because there are possible circumstances in which the quarterly distributions could fall to zero and remain at that level for an extended period.

Investment Overview

Product type	A 'unitised contract' providing investors with exposure to the performance of the Asian Income Plus Trading Strategy III (AIPTS) in conjunction with a Capital Guarantee.
Underlying investment strategy	YIELDS3 are linked to the performance of the AIPTS, a proprietary trading model developed by Citigroup that seeks to generate a high level of income and capital growth by notionally investing in 30 shares selected from the MSCI All Countries Asia Index (the Reference Index).
Objectives	To provide investors with the potential for high quarterly income payments, medium term capital growth and a Capital Guarantee on the initial investment.
Structure	The offer is structured as a deferred purchase agreement. It is a contract between the investor and the Issuer whereby the Issuer agrees to deliver the Delivery Assets to investors on the maturity date thereby procuring the Capital Guarantee and the investment return to investors at maturity.
Security	YIELDS3 - Yield Income Enhanced Listed Deferred Securities 3
Investment	Units in YIELDS3
Issue price	\$10.00 per Unit
Initial NAV	\$9.67 per Unit (estimate only)
Reference Index	MSCI AC Asia Index
Region	Asia - Pacific
Capital Guarantee	Citigroup Inc. will provide investors with a Capital Guarantee for all YIELDS3 held until the maturity date. Citigroup Inc. is currently rated Aa1 by Moody's and AA- by Standard & Poors.
Counterparty risk	Investors will rank as unsecured creditors of CGMA and Citigroup Inc.
Issuer	Citigroup Global Markets Australia Pty Limited (CGMA).
Open & Close Dates	Opens 23 May 2005, Closes 26 July 2005.
Issue Date	2 August 2005

Investment term	Long term, running for 6 years to 2 August 2011.
Amount being raised	CGMA have not set a minimum target nor assigned a maximum.
Minimum application	500 Units and then in multiples of 100 Units.
Level of risk	Medium. Refer section "Risks" below and PDS pages 21 to 24.
Potential returns	Medium. Investment performance will be driven by the performance of the 30 Selected Stocks from the Reference Index, interest rates and the performance of the AIPTS.
Gearing and derivatives	The issuer may or may not enter into separate hedging arrangements to offset part or all of the risk associated with its obligations under YIELDS3.
Liquidity	The Issuer has applied for the official quotation of YIELDS3 to enable trading on the ASX. The expected listing date is 9 August 2005.
Redemptions	YIELDS3 can be redeemed via sale on the ASX. However, the Capital Guarantee only applies to YIELDS3 held at the Maturity Date.
Delivery Asset	One or more of the shares that comprise the Reference Index or any other Delivery Asset as determined by the issuer.
Distributions	YIELDS3 intend to pay a Coupon to investors quarterly in arrears. This payment is <u>targeted</u> at 12% pa (net of fees) based on an initial allocation of 100% to the AIPTS.
Ongoing fee (AIPTS and Capital Guarantee Costs)	The AIPTS and Capital Guarantee Costs are based on the Issue Price multiplied by the number of YIELDS3 on issue and accrue daily. The maximum cost for investors is 2.5% pa if 100% of the Investment Amount is notionally allocated to the AIPTS. The minimum cost for investors is 0.75% pa if 100% of the Investment Amount is notionally allocated to the Bond Portfolio.
Performance fee	No performance fees are paid.
Strategy Sponsor	Citigroup Global Markets Limited (CGML)
Distribution fee	Upfront fee of up to 3.3% (inc GST) and a trailing fee of up to 0.85% (inc GST) pa is deducted from the notional value of the Dynamic Portfolio

Issuer and Distributor Profile

The Issuer is Citigroup Global Markets Australia Pty Limited (CGMA), a wholly owned subsidiary of Citigroup Inc., a US based global financial services group. For the year ended 30 June 2004 Citigroup Inc. reported as follows:

Citigroup Inc. Financial Highlights	US\$ billion
Total assets	1,396
Revenue	83.4
Net income	15.9
Return on average Common Equity	5%

Disclosure by the Issuer

The Issuer and its related bodies corporate, as part of its investment banking and stockbroking business, may from time to time advise or act for the issuer of the Delivery Asset, or advise or act for other clients in relation to the issuer of the Delivery Asset, or publish research reports on the issuer of the Delivery Asset. Investors will not be notified of these activities, or the content of such reports; and the Issuer or an associate or related body corporate may from time to time hold Delivery Assets for trading purposes, including market making, or to hedge YIELDS3. Related bodies corporate of the Issuer may deal in Delivery Assets, options and other derivative contracts in respect of them.

Opinion

Lonsec considers that the entities managing and distributing YIELDS3 are suitably qualified and experienced.

Overview of YIELDS3

CGMA has previously issued seven market-linked investments in the period 2002 to 2004. This offer is structured in a broadly similar way to the previous offers but in addition it employs a technique described as Constant Proportion Portfolio Insurance (CPPI). Investors should also be aware that the Strategy Sponsor, CGML, has been using this technique for more than seven years and currently manages over US\$4.0 billion in investor's funds under this technique. Another added feature is the use of covered call option writing to generate premium income to enhance the dividend income on the 30 stocks selected for the AIPTS from the MSCI All Countries Asia Index.

As evidence of the increasing use of Buy-Write strategies to enhance income, especially in a flat market, the ASX developed the S&P/ASX Buy Write Index (XBW) which incorporates the benefits of the option premium income generated when a covered call option is written.

YIELDS3 intend to pay a variable Coupon to investors quarterly in arrears. This distribution is dependent on the allocation to AIPTS. It will however be payable under most normal conditions based on the Selected Stocks continuing to pay comparable levels of dividends and the level of stock implied volatilities remaining stable or rising.

The product provides investors with exposure to the performance of the AIPTS with the following features:

- Exposure to the performance of 30 of the largest companies by market capitalisation in the Asian region.
- Income enhancement is achieved by writing quarterly covered call options over the stocks that comprise the AIPTS.
- 100% Capital Guarantee if YIELDS3 are held until the maturity date.
- Upside potential in a rising market may be constrained by the use of the Buy-Write strategy.
- No performance fees are taken by the Issuer. The distribution fees (3.3% upfront and 0.85% pa trailing) and the management fee (0.75% pa of the total portfolio and 1.75% pa of the amount allocated to the AIPTS) are comparable with the fees charged by other structured products with capital guarantees.
- At maturity the Delivery Assets will normally constitute the shares in companies that comprise the Reference Index. However, investors may elect to take advantage of the Agency Sale Arrangement which enables the investor to sell their Delivery Assets and receive the sale proceeds.
- YIELDS3 will make quarterly distributions during the term of the investment, unless there is a need to reinvest distributions to maintain an allocation to the AIPTS. The distributions will not carry any imputation credits.
- Early redemption is possible by selling YIELDS3 on the ASX. However, if YIELDS3 are sold prior to maturity the Capital Guarantee would not apply.
- Investors will be provided with quarterly performance reports detailing information regarding the performance of YIELDS3 and the underlying AIPTS.

Structure of YIELDS3

YIELDS3 will be listed as a warrant under Section 10 of the ASX Market Rules and are structured as a deferred purchase agreement. Under a deferred purchase agreement investors agree to purchase a

number of Delivery Assets (the Delivery Parcel) on the maturity date. The purchase price of the Delivery Parcel is equal to \$10.00 per YIELDS3 Unit and is payable by investors prior to the Issue Date.

The value of the Delivery Parcel received by investors on the Maturity Date is variable and will be equal to the greater of \$10.00 per YIELDS3 Unit or the Dynamic Portfolio Value. The initial NAV of Units in YIELDS3 is expected to be \$9.67 per Unit.

Asian Income Plus Trading Strategy III

The Asian Income Plus Trading Strategy III (AIPTS) is a proprietary trading model developed by Citigroup that seeks to generate a income and potential for capital growth through investment exposure to 30 of Asia's largest companies as measured by market capitalisation.

The two core objectives of the AIPTS are to generate a target annual income of 12% pa (net of fees) and a proportion of equity growth. The AIPTS uses a dual approach in order to meet these objectives:

1. Investing in high yielding stocks in some of Asia's largest companies (as measured by market capitalisation).
2. Generating additional income by writing covered call options over these stocks.

The stock selection universe for the AIPTS includes all the stocks that comprise the Reference Index (MSCI All Countries Asia Index, Bloomberg Code: MXAS) listed on exchanges in Hong Kong, Japan, South Korea, Taiwan, and Singapore. The AIPTS ranks the pool of stocks in the Reference Index according to the Estimated Total Yield of each stock. The Estimated Total Yield is composed of two components:

1. The one-year historic dividend yield (excluding special dividends and stock dividends).
2. The projected option premium income based on the current implied volatilities and a fixed strike price of 103.5% of the current stock price.

The AIPTS selects the top 30 ranked stocks, subject to the provisions described below. Each selected stock is classified within a particular industry sector by the Index. Subject to the following, the AIPTS will only select 8 stocks from any single sector or country. Having selected 8 stocks from the same sector or country, the AIPTS will seek to avoid further stocks from the same sector or country, and will instead select stocks with a lower Estimated Total Yield from the Index.

The AIPTS assigns weightings ranging from 2% to 5% to each stock selected, with the stocks with a higher Estimated Total Yield being assigned higher weightings. The stock portfolio is rebalanced annually so that at each rebalancing point the current highest yielding stocks are included within the AIPTS and are weighted to take advantage of their higher yields.

Call option writing

A call option gives the holder the right but not the obligation to buy a stock at a specific price (the strike price) at a future point in time. A covered call option is an option that is sold on a stock that is held by the seller.

If the call option is exercised the seller of the option is covered because they hold the stock (the liability on the call option is limited to delivery of the stock and the seller is not exposed to an increased cost base resulting from the increase in the stock price above the strike price). The AIPTS will notionally sell 3-month (approximately) covered call options on each of the 30 stocks held. The AIPTS will never notionally sell an uncovered call option.

Further enhancement of income is achieved within the AIPTS by notionally writing covered call options on a quarterly basis over each of the stocks selected for inclusion in the AIPTS. The AIPTS model generates the strike prices for these options, with the minimum strike price in each quarter being 100% of the current stock price. By targeting a strike price above the stock price, the AIPTS maintains the potential for limited capital appreciation. Premium income generated on the call options is combined with the dividends notionally earned on the stocks to produce an enhanced yield. The call option writing is intended to help the IPTS to outperform a direct investment in the underlying portfolio of stocks in all but strong bull market scenarios.

The strike price of each call option will be subject to a minimum strike price of 100% of the current market price of the relevant stock and a maximum of 130% of the current market price of the relevant stock so as to reduce the risk of market illiquidity. The actual premium for each call option will be equal to the best bid price received from at least two independent market counterparties and CGML (or an affiliate of CGML) in respect of such call option. To the extent that the total call options to be notionally written by the Strategy

Sponsor are in excess of the total number of call options that the counterparty with the best bid price is willing to purchase, the excess call options will be offered to the counterparty with the next best bid price and to the extent that there are any remaining excess call options, to the counterparty with the lowest bid price. The total call options will be reduced to the extent that the counterparties do not bid for all of the excess call options.

The option premium will be converted into USD, as soon as reasonably practicable after it is received, at the then current exchange rate determined by the Strategy Sponsor. If the Strategy Sponsor determines that the options market in respect of a particular selected stock is illiquid, the AIPTS will not write an option for that stock.

Reference Index

The Reference Index for the AIPTS is the MSCI All Countries Asia Index (MSCI Asia). MSCI Asia is a free float adjusted capitalisation-weighted index capturing 85% of the investible universe of 12 Asian countries including China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Pakistan, Phillipines, Singapore, Thailand, and Taiwan.

Lonsec considers that the choice of the Reference Index for YIELDS3 is the main differentiator between YIELDS3 and the earlier YIELDS and YIELDS2. The earlier YIELDS issues used the Dow Jones Global Titans (DJGT) Index which has a more global focus than the Asia-Pacific focused MSCI Asia index. The MSCI Asia index has historically had a lower dividend yield than the DJGT index (approximately 2.5% pa versus 4% pa) which increases the amount of option premium income that must be generated by the call option writing strategy in order to deliver a target of 12% pa income. As a result of this requirement, the strike price range used in the call option writing strategy has been extended to 100% - 130% (from 105% - 130%). Any reduction in the target strike price used to write call options reduces the opportunity for capital growth compared to the earlier YIELDS issues.

Lonsec notes that of these 12 countries, 9 are currently classified by Morgan Stanley Capital International (MSCI) as Emerging Markets (the three exceptions being Japan, Singapore, and Hong Kong). Investors should consider that an investment in Emerging Markets entails a higher degree of risk than was faced by investors in the earlier YIELDS issues. Emerging Markets are often characterised by increased market volatility, less market liquidity, a lower level of corporate governance and disclosure, a potentially more restrictive regulatory regime for investors, and a generally lower level of market transparency. However, whilst the MSCI Asia index is exposed to the performance of the stockmarkets of 12 Asian countries, all stocks selected for the AIPTS are listed on exchanges in Hong Kong, Singapore, South Korea, Taiwan and Japan which do require a higher standard of corporate governance and have a higher level of market liquidity. In addition, 69.5% of the MSCI Asia Index is concentrated in Japan which is classified as a Western economy.

The following table indicates the top 2 holdings for each country held in the AIPTS as at 28 February 2005.

Company	Sector	Currency	Country
POSCO	Materials	KRW	Korea
Samsung Electronics	Information technology	KRW	Korea
Cheung Kong Holdings	Financials	HKD	Hong Kong/China
PetroChina	Energy	HKD	Hong Kong/China
Mizuho Financial	Financials	JPY	Japan
NTT Docomo	Telecommunications	JPY	Japan
DBS Group	Financials	SGD	Singapore
Singapore Telecommunications	Telecommunications	SGD	Singapore
UMC	Information Technology	TWD	Taiwan
Hon Hai	Information Technology	TWD	Taiwan

If the Reference Index or its sector classifications cease to be published by Morgan Stanley Capital International, the Strategy Sponsor will substitute a comparable index as the Reference Index.

Dynamic Portfolio

The Dynamic Portfolio is designed to replicate an asset allocation mechanism that re-allocates investment exposure between two notional assets, namely the AIPTS and the Bond Portfolio. On the issue date, it is expected that the Dynamic Portfolio will be 100% allocated to the AIPTS with a zero allocation to the Bond

Portfolio. The general principle of the dynamic allocation mechanism is that at any point in time during the investment period it is possible to calculate the value of the Bond Portfolio that would be required to grow to an amount equal to 100% of the Issue Price on the Maturity Date. At any point in time, the amount of bonds required to generate the Issue Price is known as the "Protection Floor".

During the investment period, the allocations within the Dynamic Portfolio will change based on the dynamic allocation mechanism. The dynamic allocation mechanism is designed to protect an investor's initial capital, whilst providing maximum exposure to the AIPTS.

The target allocation to the AIPTS is set to equal 5 times the difference between the NAV of the Dynamic Portfolio and the Protection Floor. If the difference between the NAV of the Dynamic Portfolio and the Protection Floor (the 'Gap Risk Percentage') is less than 15% or greater than 25% of the portfolio's allocation to the AIPTS, the allocations within the Dynamic Portfolio will change.

If the Gap Risk Percentage is greater than 25%, the allocation to the AIPTS will be increased and the allocation to the Bond Portfolio will be decreased to reset the Gap Risk percentage to 20%.

Alternatively, if the Gap Risk Percentage is less than 15%, the allocation to the AIPTS will be decreased and the allocation to the Bond Portfolio increased to reset the Gap Risk Percentage to 20%. In order to effect these re-allocations, the Strategy Sponsor will notionally purchase or sell the stocks and/or bonds that comprise the AIPTS and/or the Bond Portfolio.

The dynamic allocation mechanism therefore means that if the NAV of the Dynamic Portfolio is performing well relative to the Protection Floor (as indicated by the gap widening), then the allocation to the AIPTS will be increased and the allocation to the Bond Portfolio decreased.

Alternatively, if the NAV of the Dynamic Portfolio is not performing well relative to the Protection Floor (as indicated by the gap narrowing) then the allocation to the Bond Portfolio will be increased and the allocation to the AIPTS decreased.

In extreme falling equity markets the allocation to the Bond Portfolio may be 100%. This event requires a fall in the value of the AIPTS of approximately 20% in one day. If this occurs, the Dynamic Portfolio would remain 100% allocated to the Bond Portfolio until the Maturity Date and, provided no Early Maturity Events occur, investors will only receive their Investment Amount back on maturity.

Leverage Facility

The dynamic allocation mechanism also allows for the allocation to the AIPTS to exceed 100% of the NAV of the Dynamic Portfolio. This is achieved by the utilisation of a Leverage Facility to increase exposure to the AIPTS and thereby enabling the allocation to the AIPTS to exceed 100%. The maximum allocation allowed to the AIPTS under the Leverage Facility is 150% of the NAV of the Dynamic Portfolio.

Interest on the Leverage Facility will be charged at a rate determined by reference to the Reserve Bank of Australia official overnight cash rate plus 1.25% pa. At current interest rates the cost of the Leverage Facility is approximately 7% pa.

Notional investments and transactions

A notional investment or transaction is a hypothetical investment or transaction which is designed to replicate an actual investment or transaction. The values of the Dynamic Portfolio, the AIPTS and the Bond Portfolio, will be calculated based on notional investments during the term of YIELDS3. The Strategy Sponsor will not be required to engage in actual transactions in order to calculate such values. In addition, investors will have no rights, including voting rights or the right to receive dividends or option premiums, against any issuer of any stock underlying the IPTS.

Exposure to the Performance of the Reference Index

The funds raised under the PDS are not directly invested in the stocks which comprise the Reference Index, nor are they invested in the Delivery Assets. Instead, Citigroup will hedge its undertaking to investors that it will deliver the number of Delivery Assets determined by the performance of the Dynamic Portfolio.

In the normal course of managing its business risk Citigroup uses sophisticated risk management systems and employs various forms of risk management techniques that include transactions in Swaps, Futures and Options (both Exchange Traded and Over the Counter). Citigroup intends to make use of these risk management tools to:

- Generate a return to investors which replicates the performance of the Dynamic Portfolio.
- Generate a return to Citigroup in the form of a management fee for arranging and managing the YIELDS3 investment.

The three main factors that will affect the value of Units in YIELDS3 are the market volatilities and share price performance of the 30 Selected Stocks selected from the Reference Index and prevailing interest rates. The following table illustrates:

Scenario	Probable outcome
Rising share prices	The value of YIELDS3 will increase, as long as the allocation to the AIPTS is not zero
Falling share prices	The value of YIELDS3 will decrease, as long as the allocation to the AIPTS is not zero
Rising interest rates	The value of YIELDS3 will decrease, but to a lesser extent if the Dynamic Portfolio is fully allocated to the AIPTS
Falling interest rates	The value of YIELDS3 will increase, but to a lesser extent if the Dynamic Portfolio is fully allocated to the AIPTS
Fluctuating share prices	Impact will depend upon the size and the timing of the fluctuations and the strike prices of the call options

Distributions

In consideration for the investor agreeing to the deferred delivery of the Delivery Asset, the Issuer may pay a Coupon to investors quarterly in arrears. The Coupon is a variable payment based largely on the performance of the AIPTS. The amount of the Coupon is initially expected to be approximately 12% pa (after fees) based on 100% exposure to the AIPTS, but will vary from quarter to quarter and may be zero. In certain circumstances (for example, when the allocation to the Equity Portfolio is less than 20%) the Coupon may need to be re-invested to maintain an allocation to the AIPTS.

The Coupon reflects the stock dividends paid by the stocks comprising the AIPTS plus call option premiums. Exchange rate exposure may affect the AUD value of any Coupons. This is because returns on the stocks that comprise the AIPTS are denominated in a variety of currencies, the AIPTS is denominated in USD, and YIELDS3 are denominated in AUD.

Performance

Citigroup issued \$150m of YIELDS in July 2004 and \$80m in YIELDS2 in December 2004. YIELDS3 utilises a different Reference Index to the earlier YIELDS issues so the performance of YIELDS3 will not be comparable to YIELDS and YIELDS2.

Capital Guarantee

Each Unit in YIELDS3 is guaranteed to be worth at least \$10.00 at maturity, irrespective of when or how the investment was purchased. Investments that are withdrawn prior to maturity are fully exposed to fluctuations in the value of the units in YIELDS3, interest rate movements and the remaining time to maturity.

The Capital Guarantee is provided by Citigroup Inc. of which CGMA is a member. Citigroup Inc. is a large global retail and investment bank, operating in over 100 countries. It is rated AA- by Standard and Poor's, Aa1 by Moody's and AA+ by Fitch.

The Capital Guarantee offered depends entirely upon Citigroup Inc.'s creditworthiness. An investor in YIELDS3 will not be a secured creditor of the issuer.

Indicators of creditworthiness include balance sheet strength, market capitalisation and credit ratings from external rating agencies. Lonsec believes that Citigroup Inc. performs well against all of these measures.

The Capital Guarantee is contingent upon the conditions set out on pages 6 and 34 of the PDS. The conditions under which the Capital Guarantee will not apply to investors include:

- An investor not remaining in YIELDS3 until the maturity date.
- An Early Maturity Event occurring.

Risks

YIELDS3 is exposed to a number of standard investment risks associated with investment markets. These include economic and political risks, risks associated with domestic and international markets, legal, tax and regulatory risks. In addition to the generalised risks, some specific risks include:

Performance of YIELDS3: The return from investing in YIELDS3 may be different from the return obtained from investing directly in the specific equities that are components of the Reference Index.

Early termination: If YIELDS3 terminates before maturity the Capital Guarantee will not apply.

Market and economic factors: Prevailing and anticipated economic conditions, technological, legal or political conditions and other inter-related factors may affect the performance of markets generally and the stock market specifically.

Interest rates: If Australian long-term interest rates increase, the value of Units during the investment term can be expected to fall. The converse also applies.

Capital Guarantee: The Capital Guarantee is an unsecured obligation of Citigroup Inc. The solvency of Citigroup Inc is not assured and in the event that Citigroup Inc. becomes insolvent, the Capital Guarantee may no longer be enforceable.

Conflict of interest: The Issuer and other Citigroup companies may conduct transactions as principal and as agent in various securities, including the Delivery Assets and the stocks that comprise the Reference Index. These trading activities may affect (positively or negatively) the price at which the Delivery Assets trade or the level of the Index at any point in time.

Variation of Terms: Certain events may occur that would cause the terms described in the PDS to change. For example, closure of the Reference Index would result in that Reference Index is substituted by another.

Counterparty risk: Investors will be transacting with CGMA and its affiliates and Citigroup Inc. in respect to the Capital Guarantee and the procurement of the investment return. Investors will rank as unsecured creditors of CGMA and Citigroup Inc. in connection with these matters.

Changes in the law: Changes in financial services legislation and in tax law could affect the value of Units in YIELDS3.

Early Maturity Event risk: In certain circumstances YIELDS3 may be terminated early where an Early Maturity Event occurs. Investors will be given 30 days notice of any proposed Early Maturity unless it is otherwise impracticable to do so. The Guarantor only guarantees to provide capital protection for investments held for the full term of YIELDS3. Prior to the Maturity Date investors will receive the Termination Amount. This amount may be less than an investor's initial Investment Amount. In determining the Termination Amount the Issuer may deduct break costs or taxes associated with an Early Maturity Event.

Exchange Rate risk: Exchange rate exposure may affect the value of YIELDS3 and the AUD value of any Coupons. This is because the returns on the stocks that comprise the AIPTS are denominated in a variety of currencies (USD, HKD, YEN, KRW, SGD), the AIPTS is denominated in USD, and YIELDS3 are denominated in AUD. Foreign currency exposures are not hedged and this may lead to volatility in the NAV of YIELDS3.

These and other risks are outlined in the Product Disclosure Statement (PDS) on pages 21 to 24 and should be read in full and understood by potential investors before investing in YIELDS3.

Fees

The Issuer charges Distribution Fees as follows:

- An upfront fee of 3.3% (inc GST) deducted from an investor's initial investment amount.
- A trailing fee of 0.85% (inc GST) pa is deducted from the notional value of the Dynamic Portfolio.

Fees to distributors, brokers and financial advisers are be paid by the Issuer at no additional cost to investors.

The Issuer charges a Management Fee based on the Issue Price multiplied by the number of YIELDS3 on issue and accrues daily. The maximum fee is 2.5% pa if 100% of the Investment Amount is notionally

allocated to the Equity Portfolio. The minimum fee is 0.75% pa if 100% of the Investment Amount is notionally allocated to the Bond Portfolio.

Disposal of Units during the term of the investment

Investors who wish to dispose of all or part of their investment in YIELDS3 prior to the Maturity Date can sell their Units on the ASX. The Issuer will make a market for YIELDS3 by providing both a bid and offer with a spread to the market value. The proceeds received from such a sale may be less than the initial investment amount.

Maturity Date and Delivery Asset

At the Maturity Date the Issuer will deliver to investors one or more of the stocks that comprise the Reference Index. If the Issuer cannot readily obtain one or more of these stocks, the Issuer may substitute other stocks, as determined by the Issuer in its sole and absolute discretion. The Issuer will only deliver a whole number of Delivery Assets. If any fractional stock would be transferable by the Issuer to the investor, the Issuer will pay an amount equal to the value of the fraction of the stock foregone, based on the closing price, provided that the amount exceeds \$20.00. If the amount does not exceed \$20.00, the Issuer is under no obligation to the investor to make any payment for the fraction. The Issuer will only deliver the Delivery Assets to the investor if the investor notifies the Issuer of the details of its Settlement Account before the Maturity Date. If the investor does not notify the Issuer before the Maturity Date, the Issuer will substitute the Delivery Assets in its sole and absolute discretion with shares listed on the ASX.

Investors will have two options as to how to receive the Final Value per Unit, with Final Value being the greater of the Capital Protection Value (\$10.00 per YIELDS3 Unit) or the Dynamic Portfolio value:

1. Do nothing and receive the Delivery Assets; or
2. Elect to take advantage of an Agency Sale Arrangement and have the Delivery Assets sold and receive instead a cash amount equal to the Final Value less any costs and taxes.

If an investor elects to sell their Delivery Assets, the Issuer will purchase the Delivery Assets from the investor at the closing price, thus realising the Sale Proceeds. The Sale Proceeds will be paid to investors within 10 business days of the settlement. Investors should refer to pages 14 to 15 of the PDS for further information on the Delivery Asset, its price and the Agency Sale Arrangement.

The existence of the Delivery Asset allows investors to dispose of the Delivery Asset at a future date. This allows investors to determine the timing of their disposal and the incidence of Capital Gains Tax (CGT). All capital gains (unit price appreciation) on YIELDS3 are expected to be treated as Capital Gains for tax purposes.

Overall Opinion

YIELDS3 offers access to the enhanced performance of stocks selected from an Asian equity market index (the MSCI All Countries Asia Index), with a Capital Guarantee, thus providing investors with exposure to a fast growing region within a risk controlled framework. The Guarantor (Citigroup Inc.) has a very strong credit profile. In certain circumstances gearing of up to 150% at the low interest rate of 7% pa will be employed to further enhance returns to investors.

The Issuer (CGMA) and the Strategy Sponsor (CGML) have extensive experience in structuring and managing this style of product. The call option writing (Buy Write strategy) is intended to help the Asian Income Plus Trading Strategy III (AIPTS) outperform a direct investment in the underlying portfolio of stocks in all but a strong bull market scenario. CGML will only write 3-month cash settled European call options that are 'at-the-money' or 'out-of-the-money' (i.e. where the price of the stock is at or below the exercise price of the option), with an exercise price between 100% and 130% of the market price. Lonsec notes that setting an exercise price at 100% of the market price means that YIELDS3 will not provide any opportunity for capital growth for that particular quarter.

The Asian focus of YIELDS3 provides investors with investment exposure to a region housing some of the largest and rapidly growing economies in the world. Growth in the Asian region is being driven by the opening of markets, progressive government policies and reforms and structural transformation providing a platform for sustained growth. Industrialisation and urbanisation in many Asian countries is creating a vibrant and developing middle class. However, of the 12 countries which comprise the Reference Index (MSCI All Countries Asia Index), 9 are classified as emerging markets. Emerging markets are often

characterised by immature financial markets when measured by Western benchmarks of market transparency, regulation, and accounting standards. Significant information asymmetries and a lower level of market liquidity may lead to extreme volatility in share price movements. At the time of this report, this risk is partially mitigated as only stocks listed in Hong Kong, Singapore, Korea, Taiwan, and Japan are eligible for inclusion in the Reference Index. These exchanges have a stronger regulatory and disclosure regime than many others in the Asian region. In considering an investment in YIELDS3, investors need to be comfortable that an investment in emerging markets also entails a higher degree of risk, particular in comparison to the earlier YIELDS and YIELDS2 issues which had a more global orientation.

The upfront distribution fee of approximately 3.3% (inc GST) is slightly above the 2-3% charged by other capital guaranteed products observed by Lonsec. This is expected to reduce the initial NAV of Units in YIELDS3 to around \$9.67 per Unit. In addition there is a trailing fee of approximately 0.85% (inc GST) pa which is deducted from the notional value of the Dynamic Portfolio.

The Asian Income Plus Trading Strategy III is sufficiently robust such that a fall in the value of the stocks that comprise the AIPTS of more than 20% in one day would be required to trigger a switch from 100% Dynamic Portfolio to 100% Bond Portfolio.

Lonsec believes that YIELDS3 can play an effective role as part of a client's overall portfolio. The product is designed to complement existing equity holdings and provide diversification by offering dedicated exposure to the fast developing Asian region.

Investors have the opportunity to participate in medium term capital growth via YIELDS3 unit price appreciation. In addition, YIELDS3 is targeting the payment of a quarterly distribution to investors equivalent to 12% pa (after fees) based on a 100% allocation to the AIPTS within the Dynamic Portfolio. However, YIELDS3 must not be looked upon as solely an income product because there are possible circumstances in which the quarterly distributions could fall to zero and remain at that level for an extended period.

YIELDS3 is suitable for long-term investors (6 year term, with conditional liquidity via the ASX listing in that the Capital Guarantee only applies at maturity) and has been rated 'Investment Grade' by Lonsec.

Analyst Disclosure & Certification:

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the products(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers

Date Prepared: May 2005

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Release Authorised by: Grant Kennaway

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