



Trader Dealer Online Pty Ltd
ABN: 17 090 611 680



Norris Smith Stockbroking Pty Ltd
ABN: 98 113 959 596
AFSL No. 297950
Participant of ASX Group

Product Disclosure Statement

Date of issue 22 April 2008

Norris Smith Stockbroking Pty Ltd (“NSS”) ABN 98 113 959 596

AND

Trader Dealer Online Pty Ltd (“Trader Dealer”) ABN 17 090 611 680*

**Trader Dealer is an Authorised Representative No. 324537 of Norris Smith Stockbroking Pty Ltd, a Market Participant of the ASX Group and AFSL Holder No. 297950. Trader Dealer is owned jointly by MDS Financial Group Limited (ASX:MWS) ABN 90 091 744 884 (“the Company”) and Box Red Pty Limited ABN 31 115 730 642.*

The information in this Product Disclosure Statement (PDS) does not take into account your personal objectives, financial situation and needs. Before trading in the products referred to in this PDS you should read this PDS and be satisfied that any trading you undertake in relation to those products is appropriate in view of your objectives, financial situation and needs.

We recommend that you consult your financial adviser or obtain other independent advice before trading in exchange traded options.

PURPOSE OF A PDS

This PDS has been prepared by Norris Smith Stockbroking Pty Ltd (“NSS”) the issuer of the exchange traded options and Trader Dealer Online Pty Ltd (“Trader Dealer”). This PDS is designed to assist you in deciding whether the products covered in this PDS are appropriate for your needs. This PDS has been prepared to assist you in comparing it with others you may be considering. The PDS is an important document and we recommend you contact us should you have any questions arising from the PDS prior to entering into any transactions with NSS and its Authorised Representative, Trader Dealer.

Trader Dealer is an Authorised Representative of Norris Smith and is authorised to deal in financial services products to retail and wholesale clients. Norris Smith is responsible for the execution services for Trader Dealer Online clients. This means that Trader Dealer represents and acts as an introducing broker to Norris Smith when providing financial services to you (‘non-advisory execution service’). When we use the terms ‘we’, ‘us’ or ‘our’ in this PDS, the reference is to NSS and Trader Dealer. If you have any questions in relation to this PDS, please do not hesitate to contact NSS on telephone 1300 88 1817 or Trader Dealer on 1300 853 856.

The information in this PDS does not take into account your personal objectives, financial situation and needs. Before trading in this product you should be satisfied that such trading is suitable for you in view of those objectives, and your financial situation and needs, and we recommend that you consult your investment advisor or obtain other external advice.



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ABOUT NSS and TRADER DEALER

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PRIVACY

The privacy of your personal information is important to us. We collect your personal information so that we may manage our relationship with you and provide you with the products and services you request, as well as information on products and services that may be of interest to you.

We are permitted by the Privacy Act to disclose personal information to Trader Dealer, NSS or Berndale Securities. Personal information may be communicated to brokers and other external product providers and any person acting on your behalf including your financial adviser or solicitor.

Any personal information collected will be handled in accordance with our Privacy Policy. Our Privacy Policy details how we comply with the requirements of the Privacy Act in the handling of your personal information. A copy of that policy can be obtained by visiting our website at www.traderdealer.com.au

WHAT PRODUCTS DOES THIS PDS COVER?

This is a Product Disclosure Statement for exchange traded options traded on Australian Stock Exchange Limited (ASX). It deals with exchange traded equity options and index options ("exchange traded options:") and Low Exercise Price Options (LEPO). Exchange traded equity options are options over quoted shares (or other securities) of a range of different companies listed on ASX.

Exchange traded index options are options over an index such as the ASX 200 Index or the ASX 200 Property Trust Index.

A list of companies and indices over which exchange traded options are traded can be found on the ASX website www.asx.com.au/options.

LEPOs are call options with an exercise price of one cent. LEPOs are leveraged instruments and potential profits and losses can be greater than the money initially outlaid.

INTRODUCTION

Exchange Traded Options (ETO's)

ETO's are a versatile financial product which can allow investors to:

- Hedge against fluctuations in their underlying share portfolio
- Increase the income earned from their portfolio
- To profit from speculation

Their flexibility stems from the ability to both buy and short sell an option contract and undertake multiple positions targeting specific movements in the overall market and individual equities.

The use of Exchange Traded Options within an investor's overall investment strategy can provide great flexibility to take advantage of rising, falling and sideways markets. However, both the purchase and sale of exchange traded options involves risks which are discussed at length in the section titled 'Significant risks explained'.

Specific concepts, which should be practically understood before engaging in an options strategy, are:

- The effect time has on any one Position/strategy;
- How volatility changes, both up and down, may change your pay-off diagram for a position;
- How to calculate margins and worst-case scenarios for any position;
- The likelihood of early exercise and the most probable timing of such an event;
- The effect of dividends and capital reconstructions on an options position;
- Liquidity of an options series, the role of market makers, and the effect this may have on your ability to exit a position.

When buying an ETO the initial outlay of capital may be small relative to the total contract value so that transactions are “leveraged”. Transactions should only be entered into by investors who understand the nature and extent of their rights, obligations and risks associated with trading exchange traded options.

When selling an ETO the initial income may seem attractive but the downside may be unlimited. Risk minimisation strategies should be employed to mitigate losses when a position does not move in a favourable manner.

Whilst this PDS provides product information including information about the risks, characteristics and benefits of exchange traded options, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the exchange traded option they intend to trade and relevant ASX rules.

Educational booklets:

ASX has prepared a number of educational booklets relating to exchange traded options which are available to you via their website.

In addition to reading this PDS, investors are advised that the PDS cross references certain of the ASX booklets. The ASX booklets that relate to options include “**Understanding Options Trading**”, “**Margins**”, “**Understanding Option Strategies**” which are available on the ASX website (www.asx.com.au/options). These booklets provide useful information regarding options traded on the ASX, including option features, advantages of options, risks associated with options, option adjustments, option pricing, margins, taxation and option contract specifications.

One of the ASX booklets entitled “Understanding Options Trading” is a booklet which we must give you in accordance with the ASX operating rules when you sign our client agreement to trade exchange traded options. This booklet is also available on line on the ASX website.

If you cannot access the ASX booklets via the ASX website, please contact us immediately and we will arrange to forward copies of the booklets to you at no charge.

LEPOs

LEPOs are call options on any share approved by ASX with an exercise price of one cent. As with any option the maximum loss for the buyer is the premium paid for the options contract. Potential losses for sellers are unlimited. As LEPOs have a low exercise price the full premium amount will be closer to the full value of the underlying instrument than a standard ETO. Although the buyer of a LEPO may only be required to outlay a relatively small amount of money as margins when the LEPO is entered into, at expiry if the buyer of a LEPO does not exercise the LEPO they will lose an amount approximately equal to the then current premium of the LEPO.

When you trade a LEPO you do not pay or receive the full amount of the premium. Both buyers and sellers of EPOs are required to pay margins to ACH. Contract size is usually

1,000 shares per contract but this may be adjusted for bonus issues and other capital adjustment events. Exercise style is European and is exercisable only on the last trading day before expiry.

Contract months are as detailed in ASX Derivatives Division expiry calendar. Expiry date is usually the Thursday before last Friday of the settlement month. This can change due to public holidays.

One of the ASX booklets entitled "Understanding LEPOs" is available on line on the ASX website. If you cannot access the ASX booklet via the ASX website, please contact us immediately and we will arrange to forward a copy of the booklet to you at no charge.

How do your orders get executed and settled?

Orders are placed by phone direct to a dealer who then places your order into the ASX Trading Platform while you are on the phone. When placing the order NSS will need a/c number, person giving the order, stock to be dealt in, series, buy or sell; series: specifying both month and strike price note: if long dated specify year. Once the order is executed, at the end of the trading day the order will be cleared by our third party clearing facility provided by Berndale Securities Pty Ltd. The clearer would make the appropriate adjustments to your cash, and holding positions, including brokerage for the transaction.

WHAT ARE EXCHANGE TRADED OPTION & LEPO CONTRACTS

Exchange traded options may be American or European style exercise. Most ASX options are American style which means they are tradeable and can be exercised at any time prior to the expiry day. European options, which include index options, can only be exercised on the expiry day and not before.

LEPOs are European style only exercise and can only be exercised on the expiry date and not before. Further detail can be found on the ASX website.

An exchange traded option or a LEPO is a contract between two parties which gives the buyer (the taker) the right, but not the obligation, to buy or sell the shares underlying the option at a specified price (exercise price) on, or before a predetermined date. To acquire this right, the taker pays a premium to the writer (seller) of the contract. When considering options over an index, the same concepts generally apply.

The premium is not a standardised feature of the exchange traded option contract or LEPO and is established between the taker and writer at the time of the trade.

Exchange traded option or LEPO sellers are referred to as "writers" because they underwrite (or willingly accept) the obligation to deliver or accept the shares covered by an option or LEPO. Similarly, buyers are referred to as "takers" of an exchange traded option or LEPO as they take up the right to buy or sell a parcel of shares. Every exchange traded option or LEPO contract has both a taker and a writer.

There are two types of exchange traded options, namely call options and put options. All option positions consist of one or more of a bought call, a sold call, a bought put, or a sold put. A long (or bought) option position is created by the purchase of a call or put. A short (or sold) position is created by the sale of a call or put. By combining two or more of these basic positions, an investor can create a trading strategy that meets a range of investment objectives, including the protection of an existing portfolio of shares. For more information on possible trading strategies we refer you to the ASX Booklet entitled "Understanding Options Strategies" available on the ASX website at www.asx.com.au/options.

Call options give the taker the right, but not the obligation, to buy a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to sell a standard quantity of shares at the predetermined exercise price.

Put options give the taker the right, but not the obligation to sell a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to buy a standard quantity of shares at the predetermined exercise price. The premium is the price of the option agreed to by the buyer and seller through the market.

The taker will always pay the writer a price (called the premium) to enter into the option contract. The writer receives and keeps the premium but has the obligation to buy from or deliver to the taker the underlying shares at the exercise price if the taker exercises the option.

Deliverable or cash settled

Exchange traded options or LEPO's are either deliverable or cash settled. Most exchange traded equity options and LEPO's are deliverable, that is with physical delivery of the underlying security, whilst index options are cash settled. Cash settlement occurs in accordance with the rules of ACH against the Opening Index Price Calculation (OPIC) as calculated on the expiry date.

Standardised Contracts

Exchange traded options and LEPO's are created by the exchange on which the underlying equity or index is listed. NSS trades exchange traded options in relation to companies and indices listed on the ASX. The ASX website provides a list of companies and indices over which exchange traded options are traded, these can be found at www.asx.com.au/options.

ASX determines the key contract specifications for each series of exchange traded options or LEPO's listed, including:

- (a) the underlying security or underlying index;
- (b) the contract size;

- (c) the exercise price (or strike price) – the exercise price (or strike price) is the specified price at which the taker (buyer) of an equity option can buy or sell the underlying shares. The ASX sets the range of exercise prices at specific intervals according to the value of the underlying shares. It is important to note that the exercise price of an equity option may change during the life of an option if the underlying share is subject to a bonus or rights issue or other form of capital reconstruction or in some cases a special dividend. The number of underlying shares may also be subject to an adjustment; and
- (d) the expiry date – exchange traded options and LEPO's have a limited pre-determined life span and generally follow one of three cycles, namely:
- (i) January/April/July/October
 - (ii) February/May/August/November
 - (iii) March/June/September/December.
 - (iv) Note: most active stocks have current month series.

The ASX may in accordance with its operating rules make an adjustment to any of the above specifications if the listed entity over which the option relates makes a pro-rata change to its ordinary share capital structure (e.g. Bonus issues or special dividends are declared). If ASX does make an adjustment it will endeavour to preserve the open positions of takers and writers at the time of the adjustment as best as possible. ASX has issued an Explanatory Guide for Option Adjustments which can be found on the ASX website. [NoteforOptionAdjustments.pdf](#) which provides further information regarding ASX option adjustments.

Full details of all exchange traded options and LEPO's listed on ASX and expiry date information can be found on the ASX website at www.asx.com.au/options or alternatively through information vendors or newspapers. A list of current option codes and delayed price information is available on the ASX website at www.asx.com.au/options. Details of the previous day's trading are published in summary form in the Australian Financial Review.

Details of contract specifications for exchange traded options and LEPO's are published by the ASX on their website. The contract specifications detail the key standardized features of exchange traded options and index options traded on ASX.

Premium

The premium (price of the option) is not set by the ASX but is negotiated between the buyer and seller of the ETO or LEPO through the market. The premium for an equity option is quoted on a cents per share basis so the dollar value payment is calculated by multiplying the premium amount by the correct multiplier for that particular series (i.e. the number of underlying shares). For example, if you buy a call option with a premium quoted at 50c per share, the total premium will be \$500.00 (being \$0.50 x 1,000 if the underlying multiplier is 1,000 shares). The premium for an index option is calculated by multiplying the premium by the index multiplier. For example, a premium of 50 points, with an index multiplier of \$10, represents a total premium cost of \$500 per contract.

Option premium will fluctuate during the option's life depending on a range of factors including the exercise price, the price of the underlying securities or the level of the index, the volatility of the underlying securities or the underlying index, the time remaining to expiry date, interest rates, dividends and general risks applicable to markets.

Most option pricing involves the use of a mathematical formula, which includes calculating the intrinsic, and time value of the particular option. You should refer to the section entitled "Option pricing fundamentals" in the ASX Booklet "Understanding Option Trading" for more information regarding the fundamentals of pricing options. ASX also provides a pricing calculator on the ASX website, www.asx.com.au/options.

No Dividends or Entitlements

Exchange traded options or LEPO's do not entitle investors to dividends or other entitlements paid by the issuer of the underlying securities, unless the investor exercises the option to become the holder of the underlying securities at or before the relevant date for dividend or entitlement purposes.

Opening/Buying/Taking an ETO or LEPO position

The establishment of a contract is referred to as opening a position. Once the taker of an exchange traded option or LEPO has an open position they have three alternatives:

1. The taker can exercise the option or LEPO
2. The taker can hold the option or LEPO to expiry and allow it to lapse.
3. The taker can close out their position by selling the same option. Note: at this point the option position will be closed out.

Opening/selling/Writing an ETO or LEPO

The seller or writer has two alternatives:

1. Let the option or LEPO go to expiry and risk being exercised against (if it is not exercised against, it will expire without any further obligation or liability on the writer);
or
2. Close out the option or LEPO by buying the option or LEPO back **before** it has been exercised.

Closing out of option contracts

As mentioned above, closing out an ETO or LEPO is completing the reverse transaction to the opening one: if you have a bought/long position you would sell it, if you have a sold/short position you would buy it back.

Note: NSS will set all accounts to automatic close out.

Expiry

Exchange traded options and LEPOs have a limited life span and every option or LEPO within the same series, which has not already been exercised, will expire on the expiry day. The expiry day is a standard day set by the ASX. For exchange traded options or LEPO's the expiry is the Thursday preceding the last Friday in the month, as long as both the Thursday and Friday are business days. Therefore if the last day of the month is a Thursday the option or LEPO will expire on the Thursday prior. For index options, expiry is usually the third Friday of the contract month. Expiry day information is available on the ASX website at www.asx.com.au/options>Trading Information>/expiry calendar.

Exercise

Option of LEPO takers make the decision to exercise the option or LEPO contract. This means that an equity option writer may be exercised against at any time prior to expiry. ACH will "randomly: allocate a writer for every exercised take position. This means that if the taker wants to exercise the options and either buy or sell (depending on whether it is a call or a put) at the predetermined price then ASX randomly allocates a writer of that option and allocates the exercise against them. The writer must then accept the shares at a predetermined price for a call or sell the shares at the predetermined price for a put. The taker of an option or LEPO will generally only exercise for a profit and therefore the exercise may result in a loss to the writer of the option or LEPO, depending on their initial costs. Once a writer has been allocated, the writer has lost the opportunity to close out their position and must effect the delivery or cash settlement obligations for the particular equity option contract.

Automatic exercise

We will automatically exercise your taken exchange traded option or LEPO contract if your contract is one cent in the money or one point for indexes. For call options the option will be in the money where the exercise price is below the price of the underlying shares. For put options the option will be in the money where the exercise price is higher than the price of the underlying shares. All unexercised option or LEPO contracts will expire on the expiry date.

Settlement

Payment for, and the delivery of underlying securities, on exercise of an open exchange traded options contract occurs via the ASX's Clearing House Electronic Subregister System (CHES) on T+3 from date of exercise. NSS is obligated to make payment to the ASX within this timeframe. For cash settled index options, a cash settlement amount calculated having regard to the opening price index calculation on expiry day, is paid to exercising takers on the day following the expiry date. The level used for settling index options is determined by a special formula. If you intend investing in the index options you should take the time to understand these arrangements. For more information on settlement of index options see the ASX Booklet "**Understanding Options Trading**" section on 'Trading index options'.

Note: if you exercise a LEPO you are required to pay the full purchase price the following day.

NSS requires that you settle at T+1 (that is within 24 hours from the time the trade occurred) for all cash positions which arise from premiums, interest, and other cash financial transactions. This requirement is reflected in the terms of our client agreement with you. You are required to pay the margin amounts we call from you within 24 hours of being advised of the margin amount by us. Please see the discussion on margins below.

SIGNIFICANT BENEFITS OF EXCHANGE TRADED OPTIONS AND LEPOS

Exchange traded options and LEPO's have a number of advantages and include:

- Risk management where investors can **hedge** (protect) their share portfolio from a drop in value. Put options allow investors holding shares to hedge against a fall in the share price.
- Shareholders can **earn income** by writing call options over shares they already hold. AS a writer of options, the investor will receive the premium amount up front. The risk is that the writer may be exercised against and be required to deliver their shares to the taker at the exercise price.
- By taking a call option, the purchase price for the underlying shares is locked in. This gives the call option holder **time to decide** whether or not to exercise the option and buy the shares. The holder has until the expiry date to make his/her decision. Likewise the taker of a put option has time to decide whether or not to sell the shares;
- Exchange traded options and LEPOs benefit from standardization and registration with a clearing and settlement facility which reduces **counterparty default risk**. This process provides the benefit that the client's position can be closed out without reference to the original counterparty and the client's risk to that counterparty is transferred to ACH;
- **Speculation** where the flexibility of entering and exiting the market prior to expiry permits an investor to take a view on market movements and trade accordingly. In addition the variety of option or LEPO combinations allows investors to develop strategies regardless of the direction of the market;
- Options or LEPO's do not require a rising market to make money, rather investors can **profit form both rising and falling** markets depending on the strategy they have employed. Strategies may be complex and strategies will have different levels of risk associated with each strategy;
- The initial outlay for an options or LEPO contract is not as much as investing directly in the underlying shares. Trading in options or LEPO's can allow investors to benefit from a change in the price of the share without having to pay the full price of the share. An investor can therefore purchase an option or LEPO (Representing a larger number of underlying shares) for less outlay and still benefit from a price move in the underlying shares. The ability to make a higher return for a smaller initial outlay is called **leverage**. Investors however, need to understand that leverage can also produce increased risks (see below).

Given the lower initial outlay attaching to options or LEPO's, investors can **diversify their portfolios and gain a broad market exposure** over a range of securities or the index itself.

SIGNIFICANT RISKS EXPLAINED

The risk of loss in trading in exchange traded options and LEPOs can be substantial. It is important that you carefully consider whether trading exchange traded options is appropriate for you in light of your investment objectives and financial circumstances.

You should only trade exchange traded options and LEPO's if you understand the nature of the products and the extent of your exposures to risks. The risks attached to investing in exchange traded options will vary in degree depending on the option traded – see the risks outlined below.

The PDS does not cover every aspect of risk associated with exchange traded options and LEPO's. For further information concerning risks associated with exchange traded option trading you are referred to the ASX booklet "**Understanding Options Trading**" and in particular the section entitled "Risks of option trading" (the booklet can be found on the ASX website at www.asx.com.au/options).

Exchange traded options and LEPOs are not suitable for some retail investors. For example investors who have a low risk tolerance should not enter into exchange traded option trades or LEPO trades which have the potential for unlimited losses. In deciding whether or not you should trade exchange traded option or LEPO contracts, you should be aware of the following matters relating to risk:

- (a) The high level of leverage that is obtainable in trading exchange traded options and LEPO's (due to the low level of initial capital outlay) can work against an investor as well as for the investor. Depending on the market movement, the use of leverage may lead to large losses as well as large gains.
- (b) Exchange traded options and LEPO's have a limited life span as their value erodes as the option reaches its expiry date. It is therefore important to ensure that the option or LEPO selected meets the investor's investment objectives.
- (c) Exchange traded options and LEPO's are subject to movements in the underlying market. Options and LEPO's may fall in price or become worthless at or before expiry.
- (d) The maximum loss in taking (buying) an exchange traded option and LEPO is the amount of premium paid. If the option expires worthless, the taker will lose the total value paid for the option (the premium) plus transaction costs.
- (e) Whilst writers (sellers) of exchange traded options earn premium income, they may also incur unlimited losses if the market moves against the option position. The premium received by the writer is a fixed amount; however the writer may incur losses greater than that amount. For example, the writer of a call option has

increased risk where the market rises and the writer does not own the underlying shares. If the option is exercised, the writer of the option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the taker at the exercise price. Similarly where the market falls, the writer of a put option that is exercised is forced to buy the underlying shares from the taker at a price well above the current market price.

- (f) Writers of options and LEPO's could sustain a total loss of margin funds deposited with their broker where the market moves against the option position. In addition, the writer may be obligated to pay additional margin funds (which may be substantial and potentially unlimited) to maintain the option or LEPO position or upon settlement of the contract. Margining is discussed below.
- (g) Under certain conditions, it could become difficult or impossible to close out a position. This can happen for example where there is a significant change in price over a short time period.
- (h) The ASX and ACH, have discretionary powers in relation to the market. They have power to suspend the market operation, or lift market suspension in options or LEPO'S while the underlying securities are in trading halt if the circumstances are appropriate, restrict exercise, terminate an option or LEPO position or substitute another underlying security (or securities), impose position limits or exercise limits or terminate contracts - all to ensure fair and orderly markets are maintained as far as practicable. These actions can affect an investor's option or LEPO positions.
- (i) The placing of risk minimisation orders may not always limit an investor's losses to the amounts that are expected. Market conditions may make it impossible for a broker to execute the risk minimisation orders. Strategies using combinations such as 'spreads' or 'straddles' may be as risky as taking a simple 'long' or 'short' position.
- (j) Trades affected on the ASX may be subject to dispute. When a trade is subject to a dispute the ASX has powers, in accordance with its rules, to request that a broker amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled. Any change or amendment to the beneficial ownership of the security can have Capital Gains tax implications.
- (k) NSS has the ability to amend or cancel the trade as stated in our Terms of Trading. This could cause you to suffer loss or increase your loss and could have Capital Gains Tax implications. A trade executed on behalf of a client can also be amended or cancelled if requested by the client even where the trade has been confirmed to the client; In addition from 11 March 2004, ASX will have the power to cancel, amend or require the cancellation of amendment of transactions. This power can be exercised without your permission or NSS's agreement.
- (l) Trades affected on the ASX are traded on an electronic trading platform and cleared through ACH. As with all such electronic platforms and systems, they are subject to failure or temporary disruption. If the system fails or is interrupted we will have

difficulties in executing all or part of your order according to your instructions. An investor's ability to recover certain losses in these circumstances will be limited given the limits of liability imposed by the ASX and ACH.

- (m) If you fail to pay an amount due from a transaction in accordance with the ASX Market Rules, you agree that NSS has the right to sell any or all of your securities in addition to the securities which are the subject of the defaulting contract in order to offset any debt owed to NSS.

ACCOUNTS PAYABLE

Margins

ACH calculates margin amounts using a system known as TIMS (Theoretical Intermarket Margining System). Writers of options will be obligated to pay margin.

Margins are generally a feature of all exchange traded derivative products and are designed to protect the financial security of the market. A margin is the amount calculated by ACH as necessary to cover the risk of financial loss on an options contract due to an adverse market movement. This means that if the price of your options or LEPO moves against you, you will be asked to have a margin which represents that adverse movement.

We may call additional margin from you, compared to the amount that is obligated to be paid to ACH – we do this as a risk management tool.

ACH margin obligations may be met by paying cash or by providing certain types of eligible collateral (e.g. shares and bank guarantees). ACH applies a 'haircut' in relation to the value of such collateral as a risk management tool, e.g. ACH generally values collateral held by it at 70% of its full value. This means that if the shares used by you as collateral have a market value of \$10,000 only 7,000 will be counted as collateral cover for your margin calls.

Total margin for exchange traded options or LEPO's is made up of two components:

Premium margin – this is market value of the particular position at the close of business each day.

Risk margin – this is the potential change in the price of the option contract assuming the maximum probable inter-day price move in the price of the underlying security or index. In times of extreme volatility an intra day margin call may be made by ACH and as a consequence, we may request that you pay this on the same day.

You must pay margin within 24 hours of you being advised of the margin call by us. The margining process used by ACH is explained in detail in the ASX booklet "**Understanding Margin Obligations**" which is available on the ASX website at www.asx.com.au/options.

Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and certainly within 1 business day of a demand being made by NSS.

OTHER SIGNIFICANT CHARACTERISTICS OF EXCHANGE TRADED OPTION CONTRACTS and LEPOs

Trading and clearing options and LEPOs

Exchange traded options and LEPO's are traded on ASX's trading platform and cleared through ACH. Participants of ASX must comply with the market rules of the ASX. Participants who clear option or LEPO contracts must comply with the market rules of ACH.

ACH stands between the buying and selling brokers (the ASX participants) and guarantees the performance to each of them. This process is known as 'novation'. Importantly ACH does not have an obligation to you, the underlying client. The rules of ACH govern arrangements once a deliverable exchange traded option has been exercised.

Client Trust Accounts and collateral

In order for us to trade an exchange traded option or LEPO contract for you, we require you to provide us with money or shares to enable us to manage the risks associated with our dealings for you in exchange traded options. Client money and shares paid or given by you in connection with our advising or dealing in exchange traded options must be held by us in trust in accordance with the Corporations Act and the ASX rules. For cash we will open a cash account at Bankwest, this account will be opened in your account name.

Money is held in trust for you in a trust account; however, this does not apply to money paid to reimburse us for payments we have had to make to ACH (generally margin calls) in respect of dealings for you. The Corporations Act provides that money held in the trust account can be used for specific purposes such as meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives.

CHESS securities (held by you) may be lodged in your name with ACH as collateral for margin obligations relating to option or LEPO trades. When CHESS securities are lodged with ACH, the securities are held by ACH as a 'third party security'. The lodged securities cannot be used by us in relation to our dealings or for our other clients in relation to their dealings unless authorised by you as Third Party Collateral. Shares in a client's superannuation fund cannot be used as Third Party Collateral for any other account.

National Guarantee Fund

The National Guarantee Fund (NGF) provides investors with protection in the following circumstances.

1. If a stock option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances; and
2. If you have entrusted property to NSS or Berndale Securities Pty Limited (BS) NSS's third party clearer in the course of dealing in options, and NSS or Berndale Securities

later become insolvent, you may claim on the NGF, in accordance with the rules governing the operation of the NGF, for any property which has not been returned to you or has not otherwise been dealt with in accordance with NSS's' obligations to you. There are limits on claims to the NGF for property entrusted.

For more information on the possible protections offered by the NGF see www.seqc.com.au

DISPUTE RESOLUTION SYSTEM

If you have any concerns or comments about the financial service or financial products provided to you, you should take the following steps:

1. Send your complaint in writing to the Compliance Manager at Norris Smith Stockbroking Pty Ltd, Level 3, 275 George Street, Sydney 2000. If you have not received a satisfactory response or 45 days have elapsed you may refer the matter to Financial Industry Complaints service ("FICS")
2. NSS is a member of the FICS. FICS can be contacted on 1800 335 405 or PO Box 579 Collins Street West, Melbourne VIC 8007. This service is provided to you free of charge.
3. You may also choose to refer the matter to the Australian Securities and Investments Commission (ASIC). ASIC may be contacted on their freecall Infoline on 1300 300 630.

SIGNIFICANT TAXATION IMPLICATIONS

You should consult your own taxation adviser before making any decisions to trade in exchange traded options or LEPOs. For further information on the taxation treatment of options you are referred to the article "Taxation Treatment of Options" on the ASX website

The taxation consequences of trading in exchange traded options and LEPOs are complex and will depend on your individual circumstances. It is therefore important that you ascertain whether you are a trader, a speculator or a hedger as the tax treatments for each may differ as discussed below. Given we are not a taxation adviser you should discuss any taxation issues with our tax adviser before entering or disposing of an exchange traded option or LEPO. You should be aware that there might be capital gains tax consequences. You should seek appropriate independent advice in this regard.

This PDS does not cover every aspect of taxation as it relates to exchange traded options or LEPO's. The information below acts as a summary of significant taxation considerations that should be considered by you before investing in exchange traded options or LEPO's. Accordingly, you are recommended to seek professional tax advice before entering into or disposing of an exchange traded option or LEPO.

Implications for Australian Resident Investors

Revenue Account

Writer of the Option

Where a writer of an option writes an option in the ordinary course of business or the option has been written over an underlying revenue asset, the option will be treated as being on revenue account.

The premium received by the writer of the option will be assessable on a due and receivable basis. Where any premium is credited to the writer's Clearing House account the amount will still be assessable on this basis.

Any subsequent margin calls will not be deductible when they are deposited by the writer into their Clearing house account. These margins will merely reduce any net position of the writer upon the close-out, settlement or exercise of the option by the taker.

Where interest is received by the writer on the margins held in their Clearing House account, this is required to be included in the writer's assessable income.

Taker of the Option

A taker will generally hold an option on revenue account when it is held or traded in the ordinary course of business, or the option is used to hedge an underlying revenue asset.

Where this is the case, any premium paid by the taker is generally regarded as being deductible on a due and payable basis. This will generally be at the time the option is entered into. Where an option on revenue account lapses, there are no further tax implications. However, where an option on revenue account is exercised, the option strike price will form part of the acquisition cost or disposal proceeds for the underlying asset in question.

Alternatively, where the option is closed-out prior to its expiration, any gain or loss on the option position will be treated as assessable or deductible as the case may be.

Capital Account

Writer of the Option

Where a writer writes an option over an underlying capital transaction, the option will be held on capital account. Consequently, any income tax implications will be determined in accordance with the Capital Gains Tax ("CGT") provisions.

The premium received by the writer of the option will give rise to an assessable capital gain on a received or a receivable basis. Where any premium is credited to the writer's Clearing House account the amount will still be assessable on this basis.

Any subsequent margin calls will merely reduce any net position of the writer upon the close-out, settlement or exercise of the option by the taker.

Where interest is received by the writer on the margins held in their Clearing House account, this is required to be included in the writer's assessable income.

Exercise of a Call Option

Where an all option is exercised, the option premium and the proceeds on the sale of the underlying asset should be treated as a single transaction. Accordingly, both the premium and the proceeds received will form part of the writer's capital proceeds for CGT purposes.

This may have practical implications for writers' of options where the premium and sale proceeds are received in different financial years.

Exercise of a Put Option

Where a put option is exercised, the option premium paid and exercise price will form part of the cost base of the underlying asset for the investor. Accordingly, both the premium and the strike price paid will form part of the writer's cost base of the underlying asset for CGT purposes.

This may have practical implications for writers' of the options where the premium is received in a different financial year to the payment of the strike price and acquisition of the underlying capital asset.

Taker of the Option

A taker will generally hold an option on capital account where an underlying capital transaction is being hedged. Consequently, any income tax implications will be determined in accordance with the CGT provisions.

At the time the premium is paid, there are no taxation consequences for the taker in respect of any premium paid for options which are held on capital account.

Where an option on capital account lapses, the taker will realise a capital loss at this time equal to the amount of the premium paid.

When an option is settled or closed-out, the taker will realise a capital gain or loss depending on the amount paid (being the premium plus any incidental costs) for the option and the amount received on settlement.

Exercising a Call Option

Where a call option is exercised, the option premium and exercise price will form part of the cost base of the underlying asset for the taker.

Exercising a Put Option

Where a put option is exercised, the taker will generally deduct the option price from the proceeds received on the disposal of the underlying asset.

GOODS AND SERVICES TAX

The purchase and disposal of exchange traded options over shares and the share price index by investors is not subject to GST.

LEPOS AND CASH SETTLED OPTIONS

For LEOPs and cash settled options, the net profits approach may be regarded as the preferred tax method. See the ASX website for further discussion.

Costs associated with ASX Derivative Products

Contract fees: ASX charge a fee of \$1.02 plus \$0.10 GST per contract. These fees apply to buying and selling; opening or closing.

Exercise fees: ASX levies \$0.50 plus \$0.05 GST for every contract that is exercised.

Brokerage: NSS charge a flat fee of \$38.50 (incl GST) for every Derivative order. An order constitutes a single series. If an order consists of a number of different series (i.e. a combination) multiple brokerages applies.

If an option is exercised a brokerage of \$33 (incl GST) will apply up to \$100,000 consideration then 1.65 basis points incl GST (i.e. \$16.50/\$100,000) up to a maximum of \$300.

Examples: \$100,000 consideration equals \$33.00; \$500,000 consideration equals \$99.00 incl GST