



**ETFS Physical Gold ETF**

(Stock code: 2830 HK)

Reports and Financial Statements  
For the year ended 31 December 2015

## ETFS Physical Gold ETF

Reports and Financial Statements  
For the year ended 31 December 2015

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**Manager**

ETF Securities (HK) Limited  
1303, Silver Fortune Plaza  
1 Wellington Street  
Central  
Hong Kong

**Trustee and Registrar**

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road  
Central  
Hong Kong

**Custodian**

HSBC Bank PLC  
8 Canada Square  
London, E14 5HQ  
United Kingdom

**Auditor**

KPMG  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

**Directors of the Manager**

Chi Lok Cheung  
Graham Tuckwell

**Service Agent**

HK Conversion Agency Services Limited  
2nd Floor, Infinitus Plaza  
199 Des Voeux Road  
Central  
Hong Kong

**Listing Agent**

Changjiang Corporate Finance (HK) Limited  
Suite 1908  
19th Floor, Cosco Tower  
183 Queen's Road  
Central  
Hong Kong

**Legal Adviser to the Manager**

Simmons & Simmons  
13th Floor, One Pacific Place  
88 Queensway  
Hong Kong

The ETFS Physical Gold ETF (the “Fund”) is an exchange traded fund listed on The Stock Exchange of Hong Kong Limited (the “SEHK”). The investment objective of the Fund is to provide investment results, before fees and expenses, that closely correspond to the performance of the afternoon session of the twice daily fix of the price of an ounce of gold (the “IBA Gold Fix”) published by the ICE Benchmark Administration (the “IBA”). In order to achieve the investment objective, the Fund primarily acquires and holds physical gold bullion.

We are pleased to present the third report of the Fund for the year ended 31 December 2015.

### **Fund Performance**

As at 31 December 2015, the net asset value (“NAV”) per unit of the Fund was USD 104.951450 and 20,000 units were outstanding. The total net assets attributable to unitholders of the Fund was approximately USD 2,099,029.

### **Market Commentary**

The price of gold declined 10.6% in 2015, as improving global economic data in the final three months of the year lifted risk appetite, prompting a less defensive investment stance. Price weakness was driven by the strength of the US Dollar which in turn was driven by expectations of rising interest rates, and steep falls in Chinese equity markets. Gold supply moderated, as mine supply declined for the first time since 2008, alongside falling recycling. Recycling of jewellery into the gold market remains weak and gold miners have been cutting back on expansion plans, reducing current and potential future supply due to the depressed gold price. The majority of demand growth for gold came from the official sector: central banks boosted demand by 15% in 2015, with China's move in July to regularly report gold holdings a watershed event. Gold dominates flow trends in the precious metals sector, accounting for over 80% of the flows in Exchange Traded Products (“ETPs”). While ETP investors were large physical sellers over the period, the 133 tonnes of outflows in 2015 was 28% less than the outflows in 2014. Despite ETP divestment, overall investment demand rose 15% from a year earlier. The supply of gold redeemed from ETPs has been largely absorbed by consumer demand, particularly from China. China's imports of gold through Hong Kong rose to the highest level in two years in 2015, rising 3.1%. While currency weakness and declining equity markets buoyed demand, the 774 tonnes of imports fell short of the record 1,108 tonnes recorded in 2013.

## ETFS Physical Gold ETF

Reports and Financial Statements  
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Trustee's Report to the Unitholders of ETFS Physical Gold ETF ("the Fund")

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We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the trust deed dated 5 September 2012 (the "Principal Deed") and supplemental deeds dated 1 November 2012, 19 January 2015 and 20 March 2015 (the "Supplemental Deeds") (collectively, the "Trust Deed") for the year ended 31 December 2015.

For and on behalf of  
HSBC Institutional Trust Services (Asia) Limited  
22 April 2016

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Authorised signatory

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Authorised signatory

### Independent Auditor's Report to the Unitholders of ETFS Physical Gold ETF ("the Fund")

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#### **Report on the Financial Statements**

We have audited the accompanying financial statements of ETFS Physical Gold ETF (the "Fund") set out on pages 6 to 22, which comprise the statement of financial position as at 31 December 2015, and the statement of profit or loss and other comprehensive income and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Trustee's and Manager's Responsibility for the Financial Statements**

The Trustee and the Manager of the Fund are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the Trustee and the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Trustee and the Manager are responsible for ensuring that the financial statements of the Fund comply with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in Appendix E to the Hong Kong Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission ("the Code").

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2015, and of its financial transactions and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on disclosure requirements under the Code**

We report that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed, as amended, and the relevant disclosure requirements set out in the Code.

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
22 April 2016

## Statement of Financial Position as at 31 December 2015

	Notes	31 December 2015 USD	31 December 2014 USD
<b>Assets</b>			
Commodity	5, 8	2,099,626	2,379,726
Financial assets at fair value through profit or loss	6, 8	<u>103</u>	<u>116</u>
<b>Total Assets</b>		<u>2,099,729</u>	<u>2,379,842</u>
<b>Liability</b>			
Provision for management fee	14	<u>700</u>	<u>838</u>
<b>Total Liability</b>		<u>700</u>	<u>838</u>
<b>Total Equity</b>		<u>2,099,029</u>	<u>2,379,004</u>
Net asset value per Unit based on 20,000 (2014: 20,000) Units outstanding	7	<u>104.951450</u>	<u>118.950196</u>

The financial statements on pages 6 to 22 were approved by and authorised for issue by the Manager and Trustee on 22 April 2016.

For and on behalf of the Manager,  
ETF Securities (HK) Limited

For and on behalf of the Trustee,  
HSBC Institutional Trust Services (Asia) Limited

The notes on pages 9 to 22 form part of these financial statements.



## Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2015

	Notes	Year Ended 31 December 2015 USD	Year Ended 31 December 2014 USD
Realised loss from commodity	5	(4,265)	(3,461)
Net unrealised loss from commodity	5	(266,743)	(507)
Net unrealised loss from financial assets at fair value through profit or loss	6	<u>(13)</u>	<u>(2)</u>
<b>Net investment losses</b>		<u>(271,021)</u>	<u>(3,970)</u>
Management fee	14	<u>(8,954)</u>	<u>(9,808)</u>
<b>Total operating expenses</b>		<u>(8,954)</u>	<u>(9,808)</u>
<b>Loss and total comprehensive income for the year</b>		<u><b>(279,975)</b></u>	<u><b>(13,778)</b></u>

The notes on pages 9 to 22 form part of these financial statements.

## Statement of Changes in Equity for the year ended 31 December 2015

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	<b>Note</b>	<b>Year Ended 31 December 2015 USD</b>	<b>Year Ended 31 December 2014 USD</b>
Balance at the beginning of the year		2,379,004	2,392,782
Net movement in equity attributable to unitholders			
- Loss and total comprehensive income for the year		<u>(279,975)</u>	<u>(13,778)</u>
Balance at the end of the year	7	<u>2,099,029</u>	<u>2,379,004</u>

The notes on pages 9 to 22 form part of these financial statements.

## **1. General**

ETFS Physical Gold ETF (the “Fund”) is a unit trust constituted by the trust deed dated 5 September 2012 (the “Principal Deed”) and supplemental deeds dated 1 November 2012, 19 January 2015 and 20 March 2015 (the “Supplemental Deeds”) (collectively, the “Trust Deed”) between ETF Securities (HK) Limited as manager (the “Manager”) and HSBC Institutional Trust Services (Asia) Limited as trustee (the “Trustee”). The Trust Deed is governed by the laws of Hong Kong. The Fund is an exchange traded fund (“ETF”) managed by the Manager and authorised as a collective investment scheme by the Securities and Futures Commission of Hong Kong (the “SFC”) under section 104 of the Securities and Futures Ordinance. The Fund has been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 28 November 2012.

The investment objective of the Fund is to provide investment results, before fees and expenses, that closely correspond to the performance of the afternoon session of the twice daily fix of the price of an ounce of gold (the “IBA PM Gold Fix”) published by the ICE Benchmark Administration (the “IBA”). In order to achieve the investment objective, the Fund primarily acquires and holds physical gold bullion. Prior to 20 March 2015, the Manager utilized the “London PM Fix” as its benchmark for valuation purposes. The London PM Fix price for gold was set using the afternoon session of the twice daily fix of the price of gold by five market making members of the LBMA which occurred at approximately 3:00 PM London time, on each working day. The London PM Fix was discontinued on 19 March 2015.

Subject to its investment and borrowing restrictions, the Fund may hold interests in precious metal ETFs acceptable to the Manager. Such precious metal ETFs’ investment objectives shall be to reflect the performance of the price of gold bullion. Such precious metal ETFs initially include those managed by the ETF Securities group in the US and listed on the New York Stock Exchange and do not comprise more than 10% of the Fund’s net asset value at any time. They are all physically backed by gold bullion and do not include short or leveraged ETFs.

Except as stated above, the Fund will not invest in other types of investments - including, but not limited to derivative futures contracts, options, swaps, warrants and other financial instruments, local currency and foreign currency exchange contracts, and other securities. The Fund will not lend its bullion nor engage in any kind of stock lending activities or repurchase transactions.

The functional currency of the financial statements is United State dollars (“USD”), which is also the presentation currency. All amounts have been rounded to the nearest dollar, unless otherwise indicated.

## **2. Significant Accounting Policies**

The financial statements have been prepared in accordance with IFRSs on the historical cost basis except for the commodity, and financial assets at fair value through profit or loss that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on fair value of the consideration given in exchange for asset and liability.

### ***Fair value measurement principles***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Fund takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

**2. Significant Accounting Policies (Continued)**

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). The category includes instruments valued using: quoted market price in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The principal accounting policies are set out below.

***Commodity***

Commodity comprises gold bullion. The gold bullion is carried at fair value through profit or loss.

Effective 20 March 2015, the fair value of gold bullion is measured based on the IBA PM Gold Fix. Prior to 20 March 2015, the fair value of gold bullion was measured based on the London PM Fix for gold. The change in fair value is recorded in profit or loss.

***Financial instruments******Recognition and initial measurement***

Financial assets are recognised in the statement of financial position when the Fund becomes a party to the contractual provisions of the instruments.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss recognised immediately in profit or loss.

**2. Significant Accounting Policies (Continued)*****Financial instruments (Continued)****Classification*

The Fund's investment in precious metal ETFs is classified into financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade-date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

A financial asset is designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value from remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 12.

*Derecognition*

The Fund derecognises a financial asset only when the contractual rights to cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the assets to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and cumulative gain or loss that had been recognised directly in other comprehensive income and accumulated in equity is recognised in profit or loss.

**2. Significant Accounting Policies (Continued)*****Units in issue***

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

A puttable financial instrument that includes a contractual obligation for the Fund to repurchase or redeem that instrument for cash or another financial asset is classified as equity if it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

In addition to the units created by the Fund meeting all of the above conditions, the Fund must have no other financial instrument or contract that has:

- total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund; and
- the effect of substantially restricting or fixing the residual return to the redeemable unitholders.

The Fund's units meet these conditions and are classified as equity instruments.

***Provisions***

A provision for management fee is recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Fund will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The provision is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

**2. Significant Accounting Policies (Continued)*****Expenses***

All expenses are recognised in profit or loss on an accruals basis. The management fee is paid by the Fund through in kind of gold bullion to the Manager.

***Foreign currencies***

In preparing the financial statements of the Fund, transactions in currencies other than the functional currency of the Fund (foreign currencies) are recorded in the functional currency (i.e. the currency of the primary economic environment in which the Fund operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

***Related parties***

- (a) A person, or a close member of that person's family, is related to the Fund if that person:
  - (i) has control or joint control over the Fund;
  - (ii) has significant influence over the Fund; or
  - (iii) is a member of the key management personnel of the Fund or the Fund's parent.
- (b) An entity is related to the Fund if any of the following conditions applies:
  - (i) The entity and the Fund are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of an entity related to the Fund.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 3. Changes in accounting policies

Except for the changes below, the Fund has consistently applied the accounting policies as set out in note 2 to all periods presented in these financial statements.

The Fund has adopted the following amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

- *Annual Improvements to IFRSs 2010-2012 Cycle*
- *Annual Improvements to IFRSs 2011-2013 Cycle*

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

#### Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, *Related party disclosures* has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Fund’s related party disclosures as they are consistent with the disclosures presented by the Fund.

### 4. Taxation

As the Fund has been authorised as a collective investment scheme by the SFC under section 104 of the Securities and Futures Ordinance, profits of the Fund arising from the sale or disposal of bullion of precious metal(s), net investment income received by or accruing to the relevant Fund and other profits of the Fund are exempt from Hong Kong profits tax under Section 26A (1A) of the Hong Kong Inland Revenue Ordinance. Accordingly, no provision for Hong Kong Profits Tax has been made in the financial statements.

### 5. Commodity

	31 December 2015 USD	31 December 2014 USD
Gold bullion at beginning of year	2,379,726	2,393,496
Management fee settled by gold bullion	(9,092)	(9,802)
Realised loss from gold bullion	(4,265)	(3,461)
Net unrealised loss from gold bullion	(266,743)	(507)
	<hr/>	<hr/>
Gold bullion at end of year	2,099,626	2,379,726
	<hr/>	<hr/>



**6. Financial assets at fair value through profit or loss**

	<b>31 December 2015</b> <b>USD</b>	<b>31 December 2014</b> <b>USD</b>
Precious metal ETFs at beginning of year	116	118
Net unrealised loss from precious metal ETFs	(13)	(2)
Precious metal ETFs at end of year	<u>103</u>	<u>116</u>

**7. Units**

	<b>Year Ended</b> <b>31 December 2015</b>	<b>Year Ended</b> <b>31 December 2014</b>
Number of Units		
Opening balance	20,000	20,000
Units created	-	-
Units redeemed	-	-
Closing balance at as at 31 December	<u>20,000</u>	<u>20,000</u>
Net asset value as at 31 December	<u>USD 2,099,029</u>	<u>USD 2,379,004</u>
Net asset value per unit as at 31 December	<u>USD 104.951450</u>	<u>USD 118.950196</u>

Persons who may apply to the Manager for the creation and redemption of units of the Fund at any time are called "Participating Dealers". Individual investors cannot purchase or redeem units in direct transactions with the Fund but are able to buy and sell units through trading on the Stock Exchange.

A Participating Dealer is a person who (1) must be licensed to carry on business Type 1 (Dealing in Securities) regulated activity pursuant to the Securities and Futures Ordinance with a business presence in Hong Kong, (2) must be acceptable to the Trustee, (3) must be a participant in Central Clearing and Settlement System ("CCASS"), and (4) must maintain a Participating Dealer Unallocated Account with the custodian itself or its nominated affiliate.

The creation and redemption of units is only made in exchange for the delivery to the Fund or the distribution by the Fund of the amount of gold bullion or precious metal ETFs represented by the units being created or redeemed.

## **8. Financial Risk Management**

The investment objective of the Fund is to provide investment results, before fees and expenses, that closely correspond to the performance of the IBA Gold Fix (2014: London PM Fix).

The Fund mainly holds gold bullion and precious metal ETFs which are considered a commodity and financial assets at FVTPL respectively. The Fund's investments are exposed to various types of risks including market risk, credit risk and liquidity risk.

The Fund's overall financial risk management program focuses on the analyses, evaluation and management of financial risks and seeks to minimise potential adverse effects on the Fund's financial performance.

The risk and respective risk management policies employed by the Fund to manage these risks are discussed below.

### **(a) Market risk**

Market risk arises when the fair value and future cash flows of commodity and financial assets at FVTPL will fluctuate because of changes in market prices includes currency risk, price risk and interest rate risk.

#### **(i) Currency risk**

Currency risk is the risk that the value of the investments will fluctuate due to changes in foreign exchange rates. The Fund's overall currency positions are monitored on a daily basis by the Manager.

As at 31 December 2015 and 2014, the Fund's monetary assets and liabilities were predominantly denominated in the functional currency. Therefore, there is minimal exposure to currency risk.

**8. Financial Risk Management (Continued)**
*(ii) Price risk*

Price risk is the risk that the value of the investments will fluctuate as a result of changes in the IBA Gold Fix (2014: London PM Fix). Those changes may be caused by a number of unpredictable factors such as international, economic, monetary and political factors.

The Fund holds gold bullion and precious metal ETFs. Units are created/redeemed by receipt/transfer of gold bullion.

The Fund's price risk arises from gold bullion and precious metal ETFs. As at 31 December 2015, if the IBA Gold Fix (2014: London PM Fix) and the market price of precious metal ETFs had been 5% (2014: 5%) higher or lower with all other variables held constant, the total equity would have been impacted as follows:

**As at 31 December 2015**

	<b>Fair Value Exposure USD</b>	<b>Increase / decrease in total equity USD</b>
Commodity	2,099,626	104,981
Financial assets at FVTPL	<u>103</u>	<u>5</u>
	<u>2,099,729</u>	<u>104,986</u>

**As at 31 December 2014**

	<b>Fair Value Exposure USD</b>	<b>Increase / decrease in total equity USD</b>
Commodity	2,379,726	118,986
Financial assets at FVTPL	<u>116</u>	<u>6</u>
	<u>2,379,842</u>	<u>118,992</u>

*(iii) Interest rate risk*

The Fund does not have significant exposure to interest rate risk since none of its assets or liabilities bears any interest.

**8. Financial Risk Management (Continued)****(b) Credit risk**

Credit risk is the risk of loss due to the failure of the counterparty to discharge its obligation. Credit risk is managed by the Manager by only dealing with Participating Dealers who are considered to be creditworthy. In the event that a Participating Dealer fails to complete its obligations, no units will be created therefore the Fund does not have the risk of loss the amount expected to be received.

Credit risk also includes custodial risk. The custodian of gold bullion or custodian of the precious metal ETFs is not required to take insurance, and neither is the Trustee. Accordingly, there is a risk that the stored gold bullion could be lost, stolen or damaged and the Fund would not be able to satisfy its obligations in respect of the redeemable units. However, the Fund limits its exposure to credit risk by transacting the gold bullion activities with broker-dealers, banks and regulated exchanges with high credit ratings or good reputation, and that the Manager considers to be well established.

The Fund has concentration of credit risk as 100% of the gold bullion of the Fund was held with HSBC Bank PLC, amounting to USD 2,099,626 as at 31 December 2015 (2014: USD 2,379,726).

**(c) Liquidity risk**

When redeemable units are redeemed, the Fund returns the corresponding amount of gold bullion and/or precious metal ETFs determined by the unitholder's entitlement. The market value of the gold bullion and/or precious metal ETFs returned per each unit will be the same as that of the net asset value per unit being redeemed. Therefore, any redemption of units would not impact the liquidity of the Fund.

The Manager is entitled to a management fee, in kind by the transfer of gold bullion, calculated on daily basis and settled within one month.

**9. Investment Restriction**

The Fund may only invest in the gold bullion and/or interests in precious metal ETFs. The gold bullion must meet the London Good Delivery Standards as to minimum fineness and be held on an allocated basis as far as possible. The value of a Fund's holding of interests in precious metal ETFs shall not exceed 10% of the Fund's latest available net asset value.

The Fund may not enter into futures contracts or any financial derivative instruments, nor hold securities other than the interests in precious metal ETFs.

Precious metal ETFs did not account for more than 10% of the net asset value of the Fund at any time during the year ended 31 December 2015 and 2014.

Hence, the Fund complied with this investment restriction during the year ended 31 December 2015 and 2014.

**10. Statement of Cash Flows**

A statement of cash flows has not been presented as the Fund did not hold any cash and cash equivalents at the start and end of the current and prior years nor undertake any cash transaction during the current and prior years.

## 11. Capital Management

The capital of the Fund comprises issued units. The Fund's policy is to maintain a capital base sufficient to sustain its future activities. As all units are supported by an equivalent amount of gold bullion held by the custodian, and running costs of the Fund are paid by the Manager. The Manager considers the capital management policy and the current capital resources adequate to maintain the on-going listing and issue of units.

The Fund is not subject to externally imposed capital requirements.

## 12. Fair Value Information

The following table provides an analysis of investments that are measured at fair value on a recurring basis, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	<b>Level 1 USD</b>	<b>Level 2 USD</b>	<b>Level 3 USD</b>	<b>Total USD</b>
<u>At 31 December 2015</u>				
Commodity	2,099,626	-	-	2,099,626
Financial assets at FVTPL				
- Precious metal ETFs	<u>103</u>	<u>-</u>	<u>-</u>	<u>103</u>
Total	<u>2,099,729</u>	<u>-</u>	<u>-</u>	<u>2,099,729</u>
	<b>Level 1 USD</b>	<b>Level 2 USD</b>	<b>Level 3 USD</b>	<b>Total USD</b>
<u>At 31 December 2014</u>				
Commodity	-	2,379,726	-	2,379,726
Financial assets at FVTPL				
- Precious metal ETFs	<u>116</u>	<u>-</u>	<u>-</u>	<u>116</u>
Total	<u>116</u>	<u>2,379,726</u>	<u>-</u>	<u>2,379,842</u>

The fair value of the commodity and precious metal ETFs are valued based on quoted market prices in an active market, without any adjustments, and is therefore classified within Level 1 of the hierarchy.

During the year ended 31 December 2015, commodity held by the Fund was transferred from Level 2 to Level 1 because unadjusted price quotations in an active market now became available.

There were no transfers into or out of Level 3 of the fair value hierarchy during the year ended 31 December 2015 and 2014.

**13. Involvement with unconsolidated structured entities**

The Fund has concluded that collective investment scheme in which they invest, but that they do not consolidate, meet the definition of structured entities because:

- the voting right in the collective investment scheme is not dominant right in deciding who controls them as they relate to administrative tasks only;
- each collective investment scheme's activities are restricted by its prospectus; and
- the collective investment scheme has narrow and well-defined objectives to provide investment opportunities to investors.

The table below describes the types of structured entities that the Fund does not consolidate but in which they hold an interest.

<i>Type of structured entity</i>	<i>Nature and purpose</i>	<i>Interest held by the Fund</i>
Collective investment scheme	To manage assets on behalf of third party investors and generate fees for the investment manager	Investment in unit issued by the collective investment scheme
	These vehicles are financed through the issue of units to investors	

The table below sets out interests held by the Fund in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the financial assets held by the Fund.

**As at 31 December 2015**

<i>Name of the collective investment scheme</i>	<b>Total net assets USD</b>	<b>Carrying amount included in "Financial assets at fair value through profit or loss" USD</b>
ETFS Gold Trust	<u>782,458,444</u>	<u>103</u>

**As at 31 December 2014**

<i>Name of the collective investment scheme</i>	<b>Total net assets USD</b>	<b>Carrying amount included in "Financial assets at fair value through profit or loss" USD</b>
ETFS Gold Trust	<u>926,800,000</u>	<u>116</u>

### **13. Involvement with unconsolidated structured entities (Continued)**

During the year, except for the amounts invested in the collective investment scheme, the Fund did not provide financial support to the collective investment scheme and had no intention of providing financial or other support.

The Fund can redeem unit in the collective investment scheme on a daily basis.

### **14. Transactions with the Manager, the Trustee and their Connected Persons**

Connected persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the SFC (the “Code”). All transactions entered into during the period between the Fund and the Manager and its connected persons were carried out in the normal course of business and on normal commercial terms. To the best of the Manager’s knowledge, the Fund does not have any other transactions with connected persons except those disclosed below.

#### **(a) Commodity - Gold bullion**

At 31 December 2015, gold bullion of the Fund held with the custodian, HSBC Bank PLC, a connected person of the Trustee amounted to USD 2,099,626 (2014: USD 2,379,726).

#### **(b) Management fee**

ETF Securities (HK) Limited, the Manager, is entitled to a management fee, in kind by the transfer of an amount of gold bullion, currently at the rate of 0.39% per annum of the net asset value of the Fund.

Pursuant to the Principal Deed, the Manager may, on giving not less than one month’s notice to unitholders, increase the rate of management fee of the Fund up to a maximum of 1% per annum of the net asset value of the Fund. However, when the Fund invests in precious metal ETFs which are also managed by the Manager or other group company of the Manager, the management fee of the Fund’s assets attributable to the precious metal ETFs shall be waived.

The management fee is calculated and accrued as at each valuation day and payable monthly in arrears. During the year ended 31 December 2015, total management fee charged was USD 8,954 (2014: USD 9,808), of which a provision for management fee of USD 700 was booked as of 31 December 2015 (2014: USD 838).

The Manager shall pay from its management fee the fees payable to the Trustee and the usual and customary administrative expenses of the Fund, including the transaction costs, levies, duties, fees of other service providers, legal and other professional fees, the establishment and authorisation fees for the Fund. During the year ended 31 December 2015, the total fees and expenses (excluding management fee) of the Fund, amounting to approximately as USD 180,000 (2014: USD 245,000), are borne by the Manager.

#### **(c) Financial assets at fair value through profit or loss**

As at 31 December 2015, the Fund held 1 share (2014: 1 share) of ETFS Gold Trust, managed by a connected person of the Manager, amounted to USD 103 (2014: USD 116).

## 15. Segmental Information

In the opinion of the Manager and the Trustee, all activities of the Fund are in the single business of investment activities conducted mainly in Hong Kong. The chief operating decision maker of the Fund is the Manager.

## 16. Major Non-Cash Transactions

Units are issued/redeemed through in-kind creation/redemption of gold bullion or transfer of interests in precious metal ETF. For each application unit size for creation/redemption, the Fund receives/delivers gold bullion or interest in precious metal ETF as determined by the Manager on a daily basis.

There were no issue or redemption of units during the year ended 31 December 2015 and 2014.

## 17. Soft Commission Arrangements

For the year ended 31 December 2015 and 2014, the Manager did not enter into any soft commission arrangements with brokers relating to dealings in the assets of the Fund.

## 18. Event After the Reporting Period

There were no significant events subsequent to the year end which require disclosure in the financial statements.

## 19. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2015

Up to the date of issue of these financial statements, the IASB has issued a certain amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund:

	<b>Effective for accounting periods beginning on or after</b>
Amendments to IAS 1, <i>Disclosure initiative</i>	1 January 2016
Annual improvements to IFRSs 2012-2014 Cycle	1 January 2016
IFRS 9, <i>Financial instruments</i>	1 January 2018

The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretation is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.



## Investment Portfolio &amp; Performance (Unaudited)

**Investment Portfolio (Unaudited)**

	<b>Holdings Fine Troy Ounces / Units</b>	<b>Market Value USD</b>	<b>% of Net Assets</b>
<b>Commodity</b>			
Gold bullion	1,977	<u>2,099,626</u>	<u>100.03</u>
<b>Financial assets at FVTPL</b>			
Precious metal ETF			
- ETFS Gold Trust	1	<u>103</u>	<u>0.00</u>
Total investments		<u>2,099,729</u>	<u>100.03</u>
Net asset value attributable to unitholders at 31 December 2015		<u>2,099,029</u>	<u>100.00</u>
Total investments at cost		<u>3,383,617</u>	

**Statement of Movements in Portfolio Holdings (Unaudited)**

	<b>1 January 2015 Fine Troy Ounces / Units</b>	<b>Holdings Additions Fine Troy Ounces / Units</b>	<b>Deductions Fine Troy Ounces / Units</b>	<b>31 December 2015 Fine Troy Ounces / Units</b>
<b>Commodity</b>				
Gold bullion	1,984	-	(7)	1,977
<b>Financial Assets at FVTPL</b>				
Precious metal ETF				
- ETFS Gold Trust	1	-	-	1

**Performance Table (Unaudited)**

<b>Net Asset Value</b>	<b>Total net asset value USD</b>	<b>Net asset value per Unit USD</b>
At end of financial year end 31 December 2015	2,099,029	104.951450
At end of financial year end 31 December 2014	2,379,004	118.950196
At end of financial period dated 31 December 2013	<u>2,392,782</u>	<u>119.639118</u>
<b>Performance Record</b>	<b>Highest issue price per Unit USD</b>	<b>Lowest redemption price per unit USD</b>
Financial year end 31 December 2015	128.491667	103.697398
Financial year end 31 December 2014	137.803459	113.339603
Financial period from 5 September 2012 (Date of Establishment) to 31 December 2013	<u>172.594502</u>	<u>118.929284</u>