



# VALUE GOLD ETF (3081 HK)

## **ANNUAL REPORT 2012**

For the period from 29 October 2010 (date of inception) to 31 March 2012

## Sensible Asset Management Hong Kong Limited

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*In the event of inconsistency, the English text of this Annual Report shall prevail over the Chinese text.*

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## GENERAL INFORMATION

### Investment Manager

Sensible Asset Management Hong Kong Limited  
9th Floor, Nexxus Building  
41 Connaught Road Central  
Hong Kong

### Sub-investment Manager

Value Partners Hong Kong Limited  
9th Floor, Nexxus Building  
41 Connaught Road Central  
Hong Kong

### Directors of the Investment Manager

Mr Chow Wai Chiu William  
(resigned on 10 June 2011  
and reappointed on 25 October 2011)  
Mr Martin Tornberg  
(resigned on 25 July 2011)  
Mr So Chun Ki Louis  
Mr Tam Raymond Hin Tat  
(appointed on 10 June 2011  
and resigned on 25 October 2011)  
Ms Yang Ledong  
(resigned on 24 March 2011)  
Ms Zhang Jianying  
(appointed on 24 March 2011  
and resigned on 25 July 2011)

### Trustee and Registrar

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

### Custodian

HKIA Precious Metals Depository Limited  
HKIA Tower  
1 Sky Plaza Road  
Hong Kong International Airport  
Lantau  
Hong Kong

### Legal Advisor

Simmons & Simmons  
13/F, One Pacific Place  
88 Queensway  
Hong Kong

### Auditor

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

### Information available from:

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## GENERAL INFORMATION (Continued)

### Recent awards and achievements

Value Gold ETF (3081 HK)	
<b>2012</b>	<ul style="list-style-type: none"><li>• <b>Best of the Best Awards 2011</b> Best of the Best Regional Awards - Best Performing Small ETF – <i>Asia Asset Management</i></li></ul>
<b>2011</b>	<ul style="list-style-type: none"><li>• <b>2010 Best of the Best Awards</b> Best of the Best Awards - Hong Kong - Best New ETF category – <i>Asia Asset Management</i></li></ul>

## MANAGER'S REPORT

Value Gold ETF ("the Fund") is a fund constituted in the form of a unit trust established under Hong Kong law. The Fund is a "physical" ETF, meaning it will hold actual gold. Units in the Fund are listed on The Stock Exchange of Hong Kong Limited ("SEHK"). The Fund seeks to provide investment results, before fees and expenses, that closely correspond to the performance of the London Gold Morning Fixing Price.

We are pleased to present the first annual report of the Fund for the period from 29 October 2010 (date of inception) to 31 March 2012.

### Fund performance

As at 31 March 2012, the Net Asset Value ("NAV") per unit of the Fund was HKD41.20, and 27,000,000 units were outstanding. The total size of the Fund was approximately HKD1,112.28 million.

A summary of the performance of the Value Gold ETF is given below.

<b>Total Return in HKD</b>	<b>2012 year-to-date (as at 31 March)</b>	<b>Since inception</b>
London Gold Morning Fixing	5.5%	25.2%
Value Gold ETF	5.3%	24.5%

The difference in performance between the London Gold Morning Fixing Price and the Value Gold ETF is mainly attributed to fees and expenses. The historical tracking error for the NAV of the Fund against the London Gold Morning Fixing Price was at 3 basis points on an annualized basis since its inception on 29 October 2010.

### Fund activities

The average daily trading volume for the Value Gold ETF during the period (from 29 October 2010 to 31 March 2012) was reported by Bloomberg to be approximately HKD 4,449,055.

## MANAGER'S REPORT (Continued)

### Market commentary

During the period under review, uncertainty over the Eurozone debt crisis remained and global equity markets experienced another round of sell-off starting in September 2011. As 2012 started off strong in the stock markets, as of the end of March, both Hang Seng Index and MSCI World Index gained 11.9% despite a retreat in March. WTI Cushing Crude Oil spot price also increased by 4.2% in the first quarter of the year.

Last year, the panicked market boosted gold's safe haven appeal, and central banks around the globe re-affirmed the importance of gold. South Korea embarked on a major gold acquisition campaign and purchased 15 tonnes of gold in November 2011, which was more than the Bank of Korea had accumulated historically before 2011. Besides its role as a reserve asset, gold's value as a collateral has also been on the rise, with recognition from major commodity exchanges and clearing houses. In October 2011, CME Group (the world's leading and most diverse derivatives marketplace) allowed its members to post up to US\$500 million in gold as collateral for margin requirements, while LCH Clearnet agreed to accept gold as collateral once regulatory requirements are met.

Despite fluctuation, gold price remained elevated in the review period from a longer term perspective. As of 1 June 2012, gold price fell by 20% from the peak in 2011, but the price level is still 90% above the 2008 level. Over the long term, drivers of the uptrend in gold remain intact, as negative real interest rates continue. Moreover, investment demand for physical gold is likely to be strong in China. In the first quarter of 2012, mainland's gold imports from Hong Kong jumped sixfold to 135.53 metric tonnes, according to the Census and Statistics Department of the Hong Kong government. With China's continued economic ascendance, World Gold Council's forecast in 2012 even suggests that China will become the biggest gold user annually by the end of the year. The precious metal is set to glimmer with strong demand amidst slowing global growth.

## MANAGER'S REPORT (Continued)

### Awards

We are pleased that Value Gold ETF continued to receive recognition from the industry. In 2011, the Fund was crowned the “Best New ETF – 2010 Best of the Best Country Awards – Hong Kong” in the 2010 Best of the Best Awards organized by Asia Asset Management. In the 2011 Best of the Best Awards held in 2012, the Fund received the “Best Performing Small ETF – Best of the Best Regional Awards” title.

### Sensible Asset Management Hong Kong Limited

19 July 2012

*All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in HKD, NAV to NAV, with dividends reinvested, updated as at 31 March 2012. Performance data is net of all fees.*

*Investors should note that investment involves risk. The price of units may go down as well as up and past performance is not indicative of future results. Investors should read the prospectus for details and risk factors and the arrangement in the event that the Fund is de-listed. Investors should also note that the Fund is different from a typical retail investment fund, in particular, units in the Fund may only be created or redeemed directly by a participating dealer in large unit sizes.*



## MANAGER'S REPORT (Continued)

### Value Gold ETF

NAV per unit = HK\$41.20 (as at 31 March 2012)

#### Since launch return

From 29 October 2010 to 31 March 2012



Source: HSBC Institutional Trust Services (Asia) Limited. Performance data is net of fees.

## **STATEMENT OF RESPONSIBILITIES OF THE MANAGER AND THE TRUSTEE**

### **Manager's responsibilities**

The Manager of Value Gold ETF (the "Fund") is required by the Hong Kong Code on Unit Trusts and Mutual Funds established by the Hong Kong Securities and Futures Commission and the Trust Deed to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Fund at the end of that period and of the transactions for the period then ended. In preparing these financial statements, the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are prudent and reasonable; and
- prepare the financial statements on the basis that the Fund will continue in operation unless it is inappropriate to presume this.

The Manager is also required to manage the Fund in accordance with the Trust Deed and take reasonable steps for the prevention and detection of fraud and other irregularities.

### **Trustee's responsibilities**

The Trustee of the Fund is required to:

- ensure that the Fund is managed by the Manager in accordance with the Trust Deed and that the investment and borrowing powers are complied with;
- satisfy itself that sufficient accounting and other records have been maintained;
- safeguard the property of the Fund and rights attaching thereto; and
- report to the unitholders for each annual period on the conduct of the Manager in the management of the Fund.

## **TRUSTEE'S REPORT TO THE UNITHOLDERS OF VALUE GOLD ETF**

We hereby confirm that, in our opinion, the Manager has in all material respects, managed Value Gold ETF in accordance with the provisions of the Trust Deed dated 13 October 2010.

For and on behalf of  
**HSBC Institutional Trust Services (Asia) Limited**

Trustee,  
19 July 2012

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF VALUE GOLD ETF**

We have audited the financial statements of Value Gold ETF (the "Fund") set out on pages 12 to 31, which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, statement of changes in equity, and cash flow statement for the period from 29 October 2010 (date of inception) to 31 March 2012 and a summary of significant accounting policies and other explanatory information.

### **Manager's and Trustee's responsibilities for the financial statements**

The Manager and the Trustee are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and for such internal control as the Manager and the Trustee 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 Manager and the Trustee also have a responsibility to ensure that the financial statements comply with the relevant disclosure provisions of the Trust Deed, 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF VALUE GOLD ETF (Continued)**

### **Auditor's responsibility (Continued)**

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 Manager and the Trustee, 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 March 2012 and of its transactions and cash flows for the period from 29 October 2010 (date of inception) to 31 March 2012 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, and the relevant disclosure requirements set out in the Code.

### **KPMG**

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
19 July 2012

## STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2012

	<i>Note</i>	<b>31.3.2012</b> <i>HK\$</i>
<b>Assets</b>		
Commodity	3, 5	1,112,137,483
Cash and cash equivalents	3, 4, 10(c)	<u>751,883</u>
<b>Total assets</b>		<u>1,112,889,366</u>
<b>Liabilities</b>		
Audit fee payable		100,000
Manager's fee payable	8, 10(a)	137,814
Trustee and registrar fee payable	7, 10(b)	264,324
Custodian fee payable		73,736
Other payables		<u>29,449</u>
<b>Total liabilities</b>		<u>605,323</u>
<b>Total equity</b>	<i>11</i>	<u><u>1,112,284,043</u></u>
<b>Net asset value per unit based on 27,000,000 units outstanding</b>	<i>11</i>	<u><u>41.20</u></u>

Approved and authorised for issue by the Manager and the Trustee on 19 July 2012.

Signed by:

**Sensible Asset Management Hong Kong Limited, *Manager***

**HSBC Institutional Trust Services (Asia) Limited, *Trustee***

The notes on pages 16 to 31 form part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 29 OCTOBER 2010 (DATE OF INCEPTION) TO 31 MARCH 2012

	<i>Note</i>	<b>Period from 29.10.2010 * to 31.3.2012 HK\$</b>
Net gain from commodity	6	106,149,743
Net foreign exchange loss		<u>(1,896)</u>
<b>Net investment income</b>		<u>106,147,847</u>
Manager's fee	8, 10(a)	1,667,847
Trustee and registrar fees	7, 10(b)	1,593,966
Legal and professional fees		594,299
Custodian fee		474,077
Auditor's remuneration		100,000
Service agent fee		84,833
Listing fee		45,000
Transaction fees		13,479
Bank charges	10(c)	301
Other operating expenses		<u>336,431</u>
<b>Operating expenses</b>		<u>4,910,233</u>
<b>Profit and total comprehensive income for the period</b>		<u><u>101,237,614</u></u>

\* *Date of inception*

The notes on pages 16 to 31 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 29 OCTOBER 2010 (DATE OF INCEPTION) TO 31 MARCH 2012

	<i>Note</i>	<b>Period from 29.10.2010 * to 31.3.2012 HK\$</b>
<b>Balance at the beginning of the period</b>		----- -
Issue of redeemable units	<i>11</i>	<u>1,011,046,429</u>
Net increase from unit transactions		<u>1,011,046,429</u>
Total transactions with unitholders		----- <u>1,011,046,429</u>
Profit and total comprehensive income for the period		<u>101,237,614</u>
<b>Balance at the end of the period</b>		<u><u>1,112,284,043</u></u>

\* *Date of inception*

The notes on pages 16 to 31 form part of these financial statements.



## STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM 29 OCTOBER 2010 (DATE OF INCEPTION) TO 31 MARCH 2012

	<i>Note</i>	<b>Period from 29.10.2010 * to 31.3.2012 HK\$</b>
<b>Operating activities</b>		
Proceeds from sale of investments		3,289,645
Operating expenses paid		<u>(4,306,806)</u>
<b>Cash flows used in operating activities</b>		<u>(1,017,161)</u>
<b>Financing activity</b>		
Proceeds from issue of redeemable units		<u>1,769,044</u>
<b>Cash flows from financing activity</b>		<u>1,769,044</u>
<b>Net increase in cash and cash equivalents</b>		751,883
<b>Cash and cash equivalents at the beginning of the period</b>		<u>–</u>
<b>Cash and cash equivalents at the end of the period</b>	4	<u><u>751,883</u></u>

\* *Date of inception*

### Major non-cash transactions:

- i) During the period ended 31 March 2012, unitholders subscribed for 27,000,000 units of the Fund by tendering gold bullion with market value of HK\$1,009,277,385.

The notes on pages 16 to 31 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 GENERAL

Value Gold ETF (the “Fund”) is an open ended unit trust governed by its Trust Deed dated 13 October 2010 (the “Trust Deed”), as amended from time to time under the laws of Hong Kong. The Fund is authorised by the Hong Kong Securities and Futures Commission (the “SFC”) under Section 104(1) of the Hong Kong Securities and Futures Ordinance (“HKSF”), and is governed by the Hong Kong Code on Unit Trusts and Mutual Funds (the “Code”). The Fund is also listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (a subsidiary of the Hong Kong Exchanges and Clearing Limited).

The investment objective of the Fund is to provide investment results that, before fees and expenses, closely correspond to the performance of the London Gold Fixing Price.

To achieve the investment objective, Sensible Asset Management Hong Kong Limited (the “Manager”) will employ a purchase and hold investment strategy of gold bullion. Deposition of gold bullion will be necessary to pay redemptions when cash reserves are not adequate.

The Fund is not permitted to invest in other types of investments including, but not limited to derivatives futures contracts, options on futures contracts, options, swaps, warrants and other financial instruments, local currency and foreign currency exchange contracts, securities and other financial instruments.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations adopted by the International Accounting Standards Board (“IASB”), the relevant disclosure provisions of the Trust Deed, and the relevant disclosure requirements of the Code issued by the SFC. A summary of the significant accounting policies adopted by the Fund is set out below.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (a) Statement of compliance (Continued)

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Fund. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Fund for the current and prior accounting periods reflected in these financial statements.

#### (b) Basis of preparation

The measurement currency of the financial statements is Hong Kong dollars (“HKD”) reflecting the fact that most of the transactions are denominated in HKD, and units of the Fund are issued in HKD.

The financial statements are presented in HKD.

The financial statements are prepared on a fair value basis for financial instruments at fair value through profit or loss. Other financial assets and financial liabilities are stated at amortised cost.

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of financial position, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of financial position that are not readily apparent from other sources. Actual results may differ from these estimates.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Basis of preparation (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Fund. Of these, the following development is relevant to the Fund's financial statements:

- IAS 24 (revised 2009), *Related party disclosures*

The Fund has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impact of other development is discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Fund has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Fund's related party disclosures in the current and previous period. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Fund because the Fund is not a government-related entity.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Foreign currency translation

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to HKD at the foreign currency closing exchange rate ruling at the date of the statement of financial position. Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to HKD at the foreign currency exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to trading investments are included in gains and losses on investments. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents are presented separately in the statement of comprehensive income.

#### (e) Commodity

Commodity comprises of gold bullion. Gold bullion is stated at the gold price prevailing at the close of business at the date of the statement of financial position. Differences arising from changes in gold prices are dealt with in the statement of comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Other financial assets

Financial assets that are stated at cost or amortised cost are reviewed at the date of each statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

#### (g) Specific instruments

##### *Cash and cash equivalents*

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

#### (h) Interest income

Interest income is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Expenses

All expenses, including manager's fees and trustee and registrar fees, are recognised in the statement of comprehensive income on an accrual basis.

#### (j) Foreign exchange gains and losses

Foreign exchange gains and losses on financial instruments designated at fair value through profit or loss are recognised together with other changes in the fair value. Included in the statement of comprehensive income line item, *Net foreign exchange gain* are foreign exchange gains and losses on monetary financial assets and financial liabilities other than those classified as designated at fair value through profit or loss.

#### (k) Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the income of the Fund is exempt from taxation under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

#### (l) Redeemable units

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

The Fund has only one class of redeemable units in issue and they are the most subordinate class of financial instrument in the Fund. The redeemable units provide unitholders with the right to require redemption for cash at a value proportionate to the unitholder's share in the Fund's net assets at each redemption date and also in the event of the Fund's liquidation.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (1) Redeemable units (Continued)

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.

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

Incremental costs directly attributable to the issue or redemption of redeemable units are recognised directly in equity as a deduction from the proceeds or part of the acquisition cost.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (l) Redeemable units (Continued)

##### *Repurchase of redeemable units*

When redeemable units recognised as equity are redeemed, the amount paid on the redemption of the units is presented as a deduction from total equity.

#### (m) Related parties

For the purpose of these financial statements, parties are considered to be related to the Fund if they have the ability, directly or indirectly, to control or exercise significant influence over the Fund in making financial and operating decisions. Related parties may be individuals or entities.

#### (n) Segment reporting

An operating segment is a component of the Fund that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relates to transactions with any of the Fund's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The chief operating decision maker of the Fund is identified as the Manager.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT

The investment objective of the Fund is to provide investment results that, before fees and expenses, closely correspond to the performance of the London Gold Fixing Price.

The Fund's main financial instrument consists of cash. The Fund also holds gold bullion which is considered a commodity. The Fund's financial instrument and commodity are exposed to various types of risks including market risk, credit risk, liquidity risk and currency risk.

The Fund's overall financial risk management program focuses on the analysis, 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

##### (i) Foreign exchange risk

Currency risk is the risk that the value of gold bullion 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 March 2012, the Fund is not exposed to significant foreign currency risk. The majority of assets and liabilities were denominated in HKD, which is the reporting currency of the Fund.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Market risk (Continued)

##### (ii) Price risk

Market price risk is the risk that the value of the commodity will fluctuate as a result of changes in the London Gold Fixing Price, whether those changes are caused by many unpredictable international, economic, monetary and political factors.

The Fund employs a purchase and holds investment strategy of gold bullion. Deposition of gold bullion will be necessary to pay redemptions when cash reserves are not adequate.

The fund's price risk arises from gold bullion of HK\$1,112,137,483. As at 31 March 2012, if the London Gold Fixing Price had been 5% higher or lower with all other variables held constant, the operating profit and total equity would have been approximately HK\$55,606,874 higher or lower, for the period ended 31 March 2012.

##### (iii) Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing. As a result, the Fund is not subject to significant amount of risk due to fluctuations in the prevailing levels of market interest rates.

The Fund's interest rate risk arises from bank balances of HK\$751,883. The bank balances expose the Fund to cash flow interest rate risk.

Based on the bank balances as at 31 March 2012, if the interest rate had been 50 basis points higher or lower with all other variables held constant, the operating profit and total equity would have been approximately HK\$3,759 higher or lower, gross of fees, for the period from 29 October 2010 (date of inception) to 31 March 2012, as a result of higher or lower interest income on bank balances.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. Financial assets which potentially subject the Fund to concentrations of credit risk consist principally of financial assets held with custodians, bank balances and receivables.

The Fund limits its exposure to credit risk by transacting the majority of its gold bullion and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings and that the Manager considers to be well established. All transactions in gold bullion are settled/paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal since delivery of gold bullion sold is only made when the broker has received payment. In a purchase, payment is made when the gold bullion has been received by the broker. If either party fails to meet its obligation, the trade will fail. Accordingly, there is no significant concentration of credit risk.

#### (c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund is exposed to cash redemptions of redeemable units. The Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity. In addition, gold bullion is readily tradable in an active market and can be sold if it is necessary for the Fund to fulfill those payments obligations, as a result the Fund's exposure to liquidity risk is considered minimal as of 31 March 2012.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 CASH AND CASH EQUIVALENTS**

	<b>31.3.2012</b>
	<i>HK\$</i>
Current deposits with banks	<u>751,883</u>

**5 COMMODITY**

	<b>31.3.2012</b>
	<i>HK\$</i>
Gold Bullion	<u>1,112,137,483</u>

**6 NET GAIN FROM COMMODITY**

	<b>Period from</b>
	<b>29.10.2010 *</b>
	<b>to 31.3.2012</b>
	<i>HK\$</i>
Net realised gain	364,719
Change in unrealised gain	<u>105,785,024</u>
	<u>106,149,743</u>

\* *Date of inception*

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 7 TRUSTEE AND REGISTRAR FEES

HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) is entitled to receive a trustee and registrar fee of up to 1.0% per year of the net asset value of the Fund. The current trustee and registrar fee is 0.14% per year of the net asset value of the Fund, subject to a minimum of HK\$35,000 per month in the first year and HK\$90,000 per month thereafter, accrued daily and calculated as at each dealing day and payable monthly in arrears. The Trustee is also entitled to receive a service fee of HK\$25,000 per annum accrued daily and payable quarterly in arrears as well as an ad hoc valuation fee of HK\$4,000 per calculation of net asset value other than at the valuation point on a regular dealing day.

### 8 MANAGER’S FEE

The Manager is entitled to receive a management fee of up to 1% per year of the net asset value of the Fund. The current management fee is 0.15% per year of the net asset value of the Fund and is accrued daily and calculated as at each dealing day and payable monthly in arrears.

### 9 TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the income of the Fund is exempt from taxation under 26A(1A) of the Hong Kong Inland Revenue Ordinance.

### 10 RELATED PARTY TRANSACTIONS/TRANSACTIONS WITH THE TRUSTEE, THE MANAGER AND THEIR CONNECTED PERSONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Fund entered into the following material related party transactions for the period. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**10 RELATED PARTY TRANSACTIONS/TRANSACTIONS WITH THE TRUSTEE, THE MANAGER AND THEIR CONNECTED PERSONS (Continued)**

- (a) The Fund appointed the Manager, an investment management company incorporated in Hong Kong, to implement the investment strategy as specified in the Trust Deed. Manager's fee of HK\$1,667,847 was charged to the statement of comprehensive income during the period. Included in liabilities as at 31 March 2012 is manager's fee payable of HK\$137,814.
- (b) The Fund appointed the Trustee, a registered trust company incorporated in Hong Kong, to implement the responsibilities as specified in the Trust Deed. Trustee and registrar fees of HK\$1,593,966 were charged to the statement of comprehensive income during the period. Included in liabilities as at 31 March 2012 is trustee and registrar fees payable of HK\$264,324.
- (c) The Fund maintains a bank account with The Hongkong and Shanghai Banking Corporation Limited, which is an intermediate holding company of the Trustee. Information relating to the bank account is set out below:

	<b>31.3.2012</b>
	<i>HK\$</i>
Bank balances	<u>751,883</u>
	<b>Period from</b>
	<b>29.10.2010 *</b>
	<b>to 31.3.2012</b>
	<i>HK\$</i>
Bank charges	<u>301</u>

\* *Date of inception*

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 11 REDEEMABLE UNITS IN ISSUE

	<b>Number of units Period from 29.10.2010 * to 31.3.2012</b>
At the beginning of the period	–
Issue of redeemable units	<u>27,000,000</u>
At the end of the period	<u><u>27,000,000</u></u>

\* *Date of inception*

The rights attaching to each unit are as follows:

The holders of the units have the right to receive notice of, attend and vote at meetings of the Fund, and are entitled to receive all dividends declared and paid by the Fund.

The Fund does not have any externally imposed capital requirements.

In accordance with the Trust Deed, the net assets of the Fund are computed at each valuation point by valuing the assets of the Fund and deducting the liabilities of the Fund.

### 12 SEGMENT REPORTING

The Manager makes strategic resource allocation and assesses performance on behalf of the Fund and has determined the operating segments based on the reports reviewed which are used to make strategic decisions.

The Manager considers that the Fund has a single operating segment which is investing in gold bullion with the objective as stated in the investment objective and policies of the Fund.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 12 SEGMENT REPORTING (Continued)

The segment information provided to the Manager is the same as that disclosed in the statement of comprehensive income and statement of financial position.

The Fund is established and domiciled in Hong Kong. The majority of the Fund's investment income is derived from its investments domiciled in Hong Kong (31 March 2012: 100%).

The Fund has no assets classified as non-current as at 31 March 2012.

### 13 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED 31 MARCH 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the period ended 31 March 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Fund.

**Effective for  
accounting periods  
beginning on or after**

IFRS 13, *Fair value measurement*

1 January 2013

The Fund is in the process of making an assessment of what the impact of these amendments 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 (UNAUDITED)**

AS AT 31 March 2012

	<b>Holdings</b> <i>Fine weight gram</i>	<b>Fair value</b> <i>HK\$</i>	<b>% of net assets</b>
<b>COMMODITY</b>			
Gold bullion	2,682,731.70	<u>1,112,137,483</u>	<u>99.99</u>
<b>Total commodity</b>		<u><b>1,112,137,483</b></u>	<u><b>99.99</b></u>
Cash and cash equivalents		751,883	0.06
Other net liabilities		<u>(605,323)</u>	<u>(0.05)</u>
<b>Total net assets</b>		<u><b>1,112,284,043</b></u>	<u><b>100.00</b></u>
<b>Total investments, at cost</b>		<u><b>1,006,352,459</b></u>	

**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)**

*FOR THE PERIOD FROM 29 OCTOBER 2010 (DATE OF INCEPTION) TO 31 MARCH 2012*

**% of net assets  
31.3.2012**

**COMMODITY**

Gold bullion	<u>99.99</u>
Cash and cash equivalents	0.06
Other net liabilities	<u>(0.05)</u>
<b>Total net assets</b>	<b><u>100.00</u></b>

**PERFORMANCE RECORD (UNAUDITED)**

*FOR THE PERIOD FROM 29 OCTOBER 2010 (DATE OF INCEPTION) TO 31 MARCH 2012*

**Net asset value**

	<b>Net asset value per unit</b> <i>HK\$</i>	<b>Net asset value</b> <i>HK\$</i>
As at 31 March 2012	41.20	1,112,284,043

**Highest and lowest net asset value per unit (at commodity prices)**

	<b>Highest net asset value per unit</b> <i>HK\$</i>	<b>Lowest net asset value per unit</b> <i>HK\$</i>
Period ended 31 March 2012	47.33	32.92