

**ETFS PHYSICAL SILVER ETF**

(Stock code: 3117 HK)

Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to  
31 December 2013

## **ETFS Physical Silver ETF**

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

#### Contents

---

	Pages
Management and Administration	1
Manager's Report	2
Trustee's Report	3
Independent Auditor's Report	4 - 5
Statement of Financial Position	6
Statement of Profit or Loss and Other Comprehensive Income	7
Statement of Changes in Equity	8
Notes to the Financial Statements	9 - 20
Investment Portfolio (Unaudited)	21
Statement of Movements in Portfolio Holdings (Unaudited)	21
Performance Table (Unaudited)	21

## **ETFS Physical Silver ETF**

Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### Management and Administration

---

#### **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 USA, N.A.  
8 Canada Square  
London, E14 5HQ  
United Kingdom

#### **Auditor**

Deloitte Touche Tohmatsu  
35th Floor, One Pacific Place  
88 Queensway  
Hong Kong

#### **Directors of the Manager**

Chi Lok Cheng (appointed on 2 April 2013)  
Fred Jheon (resigned on 2 April 2013)  
Graham Tuckwell

#### **Service Agent**

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

Baker & McKenzie  
23rd Floor, One Pacific Place  
88 Queensway  
Hong Kong

## **ETFS Physical Silver ETF**

### **Reports and Financial Statements**

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

#### **Manager's Report**

---

The ETFS Physical Silver ETF (the "Fund") is an exchange traded fund listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). The Fund's investment objective is to provide investment results, before fees and expenses, that closely correspond to the performance of the London Fix for silver.

We are pleased to present the first report of the Fund for the period from 5 September 2012 (Date of Establishment) to 31 December 2013.

#### **Fund Performance**

As at 31 December 2013, the net asset value ("NAV") per unit of the Fund was USD 19.393731 and 300,000 units were outstanding. The total net assets attributable to unitholders of the Fund was approximately USD 5,818,119.

#### **Market Commentary**

The price of silver declined 39% between 5 September 2012 (Date of Establishment) and 31 December 2013. Against a backdrop of soft industrial demand, silver was not able to decouple from its strong link to gold. Silver continued to trade with significantly higher volatility to gold and correlations between the two metals reached decade highs. Consequently the silver price followed the gold price downward but with significantly greater magnitude.

Despite some selling during the most precipitous price falls, holdings in silver ETPs actually rose by 7% between 5 September 2012 and 31 December 2013 according to Bloomberg data. Physical demand for silver coins was unexpectedly strong, with official mints frequently halting sales as they ran out of planchets (blank coins) to meet the surge in demand from consumers.

Conforming to its correlation with gold, silver has staged a recovery in 2014, rising 10% between 31 December 2013 and 11 March 2014.

## **ETFS Physical Silver ETF**

Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

Trustee's Report to the Unitholders of ETFS Physical Silver ETF ("the Fund")

---

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 for the period from 5 September 2012 (Date of Establishment) to 31 December 2013.

For and on behalf of  
HSBC Institutional Trust Services (Asia) Limited  
30 April 2014

---

Authorised signatory

---

Authorised signatory

## **ETFS Physical Silver ETF**

### **Reports and Financial Statements**

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### **Independent Auditor's Report to the Unitholders of ETFS Physical Silver ETF**

---

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

We have audited the accompanying financial statements of ETFS Physical Silver ETF (the "Fund") set out on pages 6 to 20, which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income and statement of changes in equity for the period from 5 September 2012 (Date of Establishment) to 31 December 2013, 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 preparing the financial statements in accordance with the relevant provisions of the Fund's trust deed dated 5 September 2012 (the "Trust Deed") and the relevant financial statement disclosure requirements specified in Appendix E of the Code on Unit Trusts and Mutual Funds (the "Code") issued by the Hong Kong Securities and Futures Commission (the "SFC").

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

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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. We are also required to assess whether the financial statements have been prepared in accordance with the relevant provisions of the Trust Deed and the relevant financial statement disclosure requirements specified in Appendix E of the Code.

## **ETFS Physical Silver ETF**

### **Reports and Financial Statements**

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### **Independent Auditor's Report to the Unitholders of ETFS Physical Silver ETF (Continued)**

---

#### **Report on the Financial Statements (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 judgment, 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 2013, and of its financial performance for the period from 5 September 2012 (Date of Establishment) to 31 December 2013 in accordance with International Financial Reporting Standards.

#### **Report on matters under the relevant provisions of the Trust Deed and the relevant financial statement disclosure requirements specified in Appendix E of the Code issued by the SFC**

In our opinion, the financial statements of the Fund have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant financial statement disclosure requirements specified in Appendix E of the Code issued by the SFC.

##### **Deloitte Touche Tohmatsu**

Certified Public Accountants

Hong Kong

30 April 2014

## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### Statement of Financial Position

At 31 December 2013

	Notes	31 December 2013 USD
<b>Assets</b>		
Silver bullion (at fair value)	5, 8	5,818,100
Precious metal ETFs (at fair value)	6, 8	19
Receivable from broker		2,566
<b>Total Assets</b>		<b>5,820,685</b>
<b>Liability</b>		
Provision for management fee	13	2,566
<b>Total Liability</b>		<b>2,566</b>
<b>Total Equity</b>		<b>5,818,119</b>
Net asset value per Unit based on 300,000 Units outstanding	7	19.393731

The financial statements on pages 6 to 20 were approved by and authorised for issue by the Manager and Trustee on 30 April 2014.

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 20 form part of these financial statements.



## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### Statement of Profit of Loss and Other Comprehensive Income

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

---

	Note	From 5 September 2012 (Date of Establishment) to 31 December 2013 USD
Realised loss from silver bullion		(9,494)
Net unrealised loss from silver bullion		(2,983,170)
Net unrealised loss from precious metal ETFs through profit or loss		(4)
<b>Net investment losses</b>		<b>(2,992,668)</b>
Management fee	13	(33,249)
<b>Total operating expenses</b>		<b>(33,249)</b>
<b>Loss and total comprehensive expense for the period</b>		<b>(3,025,917)</b>

The notes on pages 9 to 20 form part of these financial statements.

## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### Statement of Changes in Equity

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

	Notes	USD
Balance at 5 September 2012 (Date of Establishment)		-
Net movement in equity attributable to unitholders		
- Loss and total comprehensive expense for the period		(3,025,917)
Net movement in equity from transactions with unitholders		
- Creation of units	15	8,844,036
Balance at 31 December 2013	7	5,818,119

The notes on pages 9 to 20 form part of these financial statements.

# ETFS Physical Silver ETF

## Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

## Notes to the Financial Statements

---

### 1. General

ETFS Physical Silver ETF (the “Fund”) is a unit trust constituted by the trust deed dated 5 September 2012 (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 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 daily fix of the price of an ounce of Silver (the “London Fix”) published by the London Bullion Market Association (the “LBMA”). In order to achieve the investment objective, the Fund primarily acquires and holds physical silver bullion.

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 silver bullion. Such precious metal ETFs will initially include those managed by the ETF Securities group in the US and listed on the New York Stock Exchange and will not comprise more than 10% of the Fund’s net asset value at any time. They will all be physically backed by silver bullion and will 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.

### 2. Application of New and Revised International Financial Reporting Standards (“IFRSs”)

The Fund has not early applied the following new and revised IFRSs that have been issued but are not yet effective which are relevant to the Fund:

Amendments to IFRSs	Annual improvements to IFRSs 2010-2012 cycle <sup>1</sup>
Amendments to IFRSs	Annual improvements to IFRSs 2011-2013 cycle <sup>2</sup>
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures <sup>3</sup>
IFRS 9	Financial instruments <sup>3</sup>
Amendments to IAS 32	Offsetting financial assets and financial liabilities <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Available for application - the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2014

The Manager and Trustee of the Fund anticipate that the application of these new and revised IFRSs will have no material impact on the financial statements.

## **ETFS Physical Silver ETF**

### **Reports and Financial Statements**

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

#### **Notes to the Financial Statements (Continued)**

---

### **3. Significant Accounting Policies**

The financial statements have been prepared in accordance with IFRSs on the historical cost basis except for the silver bullion, precious metal ETFs and the receivable from broker 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 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.

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 are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### ***Silver bullion***

The silver bullion is carried at fair value through profit or loss based on the London Fix quoted on the LBMA and the change in fair value is recorded in profit or loss.

#### ***Financial instruments***

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

## ETFS Physical Silver ETF

Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

Notes to the Financial Statements (Continued)

---

### 3. Significant Accounting Policies (Continued)

#### *Financial instruments (Continued)*

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 the statement of profit or loss and other comprehensive income.

#### *Financial assets*

The Fund's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") (such as precious metal ETFs). 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.

#### *Financial assets at FVTPL*

The Fund's investment in precious metal ETFs is classified as financial assets designated at fair value through profit or loss.

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.

## ETFS Physical Silver ETF

Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

Notes to the Financial Statements (Continued)

---

### 3. Significant Accounting Policies (Continued)

#### *Financial instruments (Continued)*

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Fund after deducting all of its liabilities.

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.

## **ETFS Physical Silver ETF**

Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

Notes to the Financial Statements (Continued)

---

### **3. Significant Accounting Policies (Continued)**

#### ***Financial instruments (Continued)***

##### ***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 the statement of profit or loss and other comprehensive income.

##### ***Other non-financial asset***

Receivable from broker through in kind of silver bullion is measured at fair value based on the fair value of the silver bullion.

##### ***Non-financial liability***

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.

##### ***Expenses***

All expenses are recognised in loss in the period which they are incurred. The management fee is paid by the Fund through in kind of silver 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 the statement of profit or loss and other comprehensive income in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the statement of profit or loss and other comprehensive income for the period.

## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

#### Notes to the Financial Statements (Continued)

---

#### 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. Silver Bullion (at Fair Value)

**31 December 2013**  
**USD**

Silver bullion, at initial recognition	8,801,270
Net unrealised loss from silver bullion	(2,983,170)
	<hr/>
Silver bullion at fair value	5,818,100
	<hr/>

#### 6. Precious Metal ETFs (at Fair Value)

**31 December 2013**  
**USD**

Precious metal ETFs, at initial recognition	23
Net unrealised loss from precious metal ETFs	(4)
	<hr/>
Precious metal ETFs at fair value	19
	<hr/>

#### 7. Units

**From**  
**5 September 2012**  
**(Date of**  
**Establishment)**  
**to 31 December 2013**

Number of units	
Opening balance as at 5 September 2012 (Date of Establishment)	-
Units created	300,000
Units redeemed	-
	<hr/>
Closing balance at 31 December 2013	300,000
	<hr/>
Net asset value as at 31 December 2013	USD 5,818,119
	<hr/>
Net asset value per unit as at 31 December 2013	USD 19.393731
	<hr/>



## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### Notes to the Financial Statements (Continued)

---

#### 7. Units (Continued)

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.

An 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 silver 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 London Fix.

The Fund mainly holds silver 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*

##### (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 2013, the Fund’s monetary assets and liabilities were predominantly denominated in the functional currency. Therefore, there is minimal exposure to currency risk.

## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

#### Notes to the Financial Statements (Continued)

---

#### 8. Financial Risk Management (Continued)

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

##### (ii) Price risk

Market price risk is the risk that the value of the investments will fluctuate as a result of changes in the London Fix. Those changes may be caused by a number of unpredictable factors such as international, economic, monetary and political factors.

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

The Fund's price risk arises from silver bullion and precious metal ETFs. As at 31 December 2013, if the London Fix of silver bullion and the market price of precious metal ETFs had been 5% higher or lower with all other variables held constant, the total equity would have been impacted as follow:

	<b>Fair Value Exposure USD</b>	<b>Increase / decrease in total equity USD</b>
Silver bullion	5,818,100	290,905
Precious metal ETFs	<u>19</u>	<u>1</u>
	<u>5,818,119</u>	<u>290,906</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.

##### (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.

## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

#### Notes to the Financial Statements (Continued)

---

### 8. Financial Risk Management (Continued)

#### (b) Credit risk (Continued)

Credit risk also includes custodial risk. The custodian of silver 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 silver 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 silver 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 silver bullion of the Fund was held with HSBC Bank USA, N.A., amounting to USD 5,818,100 as at 31 December 2013.

#### (c) Liquidity risk

When redeemable units are redeemed, the Fund returns the corresponding amount of silver bullion and/or precious metal ETFs determined by the unitholder's entitlement. The market value of the silver 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 silver bullion, calculated on daily basis and settled within one month.

### 9. Investment Restriction

The Fund may only invest in the silver bullion and/or interests in precious metal ETFs. The silver 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.

The Fund complied with this investment restriction during the period from 5 September 2012 (date of establishment) to 31 December 2013.

Precious metal ETFs did not account for more than 10% of the net asset value of the Fund at any time during the period from 5 September 2012 (date of establishment) to 31 December 2013.

## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### Notes to the Financial Statements (Continued)

---

#### 10. Statement Of Cash Flow

A statement of cash flows has not been presented as the Fund did not hold any cash and cash equivalents at the start of period, undertake any cash transactions during the period, or hold any cash and cash equivalents at the end of period.

#### 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 silver 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 Estimation

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 2013</u>				
Silver Bullion	-	5,818,100	-	5,818,100
Financial assets at FVTPL				
- Precious metal ETFs	<u>19</u>	<u>-</u>	<u>-</u>	<u>19</u>
Total	<u>19</u>	<u>5,818,100</u>	<u>-</u>	<u>5,818,119</u>

The fair value of the silver bullion is calculated using the London Fix. The silver bullion is valued based on quoted market prices supported by observable inputs, and is therefore classified within Level 2. The precious metal ETFs are listed on the open market whose values are based on quoted market prices and traded in active markets, therefore are classified within Level 1.

The fair value of the receivable from broker through in kind of silver bullion and its fair value is calculated using the fair value of the silver bullion as at the reporting date on a recurring basis and classified within Level 2.

The carrying value of the provision for management fee that is not measured at fair value on a recurring basis is assumed to approximate its fair value and classified within Level 2.

There were no transfers between Levels 1, 2 and 3 during the current period.

## ETFS Physical Silver ETF

### Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

#### Notes to the Financial Statements (Continued)

---

### 13. 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) *Silver bullion*

At 31 December 2013, silver bullion of the Fund held with the custodian and broker, HSBC Bank USA, N.A., a connected person of the Trustee amounted to USD 5,818,100.

#### (b) *Management fee*

ETF Securities (HK) Limited, the Manager, is entitled to a management fee, in kind by the transfer of an amount of silver bullion, currently at the rate of 0.50% per annum of the net asset value of the Fund.

Pursuant to the Trust 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 period from 5 September 2012 (Date of Establishment) to 31 December 2013, total management fee charged was USD 33,249, of which a provision for management fee of USD 2,566 was booked as of 31 December 2013. The provision for management fee will be settled through the transfer of silver bullion from the broker, and the receivable from broker amounted to USD 2,566 as of 31 December 2013.

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 period from 5 September 2012 (date of establishment) to 31 December 2013, the total fees and expenses (excluding management fee) of the Fund, amounting to approximately USD 203,000, are borne by the Manager.

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

At 31 December 2013, the Fund held 1 share of ETFS Silver Trust ETF, managed by a connected person of the Manager amounted to USD 19.

## **ETFS Physical Silver ETF**

### **Reports and Financial Statements**

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### **Notes to the Financial Statements (Continued)**

---

#### **14. 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 its Manager.

#### **15. Major Non-Cash Transactions**

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

During the period from 5 September 2012 (Date of Establishment) to 31 December 2013, the Fund issued 300,000 units, totalling USD 8,844,036 in exchange for silver bullion valued at USD 8,844,036 by the Manager.

#### **16. Soft Commission Arrangements**

For the period from 5 September 2012 (date of establishment) to 31 December 2013, the Manager did not enter into any soft commission arrangements with brokers relating to dealings in the assets of the Fund.

#### **17. Event After The Reporting Period**

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

## ETFS Physical Silver ETF

Reports and Financial Statements

For the period from 5 September 2012 (Date of Establishment) to 31 December 2013

### Investment Portfolio & Performance (Unaudited)

#### Investment Portfolio (Unaudited)

	<b>Holdings Troy Ounces / Units</b>	<b>Market Value USD</b>	<b>% Of Net Assets</b>
<b>Commodity</b>			
Silver bullion	298,364	5,818,100	100.00
<b>Financial assets at FVTPL</b>			
Precious metal ETF			
- ETFS Physical Silver Shares ETF	1	19	0.00
Total investments		5,818,119	100.00
Net asset value attributable to unitholders at 31 December 2013		5,818,119	100.00
Total investments at cost		8,801,293	

#### Statement Of Movements In Portfolio Holdings (Unaudited)

	<b>5 September 2012 (Date of Establishment)</b>	<b>Additions</b>	<b>Holdings Deductions</b>	<b>31 December 2013</b>
	<b>Troy Ounces / Units</b>	<b>Troy Ounces / Units</b>	<b>Troy Ounces / Units</b>	<b>Troy Ounces / Units</b>
<b>Commodity</b>				
Silver bullion	-	299,778	1,414	298,364
<b>Financial assets at FVTPL</b>				
Precious metal ETF				
- ETFS Physical Silver Shares 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 period dated 31 December 2013	5,818,119	19.393731
<b>Performance Record</b>	<b>Highest issue price per Unit USD</b>	<b>Lowest redemption price per unit USD</b>
Financial period from 5 September 2012 (Date of Establishment) to 31 December 2013	31.278595	18.556056