



# VALUE GOLD ETF

Stock code: 03081 (HKD) | 83081 (RMB)

## ANNUAL REPORT 2014

For the year ended 31 March 2014

**Sensible Asset Management Hong Kong Limited**  
**(Chinese name: 盛寶資產管理香港有限公司)**

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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  
(Chinese name: 盛寶資產管理香港有限公司)  
9th Floor, Nexxus Building  
41 Connaught Road Central  
Hong Kong

### Sub-investment Manager

Value Partners Hong Kong Limited  
(Chinese name: 惠理基金管理香港有限公司)  
9th Floor, Nexxus Building  
41 Connaught Road Central  
Hong Kong

### Directors of the Investment Manager

Mr Chow Wai Chiu William  
Mr So Chun Ki Louis

### 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  
13th Floor, One Pacific Place  
88 Queensway  
Hong Kong

### Auditor

Ernst & Young  
*(with effect from 1 January 2014)*  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

### KPMG

*(up to 31 December 2013)*  
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

Corporate awards	
2012	<ul style="list-style-type: none"><li>• <b>2012 The Asset Triple A Investment Awards Highly Commended ETF House for Hong Kong</b> – <i>The Asset</i></li></ul>

  

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

As at 31 March 2014, the Net Asset Value ("NAV") per unit of the Fund was HKD31.7827, and 27,600,000 units were outstanding. The total size of the Fund was approximately HKD877 million.

A summary of the performance of the Index and the Fund is given below.

<b>Total return in HKD</b>	<b>From 1 Apr 2013 to 31 Mar 2014</b>	<b>2014 YTD (as at 31 Mar)</b>	<b>Since inception</b>
London Gold Morning Fixing Price	-22.2%	7.7%	-2.5%
Value Gold ETF	-22.8%	7.6%	-3.9%

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.

### Sensible Asset Management Hong Kong Limited

(Chinese name: 盛寶資產管理香港有限公司)

16 July 2014

*All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in HKD, NAV to NAV with dividends reinvested, as at 31 March 2014. Performance data is net of all fees.*

*Investors should note that investment involve 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 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 size.*

## 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 year and of the transactions for the year 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 (as amended).

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

Trustee,  
16 July 2014



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

We have audited the financial statements of Value Gold ETF (the "Fund") set out on pages 9 to 33, which comprise the statement of financial position as at 31 March 2014, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Trustee's and Manager's responsibilities 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 also have a responsibility to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of Trust Deed of the Fund dated 13 October 2010 as amended by two supplemental deeds dated 8 March 2012 and 19 April 2013 (collectively, the "Trust Deed") and the disclosure requirements specified in Appendix E to the Code on Unit Trusts and Mutual Fund of the Securities and Futures Commission of Hong Kong (the "SFC Code").

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. Our 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, and whether the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed and the disclosure requirements specified in Appendix E to the SFC Code.

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

### **Auditors' 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 auditors' 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 auditors consider 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 March 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on other legal and regulatory requirements**

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

### **Ernst & Young**

Certified Public Accountants

Hong Kong

16 July 2014

## STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2014

	<i>Note</i>	<b>31.3.2014</b> <i>HK\$</i>	<b>31.3.2013</b> <i>HK\$</i>
<b>Assets</b>			
Commodity	3, 8	877,086,246	1,068,302,235
Cash and cash equivalents	6(c)	466,277	792,777
Prepayments		130,130	–
		<u>877,682,653</u>	<u>1,069,095,012</u>
<b>Total assets</b>			
<b>Liabilities</b>			
Audit fees payable		100,000	100,000
Management fees payable	6(a)	115,456	135,122
Trustee and registrar fees payable	6(b)	76,970	132,364
Custodian fees payable		171,744	145,241
Other payables		16,250	10,000
		<u>480,420</u>	<u>522,727</u>
<b>Total liabilities</b>			
<b>Total equity</b>		<u>877,202,233</u>	<u>1,068,572,285</u>
<b>Net asset value per unit based on</b>			
<b>27,600,000 units outstanding</b>			
<b>(2013: 27,000,000 units)</b>			
	7	<u>31.7827</u>	<u>39.5768</u>

Approved and authorised for issue by the Manager and the Trustee on 16 July 2014.

Signed by:

**Sensible Asset Management Hong Kong Limited** (盛寶資產管理香港有限公司), *Manager*

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

The notes on pages 13 to 33 form part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2014

	<i>Note</i>	<b>Year ended 31.3.2014</b>	<b>Year ended 31.3.2013</b>
		<i>HK\$</i>	<i>HK\$</i>
Net losses from commodity	4	(203,729,482)	(38,898,116)
Net foreign exchange losses		(5,890)	(1,606)
Other income		181,269	–
<b>Net investment loss</b>		<u>(203,554,103)</u>	<u>(38,899,722)</u>
Management fees	6(a)	1,318,008	1,656,792
Trustee and registrar fees	6(b)	1,156,108	1,571,339
Legal and professional fees		770,045	676,191
Transaction fees		60,617	500
Custodian fees		351,814	441,831
Auditors' remuneration		108,650	106,500
Service agent fees		60,000	60,000
Listing fees		15,000	15,000
Bank charges	6(c)	1,415	883
Other operating expenses		327,892	283,000
<b>Operating expenses</b>		<u>4,169,549</u>	<u>4,812,036</u>
<b>Loss and total comprehensive income for the year</b>		<u><u>(207,723,652)</u></u>	<u><u>(43,711,758)</u></u>

The notes on pages 13 to 33 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2014

	<i>Note</i>	<b>Year ended 31.3.2014 HK\$</b>	<b>Year ended 31.3.2013 HK\$</b>
<b>Balance at the beginning of the year</b>		1,068,572,285	1,112,284,043
Issue of redeemable units	7	38,443,890	–
Redemption of redeemable units	7	(22,090,290)	–
Net increase from unit transactions		<u>16,353,600</u>	<u>–</u>
Total transactions with unitholders		16,353,600	–
Loss and total comprehensive income for the year		<u>(207,723,652)</u>	<u>(43,711,758)</u>
<b>Balance at the end of the year</b>		<u><u>877,202,233</u></u>	<u><u>1,068,572,285</u></u>

The notes on pages 13 to 33 form part of these financial statements.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2014

	Year ended 31.3.2014 <i>HK\$</i>	Year ended 31.3.2013 <i>HK\$</i>
<b>Operating activities</b>		
Proceeds from sale of investments	25,624,504	4,937,132
Purchase of investments	(38,137,997)	–
Operating expenses paid	(4,166,607)	(4,896,238)
	<u>                    </u>	<u>                    </u>
<b>Cash flows (used in)/generated from operating activities</b>	(16,680,100)	40,894
	-----	-----
<b>Financing activities</b>		
Proceeds from issue of redeemable units	38,443,890	–
Payment on redemption of redeemable units	(22,090,290)	–
	<u>                    </u>	<u>                    </u>
<b>Cash flows generated from financing activities</b>	16,353,600	–
	<u>                    </u>	<u>                    </u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(326,500)	40,894
<b>Cash and cash equivalents at the beginning of the year</b>	<u>792,777</u>	<u>751,883</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>466,277</u></u>	<u><u>792,777</u></u>

The notes on pages 13 to 33 form part of these financial statements.

## NOTES TO 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 Fund (the “SFC 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 (Chinese name: 盛寶資產管理香港有限公司) (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. In addition, for the purpose of liquidity, up to 5% of Net Asset Value of the Fund may be invested in other physical gold exchange traded fund’s listed on International Stock Exchange which have a similar risk profile for the Fund.

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”) as issued by the International Accounting Standard Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB and the relevant disclosure provisions of the Trust Deed and the relevant disclosure provisions specified in Appendix E of the Code on Unit Trusts and Mutual Fund of the SFC (the “SFC Code”). A summary of the significant accounting policies adopted by the Fund is set out below.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The IASB has issued certain new and revised IFRSs that are available for early adoption for the current accounting period of the Fund.

The Fund has not applied any amendments and new standards that are not yet effective for the current accounting period (see note 11).

#### (b) Basis of preparation

The functional currency of the financial statements is Hong Kong dollars (“HK\$”), and units of the Fund are issued in HK\$.

The financial statements are presented in HK\$.

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 conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts recognised in the financial statements and disclosure of contingent liabilities. 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.

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.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Foreign currency translation

Transactions in foreign currencies are translated at foreign currency exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to HK\$ 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 profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to HK\$ 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.

#### (d) Financial assets and financial liabilities at fair value through profit or loss

##### (i) Classification

The Fund designates all its commodity into the financial assets at fair value through profit or loss category. The category of financial assets at fair value through profit or loss comprises financial instruments held for trading and financial instruments designated at fair value through profit or loss upon initial recognition.

All of the Fund's investments are designated as financial assets at fair value through profit or loss. These investments are managed, evaluated and reported internally on a fair value basis upon initial recognition.

Financial assets that are classified as loans and receivables include prepayments.

Financial liabilities that are not designated at fair value through profit or loss include accounts payables.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Financial assets and financial liabilities at fair value through profit or loss (Continued)

##### (ii) Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed their obligations under the contract or the contract is a derivative contract not exempted from the scope of International Accounting Standard 39 (“IAS 39”).

##### (iii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial instruments designated at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all financial instruments are measured at fair value with changes in their fair value recognised in profit or loss.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities are measured at amortised cost using the effective interest rate.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Financial assets and financial liabilities at fair value through profit or loss (Continued)

##### (iv) Fair value measurement principles

The Fund measures its equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on their quoted market price at the date of the statement of financial position without any deduction for estimated future selling cost. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Financial assets and financial liabilities at fair value through profit or loss (Continued)

##### (iv) Fair value measurement principles (Continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

##### (v) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Fund uses the weighted average method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

#### (e) Commodity

Commodity comprises 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 recorded in profit or loss.

## NOTES TO 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 profit or loss 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 profit or loss.

#### (g) Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to know 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 profit or loss on a time-proportionate basis using the effective interest method.

#### (i) Expenses

All expenses, including management fees and trustee and registrar fees, are recognised in profit or loss on an accrual basis. Preliminary expenses incurred in establishing the Fund are expensed immediately in accordance with IAS 38.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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 gains/(losses) 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 FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (I) 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.

#### *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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Related parties

A party is considered to be related to the Fund if:

- (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 of a parent of the Fund;

or

- (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;
  - (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) the entity and the Fund 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 either the Fund or an entity related to the Fund;



## NOTES TO FINANCIAL STATEMENTS (Continued)

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Related parties (Continued)

- (vi) the entity is controlled or jointly controlled by a person identified in (a); or
- (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).

#### (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 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 and cash equivalents. 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 and liquidity 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 the commodity 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 2014 and 2013, the Fund is not exposed to significant foreign currency risk. The majority of assets and liabilities are denominated in HK\$ and United States dollars ("USD"). As the HK\$ is pegged to USD, the Fund does not expect any significant movements in HK\$/USD exchange rate.

##### (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. Those changes may be caused by a number of unpredictable factors such as international, economic, monetary and political factors.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

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

##### (ii) Price risk (Continued)

The Fund employs a purchase and hold investment strategy of gold bullion. Disposal 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\$877,086,246 (2013: HK\$1,068,302,235). As at 31 March 2014, if the London Gold Fixing Price had been 20% (2013: 20%) higher or lower with all other variables held constant, the operating profit and total equity would have been approximately HK\$175,417,249 (2013: HK\$213,660,447) higher or lower, for the year ended 31 March 2014.

##### (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 risk due to fluctuations in the prevailing levels of market interest rates.

#### (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. Potential credit risk to the Fund principally relates to commodity and bank balances.

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 or good reputation, 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 made payment. In a purchase, payment is made when the gold bullion has been delivered by the broker. If either party fails to meet its obligation, the trade will fail. Accordingly, there is no significant concentration of credit risk.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (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.

### 4 NET LOSSES FROM COMMODITY

	2014 HK\$	2013 HK\$
Net realised (losses)/gains	(623,052)	436,115
Change in unrealised gains/losses	<u>(203,106,430)</u>	<u>(39,334,231)</u>
	<u><u>(203,729,482)</u></u>	<u><u>(38,898,116)</u></u>

### 5 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 6 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 year. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

#### (a) Management fees

The Fund appointed the Manager, an investment management company incorporated in Hong Kong, to implement the investment strategy as specified in the Trust Deed. The Manager is entitled to receive management fees of up to 1% per year of the net asset value of the Fund. The current management fees are 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. Management fees of HK\$1,318,008 (2013: HK\$1,656,792) were charged to profit or loss during the year. Included in liabilities as at 31 March 2014 is management fees payable of HK\$115,456 (2013: HK\$135,122).

#### (b) Trustee and registrar fees

The Fund appointed the Trustee, a registered trust company incorporated in Hong Kong, to implement the responsibilities as specified in the Trust Deed. HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) is entitled to receive trustee and registrar fees of up to 1.0% per year of the net asset value of the Fund. The current trustee and registrar fees is 0.1% (2013: 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 starting from 18 December 2013, HK\$35,000 per month thereafter. For the period from 1 April 2013 to 17 December 2013, the minimum fee was 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 service fees of HK\$25,000 per annum accrued daily and payable quarterly in arrears as well as ad hoc valuation fees of HK\$4,000 per calculation of net asset value other than at the valuation point on a regular dealing day. Trustee and registrar fees of HK\$1,156,108 (2013: HK\$1,571,339) were charged to profit or loss during the year. Included in liabilities as at 31 March 2014 are trustee and registrar fees payable of HK\$76,970 (2013: HK\$132,364).

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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

**(c) Transactions/balances with the group company of the Trustee**

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>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Bank balances	466,277	792,777
Bank charges	1,415	883
	<u>467,692</u>	<u>793,660</u>

**(d) Manager's and its related parties' holding in the Fund**

As at 31 March 2014 and 2013, units held by the related parties of the Manager and the Sub-investment Manager are listed below:

	<b>Number of units</b>	
	<b>2014</b>	<b>2013</b>
	<i>HK\$</i>	<i>HK\$</i>
Dato' Cheah Cheng Hye*	3,848,200	3,598,200
Value Partners Hong Kong Limited**	4,500,000	4,500,000
Value Partners Limited***	17,500	17,500
	<u>8,365,700</u>	<u>8,615,700</u>

\* *Dato' Cheah Cheng Hye is a director of the Sub-investment Manager*

\*\* *Value Partners Hong Kong Limited is the Sub-investment Manager*

\*\*\* *Value Partners Limited is a fellow subsidiary of the Manager*

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 7 REDEEMABLE UNITS IN ISSUE

	Number of units	
	2014 HK\$	2013 HK\$
<b>At the beginning of the year</b>	27,000,000	27,000,000
Issue of redeemable units	1,200,000	–
Redemption of redeemable units	(600,000)	–
	<hr/>	<hr/>
<b>At the end of the year</b>	<u>27,600,000</u>	<u>27,000,000</u>

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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 8 FAIR VALUE INFORMATION

The Fund's financial instruments are carried at fair value on the statement of financial position. Usually the fair value of the financial instruments can be reliably determined within a reasonable range of estimates. For certain other financial instruments, including accounts payables and accrued expenses, the carrying amounts approximate to their fair values due to the immediate or short-term nature of these financial instruments.

#### (a) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial instruments: Disclosures*, with the fair value of the financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined in note 2(d)(iv) to the financial statements.

	<b>31.3.2014</b>	<b>31.3.2013</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>Level 1</b>		
Commodity – Gold bullion	877,086,246	1,068,302,235

During the year ended 31 March 2014 and 2013, there were no significant transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### 8 FAIR VALUE INFORMATION (Continued)

#### (b) Financial instruments carried at other than fair value

The carrying amounts of all the Fund's financial assets and financial liabilities at the date of the statement of financial position approximated to their fair values.

### 9 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.

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 for the year ended 31 March 2014 and 2013.

The Fund has no assets classified as non-current as at 31 March 2014 (2013:nil).

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 10 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Fund has adopted the following IFRSs for the first time for the current year's financial statements.

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Fund re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Fund. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

### 11 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. The Fund intends to adopt applicable standards when they become effective.

#### (i) IFRS 9 Financial Instruments – Classification and Measurement

IFRS 9 as issued, reflects the first phase of the International Accounting Standards Board ("IASB")'s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In 2013, the IASB added the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. IAS 39 is aimed to be replaced by IFRS 9 in its entirety. The previous mandatory effective date of IFRS 9 was removed by the IASB in November 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now.

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

### **11 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)**

#### **(ii) IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32**

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Fund’s financial position or performance.

### **12 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Manager and Trustee on 16 July 2014.

**INVESTMENT PORTFOLIO (UNAUDITED)**

AS AT 31 MARCH 2014

	<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	2,717,728.20	<u>877,086,246</u>	<u>99.99</u>
<b>Total commodity</b>		877,086,246	99.99
Cash and cash equivalents		466,277	0.05
Prepayments		130,130	0.01
Other net liabilities		<u>(480,420)</u>	<u>(0.05)</u>
<b>Total net assets</b>		<u><u>877,202,233</u></u>	<u><u>100.00</u></u>
<b>Total investments, at cost</b>		<u><u>1,013,741,882</u></u>	

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

FOR THE YEAR ENDED 31 MARCH 2014

	<i>% of net assets</i>	
	<b>31.3.2014</b>	<b>31.3.2013</b>
<b>COMMODITY</b>		
Gold bullion	<u>99.99</u>	<u>99.98</u>
<b>Total commodity</b>	<b><u>99.99</u></b>	<b><u>99.98</u></b>
Cash and cash equivalents	0.05	0.07
Other net liabilities	<u>(0.04)</u>	<u>(0.05)</u>
<b>Total net assets</b>	<b><u>100.00</u></b>	<b><u>100.00</u></b>

**PERFORMANCE RECORD (UNAUDITED)**

FOR THE YEAR ENDED 31 MARCH 2014

**Net asset value**

	<b>Net asset value per unit</b>	<b>Net asset value</b>
	<i>HK\$</i>	<i>HK\$</i>
As at 31 March 2014	31.7827	877,207,233
As at 31 March 2013	39.5768	1,068,572,285
As at 31 March 2012	41.1957	1,112,284,043

**Highest and lowest net asset value per unit**

	<b>Highest net asset value per unit</b>	<b>Lowest net asset value per unit</b>
	<i>HK\$</i>	<i>HK\$</i>
Year ended 31 March 2014	39.4526	29.3178
Year ended 31 March 2013	44.2319	38.1371
Period ended 31 March 2012	47.3279	32.9193