

**ETFS METAL SECURITIES AUSTRALIA LIMITED**

**Registered No: ACN 101 465 383**

**Report and Financial Statements for the  
Year ended 31 December 2010**

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# ETFS METAL SECURITIES AUSTRALIA LIMITED

## MANAGEMENT AND ADMINISTRATION

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### Directors

Graham Tuckwell – Chairman  
Greg Burgess  
Vince FitzGerald

### Administrator

R&H Fund Services (Jersey) Limited  
Ordnance House  
PO Box 83  
St Helier  
Jersey  
JE4 8PW

### Secretary

Graeme Ross  
Ordnance House  
PO Box 83  
St Helier  
Jersey  
JE4 8PW

### Registered Office

Level 27, AMP Centre  
50 Bridge Street  
Sydney  
NSW 2000

### Legal Advisers

Baker & McKenzie  
Level 27, AMP Centre  
50 Bridge Street  
Sydney  
NSW 2000

### Registrar

Link Market Services Limited  
Level 12, 680 George Street  
Sydney  
NSW 2000

### Auditors

Deloitte Touche Tohmatsu  
550 Bourke Street  
Melbourne  
VIC 3000

### Custodian

HSBC Bank USA, NA, London Branch  
8 Canada Square  
London  
E14 5HQ

### Trustee

Gold Bullion Nominees Pty Ltd  
Level 27 AMP Centre  
50 Bridge Street  
Sydney  
NSW 2000

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### DIRECTORS' REPORT

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The directors of ETFS Metal Securities Australia Limited ("the Company") submit herewith the financial report of the Company for the year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Company are:

Mr Graham John Tuckwell - Chairman  
Dr Vincent William John FitzGerald  
Mr Gregory John Burgess

The above named directors held office during the year.

#### Principal Activities

The Company's principal activities during the course of the financial year was the continuing issue of ETFS Physical Gold, ETFS Physical Palladium, ETFS Physical Platinum, ETFS Physical Silver and ETFS Physical PM Basket, allowing investors to own and trade that interest through a listed security traded on the Australian Stock Exchange ("ASX").

A Metal Security comprises of a Metal Share (a redeemable preference share issued at a nominal value of 1/1,000th of a cent) together with an entitlement to either 1/10<sup>th</sup> of one troy ounce of platinum, 1/10<sup>th</sup> of one troy ounce of palladium, approximately 1/10<sup>th</sup> of one fine troy ounce of gold bullion, 1 troy ounce of silver and a combination of 1/25<sup>th</sup> of one troy ounce of gold bullion, 1 1/5<sup>th</sup> of one troy ounce of silver, 1/100<sup>th</sup> of one troy ounce of platinum and 1/50 of one troy ounce of palladium for the basket security. The metals are held in the name of the Trustee, Gold Bullion Nominees Pty Ltd. The metal, to which the holder is entitled, is held by the Custodian Bank (HSBC Bank USA, N.A.) in vaults in London.

During the financial year there were no significant changes in the nature of those activities.

#### Review of Operations

The Company was incorporated on 17 September 2002 and was admitted to the official list of the Australian Stock Exchange on 27 March 2003. Gold Bullion Securities (now ETFS Physical Gold) commenced trading on the ASX on 28 March 2003. On 2 February 2009 ETFS Physical Gold was launched on the AQUA platform and was joined by ETFS Physical Platinum, ETFS Physical Palladium, ETFS Physical Silver and ETFS Physical Basket Securities.

A total of 24,411 ETFS Physical Platinum securities (2009: 36,592), 23,280 Physical Palladium securities (2009: 37,002), 874,153 ETFS Physical Silver securities (2009: 357,904), 4,525,538 ETFS Physical Gold securities (2009: 4,978,167) and 52,975 ETFS Physical Basket securities (2009: 44,500) were in issue at 31 December 2010.

For the year to 31 December 2010, the Company incurred no expenses and accrued no income.

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### DIRECTORS' REPORT

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#### Future Developments

The directors are not aware of any developments that might have a significant effect on the operations of the Company in subsequent financial years not already disclosed in this report or the attached financial report.

#### Dividends

The directors do not recommend the provision or payment of a dividend to holders of Ordinary Shares for the period.

#### Share Options Granted to Directors

No share options were granted or issued to directors or executives during the period.

#### Directors' Interests

The following table sets out each director's beneficial interest in Ordinary shares as at the date of this report:

Directors	Fully Paid Ordinary Shares
Graham John Tuckwell	<u>131,500</u>

#### Indemnification of Officers and Auditors

The Company provided a written indemnity to the directors of the Company, the Company Secretary and all executive officers of the Company against any liability incurred while performing the duties of a director, secretary or executive officer to the extent permitted by the Corporations Act 2001.

The Company has not otherwise, during or since the financial period, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such an officer or auditor.

#### Directors Meetings

The number of directors' meetings and the number of meetings attended by each director of the Company during the period were:

Directors	Held	Attended
Graham J Tuckwell	3	3
Gregory J Burgess	3	3
Vincent WJ FitzGerald	3	3

# ETF S METAL SECURITIES AUSTRALIA LIMITED

## DIRECTORS' REPORT

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### Remuneration Report

Under the Administration Services Deed Poll between the Company and ETF Securities Limited ("ETFSL"), ETFSL provides or procures services to the Holders in connection with the issue and management of the Company's Metal Securities. Pursuant to this Deed Poll all the operating costs relating to the Company (including compensation of directors and executives) are paid for by ETFSL.

The following table discloses the remuneration of the directors of the Company which has been paid by the parent during the year to 31 December 2010.

Name	Short-term Employee	Post- Employment	Total
	Benefits	Benefits	
	Salary/Fees	Super	
Specified Directors:	AUD	AUD	AUD
Graham J Tuckwell	Nil	Nil	Nil
Gregory J Burgess	Nil	Nil	Nil
Vincent WJ FitzGerald	Nil	Nil	Nil
Specified Company Secretary:			
Graeme D Ross	Nil	Nil	Nil

There were no executive directors and other executives during the financial period. Mr Tuckwell and Mr Burgess were not entitled to receive any emoluments in respect of their Directorships. None of the directors have agreed to waive or have waived any of their emoluments from the Company. The remuneration of the directors is not dependent on the satisfaction of a performance condition.

### Auditors Independence Declaration

The auditor's independence declaration is included on page 9.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the directors



Vincent WJ FitzGerald  
Director

Melbourne, 30 March 2011

**ETFS METAL SECURITIES AUSTRALIA LIMITED**

**DIRECTORS' DECLARATION**

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The directors declare that:

- in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company;
- in the Directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and
- the directors have been given the declarations required by s.295A of the Corporations Act 2001

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the directors



**Vincent WJ FitzGerald**  
Director

Melbourne, 30 March 2011

The Board of Directors  
ETFs Metal Securities Australia Limited  
Level 27, AMP Centre  
50 Bridge Street  
SYDNEY, NSW 2000

30 March 2011

Dear Board Members

**ETFs Metal Securities Australia Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of ETFs Metal Securities Australia Limited.

As lead audit partner for the audit of the financial statements of ETFs Metal Securities Australia Limited for the financial year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review

Yours sincerely

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Paul Radici  
Partner  
Chartered Accountants



## **Independent Auditor's Review Report to the Directors of ETFS Metal Securities Australia Limited**

We have audited the accompanying financial report of ETFS Metal Securities Australia Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in shareholders' equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 5 to 21.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives 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 directors, as well as evaluating the overall presentation of the financial report.

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

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*,

which has been given to the directors of ETFs Metal Securities Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In our opinion:

- (a) the financial report of Gold ETFs Metal Securities Australia Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

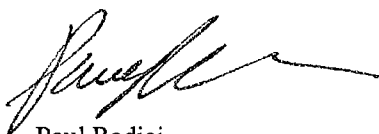
**Report on the Remuneration Report**

We have audited the Remuneration Report included in page 4 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of ETFs Metal Securities Australia Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU  
DELOITTE TOUCHE TOHMATSU



Paul Radici  
Partner  
Chartered Accountants  
Melbourne, 30 March 2011

ETFS METAL SECURITIES AUSTRALIA LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Year Ended 31 December 2010 AUD	Year Ended 31 December 2009 AUD
<i>Revenue From Ordinary Activities</i>		-	-
<i>Expenses From Ordinary Activities</i>		-	-
<i>Profit From Ordinary Activities</i>		-	-
<b><i>Profit Before Income Tax Expense</i></b>		-	-
Income Tax Expense	3	-	-
Income Tax Overprovision	3	-	<u>157,660</u>
<b><i>Profit/ (Loss) from Continuing Operations</i></b>		-	<u>157,660</u>
<b><i>Profit for the Period Attributable to Equity Holders of the Company</i></b>		-	<u>157,660</u>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the Year</b>		-	<u>157,660</u>

The directors consider the Company's activities are continuing.

The notes on pages 13 to 21 form part of these financial statements

ETFs METAL SECURITIES AUSTRALIA LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 AUD	2009 AUD
<b>Current Assets</b>			
<i>Current Assets</i>			
Cash		319,237	374,046
Receivable from Parent Entity	4	88,577	33,775
Gold Bar	6	<u>580,283</u>	<u>515,835</u>
<b>Total Current Assets</b>		<u>988,097</u>	<u>923,656</u>
<b>Total Assets</b>		<u>988,097</u>	<u>923,656</u>
<b>Current Liabilities</b>			
<i>Other Current Liabilities</i>			
Gold Bar Loan Payable	7	242,328	242,328
Other Financial Liabilities	8	<u>337,955</u>	<u>273,507</u>
<b>Total Current Liabilities</b>		<u>580,283</u>	<u>515,835</u>
<b>Non-Current Liabilities</b>			
Other	9	<u>54</u>	<u>61</u>
<b>Total Non-Current Liabilities</b>		<u>54</u>	<u>61</u>
<b>Total Liabilities</b>		<u>580,337</u>	<u>515,896</u>
<b>Net Assets</b>		<u>407,760</u>	<u>407,760</u>
<b>Equity</b>			
Issued Capital	10	250,100	250,100
Equity Contributions	11	360,000	360,000
Retained Earnings		<u>(202,340)</u>	<u>(202,340)</u>
<b>Total Equity</b>		<u>407,760</u>	<u>407,760</u>

The financial statements on pages 9 to 21 were approved by the board of directors and signed on its behalf on 30 March 2011.



Vincent WJ FitzGerald  
Director

The notes on pages 13 to 21 form part of these financial statements

ETFS METAL SECURITIES AUSTRALIA LIMITED

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

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	Issued capital AUD	Retained earnings AUD	Other reserves AUD	Total AUD
<b>Balance at 1 January 2009</b>	250,100	(360,000)	360,000	250,100
Profit for the Year	-	157,660	-	157,660
Other Comprehensive Income	-	-	-	-
<b>Balance at 31 December 2009</b>	<u>250,100</u>	<u>(202,340)</u>	<u>360,000</u>	<u>407,760</u>
<b>Balance at 1 January 2010</b>	250,100	(202,340)	360,000	407,760
Profit for the Year	-	-	-	-
Other Comprehensive Income	-	-	-	-
<b>Balance at 31 December 2010</b>	<u>250,100</u>	<u>(202,340)</u>	<u>360,000</u>	<u>407,760</u>

The notes on pages 13 to 21 form part of these financial statements

## 1. Summary of Accounting Policies

### Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, accounting standards and interpretations and complies with other requirements of the law. Accounting standards include Australian equivalents to International Financial Reporting standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 30 March 2011.

### Basis of preparation

This financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis, see note 6. 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.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

In the current year, the Company adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and are effective for the current period. The adoption of those new and revised Standards and Interpretations has not resulted in changes to the Company's accounting policies and has no effect on the amounts reported for the current or prior periods. These include:

Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

#### ***Payables***

Trade payables and other accounts payable are recognised when the parent Company becomes obliged to make future payments resulting from the purchase of goods and services.

**Income Tax**

**(i) Current Tax**

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

**(ii) Deferred Tax**

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Current and deferred tax is recognised as an expense or income in the income statement except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

**Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**Gold Bar**

The gold bar asset is a hedged item in a designated fair value hedge and is recorded at fair value. Changes in fair value are recognised in the profit and loss account.

**Gold Bar Loan Payable**

The gold bar loan is repayable in gold. This loan is recorded at amortised cost.

**ETFS Redeemable Preference Shares**

ETFS Metal Shares are redeemable preference shares and are recorded at their nominal value of 1/1,000th of one cent each.

### **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### **Impairment of Assets**

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

### **Borrowings**

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

### **Loans and receivables**

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

### **Derivative financial instruments**

#### **(i) Gold Bar Loan Payable Embedded Derivative**

The Company has a gold loan bar payable that is denominated in gold. This loan is recorded at amortised cost in the current period.

Due to this loan being settled in gold, the value of the loan is linked to the market price of gold. Therefore an embedded derivative exists in respect of the loan. The embedded derivative is re-measured to its fair value at each reporting date. Movements in the fair value are recognised in the profit and loss account.

#### **(ii) Fair-Value Hedge**

Changes in the fair value of derivatives (including those that are based on the market value of gold) that are designated and qualify as fair value hedges are recorded in profit and loss immediately, together with any changes in the value of the hedged asset or liability that is attributable to the hedged risk. Hedge accounting is discontinued when the hedged asset is disposed or no longer qualifies for hedge accounting.

## **2. Revenue and costs**

For the year to 31 December 2010, the Company incurred no expenses and accrued no income.

Capital reserves will remain at \$250,100; sufficient to maintain on-going operations and the continuing issue of the Company's Metal Securities.



**3. Income Tax**

Under the terms of the Administration Services Deed Poll between Holders and ETFSL (previously Gold Bullion Holdings (Jersey) Limited) dated 29 June 2007, the creation and redemption fees and monthly gold sales charge are paid directly by Holders to the holding Company and the holding Company pays all expenses required to facilitate the Holders' investment in ETFs Metal Securities Australia Limited. From 1 July 2007, this arrangement means the Company has received no income and incurred no liabilities or expenses.

**4. Amount Receivable from Parent Entity**

	2010 AUD	2009 AUD
Amount Receivable from Parent	<u>88,577</u>	<u>33,775</u>

The amount receivable from the parent is the operating costs incurred by the Company which the parent will reimburse, less any fees or payments due to the parent. The loan is non-interest bearing and has no time scale for repayment.

**5. Remuneration of Auditors**

	Year ended	
	31 December 2010 AUD	31 December 2009 AUD
Audit of the Financial Report	<u>16,000</u>	<u>16,000</u>

The audit fee is paid on behalf of the Company by the parent.

**6. Gold Bar**

	2010 AUD	2009 AUD
Gold Bar	<u>580,283</u>	<u>515,835</u>

The gold bar asset has been recorded at fair value. The fair value of the gold bar at reporting date is based on the market value of gold at reporting date of AUD1,381.63 per ounce.

The gold bar asset has been recorded at fair value on the basis that a fair value hedge exists between the Company's gold bar and the Company's gold bar loan payable. Changes in the fair value of the gold bar asset are recognised in the statement of comprehensive income.

The Company's gold bar has been made available for use by Gold Bullion Nominees Pty Ltd, an entity subject to common control. Gold Bullion Nominees Pty Ltd uses this bar to facilitate the movement of gold between unallocated and allocated physical stocks of gold and ensures all Holders' receive gold in allocated form.

**7. Gold Bar Loan Payable**

	2010 AUD	2009 AUD
Gold Bar Loan Payable	<u>242,328</u>	<u>242,328</u>

The Company has a Gold Loan Agreement with HSBC USA, N.A. for the loan of a 420 fine troy ounce London good delivery gold bar. The Agreement signed on 9 December 2004 provides a no-interest at call facility which is denominated in gold. Apart from the gold bar made available to Gold Bullion Nominees Pty Ltd which remains in the vaults of HSBC USA, N.A. no other security has been provided.

The loan has been recorded at amortised cost as at 31 December 2010 based on the market value of gold on 9 December 2004 of AUD576.97 per ounce.

ETFS METAL SECURITIES AUSTRALIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

8. Other Current Liabilities

	2010 AUD	2009 AUD
Gold Bar Loan Payable Embedded Derivative	<u>337,955</u>	<u>273,507</u>

Due to the Gold Bar Loan Payable being settled in gold, the value of the loan is linked to the market price of gold. Therefore an embedded derivative exists in respect of the loan. The embedded derivative has been re-measured to fair value at reporting date. The fair value of the embedded derivative at balance date is based on the market value of gold at balance date of AUD1,381.63 per ounce. The unrealised loss on movement in the Gold Bar for the current period (refer to note 6) of AUD64,448 is offset by the unrealised gain on movement in the Gold Loan Payable Embedded Derivative of AUD64,448.

9. Other Non-Current Liabilities

	2010 AUD	2009 AUD
Redeemable Preference Shares	<u>54</u>	<u>61</u>

Redeemable preference shares include issued Metal Securities. A Metal Security comprises of a Metal Share of nominal value plus a Beneficial Interest in the relevant amount of bullion (the Metal Entitlement), which is held in a Separate Trust for each Holder. A Metal Share is a redeemable preference share with a nominal value of 1/1,000<sup>th</sup> of 1 cent which carries with it a right to the Metal Entitlement applicable to that class of share. The Metal Share exists in order to provide a class of "share" which is tradable on the Australian Stock Exchange. The economic value of each Metal Security lies in the Metal Entitlement which is carried around with each Metal Share. Whenever there is a transfer in ownership of a Metal Share, there is a corresponding transfer in the ownership of the Metal entitlement applicable to that Metal Share. The Trustee of the metals is Gold Bullion Nominees Pty Ltd, a special purpose Company established to facilitate the offer of Metal Securities. The owners and directors of the Trustee are the same as that of the Company.

The Metal Securities on issue at 31 December 2010 comprised the following:

	Platinum	Palladium	Silver	Gold	Basket
<b>Number of Securities on Issue at 31 December 09</b>	<b>36,592</b>	<b>37,002</b>	<b>357,904</b>	<b>4,978,167</b>	<b>44,500</b>
Created in 2010	5,911	40,564	531,937	738,445	16,500
Redeemed in 2010	<u>(18,092)</u>	<u>(54,286)</u>	<u>(15,688)</u>	<u>(1,191,074)</u>	<u>(8,025)</u>
<b>Number of Securities on Issue At 31 December 10</b>	<b><u>24,411</u></b>	<b><u>23,280</u></b>	<b><u>874,153</u></b>	<b><u>4,525,538</u></b>	<b><u>52,975</u></b>

Ownership of the Metals (2,941.848 troy ounces of platinum, 3,354.427 troy ounces of palladium, 442,607.792 fine troy ounces of gold and 928,568.326 troy ounces of silver) at 31 December 2010 is held in the name of the Trustee for the benefit of the holders.

Holders of Metal Securities have the right to vote:

- on any proposal that affects rights attached to a Metal Security (except the issue of new Metal Securities, or the redemption of Metal Securities on issue);
- on any proposal to wind up the Company; and
- during the winding up of the Company.

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### 9. Other Non-Current Liabilities (continued)

Holders of Metal Securities are not entitled to:

- any right to the payment of any dividends;
- any rights of participation in any surplus assets and profits of the Company; or
- priority of payment of capital or dividends in relation to other classes of shares, except on the winding up of the Company.

Shares of Metal Securities are redeemable at any time (in accordance with the terms of Redemption) by the holder. Metal Securities can also be compulsorily redeemed by the Company on provision of 30 days notice or in the case of insolvency. Therefore an investment in Metal Securities may be redeemed earlier than desired by the holder.

#### 10. Issued Capital

	2010 AUD	2009 AUD
250,100 Fully Paid Ordinary Shares (2009: 250,100)	<u>250,100</u>	<u>250,100</u>

All ordinary shares issued by ETFS Metal Securities Australia Limited carry one vote per share without restriction and carry the right to dividends.

All Ordinary shares are held by ETF Securities Limited, a Jersey registered Company.

	2010		2009	
	No.	AUD	No.	AUD
<i>Fully Paid Ordinary Shares</i>				
Balance at Beginning of Financial Year	250,100	250,100	250,100	250,100
Movement in the Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Balance at End of Financial Year</i>	<u>250,100</u>	<u>250,100</u>	<u>250,100</u>	<u>250,100</u>

#### 11. Equity Contribution

	2010 AUD	2009 AUD
Equity Contribution	<u>360,000</u>	<u>360,000</u>

The equity contribution received from the parent entities in prior years was used to settle the income tax liability.

#### 12. Contingent Liabilities and Contingent Assets

The Company does not have material contingent liabilities or contingent assets at 31 December 2010.

#### 13. Economic Support

Pursuant to the Administration Services Deed Poll between the Holders and the parent entity, all the operating costs relating to the Company, including gold storage, gold insurance, marketing and administration costs, are incurred by the parent entity and paid by the parent entity to enable the continued operation of the Company.

#### 14. Related Party Disclosures

The immediate and ultimate parent and controlling entity of the Company is ETF Securities Limited, a Jersey Company registered No: 88370.

## 15. Financial Instruments

### Financial Risk Factors

The Company undertakes transactions in a limited range of financial instruments including cash assets and receivables. These transactions and activities result in exposure to a number of financial risks, including market risk (interest rate risk, foreign currency risk), liquidity risk, credit risk, and fair value risk.

These financial risks are managed such to mitigate inappropriate volatility of financial performance and maintain an optimal capital structure that enables the continued issue of the Metal Securities, allowing investors to own and trade physical metals through listed securities traded on the ASX.

Significant accounting policies, terms and conditions of financial instruments are disclosed in notes 1, 7 and 8. Details of foreign currency risk, interest rate risk, credit risk and fair values are detailed below.

#### **(a) Interest Rate Risk**

The Company does not have significant exposure to interest rate risk as at 31 December 2010. There is currently no interest paid on deposits of the parent Company. An increase or decrease in interest rates would not affect the net profit or equity of the Company.

The Company regularly reassess market conditions, the financial risk, and the terms of deposits so as to optimise return on capital.

#### **(b) Liquidity Risk**

Liquidity risk includes the risk that, as a result of deficiencies in managing operational liquidity, the Company has insufficient funds to settle a transaction; or it is forced to sell financial assets at a value less than what they are worth.

The Company has a limited liquidity risk exposure. As detailed in Notes 2 and 13, all of the operating costs relating to the Company, including gold storage, gold insurance, and marketing and administration costs, are incurred and paid by the parent entity and all amounts receivable from holders in respect of securities creations, securities redemptions and holders gold interests are now earned by the parent Company.

The liquidity risk of the Company is managed by determining, in cooperation with the parent Company, the optimal timing of settlement of net receivables from the parent entity.

#### **(c) Credit Risk**

The Company does not have any significant credit risk to any single counterparty or group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial report represents the Company's maximum exposure to credit risk.

#### **(d) Fair Value and Foreign Currency Risk**

The carrying amount of financial assets and financial liabilities recorded in the financial statements are recorded at their fair values.

As disclosed in Notes 6, 7 and 8, the Company's exposure to movements in the fair value of the Gold Bar asset due to changes in the market price of gold and changes in the AUD to USD exchange rate is offset by the embedded derivative in respect of the Gold Bar Loan Payable which is settled in gold. Therefore the Company has no net exposure to fair value changes in respect of the Gold Bar asset.

**(e) Three tier hierarchy of fair value**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2010:

	Level 1	Level2	Level3
	AUD	AUD	AUD
Gold Bar	580,283	-	-
Other Financial Liabilities	337,955	-	-
Redeemable Preference Shares	54	-	-

31 December 2009:

	Level 1	Level2	Level3
	AUD	AUD	AUD
Gold Bar	515,835	-	-
Other Financial Liabilities	273,507	-	-
Redeemable Preference Shares	61	-	-

**16. Notes to Cash Flow Statement**

	Year ended 31 December 2010 AUD	Year ended 31 December 2009 AUD
Reconciliation of Profit for the Year to Net Cash Flows from Operating Activities		
<i>Profit for the Year</i>	-	157,660
<i>Changes in Net Assets and Liabilities</i>		
<i>(Increase)/Decrease in Assets:</i>		
Current Receivables	(54,802)	(29,611)
<i>Increase/(Decrease) in Liabilities</i>		
Current Tax Payable	-	(360,000)
<i>Net Cash Generated from Operating Activities</i>	<u>(54,802)</u>	<u>(231,951)</u>

**17. Ultimate Controlling Party**

The immediate and ultimate parent of the Company is ETF Securities Limited, the controlling entity of the parent is Graham Tuckwell.

**18. Subsequent Events**

There has not been any matter or circumstance that has arisen since the end of the financial half-year that has significantly affected, or may significantly affect, the operations of the entity, the results of those operations, or the state of affairs of the Company in future financial years.

**19. Additional Company Information**

ETFS Metal Securities Australia Limited is a public Company incorporated and operating in Australia and admitted to the official list of the Australian Stock Exchange (ASX) under the debt listing rules. The Company's Metal Securities are quoted on the ASX under the following codes:

ETFS Physical Gold	GOLD
ETFS Physical Silver	ETPMAG
ETFS Physical Platinum	ETPMPT
ETFS Physical Palladium	ETPMPD
ETFS Physical PM Basket	ETPMPPM

The Company's registered address and principal place of business is as follows:

Level 27, AMP Centre  
50 Bridge Street  
Sydney NSW 2000  
Australia