

**ETFs METAL SECURITIES AUSTRALIA LIMITED**

**Registered No: ACN 101 465 383**

**Report and Financial Statements for the  
Year ended 31 December 2012**

# ETFS METAL SECURITIES AUSTRALIA LIMITED

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# ETFS METAL SECURITIES AUSTRALIA LIMITED

## MANAGEMENT AND ADMINISTRATION

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### Directors

Mr Graham J Tuckwell – Chairman  
Mr Greg J Burgess  
Dr Vincent W J FitzGerald

### Administrator

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

### Secretary

Greg J Burgess  
Level 27, AMP Centre  
50 Bridge Street  
Sydney, NSW 2000

### Deputy Secretary

Graeme Ross  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

### Deputy Secretary

Graham Tuckwell  
Ordnance House  
PO Box 83  
31 Pier Road  
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

### Auditor

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

### Manager

ETFS Management Company (Jersey) Limited  
Ordnance House  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

# ETFS METAL SECURITIES AUSTRALIA LIMITED

## CHAIRMAN'S LETTER

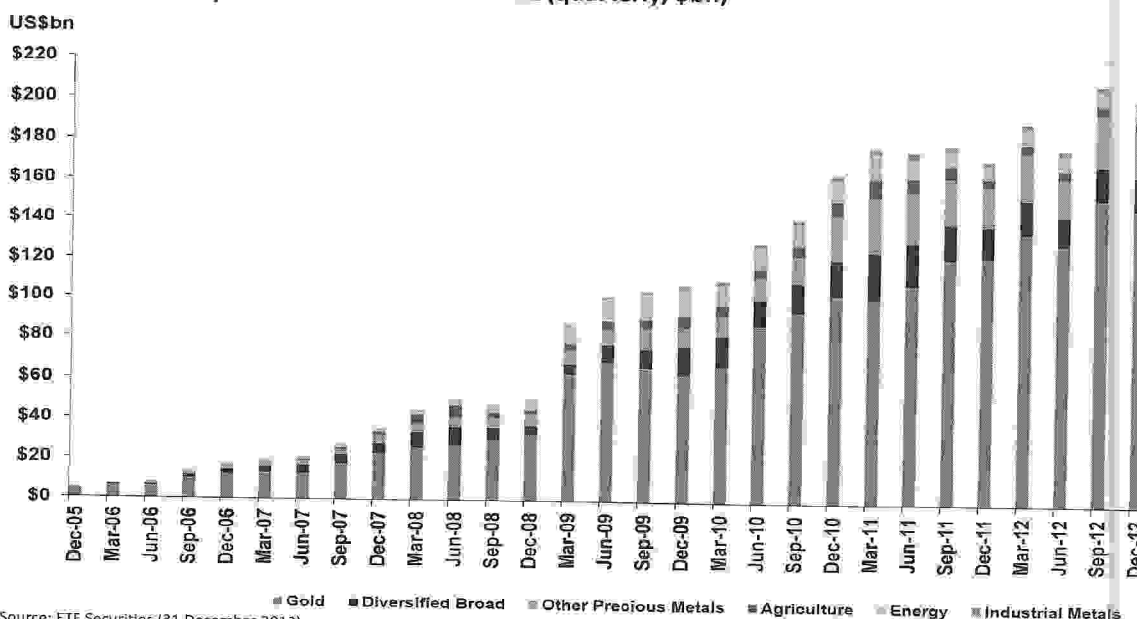
2012 was an eventful year both for markets and ETF Securities. In 2012, ETF Securities listed ten new commodity Exchange Traded Products (ETPs) on the Australian Securities Exchange (ASX) under the (CSAL) platform providing Australian investors with a full range of commodity exposures in a convenient stock exchange listed format.

Globally assets in commodity ETPs rose to a year-end record of US\$200bn. Gold continued to dominate commodity ETP assets and flows, making up 73% of total outstanding ETP assets in 2012. By the end of the year total assets in global gold ETPs stood at a year-end record of US\$147bn, a remarkable achievement given that the world's first gold ETP, Gold Bullion Securities (now ETFS Physical Gold) was listed on ASX only nine years ago.

Although the green shoots of a global recovery started to emerge in 2012, investors concerned about the "tail risks" to global growth continued to buy gold ETPs. Gold ETPs saw assets increase US\$24bn in 2012 (20% increase). Investors sought protection against the risk that the US would fall off the "fiscal cliff" as budget negotiations went well into the final days of the year. Investors also continued to favour hard assets, as aggressive monetary policy has the potential to debase the major reserve currencies. In addition increasing awareness and comfort of investors with the high liquidity, tight pricing and security of physically-backed gold ETPs has substantially widened gold's investor pool.

Assets in other precious metal ETPs rose to US\$23bn by the year end compared to US\$19bn at the end of 2011 (19% increase). Tighter platinum and palladium supplies and rising optimism about the industrial cycle spurred higher investor demand for white precious metals and other more cyclically-sensitive commodities.

**Global Commodity ETP Assets December 2012 (quarterly, \$bn)**



### 2012 in Review

The gold price rose for the 12<sup>th</sup> consecutive year in 2012 in US Dollar [USD] terms, driving ETFS Physical Gold up 6% in Australian Dollars [AUD] terms. Over the past ten years gold has been one of the world's best performing major assets in AUD terms and its price has risen by 280% compared to a 55% rise in the ASX 200.

ETFS Physical Silver underperformed ETFS Physical Gold (4% vs. 6% in AUD terms) as sluggish industrial demand weighted on price in the first half of the year. However, over longer horizons silver has historically outperformed gold and is likely to do better as the global recovery gains traction.

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### CHAIRMAN'S LETTER - CONTINUED

ETFS Physical Platinum and ETFS Physical Palladium also performed well, rising 11% and 10% in AUD terms respectively. Repeated disruptions to mining activity in South Africa constrained supply while rising growth in the US and China in the latter part of the year supported a rebound in demand.

	Cumulative Returns (AUD)			
	1 Yr	3 Yrs	5 Yrs	10 Yrs
<b>Precious Metals</b>				
ETFS Physical Gold	6%	66%	120%	280%
ETFS Physical Silver	4%	91%	124%	410%
ETFS Physical Platinum	11%	13%	10%	103%
ETFS Physical Palladium	10%	95%	114%	137%
ETFS Physical PM Basket	7%	58%	90%	214%
<b>Equity Indices</b>				
ASX 200	15%	-5%	-27%	55%
MSCI EM	13%	16%	-6%	188%
S&P 500	14%	48%	20%	58%
<b>Currencies</b>				
AUD/USD	2%	16%	18%	86%

All returns are based on actual index data or underlying commodity prices excluding fees. Returns are in AUD, dates are from the 31st December 2002 to the 31st December 2012, unless otherwise stated.

#### Outlook 2013

Increasing signs of improving global growth and continued strong central bank commitment to highly accommodative monetary policy has meant that the first part of 2013 has been positive for cyclical assets. In this environment, commodities have performed well as an asset class, with more growth-sensitive commodities such as base metals and white precious metals performing most strongly. A rebound in investor sentiment has taken place as US and Chinese economic indicators have firmed. Europe, particularly the periphery has largely been left out from the cyclical upswing so far, but sentiment surrounding the sovereign risk of European countries has generally improved.

While sentiment has improved, the deep structural issues hampering a strengthening of the European economy will take some time to resolve. Major developed economy debt profiles continue to deteriorate. In this environment most investors will likely continue to want to hold hard assets. Gold historically has been the first port of call. Therefore, while 2013 presents many potential opportunities for investors in more cyclical commodities, given the still substantial structural dangers that exist, risk hedges are likely to remain in strong demand.

**Graham Tuckwell**  
Chairman

February 2013

# ETFs METAL SECURITIES AUSTRALIA LIMITED

## DIRECTORS' REPORT

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The directors of ETFs Metal Securities Australia Limited (the "Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2012. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

### Directors

The names and particulars of the directors of the Company during and since the end of the financial year are:

Mr Graham J Tuckwell - Chairman  
Dr Vincent W J FitzGerald  
Mr Greg J Burgess

### Principal Activities

The Company's principal activities during the course of the financial year was the continuing issue of ETFs Physical Gold Securities, ETFs Physical Palladium Securities, ETFs Physical Platinum Securities, ETFs Physical Silver Securities and ETFs Physical PM Basket Securities, 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 1/1,000<sup>th</sup> of a US 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<sup>th</sup> 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.

Under the Administration Services Deed Poll between the Company and ETFs Management Company (Jersey) Limited ("ManJer"), ManJer 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 ManJer.

### Review of Operations

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

A total of 47,091 (2011: 70,981) ETFs Physical Platinum Securities, 29,178 (2011: 33,417) Physical Palladium Securities, 2,290,076 (2011: 2,098,258) ETFs Physical Silver Securities, 4,044,937 (2011: 3,909,541) ETFs Physical Gold Securities and 50,261 (2011: 52,975) ETFs Physical PM Basket Securities were in issue at 31 December 2012.

For the year to 31 December 2012, the Company incurred no expenses, and accrued no income.

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### DIRECTORS' REPORT - CONTINUED

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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 periods not already disclosed in this report or the attached financial statements.

#### Dividends

The directors do not recommend the provision or payment of a dividend to holders of Ordinary Shares for the year (2011: AUD Nil).

#### Share Options Granted to Directors

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

#### Directors' Interests

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

Directors	Fully Paid Ordinary Shares
Graham J Tuckwell	<u>117,772</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 year, 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 year were:

Directors	Held	Attended
Graham J Tuckwell	3	1
Greg J Burgess	3	3
Vincent WJ FitzGerald	3	3

# ETFS METAL SECURITIES AUSTRALIA LIMITED

## DIRECTORS' REPORT - CONTINUED

### Remuneration Report

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 2012.

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

There were no executive directors and other executives during the financial year. Mr Tuckwell, Dr FitzGerald 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.

### Auditor's Independence Declaration

The auditor's independence declaration is included on page 8.

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



**Greg J Burgess**  
Director  
Melbourne, 27 February 2013



## 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



**Greg J Burgess**  
Director  
Melbourne, 27 February 2013

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

27 February 2013

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 year ended 31 December 2012, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU  
DELOITTE TOUCHE TOHMATSU



Paul Radici  
Partner  
Chartered Accountants

## Independent Auditor's 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 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company as set out on pages 11 to 24.

### *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 gives a true and fair view and 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 Company'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 Company'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*

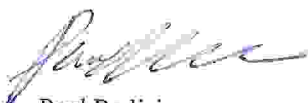
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of ETFS Metal Securities Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

### *Opinion*

In our opinion:

- (a) the financial report of 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 2012 and of their 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.

DELOITTE TOUCHE TOHMATSU  
DELOITTE TOUCHE TOHMATSU



Paul Radici  
Partner  
Chartered Accountants  
Melbourne, 27 February 2013

**ETF'S METAL SECURITIES AUSTRALIA LIMITED****STATEMENT OF COMPREHENSIVE INCOME**

	Notes	Year ended 31 December	
		2012 AUD	2011 AUD
<b>Revenue</b>			
Net Gains/(Losses) on Financial Instruments		-	-
<b>Expenses</b>			
		-	-
<b>Profit Before Income Tax Expense</b>			
Income Tax		-	-
<b>Profit for the Year Attributable to Equity Holders of the Company</b>			
		-	-
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the Year</b>			
		-	-

The directors consider the Company's activities are continuing.

The notes on pages 15 to 24 form part of these financial statements

**ETFs METAL SECURITIES AUSTRALIA LIMITED****STATEMENT OF COMPREHENSIVE INCOME**

	Year ended 31 December		
	Notes	2012 AUD	2011 AUD
<b>Revenue</b>			
Net Gains/(Losses) on Financial Instruments		-	-
<b>Expenses</b>		-	-
<b>Profit Before Income Tax Expense</b>		-	-
Income Tax		-	-
<b>Profit for the Year Attributable to Equity Holders of the Company</b>		-	-
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the Year</b>		-	-

The directors consider the Company's activities are continuing.

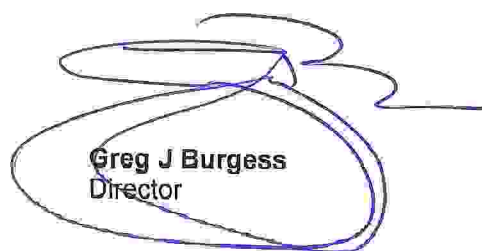
The notes on pages 15 to 24 form part of these financial statements

**ETFS METAL SECURITIES AUSTRALIA LIMITED**

**STATEMENT OF FINANCIAL POSITION**

	Notes	As at 31 December	
		2012 AUD	2011 AUD
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents		13,858	318,673
Receivable from Related Parties	4	393,964	89,148
Gold Bar	6	673,719	651,519
<b>Total Current Assets</b>		<b>1,081,541</b>	<b>1,059,340</b>
<b>Total Assets</b>		<b>1,081,541</b>	<b>1,059,340</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Gold Bar Loan Payable	7	242,328	242,328
Other Current Liabilities	8	431,391	409,191
<b>Total Current Liabilities</b>		<b>673,719</b>	<b>651,519</b>
<b>Non-Current Liabilities</b>			
Other	9	62	61
<b>Total Non-Current Liabilities</b>		<b>62</b>	<b>61</b>
<b>Total Liabilities</b>		<b>673,781</b>	<b>651,580</b>
<b>Net Assets</b>		<b>407,760</b>	<b>407,760</b>
<b>Equity</b>			
Issued Capital	10	250,100	250,100
Equity Contributions	11	360,000	360,000
Retained Earnings		(202,340)	(202,340)
<b>Total Equity</b>		<b>407,760</b>	<b>407,760</b>

The financial statements on pages 11 to 24 were approved by the board of directors and signed on its behalf on 27 February 2013.



**Greg J Burgess**  
Director

The notes on pages 15 to 24 form part of these financial statements

**ETFS METAL SECURITIES AUSTRALIA LIMITED****STATEMENT OF CASH FLOWS**

	<b>Year ended 31 December</b>	
<b>Notes</b>	<b>2012</b>	<b>2011</b>
	<b>AUD</b>	<b>AUD</b>
<b>Cash Flows Used In Operating Activities</b>		
Payments to Related Parties	(304,816)	(571)
Net Cash Used in Operating Activities	16 <b>(304,816)</b>	<b>(571)</b>
<b>Cash Flows Used By Financing Activities</b>		
Payment for Trading of Metal Securities	1	7
Net Cash Used by Financing Activities	<b>1</b>	<b>7</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(304,815)</b>	<b>(564)</b>
Cash and Cash Equivalents at the Beginning of the Year	318,673	319,237
<b>Cash and Cash Equivalents at the End of the Year</b>	<b>13,858</b>	<b>318,673</b>

The notes on pages 15 to 24 form part of these financial statements



**ETFS METAL SECURITIES AUSTRALIA LIMITED****STATEMENT OF CHANGES IN EQUITY**

	<u>Issued Capital AUD</u>	<u>Retained Earnings AUD</u>	<u>Other Reserves AUD</u>	<u>Total Equity AUD</u>
Opening Balance at 1 January 2011	250,100	(202,340)	360,000	407,760
Total Comprehensive Income for the Year	-	-	-	-
Balance at 31 December 2011	<u>250,100</u>	<u>(202,340)</u>	<u>360,000</u>	<u>407,760</u>
Opening Balance at 1 January 2012	250,100	(202,340)	360,000	407,760
Total Comprehensive Income for the Year	-	-	-	-
Balance at 31 December 2012	<u>250,100</u>	<u>(202,340)</u>	<u>360,000</u>	<u>407,760</u>

The notes on pages 15 to 24 form part of these financial statements

# ETFS METAL SECURITIES AUSTRALIA LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Accounting Policies

#### Statement of Compliance

These financial statements are a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, accounting standards and interpretations and comply 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 27 February 2013.

#### Basis of Preparation

These financial statements have been prepared under the historical cost convention, 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.

There are no new and revised Standards and amendments thereof and Interpretations effective for the current period that are relevant to the Company.

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:

## ETFs METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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#### 1. Accounting Policies - continued

##### **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 statement of comprehensive income.

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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#### 1. Summary of Accounting Policies - continued

##### ***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 statement of financial position.

##### ***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 year.

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 statement of comprehensive income.

###### **(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.

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

#### 2. Revenue and costs

For the year to 31 December 2012, 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 ManJer, the creation and redemption fees and monthly gold sales charge are paid directly by Holders to the management company and the management company pays all expenses required to facilitate the Holders' investment in ETFS Metal Securities Australia Limited. This arrangement means the Company has received no income and incurred no liabilities or expenses.

#### 4. Amount Receivable from Related Parties

	As at 31 December	
	2012	2011
	AUD	AUD
Amount Receivable from ETFSL (Parent)	309,187	-
Amount Receivable from ManJer	84,777	89,148
Amount Receivable from Related Parties	393,964	89,148

The amount receivable from related parties reflects costs incurred by the related parties that have been settled by the Company. These amounts are reimbursed to the Company by the related parties.

#### 5. Remuneration of Auditors

	As at 31 December	
	2012	2011
	AUD	AUD
Audit of the Financial Statements	18,025	17,500

The audit fee is paid by the parent.

#### 6. Gold Bar

	As at 31 December	
	2012	2011
	AUD	AUD
Gold Bar	673,719	651,519

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 AUD 1,604.09 (2011: AUD 1,551.24) 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.

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

#### 7. Gold Bar Loan Payable

	As at 31 December	
	2012	2011
	AUD	AUD
Gold Bar Loan Payable	242,328	242,328

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 2012 based on the market value of gold on 9 December 2004 of AUD 576.97 per ounce.

#### 8. Other Current Liabilities

	As at 31 December	
	2012	2011
	AUD	AUD
Gold Bar Loan Payable Embedded Derivative	431,391	409,191

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 the reporting date is based on the market value of gold at the reporting date of AUD 1,604.09 (2011: AUD 1,551.24) per ounce. The unrealised gain on movement in the Gold Bar for the current year (refer to note 6) of AUD 22,200 (2011: AUD 71,236) is offset by the unrealised gain on movement in the Gold Loan Payable Embedded Derivative of AUD 22,200 (2011: AUD 71,236).

#### 9. Other Non-Current Liabilities

	As at 31 December	
	2012	2011
	AUD	AUD
Redeemable Preference Shares	62	61

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 US 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.

## ETFs METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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

The Metal Securities on issue at 31 December 2012 comprised the following:

	<u>Platinum</u>	<u>Palladium</u>	<u>Silver</u>	<u>Gold</u>	<u>Basket</u>
<b>Number of Securities on Issue at 31 December 2011</b>	<b>70,981</b>	<b>33,417</b>	<b>2,098,258</b>	<b>3,909,541</b>	<b>52,975</b>
Created During the Year	22,885	-	304,863	623,425	5,088
Redeemed During the Year	(46,775)	(4,239)	(113,045)	(488,029)	(7,802)
<b>Number of Securities on Issue at 31 December 2012</b>	<b>47,091</b>	<b>29,178</b>	<b>2,290,076</b>	<b>4,044,937</b>	<b>50,261</b>

Ownership of the Metals (5,110.378 troy ounces of platinum, 3,846.744 troy ounces of palladium, 392,522.788 fine troy ounces of gold and 2,304,690.082 troy ounces of silver) at 31 December 2012 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.

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

	<u>As at 31 December</u>	
	<u>2012</u>	<u>2011</u>
	<u>AUD</u>	<u>AUD</u>
250,100 Fully Paid Ordinary Shares (2011: 250,100)	<u>250,100</u>	<u>250,100</u>

All ordinary shares issued by the Company 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.

## ETFS METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

#### 10. Issued Capital - continued

	2012		2011	
	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	-	-	-	-
<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

	As at 31 December	
	2012	2011
	AUD	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 2012.

#### 13. Economic Support

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

#### 14. Related Party Disclosures

The immediate and ultimate parent Company is ETF Securities Limited ("ETFSL"), a Jersey registered company.

ETFS Management Company (Jersey) Limited was appointed as the manager as of 1 January 2011.

#### 15. Financial Risk Management

##### 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.



## ETFS METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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#### 15. Financial Risk Management - continued

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

The Company does not have significant exposure to interest rate risk as at 31 December 2012. 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).

ETFs METAL SECURITIES AUSTRALIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

15. Financial Risk Management - continued

e) Three tier hierarchy of fair value - continued

	31 December 2012		
	Level 1 AUD	Level 2 AUD	Level 3 AUD
Gold Bar	673,719	-	-
Other Financial Liabilities	(431,391)	-	-
Redeemable Preference Shares	(62)	-	-
	31 December 2011		
	Level 1 AUD	Level 2 AUD	Level 3 AUD
Gold Bar	651,519	-	-
Other Financial Liabilities	(409,191)	-	-
Redeemable Preference Shares	(61)	-	-

16. Notes to Cash Flow Statement

	Year ended 31 December	
	2012 AUD	2011 AUD
Reconciliation of Profit/(Loss) for the Period to Net Cash Flows from Operating Activities		
<i>Profit/(Loss) for the Period</i>	-	-
<i>Changes in Net Assets and Liabilities:</i>		
<i>Increase in Assets:</i>		
Current Receivables	(304,816)	(571)
<i>Net Cash Used in Operating Activities</i>	(304,816)	(571)

17. Ultimate Controlling Party

The ultimate controlling party of the Company is Graham J Tuckwell, through his substantial minority shareholding in ETFSL.

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 Company, the results of those operations, or the state of affairs of the Company in future financial years.

The fair value of the gold bar at reporting date is based on the market value of gold at reporting date being AUD 1,604.09 per ounce. The market value of gold at 26 February 2013 increased to AUD 1,635.31 (the latest available gold price prior to signing), an increase of 2%. This increase impacts the value of the gold bar held at 27 February 2013 to AUD 686,829, and the corresponding value of the embedded derivative that exists in respect of the gold bar loan to AUD 444,501.

## ETFs METAL SECURITIES AUSTRALIA LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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#### 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