

**GOLD BULLION SECURITIES LIMITED**

**Registered No: 87322**

**Report and Financial Statements for the  
Year ended 31 December 2009**

# **GOLD BULLION SECURITIES LIMITED**

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**GOLD BULLION SECURITIES LIMITED**  
**MANAGEMENT AND ADMINISTRATION**

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**Directors**

Mr Graham J Tuckwell – Chairman  
Mr Greg J Burgess  
Mr Graeme D Ross  
Mr Craig A Stewart

**Administrator and Company Secretary**

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

**Registered Office**

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

**English Legal Advisers**

Dechert LLP  
160 Queen Victoria Street  
London  
EC4V 4QQ

**Jersey Legal Advisers**

Mourant du Feu & Jeune  
22 Grenville Street  
St Helier  
Jersey  
JE4 8PX

**Registrar**

Computershare Investor Services (Jersey) Limited  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey  
JE4 8PW

**Manager**

ETF Securities Limited  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey  
JE4 8PW

**Custodian**

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

**Auditors**

Deloitte LLP  
Lord Coutanche House  
66-68 Esplanade  
St Helier  
Jersey  
JE4 8WA

**Trustee**

The Law Debenture Trust Corporation plc  
Fifth Floor  
100 Wood Street  
London  
EC2V 7EX

# GOLD BULLION SECURITIES LIMITED

## DIRECTORS' REPORT

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The directors of Gold Bullion Securities Limited ("GBS" or "the Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2009.

### Directors

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

Mr Graham J Tuckwell - Chairman	
Mr Greg J Burgess	(appointed 2 June 2009)
Mr Graeme D Ross	
Mr Craig A Stewart	
Dr Vince WJ FitzGerald	(resigned 2 June 2009)

### Principal Activities

The Company's principal activity is the listing and issue of gold bullion securities ("Gold Securities"). These securities allow investors to gain exposure to gold without needing to take physical delivery of bullion. It also allows investors to buy and sell that interest through the trading of a security on the London Stock Exchange and any other exchange to which that security may be admitted to trading from time to time.

A Security is a secured, undated zero coupon note of the Company, constituted by a trust instrument, with a face value of USD 0.00001. Under the terms of this instrument the Trustee ensures that the Gold Security is secured on an amount of bullion equivalent to the Gold Entitlement of each Gold Security, on any given date. This bullion is held in custody by designated custodians or its sub custodians and the subject of fixed charges in favour of the Trustee. Bullion, once deposited, may only be removed after approval from the Trustee. A holder of a Security is entitled, through an appropriate counterparty, to require the redemption of that Security and receive an amount of gold bullion equal to the Gold Entitlement on the date of redemption.

The Company earns a management fee by reducing the Gold Entitlement on a daily basis by an agreed amount (the "Gold Sales Charge" or "Management Fee"). The Gold Sales Charge is received in the form of bullion on a monthly basis following agreement from the Trustee.

The Company has entered into a service agreement with its parent, ETF Securities Limited ("ETFSL"), whereby ETFSL is responsible for any advisory or consultancy services required by the Company, including advertising and all costs relating to the listing and issuance of securities. In return for these services, the Company must transfer to ETFSL the Management Fee (as described above), plus any creation and redemption fees received by the Company less any of the Company's own administrative expenses. As a result, all bullion is transferred directly to ETFSL and there are no cash or bullion flows through the Company in relation to the Management Fee.

### Review of Operations

The Gold Securities are listed on the London Stock Exchange, the Deutsche Börse, the Borsa Italia and NYSE Euronext (Paris and Amsterdam). The most recent rollover prospectus was issued on 15 October 2009.

As at 31 December 2009, the Company had 40,826,573 (2008: 38,107,225) Gold Securities in issue, with assets under management of USD 2,730 million (2008: USD 2,230 million). The Company recognises its assets (Gold Bullion) and liabilities (Gold Securities) at fair value in the statement of financial position.

The Company generates income from management fees and creation and redemption fees. During the year, the Company generated income as follows:

	<b>2009</b>	<b>2008</b>
	<b>GBP</b>	<b>GBP</b>
Gold Sales Charge	10,721,534	7,173,568
Creation and Redemption Fees	67,658	21,039
Total Fee income	<u>10,789,192</u>	<u>7,194,607</u>

# GOLD BULLION SECURITIES LIMITED

## DIRECTORS' REPORT

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Under the terms of the service agreement with ETFSL, the Company accrued expenses equal to its income less its own administrative expenses, resulting in an operating profit of GBP nil (2008: GBP nil).

The gain or loss on Gold Securities and Gold Bullion is recognised in the statement of comprehensive income in line with the Company's accounting policy, these gains or losses offset each other.

The Company's exposure to risk is discussed in note 14 to the accounts.

### 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 ended 31 December 2009 (2008: nil).

### Employees

The Company does not have any employees. It is the Company's policy to use the services of specialist subcontractors or consultants as far as possible.

### Directors' Interests

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

	<u>Ordinary Shares of Nil Par Value</u>
Graham J Tuckwell (as controlling party of ETFSL)	100

### Directors' Remuneration

The following table discloses the remuneration of the directors of the Company which has been paid by ETFSL on behalf of the company:

	<u>2009 Fees</u>	<u>2008 Fees</u>
	<u>GBP</u>	<u>GBP</u>
Mr Graham J Tuckwell	Nil	Nil
Mr Greg J Burgess (appointed 2 June 2009)	Nil	Nil
Mr Graeme D Ross	5,000	5,000
Mr Craig A Stewart	5,000	5,000
Dr Vincent WJ FitzGerald (resigned 2 June 2009)	5,372	10,000

### Auditors

A resolution to reappoint Deloitte LLP as the auditors of the Company will be proposed at the next meeting of the directors.



**Craig A Stewart**  
Director  
Jersey  
29 April 2010

## **GOLD BULLION SECURITIES LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

As required by the Disclosure and Transparency Rules of the UK Listing Authority, the directors confirm to the best of their knowledge that:

- The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The Directors' Report includes a fair review of the developments and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board.



Craig A Stewart  
Director

29 April 2010

# GOLD BULLION SECURITIES LIMITED

## INDEPENDENT AUDITORS' REPORT

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We have audited the financial statements of Gold Bullion Securities Limited for the year ended 31 December 2009 which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in shareholders' equity and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with IFRSs as issued by the International Accounting Standards Board, of the state of the company's affairs as at 31 December 2009 and of its result for the year then ended; and
- The financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.



Andrew Isham  
For and on behalf of Deloitte LLP  
Chartered Accountants  
St. Helier, Jersey

29 April 2010

**GOLD BULLION SECURITIES LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**

	Note	Year ended 31 December	
		2009 GBP	2008 GBP
<b>Revenue</b>	2	10,789,192	7,194,607
<b>Expenses</b>			
Service Fees	2	(10,785,419)	(7,203,153)
Other operating (expense) / income		(3,773)	8,546
<b>Operating Profit</b>	2	-	-
Net gain arising on fair value of Gold Bullion	8	334,727,800	621,767,814
Net loss arising on fair value of Gold Securities	9	(334,727,800)	(621,767,814)
<b>Profit and total comprehensive income for the year</b>		-	-

The directors consider the Company's activities are continuing.


The notes on pages 10 to 17 form part of these financial statements



**GOLD BULLION SECURITIES LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

		As at 31 December	
		2009	2008
		GBP	GBP
	Note		
<b>Current Assets</b>			
Cash and Cash Equivalents		164,845	15,433
Gold Swing Bar	6	294,199	256,341
Trade and Other Receivables	7	987,493	980,206
Gold Bullion	8	2,730,420,672	2,229,685,396
<b>Total Assets</b>		<u>2,731,867,209</u>	<u>2,230,937,376</u>
<b>Current Liabilities</b>			
Gold Securities	9	2,730,420,927	2,229,685,660
Trade and Other Payables	10	1,346,282	1,048,380
<b>Total Liabilities</b>		<u>2,731,767,209</u>	<u>2,230,734,040</u>
<b>Equity</b>			
Share Capital	11	100	100
Share Premium	11	99,900	99,900
Retained Profits		-	103,336
<b>Total Equity</b>		<u>100,000</u>	<u>203,336</u>
<b>Total Equity and Liabilities</b>		<u>2,731,867,209</u>	<u>2,230,937,376</u>

The financial statements on pages 6 to 17 were approved by the board of directors and signed on its behalf on 29 April 2010.



Craig A Stewart  
 Director

The notes on pages 10 to 17 form part of these financial statements

**GOLD BULLION SECURITIES LIMITED**  
**STATEMENT OF CASH FLOWS**

	Year ended 31 December	
	2009 GBP	2008 GBP
<b>Cash flows from operating activities</b>		
Cash receipts from operations	63,829	3,660
Net proceeds from issue of securities	-	7,638,707
Payments of expenses	(25)	(225)
Cash generated from operations	63,804	7,642,142
Bank interest received	838	3,993
Net cash generated from operating activities	64,642	7,646,135
<b>Cash flows from financing activities</b>		
Outstanding loan repayment	192,392	(7,642,009)
Dividends paid	(103,336)	-
Net cash generated from / (used by) financing activities	89,056	(7,642,009)
<b>Net increase in cash and cash equivalents</b>	<b>153,698</b>	<b>4,126</b>
Cash and cash equivalents at the beginning of the year	15,433	5,179
Net increase in cash and cash equivalents	153,698	4,126
Exchange adjustment on revaluation of bank accounts	(4,286)	6,128
Cash and cash equivalents at the end of the year	164,845	15,433

Gold Securities issued or redeemed by receipt / transfer of Gold Bullion has been excluded in the statement of cash flows.

The notes on pages 10 to 17 form part of these financial statements

**GOLD BULLION SECURITIES LIMITED****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	<b>Share Capital GBP</b>	<b>Share Premium GBP</b>	<b>Retained Earnings GBP</b>	<b>Total Equity GBP</b>
Opening Balance at 1 January 2008	100	99,900	103,336	203,336
Total comprehensive income for the year	-	-	-	-
Balance at 31 December 2008	<u>100</u>	<u>99,900</u>	<u>103,336</u>	<u>203,336</u>
Opening Balance at 1 January 2009	100	99,900	103,336	203,336
Total comprehensive income for the year	-	-	-	-
Distribution of reserves to previous owner (note 13)	-	-	(103,336)	(103,336)
Balance at 31 December 2009	<u>100</u>	<u>99,900</u>	<u>-</u>	<u>100,000</u>

The notes on pages 10 to 17 form part of these financial statements

**1. Accounting Policies**

The main accounting policies of the Company are described below.

**Basis of Preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Gold Bullion and financial liabilities held at fair value through profit or loss.

The presentation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The only key accounting judgement required to prepare these financial statements is in respect of the valuation of Gold Securities held at fair value through profit or loss as disclosed in note 9.

**Adoption of New and Revised Standards**

*(a) Standards, amendments and interpretations effective on 1 January 2009:*

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Company has applied IAS 1 (revised) from 1 January 2009, and has elected to present solely a statement of comprehensive income. The adoption of this revised standard has not resulted in any significant change to the presentation of the Company's performance statement, as the Company has no elements of other comprehensive income.

Amendment to IAS 39 Financial instruments: Recognition and Measurement. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of a financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended.

This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. Adoption did not have a significant impact on the Company's financial statements.

Amendment to IFRS 7 Financial instruments: Disclosures. The amendment requires enhanced disclosures regarding fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The fair value hierarchy has the following levels:

- Quoted prices in active markets for the assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The adoption of the amendment results in additional disclosures but does not have an impact on the Company's financial position or performance.

## GOLD BULLION SECURITIES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(b) *Standards, amendments and interpretations effective on 1 January 2009 but not relevant to the Company:*

Amendments to IAS 23	Borrowing costs;
Amendments to IAS 39 and IFRIC 9	Embedded derivatives;
Amendments to IAS 39 and IFRS 7	Reclassification of financial assets;
Amendments to IAS 39	Financial instruments: Presentation
Amendments to IFRS 1	First-time adoption of IFRS and IAS 27 Consolidated and separate financial statements;
Amendments to IFRS 2	Share-based payment;
IFRS 8	Operating segments; and
IFRIC 15	Agreements for construction of real estates.

(c) *Standards, amendments and interpretations that are not yet effective and not relevant for the Company's operations:*

The following interpretations are mandatory for the Company's accounting periods beginning on or after 1 July 2009 or later periods but are not relevant for the Company's operations:

Amendments to IAS 27	Consolidated and separate financial statements;
Amendments to IAS 39	Financial instruments: Recognition and measurement;
Amendments to IFRS 1	Additional exemptions for first-time adopters;
Amendments to IFRS 2	Group cash-settled share-based payment transactions;
Amendments to IFRS 3	Business combinations;
IFRIC 17	Distributions of non-cash assets to owners;
IFRIC 18	Transfers of assets from customers; and
IFRS 9	Financial instruments.

'Improvements to IFRS' were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which the IASB consider to be non-urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual accounting periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

#### Going Concern

The nature of the Company's business dictates that the outstanding Gold Securities may be redeemed at any time by the holder and in certain circumstances may be redeemed by the Company. As the redemption of Gold Securities would coincide with the payment of an equal amount (in value) of Gold Bullion, no liquidity risk is considered to arise. All other liabilities are met by ETFSL; therefore the directors consider the Company to be a going concern and have prepared the financial statements on this basis.

#### Gold Securities

##### i) Issuance and Redemption

The Company has entered into a Trust Instrument with The Law Debenture Trust Corporation plc ("Law Debenture") to permit the Company to issue Gold Securities. The conditions of issue are set out in the Trust Instrument. Each time a Gold Security is issued or redeemed by the Company a matching amount of Gold Bullion is transferred into or from the relevant secured account held by the Custodian.

Financial liabilities are recognised and de-recognised on the trade date.

##### ii) Pricing

Gold Securities are priced on a daily basis based on the Gold Entitlement of each class of security and the value of the bullion using the appropriate fixing price from the London Bullion Market Association (LBMA).

## **GOLD BULLION SECURITIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

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#### iii) Designation at fair value through Profit or Loss

The Gold Securities in issue are designated at fair value through the profit or loss upon initial recognition. This is in order to eliminate the measurement mismatch with Gold Bullion enabling gains or losses on both the Gold Security and Gold Bullion to be recorded in the statement of comprehensive income.

#### **Gold Bullion**

The Company holds Gold Bullion equal to the amount due to holders of Gold Securities solely for the purposes of meeting its obligations under the Gold Securities. The Gold Bullion held is marked to fair value and movements are recorded in the statement of comprehensive income.

The fair value is calculated using the latest quote provided by the LBMA.

#### **Gold Bullion and Gold Securities Awaiting Settlement**

The issue and redemption of Gold Securities, and the transfer in and out of Gold Bullion, is accounted for on the trade date (T). Where settlement pricing is applied, the trade will not settle until T+3. Where trades are awaiting settlement at the year end, they are separately disclosed within the relevant assets and liabilities recognised on the statement of financial position.

#### **Revenue Recognition**

Revenue is recognised to the extent that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

Fees received for the issue and redemption of securities are recognised at the date on which the transaction becomes legally binding. All other income and expenses are recognised on an accruals basis.

#### **Foreign Currency Translation**

The presentational and functional currencies of the Company are both GBP.

Monetary assets and liabilities denominated in foreign currencies at the year end date are translated at rates ruling at that date. Creation and Redemption fees are translated at the average rate for the quarter in which they are incurred. The resulting differences are accounted for in the statement of comprehensive income.

#### **Segmental Reporting**

The Company has not provided segmental information, as the Company has only one business or product group, Gold Securities, and one geographical segment. All information relevant to the understanding of the Company's activities is included in these financial statements.

#### **Interest Income**

Interest income is recognised on an accruals basis.

#### **Cash and Cash Equivalents**

Cash and Cash Equivalents include deposits held at call with banks.

# GOLD BULLION SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 2. Operating Profit

Operating profit for the year comprised:

	Year ended 31 December	
	2009	2008
	GBP	GBP
Creation and Redemption Fees	67,658	21,039
Management Fees	10,721,534	7,173,568
<b>Total revenue</b>	<b>10,789,192</b>	<b>7,194,607</b>
Service Fees	(10,785,419)	(7,203,153)
Finance charges	513	2,418
Net foreign exchange (loss) / gain	(4,286)	6,128
<b>Total operating expenses</b>	<b>(10,789,192)</b>	<b>(7,194,607)</b>
<b>Operating profit</b>	<b>-</b>	<b>-</b>

Audit fees for the year of GBP 11,750 (2008: GBP 11,750) were met by ETFSL.

### 3. Directors' Remuneration

The following table discloses the remuneration of the directors of the Company. All Directors' fees were met by ETFSL.

	Year ended 31 December	
	2009	2008
	GBP	GBP
Mr Graham J Tuckwell	Nil	Nil
Mr Greg Burgess (appointed 2 June 2009)	Nil	Nil
Dr Vince WJ FitzGerald (resigned 2 June 2009)	5,372	10,000
Mr Graeme D Ross	5,000	5,000
Mr Craig A Stewart	5,000	5,000

### 4. Taxation

With effect from the 2009 year of assessment, Jersey abolished the exempt company regime for existing companies. Profits arising in the Company for the 2009 year of assessment and future periods will be subject to tax at the rate of zero per cent. In the prior year the Company was exempt from taxation under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 as amended.

### 5. Employee Benefits

The Company has no employees and has paid no remuneration or benefits during the year in respect of employees.

# GOLD BULLION SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 6. Gold Swing Bar

The Company has an overdraft facility with HSBC Bank USA, NA giving the Company the rights, interest and title to a gold bar. The 430 ounce gold bar held by the Company at the period end was held for the purpose of facilitating the allocation of gold to holders of Gold Bullion Securities. The gold is recorded at market value using the last quote provided by the LBMA being the AM fix rate on 31 December 2009 of GBP 684.184 (2008: GBP 596.141). The loan is denominated in gold ounces and marked to fair value at the period end with movements recognised in the statement of comprehensive income. The overdraft is repayable on demand. The Company intends to maintain the overdraft as long as the Company continues to operate.

### 7. Trade and Other Receivables

	Year Ended 31 December	
	2009	2008
	GBP	GBP
Gold Sales Charges receivable	964,613	768,776
Creation and Redemption Fees receivable	22,880	18,738
Accrued Income	-	300
Administration Fee receivable	-	192,392
	<u>987,493</u>	<u>980,206</u>

### 8. Gold Bullion

Bullion held by the Company is subject to a fixed charge in favour of the Trustee to secure the obligations owed by the Company to the Trustee and the holders of Gold Securities. The Gold Bullion held can be analysed as follows:

	Year Ended 31 December	
	2009	2008
	GBP	GBP
Fair value on delivery	2,395,692,872	1,607,917,582
Change in fair value	334,727,800	621,767,814
Balance at 31 December	<u>2,730,420,672</u>	<u>2,229,685,396</u>

All Gold Bullion assets have been valued using the AM fix on 31 December 2009 as quoted by the LBMA being the last fix price available for the year.

### 9. Gold Securities in Issue

	Year Ended 31 December	
	2009	2008
	GBP	GBP
Fair value on issue	2,395,692,127	1,607,917,846
Change in fair value	334,727,800	621,767,814
Gold Securities	<u>2,730,420,927</u>	<u>2,229,685,660</u>

Gold Securities are secured, undated zero coupon notes with a face value of USD 0.00001. As at 31 December 2009, there were 40,826,573 (2008: 38,107,225) Gold Securities outstanding, with a face value, in aggregate, of GBP 255 (2008: GBP 264).



# GOLD BULLION SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Whilst the Gold Securities are quoted on the open market, the Company's liability relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices are based on an agreed formula, and are equal to the published NAV's of each class of Gold Security. Therefore Gold Securities are classified as level 2 financial liabilities as they are calculated using third party pricing sources supported by observable, verifiable inputs.

	Fair value 2009 USD	Fair value 2008 USD
Level 2	2,730,420,927	2,229,685,660

There are no financial assets or liabilities classified in levels 1 or 3. There were no reclassifications between levels during the year.

### 10. Trade and Other Payables

	2009 GBP	2008 GBP
Fees payable to ETFSL	1,049,592	789,869
Trade and other payables	2,491	2,170
Gold loan	294,199	256,341
	<u>1,346,282</u>	<u>1,048,380</u>

### 11. Share Capital

	2009 GBP	2008 GBP
Share Capital (100 fully paid ordinary shares )	100	100
Share Premium	99,900	99,900
	<u>100,000</u>	<u>100,000</u>

The Company has an Authorised capital of 10,000 Ordinary shares of £1 each.

All ordinary shares issued by the Company carry one vote per share without restriction and carry the right to dividends.

### 12. Related Party Disclosures

The immediate and ultimate parent company is ETFSL, a Jersey registered company.

Entities which have a significant influence over the Company either through the ownership of ETFSL shares, or by virtue of being a director of the Company, are related parties of the Company.

The following balances were due from / (to) ETFSL at the year end:

	2009 GBP	2008 GBP
Fees payable at the end of the year	<u>(1,049,592)</u>	<u>(789,869)</u>

As disclosed in note 3 above, ETFSL paid Directors fees in respect of the Company of GBP 15,372 (2008: GBP 20,000).

Graeme D Ross and Craig A Stewart are directors of R&H Fund Services (Jersey) Limited, the administrator, and Computershare Investor Services (Jersey) Limited, the registrar. During the period, R&H charged ETFSL secretarial and administration fees in respect of the Company of GBP 33,750 (2008: GBP 19,877), of which GBP 6,875 (2008: GBP 18,750) was outstanding at the year end.

Computershare charged ETFSL fees in respect of the Company of GBP 10,000 (2008: GBP 1,026), of which GBP 3,000 (2008: nil) was outstanding at the year end.

Graham J Tuckwell is a director of the Company and is also a director of the parent company, ETFSL.

### **13. Distribution of Reserves**

As part of the agreement which led to ETFS acquiring the shareholding of the Company from Gold Bullion Holdings (Jersey) Limited, the Company made a distribution of the pre-acquisition reserves to Gold Bullion Holdings (Jersey) Limited of £103,336.

This distribution was offset against a loan of £192,392 outstanding at 31 December 2008, due from Gold Bullion Holdings (Jersey) Limited to the Company. The balance of the loan of £89,056 was settled in cash.

### **14. Financial Risk Management**

The Company is exposed to a number of risks arising from its activities. The risk management policies employed by the Company to manage these are discussed below.

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

The Company does not have significant exposure to interest rate risk since none of its assets or liabilities bear any interest.

The Company holds a current account at a large international bank and this is where the cash received from the creation and redemption fees is held. The rate of interest received on the account is at the bank's variable rate. Due to the level of cash held in the account the directors do not believe that any move in interest rates would seriously affect the operations of the Company.

#### *(b) Credit Risk*

With regard to the insurance of the bullion, the Custodian may make such insurance arrangements in connection with its custodial obligations with respect to bullion in allocated form as it considers fit. The Custodian has no obligation to insure such bullion against loss, theft or damage and the Company does not intend to insure against such risks. In addition, the Trustee is not responsible for ensuring that adequate insurance arrangements have been made, or for insuring the bullion held in the Secured Gold Accounts, and shall not be required to make any enquiry regarding such matters.

Accordingly, there is a risk that the bullion could be lost, stolen or damaged and the Company would not be able to satisfy its obligations in respect of the Gold Securities.

#### *(c) Liquidity Risk*

When the Gold Securities are redeemed, the Company returns the corresponding amount of Gold Bullion determined by the Gold Entitlement. The market value of the Gold Bullion returned will always be the same as that of the securities being redeemed. Therefore, any redemption of securities would not impact the liquidity of the Company.

#### *(d) Sensitivity Analysis*

IFRS 7 requires disclosure of "a sensitivity analysis" for each type of market risk to which the entity is exposed to at the reporting date, showing how comprehensive income and shareholders' equity would have been affected by a reasonably possible change to the relevant risk variable.

As disclosed in the directors' report, the Company's liability in connection with the issue of Gold Securities is matched by movements in the corresponding Gold Bullion. Consequently, the Company is not exposed to market price risk. Therefore, in the directors' opinion, no sensitivity analysis is required to be disclosed.

*(e) Capital Management*

The capital of the Company comprises issued share capital. The Company's policy is to maintain a capital base sufficient to sustain its future activities. As all Gold Securities issued are supported by an equivalent amount of Gold Bullion held by the custodian and the running costs of the Company are paid by ETFSL, the directors of this Company consider the capital management and value of shareholders' funds are adequate to maintain the on-going listing and issue of Gold Securities.

The Company is not subject to externally imposed capital requirements.

*(f) Settlement Risk*

There is an element of risk in respect of settlement of Gold Securities, given that the Company's trading counterparty could fail to deliver the Gold Bullion on the given settlement date.

**15. Ultimate Controlling Party**

As the majority shareholder in the Company's parent entity, ETFSL, the ultimate controlling party is Graham J Tuckwell.