

Professional Development Programme –
Trends in Hong Kong Accounting Practices and Entrepreneurship in Practice



**Digital Assets Industry –
From Blockchain to NFTs and Metaverse**
數碼資產行業 - 從區塊鏈到NFTs 及元宇宙

Date: 27-July-2022

Presented by: Andy Yiu, FCPA

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The Fundamentals



What is Blockchain?

- The foundation technology on which all cryptocurrencies sit
- A distributed digital ledger maintained by a network of computer nodes
- A trustless peer-to-peer network
- Impossible to erase, adapt or alter

The Monopoly analogy: Imagining instead of distributing the usual Monopoly paper money to all four players, a blank notebook and pen are given to each player instead. **EACH player will record transactions made by ALL players during the game.**

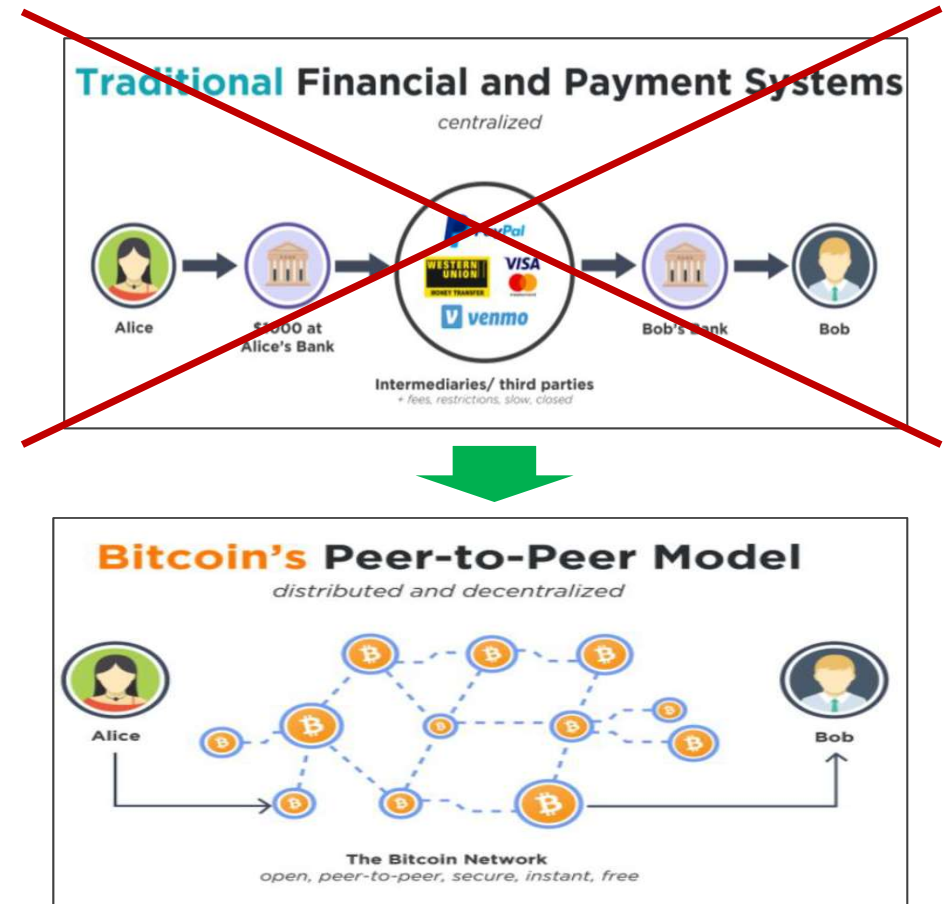
Notebook: simulates the blockchain which contains a record of every transaction. Each participant will have a copy of the notebook (computer nodes) .



What is Bitcoin?

Bitcoin: A Peer-to-Peer Electronic Cash System

- From: Satoshi Nakamoto <satoshi <at> vistomail.com>
Subject: Bitcoin P2P e-cash paper
Newsgroups: gmane.comp.encryption.general
Date: Friday 31st October 2008 18:10:00 UTC
- "I've been working on a new electronic cash system that's fully peer-to-peer, with no trusted third party."

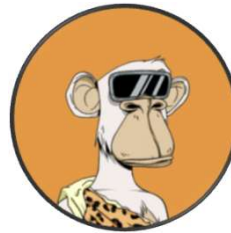




What are Digital Assets?



1. Crypto-currencies



2. Non-fungible Tokens



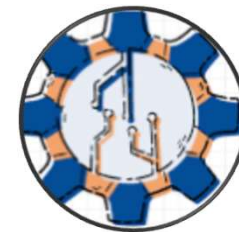
3. Stable-coins



4. Central Bank Digital Currencies



5. Security Tokens

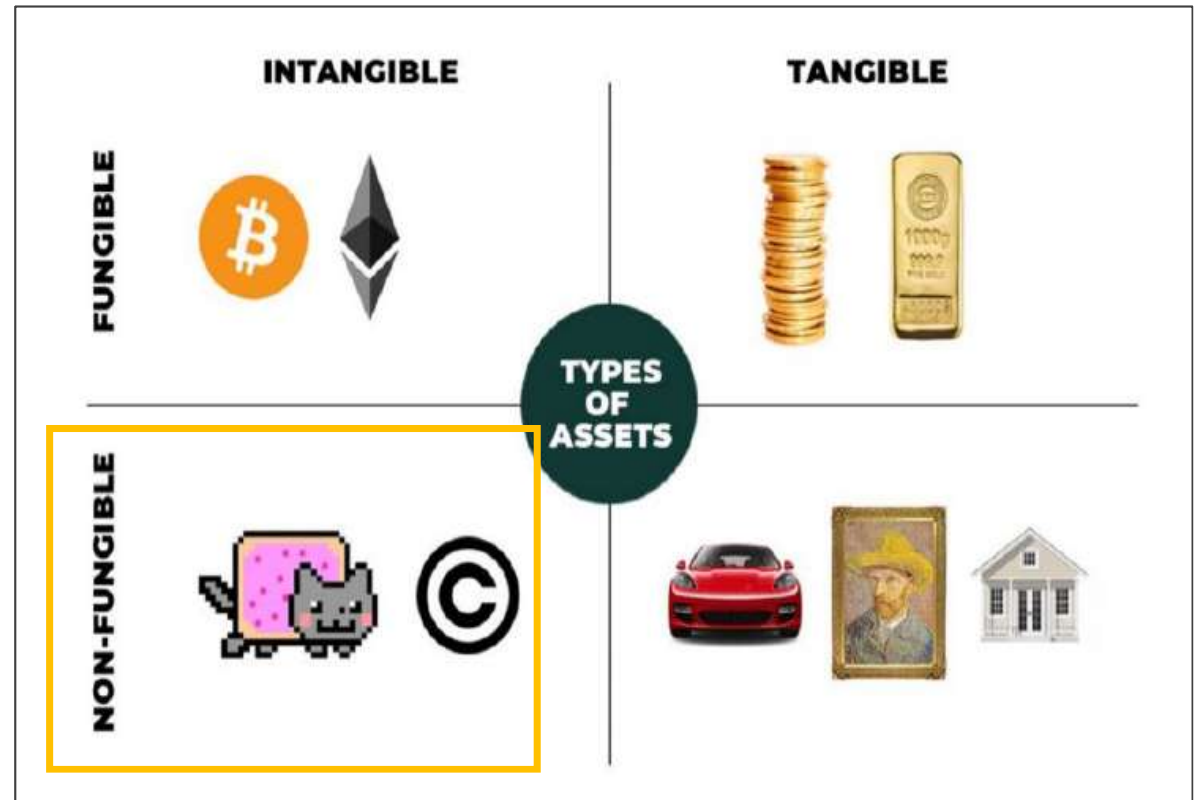


6. Utility Tokens



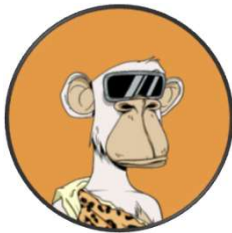
What is NFT?

- Cryptographic assets on the blockchain
- Distinguished from each other with unique identification codes and metadata
- Certificate of authenticity, can be used to prove the ownership of any digital asset





NFTs – Major Categories



1. Collectibles



2. Gaming



3. Physical Art



4. Sports



5. Artefacts & History



6. Virtual Real Estate



7. Digital Arts/ Music



8. Tickets

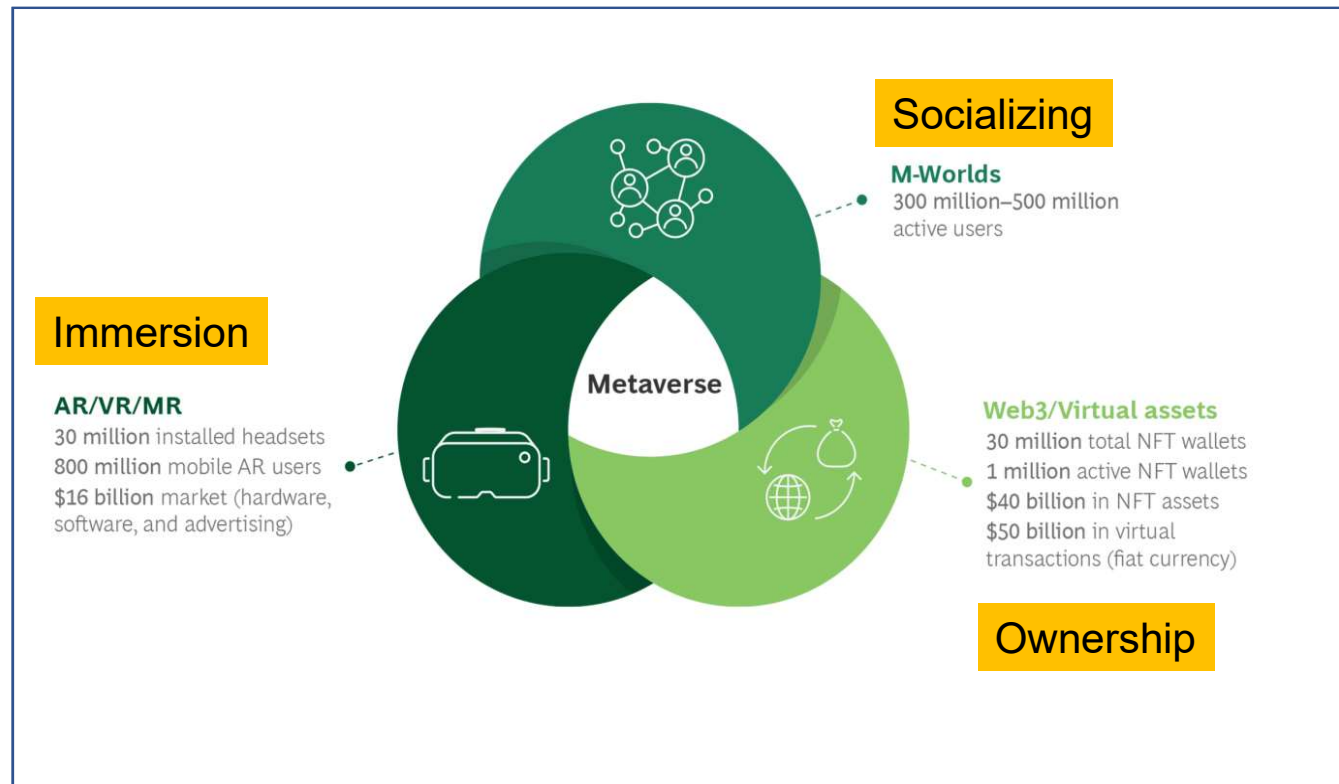


9. Education & Research



What is Metaverse?

- 3D **immersive** environment combining the physical and virtual worlds
- Creator economy and **ownership** of digital assets and identities
- New ways for **socializing** such as gaming, shopping, working, educating, etc.



Source: BCG

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Use Cases & Market Trends



Blockchain Use Cases



Enterprise

A bespoke blockchain will be developed into cloud



Real Estate

Use Blockchain to complete real-estate deals



Fine/ Digital Arts (NFT)

Reduce art forgeries by storing certificates of authenticity



Logistics

Operators can roll stock inventory data on a blockchain



Financial Services

Faster, cheaper settlements



Healthcare

Store data at healthcare system

Source: BNY Mellon

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NFT Use Cases

| Utilities | Examples |
|--|---|
| Access to Creator and Community | ZenAcademy: Holders get access to a private community of NFT enthusiasts |
| IP Rights | Bored Ape Yacht Club: Holders are allowed to repurpose and monetize their Apes for other purposes |
| Real-life Events | CPG Club: Holders get access to a community of web3 operators that regularly plans real-life get-togethers and parties |
| Education | CuriousAddys: Holders get access to an online NFT course, educational game, and learning community |
| Accelerator Enrolment | Meta Angels: Holders get priority access to projects coming out of Angel Labs, a 10-week accelerator program for NFT project funders |
| Merchandise and NFT Drops | World of Women: Holders get the chance of being airdropped additional NFTs and art prints from female artists |

Source: Future.com

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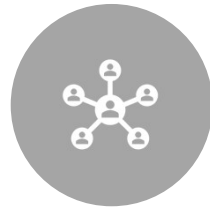
What do Consumers and Businesses want to do with the Metaverse?

- **Consumer Use Cases** - Top 5 likely activities:



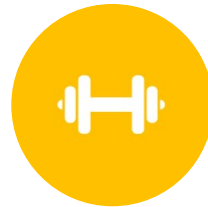
SHOPPING

Purchasing
physical or virtual
goods



SOCIAL

Attending virtual
events/ games



FITNESS

VR exercise



DATING

Online dating



EDUCATION

Classes/ learning
events

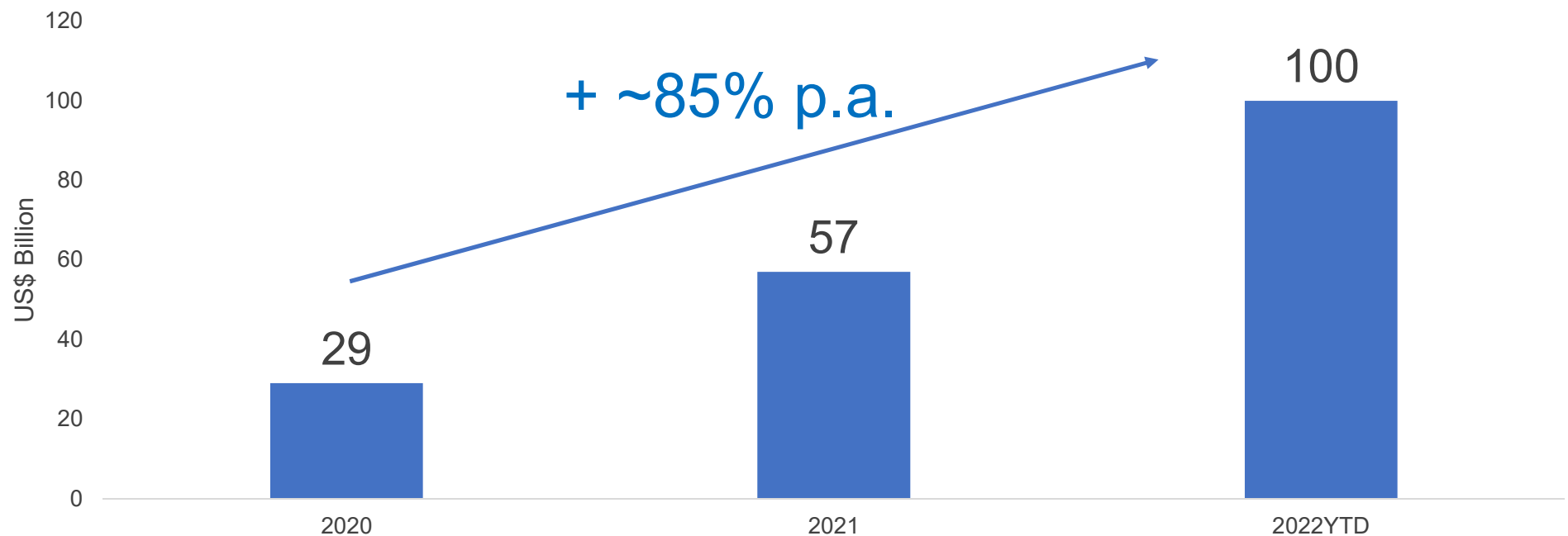
Source: McKinsey

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Current Investment Trends in the Metaverse

- Value of metaverse-related investments (US\$ Billion)



Source: McKinsey, Crunchbase (Jan-2020 to May-2022)

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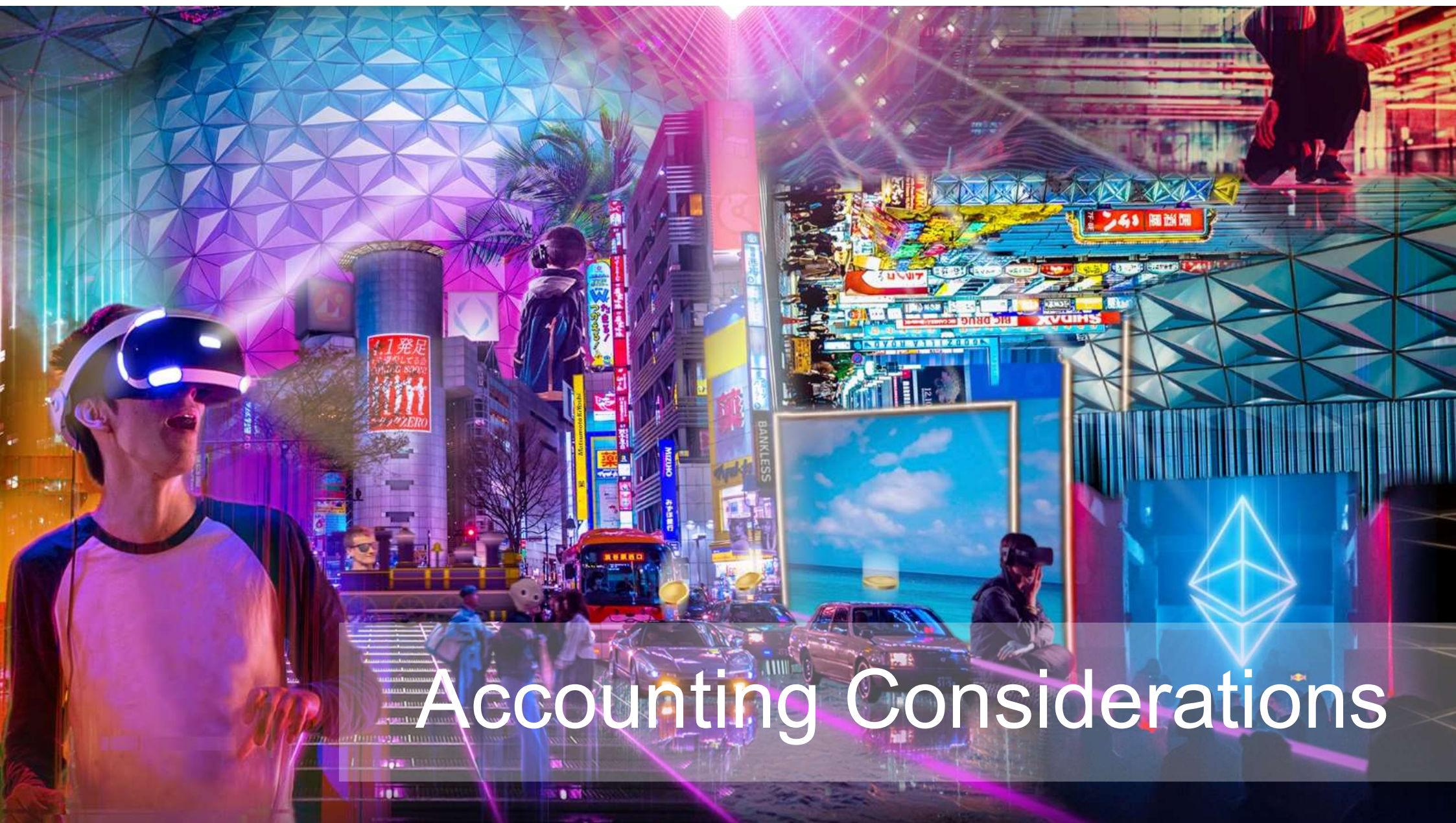


Policies & Regulations



Regulations in Hong Kong

- HKMA and SFC issued a joint circular to intermediaries, restricting VA products can **only be offered to Professional Investors**, and the intermediaries required to **licensed under the securities laws**.
- HKMA issued a regulatory guidance for banks on **AML/CFT and Financial Crime Risk** and investor protection.
- SFC particularly warned against those NFTs which **cross the boundary between a collectible and a financial asset**, for instance, fractionalised or fungible NFTs structured in a form similar to “**securities**”, or in particular, interests in a “**collective investment scheme**”.



Accounting Considerations



Overview of Accounting Classification

Intangible
Assets
(IAS 38)

Held for Investment

Inventories
(IAS 2)

Held for Trading

Source: IFRS Interpretations Committee, EY

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Overview of Accounting Classification

Crypto-assets are new and have diverse terms and conditions. The accounting treatment will depend on the particular facts and circumstances and the relevant analysis could be complex:

Cash & Cash
Equivalents

Financial
Instruments

Prepayments

Own
Accounting
Policy

Source: IFRS Interpretations Committee, EY

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Case Study: Meitu (1357-HK)

meitu

Meitu, Inc.

美图公司

(Incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong as “美图之家”)

(Stock Code: 1357)

INSIDE INFORMATION AND PROFIT WARNING

This announcement is made by the Company pursuant to Rule 13.09(2)(a) of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

The Board now wishes to inform the Shareholders and potential investors that based on (i) the **Acquired Cryptocurrencies Impairment** and (ii) a preliminary review of the Group's unaudited consolidated management accounts for the five months ended May 31, 2022, it is expected that the Group may record a net loss of between approximately RMB274.9 million and RMB349.9 million for the six months ended June 30, 2022 (representing an increase of approximately 99.6% to 154.1% as compared to the Group's net loss of approximately RMB137.7 million for the six months ended June 30, 2021). The expected increase in net loss is primarily due to the Acquired Cryptocurrencies Impairment.

It should be noted that the cryptocurrency market is volatile in the near term and the prices of cryptocurrencies may be subject to fluctuations. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

Accounting treatment of the Acquired Cryptocurrencies

The Acquired Cryptocurrencies are accounted for as **intangible assets under the cost model** in accordance with the IFRSs. The Group perform impairment assessments in accordance with IAS 36 Impairment of Asset. For any of the Acquired Cryptocurrencies which fair value less cost of disposal at the end of each reporting period would be below the carrying value, the Group will record an impairment loss equal to the difference between the fair value less cost of disposal and the carrying value of such Acquired Cryptocurrencies in such reporting period. However, for any of the Acquired Cryptocurrencies which fair value less cost of disposal at the end of each reporting period would be

¹ The term 'adjusted net loss/profit attributable to the owners of the Company' is defined as the net loss/profit attributable to the owners of the Company for the reporting period excluding certain non-cash items, such as share-based compensation, impairment losses on goodwill and other intangible assets, investment-related fair value changes and etc.. Please see the Company's 2021 annual report for a more detailed definition.

2

higher than the carrying value, in line with the applicable IFRSs, a revaluation gain will not be recorded in such reporting period until the gain has actually been realised by the Group.

Source: Company, 1-July-2022

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Case Study: Meitu (1357-HK)

15 INTANGIBLE ASSETS

| | Cryptocurrencies RMB'000 | Goodwill RMB'000 |
|---|-----------------------------|---------------------|
| As of January 1, 2021 | | |
| Cost | - | 211,779 |
| Accumulated amortization and impairment | - | (33,336) |
| Net book amount | - | 178,443 |
| Year ended December 31, 2021 | | |
| Opening net book amount | - | 178,443 |
| Additions (Note (a)) | 649,969 | - |
| Amortization | - | - |
| Currency translation differences | (11,757) | - |
| Disposal | - | - |
| Impairment loss (Note (b)) | (28,533) | (162,039) |
| Closing net book amount | 609,679 | 16,404 |
| As of December 31, 2021 | | |
| Cost | 637,570 | 211,779 |
| Accumulated amortization and impairment | (27,891) | (195,375) |
| Net book amount | 609,679 | 16,404 |

(c) Cryptocurrencies

Cryptocurrencies purchased and held by the Group through third-party custodian service provider include Etheurems ("Ethers") and Bitcoins, which are accounted for as intangible assets under the cost model. The Group has ownership of and control over the cryptocurrencies held and employs third-party custodian service provider to securely store them. The cryptocurrencies held by the Group are considered to have an indefinite life. Accordingly, they are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Source: Company, AR2021

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