fidinam

Fidinam Group Worldwide Newsletter

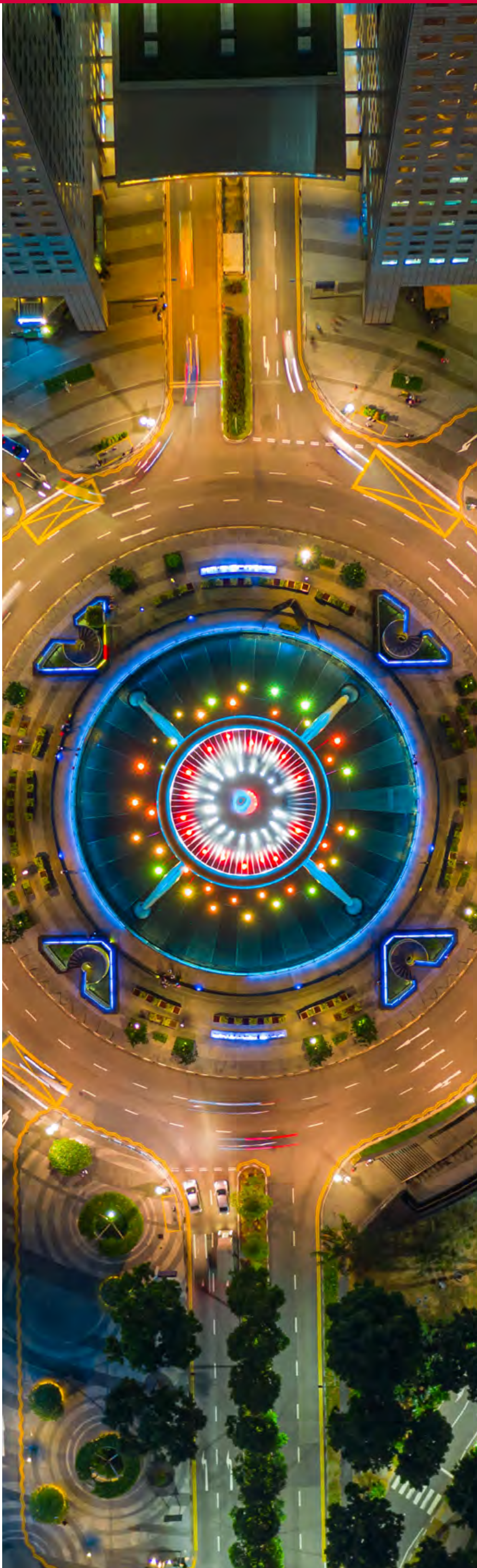
March 2021
Issue 14

Singapore Budget 2021 "Emerging Stronger Together"

Introducing Fidinam Cfo Services In Asia Pacific

Newsletter: Australian Commercial Property Market

fidinam



IN THIS ISSUE

Fidinam (Hong Kong) Limited 10th Anniversary!

Dear Clients,
Dear Partners,
Dear Colleagues,

today we mark an extraordinary milestone within our Group and we celebrate the **10th Anniversary of Fidinam Hong Kong**.
I take this occasion to thank you all for these 10 years spent together.

To our customers who have trusted us throughout the years: it has been an honour and a privilege to work with you helping to achieve and exceed your objectives.

To our partners for key collaboration: you have played an essential role in helping both Fidinam Hong Kong and our clients reaching their goals.

Last but not least, to our colleagues, for their rentless effort and for their standout professionalism that lead us today here, an will take us further beyond.

10

Years

26

Employees in our Team

33

Average age of our Team

5

Nationalities of our Team

8

Languages spoken by our Team

41

Jurisdictions where our Clients come from

23

Jurisdictions served by our Corporate Services

We look forward ahead other decades of success, bright future and innovation.
With sincere gratitude,

Mr. Paolo Balen
Chairman

SINGAPORE BUDGET 2021 "EMERGING STRONGER TOGETHER"

Deputy Prime Minister Heng Swee Keat delivered the 2021 Budget on Tuesday 16 February 2021. The Singapore Budget is prepared for each financial year, which begins on 1 April and ends on 31 March the following year. Every Budget builds on the foundations laid by earlier Budgets, charting a long term strategic financial plan for Singapore, and the budget 2021 makes no exception.

The "Emerging Stronger Together" budget unveiled measures to strengthen the backbone of Singapore's ecosystem and provide ammunition to overcome the difficult situation propelled by the COVID-19 pandemic.

Last year, the Singapore Government committed nearly $100 billion through five Budgets to support Singaporeans, help tide businesses over this difficult period, and most importantly, keep the population safe.

Singapore faced the worst recession since our independence.

a. The pandemic-triggered recession has hit both demand and supply simultaneously.
b. Singapore's GDP contracted by 5.4% in 2020.
c. The overall budget deficit for Financial Year 2020 is also the largest since Singapore's independence, at $64.9 billion, or 13.9% of GDP.

Despite the situation, the Ministry of Finance recently released an interim assessment of the COVID-19 Budget measures. The combination of fiscal, monetary, and transitional measures, mounted as a whole-of-government response, has helped avoid a worse recession, avert job losses, and mitigate inequality.

The goal of the budget 2021 is to build a stronger Singapore:

1. **That is economically vibrant**, so to create good jobs for Singaporeans and foreigners and opportunities for businesses;
2. **That is socially cohesive**, with a strong social compact and community spirit;
3. **That is a welcoming home**, green and sustainable for generations to come; and
4. **That has the fiscal and social reserves** to enable continued stability and progress.

COVID-19 Resilience Package

The Ministry of Finance has announced that Singapore has set aside $11 billion for a **COVID-19 Resilience Package**. This Package will have three prongs:

1. First, to address the immediate needs to safeguard public health and re-open safely;
2. Second, to support workers and businesses where needed; and
3. Third, to target support for sectors that are still under stress.

The second and most business-related prong of the Package is to continue support for workers and businesses where needed. So far, Singapore has committed over $25 billion to the Jobs Support Scheme (JSS) – introduced in the 2020 Budget – and supported over 150,000 employers for up to 17 months.

In the recently announced Budge, the MoF has committed to continue to provide the JSS targeted towards sectors that continue to be hard hit. The JSS will be therefore extended for firms in Tier 1 and 2 sectors by up to six months, covering wages paid up to September 2021. This will provide continued support for businesses and workers in sectors that continue to be hard-hit amidst the protracted economic downturn:

1. For firms in Tier 1 sectors – **aviation**, **aerospace**, and **tourism**. Firms in these sectors will receive 30% support for wages paid from April to June 2021, and 10% support for wages paid from July to September 2021.
2. For firms in Tier 2 sectors, such as **retail**, **arts and culture**, **food services**, and **built environment**, that are currently receiving 30% JSS support, will receive 10% for three months, covering wages paid up from April to June 2021.
3. For firms in Tier 3A sectors, JSS will continue covering wages up to March 2021, as previously announced. Overall, businesses in these sectors are generally recovering.

The third prong of the COVID-19 Resilience Package is to provide more targeted support for the worst-hit sectors, which continue to be adversely affected in 2021. They will need help to maintain capabilities and eventually recover. The Government has forecasted a cost of $ 870 million to support the aviation sector and $133 million for the land transport sector.

Support to innovation

In the newly released budget it was confirmed that Singapore will enhance several packages to support capability development and sector transformation, to encourage the community to deepen skills, go digital, and transform business models. One of the main pillars of the new budget is to grow a vibrant business community, **with a strong spirit of innovation and enterprise**, deeply connected with the ASEAN region.
To support Singapore businesses to innovate and grow, the Government will invest in **three** key platforms.

1. The first platform is the *Corporate Venture Launchpad*, which will be piloted this year to drive new innovative ventures. This Launchpad will provide co-funding for corporates to build new ventures through pre-qualified venture studios.
2. The second platform is the *Open Innovation Platform*, or OIP. The OIP facilitates the matching of problems faced by companies and public agencies, with solution providers, and co-funds prototyping and deployment.
3. The third platform enhanced is the *Global Innovation Alliance*, or GIA.

The GIA serves to catalyse cross-border collaboration between Singapore and major innovation hubs globally. The GIA network currently has 15 city links, including four Southeast Asian cities – Bangkok, Ho Chi Minh City, Jakarta, and Manila. I will expand it to more than 25 cities around the globe over the next five years.
Among the many measures introduced by the Budget 2021, particularly interesting is the new **Emerging Technology Programme**. This will encourage more mature enterprises, from micro and small, to medium and large enterprises, to invest in new and emerging technologies to sharpen their competitiveness.

The new Emerging Technology Programme will co-fund the costs of trials and adoption of frontier technologies like 5G, artificial intelligence and trust technologies. This will support commercialisation of innovations and diffusion of technology downstream.

Human Capital

As the employment landscape is undergoing fundamental changes, the Singapore government has launched several initiatives, the most important being the **Jobs Growth Incentive** and the Wage Credit Scheme.
The Jobs Growth Incentive (or JGI) supports employers to accelerate their hiring of local workers between September 2020 to September 2021 (inclusive), to create good, long-term jobs for locals. If the Qualifying Criteria for the Firms are met - employers must have an overall increase in local headcount and increase in locals earning of at least $1,400 per month, compared to their local workforce in the baseline month – for non-mature local hires there is an incentive **25% on first $5,000** of gross monthly wages for up to 12 months.

The current budget has extended the Wage Credit Scheme (WCS) introduced the first time in Budget 2013 and already extended in the Budgets 2015, 2018, 2019, 2020. In Budget 2020, the government co-funding ratios for wage increases in 2019 and 2020 was further raised from the current 15% and 10%, to 20% and 15% respectively. The qualifying gross wage ceiling was also raised from $4,000 to $5,000 for both years.

In the Budget 2021, the Scheme has been further extended by one year to 2021, with the government co-funding ratio remaining at 15% and the qualifying gross wage ceiling at $5,000. Gross monthly wage increases (at least $50) previously given in 2019 and 2020 by the same employer will continue to be co-funded if they are sustained in 2020 and 2021.

Lastly, the budget 2021 has introduced the provision to reduce the Manufacturing S Pass Sub-Dependency Ratio Ceiling, or sub-DRC, in two steps, to 18% from 1 January 2022, and to 15% from 1 January 2023.

Singapore Green Plan 2030

The last section of the budget is focused on the **Singapore Green Plan 2030**.
This is an ambitious long-term plan that builds on ongoing efforts, to secure a green, liveable, and sustainable home for generations of Singaporeans to come. The main measures introduced are:

- To continue supporting technology adoption in the agri-food sector, the MoF has set aside $60 million for a new Agri-Food Cluster Transformation Fund.
- To catalyse partnership between the public and private sectors, the Singapore government will fund $30 million over the next five years for EV-related initiatives.
- The Government will take the lead by issuing green bonds on select public infrastructure projects.

Main Tax Changes introduced by the Budget 2021:

TAX CHANGE	SUMMARY
Extend the Year of Assessment ("YA") 2020 enhancements to the carry-back relief scheme	To continue providing support to businesses, the enhancements to the carry-back relief scheme for YA2020 will be extended to apply to qualifying deductions for YA2021, with the same parameters.
Extend the option to accelerate the write-off of the cost of acquiring plant and machinery ("P&M")	To continue providing support to businesses, the option to accelerate the write-off of the cost of acquiring P&M will be extended to capital expenditure incurred on the acquisition of P&M in the basis period for YA2022 (i.e. FY2021), with the same parameters.
Extend the option to accelerate the deduction of expenses incurred on renovation and refurbishment ("R&R")	To continue providing support to businesses, the option to claim R&R deduction in one YA (i.e. accelerated R&R deduction) will be extended to qualifying expenditure incurred on R&R in the basis period for YA2022 (i.e. FY2021), with the same parameters.

TOMMASO BARINDELLI
Head of Singapore Desk

Fidinam Singapore Pte Ltd
tommaso.barindelli@fidinam.com.sg
www.fidinam.com

The information contained in this note is for general information purpose only and is not intended to be relied as a substitute for tax, corporate and accounting professional consultation. Please refer to Fidinam staff for specific advice.

INTRODUCING FIDINAM CFO SERVICES IN ASIA PACIFIC

Fidinam supports the growth of Small and Medium-sized Enterprises in Asia Pacific by assisting its clients in managing their economic and financial position with a new service line: “CFO Services”.

Thanks to a team of professionals based in Hong Kong and Singapore with a solid finance background, our Group can offer a range of tailor-made solutions supporting the strategy of our clients in the Region. The range of Fidinam CFO Services includes the followings:

- Business planning & budgeting;
- Cash Flow forecasting;
- Due Diligence and Data Room preparation;
- Corporate restructuring & Business valuation;
- Executive reporting;
- Review and implementation of corporate control models;
- Mapping of corporate processes;
- Digital finance.

The afore-mentioned services are provided by an appointed **“Interim CFO”**, who directly manages the finance department of the company and support the top management in strategic decision-making, or by an **“Interim Controller”**, who supports the management control through the mapping of corporate processes and the implementation of a digital accounting platform.

Services are delivered in a **customized way**: Fidinam professionals, indeed, set targets, timeline and available resources together with the Client.

Details of our services follow below.

1. **Business planning & budgeting:** Fidinam assists SMEs in drafting clients’ business plans by developing positioning statements, 5-years business plans (products & services, market analysis, marketing strategy, financial planning, risk analysis) and 1-year budgets. Moreover, our team also offer assistance in the preparation of periodic reviews and analysis of variances.
2. **Cash Flow forecasting:** Fidinam provides its clients with cash flow analysis including projections of the future financial position (managing liquidity and ensuring the organization has the necessity of cash to meet its obligations, avoiding funding issues) and a comprehensive financial planning in order to identify potential shortfalls in cash balances. Our services also include treasury management for corporate clients (which involves maintaining liquidity or solvency of the company, dealing with payment transactions, managing bank accounts).
3. **Due Diligence and Data Room preparation:** Fidinam assists start-ups and SMEs willing to start fundraising and grow by M&A through the entire Due Diligence process. Our services include the preparation of virtual data rooms in order to provide the investors with accurate and organized information in a secure way to store documents.

fidinam

4. **Corporate restructuring & Business valuation:** Fidinam supports its clients in implementing both financial and organizational restructuring, in order to meet changes in the strategy, lack of profits or new cash flow requirements. Moreover, Fidinam also provides business and corporate valuations.
5. **Executive reporting:** Fidinam assists its clients in reviewing and implementing recurrent executive reporting including tailor-made dashboards and forecasting with customized KPIs, in order to give CEOs an at-a-glance visibility into business performance across all units and projects.
6. **Review and implementation of corporate control models:** Fidinam supports its clients in implementing an analytical control model to ensure that objectives, targets or standards are met. In addition, our services also include the review of existing corporate models.
7. **Mapping of corporate processes:** Fidinam professionals provide assistance in mapping and analysing corporate processes in order to improve the efficiency of the organizational flows and spot potential inefficiencies, making sure that all processes are aligned with the company's values and tailored to its capacity.
8. **Digital finance:** Fidinam leads SMEs in the implementation of **digital accounting** projects based on our business partner **Xero** platform. Our services include the re-design of clients' business and the integration with payment systems as well as e-commerce platforms, providing ongoing support in different jurisdictions including, among others, Singapore, Hong Kong, Australia and Dubai.

The Leading team will be based in Hong Kong and Singapore and includes our CEO Asia Pacific (Alessandro Pedrinoni), the Head of Singapore Desk (Tommaso Barindelli) and the Senior Manager of Swiss Desk (Patrick Heimann).

ALESSANDRO PEDRINONI
CEO Fidinam Asia Pacific

Fidinam Asia Pacific
alessandro.pedrinoni@fidinam.com.hk
www.fidinam.com

The information contained in this note is for general information purpose only and is not intended to be relied as a substitute for tax, corporate and accounting professional consultation. Please refer to Fidinam staff for specific advice.

NEWSLETTER:
AUSTRALIAN COMMERCIAL PROPERTY MARKET

2020 Year in Review

Australia managed multiple economic setbacks through 2020 including a serve drought, the worst bushfires on record, mass flooding and the global COVID-19 pandemic. Australia's strong fiscal management and prompt implementation of various stimulus packages by the Federal Government including Job Keeper and Job Seeker meant Australia was able to quickly exit from its first technical recession in nearly 30 years.

Economic growth is forecast through 2021 as Australians spend domestically given their inability to travel internationally, historically low interest rates and substantial infrastructure expenditure by the State and Federal Governments. This optimistic outlook is further driven by the containment of the virus within Australia and the COVID 19 vaccine rollout which commenced in February 2021.

Responsive Government action has seen the unemployment rate decrees to 6.4% as at January 2021, down from 7.4% in July 2020. Further, the Reserve Bank of Australia is forecasting 5% growth in Gross Domestic product over 2021.

Work from Home

The forced work from home "experiment" made organizations rethink their office requirements. This flexible working environment proved the effectiveness and efficiency of available technology. However, many organizations are requiring their staff to work at least part time from the office. It is expected that office occupancy will continue to increase through the latter half of 2021 and 2022 as businesses seek to reclaim lost efficiency, build office culture, and provide better opportunities to work collaboratively.

Interestingly, in 2015 only 13% of the office-based workforce had "flexible work arrangements" while a Roy Morgan Research survey released in June 2020 found that over 58% of traditional office workers were working from home at the peak of Australia's lockdown. The recent push by companies to bring staff back into the office with flexible working arrangements highlights the ongoing relevance of office space. 2021 has seen an increased acceptance from business and Government to have flexible working arrangements with agreed minimum required days in the office. Early research is suggesting that the new normal could be around 3 Days in the office and 2 remotely.

2021 Outlook

Foreign purchasers accounted

for most commercial real estate transactions through 2020. This attests to Australia's well recognized and ongoing position as a safe and transparent investment market and supported by its strong underlying economy and world leading management of the COVID-19 pandemic.

Further, a record low cash rate of 0.10% makes the cost of debt attractive and provides a natural hedge for offshore investors. This has enhanced investor trust and intertest in the commercial property market, as they seek to achieve a low weighted average cost of capital which improves total returns. Combined with a large amount of foreign capital seeking higher yields with the perception that assets may be mispriced. As a result, industry experts forecast increases in transactions across all asset classes in 2021 underwriting asset values and believing in longer term fundamentals.

Australia's long term economic outlook is expected to improve with growing real estate sectors including Industrial, Commercial and Residential with particular interest in alternative sectors such as Data Centers and Health Care. Changes in FIRB (Foreign Investment Review Board) thresholds returning to pre-COVID levels will streamline asset purchases increasing additional offshore investment.

Capital Markets – Commercial Real Estate Australia

The Industrial property sector led the market in 2020 with a strong economic performance managing Australia's uncertainty with COVID-19. Being the only sector in 2020 to increase in transactions from 2019 by 13% (CBRE). Face rents broadly held firm whilst incentives rose nationally, it remains the preferred sector of investment across Asia Pacific for 2021 as investors seek to reweight their exposure to industrial and logistic asset classes (CBRE). The sector is set for growth with the addition of 350,000sqm annually over the next 4 years to meet to high demand, with ecommerce set to be a key driver of new warehouse accommodation (CBRE), which comprises traditional warehouse space, last mile logistics, bulky goods/retail, and the evolution of parcel lockers. The sector outlook for 2021 is forecast to see industrial rents and capital values remain stable on a national level over the next two years.

Throughout 2020 the Office sector experienced disruptions with net absorption reaching historic lows and vacancy rising to levels not seen since the 1990's. Nationally vacancy rates sit at 13.3%, recording a negative net absorption of 116,000sqm in the December 2020 quarter. Effective rents are expected to decline over the course of 2021 impacted by an increased supply of sub leased stock by businesses managing COVID-19. In 2021 vacancy rates are further set to increase with subdued tenant demand before levelling out. However, with the resumption that offices will return sooner, accommodating staff will likely require more space to meet different office configurations due to COVID-19. The unknown question remains with closed borders will we see a skill shortage in the finance, engineering, and healthcare sectors, where many of the candidates have been sourced offshore in the past. In any event the sooner we can open the boarders the better for Australia. Overall, even with some uncertainty we expect asset values to remain stable as overseas investor demand should continue to outweigh supply.

The Retail sector experienced record trade growth across e-commerce in 2020 and forecast to remain at raised levels throughout 2021. Although experiencing the largest declines are department stores which have been late to embrace e commerce and are set to experience a 2.6% annual decline in space needs over the next few years. Reforms in consumer spending shifting towards online has resulted in the amount of physical retail space required declining. Homewares and home furnishing are set for the strongest market growth in floorspace over 2020-2024 with Compound annual growth rate of 2.5% (CBRE). Rent declines in 2020 are also set to stabilize in 2021. Due to homeware spending and non-discretionary spending, regional shopping centers and bulky good retail will be favored asset class in 2021 however major CBD and near CBD shopping centers with a large level of discretionary spend will need to rework their offerings to generate more consumer traffic and we expect this to take some time. As a result, continued pressure will remain on the value of these centers.

Two alternate asset classes which have found favor amongst institutional investors are Health Care (Medical, Pathology, Hospitals, GP clinics, Aged Care) and Data Centers. This is somewhat quantified by Australia's ageing population, by way of reference Australia will have over four million people aged between 65-84 by 2022. In addition, Data Centers support cloud storage which has allowed employees accessibility to work remotely. Large demand was experienced across the asset classes in 2020 and is set to grow dramatically in the next five years (Savills). These investments are highly attractive to investors with short development times, minimal capital expenditure and long lease terms to "sticky" blue chip tenants, who invest substantial capital into the facility.

Whilst the pandemic has impacted Australia's economy it has been surprising to see how fast we have rebounded over the short term. Industry leaders and business sectors remain highly positive and globally Australia is seen as a safe destination to invest with strong government fiscal management. Real Estate assets classes to watch in 2021, will be large industrial logistics, quality regionals retail shopping centers and healthcare and data centers. If taking a longer-term view, there is a lack of development opportunities for office buildings in the major CBD's of Melbourne and Sydney, where demand is forecast to out-way supply.

MATTHEW BURROWS
Managing Director

Fidinam (Australasia) Real Estate
matthew.burrows@fidinam.com
www.fidinam.com

CRYPTO AS AN ASSET CLASS FOR CORPORATE TREASURY

The recent crypto frenzy driven by soaring prices seems to have reached its apex in the recent days, following Elon Musk's twitter announcement about its Tesla USD1.5B investment in digital assets (namely Bitcoins – BTC).

Although Mr. Musk's move could be considered a gamble by many, an increasing number of companies have some level of exposure to crypto, either through investments, partnerships, or side ventures.
Below a list recently issued by Yahoo! Finance, at the time of writing the information about Tesla has not been update yet.

COMPANY NAME	MARKET CAP
Microsoft Corporation	1,838.57B
Visa Inc.	455.35B
NVIDIA Corporation	353.16B
PayPal Holdings, Inc.	332.85B
Mastercard Incorporated	331.59B
Square, Inc.	116.40B
Advanced Micro Devices, Inc.	110.12B
The Goldman Sachs Group, Inc.	103.38B
CME Group Inc.	68.92B
Interactive Brokers Group, Inc.	31.19B
Nasdaq, Inc.	23.51B
MicroStrategy Incorporated	12.20B
Cboe Global Markets, Inc.	9.95B
Overstock.com, Inc.	4.43B

So why are cash rich companies buying crypto?

The answer is rather simple, they are changing capital allocation strategy for maximizing value for its stakeholders. As Microstrategy CEO Michael Saylor recently stated, Bitcoin is "not only a reasonable hedge again inflation but also the prospect of earning a higher return than other investments".

What are the accounting implications for companies using BTC for treasury management purposes – US vs HK IFRS Foundation, the non-profit organization that sets international accounting standards, has issued an agenda decision in June 2019, outflinging the proposed accounting treatment of "Holding of Crypto Currencies". Rather than creating a specific accounting treatment, in the agenda decision, the IFRS Interpretation Committee concludes that Cryptos meet the definition of an intangible assets as defined in IAS38 - Intangible Assets.

In Hong Kong, HKICPA supports the tentative agenda of IFRS, nevertheless acknowledges that IAS38 was developed long before cryptocurrencies and was not designed with transactions that involve cryptocurrencies in mind. Applying IAS 38 may not always provide the most useful to users of financial statements.

Why Hong Kong accounting standards have an edge on USGAAP when it comes to crypto

As HKICPA states, HKFRS/IFRS Standards do not explicitly discuss crypto-asset transactions. Therefore, companies may need to apply judgment as to how to account for such transactions.

The IFRS Committee defines crypto currencies as:

- A digital or virtual currency recorded on a distributed ledger that uses cryptography for security.
- As not issued by a jurisdictional authority or other party.
- It does not give rise to a contract between the holder and another party.

In layman terms, crypto is not classified as cash or equivalent by the Committee, it is rather considered as an Intangible Asset (an identifiable non-monetary asset without physical substance).

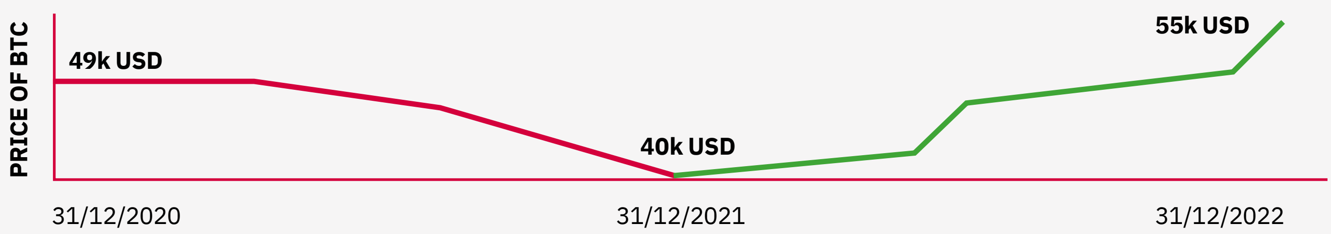
While in general, it is possible to agree with IFRS classification, we find it nowadays difficult to consider all cryptos as intangible assets. Stable coins such as USDT or USDC may be identifiable as monetary assets (as they give the holder a right to receive a fixed or determinable number of units of currency), being pegged by definition to the US dollar.

The accounting treatment – US vs. HK – the advantage

Domestic public entities in US are required to apply U.S. Generally Accepted Accounting Principles (US GAAP). As for private companies, whose capital market activities fall outside the perimeter of US SEC's requirement, there is no centralized determinant of the financial reporting framework to be used. Having said that, in practice, most domestic companies would apply US GAAP in meeting the requirements or standards of the local authorities or business partners.
Although cryptos should be classified as intangible assets under both US GAAP and IFRS, there are differences to the accounting treatment.

Under IFRS, intangible assets may be revalued to fair value (under the condition that there is an active market) while under US GAAP, revaluation is not allowed but intangible assets should be tested for impairment.

Below we have drafted an example of the different accounting treatment in the case of a company purchasing digital assets in 2020, assuming a decrease in the fair value during 2021 and in increase in 2022. US company will be forced to apply impairment charges to their books, having a negative effect on their earnings. Below a graphical example:



REPORTING PERIOD			UNDER IFRS	UNDER US GAAP
31 Dec 2020	Assets (balance sheet)	Intangible assets	US$49k	US$49k
31 Dec 2021	Assets (balance sheet)	Intangible assets	US$40k	US$40k
	P&L	Impairment loss	US$9k	US$9k
31 Dec 2022	Assets (balance sheet)	Intangible assets	US$55k	US$40k
	P&L	Impairment loss	US$9k	-
	Other comprensive income	Fair value gain on intaginble assets	US$6k	

Under both IFRS and US GAAP, companies would record the impairment loss in the P&L if the fair value of the cryptos is below carrying value. The difference appears when the value goes back up, companies would record fair value gain under P&L or other comprehensive income under IFRS while companies may not make any upward revisions until the cryptos are disposed.

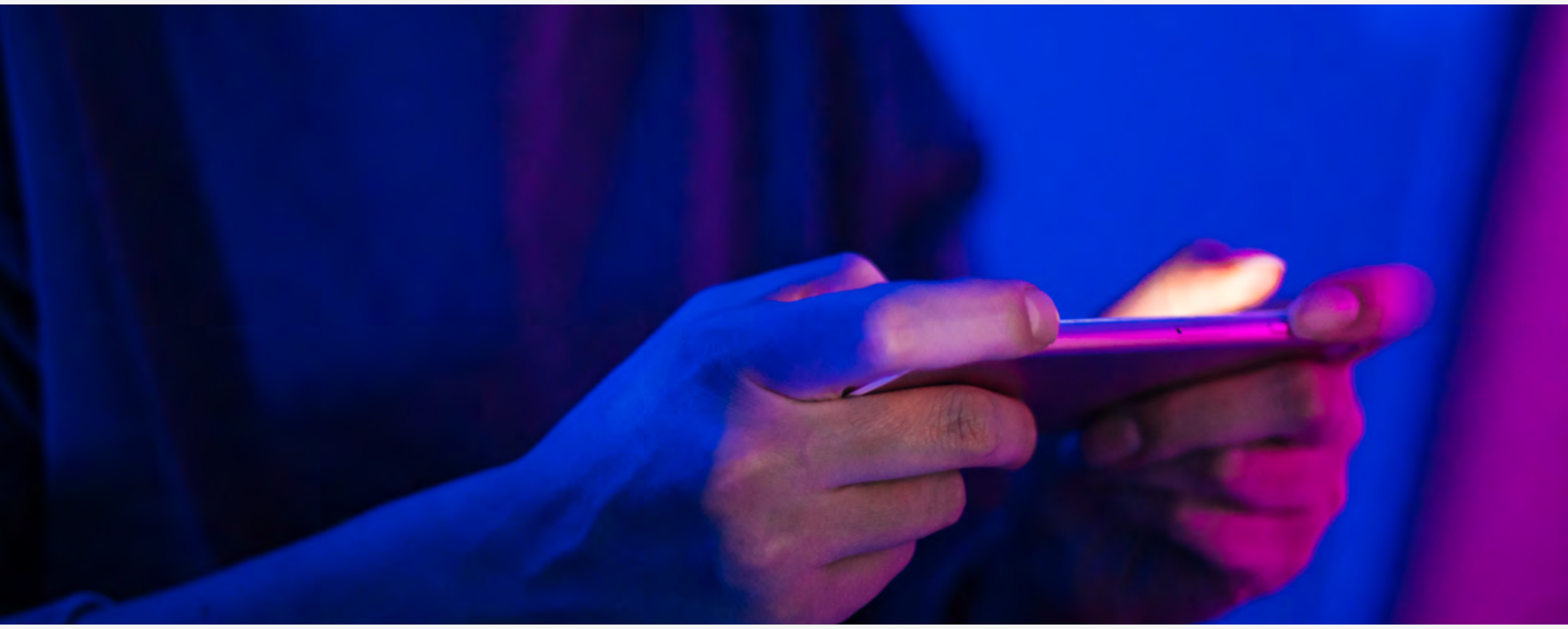
On the other hand, Hong Kong companies apply the Re-evaluation model. Decrease in value of Crypto will have a negative impact on the P&L, while an increase will be reflected in the P&L under «other comprehensive income/ Chang of fair value of intangible assets». An example of Hong Kong accounting treatment of crypto is provided by the company Global Token Limited, whose financial statements are available to the public.

In the notes of the consolidate financial statements, the company mentions that crypto currencies are carried at cos less impairment, reflecting the fact that the Group's cypto currencies are assets which are resources controlled by the Group and from which future economic benefits from selling the crypto currencies in the OTC markers are expected to flow to the Group.

FILIPPO BUZZI
Head of Crypto services

Fidinam (Hong Kong) Limited
filippo.buzzi@fidinam.com.hk
www.fidinam.com

The information contained in this note is for general information purpose only and is not intended to be relied as a substitute for tax, corporate and accounting professional consultation. Please refer to Fidinam staff for specific advice.



REVENUE RECOGNITION OF "VIRTUAL ITEMS" BEST PRACTICE OF HONG KONG MOBILE GAME COMPANIES

Introduction

If you have ever been commuting through the busy streets of Hong Kong, you probably have already noticed that every bus or MTR available seat can easily become a comfortable station for hundreds of **passionate online game players.**

Even though commuting time is relatively short in Hong Kong, players may spend several hundreds or even thousands of HK dollars on games each month.

High smartphone penetration rate in the City has indeed made mobile game playing very popular among the young generations.

This trend has given rise to a number of successful mobile game developers in recent years that contributed to create a **wide offer of games** (ranging from fantasy, to war, adventure and even kids' entertainment) which are sold through third party online platforms.

Revenue Recognition and Industry best practice

If we take a closer look at the business model of these game companies, we notice that users normally download the game for free from **different distribution platforms** (i.e., Google Play or Apple Store), whereas developers generally derive revenues from the sale of in-game **"Virtual Items"**, defined as virtual currency, goods and services, which are sold to the player throughout the game.

Now, a question that all mobile game companies have to face at a certain point is: **"Based on this business model, how do I recognize my revenue in my financial statements?"**

According to the "Hong Kong Financial Reporting Standard 15 ("HKFRS 15") - Revenue from Contracts with Customers", an entity shall recognize its revenue when the entity **satisfies a performance obligation** by transferring a given good or service (i.e., an asset) to a customer. An asset is deemed as transferred when the customer obtains control of that asset.

Depending on the terms of the contract, **control** of the good or service may be transferred from one party to the other **over time or at a given point in time.**

If control of the good or service is transferred over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at the point in time when the customer obtains control of the good or service.

For the specific case of mobile games, the period over which the performance obligation is satisfied depends on the duration of the hosting period of the individual virtual good purchased. In other words, revenue from sales of virtual items is recognized over the period during which the paying players

are expected to access and consume the benefits acquired though virtual items.

Virtual items are therefore distinguished between two items' categories, (i) Consumable in-game virtual items and (ii) Durable in-game virtual items.

- **Consumable in-game virtual items** represent items that are **immediately extinguished** / consumed after a specific game action (e.g., a virtual bomb that a soldier throws during a war game). The player will not be able to continue benefitting from the in-game virtual items thereafter. When these items are consumed, the relevant services are rendered and revenue is immediately recognized by mobile game companies.
- **Durable in-game virtual items** represent items that are accessible and **beneficial** to players over **an extended gaming period**. Durable virtual items are often purchased to enhance the player's game experience over an extended period of time (e.g., an enhanced vehicle or a shelter that the player uses to protect his army during the game). Revenue from these items is normally recognized by mobile game companies ratably over the estimated life of durable virtual items. Game developers need to use judgement and should have enough data to support the estimation of the average game playing period (also referred as "period of performance") of players, i.e., how long a player will continue to play a particular game.

Challenges

When applying revenue recognition for mobile games, there are significant issues and challenges that mobile game developers have to face.

First of all, companies are expected to **collect and maintain sufficient data** to properly estimate the period of performance. This may not be an easy task, especially when the game becomes more popular and thanks to a multitude of new players, new gaming features are added to the game.
As a result, the size of data becomes large and sophisticated, whereas advanced **analytical tools** may be needed to process the data.

Finally, a significant level of judgement is required to assess whether a virtual item should be categorized as "durable" or "consumable".
The mobile game industry is young, dynamic and fast changing. It is likely that new internal control and accounting systems will be needed in order to comply with the financial reporting requirements as stated under **HKFRS 15**.
When dealing with these challenges, **assistance from accounting experts** is highly recommended, mobile game companies are therefore encouraged to start their HKFRS 15 assessment in due course.

Fidinam developed relevant industry knowledge and is able to support your business by providing professional accounting support.

PATRICK HEIMANN
Senior Manager Swiss Desk

Fidinam (Hong Kong) Limited
patrick.heimann@fidinam.com
www.fidinam.com

ECONOMIC SUBSTANCE REQUIREMENTS IN U.A.E.

Background

The United Arab Emirates joined the OECD Inclusive Framework on Base Erosion and Profit Shifting ("BEPS") on 16th May 2018 and committed to implement the following minimum standard actions:

Action n. 5: Harmful tax practices;

Action n. 6: Prevention of tax treaty abuse

Action n. 13: Country-by-Country Reporting ("CbCR"),

Action n. 14: Mutual agreement procedures.

Substantial activities requirements in no or only nominal tax jurisdictions is one of the three keys areas covered by Action 5. In order to comply with BEPS minimum standard action n. 5 the United Arab Emirates introduced new Economic Substance Regulations ("ESR").

Legislation

ESR has been initially adopted in UAE toward Cabinet Resolution No. 31 of 2019 and Ministerial Decision No. 215 for the year 2019.

On August 2020 the UAE Cabinet of Ministers has issued Cabinet Resolution No. 57 of 2020, hereinafter referred to as the **"ESR Regulations"** and Ministerial Decision 100 of 2020, hereinafter referred to as the **"ESR Directive"**, which replaced and repealed the previous legislation (hereinafter the combined disposition of ESR Regulations and ESR Directive shall be referred to as the "ESR Legislation").

Entry in force

ESR Legislation have a retroactive effect as of 1st January 2019.

All entities affected shall have to comply with requirements of the ESR Legislation with reference to financial years started from 1st January 2019.

Scope of ESR Legislation

The target of the ESR Legislation is to enforce **Licensees** that carry out a **Relevant Activity** to meet substance requirements in UAE.

Relevant activities are the followings

I Banking

II Insurance

III Fund management

IV Lease-finance

V Headquarters

VI Shipping

VII Holding company

VIII Intellectual property (IP)

IX Distribution and service centre.

The definition of Licensee includes all companies (FZ/Mainland/Offshore), unincorporated partnership and UAE branches of foreign companies, registered in UAE.

Exemptions

A. Entities that are tax resident outside the UAE: the UAE entity must submit a tax residence certificate or other documentation issued by the tax authority in the foreign jurisdiction in which it claims to be a tax resident to prove that it is treated as a local tax resident entity in that foreign jurisdiction, in support of its ESR notification claiming exemption.

B. Investment Funds: the exemption applies to the Investment Fund as well as any UAE entities used by the Investment Fund to make or hold investments, but does not extend to the entity or entities in which the Investment Fund ultimately invests.

C. Entities that are wholly owned by UAE residents and that (I) are not part of a multinational group, and (II) only carry out business activities in the UAE.

D. UAE branches of a foreign head office/parent whose relevant income is subject to tax in the jurisdiction of the foreign head office/parent.

Special focus on Distribution and service centre activity

Over the years the economic success

and popularity of U.A.E. has been largely determined by its peculiar geographical position and political stability that contributed to develop the country as an efficient business hub linking Europe, Africa, Asia and the Far East. As a result, it is very common that companies established in UAE are part of international groups and hence are involved in commercial transactions with foreign group entities that may attract these companies under the scope of ESR for conducting the activity of Distribution and Service Centers.

As per ESR Legislation the definition of Distribution and Service Centre Business refers to any of the following activities:

a. Purchasing from a foreign group company components parts or materials for goods; or goods ready for sale, and reselling such components parts, materials or goods.
b. Providing services to foreign group companies.

There are basically two distinct activities included in the **Distribution and Service Centre Business:**

1. Distribution center when the licensee purchases from foreign group entities goods or materials to be sold.
2. Service center when the licensee provides any kind of service to foreign group entities.

Substance requirements

During each financial year in which a Licensee earns income from a Relevant Activity, the Licensee must satisfy the criteria below in relation to the Relevant Activity in order to meet the Economic Substance Test:

1. the Licensee conducts the necessary core income-generating activity in the UAE;
2. the Relevant Activity is directed and managed in the UAE, this is satisfied if the following conditions are met:
   a. the Licensee's board of directors meet in the UAE at an adequate frequency and there is a quorum of directors physically present in the UAE;
   b. the board meetings are recorded in written minutes noting the making of strategic decisions in relation to the Relevant Activity and are signed by the directors attending such meetings;
   c. the minutes of all board meetings and the records relating to the Licensee are kept in the UAE; and The directors have the necessary

knowledge and expertise to discharge the duties of the board;

3. having regard to the Relevant Activity:
   a. there is an adequate number of qualified full-time employees who are physically present in the UAE;
   b. there is adequate operating expenditure incurred by the Licensee in the UAE; and
   c. there are adequate physical assets in the UAE.

A Licensee whose activity is restricted to carrying out a Holding Company Business is not required to conduct core income generating activity in UAE. Core income-generating activities are activities that are of central importance to a Licensee for generating income from a Relevant Activity. Further details and guidance on Core Income-Generating Activities referred to each Relevant Activity can be found in Article 3 of ESR Regulation and Schedule 1 of ESR Directive.
ESR legislation allow to outsource services to external providers in order to meet substance test.

Notification and Reporting filing

Within six months from the closure of each relevant financial year (special deadline apply for the first notification referred to financial year 2019) all Licensees and exempted Licensees that conduct a Relevant Activity are required to submit an Economic Substance Notification setting out (the Notification):

- The nature of the Relevant Activity being carried out;
- Whether Relevant Income was generated;
- Whether an exemption is claimed.

Within twelve months from the closure of each relevant financial year (special deadline apply for the first reporting referred to financial year 2019) Licensees that carry out a Relevant Activity and earned income generated from such Relevant Activity must submit an Economic Substance Report that include, among others:

- Details of parent company, ultimate parent company and ultimate beneficial owner
- Total revenues
- Accounting profit
- Net book value of tangible assets

Failure to comply

Failure to comply with the ESR Regulations triggers penalties and potential disclosure of information with foreign authorities.

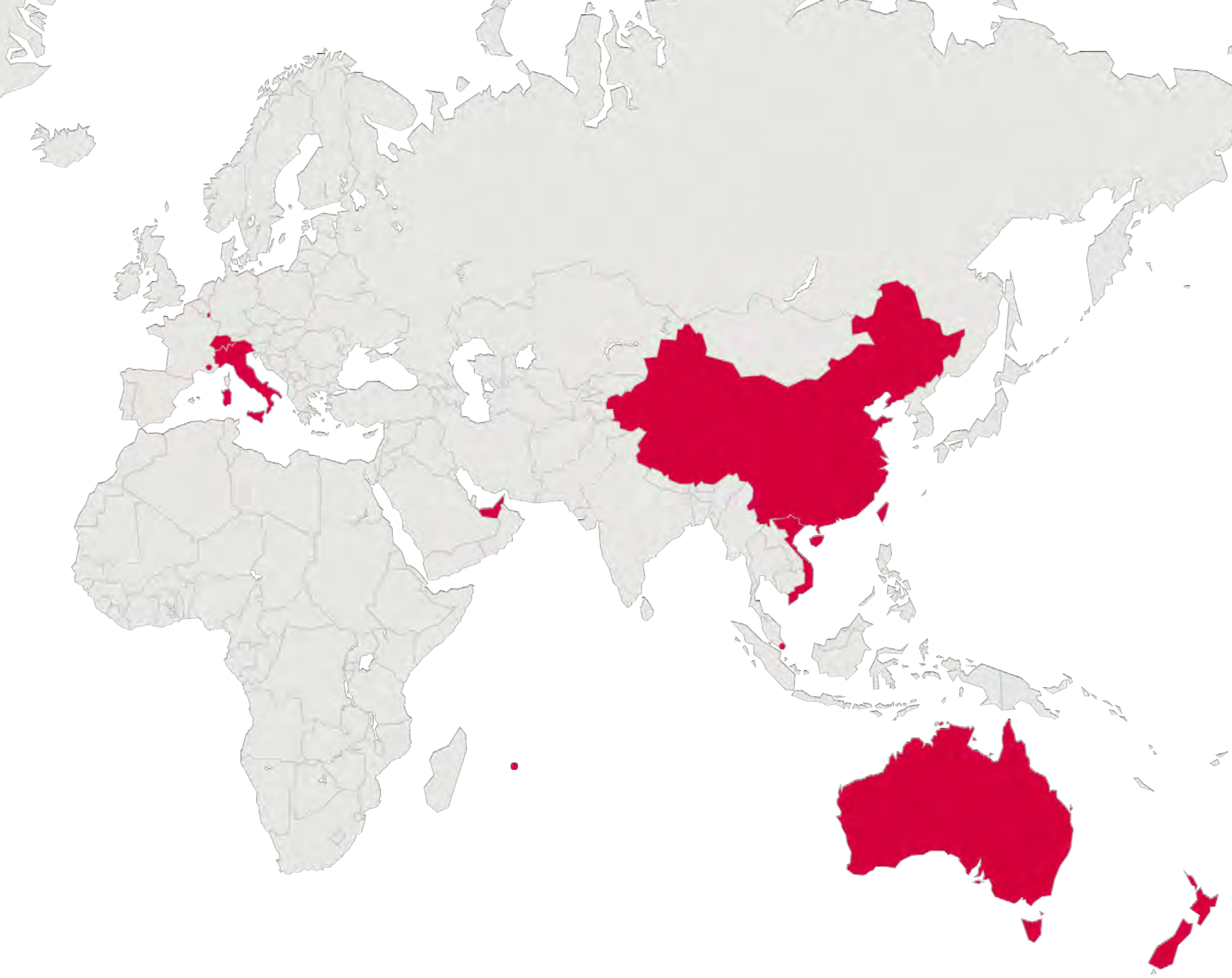
- AED 50,000 for failure to submit report or failure to meet the requirements of the tests in the first year
- AED 400,000 for failure to submit report or failure to meet the requirements of the tests in the second year
- AED 50,000 for providing inaccurate information to the RA or FTA
- AED 20,000 for failure to submit a notification
- License annulment for persisted non-compliance

Conclusions

Due to the nature of UAE as international business hub it is likely that a large number of companies fall under the scope of UAE ESR. At the same time, being established in a real international business hub also provides these companies with tools and instruments to successfully meet the substance test. Recommendation is to consult with professionals in order to assess the ESR position of any relevant Licensee and meet, within the given deadlines, the ESR requirements.

STEFANO MENOTTI
Manager Fidinam DMCC

Fidinam DMCC
stefano.menotti@fidinam.ae
www.fidinam.com



OUR GLOBAL PRESENCE

SWITZERLAND

Lugano
Zurigo
Ginevra
Berna
Basilea
Lucerna
Bellinzona
Mendrisio

EUROPE & MIDDLE EAST

Milano
Monte Carlo
Luxembourg
Dubai

ASIA PACIFIC

Hong Kong
Singapore
Ho Chi Minh City
Sydney

NEWS VIA E-MAIL

If you are interested in receiving Fidinam Group Worldwide NEWS in electronic version just connect to www.fidinam.com and subscribe for the Fidinam Newsletter

GET IN TOUCH

FIDINAM GROUP WORLDWIDE LIMITED

Room 1501, Prosperity Tower, 39
Queen's Road Central, Hong Kong

+852 2110 0990

info@fidinam.com

www.fidinam.com

Hong Kong , Singapore, Ho Chi Minh City, Sydney,
Lugano, Zurigo, Ginevra, Berna, Basilea, Lucerna,
Bellinzona, Mendrisio, Milano, Monte Carlo,
Luxembourg, Dubai
Member FIDUCIARI|SUISSE