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Signed: 

Name : Cho Chun Wah, CEO & Director

Date : 4 November 2021

Financial Dispute Resolution Centre  
金融糾紛調解中心

31 December 2020

## Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2020.

### Principal place of business

Financial Dispute Resolution Centre (the "Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 408 - 409, 4/F, West Wing, Justice Place, 11 Ice House Street, Central, Hong Kong.

### Principal activities

The Company is a non-profit making company limited by guarantee. It independently and impartially administers the Financial Dispute Resolution Scheme ("FDRS") which provides mediation and arbitration services to financial institutions (which are members of FDRS) and their customers for the resolution of monetary disputes. The Company is established to promote more efficient dispute resolution for the benefit of the Hong Kong community.

### Share capital

The Company is limited by guarantee and therefore does not have any share capital.

### Reserve

Movement in reserve during the year ended 31 December 2020 are set out in statement of changes in equity on page 9.

### The Board of Directors

The directors during the financial year and up to the date of this report are:

Mr Dieter Yih

Mr Joseph Chan Ho Lim

Ms Carmen Chu Lap Kiu

Mr Paul Yeung Kwok Leung

Mr Gary Cheung Wai Kwok

Mr Richard Leung Wai Keung

Mr Philip Leung Kwong Hon (Retired with effect from 31 March 2020)

Mr Tong Hon Shing

Mr Wong Kam Fai (Appointed with effect from 31 March 2020)

Mr Herman Cho Chun Wah

In accordance with Article 22(3) of Part B of the Company's Articles of Association, all the existing directors shall continue in office for the following year.

### **Indemnity of directors**

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

### **Directors' interests in transaction, arrangements or contracts**

No contract of significance to which the Company was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

### **Auditors**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Mr Dieter YIH  
Chairman

Hong Kong

20 MAY 2021



# Independent auditor's report to the members of Financial Dispute Resolution Centre *(Incorporated in Hong Kong and limited by guarantee)*

## Opinion

We have audited the financial statements of Financial Dispute Resolution Centre (the "Company") set out on pages 6 to 27, which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# Independent auditor's report to the members of Financial Dispute Resolution Centre (continued)

*(Incorporated in Hong Kong and limited by guarantee)*

## **Responsibilities of the directors for the financial statements**

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



**Independent auditor's report to the members of  
Financial Dispute Resolution Centre (continued)**  
*(Incorporated in Hong Kong and limited by guarantee)*

**Auditor's responsibilities for the audit of the financial statements (continued)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*KPMG*

Certified Public Accountants

8<sup>th</sup> Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

20 MAY 2021

**Statement of comprehensive income  
for the year ended 31 December 2020**  
(Expressed in Hong Kong dollars)

	Note	2020	2019
<b>Income</b>			
Revenue	3	\$ 20,000	\$ 28,200
Other revenue	4	439,804	1,051,940
		<u>\$ 459,804</u>	<u>\$ 1,080,140</u>
<b>Expenditure</b>			
Staff costs	5(b)	\$ 5,395,720	\$ 5,151,232
Depreciation and amortisation		1,921,085	3,531,100
Other administrative and operating expenses		2,657,534	2,897,855
		<u>\$ 9,974,339</u>	<u>\$ 11,580,187</u>
<b>Deficit and total comprehensive income for the year</b>	5	<u>\$ (9,514,535)</u>	<u>\$ (10,500,047)</u>

The notes on pages 12 to 27 form part of these financial statements.

## Statement of financial position at 31 December 2020

(Expressed in Hong Kong dollars)

	Note	2020	2019
<b>Non-current assets</b>			
Property, plant and equipment	7	\$ 1,487,411	\$ 1,557,465
Intangible asset	8	81,688	174,228
		<u>\$ 1,569,099</u>	<u>\$ 1,731,693</u>
<b>Current assets</b>			
Deposits, prepayments and other receivables	9	\$ 214,491	\$ 1,217,028
Time deposits with original maturity of over three months		15,500,000	18,500,000
Cash and cash equivalents	10	4,549,421	11,688,931
		<u>\$ 20,263,912</u>	<u>\$ 31,405,959</u>
<b>Current liabilities</b>			
Lease liabilities	11	\$ -	\$ 1,408,663
Accruals and other payables	12	924,824	1,356,267
		<u>\$ 924,824</u>	<u>\$ 2,764,930</u>
<b>Net current assets</b>		<u>\$ 19,339,088</u>	<u>\$ 28,641,029</u>
<b>Total assets less current liabilities</b>		<u>\$ 20,908,187</u>	<u>\$ 30,372,722</u>
<b>Non-current liabilities</b>			
Accruals and other payables	12	50,000	-
		<u>\$ 50,000</u>	<u>\$ -</u>
<b>NET ASSETS</b>		<u>\$ 20,858,187</u>	<u>\$ 30,372,722</u>

Statement of financial position at 31 December 2020  
(continued)  
(Expressed in Hong Kong dollars)

	Note	2020	2019
<b>RESERVES</b>			
Reserves	13	<u>\$ 20,858,187</u>	<u>\$ 30,372,722</u>
<b>TOTAL RESERVES</b>		<u>\$ 20,858,187</u>	<u>\$ 30,372,722</u>

Approved and authorised for issue by the board of directors on 20 MAY 2021

Signed on its behalf by:



Mr Dieter YIH  
Chairman



Mr Herman Cho Chun Wah  
Director and CEO

The notes on pages 12 to 27 form part of these financial statements.

**Statement of changes in equity  
for the year ended 31 December 2020**  
(Expressed in Hong Kong dollars)

	<i>Reserves</i>
<b>At 1 January 2019</b>	\$ 40,872,769
<b>Change in equity for 2019:</b>	
Deficit and total comprehensive income for the year	<u>(10,500,047)</u>
<b>At 31 December 2019 and 1 January 2020</b>	\$ 30,372,722
<b>Change in equity for 2020:</b>	
Deficit and total comprehensive income for the year	<u>(9,514,535)</u>
<b>At 31 December 2020</b>	<u><u>\$ 20,858,187</u></u>

The notes on pages 12 to 27 form part of these financial statements.

## Cash flow statement for the year ended 31 December 2020 (Expressed in Hong Kong dollars)

	Note	2020	2019
<b>Operating activities</b>			
Deficit for the year		\$ (9,514,535)	\$ (10,500,047)
Adjustments for:			
Depreciation and amortisation		1,921,085	3,531,100
Interest income		(406,004)	(741,190)
Interest expense on lease liability		17,657	159,498
		<hr/>	<hr/>
<b>Operating deficit before changes in working capital</b>		<b>\$ (7,981,797)</b>	<b>\$ (7,550,639)</b>
Decrease in deposits, prepayments and other receivables		976,965	140,849
(Decrease)/increase in accruals and other payables		(381,443)	199,023
		<hr/>	<hr/>
<b>Net cash used in operating activities</b>		<b>\$ (7,386,275)</b>	<b>\$ (7,210,767)</b>
<b>Investing activities</b>			
Decrease in time deposits with original maturity of over three months		\$ 3,000,000	\$ 500,000
Payment for purchase of property, plant and equipment		(1,696,652)	(143,630)
Payment for purchase of intangible assets		(61,875)	(61,875)
Written off fixed assets		35	-
Interest income received		431,577	965,000
		<hr/>	<hr/>
<b>Net cash generated from investing activities</b>		<b>\$ 1,673,085</b>	<b>\$ 1,259,495</b>
<b>Financing activities</b>			
Capital element of lease rentals paid		\$ (1,408,663)	\$ (3,263,670)
Interest element of lease rentals paid		(17,657)	(159,498)
		<hr/>	<hr/>
<b>Net cash used in financing activities</b>		<b>\$ (1,426,320)</b>	<b>\$ (3,423,168)</b>

**Cash flow statement**  
**for the year ended 31 December 2020**  
*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<i>2020</i>	<i>2019</i>
<b>Net decrease in cash and cash equivalents</b>		\$ (7,139,510)	\$ (9,374,440)
<b>Cash and cash equivalents as at 1 January</b>		<u>11,688,931</u>	<u>21,063,371</u>
<b>Cash and cash equivalents as at 31 December</b>	10	<u>\$ 4,549,421</u>	<u>\$ 11,688,931</u>

The notes on pages 12 to 27 form part of these financial statements.

# Notes to the financial statements

(Expressed in Hong Kong dollars)

## 1 Principal activities

The Company is a non-profit making company limited by guarantee. It independently and impartially administers the FDRS which provides mediation and arbitration services to financial institutions (which are members of FDRS) and their customers for the resolution of monetary disputes. The Company is established to promote more efficient dispute resolution for the benefit of the Hong Kong community.

## 2 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the Company are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 2 Significant accounting policies (continued)

### (c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Company.

None of the developments have had a material effect on how the Company's results and financial position for the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 16).

### (d) Property, plant and equipment

Property, plant and equipment including right-of-use assets arising from leases of underlying property, plant and equipment (see note 2(e)), are stated at cost less accumulated depreciation and impairment losses.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- |                          |  |
|--------------------------|--|
| - Leasehold improvements | Over the shorter of unexpired term of the lease and their estimated useful lives |
| - Furniture and fixtures | 5 years  |
| - Office equipment       | 3 years  |
| - Computer equipment     | 3 years  |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

The carrying amounts of property, plant and equipment are reviewed for indications of impairment at the end of each reporting period. An impairment loss is recognised in comprehensive income if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in comprehensive income on the date of retirement or disposal.

## 2 Significant accounting policies (continued)

### (e) Leased assets

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### (i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Company has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Company recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(d)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Company will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

In the statement of financial position, the Company presents right-of-use assets within the same line item as similar underlying assets and presents lease liabilities separately.

## 2 Significant accounting policies (continued)

### (ii) As a lessor

When the company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

Where the Company has the use of assets under operating leases, payments made under the leases are charged to comprehensive income in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in comprehensive income as an integral part of the aggregate net lease payments made. Contingent rentals are charged to comprehensive income in the accounting period in which they are incurred.

### (f) Intangible assets

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to comprehensive income on a straight-line basis over the assets' estimated useful lives. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

- Computer software 3 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

The carrying amounts of intangible assets are reviewed for indications of impairment at the end of each reporting period. An impairment loss is recognised in comprehensive income if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. An impairment loss is reversed if there has been a favourable change in estimates used to determine the recoverable amount.

## **2 Significant accounting policies (continued)**

### **(g) Deposits, prepayments and other receivables**

Deposits, prepayments and other receivables are initially recognized at fair value. Receivables are thereafter stated at amortised cost using the effective interest method, less loss allowance, except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less loss allowance.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses as determined below:

The loss allowance is measured at an amount equal to lifetime expected credit losses ("ECLs"), which are those losses that are expected to occur over the expected life of the receivables. The loss allowance is estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. ECLs are remeasured at each reporting date with any changes recognised as an impairment gain or loss in profit or loss. The Company recognises an impairment gain or loss with a corresponding adjustment to the carrying amount of receivables through a loss allowance account.

The gross carrying amount of receivables is written-off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

### **(h) Receipts in advance, accruals and other payables**

Receipts in advance, accruals and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### **(i) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### **(j) Income tax**

The Company is exempt from Hong Kong Profits Tax by virtue of Section 88 of the Hong Kong Inland Revenue Ordinance.

## **2 Significant accounting policies (continued)**

### **(k) Provisions and contingent liabilities**

Provisions are recognised for other liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### **(l) Revenue recognition**

Income is classified by the Company as revenue when it arises from the provision of services in the ordinary course of the Company's business.

Further details of the Company's revenue and other income recognition policies are as follows:

- (i) Service fee income is recognised when application fees for mediation services are received or in-house mediation services are arranged.
- (ii) Interest income is recognised as it accrues using the effective interest method.

### **(m) Contributions from founder members**

Contributions from founder members are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them if any. Contributions are recognised in comprehensive income on a systematic basis over the periods in which the Company recognises as expenses the related cost for which the contributions are intended to compensate.

### **(n) Employee benefits**

Salaries, annual bonuses and variable pay, paid annual leave, contributions to defined contribution retirement plan and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

## 2 Significant accounting policies (continued)

### (o) Related parties

- (A) A person, or a close member of that person's family, is related to the Company if that person:
- (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (B) An entity is related to the Company if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
  - (vi) The entity is controlled or jointly controlled by a person identified in (A).
  - (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 3 Revenue

The Company's principal activities are to provide mediation and arbitration services to financial institutions (which are members of FDRS) and their customers for the resolution of monetary dispute.

	2020	2019
Application fee for mediation service	\$ 7,000	\$ 4,200
In-house mediation service	13,000	24,000
	<u>\$ 20,000</u>	<u>\$ 28,200</u>

### 4 Other revenue

	2020	2019
Renewal fee for FDRC List of Mediators/Arbitrators	\$ 2,600	\$ 6,400
Room rental income	30,200	283,850
Interest income	406,004	741,190
Sundry income	1,000	20,500
	<u>\$ 439,804</u>	<u>\$ 1,051,940</u>

### 5 Deficit

Deficit is arrived at after charging:

	2020	2019
<b>(a) Finance cost:</b>		
Interest on lease liabilities	\$ 17,657	\$ 159,498
	<u>\$ 17,657</u>	<u>\$ 159,498</u>

## 5 Deficit (continued)

	2020	2019
<b>(b) Staff costs</b>		
Salaries, wages and other benefits	\$ 5,270,270	\$ 5,025,390
Contributions to defined contribution retirement plan	125,450	125,842
	<u>\$ 5,395,720</u>	<u>\$ 5,151,232</u>
<b>(c) Other items</b>		
Auditors' remuneration	\$ 133,100	\$ 133,100
Depreciation on		
- owned property, plant and equipment	392,455	51,881
- right-of-use assets	1,374,216	3,298,117
Amortisation	154,414	181,102
Other administrative and operating expense	2,506,777	2,605,257
	<u>\$ 4,560,962</u>	<u>\$ 6,269,457</u>

## 6 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2020	2019
Salaries and allowances	\$ 1,672,884	\$ 1,573,860
Performance-based bonus	206,650	198,702
Retirement scheme contribution	18,000	18,000
	<u>\$ 1,897,534</u>	<u>\$ 1,790,562</u>

All directors' emoluments disclosed above were paid to or receivable by the executive director(s) in respect of services rendered as executive(s) of the Company.

## 7 Property, plant and equipment

### (a) Property, plant and equipment

	<i>Leasehold improvements</i>	<i>Furniture and fixtures</i>	<i>Office equipment</i>	<i>Computer equipment and software</i>	<i>Properties leased for own use</i>	<i>Total</i>
<b>Cost:</b>						
At 1 January 2020	\$ 3,032,964	\$ 261,225	\$ 414,787	\$ 1,788,311	\$ 4,672,333	\$ 10,169,620
Additions	1,389,332	89,000	102,562	115,758	-	1,696,652
Write-off	(3,032,964)	(181,001)	(338,920)	(622,144)	(4,672,333)	(8,847,362)
At 31 December 2020	<u>\$ 1,389,332</u>	<u>\$ 169,224</u>	<u>\$ 178,429</u>	<u>\$ 1,281,925</u>	<u>\$ -</u>	<u>\$ 3,018,910</u>
<b>Accumulated depreciation:</b>						
At 1 January 2020	\$ (3,032,964)	\$ (260,980)	\$ (405,696)	\$ (1,614,398)	\$ (3,298,117)	\$ (8,612,155)
Charge for the year	(267,409)	(12,275)	(30,632)	(82,139)	-	(392,455)
Write-off	3,032,964	180,966	338,920	622,144	3,298,117	7,473,111
At 31 December 2020	<u>\$ (267,409)</u>	<u>\$ (92,289)</u>	<u>\$ (97,408)</u>	<u>\$ (1,074,393)</u>	<u>\$ -</u>	<u>\$ (1,531,499)</u>
<b>Net book value:</b>						
At 31 December 2020	<u>\$ 1,121,923</u>	<u>\$ 76,935</u>	<u>\$ 81,021</u>	<u>\$ 207,532</u>	<u>\$ -</u>	<u>\$ 1,487,411</u>

	<i>Leasehold improvements</i>	<i>Furniture and fixtures</i>	<i>Office equipment</i>	<i>Computer equipment and software</i>	<i>Properties leased for own use</i>	<i>Total</i>
<b>Cost:</b>						
At 1 January 2019	\$ 3,032,964	\$ 261,225	\$ 414,787	\$ 1,644,681	\$ -	\$ 5,353,657
Impact on initial application of HKFRS 16	-	-	-	-	4,672,333	4,672,333
At 1 January 2019	<u>\$ 3,032,964</u>	<u>\$ 261,225</u>	<u>\$ 414,787</u>	<u>\$ 1,644,681</u>	<u>\$ 4,672,333</u>	<u>\$ 10,025,990</u>
Additions	-	-	-	143,630	-	143,630
Write-off	-	-	-	-	-	-
At 31 December 2019	<u>\$ 3,032,964</u>	<u>\$ 261,225</u>	<u>\$ 414,787</u>	<u>\$ 1,788,311</u>	<u>\$ 4,672,333</u>	<u>\$ 10,169,620</u>
<b>Accumulated depreciation:</b>						
At 1 January 2019	\$ (3,032,964)	\$ (260,770)	\$ (392,065)	\$ (1,576,358)	\$ -	\$ (5,262,157)
Charge for the year	-	(210)	(13,631)	(38,040)	(3,298,117)	(3,349,998)
At 31 December 2019	<u>\$ (3,032,964)</u>	<u>\$ (260,980)</u>	<u>\$ (405,696)</u>	<u>\$ (1,614,398)</u>	<u>\$ (3,298,117)</u>	<u>\$ (8,612,155)</u>
<b>Net book value:</b>						
At 31 December 2019	<u>\$ -</u>	<u>\$ 245</u>	<u>\$ 9,091</u>	<u>\$ 173,913</u>	<u>\$ 1,374,216</u>	<u>\$ 1,557,465</u>

## 7 Property, plant and equipment (continued)

### (b) Right-of-use assets (the "ROU assets")

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2020	1 January 2020
Properties leased for own use, carried at depreciated cost	\$ -	\$ 1,374,216

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020	2019
Depreciation charge of right-of-use assets by class of underlying asset:		
- Properties leased for own use	\$ 1,374,216	\$ 3,298,117
Interest on lease liabilities	17,657	159,498

During the year, additions to right-of-use assets were \$nil (2019: \$4,672,333). This amount in prior year included the capitalised lease payments payable under tenancy agreement.

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in cash flow statement and note 11 respectively.

## 8 Intangible asset

	2020	2019
<b>Cost:</b>		
At 1 January	\$ 1,163,521	\$ 1,101,646
Additions	61,875	61,875
At 31 December	\$ 1,225,396	\$ 1,163,521
<b>Accumulated amortisation:</b>		
At 1 January	\$ 989,293	\$ 808,191
Charge for the year	154,415	181,102
At 31 December	\$ 1,143,708	\$ 989,293
<b>Net book value:</b>		
At 31 December	\$ 81,688	\$ 174,228

## 9 Deposits, prepayments and other receivables

	2020	2019
Deposits	\$ 4,520	\$ 1,040,424
Prepayments	205,678	146,738
Other receivables	4,293	29,866
	<u>\$ 214,491</u>	<u>\$ 1,217,028</u>

All of the other deposits, prepayments and other receivables are expected to be recovered or recognised as expense within one year.

## 10 Cash and cash equivalents

*Cash and cash equivalents comprise:*

	2020	2019
Cash at bank and on hand	\$ 1,049,421	\$ 1,188,931
Time deposits with original maturity of less than three months	3,500,000	10,500,000
Cash and cash equivalents	<u>\$ 4,549,421</u>	<u>\$ 11,688,931</u>

## 11 Lease liabilities

The following table shows the remaining contractual maturities of the Company's lease liabilities at the end of the current and previous reporting periods:

	31 December 2020		31 December 2019	
	<i>Present value of the lease payments</i>	<i>Total lease payments</i>	<i>Present value of the lease payments</i>	<i>Total lease payments</i>
	\$	\$	\$	\$
Within 1 year	-	-	1,340,101	1,426,320
After 1 year but within 2 years	-	-	-	-
	<u>-</u>	<u>-</u>	<u>1,340,101</u>	<u>1,426,320</u>
Less: total future interest expenses		-		(17,657)
Present value of lease liabilities		<u>-</u>		<u>1,408,663</u>

## 12 Accruals and other payables

	2020	2019
Accruals	\$ 841,824	\$ 1,304,267
Other payables	133,000	52,000
	<u>\$ 974,824</u>	<u>\$ 1,356,267</u>

The amount of the accruals and other payables that are settled after more than one year is \$50,000 (2019: \$Nil) and is disclosed under non-current liabilities. All of the other accruals and other payables are expected to be settled within one year or are repayable on demand.

## 13 Capital and reserve

### (a) Share capital and members

The Company is a non-profit making company limited by guarantee and therefore does not have any share capital. Under the provisions of the Company's Articles of Association, every member shall, in the event of the Company being wound up, contribute such amount as may be required to meet the liabilities of the Company, but not exceeding \$100 each.

The founder members of the Company are the Under Secretary for Financial Services and the Treasury ("USFST"), the Hong Kong Monetary Authority ("HKMA") and the Securities and Futures Commission ("SFC").

### (b) Capital management

The Company defines "capital" as the reserves maintained by the Company. On this basis the amount of capital employed at 31 December 2020 was \$20,858,187 (2019: \$30,372,722). The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern.

The Company regularly reviews and manages its capital structure to ensure effective use of reserves and the sound financial status of the Company. Under the Terms of Reference for the Company in relation to the FDRS, the Financial Services and the Treasury Bureau ("FSTB"), the HKMA and the SFC shall fund the set-up costs and the operational costs of the Company in the first three years, i.e. from 1 January 2012 to 31 December 2014. To allow more time for the Company to carry out its consultation study on funding formula, however, the three funding parties agreed that the Company may use its accumulated surplus and their funding commitments to sustain the operation of the Company after 31 December 2014 until around 2021/2022. Upon the implementation of its funding formula and subject to the results of the consultation, the Company shall be funded by the members of the FDRS, as part of the financial industry's commitment to the general public to resolve disputes in a fair and efficient manner. The HKMA and SFC have provided a commitment to provide a further \$10,500,000 each on request by the Company.

The Company was not subject to externally imposed capital requirements.

## 14 Financial risk management and fair values

Exposure to liquidity, credit, interest rate and currency risks arises in the normal course of the Company's business.

The Company's exposure to these risks and the financial risk management policies and practices used by the Company to manage these risks are described below.

### (a) Liquidity risk

The Company's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash.

The following table represents the earliest contractual settlement dates of the Company's financial liabilities at the end of reporting period:

	2020			2019		
	Carrying amount	Within 1 year or on demand	More than 1 year but less than 5 years	Carrying amount	Within 1 year or on demand	More than 1 year but less than 5 years
Lease liabilities	\$ -	\$ -	\$ -	\$ 1,408,663	\$ 1,408,663	\$ -
Accruals and other payables	974,824	924,824	50,000	1,356,267	1,356,267	-
	<u>\$ 974,824</u>	<u>\$ 924,824</u>	<u>\$ 50,000</u>	<u>\$ 2,764,930</u>	<u>\$ 2,764,930</u>	<u>\$ -</u>

### (b) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

The Company's credit risk is primarily attributable to cash placed with banks and deposits and other receivables. At year end, the credit risk is not significant as the cash was placed with reputable banks. The management monitors the credit risk associated with cash placed with banks and deposits and other receivables on an ongoing basis. No amounts of deposits and other receivables are past due or impaired.

### (c) Interest rate risk

The Company is exposed to interest rate risk only to the extent that it earns bank interest income on cash deposited in savings and fixed deposits accounts. As at 31 December 2020, the Company was not exposed to significant interest rate risk arising from cash deposited in savings and fixed deposits accounts.

At 31 December 2020, it is estimated that a general increase/ decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/ increased the Company's profit after tax and retained profits by approximately \$191,310 (2019: \$290,856).

### (d) Currency risk

As all the Company's financial assets and financial liabilities are denominated in Hong Kong dollars, the Company is not subject to any currency risk associated with them.

## 15 Material related party transactions

### (a) Transactions with key management personnel

The emoluments of key management personnel who are directors of the Company is disclosed in note 6 which includes fees, salaries and allowances, bonus, retirement benefit contribution and payment in lieu of notice, if any.

### (b) Other related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions during the year with The Bank of East Asia. A director of the Company is a Deputy Chief Executive of The Bank of East Asia.

	2020	2019
Cash and cash equivalents	\$ <u>3,500,000</u>	\$ <u>10,500,000</u>
Time deposits with original maturity of over three months	\$ <u>15,500,000</u>	\$ <u>18,500,000</u>
Interest income	\$ <u>250,133</u>	\$ <u>741,190</u>

## 16 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the company.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, <i>Interest Rate Benchmark Reform — Phase 2</i>	1 January 2021
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts — Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023

The company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.