



Protection of Wages on Insolvency Fund Board



2017-18
Annual Report

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CHAIRMAN'S FOREWORD


I hereby present the Annual Report of the Protection of Wages on Insolvency Fund Board (the Board) covering the period from 1 April 2017 to 31 March 2018 (the year).

As the Board Chairman of a new term, I am glad to see that in the year, benefitting from the strong economic performance of Hong Kong, the number of employees who were owed wages and other statutory entitlements due to insolvency of their employers and who thus needed to seek relief from the Protection of Wages on Insolvency Fund (the Fund) has continued to decrease. In the year, the Fund received a total of 2 298 applications, representing a drop of 26% from the figure of 3 114 in the preceding year, and approved 2 385 applications with a total payout of \$74 million of ex gratia payment, down by 0.6% and 8% respectively from the figures in the preceding year¹. During the period, the Board and staff of the Wage Security Division of the Labour Department (LD) demonstrated our continued commitment to ensure that the Fund aptly performs its role as a safety net, and provides timely relief to employees aggrieved by their insolvent employers.

The Board has the statutory functions of administering the Fund and making recommendations to the Chief Executive with regard to the rate of levy on Business Registration Certificates (BRCs) financing the Fund. To this end, the Board has been monitoring closely the financial position of the Fund. The Fund has a surplus of \$434.1 million in the year and an accumulative surplus of \$5,024.7 million by the end of March 2018.

All along, the Board reviews the scope of protection of the Fund from time to time having regard to the financial position of the Fund and the needs of the society for the purpose of progressively improving the protection accorded to employees. Following the expansion of the scope of the Fund in June 2012 to cover pay for untaken annual leave and pay for untaken statutory holidays, the Board has been conducting a review of the scope of protection of all the payment items under the Fund (including the aforesaid two new

¹ Information pertaining to claims for shortfall in ex gratia payment on severance payment has been excluded.



items) and their respective payment ceiling. Concurrently, the Board is also reviewing the rate of levy on BRCs. In the process of review, the Board has to examine carefully all the relevant information so as to consider the matter in a comprehensive manner.

In tandem with providing prompt relief to employees affected by the insolvency of their employers, we are also tasked to safeguard the Fund against any possible abuse. To this end, the inter-departmental Task Force (the Task Force) comprising representatives of LD, the Commercial Crime Bureau of the Hong Kong Police Force, the Official Receiver's Office (ORO) and the Legal Aid Department (LAD) continued to spare no efforts in proactively investigating and pursuing cases involving possible abuse of the Fund. The concerted actions of various government departments demonstrated to the community that any attempt to defraud the Fund would never be tolerated.

I would like to take this opportunity to express my heartfelt gratitude to all members of the Board for participating actively in the work of the Board by giving their valuable views and for their dedication in administering the Fund in the past year. I am confident that with the concerted efforts of all members, the Board will come up with constructive proposals on the review of the scope of the Fund and the rate of levy. Last but not least, on behalf of the Board, I would like to extend our heartfelt appreciation to all our working partners, including LD, LAD, ORO, the Police and the Inland Revenue Department, for sustaining their support to the Board which is indispensable in keeping the Fund in effective operation thereby contributing to society.

MA Ho-fai, GBS, JP
Chairman

Protection of Wages on Insolvency Fund Board

September 2018

MEMBERSHIP LIST OF THE PROTECTION OF WAGES ON INSOLVENCY FUND BOARD 2017-18

Chairman

Dr. David WONG Yau-kar, GBS, JP

Members

Representing employees

Hon. POON Siu-ping, BBS, MH

Ms. LEUNG Fong-yuen

Mr. CHU Yin-cheong

Representing employers

Mrs. CHOI KWAN Wing-kum, MH, JP

Mr. FUNG Hau-chung, BBS, JP

Mr. Mohan DATWANI

Representing government departments

Assistant Commissioner for Labour of the Labour Department
responsible for wage security matters

Assistant Principal Solicitor of the Official Receiver's Office

Assistant Principal Legal Aid Counsel of the Legal Aid Department
responsible for insolvency matters

Secretary

Senior Labour Officer, Wage Security Division of the Labour Department

Protection of Wages on Insolvency Fund Board 2017-18



Dr. David WONG Yau-kar, GBS, JP

Chairman



Hon. POON Siu-ping, BBS, MH

Representing employees



Ms. LEUNG Fong-yuen

Representing employees



Mr. CHU Yin-cheong

Representing employees



Mrs. CHOI KWAN Wing-kum, MH, JP

Representing employers



Mr. FUNG Hau-chung, BBS, JP

Representing employers



Mr. Mohan DATWANI

Representing employers



Mr. Simon LI Chi-chung

Assistant Commissioner
(Employees' Rights and Benefits)
Labour Department



Ms. Helen CHAN Wai-yee

Assistant Principal Solicitor
Official Receiver's Office



Mr. Ben LI Chi-keung

Assistant Principal Legal Aid Counsel
Legal Aid Department

INTRODUCTION

The Protection of Wages on Insolvency Ordinance (the Ordinance), which came into effect on 19 April 1985, provides for the establishment of a board to administer the Protection of Wages on Insolvency Fund (the Fund). The Ordinance also empowers the Commissioner for Labour to make ex gratia payment from the Fund to employees whose employers have become insolvent.

This report covers the activities of the Protection of Wages on Insolvency Fund Board (the Board) and the operation of the Fund for the financial year ended 31 March 2018.

PROTECTION OF WAGES ON INSOLVENCY FUND BOARD

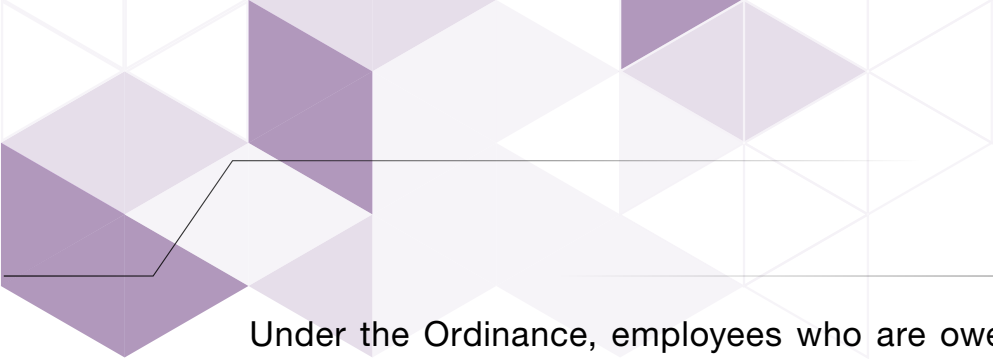
The Ordinance provides that the Board shall consist of a chairman and not more than ten members appointed by the Chief Executive. Of the members, there shall be an equal number of persons representing employers and employees and not more than four public officers.

The Board has the following statutory functions:

- (a) to administer the Fund;
- (b) to make recommendations to the Chief Executive with respect to the rate of levy on Business Registration Certificates; and
- (c) to review applications upon request from applicants aggrieved by any decision of the Commissioner for Labour in respect of applications for ex gratia payment from the Fund.

PROTECTION OF WAGES ON INSOLVENCY FUND

The Fund is mainly financed by an annual levy on each Business Registration Certificate. The levy is collected by the Inland Revenue Department when the business registration fee is paid.



Under the Ordinance, employees who are owed wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays by their insolvent employers may apply for ex gratia payment from the Fund. The application should be made in an approved form and supported by a statutory declaration. The application has to be made within a period of six months from the applicant's last day of service.

Maximum amount of ex gratia payment payable by the Fund

Ex gratia payment from the Fund covers:

- (a) wages of an employee for services rendered to his employer during the four months prior to the last day of service but not exceeding \$36,000 ("wages" include remuneration and earnings and items that could be deemed to be wages, namely, holiday pay, annual leave pay, end of year payment, maternity leave pay, paternity leave pay and sickness allowance);
- (b) wages in lieu of notice up to one month's wages or \$22,500, whichever is less;
- (c) an employee's entitlement to severance payment under the Employment Ordinance up to \$50,000 plus 50% of any entitlement in excess of \$50,000; and
- (d) pay for untaken annual leave and pay for untaken statutory holidays, including (i) pay for any annual leave under the Employment Ordinance earned in the employee's last full leave year and not yet taken and, where the employee has at least three but less than 12 months' service in the last leave year, pro rata annual leave pay to which the employee is entitled upon termination of employment contract; and (ii) pay for statutory holidays to which the employee is entitled within four months before his last day of service but has not yet taken. Neither (i) nor (ii), nor the total amount of them, may exceed \$10,500.

Prerequisites for making ex gratia payment from the Fund

Section 16(1) of the Ordinance stipulates the presentation of a winding-up or bankruptcy petition against the employer as a pre-condition for payment from the Fund. Under section 18(1) of the Ordinance, the Commissioner for Labour may exercise discretion to make payment without the presentation of a petition in circumstances where:

- (a) the size of employment is less than 20 employees;
- (b) sufficient evidence exists to support the presentation of a petition in that case on the ground –
 - (i) if the employer is a company, that he is unable to pay his debts; or
 - (ii) if the employer is a person other than a company, that he is liable to have a bankruptcy petition presented against him; and
- (c) it is unreasonable or uneconomic to present a petition in that case.

The Commissioner for Labour is also empowered under section 16(1)(a)(ii) of the Ordinance to make ex gratia payment from the Fund to employees who, because of a restriction imposed by the Bankruptcy Ordinance, cannot present a bankruptcy petition against their employer as the aggregate amount of outstanding payment is below \$10,000.

The Commissioner for Labour is empowered by the Ordinance to investigate applicants' applications before making payment from the Fund. For the purpose of verifying applications, the Commissioner for Labour or his authorised officers may require employers and applicants to submit wage and employment records and conduct interviews with them.

Subrogation rights of the Fund

Where ex gratia payment has been made to an applicant in respect of wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays, his rights and remedies under the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Bankruptcy Ordinance would, to the extent of the amount of payment, be



transferred to the Board. The Board, in exercising these subrogated rights, may file a proof of debt with the Official Receiver or the private liquidator for the purpose of recovering any payment made to the applicant in the course of winding-up or bankruptcy proceedings.

Application of the Fund's reserve

A property was purchased in 1990 to provide office accommodation for the Board. In addition, all cash has been placed in banks approved by the Board as term deposits.

ANNUAL REVIEW OF APPLICATIONS RECEIVED AND PROCESSED

The applications received and processed in this financial year, together with the relevant analyses, are summarised as follows:

Applications received²

During the year 2017-18, 2 298 applications involving ex gratia payment of \$143 million applied for were received from employees. A total of 433 suspected insolvency cases were recorded. Detailed breakdown of the applications is at **Appendix I**.

Of the 433 suspected insolvency cases, 417 involved less than 20 employees per case, 12 involved 20 to 49 employees per case, three involved 50 to 99 employees per case, and the remaining one involved 100 employees or more.

During the year, the food and beverage service activities recorded the largest number of applications, with 483 applications involving a total amount of \$16.8 million. This was followed by the construction industry with 366 applications and a total amount of \$18.9 million, and retail trade with 300 applications and a total amount of \$16.3 million. These three trades accounted for 50% of all applications and 36.4% of the total amount applied for.

² Information pertaining to claims for shortfall in ex gratia payment on severance payment has been excluded.

Out of the total 2 298 applicants in the year, 1 982 applied for ex gratia payment on arrears of wages, 1 329 applied for payment on wages in lieu of notice, 534 applied for payment on severance payment and 996 applied for payment on pay for untaken annual leave and/or pay for untaken statutory holidays. Breakdowns of these applications are at **Appendix II**.

Applications processed³

A total of 2 385 applications were approved during the year, with payment amounting to \$74 million being made⁴. Among these applications, a total payment of \$30.9 million was made to 951 applicants under section 16(1)(a) (ii) or section 18(1) of the Ordinance where presentation of a bankruptcy or winding-up petition was not required.

An analysis of ex gratia payment approved is at **Appendix III**. Among the applications approved, the amount applied for was met in full in respect of 42.2% of applicants for arrears of wages, 52.9% of applicants for wages in lieu of notice, 20% of applicants for severance payment⁵, and 23.4% of applicants for pay for untaken annual leave and/or pay for untaken statutory holidays.

The Commissioner for Labour rejected 31 applications involving a total amount of \$7.5 million, mostly for reasons such as applications without legal backing, insufficient evidence, or the applicants being registered company directors. At the same time, 183 applications involving a total amount of \$16.9 million were withdrawn, mainly as a result of direct settlement between employees and their employers or liquidators.

Appendices IV and V set out the comparative figures on the Fund's performance in the last five to ten years.

³ Information pertaining to claims for shortfall in ex gratia payment on severance payment has been excluded.

⁴ The applications approved include those received in the same year or before.

⁵ Amount applied for has not yet been reduced by the benefits accrued from the contributions paid to the Mandatory Provident Fund by the employer.



MEETINGS OF THE PROTECTION OF WAGES ON INSOLVENCY FUND BOARD

The Board met three times during the year to discuss matters relating to the administration of the Fund. These included the Fund's performance and financial statements, projection of income and expenditure, handling of claims for shortfall in ex gratia payment on severance payment, review of the coverage of the existing ex gratia payment items under the Fund and the rate of levy on Business Registration Certificates, conduction of the customer opinion survey and deposit arrangement of the Fund. The special task force set up by the Board to examine and approve the claims for shortfall in ex gratia payment on severance payment met three times in the year.

FINANCIAL POSITION OF THE PROTECTION OF WAGES ON INSOLVENCY FUND

During the year, the Fund had a total income of \$480.7 million, of which \$380.3 million was levy income. The total expenditure (excluding year-end adjustments⁶) was \$104.6 million, of which \$77.9 million was expenditure on ex gratia payment. After taking into account the year-end adjustments, the Fund registered a surplus of \$434.1 million as compared with a surplus of \$312.5 million in the previous financial year. As at 31 March 2018, the Fund's accumulated surplus stood at \$5,024.7 million.

A copy of the independent auditor's report and the audited financial statements for the year ended 31 March 2018 is at **Appendix VI**.

⁶ Year-end adjustments refer to reversal of provision for potential claims for shortfall in ex gratia payment on severance payment and foreign exchange differences (gain) amounting to \$57.9 million.

ACTIVITIES HIGHLIGHT

Publicity and promotion for the Fund

During the year, the Labour Department continued to carry out various activities, including staging six exhibitions in different districts to promote the Employment Ordinance. In these exhibitions, the Fund, the provisions of the Ordinance and matters relating to employees' applications for ex gratia payment from the Fund were also publicised.



The Fund and the Ordinance were publicised in the exhibitions organised by the Labour Department.



Achievements of the inter-departmental Task Force

The inter-departmental Task Force continued to play an active role in guarding against abuse of the Fund. The Labour Department, the Commercial Crime Bureau of the Hong Kong Police Force, the Official Receiver's Office and the Legal Aid Department acted in concert to proactively pursue and investigate cases involving possible abuse of the Fund by employers and employees.

During the year 2017-18, the Board noted that the court had disqualified a total of seven company responsible persons involved in abuse of the Fund from being directors or taking part in the promotion, formation or management of a company, with the disqualification period ranging from two years to four and a half years. Apart from the above, the Labour Department adopted a multi-pronged enforcement strategy to guard against incidents of non-payment of wages exacerbating and eventually turning into applications for the Fund. In the same period, there were 780 convicted summonses in respect of wage offences. Of these, 276 convictions were against company directors and responsible officers.

APPENDICES



Operating results of the Protection of Wages on Insolvency Fund in 2017-18

I. Breakdown of applications by result

(1) No. of cases received									433
(2) No. of applications									
(i) brought forward from last period									1 365
received this period									2 298
reconsidered this period									12
									3 675
(ii) processed									2 599
<i>approved</i>									2 385
<i>refused</i>									31
<i>withdrawn</i>									183
outstanding									1 058
put aside *									18
									3 675
(3) Amount of ex gratia payment (in HK\$'000) applied for	Arrears of wages	Wages in lieu of notice	Severance payment	Pay for untaken annual leave and/or pay for untaken statutory holidays					HK\$'000
(i) brought forward from last period									125,170
received this period	74,287 +	22,333 +	37,905 +	8,431 =					142,956
reconsidered this period	358 +	197 +	672 +	111 =					1,338
									269,464
(ii) approved	Arrears of wages	Wages in lieu of notice	Severance payment	Pay for untaken annual leave and/or pay for untaken statutory holidays					HK\$'000
screened	38,119 +	19,389 +	11,075 +	5,398 =					73,981
refused									102,616
withdrawn									7,504
outstanding									16,906
put aside * }									68,457
									269,464
(4) No. of applications seeking review by the Fund Board									0

II. Presentation of petition in relation to applications approved

(1) No. of applications where a winding-up petition has been made	1 366
(2) No. of applications where a bankruptcy petition has been made	68
(3) No. of applications dealt with under S.18(1) of the Protection of Wages on Insolvency Ordinance	944
(4) No. of applications dealt with under S.16(1)(a)(ii) of the Protection of Wages on Insolvency Ordinance	7
	2 385

* Cases pending private settlement or withdrawal.

Operating results of the Protection of Wages on Insolvency Fund in 2017-18

III. Breakdown of cases by employment size

(1) Less than 20 employees	417
(2) 20 ~ 49 employees	12
(3) 50 ~ 99 employees	3
(4) 100 or more employees	1
	433

IV. Breakdown of applications by industry

Hong Kong Standard Industrial Classification	Industry in which applicants worked	No. of applicants ~		Amount applied for (including wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays)
<i>Division B</i>	<i>Mining and quarrying</i>	18	(2)	\$ 2,569,754.34
<i>Division C</i>	<i>Manufacturing</i>			
Sub-group				
10	Manufacture of food products	24	(1)	\$ 1,188,861.40
13	Manufacture of textiles	32	(8)	\$ 5,651,209.23
14	Manufacture of wearing apparel	5	(3)	\$ 775,872.97
15	Manufacture of leather and related products	2	(2)	\$ 356,918.45
17	Manufacture of paper and paper products	1	(0) [#]	\$ 78,663.32
26	Manufacture of computer, electronic and optical products	37	(3)	\$ 3,151,190.22
27	Manufacture of electrical equipment	3	(3)	\$ 1,033,071.56
32	Other manufacturing	35	(4)	\$ 6,002,342.29
<i>Division D</i>	<i>Electricity and gas supply</i>	1	(1)	\$ 80,829.46
<i>Division E</i>	<i>Water supply; sewerage, waste management and remediation activities</i>			
Sub-group				
38	Waste collection, treatment and disposal activities; materials recovery	3	(1)	\$ 27,064.41
39	Remediation activities and other waste management services	1	(1)	\$ 22,158.51
<i>Division F</i>	<i>Construction</i>	366	(80)	\$ 18,941,761.95

~ Figure in brackets denotes the number of suspected insolvency cases received in this year.

[#] All the applicants were of late applications of case(s) in the preceding year.

Operating results of the Protection of Wages on Insolvency Fund in 2017-18

Hong Kong Standard Industrial Classification	Industry in which applicants worked	No. of applicants ~		Amount applied for (including wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays)
<i>Division G</i>	<i>Import/export, wholesale and retail trades</i>			
Sub-group				
45	Import and export trade	177	(58)	\$ 26,648,793.52
46	Wholesale	13	(6)	\$ 2,171,078.04
47	Retail trade	300	(46)	\$ 16,264,015.97
<i>Division H</i>	<i>Transportation, storage, postal and courier services</i>			
Sub-group				
49	Land transport	54	(8)	\$ 2,043,053.97
52	Warehousing and support activities for transportation	76	(16)	\$ 4,418,234.78
53	Postal and courier activities	1	(1)	\$ 30,129.03
<i>Division I</i>	<i>Accommodation and food service activities</i>			
Sub-group				
56	Food and beverage service activities	483	(77)	\$ 16,773,542.42
<i>Division J</i>	<i>Information and communications</i>			
Sub-group				
58	Publishing activities	3	(1)	\$ 475,704.23
59	Motion picture, video and television programme production, sound recording and music publishing activities	7	(3)	\$ 865,214.66
60	Programming and broadcasting activities	1	(1)	\$ 131,680.67
61	Telecommunications	39	(2)	\$ 4,125,344.02
62	Information technology service activities	53	(4)	\$ 4,983,361.99
63	Information service activities	3	(2)	\$ 164,455.32

~ Figure in brackets denotes the number of suspected insolvency cases received in this year.

Operating results of the Protection of Wages on Insolvency Fund in 2017-18

Hong Kong Standard Industrial Classification	Industry in which applicants worked	No. of applicants ~		Amount applied for (including wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays)
<i>Division K</i>	<i>Financial and insurance activities</i>			
Sub-group				
64	Financial service activities (except insurance and pension funding)	36	(12)	\$ 4,530,964.49
66	Activities auxiliary to financial service and insurance activities	1	(1)	\$ 604.00
<i>Division L</i>	<i>Real estate activities</i>	34	(7)	\$ 1,571,029.05
<i>Division M</i>	<i>Professional, scientific and technical activities</i>			
Sub-group				
69	Legal and accounting activities	22	(4)	\$ 1,339,246.76
70	Activities of head offices; management and management consultancy activities	1	(0) [#]	\$ 154,824.04
71	Architecture and engineering activities, technical testing and analysis	14	(6)	\$ 587,412.96
74	Advertising and market research	12	(3)	\$ 851,385.88
75	Other professional, scientific and technical activities	2	(2)	\$ 122,643.03
<i>Division N</i>	<i>Administrative and support service activities</i>			
Sub-group				
77	Rental and leasing activities	2	(1)	\$ 110,909.02
78	Employment activities	1	(1)	\$ 7,381.50
79	Travel agency, reservation service and related activities	10	(3)	\$ 440,747.37
80	Security and investigation activities	8	(0) [#]	\$ 582,273.46
81	Services to buildings and landscape care activities	5	(1)	\$ 222,371.90
82	Office administrative, office support and other business support activities	1	(1)	\$ 21,164.28

~ Figure in brackets denotes the number of suspected insolvency cases received in this year.

[#] All the applicants were of late applications of case(s) in the preceding year.

Operating results of the Protection of Wages on Insolvency Fund in 2017-18

Hong Kong Standard Industrial Classification	Industry in which applicants worked	No. of applicants ~		Amount applied for (including wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays)
<i>Division P</i>	<i>Education</i>	35	(7)	\$ 2,982,893.24
<i>Division Q</i>	<i>Human health and social work activities</i>			
Sub-group				
86	Human health activities	17	(3)	\$ 1,406,239.54
<i>Division R</i>	<i>Arts, entertainment and recreation</i>			
Sub-group				
90	Creative and performing arts activities	15	(5)	\$ 917,507.28
92	Activities of amusement parks and theme parks	265	(2)	\$ 3,271,636.27
93	Sports and other entertainment activities	22	(5)	\$ 1,287,544.91
<i>Division S</i>	<i>Other service activities</i>			
Sub-group				
94	Activities of membership organisations	2	(2)	\$ 39,625.80
96	Other personal service activities	37	(17)	\$ 3,089,782.39
<i>Division T</i>	<i>Work activities within domestic households</i>			
Sub-group				
97	Activities of households as employers of domestic personnel	11	(11)	\$ 207,160.46
98	Goods- and services-producing activities of private households for own use	5	(4)	\$ 233,560.22
<i>Division U</i>	<i>Activities of extraterritorial organisations and bodies</i>	2	(1)	\$ 2,750.00
Total :		2 298	(433)	\$ 142,955,964.58

~ Figure in brackets denotes the number of suspected insolvency cases received in this year.

Note : Information as indicated in Appendix I excludes claims for shortfall in ex gratia payment on severance payment.

Breakdown of applications for ex gratia payment received in 2017-18

I. Arrears of wages

A. By amount

(including overtime pay and items that could be deemed to be wages)

Amount	No. of applicants	Percentage
No entitlement/Not applied for	316	13.75
\$8,000 [^] or less	379	16.49
\$8,001 - \$18,000	546	23.76
\$18,001 - \$24,000	253	11.01
\$24,001 - \$27,000	89	3.87
\$27,001 - \$30,000	92	4.00
\$30,001 - \$33,000	65	2.83
\$33,001 - \$36,000 ⁺	58	2.52
\$36,001 - \$39,000	53	2.31
More than \$39,000	447	19.46
Total :	2 298	100.00

B. By period of outstanding wages

(excluding overtime pay and items that could be deemed to be wages)

Period	No. of applicants	Percentage
No entitlement/Not applied for	426	18.54
Half month or less	205	8.92
More than 1/2 month to 1 month	478	20.80
More than 1 month to 2 months	740	32.20
More than 2 months to 3 months	206	8.96
More than 3 months to 4 months ⁺	119	5.18
More than 4 months	124	5.40
Total :	2 298	100.00

[^] Preferential limit under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Bankruptcy Ordinance, i.e. wages not exceeding \$8,000, should be paid in priority to other debts in the distribution of the remaining assets of the employer during the winding-up/bankruptcy proceedings.

⁺ Maximum limit of ex gratia payment on arrears of wages under the Protection of Wages on Insolvency Ordinance, i.e. not exceeding \$36,000 or four months' wages, whichever is less.

Breakdown of applications for ex gratia payment received in 2017-18

II. Wages in lieu of notice

A. By amount

Amount	No. of applicants	Percentage
No entitlement/Not applied for	969	42.17
\$2,000 [‡] or less	26	1.13
\$2,001 - \$6,000	347	15.10
\$6,001 - \$10,000	174	7.57
\$10,001 - \$15,000	305	13.27
\$15,001 - \$22,500 [⌘]	276	12.01
\$22,501 - \$25,000	39	1.70
More than \$25,000	162	7.05
Total :	2 298	100.00

B. By notice period

Notice period	No. of applicants	Percentage
No entitlement/Not applied for	969	42.17
1 day - 7 days	403	17.54
8 days - 14 days	24	1.04
15 days	2	0.09
16 days - less than 1 month	98	4.26
1 month ^{‡⌘}	772	33.59
More than 1 month	30	1.31
Total :	2 298	100.00

[‡] Preferential limit under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Bankruptcy Ordinance, i.e. wages in lieu of notice not exceeding one month's wages or \$2,000, whichever is the lesser, should be paid in priority to other debts in the distribution of the remaining assets of the employer during the winding-up/bankruptcy proceedings.

[⌘] Maximum limit of ex gratia payment on wages in lieu of notice under the Protection of Wages on Insolvency Ordinance, i.e. not exceeding \$22,500 or one month's wages, whichever is less.

Breakdown of applications for ex gratia payment received in 2017-18

III. Severance payment[Ⓕ]

(excluding claims for shortfall in ex gratia payment on severance payment)

A. By amount

Amount	No. of applicants	Percentage
No entitlement/Not applied for	1 764	76.76
\$8,000* or less	30	1.31
\$8,001 - \$36,000	196	8.53
\$36,001 - \$50,000	73	3.18
\$50,001 - \$80,000	79	3.44
\$80,001 - \$110,000	43	1.87
\$110,001 - \$140,000	34	1.48
\$140,001 - \$170,000	24	1.04
\$170,001 - \$200,000	19	0.83
\$200,001 - \$250,000	14	0.61
\$250,001 - \$300,000	11	0.48
\$300,001 - \$350,000	3	0.13
\$350,001 - \$370,000	3	0.13
\$370,001 - \$390,000	5	0.21
More than \$390,000	0	0.00
Total :	2 298	100.00

B. By length of service

Length of service	No. of applicants	Percentage
Not applied for or less than 2 years' service	1 766	76.85
2 - 4.99 years	211	9.18
5 - 5.99 years	56	2.44
6 - 6.99 years	35	1.52
7 - 7.99 years	14	0.61
8 - 8.99 years	21	0.91
9 - 9.99 years	26	1.13
10 - 14.99 years	107	4.66
15 - 19.99 years	31	1.35
20 - 24.99 years	20	0.87
25 - 29.99 years	9	0.40
30 - 34.99 years	1	0.04
35 - 38.99 years	0	0.00
39 - 40.99 years	0	0.00
41 - 42.99 years	0	0.00
43 years' service and over	1	0.04
Total :	2 298	100.00

[Ⓕ] The maximum amount of ex gratia payment out of the Protection of Wages on Insolvency Fund on severance payment is \$220,000.

* Preferential limit under the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Bankruptcy Ordinance, i.e. severance payment not exceeding \$8,000, should be paid in priority to other debts in the distribution of the remaining assets of the employer during the winding-up/bankruptcy proceedings.

Breakdown of applications for ex gratia payment received in 2017-18

IV. Pay for untaken annual leave and/or pay for untaken statutory holidays

A. By amount

Amount	No. of applicants	Percentage
No entitlement/Not applied for	1 302	56.66
\$2,000 or less	240	10.44
\$2,001 - \$4,000	237	10.31
\$4,001 - \$6,000	147	6.40
\$6,001 - \$8,000	80	3.48
\$8,001 - \$10,500 [⌘]	63	2.74
\$10,501 - \$20,000	138	6.01
More than \$20,000	91	3.96
Total :	2 298	100.00

B. By leave year of pay for untaken annual leave

Leave year	No. of applicants	Percentage
No entitlement/Not applied for	1 314	57.18
1 year or less	609	26.50
More than 1 year to less than 2 years [⌘]	224	9.75
2 years or above	151	6.57
Total :	2 298	100.00

C. By period involved in pay for untaken statutory holidays

Period	No. of applicants	Percentage
No entitlement/Not applied for	2 083	90.64
2 months or less	79	3.44
More than 2 months to 4 months [⌘]	39	1.70
More than 4 months	97	4.22
Total :	2 298	100.00

⌘

Maximum limit of ex gratia payment on pay for untaken annual leave and/or pay for untaken statutory holidays under the Protection of Wages on Insolvency Ordinance, i.e. not exceeding the last two leave years' pay for untaken annual leave and/or four months' pay for untaken statutory holidays, with the total maximum amount at \$10,500.

Analysis of ex gratia payment approved in 2017-18

I. Arrears of wages

(including overtime pay and items that could be deemed to be wages)

A. By amount

Amount	No. of applicants	Percentage
Not applied for/Not approved	221	9.27
\$4,000 or less	267	11.19
\$4,001 - \$8,000	298	12.49
\$8,001 - \$10,000	157	6.58
\$10,001 - \$12,000	149	6.25
\$12,001 - \$14,000	122	5.12
\$14,001 - \$16,000	161	6.75
\$16,001 - \$18,000	94	3.94
\$18,001 - \$28,000	447	18.74
\$28,001 - \$36,000 [‡]	469	19.67
Total :	2 385	100.00

B. As a percentage of the amount applied for

	Percentage of applicants
100%	42.22
90% or above	53.49
80% or above	61.94
70% or above	68.36
60% or above	75.01
50% or above	80.65
40% or above	87.16
30% or above	91.92
20% or above	96.17
10% or above	98.57
5% or above	99.77

[‡] The maximum amount of ex gratia payment under the Protection of Wages on Insolvency Fund on arrears of wages.

Analysis of ex gratia payment approved in 2017-18

II. Wages in lieu of notice

A. By amount

Amount	No. of applicants	Percentage
Not applied for/Not approved	779	32.66
\$2,000 or less	92	3.86
\$2,001 - \$3,000	162	6.79
\$3,001 - \$4,000	101	4.23
\$4,001 - \$5,000	81	3.40
\$5,001 - \$6,000	52	2.18
\$6,001 - \$10,000	236	9.90
\$10,001 - \$22,500 [†]	882	36.98
Total :	2 385	100.00

B. As a percentage of the amount applied for

	Percentage of applicants
100%	52.92
90% or above	62.94
80% or above	69.28
70% or above	74.19
60% or above	77.86
50% or above	82.96
40% or above	86.69
30% or above	89.86
20% or above	97.26
10% or above	99.38
5% or above	99.88

[†] The maximum amount of ex gratia payment under the Protection of Wages on Insolvency Fund on wages in lieu of notice.

Analysis of ex gratia payment approved in 2017-18

III. Severance payment

(excluding claims for shortfall in ex gratia payment on severance payment)

A. By amount

Amount	No. of applicants	Percentage
Not applied for/Not approved	1 788	74.97
\$8,000 or less	245	10.27
\$8,001 - \$22,000	186	7.80
\$22,001 - \$36,000	68	2.85
\$36,001 - \$50,000	40	1.68
\$50,001 - \$80,000	46	1.93
\$80,001 - \$110,000	9	0.38
\$110,001 - \$140,000	3	0.12
\$140,001 - \$170,000	0	0.00
\$170,001 - \$200,000	0	0.00
\$200,001 - \$210,000	0	0.00
\$210,001 - \$220,000 [*]	0	0.00
Total :	2 385	100.00

B. As a percentage of the amount applied for

	Percentage of applicants
100%	20.03
90% or above	25.38
80% or above	27.71
70% or above	29.72
60% or above	31.89
50% or above	35.56

^{*} The maximum amount of ex gratia payment under the Protection of Wages on Insolvency Fund on severance payment.

Analysis of ex gratia payment approved in 2017-18

IV. Pay for untaken annual leave and/or pay for untaken statutory holidays

A. By amount

Amount	No. of applicants	Percentage
Not applied for/Not approved	1 212	50.82
\$1,000 or less	126	5.28
\$1,001 - \$3,000	375	15.72
\$3,001 - \$5,000	249	10.44
\$5,001 - \$7,000	130	5.45
\$7,001 - \$10,500 [†]	293	12.29
Total :	<u>2 385</u>	<u>100.00</u>

B. As a percentage of the amount applied for

	Percentage of applicants
100%	23.42
90% or above	32.03
80% or above	40.89
70% or above	46.85
60% or above	55.71
50% or above	64.57
40% or above	73.51
30% or above	82.45
20% or above	89.35
10% or above	96.42
5% or above	98.89

[†] The maximum amount of ex gratia payment under the Protection of Wages on Insolvency Fund on pay for untaken annual leave and/or pay for untaken statutory holidays.

Comparative figures on the performance of the Protection of Wages on Insolvency Fund from 2013-14 to 2017-18

Figure 1

Number of applications received by the Fund from 2013-14 to 2017-18
(excluding claims for shortfall in ex gratia payment on severance payment)



Figure 2

First three industries with the largest number of applications received from 2013-14 to 2017-18
(excluding claims for shortfall in ex gratia payment on severance payment)

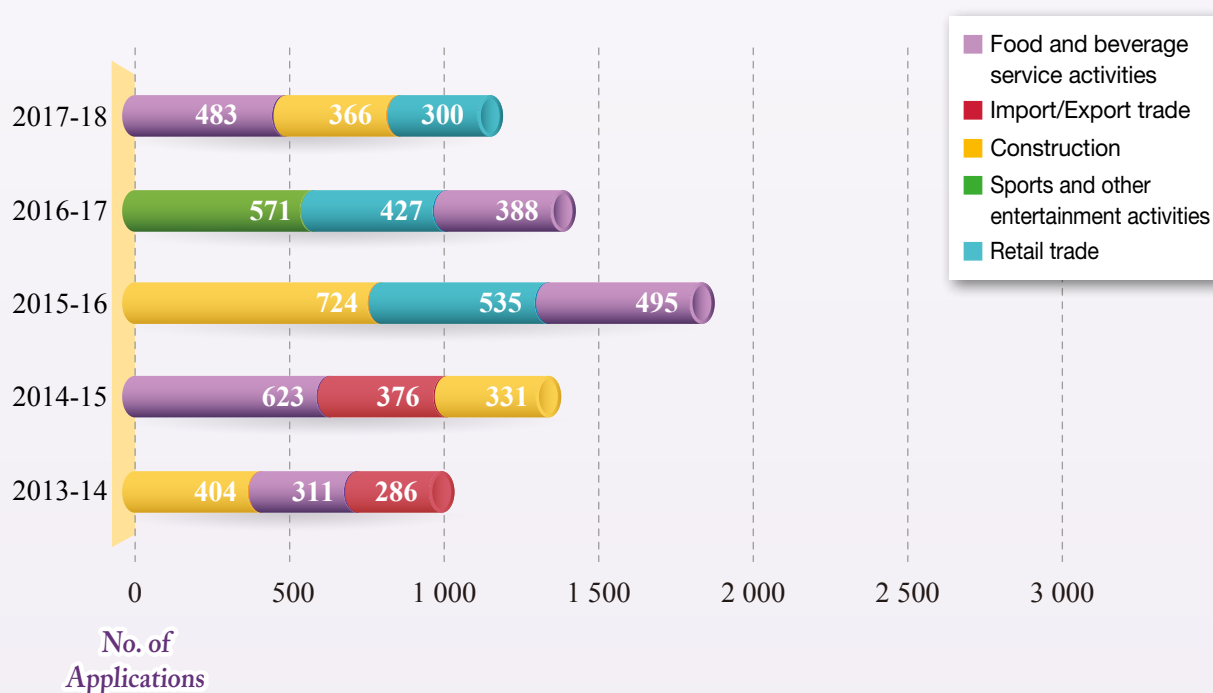


Figure 3

Number of applications and amount of ex gratia payment approved from 2013-14 to 2017-18
(excluding claims for shortfall in ex gratia payment on severance payment)

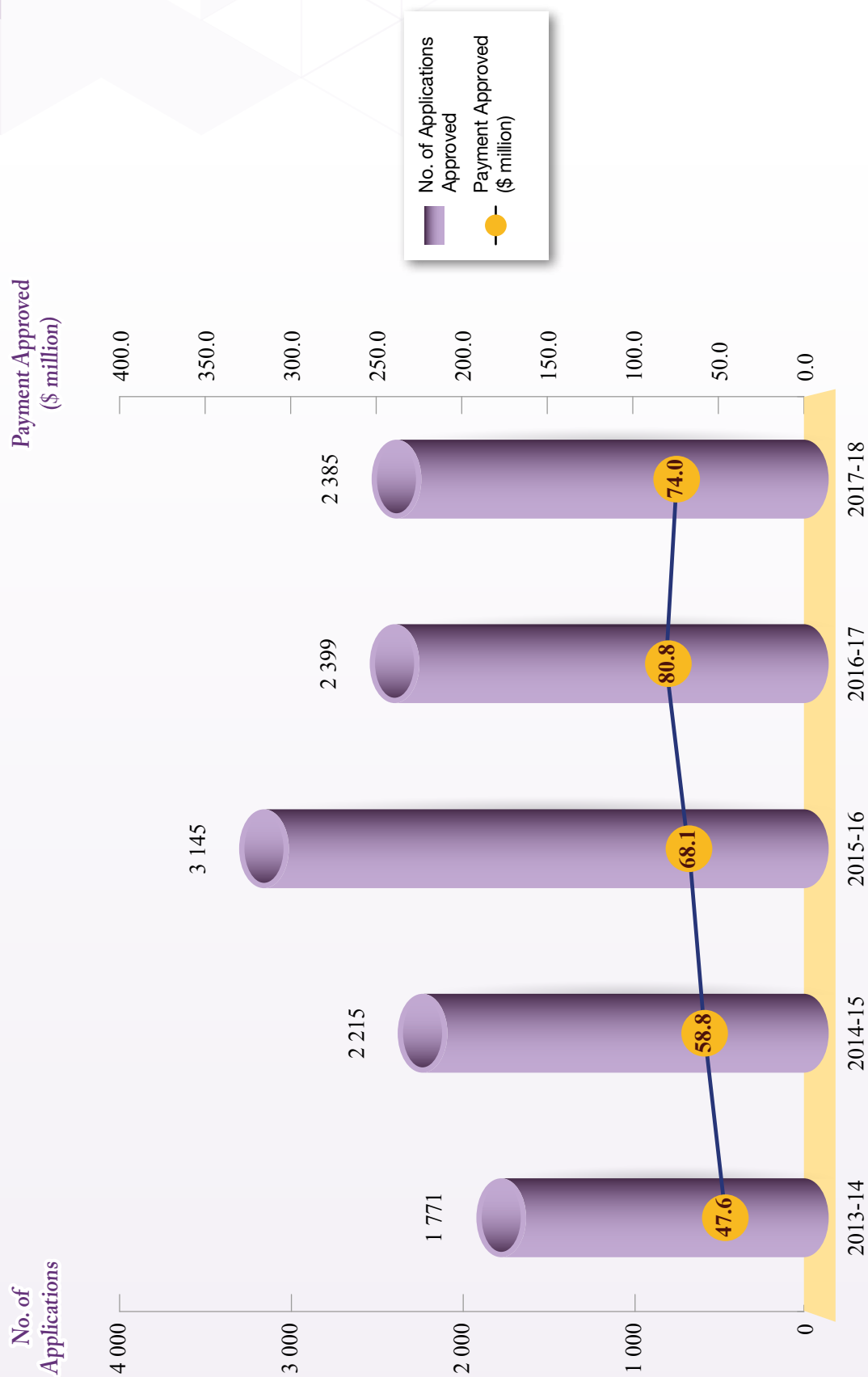
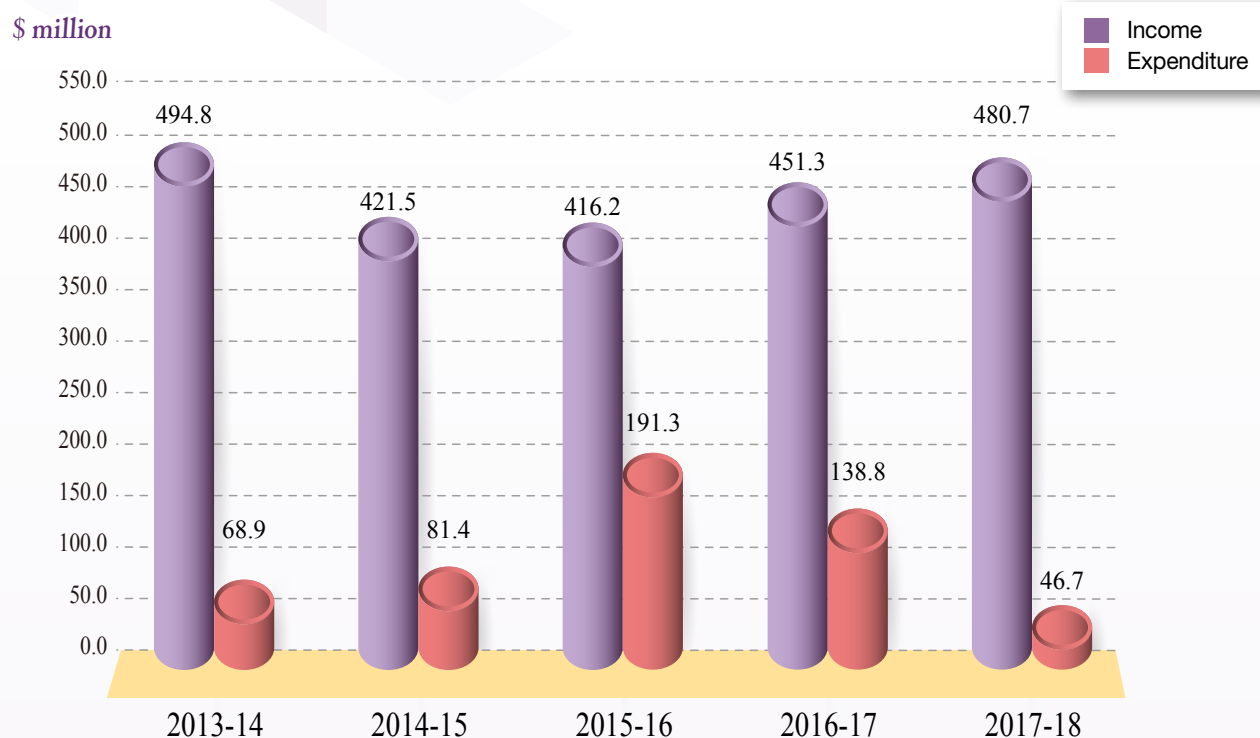
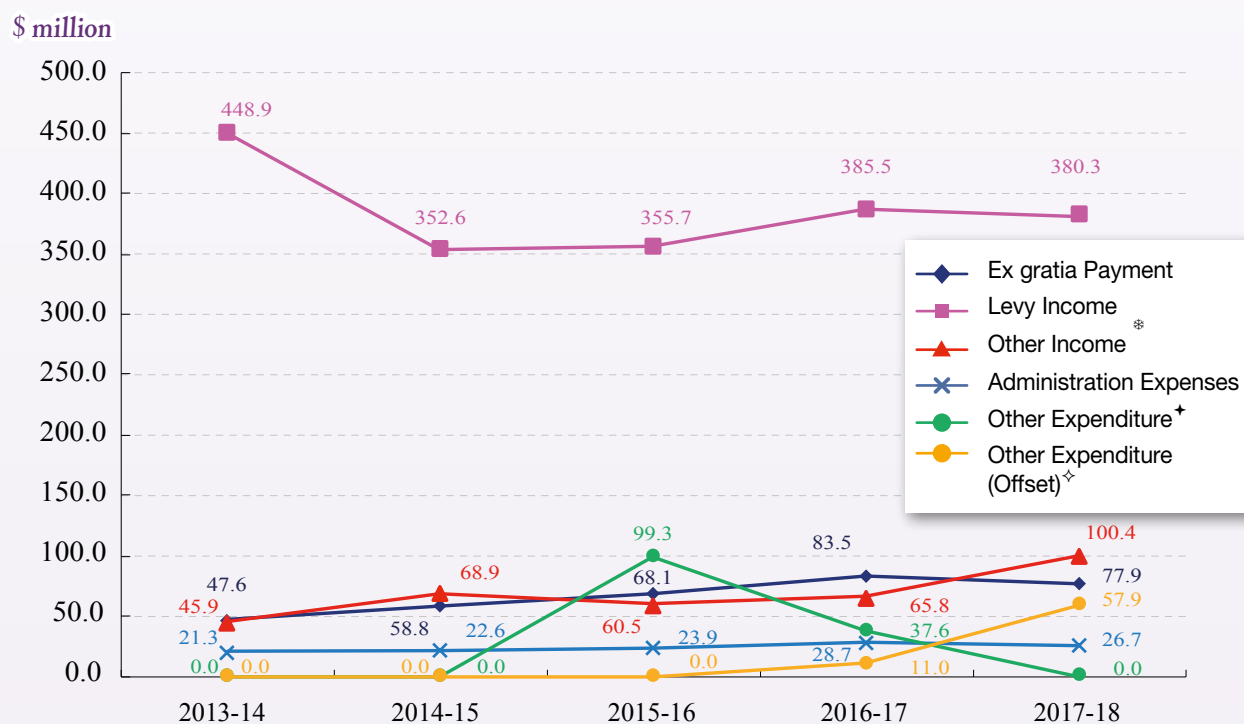


Figure 4**Total income and expenditure of the Fund from 2013-14 to 2017-18****Figure 5****Breakdown of income and expenditure of the Fund from 2013-14 to 2017-18**

* Bank deposit interests and money recovered through subrogation

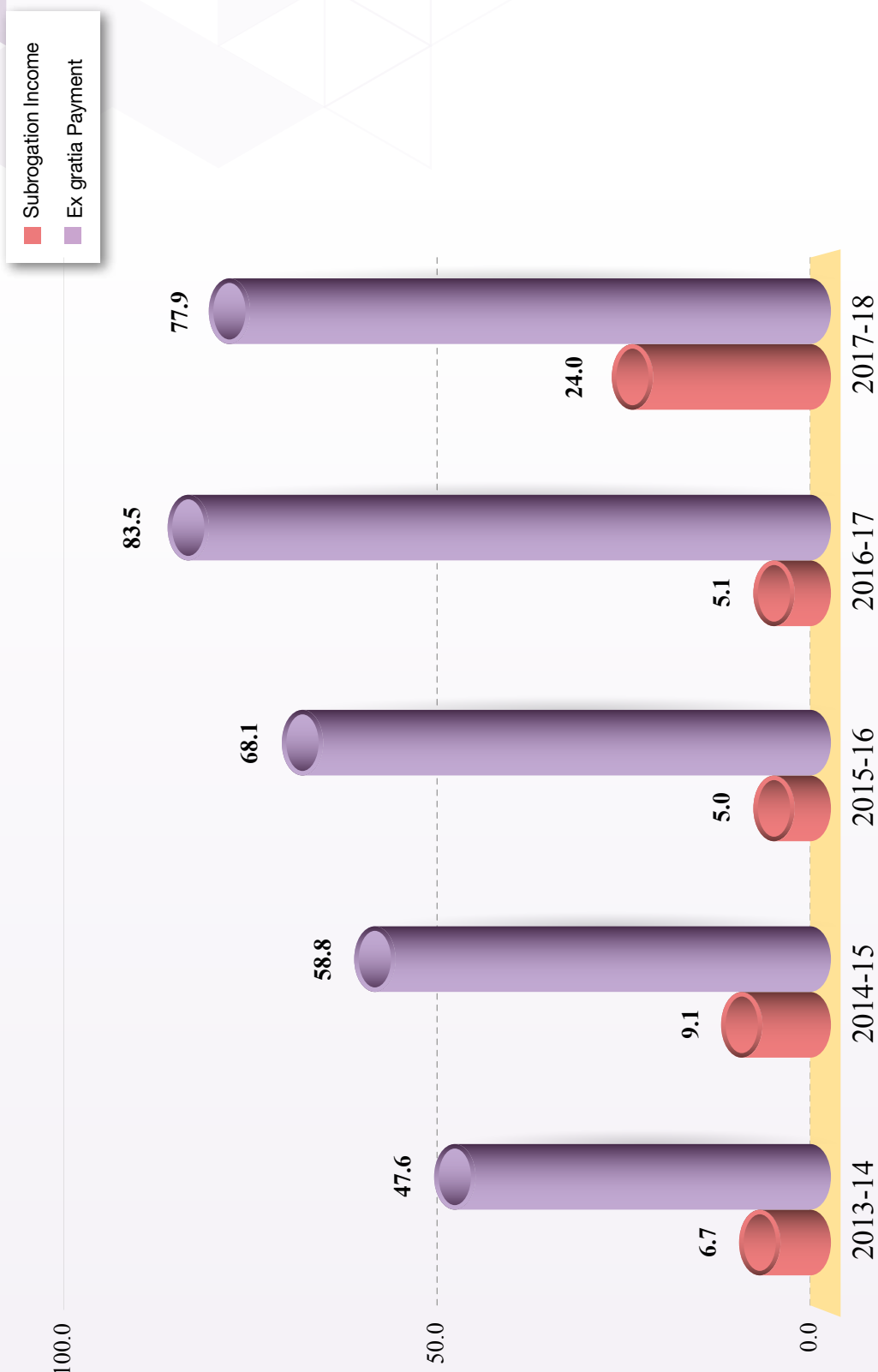
+ Provision for potential claims for ex gratia payments and foreign exchange differences (loss)

◇ Reversal of provision for potential claims for ex gratia payments and foreign exchange differences (gain)

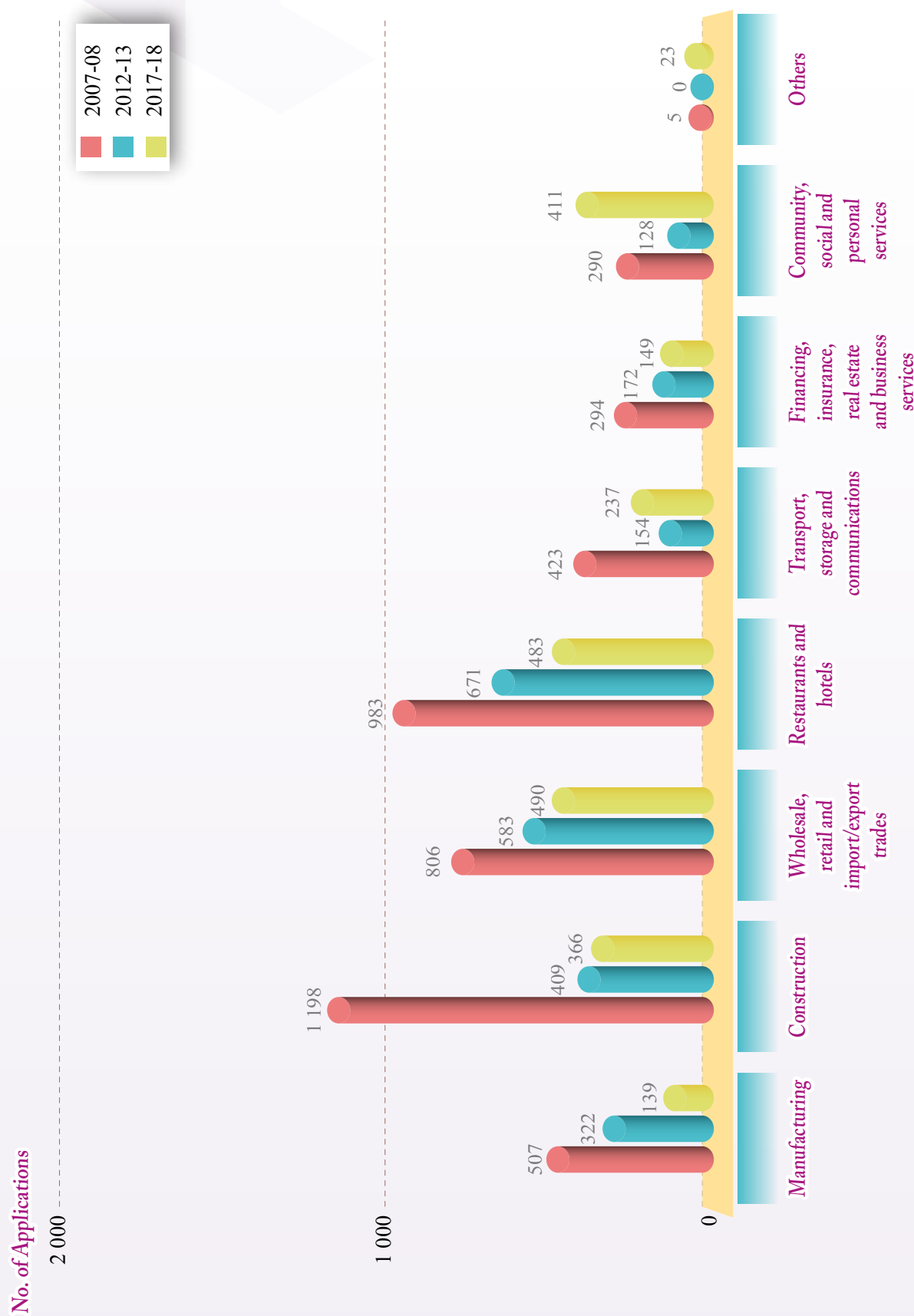
Figure 6

Subrogation income and ex gratia payment of the Fund from 2013-14 to 2017-18

\$ million



Analysis of applications received by economic sector in 2007-08, 2012-13 and 2017-18 (excluding claims for shortfall in ex gratia payment on severance payment)



Independent Auditor's Report and Audited Financial Statements

PROTECTION OF WAGES ON INSOLVENCY FUND

31 March 2018

PROTECTION OF WAGES ON INSOLVENCY FUND

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Statement of changes in funds and reserves	6
Statement of cash flows	7
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Independent auditor's report

To members of the Protection of Wages on Insolvency Fund Board

(Established under the Protection of Wages on Insolvency Ordinance)

Opinion

We have audited the financial statements of the Protection of Wages on Insolvency Fund (the "Fund") set out on pages 4 to 17, which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in funds and reserves and the statement of cash flows 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 Fund as at 31 March 2018, 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").

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 Fund 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 Protection of Wages on Insolvency Fund Board (the "Board") is responsible for the other information. The other information comprises 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 (continued)
To members of the Protection of Wages on Insolvency Fund Board
(Established under the Protection of Wages on Insolvency Ordinance)

Responsibilities of the Board for the financial statements

The Board is responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Protection of Wages on Insolvency Ordinance, and for such internal control as the Board determines 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 Board is responsible for assessing the Fund'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 Board either intends to liquidate the Fund or to cease operations or has 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. Our report is made solely to you, as a body, in accordance with the Protection of Wages on Insolvency 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 HKSAAs 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 HKSAAs, 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.

Independent auditor's report (continued)

To members of the Protection of Wages on Insolvency Fund Board

(Established under the Protection of Wages on Insolvency Ordinance)

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

- Conclude on the appropriateness of the Board's 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 Fund'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 Fund 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 Board 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.



Certified Public Accountants
Hong Kong
29 August 2018

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2018

	Notes	2018 HK\$	2017 HK\$
INCOME	3	<u>480,748,180</u>	<u>451,293,135</u>
EXPENDITURE			
Ex gratia payments	4	77,914,334	83,543,509
Supervision fee	5	25,209,994	25,973,651
Reversal of provision for potential claims for ex gratia payments		(17,234,989)	(11,016,058)
Auditor's remuneration		103,000	128,000
Rates and building management charges		346,034	334,314
Insurance		7,406	7,090
Printing and stationery		57,495	38,400
Foreign exchange differences		(40,684,062)	37,636,579
Miscellaneous expenses		<u>956,952</u>	<u>2,189,929</u>
TOTAL EXPENDITURE		<u>46,676,164</u>	<u>138,835,414</u>
SURPLUS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6	<u><u>434,072,016</u></u>	<u><u>312,457,721</u></u>

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF FINANCIAL POSITION

31 March 2018

	Notes	2018 HK\$	2017 HK\$
NON-CURRENT ASSET			
Property	9	-	-
CURRENT ASSETS			
Levies receivable		38,108,900	39,179,800
Interest receivables		24,911,045	17,011,581
Sundry deposits		232,128	232,128
Prepayment		50,000	88,000
Time deposits	10	5,053,513,735	4,644,752,374
Cash at banks	10	314,994	317,905
Total current assets		5,117,130,802	4,701,581,788
CURRENT LIABILITIES			
Approved applications payable		3,884,110	3,812,088
Accrued operation expenses		112,150	120,240
Accrued supervision fee	5	25,500,000	26,000,000
Provision for potential claims for ex gratia payments	11	62,977,857	81,064,791
Total current liabilities		92,474,117	110,997,119
NET CURRENT ASSETS		5,024,656,685	4,590,584,669
Net assets		5,024,656,685	4,590,584,669
FINANCED BY:			
Accumulated surplus		5,008,117,898	4,574,045,882
General reserve	12	16,538,787	16,538,787
Total accumulated funds and reserves		5,024,656,685	4,590,584,669



Mr. MA Ho-fai, GBS, JP
Chairman



Ms. LEUNG Fong-yuen
Board Member

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF CHANGES IN FUNDS AND RESERVES

Year ended 31 March 2018

	Accumulated surplus HK\$	General reserve HK\$	Total accumulated funds and reserves HK\$
At 1 April 2016	4,261,588,161	16,538,787	4,278,126,948
Surplus and total comprehensive income for the year	<u>312,457,721</u>	<u>-</u>	<u>312,457,721</u>
At 31 March 2017 and at 1 April 2017	4,574,045,882	16,538,787	4,590,584,669
Surplus and total comprehensive income for the year	<u>434,072,016</u>	<u>-</u>	<u>434,072,016</u>
At 31 March 2018	<u><u>5,008,117,898</u></u>	<u><u>16,538,787</u></u>	<u><u>5,024,656,685</u></u>

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF CASH FLOWS

Year ended 31 March 2018

	Notes	2018 HK\$	2017 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		434,072,016	312,457,721
Adjustment for bank interest income	3	(76,439,305)	(60,683,615)
		357,632,711	251,774,106
Decrease/(increase) in levies receivable		1,070,900	(7,175,300)
Increase in sundry deposits		-	(183,128)
Decrease/(increase) in a prepayment		38,000	(8,000)
Increase/(decrease) in approved applications payable		72,022	(82,176)
Decrease in provision for potential claims for ex gratia payments		(18,086,934)	(18,215,209)
Increase/(decrease) in accrued operation expenses		(8,090)	18,260
Increase/(decrease) in accrued supervision fee		(500,000)	3,000,000
Net cash flows generated from operating activities		<u>340,218,609</u>	<u>229,128,553</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		68,539,841	58,662,010
Decrease/(increase) in time deposits with original maturity over three months		(763,661,361)	226,875,240
Net cash flows generated from/(used in) investing activities		<u>(695,121,520)</u>	<u>285,537,250</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		<u>971,217,905</u>	<u>456,552,102</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>616,314,994</u></u>	<u><u>971,217,905</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances	10	314,994	317,905
Time deposits with original maturity of three months or less when acquired	10	<u>616,000,000</u>	<u>970,900,000</u>
		<u><u>616,314,994</u></u>	<u><u>971,217,905</u></u>

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2018

1. GENERAL INFORMATION

The Protection of Wages on Insolvency Fund (the “Fund”) was established by the Government of the Hong Kong Special Administrative Region under the Protection of Wages on Insolvency Ordinance of Hong Kong in 1985 for the purpose of providing ex gratia payments to employees whose employers have become insolvent.

The Fund consists principally of moneys received from the Commissioner of Inland Revenue being an annual levy collected on each business registration certificate issued.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Protection of Wages on Insolvency Ordinance. They have been prepared under the historical cost convention and are presented in Hong Kong dollars (“HK\$”).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Certain revised HKFRSs became effective for the first time in the period covered by the current year’s financial statements. The adoption of these revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Fund has not applied any new and revised HKFRSs that have been issued but are not yet effective in these financial statements.

The Fund has performed high-level assessment of the impact of the new and revised HKFRSs upon their initial application and does not expect these new and revised HKFRSs would have significant impact on the Fund's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property and depreciation

The Fund's property is stated at cost less accumulated depreciation and any impairment losses. The cost of the property comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property has been put into operation, such as repairs and maintenance, is normally charged as an expenditure in the year in which it is incurred.

Depreciation is calculated on the straight-line basis to write off the cost of the Fund's property to its residual value over its estimated useful life, which is the shorter of the lease terms and 20 years from the day the property was first used by the Fund.

Residual value, useful life and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year-end.

A property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised as income or an expenditure in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Financial instruments

The Fund classifies its financial instruments into the following categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. Regular way purchases and sales of the financial assets are recognised on the trade date, that is, the date that the Fund commits to purchase or sell the asset.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment allowances.

The Fund recognises losses for impaired loans promptly when there is objective evidence that impairment of a loan or a portfolio of loans has occurred. Impairment allowances are assessed either individually for individually significant loans or collectively for loan portfolios with similar credit risk characteristics including those individually assessed balances for which no impairment provision is made on an individual basis.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited against expenditures.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(b) Financial liabilities

Financial liabilities of the Fund include approved applications payable, accrued supervision fee and financial liabilities included in accrued operation expenses. All such financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Fund has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Fund's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks, including term deposits, which are not restricted as to use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Fund is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged as expenditure on the straight-line basis over the lease terms.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included as an expenditure.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Fund and when the revenue can be measured reliably, on the following bases:

- (a) levy income, on an accrual basis for the cash receipts from the Inland Revenue Department;
- (b) interest income, accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable; and
- (c) money recovered by subrogation, when the amounts are received.

Recognition of ex gratia payments

Ex gratia payments are accounted for on an accrual basis for applications approved by the Commissioner for Labour.

Employee benefits

Pension scheme

The Fund operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees’ basic salaries and are charged as expenditures when they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Fund in an independently administered fund. The Fund’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Foreign currency transactions

These financial statements are presented in HK\$, which is the Fund’s functional currency. Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2018

3. INCOME

An analysis of income is as follows:

	2018 HK\$	2017 HK\$
Levies	380,341,200	385,473,100
Money recovered by subrogation	23,967,675	5,136,420
Bank interest income	<u>76,439,305</u>	<u>60,683,615</u>
	<u>480,748,180</u>	<u>451,293,135</u>

In accordance with the provisions of Sections 7 and 21 of the Business Registration Ordinance and Section 6 in Part 3 of the Protection of Wages on Insolvency Ordinance, levies of HK\$250 and HK\$750 are respectively imposed on one-year and three-year business registration certificates according to the Business Registration Ordinance (Amendment of Schedule 2) Order 2013.

4. EX GRATIA PAYMENTS

In accordance with the provisions of Sections 16(1) and (2) and Section 18(1) in Part 5 of the Protection of Wages on Insolvency Ordinance, the Commissioner for Labour may make ex gratia payments to applicants out of the Fund of the following amounts:

(a) Wages

Not exceeding HK\$36,000, being wages for services rendered not more than four months prior to an applicant's last day of service.

(b) Wages in lieu of notice

Not exceeding the equivalent of one month's wages of the applicant or HK\$22,500, whichever is the lesser, which became due not more than six months prior to the date of application.

(c) Severance payment

Not exceeding the aggregate of HK\$50,000 and half of the part of the applicant's entitlement to severance payment in excess of HK\$50,000, the liability for payment of which arose not more than six months prior to the date of application.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2018

4. EX GRATIA PAYMENTS (continued)

(d) Pay for untaken annual leave and pay for untaken statutory holidays

The total amount of pay for untaken annual leave and/or pay for untaken statutory holidays not exceeding HK\$10,500, which includes (i) pay for any annual leave earned in the applicant's last full leave year but untaken and pro rata annual leave pay for the last leave year where the applicant has at least three but less than 12 months' service, payable to the applicant upon termination of employment contract under the Employment Ordinance, and (ii) pay for untaken statutory holidays which fell within four months before his last day of service which would have been payable to the applicant had the applicant taken the holidays.

5. SUPERVISION FEE

In accordance with the provisions of Section 14 in Part 4 of the Protection of Wages on Insolvency Ordinance, the Financial Secretary may determine a supervision fee, which shall be charged against the income of the Fund, at any time determined by him. An agreement has been reached between the Protection of Wages on Insolvency Fund Board (the "Board") and the Government of the Hong Kong Special Administrative Region that the fee will be two-thirds of the Government's cost of administration in respect of the Fund. The Board however reserves its right of re-negotiation.

6. SURPLUS FOR THE YEAR

The Fund's surplus for the year is arrived at after charging:

	2018 HK\$	2017 HK\$
Auditor's remuneration	103,000	128,000
Employee benefit expense:		
Wages and salaries	405,648	389,759
Pension scheme contributions	19,735	19,488
	<u>425,383</u>	<u>409,247</u>
Minimum lease payments under operating leases	<u>735,420</u>	<u>555,079</u>

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2018

7. REMUNERATION OF MEMBERS OF THE BOARD

No members of the Board received any fees or other emoluments in respect of their services rendered to the Fund during the year (2017: Nil).

8. INCOME TAX

The Fund is exempt from tax under Section 88 of the Inland Revenue Ordinance.

9. PROPERTY

Land and
building
HK\$

31 March 2018

At 1 April 2016, 31 March 2017, 1 April 2017 and 31 March 2018:

Cost	27,474,677
Accumulated depreciation	(27,474,677)
Net carrying amount	-

The property, which is held under a long term lease, represents the Fund's office premises situated in Hong Kong.

10. CASH AT BANKS AND TIME DEPOSITS

	2018 HK\$	2017 HK\$
Bank balances	314,994	317,905
Time deposits with original maturity of:		
Three months or less	616,000,000	970,900,000
More than three months to 12 months, inclusive	4,437,513,735	3,673,852,374
	<u>5,053,828,729</u>	<u>4,645,070,279</u>

At the end of the reporting period, the cash at banks and time deposits of the Fund denominated in Renminbi ("RMB") amounted to RMB339,212,399 (equivalent to approximately HK\$423,913,735) (2017: RMB325,584,529 (equivalent to approximately HK\$367,552,374)). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Fund is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

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11. PROVISION

	2018 HK\$	2017 HK\$
At beginning of year	81,064,791	99,280,000
Amounts utilised during the year	(851,945)	(7,199,151)
Reversal of unutilised amounts	(17,234,989)	(11,016,058)
At end of year	<u>62,977,857</u>	<u>81,064,791</u>

The provision for potential claims from past applicants for the shortfalls in ex gratia payments on severance payments previously made has been estimated based on the method of calculation of ex gratia payments on severance payments ruled by the Court of Final Appeal that the relevant past applicants may rely on in claiming the shortfalls. The method of estimation is reviewed on an ongoing basis and is revised where appropriate.

12. GENERAL RESERVE

The levies collected and interest received prior to the establishment of the Fund have been set aside in the general reserve account.

13. OPERATING LEASE COMMITMENTS

The Fund leases a storeroom under an operating lease arrangement with a lease term of two years at fixed monthly rentals.

At 31 March 2018, the Fund had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	2018 HK\$	2017 HK\$
Within one year	343,196	735,420
In the second to fifth years, inclusive	<u>-</u>	<u>343,196</u>
	<u>343,196</u>	<u>1,078,616</u>

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

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14. CONTINGENT LIABILITIES

At 31 March 2018, contingent liabilities that are not provided for in the financial statements are in respect of applications received but not yet approved which amounted to HK\$68,456,651 (2017: HK\$125,169,859).

A provision has not been recognised in respect of such possible payments as their existence will be confirmed only upon approval by the Commissioner for Labour.

15. FAIR VALUE

At the end of the reporting period, the carrying amounts of the Fund's financial assets and liabilities approximated to their fair values.

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in current transactions between willing parties, other than in forced or liquidation sales.

The fair values of levies receivable, interest receivables, sundry deposits, time deposits, cash at banks, approved applications payable, accrued supervision fee and financial liabilities included in accrued operation expenses approximate to their carrying amounts largely due to the short term maturities of these instruments.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund's principal financial instruments comprise cash and short term deposits. The Fund has various other financial assets and liabilities such as levies receivable, interest receivables, sundry deposits, approved applications payable, accrued supervision fee and financial liabilities included in accrued operation expenses which arise directly from its operations. The main risks arising from the Fund's financial instruments are credit risk, interest rate risk and foreign currency risk.

Credit risk

The Fund's receivable balances are monitored on an ongoing basis and the Fund's exposure to bad debts is not significant. The Fund's maximum exposure on credit risk arising from the default of the counterparties equal to the aggregate carrying amount of these financial assets in the statement of financial position.

Interest rate risk

The Fund's major exposure to the risk of changes in market interest rates relates to the Fund's bank balances with floating daily bank deposits rates. The Fund does not currently have any plan to enter into hedge arrangements to manage its interest rate risk.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The risk that the value of a foreign currency denominated financial instrument fluctuates because of a change in the corresponding foreign exchange rate. The Fund does not have any policy for hedging or entering into any forward currency contracts to eliminate the currency exposure on any individual transaction.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB exchange rate, with all other variables held constant, of the Fund's surplus (due to changes in the fair value of monetary assets and liabilities).

	Change in the rate %	Increase/ (decrease) in surplus HK\$
<u>2018</u>		
If HK\$ weakens against RMB	1	4,239,137
If HK\$ strengthens against RMB	(1)	(4,239,137)
<u>2017</u>		
If HK\$ weakens against RMB	1	3,675,524
If HK\$ strengthens against RMB	(1)	(3,675,524)

Capital management

The primary objective of the Fund's capital management is to safeguard the Fund's ability to continue as a going concern in order to provide ex gratia payments to employees whose employers have become insolvent.

The Fund manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2018 and 31 March 2017.

17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 29 August 2018.