Protection of Wages on Insolvency Fund Board

2018-19 Annual Report

CONTENTS

	Page
Chairman's Foreword	4-5
Membership List of the Protection of Wages on Insolvency Fund Board 2018-19	6-7
Introduction	8
Protection of Wages on Insolvency Fund Board	8
Protection of Wages on Insolvency Fund	8-11
Maximum amount of ex gratia payment payable by the Fund	9
Prerequisites for making ex gratia payment from the Fund	10
Subrogation rights of the Fund	10-11
Application of the Fund's reserve	11
Annual Review of Applications Received and Processed	11-12
Applications received	11-12
Applications processed	12
Meetings of the Protection of Wages on Insolvency Fund Board	13
Financial Position of the Protection of Wages on Insolvency Fund	13
Activities Highlight	13-15
Customer Opinion Survey	13
Publicity and promotion for the Fund	14
Achievements of the inter-departmental Task Force	15

CONTENTS

			Page
Appendix I	-	Operating results of the Protection of Wages on Insolvency Fund in 2018-19	17-21
Appendix II	-	Breakdown of applications for ex gratia payment received in 2018-19	22-25
Appendix III	-	Analysis of ex gratia payment approved in 2018-19	26-29
Appendix IV	-	Comparative figures on the performance of the Protection of Wages on Insolvency Fund from 2014-15 to 2018-19	30-33
Appendix V	-	Analysis of applications received by economic sector in 2008-09, 2013-14 and 2018-19	34
Appendix VI	-	Independent Auditor's Report and Audited Financial Statements for the year ended 31 March 2019	36

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 2018 to 31 March 2019 (the year).

Amidst the slackening of global economic growth and escalation of trade conflict between the Mainland and the United States, the number of employees who were owed wages and other statutory entitlements because of insolvency of their employers and who thus needed to seek relief from the Protection of Wages on Insolvency Fund (the Fund) recorded an increase especially in the latter half of the year. In the year, the Fund received a total of 2 764 applications, an increase of 20% over the figure of 2 298 in the preceding year, and approved 1 628 applications with a total payout of \$53.7 million of ex gratia payment, down by 32% and 27% 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. We conducted a customer opinion survey from December 2017 to June 2018 and are pleased to receive positive feedback from the applicants on both our service and our performance.

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 \$413.2 million in the year and an accumulative surplus of \$5,437.9 million by the end of March 2019.

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 society for the purpose of progressively improving the protection accorded to employees. In the year, the Board continued its discussion on the review of the scope of protection of the Fund and the respective payment ceiling of

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

the items covered as well as of the rate of levy on BRCs. In the process of discussion, 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 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. We will continue to make every endeavor to provide appropriate and timely relief to applicants. 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 for the good of society.

MA Ho-fai, GBS, JP
Chairman
Protection of Wages on Insolvency Fund Board

September 2019

MEMBERSHIP LIST OF THE PROTECTION OF WAGES ON INSOLVENCY FUND BOARD 2018-19

Chairman

Mr. MA Ho-fai, GBS, JP

Members

Representing employees

Ms. LEUNG Fong-yuen

Mr. CHU Yin-cheong

Mr. LAM Chun-sing

Representing employers

Mr. Mohan DATWANI

Mrs. SO CHAN Wai-hang, BBS

Ms. Elizabeth LAW, MH, JP

Representing government departments

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

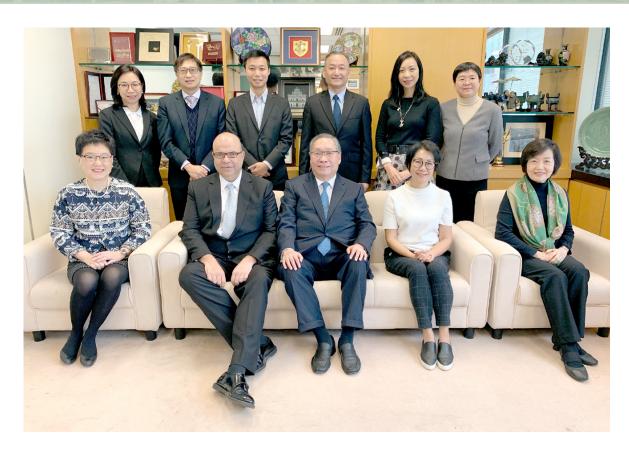
Assistant Principal Solicitor of the Official Receiver's Office

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

Group Photo of the Protection of Wages on Insolvency Fund Board 2018-19



Rear row from left:

Ms. Doreen CHAN Dao-kit

Assistant Principal Legal Aid Counsel, Legal Aid Department

Mr. Simon LI Chi-chung

Assistant Commissioner (Employees' Rights and Benefits), Labour Department

Mr. LAM Chun-sing

Representing employees

Mr. CHU Yin-cheong

Representing employees

Ms. Helen CHAN Wai-yee

Assistant Principal Solicitor, Official Receiver's Office

Ms. Candice CHENG Lai-fan

Secretary

Front row from left:

Ms. Elizabeth LAW, MH, JP

Representing employers

Mr. Mohan DATWANI

Representing employers

Mr. MA Ho-fai, GBS, JP

Chairman

Ms. LEUNG Fong-yuen

Representing employees

Mrs. SO CHAN Wai-hang, BBS

Representing employers

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 2019.

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 2018-19, 2 764 applications involving ex gratia payment of \$308.8 million applied for were received from employees. A total of 444 suspected insolvency cases were recorded. Detailed breakdown of the applications is at **Appendix I**.

Of the 444 suspected insolvency cases, 426 involved less than 20 employees per case, 14 involved 20 to 49 employees per case, one involved 50 to 99 employees per case, and the remaining three involved 100 employees or more.

During the year, the construction industry recorded the largest number of applications, with 938 applications involving a total amount of \$109.7 million. This was followed by the food and beverage service activities with 513 applications and a total amount of \$17.5 million, and retail trade with 402 applications and a total amount of \$55.2 million. These three trades accounted for 67% of all applications and 59.1% 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 2 764 applications in the year, 2 548 applied for ex gratia payment on arrears of wages, 1 551 applied for payment on wages in lieu of notice, 963 applied for payment on severance payment and 1 512 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 1 628 applications were approved during the year, with payment amounting to \$53.7 million being made⁴. Among these applications, a total payment of \$29.1 million was made to 894 applications 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 44.2% of applications for arrears of wages, 51% of applications for wages in lieu of notice, 13% of applications for severance payment⁵, and 28.2% of applications for pay for untaken annual leave and/or pay for untaken statutory holidays.

The Commissioner for Labour rejected 25 applications involving a total amount of \$3.1 million, mostly for reasons such as applications made outside the qualifying period, insufficient evidence, or the applicants being directors of registered companies. At the same time, 225 applications involving a total amount of \$13.1 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 for the past 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, progress of 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, deposit arrangement of the Fund and conduction of the customer opinion survey.

FINANCIAL POSITION OF THE PROTECTION OF WAGES ON INSOLVENCY FUND

During the year, the Fund had a total income of \$509.9 million, of which \$385 million was levy income. The total expenditure was \$96.7 million, of which \$53.7 million was expenditure on ex gratia payment. The Fund registered a surplus of \$413.2 million as compared with a surplus of \$434.1 million in the previous financial year. As at 31 March 2019, the Fund's accumulated surplus stood at \$5,437.9 million.

A copy of the independent auditor's report and the audited financial statements for the year ended 31 March 2019 is at **Appendix VI**.

ACTIVITIES HIGHLIGHT

Customer Opinion Survey

The Board has, in collaboration with the Labour Department, conducted a customer opinion survey from December 2017 to June 2018. Feedback from the applicants showed that they were in general satisfied with the services provided by the Labour Department. The survey findings were presented to the Board at its meeting on 13 December 2018.

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.

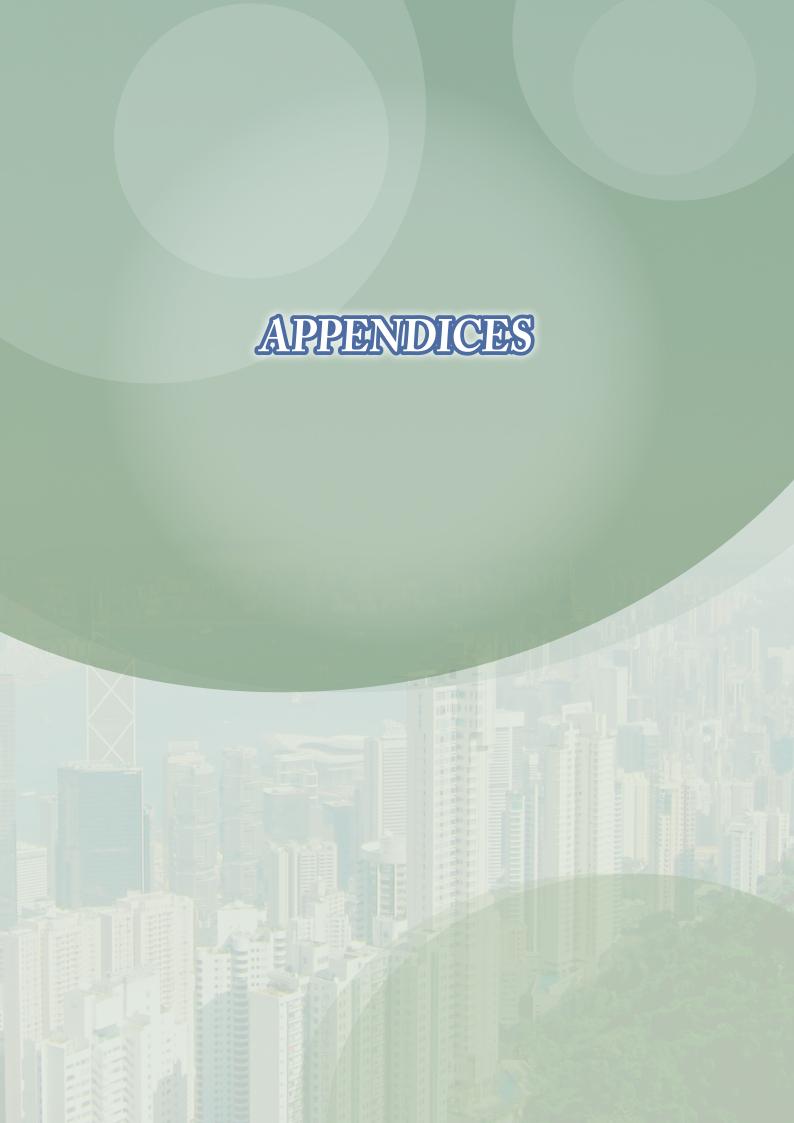


The Fund and the Ordinance were publicised in the exhibitions organised by the Labour Department.

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.

The Board noted that during the year 2018-19, the court had disqualified a total of ten 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 and a half years to six years. Apart from the above, the Labour Department adopted a multi-pronged enforcement strategy to guard against incidents of non-payment of wages exacerbating thus triggering applications for the Fund. In the same period, there were 618 convicted summonses in respect of wage offences. Of these, 236 convictions were against company directors and responsible officers.



l.	Breakdown of applications by result					
	(1) No. of cases received				=	444
	(2) No. of applications					1.076
	(i) brought forward from last period received this period					1 076 2 764
	reconsidered this period					10
	reconstacted this period				-	3 850
	(ii) processed				=	1 878
	approved					1 628
	refused					25
	withdrawn					225
	outstanding					1 942
	put aside *				-	30
		- 1			=	3 850
	(3) Amount of ex gratia payment (in HK\$'000)		Wages in lieu of	Severance	Pay for untaken annual leave and/	
	applied for	wages	notice	payment	or pay for untaken	
					statutory holidays	HK\$'000
	(i) brought forward from last period					68,457
	received this period	121,640 +		114,256 +	16,318 =	308,847
	reconsidered this period	1,169 +	247 +	159 +	34 = _	1,609 378,913
					=	370,913
		Arrears of	Wages in lieu of	Severance payment	Pay for untaken annual leave and/	
		wages	notice	payment	or pay for untaken	
					statutory holidays	HK\$'000
	(ii) approved	30,051 +	13,403 +	7,021 +	3,234 =	53,709
	screened					93,482
	refused withdrawn					3,101 13,053
	outstanding					15,055
	put aside *					215,568
					_	378,913
	(4) No. of applications seeking review by the Fe	und Board			_	0
II.	Presentation of petition in relation to appli	cations app	roved			
	(1) No. of applications where a winding-up peti	= =				696
	(2) No. of applications where a bankruptcy petition has been made					
	(3) No. of applications dealt with under S.18(1)	of the Prote	ction of Wag	ges on		885
	Insolvency Ordinance					
	(4) No. of applications dealt with under S.16(1)(a)(ii) of the Protection of Wages on Insolvency Ordinance					
	and Protection of Auges on Insorvency Ordi				-	1 628
					=	

^{*} Cases pending private settlement or withdrawal.

III.	Breakdown of cases by employment size	
	(1) Less than 20 employees	426
	(2) 20 ~ 49 employees	14
	(3) 50 ~ 99 employees	1
	(4) 100 or more employees	3
		444

IV. Breakdown o	f applications by industry					
Hong Kong Standard Industrial Classification	Industry in which applicants worked		. of ations ~	Amount applied for (including wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays)		
Division A	Agriculture, forestry and fishing	2	(2)	\$	178,246.22	
Division C	Manufacturing					
Sub-group						
10	Manufacture of food products	2	(2)	\$	56,992.10	
13	Manufacture of textiles	25	(4)	\$	2,635,405.54	
14	Manufacture of wearing apparel	24	(3)	\$	4,761,178.11	
15	Manufacture of leather and related products	12	(1)	\$	3,094,502.23	
20	Manufacture of chemicals and chemical products	3	(2)	\$	700,134.86	
21	Manufacture of pharmaceuticals, medicinal chemical and botanical products	1	(1)	\$	224,541.19	
22	Manufacture of rubber and plastics products (except furniture, toys, sports goods and stationery)	8	(3)	\$	2,692,157.24	
24	Manufacture of basic metals	1	(1)	\$	137,054.50	
25	Manufacture of fabricated metal products (except machinery and equipment)	14	(1)	\$	3,514,177.48	
26	Manufacture of computer, electronic and optical products	135	(6)	\$	35,558,975.27	
27	Manufacture of electrical equipment	2	(2)	\$	94,197.90	
28	Manufacture of machinery and equipment n.e.c.	2	(1)	\$	36,000.00	
31	Manufacture of furniture	1	(1)	\$	238,685.16	
32	Other manufacturing	7	(3)	\$	895,232.38	
33	Repair and installation of machinery and equipment	8	(3)	\$	800,300.83	

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

Hong Kong Standard Industrial Classification	Industry in which applicants worked	No. of applications ~		(inclui wage notice paym untal leave ai No. of untake		nount applied for ncluding wages, wages in lieu of otice, severance ayment, pay for intaken annual we and/or pay for ntaken statutory holidays)
Division E	Water supply; sewerage, waste management and remediation activities					
Sub-group						
38	Waste collection, treatment and disposal activities; materials recovery	3	(1)	\$	185,000.23	
$Division\ F$	Construction	938	(132)	\$	109,727,697.53	
Division G	Import/export, wholesale and retail trades					
Sub-group						
45	Import and export trade	144	(39)	\$	20,162,234.28	
46	Wholesale	31	(6)	\$	2,040,659.05	
47	Retail trade	402	(42)	\$	55,236,168.88	
Division H	Transportation, storage, postal and courier services					
Sub-group						
49	Land transport	14	(7)	\$	824,174.74	
52	Warehousing and support activities for transportation	16	(8)	\$	885,223.06	
53	Postal and courier activities	6	(3)	\$	882,770.15	
Division I	Accommodation and food service activities					
Sub-group						
56	Food and beverage service activities	513	(61)	\$	17,544,713.75	
Division J	Information and communications					
Sub-group						
58	Publishing activities	27	(5)	\$	2,089,242.66	
59	Motion picture, video and television programme production, sound recording and music publishing activities	21	(3)	\$	1,515,300.11	
60	Programming and broadcasting activities	4	(2)	\$	1,884,466.86	
61	Telecommunications	3	(1)	\$	190,872.31	
62	Information technology service activities	72	(9)	\$	10,525,651.03	
63	Information service activities	5	(2)	\$	122,751.52	

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

Hong Kong Standard Industrial Classification	Industry in which applicants worked	No. of applications ~		Amount applied for (including wages, wages in lieu of notice, severance payment, pay for untaken annual leave and/or pay for untaken statutory holidays)		
Division K	Financial and insurance activities					
Sub-group						
64	Financial service activities (except insurance and pension funding)	18	(11)	\$	5,690,381.48	
Division L	Real estate activities	16	(3)	\$	1,143,525.62	
Division M	Professional, scientific and technical activities					
Sub-group						
69	Legal and accounting activities	3	(0)#	\$	611,645.55	
70	Activities of head offices; management and management consultancy activities	1	(1)	\$	86,358.89	
71	Architecture and engineering activities, technical testing and analysis	45	(6)	\$	1,475,750.71	
73	Veterinary activities	1	(1)	\$	53,575.75	
74	Advertising and market research	14	(7)	\$	1,589,966.09	
75	Other professional, scientific and technical activities	9	(5)	\$	4,389,047.15	
Division N Sub-group	Administrative and support service activities					
77	Rental and leasing activities	2	(1)	\$	300,278.04	
79	Travel agency, reservation service and related activities	4	(3)	\$	771,459.05	
80	Security and investigation activities	12	(2)	\$	875,346.13	
Division P	Education	26	(8)	\$	1,737,665.32	
Division Q Sub-group	Human health and social work activities					
86	Human health activities	11	(6)	\$	1,021,150.26	
88	Social work activities without accommodation	5	(1)	\$	167,517.87	

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

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

Hong Kong Standard Industrial Classification	Industry in which applicants worked		o. of ations ~	(in w no pa u leav	nount applied for including wages, vages in lieu of intice, severance ayment, pay for intaken annual interes and/or pay for taken statutory holidays)
Division R	Arts, entertainment and recreation				
Sub-group					
90	Creative and performing arts activities	1	(1)	\$	10,480.00
92	Activities of amusement parks and theme parks	42	(0)#	\$	487,226.31
93	Sports and other entertainment activities	15	(2)	\$	1,711,205.03
Division S Sub-group	Other service activities				
94	Activities of membership organisations	34	(1)	\$	1,995,006.65
96	Other personal service activities	50	(19)	\$	5,117,106.14
Division T Sub-group	Work activities within domestic households				
97	Activities of households as employers of domestic personnel	9	(9)	\$	177,532.85
	Total:	2 764	(444)	\$ 3	308,846,932.06

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

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

^{*} All were late applications of case(s) received in preceding year(s).

I. Arrears of wages

A. By amount

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

Amount	No. of applications	Percentage
No entitlement/Not applied for	216	7.81
\$8,000 [°] or less	393	14.22
\$8,001 - \$18,000	534	19.32
\$18,001 - \$24,000	310	11.22
\$24,001 - \$27,000	130	4.70
\$27,001 - \$30,000	107	3.87
\$30,001 - \$33,000	99	3.58
\$33,001 - \$36,000 ⁺	95	3.44
\$36,001 - \$39,000	82	2.97
More than \$39,000	798	28.87
Total:	2 764	100.00

B. By period of outstanding wages

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

Period	No. of applications	Percentage
No entitlement/Not applied for	479	17.33
Half month or less	508	18.38
More than 1/2 month to 1 month	604	21.85
More than 1 month to 2 months	657	23.77
More than 2 months to 3 months	311	11.25
More than 3 months to 4 months ⁺	64	2.32
More than 4 months	141	5.10
Total:	2 764	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.

II. Wages in lieu of notice

A. By amount

Amount	No. of applications	Percentage
No entitlement/Not applied for	1 213	43.89
\$2,000 [‡] or less	41	1.48
\$2,001 - \$6,000	257	9.30
\$6,001 - \$10,000	176	6.37
\$10,001 - \$15,000	211	7.63
\$15,001 - \$22,500 ^m	316	11.43
\$22,501 - \$25,000	70	2.53
More than \$25,000	480	17.37
Total:	2 764	100.00

B. By notice period

п

Notice period	No. of applications	Percentage
No entitlement/Not applied for	1 213	43.89
1 day - 7 days	368	13.31
8 days - 14 days	31	1.12
15 days	12	0.43
16 days - less than 1 month	99	3.58
1 month **	802	29.02
More than 1 month	239	8.65
Total:	2 764	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.

III. Severance payment[®]

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

A. By amount

Amount		No. of applications	Percentage
No entitlement/Not applied for		1 801	65.16
\$8,000* or less		30	1.09
\$8,001 - \$36,000		183	6.62
\$36,001 - \$50,000		94	3.40
\$50,001 - \$80,000		171	6.19
\$80,001 - \$110,000		94	3.40
\$110,001 - \$140,000		97	3.51
\$140,001 - \$170,000		71	2.57
\$170,001 - \$200,000		47	1.70
\$200,001 - \$250,000		46	1.66
\$250,001 - \$300,000		36	1.30
\$300,001 - \$350,000		33	1.19
\$350,001 - \$370,000		16	0.58
\$370,001 - \$390,000		45	1.63
More than \$390,000		0	0.00
	Total:	2 764	100.00

B. By length of service

Length of service	No. of applications	Percentage
Not applied for or less than 2 years' service	1 804	65.26
2 - 4.99 years	357	12.92
5 - 5.99 years	70	2.53
6 - 6.99 years	49	1.77
7 - 7.99 years	44	1.59
8 - 8.99 years	58	2.10
9 - 9.99 years	37	1.34
10 - 14.99 years	150	5.43
15 - 19.99 years	62	2.24
20 - 24.99 years	77	2.79
25 - 29.99 years	30	1.09
30 - 34.99 years	15	0.54
35 - 38.99 years	6	0.22
39 - 40.99 years	2	0.07
41 - 42.99 years	2	0.07
43 years' service and over	1	0.04
Total	: 2 764	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.

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

A. By amount

Amount	No. of applications	Percentage
No entitlement/Not applied for	1 252	45.30
\$2,000 or less	279	10.09
\$2,001 - \$4,000	300	10.85
\$4,001 - \$6,000	196	7.09
\$6,001 - \$8,000	154	5.57
\$8,001 - \$10,500 ⁹⁶	124	4.49
\$10,501 - \$20,000	249	9.01
More than \$20,000	210	7.60
Total:	2 764	100.00

B. By leave year of pay for untaken annual leave

Leave year	No. of applications	Percentage
No entitlement/Not applied for	1 266	45.81
1 year or less	983	35.56
More than 1 year to less than 2 years	345	12.48
2 years or above	170	6.15
T	otal: 2 764	100.00

C. By period involved in pay for untaken statutory holidays

Period	No. of applications	Percentage
No entitlement/Not applied for	2 499	90.41
2 months or less	110	3.98
More than 2 months to 4 months	34	1.23
More than 4 months	121	4.38
	Total: 2 764	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 2018-19

I. Arrears of wages

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

A. By amount

Amount	No. of ap	plications	Percentage
Not applied for/Not approved		259	15.91
\$4,000 or less		93	5.71
\$4,001 - \$8,000		130	7.99
\$8,001 - \$10,000		50	3.07
\$10,001 - \$12,000		77	4.73
\$12,001 - \$14,000		85	5.22
\$14,001 - \$16,000		65	3.99
\$16,001 - \$18,000		69	4.24
\$18,001 - \$28,000		278	17.08
\$28,001 - \$36,000 [©]		522	32.06
	Total:	1 628	100.00

	Percentage of applications
100%	44.23
90% or above	58.47
80% or above	66.93
70% or above	73.58
60% or above	79.93
50% or above	86.57
40% or above	91.68
30% or above	94.74
20% or above	96.93
10% or above	98.83
5% or above	99.49

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 2018-19

II. Wages in lieu of notice

A.	By amount			
	Amount	1	No. of applications	Percentage
	Not applied for/Not approved		601	36.92
	\$2,000 or less		36	2.21
	\$2,001 - \$3,000		89	5.47
	\$3,001 - \$4,000		49	3.01
	\$4,001 - \$5,000		50	3.07
	\$5,001 - \$6,000		49	3.01
	\$6,001 - \$10,000		137	8.42
	\$10,001 - \$22,500 [†]		617	37.89
		Total:	1 628	100.00

	Percentage of applications
100%	50.97
90% or above	60.41
80% or above	68.48
70% or above	73.83
60% or above	76.17
50% or above	80.45
40% or above	83.75
30% or above	86.96
20% or above	93.00
10% or above	99.03
5% or above	99.90

[†] 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 2018-19

III. Severance payment

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

A. By amount

Amount	No.	of applications	Percentage
Not applied for/Not approved		1 328	81.58
\$8,000 or less		86	5.28
\$8,001 - \$22,000		100	6.14
\$22,001 - \$36,000		44	2.70
\$36,001 - \$50,000		28	1.72
\$50,001 - \$80,000		32	1.97
\$80,001 - \$110,000		8	0.49
\$110,001 - \$140,000		1	0.06
\$140,001 - \$170,000		1	0.06
\$170,001 - \$200,000		0	0.00
\$200,001 - \$210,000		0	0.00
\$210,001 - \$220,000 [*]		0	0.00
	Total :	1 628	100.00

	Percentage of applications
100%	13.00
90% or above	19.67
80% or above	23.33
70% or above	25.00
60% or above	26.33
50% or above	28.67

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

100.00

Analysis of ex gratia payment approved in 2018-19

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

A. By amount No. of applications Percentage **Amount** Not applied for/Not approved 884 54.30 \$1,000 or less 76 4.67 \$1,001 - \$3,000 282 17.32 125 \$3,001 - \$5,000 7.68 97 5.96 \$5,001 - \$7,000 \$7,001 - \$10,500[†] 164 10.07

Total:

1 628

	Percentage of applications
00%	28.23
or above	34.01
ove	40.05
	47.04
	55.91
	66.40
	74.73
	84.68
	91.80
	97.31
	98.79

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 2014-15 to 2018-19

Figure 1

Number of applications received by the Fund from 2014-15 to 2018-19 (excluding claims for shortfall in ex gratia payment on severance payment)

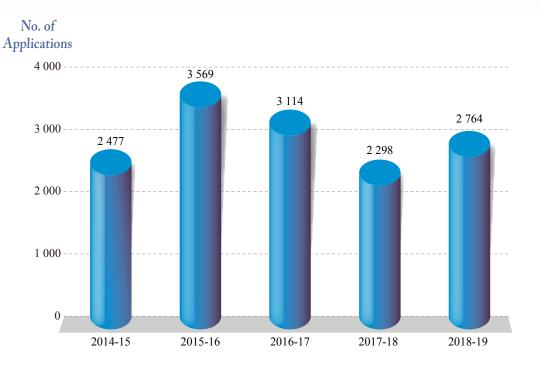


Figure 2

First three industries with the largest number of applications received from 2014-15 to 2018-19 (excluding claims for shortfall in ex gratia payment on severance payment)

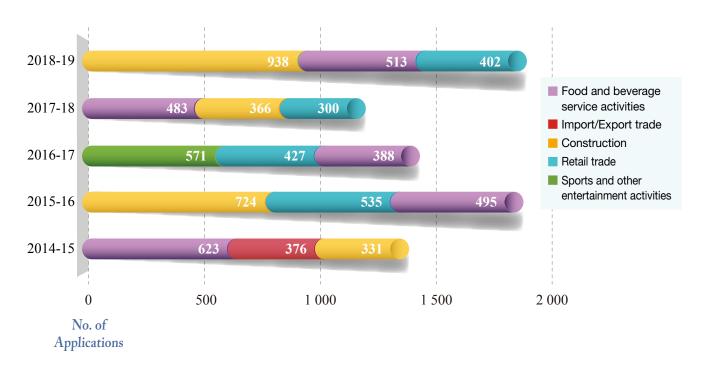


Figure 3

Number of applications and amount of ex gratia payment approved from 2014-15 to 2018-19 (excluding claims for shortfall in ex gratia payment on severance payment)



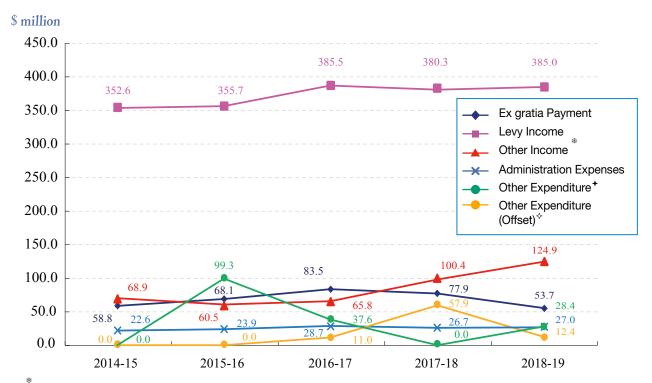
Figure 4

Total income and expenditure of the Fund from 2014-15 to 2018-19



Figure 5

Breakdown of income and expenditure of the Fund from 2014-15 to 2018-19

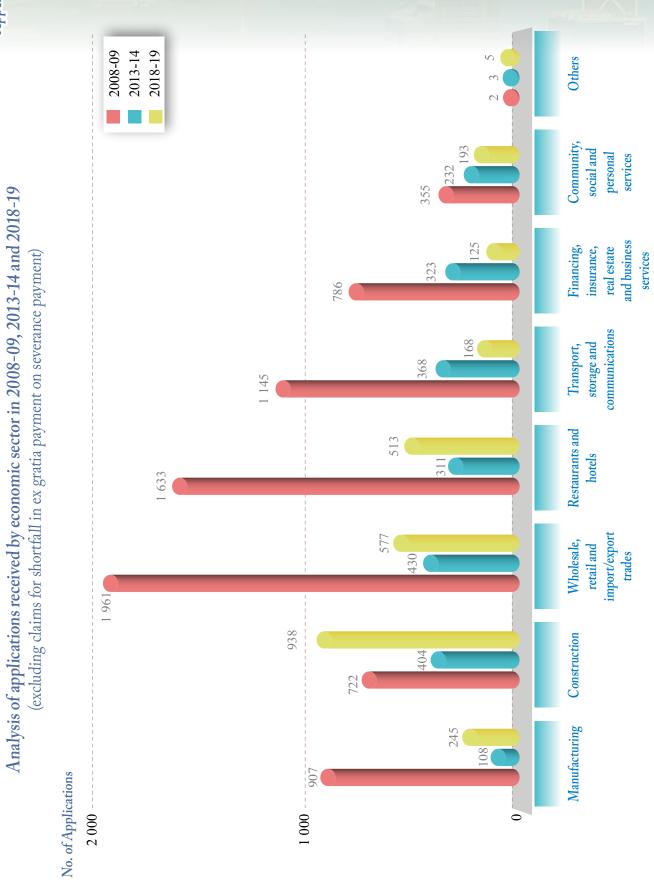


Bank deposit interests and money recovered through subrogation

^{*} 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)







Independent Auditor's Report and Audited Financial Statements
PROTECTION OF WAGES ON INSOLVENCY FUND
31 March 2019



CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 3
AUDITED FINANCIAL STATEMENTS	
Statement of profit or loss and other comprehensive income	4
Statement of financial position	5
Statement of changes in funds and reserves	6
Statement of cash flows	7
Notes to financial statements	8 - 21



Ernst & Young 22/F, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong 安永會計師事務所 香港中環添美道1號 中信大廈22樓 Tel 電話: +852 2846 9888 Fax 傳真: +852 2868 4432 ev.com

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 21, which comprise the statement of financial position as at 31 March 2019, 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 2019, 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 ("HKSAs") 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 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 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 26 August 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2019

	Notes	2019 HK\$	2018 HK\$
INCOME	3	509,899,656	480,748,180
EXPENDITURE			
Ex gratia payments	4	53,716,916	77,914,334
Supervision fee	5	25,383,999	25,209,994
Reversal of provision for potential claims for ex gratia payments		(12,421,509)	(17,234,989)
Auditor's remuneration		106,000	103,000
Rates and building management charges		351,400	346,034
Insurance		6,522	7,406
Printing and stationery		35,800	57,495
Foreign exchange differences		28,368,865	(40,684,062)
Miscellaneous expenses		1,136,966	956,952
TOTAL EXPENDITURE		96,684,959	46,676,164
SURPLUS AND TOTAL COMPREHENSIVE	6	413,214,697	434,072,016
INCOME FOR THE YEAR	0	=======================================	=======================================

STATEMENT OF FINANCIAL POSITION

31 March 2019

	Notes	2019 HK\$	2018 HK\$
NON-CURRENT ASSET Property	9		
CURRENT ASSETS Levies receivable Interest receivables Sundry deposits Prepayment Time deposits Cash at banks	10 10	38,155,850 44,092,155 203,512 5,434,335,979 1,377,671	38,108,900 24,911,045 232,128 50,000 5,053,513,735 314,994
Total current assets		5,518,165,167	5,117,130,802
CURRENT LIABILITIES Approved applications payable Accrued operation expenses Accrued supervision fee Provision for potential claims for ex gratia payments	5 11	3,914,337 114,890 25,800,000 50,464,558	3,884,110 112,150 25,500,000 62,977,857
Total current liabilities		80,293,785	92,474,117
NET CURRENT ASSETS		5,437,871,382	5,024,656,685
Net assets		5,437,871,382	5,024,656,685
FINANCED BY: Accumulated surplus General reserve	12	5,421,332,595 16,538,787	5,008,117,898 16,538,787
Total accumulated funds and reserves		5,437,871,382	5,024,656,685

Mr. MA Ho-fai, GBS, JP

Chairman

Ms. LEUNG Fong-yuen Board Member

STATEMENT OF CHANGES IN FUNDS AND RESERVES

Year ended 31 March 2019

			Total accumulated
	Accumulated surplus HK\$	General reserve HK\$	funds and reserves HK\$
At 1 April 2017	4,574,045,882	16,538,787	4,590,584,669
Surplus and total comprehensive income for the year	434,072,016		434,072,016
At 31 March 2018 and at 1 April 2018	5,008,117,898	16,538,787	5,024,656,685
Surplus and total comprehensive income for the year	413,214,697		413,214,697
At 31 March 2019	5,421,332,595	16,538,787	5,437,871,382

STATEMENT OF CASH FLOWS

Year ended 31 March 2019

	Notes	2019 HK\$	2018 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES Surplus for the year Adjustment for bank interest income	3	413,214,697 (120,939,438)	434,072,016 (76,439,305)
(Increase)/decrease in levies receivable Decrease in sundry deposits Decrease in a prepayment		292,275,259 (46,950) 28,616 50,000	357,632,711 1,070,900 - 38,000
Increase in approved applications payable Decrease in provision for potential claims for ex gratia payments Increase/(decrease) in accrued operation expenses		30,227 (12,513,299) 2,740	72,022 (18,086,934) (8,090)
Increase/(decrease) in accrued supervision fee Net cash flows generated from operating activities		280,126,593	340,218,609
CASH FLOWS FROM INVESTING ACTIVITIES Interest received Decrease/(increase) in time deposits with original maturity over three months		101,758,328 62,177,756	68,539,841 (763,661,361)
Net cash flows generated from/(used in) investing activities		163,936,084	(695,121,520)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS Cash and cash equivalents at beginning of year		444,062,677 616,314,994	(354,902,911) 971,217,905
CASH AND CASH EQUIVALENTS AT END OF YEAR ANALYSIS OF BALANCES OF CASH AND CASH		1,060,377,671	616,314,994
EQUIVALENTS Bank balances Time deposits with original maturity of three	10	1,377,671	314,994
months or less when acquired	10	1,059,000,000	616,000,000

NOTES TO FINANCIAL STATEMENTS

31 March 2019

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 ("HKASs") 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

The Fund has adopted the following new and revised HKFRS for the first time for the current year's financial statements, which is applicable to the Fund.

HKFRS 9

Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities; and impairment for financial assets.

The Fund has no transition adjustments against the applicable opening balances in total accumulated funds and reserves at 1 April 2018. The comparative information was not restated and continues to be reported under HKAS 39.

Changes to classification and measurement

On 1 April 2018, the Fund has assessed which business models apply to its handling of financial assets and has classified its financial instruments as measured at amortised cost. With regard to financial liabilities, the new requirements under HKFRS 9 only affect the accounting for those that are designated at fair value through profit or loss. As the Fund does not have any such liabilities, the new requirements have no impact on the Fund's accounting for financial liabilities.

Changes to the impairment model

For financial assets carried at amortised cost, including levies receivable, interest receivables, sundry deposits, time deposits and cash at banks, the expected credit losses ("ECLs") are measured based on the 12-month ECLs. This represents the portion of lifetime ECLs that results from default events on the financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the loss allowance will be measured based on the lifetime ECLs. The Fund has closely monitored the credit qualities and the collectability of financial assets at amortised cost and considered that the ECLs is immaterial.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

• HKFRS 16 Leases¹

• Amendments to HKAS 1 and HKAS 8 Definition of Material²

• Annual Improvements to HKFRSs 2015-2017 Cycle Amendments to a number of HKFRSs¹

Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

HKFRS 16 replaces HKAS 17 Leases, Hong Kong (International Financial Reporting Interpretations Committee)-Interpretation 4 Determining whether an Arrangement contains a Lease, Hong Kong (Standard Interpretations Committee)-Interpretation 15 Operating Leases - Incentives and Hong Kong (Standard Interpretations Committee)-Interpretation 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees - leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Fund will adopt HKFRS 16 from 1 April 2019. The Fund plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of accumulated surplus at 1 April 2019 and will not restate the comparatives. In addition, the Fund plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Fund's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. At 31 March 2019, the Fund had future minimum lease payments under non-cancellable operating leases as disclosed in note 13 to the financial statements. The Fund has performed high-level assessment of the impact of HKFRS 16 upon its initial application and does not expect it would have significant impact on the Fund's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Fund expects to adopt the amendments prospectively from 1 April 2020. The amendments are not expected to have any 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 assets (policies under HKFRS 9 applicable from 1 April 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (policies under HKFRS 9 applicable from 1 April 2018) (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Fund commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The Fund measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets (policies under HKAS 39 applicable before 1 April 2018)

The Fund classifies its financial assets into the following category at inception, depending on the purpose for which the assets were acquired. 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.

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 method, less impairment allowances.

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.

<u>Derecognition of financial assets (policies under HKFRS 9 applicable from 1 April 2018 and policies under HKAS 39 applicable before 1 April 2018)</u>

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.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 April 2018)

The Fund recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Fund assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Fund compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Fund may consider a financial asset to be in default when internal or external information indicates that the Fund is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Fund. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs.

- Stage 1 Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.
- Stage 2 Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.
- Stage 3 Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 April 2018)

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.

<u>Financial liabilities (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018)</u>

Financial liabilities of the Fund include approved applications payable, accrued operation expenses and accrued supervision fee. 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 method.

<u>Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018)</u>

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

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.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenue recognition

Levy income is recognised on an accrual basis for the cash receipts from the Inland Revenue Department.

Bank interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the excepted life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of financial assets.

Money recovered by subrogation is recognised 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 foreign currencies are translated using the exchange rates at the dates of the initial transactions.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

3. INCOME

An analysis of income is as follows:

	2019 HK\$	2018 HK\$
Levies	384,984,850	380,341,200
Money recovered by subrogation	3,975,368	23,967,675
Bank interest income	_120,939,438	76,439,305
	509,899,656	480,748,180

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.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

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:

	2019 HK\$	2018 HK\$
Auditor's remuneration	106,000	103,000
Employee benefit expense:		
Wages and salaries	202,293	405,648
Pension scheme contributions	10,865	19,735
	213,158	425,383
Minimum lease payments under operating leases	688,364	735,420

NOTES TO FINANCIAL STATEMENTS

31 March 2019

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 (2018: 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 2019

At 1 April 2017, 31 March 2018, 1 April 2018 and 31 March 2019:

Cost
Accumulated depreciation

27,474,677 (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

	2019 HK\$	2018 HK\$
Bank balances Time deposits with original maturity of:	1,377,671	314,994
Three months or less	1,059,000,000	616,000,000
More than three months to 12 months, inclusive	4,375,335,979	4,437,513,735
	5,435,713,650	5,053,828,729

At the end of the reporting period, the cash at banks and time deposits of the Fund denominated in Renminbi ("RMB") amounted to RMB353,269,473 (equivalent to approximately HK\$412,336,129) (2018: RMB339,212,399 (equivalent to approximately HK\$423,913,735)). 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.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

11. PROVISION

		2019 HK\$		2018 HK\$
At beginning of year Amounts utilised during the year Reversal of unutilised amounts	(62,977,857 91,790) 12,421,509)	(81,064,791 851,945) 17,234,989)
At end of year	_	50,464,558	_	62,977,857

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 2019, the Fund had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	2019 HK\$	2018 HK\$
Within one year In the second to fifth years, inclusive	690,336 293,393	343,196
	983,729	343,196

NOTES TO FINANCIAL STATEMENTS

31 March 2019

14. CONTINGENT LIABILITIES

At 31 March 2019, 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\$215,568,375 (2018: HK\$68,456,651).

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 operation expenses and accrued supervision fee 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 operation expenses and accrued supervision fee 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 credit risk of the Fund's financial assets, which comprise levies receivable, interest receivables, sundry deposits, time deposits and cash at banks, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 March 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Fund's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort; and year-end staging classification in respect of measurement of ECLs as at 31 March 2019. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetim	e ECLs	
	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	Total HK\$
Levies receivable				
- Normal*	38,155,850	-	-	38,155,850
Interest receivables				
- Normal*	44,092,155	_	-	44,092,155
Sundry deposits				
 Not yet past due 	203,512	-	-	203,512
Time deposits				
 Not yet past due 	5,434,335,979	-	-	5,434,335,979
Cash at banks				
 Not yet past due 	1,377,671	_		1,377,671
	5,518,165,167	-	-	5,518,165,167

^{*} The credit quality of the financial assets included in levies receivable and interest receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 March 2018

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.

NOTES TO FINANCIAL STATEMENTS

31 March 2019

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\$
2019 If HK\$ weakens against RMB If HK\$ strengthens against RMB	<u> </u>	4,123,361 (<u>4,123,361</u>)
2018 If HK\$ weakens against RMB If HK\$ strengthens against RMB	<u> </u>	4,239,137 (<u>4,239,137</u>)

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 2019 and 31 March 2018.

17. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 26 August 2019.