

# Protection of Wages on Insolvency Fund Board



**2019-20 Annual Report**

# CONTENTS

	<b>Page</b>
<b>Chairman's Foreword</b>	4-5
<b>Membership List of the Protection of Wages on Insolvency Fund Board 2019-20</b>	6-7
<b>Introduction</b>	8
<b>Protection of Wages on Insolvency Fund Board</b>	8
<b>Protection of Wages on Insolvency Fund</b>	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
<b>Annual Review of Applications Received and Processed</b>	11-12
Applications received	11-12
Applications processed	12
<b>Meetings of the Protection of Wages on Insolvency Fund Board</b>	13
<b>Financial Position of the Protection of Wages on Insolvency Fund</b>	13
<b>Activities Highlight</b>	14-15
Publicity and promotion for the Fund	14
Achievements of the inter-departmental Task Force	15

		<b>Page</b>
<b>Appendix I</b>	Operating results of the Protection of Wages on Insolvency Fund in 2019-20	17-20
<b>Appendix II</b>	Breakdown of applications for ex gratia payment received in 2019-20	21-24
<b>Appendix III</b>	Analysis of ex gratia payment approved in 2019-20	25-28
<b>Appendix IV</b>	Comparative figures on the performance of the Protection of Wages on Insolvency Fund from 2015-16 to 2019-20	29-32
<b>Appendix V</b>	Analysis of applications received by economic sector in 2009-10, 2014-15 and 2019-20	33
<b>Appendix VI</b>	Independent Auditor's Report and Audited Financial Statements for the year ended 31 March 2020	34

# 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 2019 to 31 March 2020 (the year).


Affected by the escalating trade tensions between the Mainland and the United States and the local social incidents, the Protection of Wages on Insolvency Fund (the Fund) recorded a rise in the number of applications in the last quarter of 2019 from employees who were owed wages and other statutory entitlements due to insolvency of their employers. Subsequently, while the outbreak of COVID-19 in early 2020 has dealt a heavy blow to the economy of Hong Kong, the Fund however saw a mild drop in the number of applications received in the first quarter of 2020 due to the implementation of special work arrangement for government departments to reduce the risk of the spread of the novel coronavirus in the community. In the year, the Fund received a total of 2 771 applications, similar to the figure of 2 764 in the preceding year, and approved 2 666 applications with a total payout of \$84.4 million of ex gratia payment, an increase of 64% and 57% respectively over the figures in the preceding year<sup>1</sup>. During the period, the Board and staff of the Wage Security Division of the Labour Department (LD) have, through our unflinching efforts and dedication, provided timely assistance to employees aggrieved by their insolvent employers through duly discharging the functions of the Fund as a safety net.

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 \$414.6 million in the year and an accumulative surplus of \$5,852.5 million by the end of March 2020.

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 the items

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



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, including the possible impact of abolition of the “offsetting” of severance payment and long service payment with employers’ mandatory contributions under the Mandatory Provident Fund System on the financial position of the Fund, 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 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. In the face of a further downturn in the economy of Hong Kong and an increasing trend in the number of applications, we will brace ourselves for the challenges ahead and 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 2020

# MEMBERSHIP LIST OF THE PROTECTION OF WAGES ON INSOLVENCY FUND BOARD 2019-20

## 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. Susan 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 2019-20



## Rear row from left:

**Ms. Doreen CHAN Dao-kit**  
Assistant Principal Legal Aid Counsel,  
Legal Aid Department

**Mr. Simon LI Chi-chung, JP**  
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. Susan 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 2020.

## 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 received<sup>2</sup>

During the year 2019-20, 2 771 applications involving ex gratia payment of \$218 million applied for were received from employees. A total of 499 suspected insolvency cases were recorded. Detailed breakdown of the applications is at **Appendix I**.

Of the 499 suspected insolvency cases, 470 involved less than 20 employees per case, 26 involved 20 to 49 employees per case, and the remaining three involved 50 to 99 employees per case.

During the year, the food and beverage service activities recorded the largest number of applications, with 1 040 applications involving a total amount of \$38.9 million. This was followed by the construction industry with 734 applications and a total amount of \$61.8 million, and import and export trade with 192 applications and a total amount of \$25.8 million. These three trades accounted for 70.9% of all applications and 58% of the total amount applied for.

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



Out of the total 2 771 applications in the year, 2 456 applied for ex gratia payment on arrears of wages, 1 766 applied for payment on wages in lieu of notice, 796 applied for payment on severance payment and 1 556 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 processed <sup>3</sup>

A total of 2 666 applications were approved during the year, with payment amounting to \$84.4 million being made<sup>4</sup>. Among these applications, a total payment of \$29 million was made to 958 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 34.5% of applications for arrears of wages, 42.5% of applications for wages in lieu of notice, 7.5% of applications for severance payment<sup>5</sup>, and 21% of applications for pay for untaken annual leave and/or pay for untaken statutory holidays.

The Commissioner for Labour rejected 30 applications involving a total amount of \$4.8 million, mostly for reasons such as the applicants being directors of registered companies, applications without legal backing, or applications made outside the qualifying period. At the same time, 271 applications involving a total amount of \$25 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.

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

<sup>4</sup> The applications approved include those received in the same year or before.

<sup>5</sup> The 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 two 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, 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 \$546.5 million, of which \$389.9 million was levy income. The total expenditure was \$131.9 million, of which \$84.4 million was expenditure on ex gratia payment. The Fund registered a surplus of \$414.6 million as compared with a surplus of \$413.2 million in the previous financial year. As at 31 March 2020, the Fund's accumulated surplus stood at \$5,852.5 million.

A copy of the independent auditor's report and the audited financial statements for the year ended 31 March 2020 is at **Appendix VI**.

## ACTIVITIES HIGHLIGHT

### Publicity and promotion for the Fund

During the year, the Labour Department continued to carry out various activities, including staging five 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 2019-20, the court had disqualified a total of 14 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 one year to five years. Apart from the above, the Labour Department adopted a multi-pronged enforcement strategy to guard against the worsening of incidents of non-payment of wages which may trigger applications for the Fund. In the same period, there were 684 convicted summonses in respect of wage offences. Of these, 195 convictions were against company directors and responsible officers.

# Appendices





## Operating results of the Protection of Wages on Insolvency Fund in 2019-20

<b>I. Breakdown of applications by result</b>					
(1) No. of cases received				499	
(2) No. of applications					
(i) brought forward from last period				1 972	
received this period				2 771	
reconsidered this period				7	
				4 750	
(ii) processed				2 967	
<i>approved</i>				2 666	
<i>refused</i>				30	
<i>withdrawn</i>				271	
outstanding				1 748	
put aside *				35	
				4 750	
(3) Amount of ex gratia payment (in HK\$'000) applied for					
	<b>Arrears of wages</b>	<b>Wages in lieu of notice</b>	<b>Severance payment</b>	<b>Pay for untaken annual leave and/or pay for untaken statutory holidays</b>	<b>HK\$'000</b>
(i) brought forward from last period					215,568
received this period	105,923	+	36,530	+	57,243
reconsidered this period	99	+	63	+	0
					18,313
					12
					218,009
					174
					433,751
	<b>Arrears of wages</b>	<b>Wages in lieu of notice</b>	<b>Severance payment</b>	<b>Pay for untaken annual leave and/or pay for untaken statutory holidays</b>	<b>HK\$'000</b>
(ii) approved	51,534	+	18,140	+	9,887
screened					+
refused					4,870
withdrawn					=
outstanding					84,431
put aside * }					185,526
					4,835
					24,981
					133,978
					433,751
(4) No. of applications seeking review by the Fund Board					1
<b>II. Presentation of petition in relation to applications approved</b>					
(1) No. of applications where a winding-up petition has been made					1 660
(2) No. of applications where a bankruptcy petition has been made					48
(3) No. of applications dealt with under S.18(1) of the Protection of Wages on Insolvency Ordinance					951
(4) No. of applications dealt with under S.16(1)(a)(ii) of the Protection of Wages on Insolvency Ordinance					7
					2 666
<b>III. Breakdown of cases by employment size</b>					
(1) Less than 20 employees					470
(2) 20 ~ 49 employees					26
(3) 50 ~ 99 employees					3
(4) 100 or more employees					0
					499

\* Applications pending private settlement or withdrawal.

# Operating results of the Protection of Wages on Insolvency Fund in 2019-20

## IV. Breakdown of applications by industry

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)
<i>Division A</i>	<i>Agriculture, forestry and fishing</i>	1	(1)	\$ 7,200.00
<i>Division B</i>	<i>Mining and quarrying</i>	2	(1)	\$ 667,422.57
<i>Division C</i> Sub-group	<i>Manufacturing</i>			
10	Manufacture of food products	7	(5)	\$ 264,221.03
13	Manufacture of textiles	5	(0) #	\$ 223,269.19
17	Manufacture of paper and paper products	9	(2)	\$ 2,728,183.20
21	Manufacture of pharmaceuticals, medicinal chemical and botanical products	3	(1)	\$ 172,756.52
22	Manufacture of rubber and plastics products (except furniture, toys, sports goods and stationery)	1	(1)	\$ 107,359.16
26	Manufacture of computer, electronic and optical products	4	(1)	\$ 946,217.67
27	Manufacture of electrical equipment	4	(2)	\$ 331,489.63
29	Body assembly of motor vehicles	1	(1)	\$ 23,500.00
32	Other manufacturing	13	(5)	\$ 1,233,047.26
33	Repair and installation of machinery and equipment	13	(2)	\$ 3,136,907.60
<i>Division D</i>	<i>Electricity and gas supply</i>	11	(2)	\$ 543,571.29
<i>Division E</i> Sub-group	<i>Water supply; sewerage, waste management and remediation activities</i>			
38	Waste collection, treatment and disposal activities; materials recovery	4	(2)	\$ 220,400.67
39	Remediation activities and other waste management services	4	(1)	\$ 40,581.73
<i>Division F</i>	<i>Construction</i>	734	(125)	\$ 61,820,544.08
<i>Division G</i> Sub-group	<i>Import/export, wholesale and retail trades</i>			
45	Import and export trade	192	(58)	\$ 25,750,514.63
46	Wholesale	43	(9)	\$ 2,792,765.71
47	Retail trade	153	(35)	\$ 12,207,051.90

~ Figures in brackets denote the number of suspected insolvency cases received in the year.

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

## Operating results of the Protection of Wages on Insolvency Fund in 2019-20

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)
<i>Division H</i> Sub-group	<i>Transportation, storage, postal and courier services</i>			
49	Land transport	36	(13)	\$ 4,749,726.10
50	Water transport	1	(1)	\$ 257,640.81
51	Air transport	26	(4)	\$ 7,653,951.44
52	Warehousing and support activities for transportation	5	(5)	\$ 478,529.52
<i>Division I</i> Sub-group	<i>Accommodation and food service activities</i>			
56	Food and beverage service activities	1 040	(99)	\$ 38,946,700.81
<i>Division J</i> Sub-group	<i>Information and communications</i>			
58	Publishing activities	38	(3)	\$ 8,022,219.78
59	Motion picture, video and television programme production, sound recording and music publishing activities	20	(6)	\$ 2,302,566.91
60	Programming and broadcasting activities	1	(1)	\$ 69,313.16
61	Telecommunications	13	(1)	\$ 571,939.86
62	Information technology service activities	23	(9)	\$ 3,799,834.18
63	Information service activities	10	(2)	\$ 1,789,457.24
<i>Division K</i> Sub-group	<i>Financial and insurance activities</i>			
64	Financial service activities (except insurance and pension funding)	53	(20)	\$ 3,274,075.96
66	Activities auxiliary to financial service and insurance activities	1	(1)	\$ 448,285.64
<i>Division L</i>	<i>Real estate activities</i>	35	(2)	\$ 842,237.79
<i>Division M</i> Sub-group	<i>Professional, scientific and technical activities</i>			
70	Activities of head offices; management and management consultancy activities	12	(3)	\$ 2,273,241.46
71	Architecture and engineering activities, technical testing and analysis	2	(2)	\$ 196,966.00
74	Advertising and market research	25	(9)	\$ 2,926,118.31
75	Other professional, scientific and technical activities	8	(1)	\$ 1,414,577.10

~ Figures in brackets denote the number of suspected insolvency cases received in the year.

## Operating results of the Protection of Wages on Insolvency Fund in 2019-20

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)
<i>Division N</i> Sub-group	<i>Administrative and support service activities</i>			
77	Rental and leasing activities	9	(2)	\$ 623,923.02
79	Travel agency, reservation service and related activities	20	(5)	\$ 620,254.45
80	Security and investigation activities	9	(2)	\$ 750,294.54
81	Services to buildings and landscape care activities	1	(1)	\$ 5,257,229.58
82	Office administrative, office support and other business support activities	38	(8)	\$ 7,741,180.95
<i>Division P</i>	<i>Education</i>	14	(6)	\$ 1,223,536.86
<i>Division Q</i> Sub-group	<i>Human health and social work activities</i>			
86	Human health activities	3	(2)	\$ 44,331.35
<i>Division R</i> Sub-group	<i>Arts, entertainment and recreation</i>			
90	Creative and performing arts activities	1	(1)	\$ 15,000.00
93	Sports and other entertainment activities	15	(3)	\$ 755,925.94
<i>Division S</i> Sub-group	<i>Other service activities</i>			
96	Other personal service activities	93	(21)	\$ 6,940,103.02
<i>Division T</i> Sub-group	<i>Work activities within domestic households</i>			
97	Activities of households as employers of domestic personnel	15	(12)	\$ 802,806.89
Total :		2 771	(499)	\$ 218,008,972.51

~ Figures in brackets denote the number of suspected insolvency cases received in the 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 2019-20

### 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	315	11.37
\$8,000 ^ or less	526	18.98
\$8,001 - \$18,000	621	22.42
\$18,001 - \$24,000	252	9.09
\$24,001 - \$27,000	132	4.76
\$27,001 - \$30,000	104	3.75
\$30,001 - \$33,000	89	3.21
\$33,001 - \$36,000 +	65	2.35
\$36,001 - \$39,000	66	2.38
More than \$39,000	601	21.69
Total :	2 771	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	561	20.25
Half month or less	367	13.24
More than 1/2 month to 1 month	653	23.56
More than 1 month to 2 months	691	24.93
More than 2 months to 3 months	262	9.46
More than 3 months to 4 months +	83	3.00
More than 4 months	154	5.56
Total :	2 771	100.00

<sup>^</sup> 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.

<sup>+</sup> 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 2019-20

### II. Wages in lieu of notice

#### A. By amount

Amount	No. of applications	Percentage
No entitlement/Not applied for	1 005	36.27
\$2,000 <sup>‡</sup> or less	56	2.02
\$2,001 - \$6,000	560	20.22
\$6,001 - \$10,000	211	7.61
\$10,001 - \$15,000	230	8.30
\$15,001 - \$22,500 <sup>▫</sup>	311	11.22
\$22,501 - \$25,000	72	2.60
More than \$25,000	326	11.76
Total :	2 771	100.00

#### B. By notice period

Notice period	No. of applications	Percentage
No entitlement/Not applied for	1 005	36.27
1 day - 7 days	757	27.32
8 days - 14 days	38	1.37
15 days	2	0.07
16 days - less than 1 month	57	2.06
1 month <sup>‡</sup> <sup>▫</sup>	820	29.59
More than 1 month	92	3.32
Total :	2 771	100.00

<sup>‡</sup> 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.

<sup>▫</sup> 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 2019-20

### III. Severance payment<sup>⊕</sup>

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

#### A. By amount

Amount	No. of applications	Percentage
No entitlement/Not applied for	1 975	71.26
\$8,000 <sup>⊕</sup> or less	60	2.17
\$8,001 - \$36,000	224	8.08
\$36,001 - \$50,000	129	4.66
\$50,001 - \$80,000	161	5.81
\$80,001 - \$110,000	73	2.63
\$110,001 - \$140,000	48	1.73
\$140,001 - \$170,000	23	0.83
\$170,001 - \$200,000	26	0.94
\$200,001 - \$250,000	19	0.69
\$250,001 - \$300,000	21	0.76
\$300,001 - \$350,000	6	0.22
\$350,001 - \$370,000	0	0.00
\$370,001 - \$390,000	6	0.22
More than \$390,000	0	0.00
Total :	2 771	100.00

#### B. By length of service

Length of service	No. of applications	Percentage
Not applied for or less than 2 years' service	1 976	71.31
2 - 4.99 years	380	13.71
5 - 5.99 years	70	2.53
6 - 6.99 years	78	2.81
7 - 7.99 years	47	1.70
8 - 8.99 years	49	1.77
9 - 9.99 years	22	0.79
10 - 14.99 years	77	2.78
15 - 19.99 years	39	1.41
20 - 24.99 years	18	0.65
25 - 29.99 years	12	0.43
30 - 34.99 years	2	0.07
35 - 38.99 years	0	0.00
39 - 40.99 years	0	0.00
41 - 42.99 years	0	0.00
43 years and over	1	0.04
Total :	2 771	100.00

<sup>⊕</sup> The maximum amount of ex gratia payment out of the Protection of Wages on Insolvency Fund on severance payment is \$220,000.

<sup>⊕</sup> 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 2019-20

### 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	1 215	43.84
\$2,000 or less	319	11.51
\$2,001 - \$4,000	313	11.30
\$4,001 - \$6,000	204	7.36
\$6,001 - \$8,000	134	4.84
\$8,001 - \$10,500 <sup>*</sup>	134	4.84
\$10,501 - \$20,000	229	8.26
More than \$20,000	223	8.05
Total :	2 771	100.00

#### B. By leave year of pay for untaken annual leave

Leave year	No. of applications	Percentage
No entitlement/Not applied for	1 226	44.24
1 year or less	1 021	36.85
More than 1 year to less than 2 years <sup>*</sup>	264	9.53
2 years or above	260	9.38
Total :	2 771	100.00

#### C. By period involved in pay for untaken statutory holidays

Period	No. of applications	Percentage
No entitlement/Not applied for	2 371	85.56
2 months or less	129	4.66
More than 2 months to 4 months <sup>*</sup>	50	1.80
More than 4 months	221	7.98
Total :	2 771	100.00

<sup>\*</sup> 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. pay for untaken annual leave not exceeding that accrued in the last two leave years and/or pay for untaken statutory holidays in the last 4 months, with the total maximum amount at \$10,500.



## Analysis of ex gratia payment approved in 2019-20

### I. Arrears of wages

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

#### A. By amount

Amount	No. of applications	Percentage
Not applied for/Not approved	209	7.84
\$4,000 or less	249	9.34
\$4,001 - \$8,000	285	10.69
\$8,001 - \$10,000	110	4.13
\$10,001 - \$12,000	120	4.50
\$12,001 - \$14,000	133	4.99
\$14,001 - \$16,000	99	3.71
\$16,001 - \$18,000	99	3.71
\$18,001 - \$28,000	460	17.25
\$28,001 - \$36,000 <sup>#</sup>	902	33.84
Total :	2 666	100.00

#### B. As a percentage of the amount applied for

	Percentage of applications
100%	34.48
90% or above	48.99
80% or above	55.96
70% or above	62.28
60% or above	68.88
50% or above	74.68
40% or above	80.92
30% or above	86.71
20% or above	92.50
10% or above	97.53
5% or above	99.03

<sup>#</sup> 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 2019-20

### II. Wages in lieu of notice

#### A. By amount

Amount	No. of applications	Percentage
Not applied for/Not approved	1 404	52.67
\$2,000 or less	35	1.31
\$2,001 - \$3,000	54	2.03
\$3,001 - \$4,000	59	2.21
\$4,001 - \$5,000	65	2.44
\$5,001 - \$6,000	55	2.06
\$6,001 - \$10,000	140	5.25
\$10,001 - \$22,500 <sup>†</sup>	854	32.03
Total :	2 666	100.00

#### B. As a percentage of the amount applied for

	Percentage of applications
100%	42.49
90% or above	56.96
80% or above	67.27
70% or above	73.41
60% or above	78.13
50% or above	80.88
40% or above	82.30
30% or above	85.76
20% or above	92.68
10% or above	97.40
5% or above	99.76

<sup>†</sup> 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 2019-20

### 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	2 107	79.02
\$8,000 or less	220	8.25
\$8,001 - \$22,000	197	7.39
\$22,001 - \$36,000	53	1.99
\$36,001 - \$50,000	37	1.39
\$50,001 - \$80,000	44	1.65
\$80,001 - \$110,000	6	0.23
\$110,001 - \$140,000	2	0.08
\$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 <sup>☆</sup>	0	0.00
Total :	2 666	100.00

#### B. As a percentage of the amount applied for

	Percentage of applications
100%	7.46
90% or above	12.61
80% or above	13.50
70% or above	16.16
60% or above	18.47
50% or above	20.60

<sup>☆</sup> 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 2019-20

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

#### A. By amount

Amount	No. of applications	Percentage
Not applied for/Not approved	1 593	59.76
\$1,000 or less	111	4.16
\$1,001 - \$3,000	342	12.83
\$3,001 - \$5,000	235	8.81
\$5,001 - \$7,000	129	4.84
\$7,001 - \$10,500 <sup>‡</sup>	256	9.60
Total :	2 666	100.00

#### B. As a percentage of the amount applied for

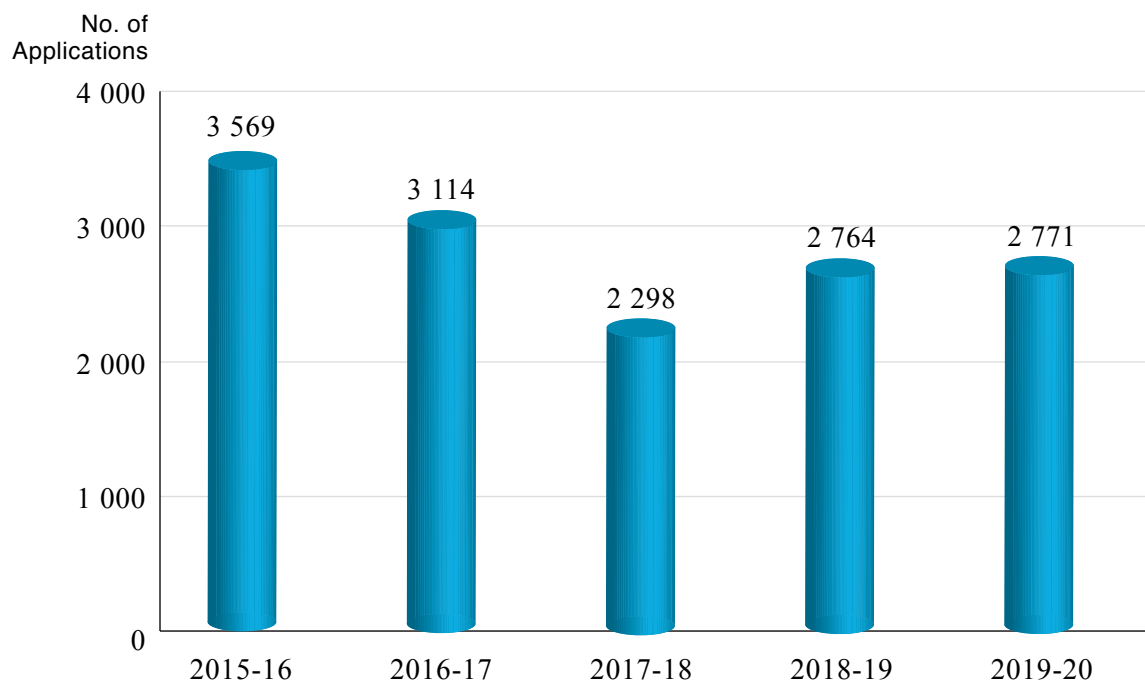
	Percentage of applications
100%	21.02
90% or above	27.96
80% or above	33.15
70% or above	41.39
60% or above	49.81
50% or above	61.67
40% or above	72.78
30% or above	80.74
20% or above	90.46
10% or above	97.41
5% or above	99.44

<sup>‡</sup> 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 2015-16 to 2019-20

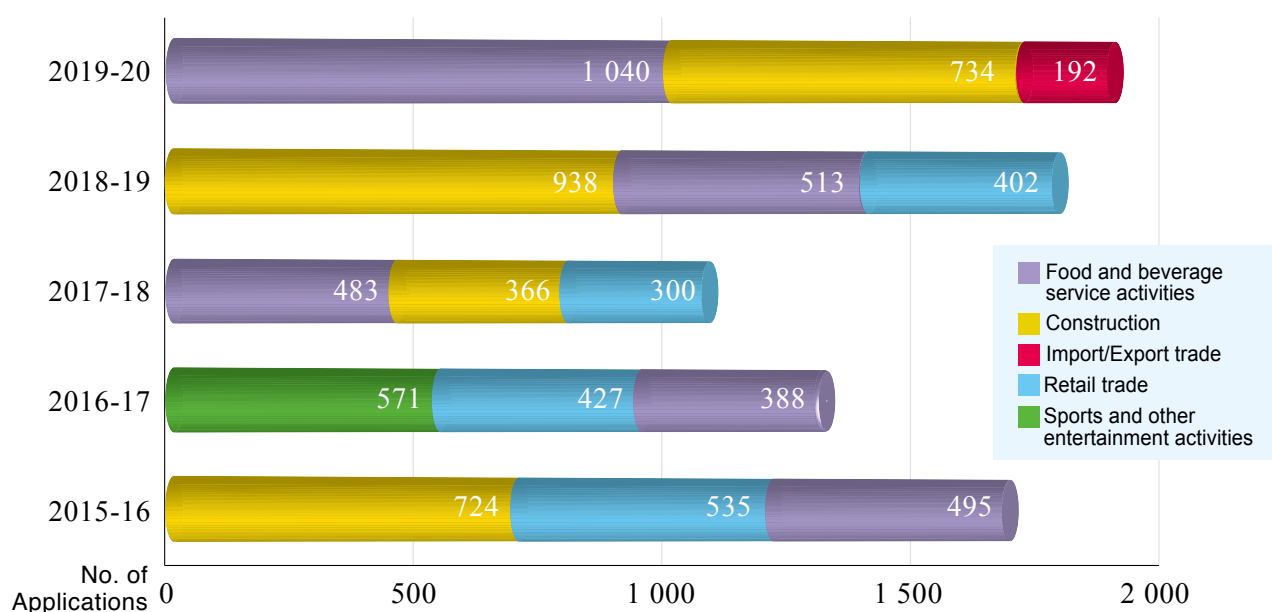
### Figure 1

**Number of applications received by the Fund from 2015-16 to 2019-20**  
(excluding claims for shortfall in ex gratia payment on severance payment)



### Figure 2

**First three industries with the largest number of applications received from 2015-16 to 2019-20**  
(excluding claims for shortfall in ex gratia payment on severance payment)



**Figure 3**  
**Number of applications and amount of ex gratia payment approved from 2015-16 to 2019-20**  
 (excluding claims for shortfall in ex gratia payment on severance payment)

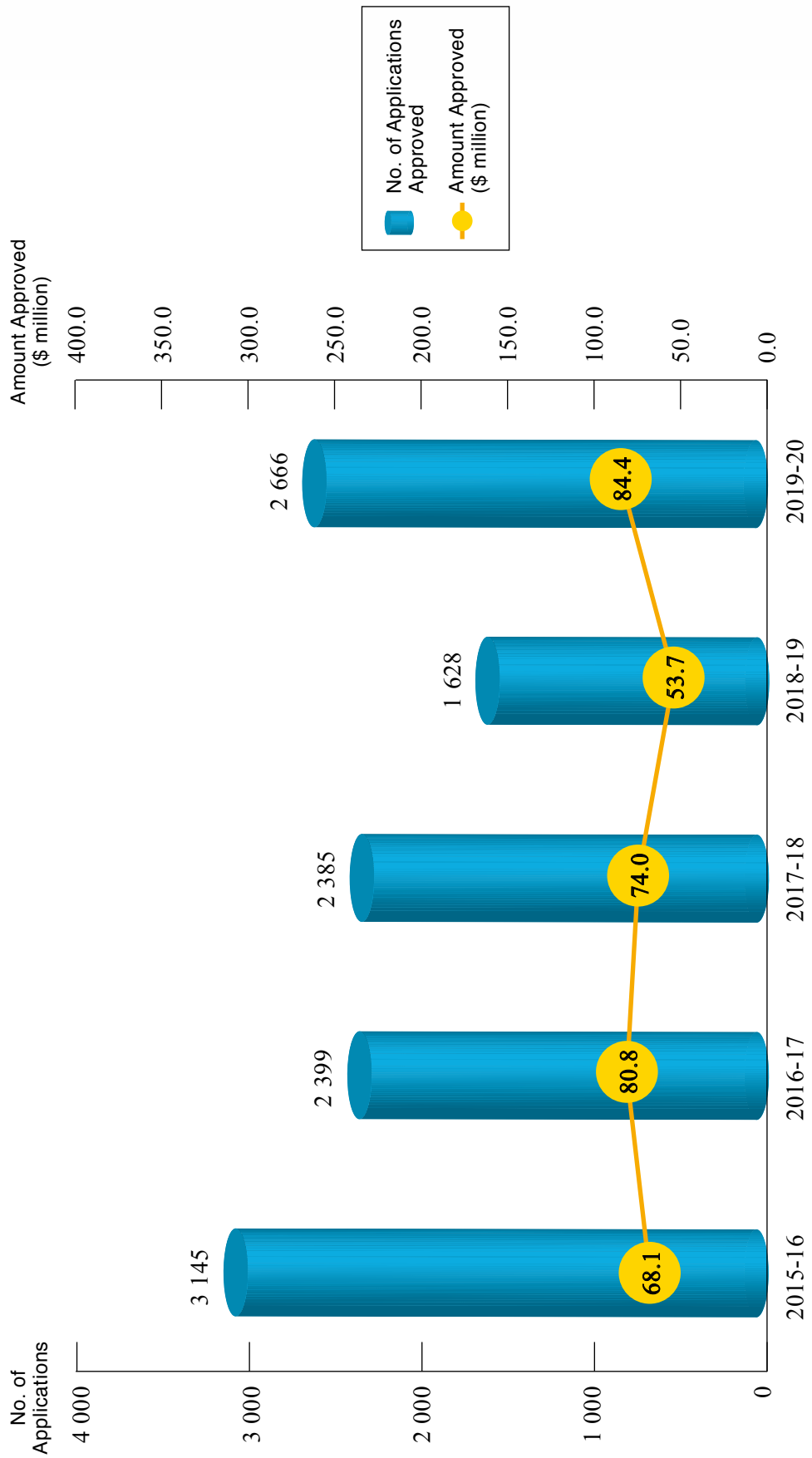


Figure 4

## Total income and expenditure of the Fund from 2015-16 to 2019-20

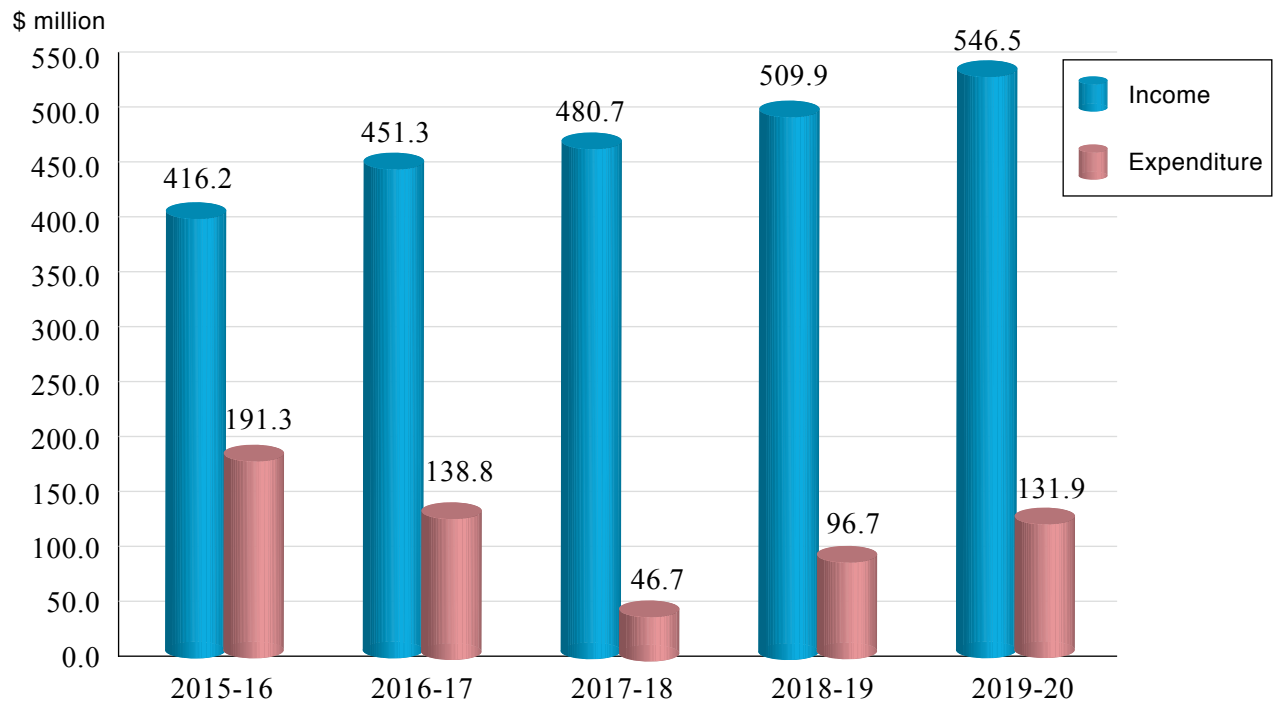
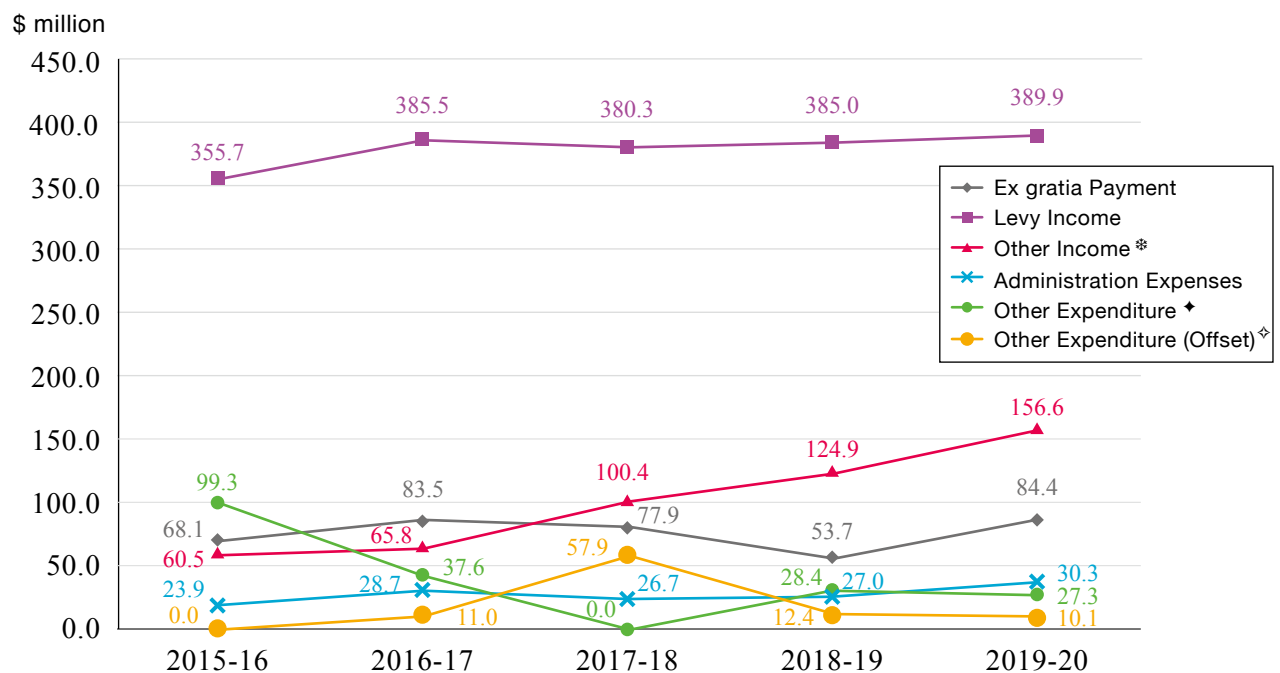


Figure 5

## Breakdown of income and expenditure of the Fund from 2015-16 to 2019-20

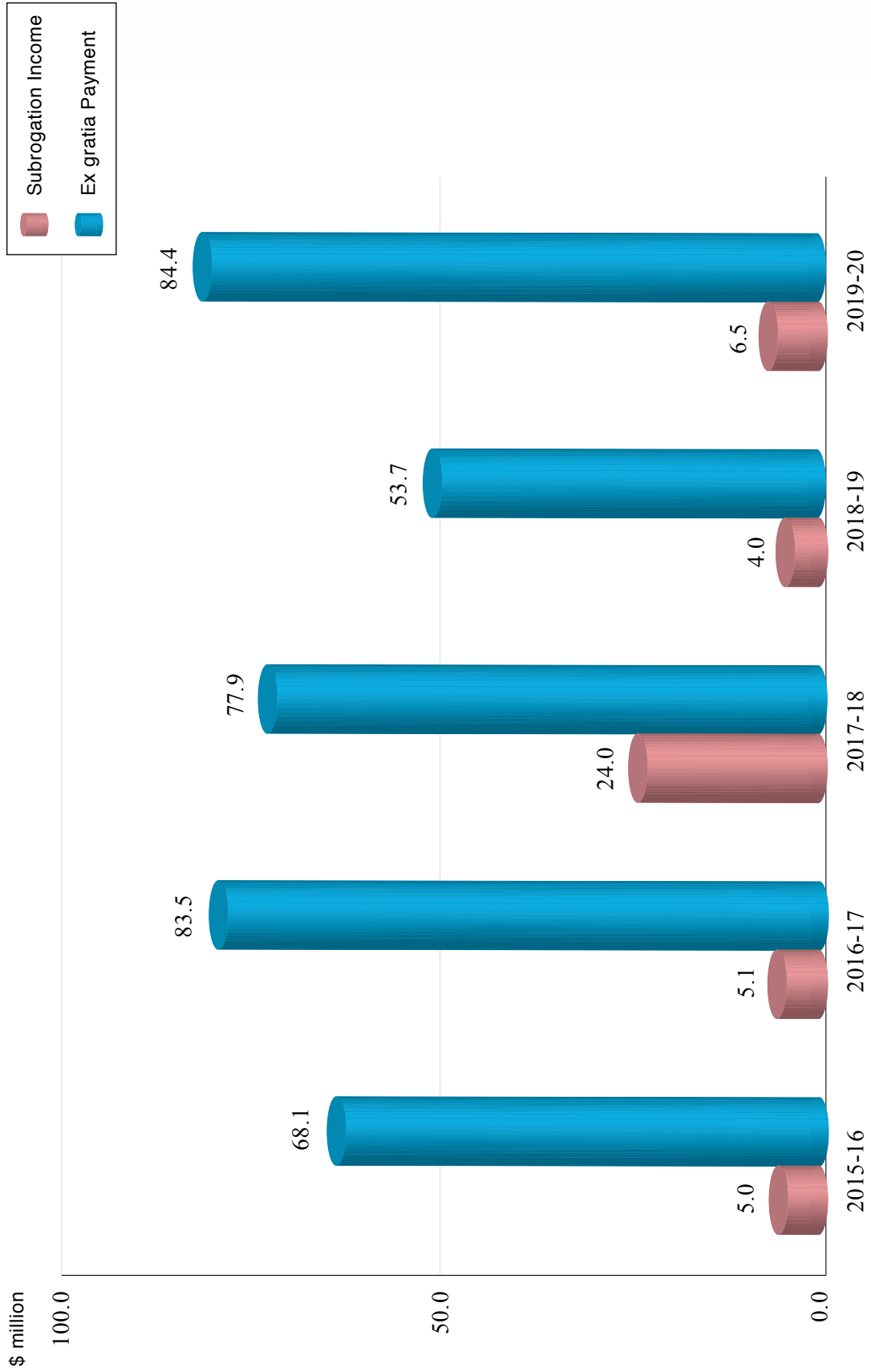


\* Bank deposit interests and money recovered through subrogation

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

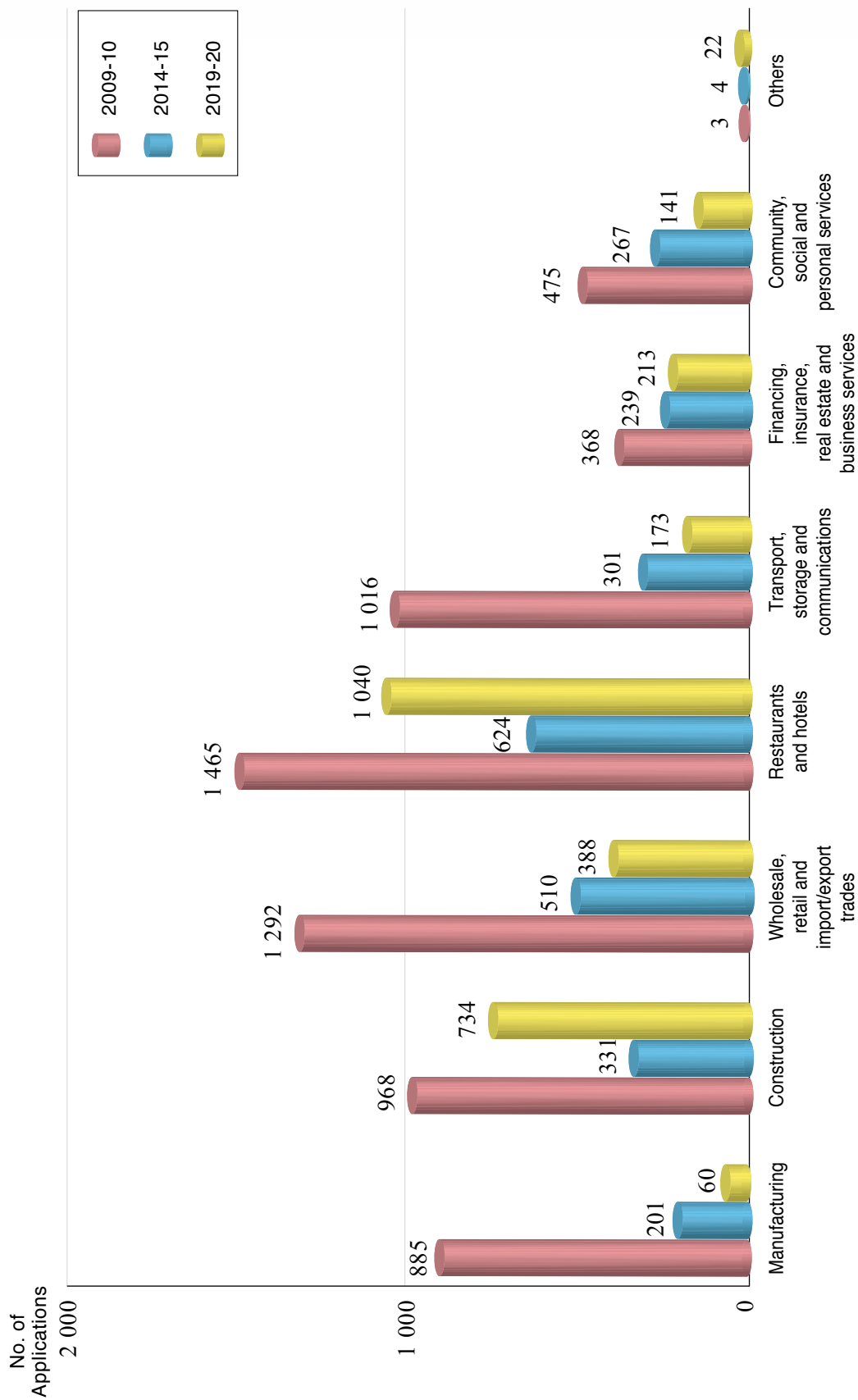
‡ Reversal of provision for potential claims for ex gratia payments and foreign exchange differences (gain)

**Figure 6**  
**Subrogation income and ex gratia payment of the Fund from 2015-16 to 2019-20**





## Analysis of applications received by economic sector in 2009-10, 2014-15 and 2019-20 (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 2020



# PROTECTION OF WAGES ON INSOLVENCY FUND

## 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 - 8
Notes to financial statements	9 - 27



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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 27, which comprise the statement of financial position as at 31 March 2020, 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 2020, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

#### Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") 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.
- 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.

**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)

- 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.

*Ernst & Young*

Certified Public Accountants

Hong Kong

28 August 2020

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2020

	Notes	2020 HK\$	2019 HK\$
INCOME	3	546,515,501	509,899,656
EXPENDITURE			
Ex gratia payments	4	84,459,034	53,716,916
Supervision fee	5	28,895,374	25,383,999
Reversal of provision for potential claims for ex gratia payments	13	( 10,110,249)	( 12,421,509)
Auditor's remuneration		109,000	106,000
Rates and building management charges		344,078	351,400
Insurance		5,981	6,522
Printing and stationery		43,700	35,800
Foreign exchange differences		27,287,948	28,368,865
Finance cost	7	46,179	-
Depreciation	11	629,713	-
Miscellaneous expenses		<u>195,598</u>	<u>1,136,966</u>
TOTAL EXPENDITURE		<u>131,906,356</u>	<u>96,684,959</u>
SURPLUS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6	<u><u>414,609,145</u></u>	<u><u>413,214,697</u></u>

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF FINANCIAL POSITION

31 March 2020

	Notes	2020 HK\$	2019 HK\$
<b>NON-CURRENT ASSETS</b>			
Property	10	-	-
Right-of-use asset	11	293,866	-
Total non-current assets		<u>293,866</u>	<u>-</u>
<b>CURRENT ASSETS</b>			
Levies receivable		38,542,400	38,155,850
Interest receivables		23,833,426	44,092,155
Sundry deposits		203,512	203,512
Time deposits	12	5,863,409,897	5,434,335,979
Cash at bank	12	1,286,467	1,377,671
Total current assets		<u>5,927,275,702</u>	<u>5,518,165,167</u>
<b>CURRENT LIABILITIES</b>			
Approved applications payable		6,246,310	3,914,337
Accrued operation expenses		109,000	114,890
Accrued supervision fee	5	28,100,000	25,800,000
Lease liability	11	279,422	-
Provision for potential claims for ex gratia payments	13	40,354,309	50,464,558
Total current liabilities		<u>75,089,041</u>	<u>80,293,785</u>
<b>NET CURRENT ASSETS</b>		<u>5,852,186,661</u>	<u>5,437,871,382</u>
Net assets		<u>5,852,480,527</u>	<u>5,437,871,382</u>
<b>FINANCED BY:</b>			
Accumulated surplus		5,835,941,740	5,421,332,595
General reserves	14	16,538,787	16,538,787
Total accumulated funds and reserves		<u>5,852,480,527</u>	<u>5,437,871,382</u>



Mr. MA Ho-fai, GBS, JP  
Chairman



Ms. Juan LEUNG Chung-yan  
Board Member



PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF CHANGES IN FUNDS AND RESERVES

Year ended 31 March 2020

	Accumulated surplus HK\$	General reserves HK\$	Total accumulated funds and reserves HK\$
At 1 April 2018	5,008,117,898	16,538,787	5,024,656,685
Surplus and total comprehensive income for the year	<u>413,214,697</u>	<u>-</u>	<u>413,214,697</u>
At 31 March 2019 and at 1 April 2019	5,421,332,595	16,538,787	5,437,871,382
Surplus and total comprehensive income for the year	<u>414,609,145</u>	<u>-</u>	<u>414,609,145</u>
At 31 March 2020	<u><u>5,835,941,740</u></u>	<u><u>16,538,787</u></u>	<u><u>5,852,480,527</u></u>

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF CASH FLOWS

Year ended 31 March 2020

	Notes	2020 HK\$	2019 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus for the year		414,609,145	413,214,697
Adjustments for:			
Bank interest income	3	( 150,150,121)	( 120,939,438)
Finance cost	7	46,179	-
Depreciation of right-of-use asset	11	629,713	-
Decrease in provision for potential claims for ex gratia payments	13	( 10,110,249)	( 12,513,299)
		255,024,667	279,761,960
Increase in levies receivable		( 386,550)	( 46,950)
Decrease in sundry deposits		-	28,616
Decrease in a prepayment		-	50,000
Increase in approved applications payable		2,331,973	30,227
(Decrease)/increase in accrued operation expenses		( 5,890)	2,740
Increase in accrued supervision fee		2,300,000	300,000
		259,264,200	280,126,593
Cash generated from operations		( 46,179)	-
Interest paid			
		259,218,021	280,126,593
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		170,408,850	101,758,328
Decrease in time deposits with original maturity over three months		1,578,574,796	62,177,756
		1,748,983,646	163,936,084
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>			
Principal portion of lease payments	15	( 644,157)	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		1,060,377,671	616,314,994
		2,007,557,510	444,062,677
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		3,067,935,181	1,060,377,671

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF CASH FLOWS (continued)

Year ended 31 March 2020

	Notes	2020 HK\$	2019 HK\$
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances	12	1,286,467	1,377,671
Time deposits with original maturity of three months or less when acquired	12	<u>3,066,648,714</u>	<u>1,059,000,000</u>
		<u>3,067,935,181</u>	<u>1,060,377,671</u>

# PROTECTION OF WAGES ON INSOLVENCY FUND

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

### 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.

During the year, 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. These financial statements are presented in Hong Kong dollars (“HK\$”).

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Fund has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effect on the Fund’s financial statements.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives and HK(SIC)-Int 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The Fund has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 April 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of accumulated surplus at 1 April 2019, and the comparative information for 2019 was not restated and continued to be reported under HKAS 17 and related interpretations.

##### New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Fund elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

##### As a lessee – Leases previously classified as operating leases

###### *Nature of the effect of adoption of HKFRS 16*

The Fund has a lease contract for a property. As a lessee, the Fund previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Fund. Under HKFRS 16, the Fund applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 April 2019, the Fund recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

###### *Impact on transition*

Lease liability at 1 April 2019 was recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019. The right-of-use asset was 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 1 April 2019.

This asset was assessed for any impairment based on HKAS 36 *Impairment of Assets* on that date. The Fund elected to present the right-of-use asset separately in the statement of financial position.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

##### Financial impact at 1 April 2019

Accordingly, the Fund recognised a right-of-use asset of HK\$923,579 and a lease liability of HK\$923,579 as at 1 April 2019.

The lease liability as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 are as follows:

	HK\$
Operating lease commitments as at 31 March 2019	983,729
Weighted average incremental borrowing rate as at 1 April 2019	<u>5%</u>
Discounted operating lease commitments and lease liability as at 1 April 2019	<u><u>923,579</u></u>

#### 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.

Amendments to HKFRS 3	<i>Definition of a Business</i> <sup>1</sup>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> <sup>4</sup>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>5</sup>
Amendments to HKFRS 16 HKFRS 17	<i>Covid-19-Related Rent Concessions</i> <sup>2</sup> <i>Insurance Contracts</i> <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> <sup>1</sup>
Amendments to HKAS 16	<i>Proceeds before Intended Use</i> <sup>4</sup>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> <sup>4</sup>
<i>Annual Improvements to HKFRSs 2018-2020 Cycle</i>	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2020

<sup>2</sup> Effective for annual periods beginning on or after 1 June 2020

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>5</sup> No mandatory effective date yet determined but available for early adoption

The Fund is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Fund considers that these new and revised HKFRSs are unlikely to have a significant impact on the Fund's profit or loss and financial position.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

##### 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.

##### Leases (applicable from 1 April 2019)

The Fund assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Leases (applicable from 1 April 2019) (continued)

###### *Fund as a lessee*

The Fund applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Fund recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### (a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease terms.

If ownership of the leased asset transfers to the Fund by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

##### (b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Fund and payments of penalties for termination of a lease, if the lease term reflects the Fund exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Fund uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g. a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

##### Leases (applicable before 1 April 2019)

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 to the statement of profit or loss on the straight-line basis over the lease terms.



## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial assets

##### *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. The Fund initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost, 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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

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 of financial assets at amortised cost (debt instruments)*

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.

##### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Fund's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund's continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Impairment of financial assets

The Fund recognises an allowance for expected credit losses (“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 considers 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.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial liabilities

###### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

###### *Subsequent measurement of financial liabilities at amortised cost (loans and borrowings)*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

##### Derecognition of financial liabilities

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.

##### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

##### 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.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 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.

Money recovered by subrogation is recognised when the amounts are received.

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 expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of financial assets.

##### 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.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 3. INCOME

An analysis of income is as follows:

	2020 HK\$	2019 HK\$
Levies	389,889,000	384,984,850
Money recovered by subrogation	6,476,380	3,975,368
Bank interest income	<u>150,150,121</u>	<u>120,939,438</u>
	<u>546,515,501</u>	<u>509,899,656</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 or 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

Year ended 31 March 2020

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:

	2020 HK\$	2019 HK\$
Minimum lease payments under operating lease	-	688,364
Employee benefit expense:		
Wages and salaries	56,993	202,293
Pension scheme contributions	2,850	10,865
	<u>59,843</u>	<u>213,158</u>

7. FINANCE COST

	2020 HK\$	2019 HK\$
Interest on lease liability	<u>46,179</u>	<u>-</u>

8. 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 (2019: Nil).

# PROTECTION OF WAGES ON INSOLVENCY FUND

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

### 9. INCOME TAX

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

### 10. PROPERTY

Land and  
building  
HK\$

#### 31 March 2020

At 1 April 2018, 31 March 2019, 1 April 2019 and 31 March 2020:

Cost	27,474,677
Accumulated depreciation	( 27,474,677)
Net carrying amount	<u><u>-</u></u>

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

### 11. LEASE

The Fund has a lease contract for storeroom used in its operations. Lease of storeroom has lease term of 2 years. The Fund is restricted from assigning and subleasing the leased asset outside the Fund. The information of operating lease commitments before adoption of HKFRS 16 is disclosed in note 16 to the financial statements.

#### (a) Right-of-use asset

The carrying amount of the Fund's right-of-use asset and the movements during the year are as follows:

	Storeroom HK\$
At 1 April 2019	923,579
Depreciation charge	( 629,713)
At 31 March 2020	<u><u>293,866</u></u>

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

11. LEASE (continued)

(b) Lease liability

The carrying amount of lease liability and the movements during the year are as follows:

	2020 HK\$
Carrying amount at 1 April	923,579
Accretion of interest recognised during the year	46,179
Payments	<u>( 690,336)</u>
Carrying amount at 31 March	<u>279,422</u>

(c) The amounts recognised in profit or loss in relation to the lease are as follows:

	2020 HK\$
Interest on lease liability	46,179
Depreciation charge of right-of-use asset	<u>629,713</u>
Total amount recognised in profit or loss	<u>675,892</u>

12. CASH AT BANKS AND TIME DEPOSITS

	2020 HK\$	2019 HK\$
Bank balances	1,286,467	1,377,671
Time deposits with original maturity of:		
Three months or less	3,066,648,714	1,059,000,000
More than three months to 12 months, inclusive	<u>2,796,761,183</u>	<u>4,375,335,979</u>
	<u>5,863,409,897</u>	<u>5,434,335,979</u>

At the end of the reporting period, the cash at bank and time deposits of the Fund denominated in Renminbi (“RMB”) amounted to RMB368,608,498 (equivalent to approximately HK\$402,409,897) (2019: RMB353,269,473 (equivalent to approximately HK\$412,336,129)).



PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

13. PROVISION

	2020 HK\$	2019 HK\$
At beginning of year	50,464,558	62,977,857
Amounts utilised during the year	-	( 91,790)
Reversal of unutilised amounts	<u>( 10,110,249)</u>	<u>( 12,421,509)</u>
At end of year	<u>40,354,309</u>	<u>50,464,558</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.

14. GENERAL RESERVES

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

# PROTECTION OF WAGES ON INSOLVENCY FUND

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

### 15. NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Reconciliation of liability arising from a financing activity

	Lease liability HK\$
At 31 March 2019	-
Effect of adoption of HKFRS 16	<u>923,579</u>
At 1 April 2019 (as restated)	923,579
Changes from financing cash flows	( 644,157)
Interest expense	46,179
Interest paid classified as operating cash flows	<u>( 46,179)</u>
At 31 March 2020	<u><u>279,422</u></u>

#### (b) Total cash outflow for the lease

The total cash outflow for the lease included in the statement of cash flows is as follows:

	2020 HK\$
Within operating activities	46,179
Within financing activities	<u>644,157</u>
	<u><u>690,336</u></u>

### 16. OPERATING LEASE COMMITMENT

The Fund leased 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\$
Within one year	690,336
Within two to five years, inclusive	<u>293,393</u>
	<u><u>983,729</u></u>

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 17. CONTINGENT LIABILITIES

At 31 March 2020, 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\$133,978,096 (2019: HK\$215,568,375).

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.

#### 18. FINANCIAL INSTRUMENTS BY CATEGORY

The financial assets of the Fund comprise levies receivables, interest receivables, sundry deposits, time deposits and cash at bank which are categorised as financial assets at amortised cost. The carrying amounts of these financial assets are the amounts shown on the face of the statement of financial position.

The financial liabilities of the Fund comprise approved applications payable, accrued operation expenses, accrued supervision fee and lease liability which are categorised as financial liabilities at amortised cost. The carrying amounts of these financial liabilities are the amounts shown on the face of the statement of financial position.

#### 19. FAIR VALUE

The Board has assessed that the fair values of levies receivable, interest receivables, sundry deposits, time deposits, cash at bank, approved applications payable, accrued operation expenses, accrued supervision fee and lease liability approximate to their carrying amounts largely due to the short term maturities of these instruments.

#### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Fund's financial instruments are foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees on the policies for managing each of these risks and they are summarised below.

##### *Foreign currency risk*

The Fund has transactional currency exposures. The Fund's major exposures of foreign currency risk arise from changes in exchange rate of RMB against HK\$.

The Fund currently does not have a foreign currency hedging policy. However, the Board monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Foreign currency risk (continued)*

The following table demonstrates the sensitivity of the Fund's surplus to a reasonably possible change in RMB exchange rate at the end of the reporting period, with all other variables held constant.

	Change in the rate %	Increase/ (decrease) in surplus HK\$
<u>2020</u>		
If HK\$ weakens against RMB	1	4,024,099
If HK\$ strengthens against RMB	<u>( 1)</u>	<u>( 4,024,099)</u>
<u>2019</u>		
If HK\$ weakens against RMB	1	4,123,361
If HK\$ strengthens against RMB	<u>( 1)</u>	<u>( 4,123,361)</u>

*Credit risk*

The credit risk of the Fund's financial assets, which comprise levies receivable, interest receivables, sundry deposits, time deposits and cash at bank, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. All of the Fund's bank balances are held in major financial institutions, which the Board believes are of high credit quality.

Maximum exposure and year-end staging

The credit quality and the maximum exposure to credit risk based on the Fund's credit policy is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 March.

The maximum exposure of the Fund's other financial assets, which comprise levies receivable, interest receivables, sundry deposits, time deposits and cash at bank, equal to the aggregate carrying amount of these instruments.

Levies receivable, interest receivables, sundry deposits, time deposits and cash at bank are classified within Stage 1 and their loss allowance are measured at an amount equal to 12-month ECLs. The credit quality of levies receivable and interest receivables is considered to be "normal" when they are not past due and there is no information indicating that the levies receivable and interest receivables had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the levies receivable and interest receivables is considered to be "doubtful".

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### *Liquidity risk*

The Fund aims to maintain sufficient cash to meet its liquidity requirements.

The maturity profile of the Fund's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2020 Repayable on demand/less than 1 year HK\$
Approved applications payable	6,246,310
Accrued operation expenses	109,000
Accrued supervision fee	28,100,000
Lease liability	<u>293,393</u>
	<u>34,748,703</u>
	2019 Repayable on demand/less than 1 year HK\$
Approved applications payable	3,914,337
Accrued operation expenses	114,890
Accrued supervision fee	<u>25,800,000</u>
	<u>29,829,227</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 2020 and 31 March 2019.

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2020

#### 21. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Fund adopted HKFRS 16 on 1 April 2019 using the modified retrospective method. Under this method, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

#### 22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 28 August 2020.