



Annual Report

CONTENTS

	Page
Chairman's Foreword	4-5
Membership List of the Protection of Wages on Insolvency Fund Board 2020-21	6-7
Introduction	8
Protection of Wages on Insolvency Fund Board	8
Protection of Wages on Insolvency Fund	8-11
Maximum amount of ex gratia payment payable by the Fund	9
Prerequisites for making ex gratia payment from the Fund	10
Subrogation rights of the Fund	10-11
Application of the Fund's reserve	11
Annual Review of Applications Received and Processed	11-12
Applications received	11-12
Applications processed	12
Meetings of the Protection of Wages on Insolvency Fund Board	13
Financial Position of the Protection of Wages on Insolvency Fund	13
Activities Highlight	14-15
Publicity and promotion for the Fund	14
Achievements of the inter-departmental Task Force	15



		Page
Appendix I	Operating results of the Protection of Wages on Insolvency Fund in 2020-21	17-20
Appendix II	Breakdown of applications for ex gratia payment received in 2020-21	21-24
Appendix III	Analysis of ex gratia payment approved in 2020-21	25-28
Appendix IV	Comparative figures on the performance of the Protection of Wages on Insolvency Fund from 2016-17 to 2020-21	29-32
Appendix V	Analysis of applications received by economic sector in 2010-11, 2015-16 and 2020-21	33
Appendix VI	Independent Auditor's Report and Audited Financial Statements for the year ended 31 March 2021	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 2020 to 31 March 2021 (the year).

The economy of Hong Kong was hard hit by the COVID-19 pandemic. The Protection of Wages on Insolvency Fund (the Fund) recorded a significant rise in the number of applications in the year from employees who were owed wages and other statutory entitlements due to insolvency of their employers, the increase was particularly visible in the third quarter of 2020. Hong Kong's economy faced some fluctuations along with the local epidemic development. The number of applications received by the Fund is closely related to the pulse of Hong Kong's economy and hence the impact of the pandemic to the Fund should not be overlooked. In the year, the Fund received a total of 3 249 applications, an increase of 17.3% as compared with the figure of 2 771 in the preceding year. In addition, the Fund approved a total of 2 636 applications with a total payout of \$84.5 million of ex gratia payment, a drop of 1.1% and a mild rise of 0.1% respectively over the figures in the preceding year¹. During the period, the Board and staff of the Wage Security Division of the Labour Department (LD) have, through our unfailing 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 statutory functions of the Board include administering the Fund and making recommendations to the Chief Executive with regard to the rate of levy on Business Registration Certificates (BRCs) (the relevant levy is the main source of funding of the Fund). To this end, the Board has been monitoring closely the financial position of the Fund. The Fund has a surplus of \$445.5 million in the year and an accumulative surplus of \$6,298.0 million by the end of March 2021.

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 covered as well as of the rate of levy on BRCs. In the process of discussion, the

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



Board has to examine conscientiously and objectively all the relevant information, including the 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, with a view to enhancing the coverage of the Fund on one hand and maintaining the financial stability of the Fund on the other hand.

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. Thanks to their rich experience and professional knowledge, members provided valuable views in administering the Fund in the past year. In the face of the uncertainties caused by the pandemic to Hong Kong's economic outlook and a continuous upward 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 2021

MEMBERSHIP LIST OF THE PROTECTION OF WAGES ON INSOLVENCY FUND BOARD 2020-21

Chairman

Mr. MA Ho-fai, GBS, JP

Members

Representing employees

Mr. CHU Yin-cheong

Mr. LAM Chun-sing

Ms. Juan LEUNG Chung-yan, MH

Representing employers

Mr. Mohan DATWANI

Mrs. Susan SO CHAN Wai-hang, SBS

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 2020-21



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. Mohan DATWANI

Representing employers

Mr. CHU Yin-cheong

Representing employees

Ms. Juan LEUNG Chung-yan, MH

Representing employees

Ms. Maureen CHAN Mei-lin

Assistant Principal Solicitor, Official Receiver's Office

Front row from left:

Ms. Elizabeth LAW, MH, JP

Representing employers

Mr. MA Ho-fai, GBS, JP

Chairman

Mrs. Susan SO CHAN Wai-hang, SBS

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 2021.

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 ²

During the year 2020-21, 3 249 applications involving ex gratia payment of \$266.6 million applied for were received from employees. A total of 477 suspected insolvency cases were recorded. Detailed breakdown of the applications is at **Appendix I**.

Of the 477 suspected insolvency cases, 445 involved less than 20 employees per case, 27 involved 20 to 49 employees per case, and the remaining five involved 50 to 99 employees per case.

During the year, the food and beverage service activities recorded the largest number of applications, with 994 applications involving a total amount of \$42.2 million. This was followed by the retail trade with 444 applications and a total amount of \$45.9 million, and construction industry with 433 applications and a total amount of \$25.4 million. These three trades accounted for 57.6% of all applications and 42.6% of the total amount applied for.

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



Out of the total 3 249 applications in the year, 2 728 applied for ex gratia payment on arrears of wages, 2 190 applied for payment on wages in lieu of notice, 967 applied for payment on severance payment and 1 893 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 ³

A total of 2 636 applications were approved during the year, with payment amounting to \$84.5 million being made⁴. Among these applications, a total payment of \$47.4 million was made to 1 360 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 43.5% of applications for arrears of wages, 59.5% of applications for wages in lieu of notice, 12.9% of applications for severance payment⁵, and 32.6% of applications for pay for untaken annual leave and/or pay for untaken statutory holidays.

The Commissioner for Labour refused 131 applications involving a total amount of \$9.9 million, mostly for reasons such as insufficient evidence, applications without legal backing, or applications made outside the qualifying period. At the same time, 248 applications involving a total amount of \$18.8 million were withdrawn, mainly as a result of direct settlement between employees and their employers or liquidators.

Appendices IV and **V** set out the comparative figures on the Fund's performance for the past five to ten years.

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

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

⁵ 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 and deposit arrangement of the Fund, etc.

FINANCIAL POSITION OF THE PROTECTION OF WAGES ON INSOLVENCY FUND

During the year, the Fund had a total income of \$506.0 million, of which \$401.5 million was levy income. The total expenditure (excluding year-end adjustments⁶) was \$111.4 million, of which \$84.5 million was expenditure on ex gratia payment. The Fund registered a surplus of \$445.5 million as compared with a surplus of \$414.6 million in the previous financial year. As at 31 March 2021, the Fund's accumulated surplus stood at \$6,298.0 million.

A copy of the independent auditor's report and the audited financial statements for the year ended 31 March 2021 is at **Appendix VI**.

Year-end adjustments refer to reversal of provision for potential claims for shortfall in ex gratia payment on severance payment and foreign exchange difference (gain) amounting to \$50.9 million.



ACTIVITIES HIGHLIGHT

Publicity and promotion for the Fund

During the year, the Labour Department continued to carry out various activities, including organising the Online Employment Ordinance Exhibition. In the online exhibition, the Fund, the provisions of the Ordinance and matters relating to employees' applications for ex gratia payment from the Fund were also publicised.



Due to the pandemic of COVID-19, the Labour Department organised the Online Employment Ordinance Exhibition containing brief information about the Fund.



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 2020-21, the court had disqualified a total of seven company responsible persons involved in abuse of the Fund from being directors or taking part in the promotion, formation or management of a company, with the disqualification period ranging from two and a half years to five years. Apart from the above, the Labour Department adopted a multipronged 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 674 convicted summonses in respect of wage offences. Of these, 214 convictions were against company directors and responsible officers.

Appendices



Operating results of the Protection of Wages on Insolvency Fund in 2020-21

I. Breakdown of applications by resul	t				
(1) No. of cases received					477
				=	
(2) No. of applications					
(i) brought forward from last period	1				1 783
received this period reconsidered this period					3 249
reconsidered this period				-	5 040
				=	3 0 4 0
(ii) processed					3 015
approved					2 636
refused					131
withdrawn				<u>.</u>	248
outstanding					2 018
put aside *				-	5 040
				=	3 040
(3) Amount of ex gratia payment		Wages		Pay for untaken annual	
(in HK\$'000) applied for	Arrears of wages	in lieu of	Severance payment	leave and/or pay for	
	UI Wayes	notice	payment	untaken statutory holidays	HK\$'000
(i) brought forward from last period					133,978
received this period	118,712 -			· ·	266,606
reconsidered this period	990 -	378	+ 431 -	178 =	1,977
		101			402,561
	Arrears	Wages in lieu of	Severance	Pay for untaken annual leave and/or pay for	
	of wages	notice	payment	untaken statutory holidays	HK\$'000
(ii) approved	47,045 -	21,358	+ 9,650 -	6,449 =	84,502
screened					127,926
refused					9,936
withdrawn					18,790
outstanding put aside * }					161 407
put aside "				-	161,407 402,561
				=	402,301
(4) No. of applications seeking review b	y the Fund l	Board			0
				=	
II. Presentation of petition in relation	o applicati	ons approved	d		
(1) No. of applications where a winding					1 222
(2) No. of applications where a bankrup					54
(3) No. of applications dealt with under			-	Insolvency Ordinance	1 351
(4) No. of applications dealt with under Wages on Insolvency Ordinance	S.16(1)(a)(1	i) of the Prote	ection of		9
wages on hisorvency Ordinance				-	2 636
				=	
III. Breakdown of cases by employment	size				
(1) Less than 20 employees					445
(2) 20 ~ 49 employees					27
(3) $50 \sim 99$ employees					5
(4) 100 or more employees				-	0
				=	477

Applications pending private settlement or withdrawal.

Operating results of the Protection of Wages on Insolvency Fund in 2020-21

IV. Breakdov	vn 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, pa for untaken annual lear and/or pay for untake statutory holidays)	
Division C	Manufacturing				
Sub-group	•				
10	Manufacture of food products	17	(4)	\$	1,252,304.83
11	Manufacture of beverages	6	(1)	\$	438,049.94
13	Manufacture of textiles	1	(1)	\$	21,879.78
14	Manufacture of wearing apparel	45	(6)	\$	9,964,565.98
17	Manufacture of paper and paper products	37	(2)	\$	1,235,743.97
18	Printing and reproduction of recorded media	1	(1)	\$	296,332.78
20	Manufacture of chemicals and chemical products	1	(1)	\$	131,500.00
21	Manufacture of pharmaceuticals, medicinal chemical and botanical products	1	(1)	\$	144,793.92
22	Manufacture of rubber and plastics products (except furniture, toys, sports goods and stationery)	32	(4)	\$	5,123,924.95
25	Manufacture of fabricated metal products (except machinery and equipment)	2	(1)	\$	653,632.05
27	Manufacture of electrical equipment	1	(0)#	\$	12,903.21
28	Manufacture of machinery and equipment n.e.c.	3	(2)	\$	736,418.87
29	Body assembly of motor vehicles	1	(1)	\$	324,377.46
31	Manufacture of furniture	3	(1)	\$	233,484.93
33	Repair and installation of machinery and equipment	2	(1)	\$	107,962.21
Division E	Water supply; sewerage, waste management and remediation activities				
Sub-group					
38	Waste collection, treatment and disposal activities; materials recovery	1	(1)	\$	60,095.75
39	Remediation activities and other waste management services	1	(1)	\$	7,618.64
Division F	Construction	433	(82)	\$	25,397,391.91
Division G Sub-group	Import/export, wholesale and retail trades				
45	Import and export trade	332	(50)	\$	44,976,404.21
46	Wholesale	59	(23)	\$	7,054,651.30
47	Retail trade	444	(41)	\$	45,855,832.35

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 2020-21

Hong Kong Standard Industrial Classification	Industry in which applicants worked		. of ations ~	wage seven for un and/	count applied for including wages, es in lieu of notice, rance payment, pay intaken annual leave or pay for untaken attutory holidays)
Division H	Transportation, storage, postal and courier services				
Sub-group 49	Lond transport	32	(1.4)	Φ.	1 702 024 90
50	Land transport Water transport	7	(14)	\$ \$	1,792,924.89 989,373.72
51	Air transport	18	(2)		1,922,461.41
53	Postal and courier activities	51	(2)	\$ \$	
	Postal and courier activities	31	(3)	Ъ	3,863,416.85
Division I Sub-group	Accommodation and food service activities				
55	Short term accommodation activities	23	(1)	\$	1,348,487.46
56	Food and beverage service activities	994	(85)	\$	42,201,185.41
Division J Sub-group	Information and communications				
58	Publishing activities	13	(1)	\$	1,423,205.16
59	Motion picture, video and television programme production, sound recording and music publishing activities	21	(5)	\$	4,728,298.47
60	Programming and broadcasting activities	5	(1)	\$	869,484.77
61	Telecommunications	8	(1)	\$	504,079.80
62	Information technology service activities	57	(14)	\$	7,728,850.51
Division K Sub-group	Financial and insurance activities				
64	Financial service activities (except insurance and pension funding)	100	(23)	\$	15,431,977.98
Division L	Real estate activities	28	(3)	\$	585,149.43
Division M Sub-group	Professional, scientific and technical activities				
69	Legal and accounting activities	8	(4)	\$	373,930.33
70	Activities of head offices; management and management consultancy activities	31	(3)	\$	4,382,945.74
71	Architecture and engineering activities, technical testing and analysis	18	(1)	\$	2,625,326.94
73	Veterinary activities	1	(1)	\$	30,993.50
74	Advertising and market research	15	(6)	\$	1,410,707.37
75	Other professional, scientific and technical activities	26	(2)	\$	2,761,509.31

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 2020-21

Hong Kong Standard Industrial Classification	Industry in which applicants worked		o. of ations ~	wag seve for u	nount applied for including wages, ses in lieu of notice, trance payment, pay ntaken annual leave /or pay for untaken atutory holidays)
Division N	Administrative and support service activities				
Sub-group			(4)		0.46.044.00
77	Rental and leasing activities	2	(1)	\$	946,211.92
78	Employment activities	19	(5)	\$	834,809.37
79	Travel agency, reservation service and related activities	38	(10)	\$	1,608,377.74
80	Security and investigation activities	6	(1)	\$	214,536.98
81	Services to buildings and landscape care activities	6	(1)	\$	81,521.20
82	Office administrative, office support and other business support activities	39	(9)	\$	5,032,675.61
Division P	Education	13	(7)	\$	861,457.80
Division Q Sub-group	Human health and social work activities				
86	Human health activities	22	(3)	\$	1,335,347.94
88	Social work activities without accommodation	7	(2)	\$	396,070.40
Division R Sub-group	Arts, entertainment and recreation				
90	Creative and performing arts activities	3	(2)	\$	57,401.61
91	Libraries, archives, museums and other cultural activities	5	(1)	\$	3,121,722.00
92	Activities of amusement parks and theme parks	1	(1)	\$	11,322.15
93	Sports and other entertainment activities	43	(4)	\$	1,854,372.41
Division S Sub-group	Other service activities				
94	Activities of membership organisations	4	(2)	\$	226,894.85
96	Other personal service activities	157	(27)	\$	10,744,412.59
Division T Sub-group	Work activities within domestic households				
97	Activities of households as employers of domestic personnel	5	(4)	\$	274,187.46
	Total	: 3 249	(477)	\$	266,605,500.12

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.

I. Arrears of wages

A. By amount

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

Amount	No. of applications	Percentage
Not applied for	521	16.04
\$8,000^ or less	424	13.05
\$8,001 - \$18,000	568	17.48
\$18,001 - \$24,000	285	8.77
\$24,001 - \$27,000	150	4.62
\$27,001 - \$30,000	141	4.34
\$30,001 - \$33,000	122	3.76
\$33,001 - \$36,000+	118	3.63
\$36,001 - \$39,000	108	3.32
More than \$39,000	812	24.99
To	tal: 3 249	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
Not applied for	722 [×]	22.22
Half month or less	495	15.24
More than 1/2 month to 1 month	525	16.16
More than 1 month to 2 months	849	26.13
More than 2 months to 3 months	352	10.83
More than 3 months to 4 months ⁺	163	5.02
More than 4 months	143	4.40
Total:	3 249	100.00

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

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

Including 201 applications only applied for overtime pay and/or items that could be deemed to be wages.

II. Wages in lieu of notice

A. By amount

Amount	No. of applica	tions Percentage
Not applied for	1 059	32.59
2,000 to less	89	2.74
\$2,001 - \$6,000	331	10.19
\$6,001 - \$10,000	206	6.34
\$10,001 - \$15,000	318	9.79
\$15,001 - \$22,500 "	550	16.93
\$22,501 - \$25,000	154	4.74
More than \$25,000	542	16.68
	Total: 3 249	100.00

B. By notice period

Notice period	No. of applications	Percentage
Not applied for	1 059	32.59
1 day - 7 days	550	16.93
8 days - 14 days	64	1.97
15 days	19	0.58
16 days - less than 1 month	60	1.85
1 month ^{‡ ¤}	1 336	41.12
More than 1 month	161	4.96
	Total: 3 249	100.00

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

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

III. Severance payment [®]

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

A. By amount

Amount	No. of applications	Percentage
Not applied for	2 282	70.26
\$8,000 * or less	90	2.77
\$8,001 - \$36,000	288	8.86
\$36,001 - \$50,000	169	5.20
\$50,001 - \$80,000	144	4.43
\$80,001 - \$110,000	91	2.80
\$110,001 - \$140,000	58	1.79
\$140,001 - \$170,000	32	0.98
\$170,001 - \$200,000	23	0.71
\$200,001 - \$250,000	30	0.92
\$250,001 - \$300,000	18	0.55
\$300,001 - \$350,000	15	0.46
\$350,001 - \$370,000	3	0.09
\$370,001 - \$390,000	4	0.12
More than \$390,000	2	0.06
Т	otal : 3 249	100.00

B. By length of service

Length of service	No. of applications	Percentage
Not applied for or less than 2 years' service	2 287 ∞	70.39
2 years - less than 5 years	472	14.53
5 years - less than 6 years	75	2.31
6 years - less than 7 years	75	2.31
7 years - less than 8 years	46	1.42
8 years - less than 9 years	40	1.23
9 years - less than 10 years	40	1.23
10 years - less than 15 years	91	2.80
15 years - less than 20 years	70	2.15
20 years - less than 25 years	25	0.77
25 years - less than 30 years	17	0.52
30 years - less than 35 years	9	0.28
35 years - less than 39 years	2	0.06
39 years - less than 41 years	0	0.00
41 years - less than 43 years	0	0.00
43 years and over	0	0.00
Total	3 249	100.00

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

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

Including 5 applications with less than 2 years of service.

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

A. By amount

Amount	No	o. of applications	Percentage
Not applied for		1 356	41.74
\$2,000 or less		345	10.62
\$2,001 - \$4,000		399	12.28
\$4,001 - \$6,000		310	9.54
\$6,001 - \$8,000		185	5.69
\$8,001 - \$10,500 ⁹⁸		164	5.05
\$10,501 - \$20,000		291	8.96
More than \$20,000		199	6.12
	Total :	3 249	100.00

B. By leave year of pay for untaken annual leave

Leave year	No. of applications	Percentage
Not applied for	1 383	42.57
1 year or less	1 293	39.80
More than 1 year to less than 2 years **	388	11.94
2 years or above	185	5.69
Total:	3 249	100.00

C. By period involved in pay for untaken statutory holidays

Period	No. of applications	Percentage
Not applied for	2 798	86.12
2 months or less	184	5.66
More than 2 months to 4 months [₩]	59	1.82
More than 4 months	208	6.40
Total	3 249	100.00

Maximum limit of ex gratia payment on pay for untaken annual leave and/or pay for untaken statutory holidays under the Protection of Wages on Insolvency Ordinance, i.e. 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.

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	338	12.82
\$4,000 or less	243	9.22
\$4,001 - \$8,000	253	9.60
\$8,001 - \$10,000	117	4.44
\$10,001 - \$12,000	114	4.32
\$12,001 - \$14,000	127	4.82
\$14,001 - \$16,000	95	3.60
\$16,001 - \$18,000	114	4.32
\$18,001 - \$28,000	451	17.11
\$28,001 - \$36,000 [#]	784	29.75
Tota	ıl: 2 636	100.00

As a percentage of the amount applied for	Percentage of the relevant applications over the total number of approved applications
100%	43.53
90% or above	61.55
80% or above	68.97
70% or above	73.74
60% or above	79.30
50% or above	84.11
40% or above	87.89
30% or above	92.01
20% or above	95.66
10% or above	97.83
5% or above	99.00

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

II. Wages in lieu of notice

A. By amount

Amount		No. of applications	Percentage
Not applied for/Not approved		834	31.63
\$2,000 or less		67	2.54
\$2,001 - \$3,000		138	5.24
\$3,001 - \$4,000		166	6.30
\$4,001 - \$5,000		159	6.03
\$5,001 - \$6,000		152	5.77
\$6,001 - \$10,000		205	7.78
\$10,001 - \$22,500 [†]		915	34.71
	Total :	2 636	100.00

As a percentage of the amount applied for	Percentage of the relevant applications over the total number of approved applications
100%	59.54
90% or above	68.26
80% or above	75.19
70% or above	79.25
60% or above	83.02
50% or above	86.51
40% or above	89.23
30% or above	91.01
20% or above	96.89
10% or above	99.17
5% or above	99.61

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

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	2 201	83.49
\$8,000 or less	137	5.19
\$8,001 - \$22,000	136	5.16
\$22,001 - \$36,000	75	2.85
\$36,001 - \$50,000	31	1.18
\$50,001 - \$80,000	44	1.67
\$80,001 - \$110,000	11	0.42
\$110,001 - \$140,000	1	0.04
\$140,001 - \$170,000	0	0.00
\$170,001 - \$200,000	0	0.00
\$200,001 - \$210,000	0	0.00
\$210,001 - \$220,000 [*]	0	0.00
Total	2 636	100.00

As a percentage of the amount applied for	Percentage of the relevant applications over the total number of approved applications
100%	12.90
90% or above	27.42
80% or above	35.02
70% or above	38.94
60% or above	42.40
50% or above	44.01

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

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

A. By amount

1 276	
1 270	48.41
100	3.79
445	16.88
289	10.96
175	6.64
351	13.32
Total: 2 636	100.00
	445 289 175 351

As a percentage of the amount applied for	Percentage of the relevant applications over the total number of approved applications
100%	32.57
90% or above	40.15
80% or above	45.37
70% or above	50.51
60% or above	57.79
50% or above	68.53
40% or above	77.65
30% or above	86.18
20% or above	91.25
10% or above	96.54
5% or above	98.97

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 2016-17 to 2020-21

Figure 1

Number of applications received by the Fund from 2016-17 to 2020-21 (excluding claims for shortfall in ex gratia payment on severance payment)

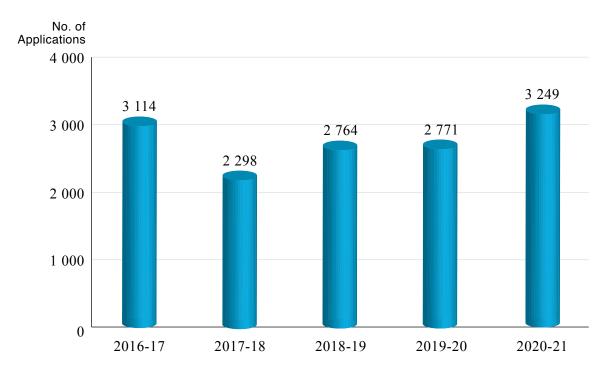
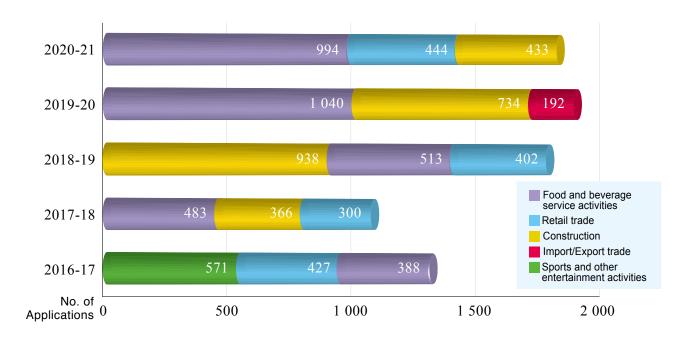


Figure 2
First three industries with the largest number of applications received from 2016-17 to 2020-21
(excluding claims for shortfall in ex gratia payment on severance payment)



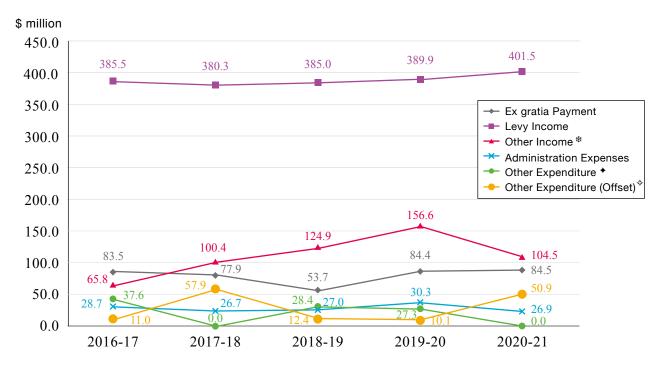
Number of applications and amount of ex gratia payment approved from 2016-17 to 2020-21 (excluding claims for shortfall in ex gratia payment on severance payment) Figure 3



Figure 4
Total income and expenditure of the Fund from 2016-17 to 2020-21



Figure 5
Breakdown of income and expenditure of the Fund from 2016-17 to 2020-21



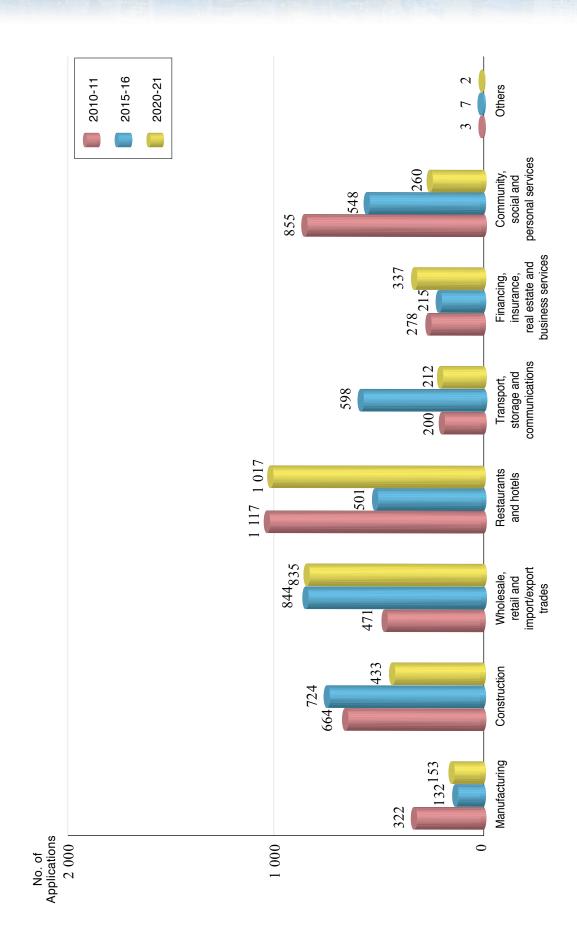
- * Bank deposit interests and money recovered through subrogation
- Provision for potential claims for ex gratia payments and foreign exchange differences (loss)
- * Reversal of provision for potential claims for ex gratia payments and foreign exchange differences (gain)

Figure 6 Subrogation income and ex gratia payment of the Fund from 2016-17 to 2020-21



Analysis of applications received by economic sector in 2010-11, 2015-16 and 2020-21

(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 2021



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 - 24



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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 24, which comprise the statement of financial position as at 31 March 2021, 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for opinion

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

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

The Protection of Wages on Insolvency Fund Board (the "Board") is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Independent auditor's report (continued)

To members of the Protection of Wages on Insolvency Fund Board (Established under the Protection of Wages on Insolvency Ordinance)

Responsibilities of the Board for the financial statements

The Board is responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Protection of Wages on Insolvency Ordinance, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Certified Public Accountants

Fract + Joung

Hong Kong 26 August 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2021 HK\$	2020 HK\$
INCOME	3	506,008,011	546,515,501
EXPENDITURE			
Ex gratia payments	4	84,537,725	84,459,034
Supervision fee	5	25,229,461	28,895,374
Reversal of provision for potential claims		,,	
for ex gratia payments	13	(16,261,868)	(10,110,249)
Auditor's remuneration		113,000	109,000
Rates and building management charges		358,108	344,078
Insurance		5,725	5,981
Printing and stationery		42,000	43,700
Foreign exchange differences		(34,639,554)	27,287,948
Finance cost	7	76,726	46,179
Depreciation	11	628,557	629,713
Miscellaneous expenses		133,766	195,598
Legal and professional fee		279,046	_
TOTAL EXPENDITURE		60,502,692	131,906,356
SURPLUS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6	445,505,319	414,609,145
	Ü	=======================================	717,007,143

STATEMENT OF FINANCIAL POSITION

31 March 2021

	Notes	2021 HK\$	2020 HK\$
NON CURRENT ACCETO			
NON-CURRENT ASSETS Property	10		
Right-of-use asset	10 11	020 402	202.866
Total non-current assets	11	920,402	293,866
Total non-entent assets		920,402	293,866
CURRENT ASSETS			
Levies receivable		42,786,850	29 542 400
Interest receivables		31,270,993	38,542,400 23,833,426
Sundry deposits		204,512	203,512
Prepayment		28,764	203,312
Time deposits	12	6,275,476,152	5,863,409,897
Cash at bank	12	2,955,260	1,286,467
Total current assets		6,352,722,531	5,927,275,702
		0,552,722,551	3,721,213,102
CURRENT LIABILITIES			
Approved applications payable		4,261,977	6,246,310
Accrued operation expenses		113,000	109,000
Accrued supervision fee	5	26,240,000	28,100,000
Lease liability	11	642,853	279,422
Provision for potential claims for ex gratia payments	13	24,092,441	40,354,309
Total current liabilities		55,350,271	75,089,041
			,,,,,,,,,
NET CURRENT ASSETS		6,297,372,260	5,852,186,661
			3,032,100,001
TOTAL ASSETS LESS CURRENT LIABILITIES		6,298,292,662	5,852,480,527
			3,032,400,327
NON-CURRENT LIABILITY			
Lease liability	11	306,816	
•	**		
Net assets		6,297,985,846	5 852 480 527
			5,852,480,527
FINANCED BY:			
Accumulated surplus		6001 447 050	5.005.044.540
General reserves	14	6,281,447,059	5,835,941,740
Gonoral Tosol Ves	14	16,538,787	16,538,787
Total accumulated funds and reserves		(207 005 046	5.050 400 500
Total accumulated funds and reserves		6,297,985,846	5,852,480,527
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Mr. MA Ho-fai, GBS, JP

Chairman

Ms. Juan LEUNG Chung-yan, MH Board Member

STATEMENT OF CHANGES IN FUNDS AND RESERVES

	Accumulated surplus HK\$	General reserves HK\$	Total accumulated funds and reserves HK\$
At 1 April 2019	5,421,332,595	16,538,787	5,437,871,382
Surplus and total comprehensive income for the year	414,609,145		414,609,145
At 31 March 2020 and at 1 April 2020	5,835,941,740	16,538,787	5,852,480,527
Surplus and total comprehensive income for the year	445,505,319		445,505,319
At 31 March 2021	6,281,447,059	16,538,787	6,297,985,846

STATEMENT OF CASH FLOWS

	Notes	2021 HK\$	2020 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES Surplus for the year Adjustments for: Bank interest income	3	445,505,319 (99,202,462)	414,609,145 (150,150,121)
Finance cost Depreciation charge of right-of-use asset Reversal of provision for potential claims for ex gratia payments	7 11	76,726 628,557 (16,261,868)	46,179 629,713 (10,110,249)
Increase in levies receivable Increase in sundry deposits Increase in a prepayment (Decrease)/increase in approved applications payable Increase/(decrease) in accrued operation expenses (Decrease)/increase in accrued supervision fee		330,746,272 (4,244,450) (1,000) (28,764) (1,984,333) 4,000 (1,860,000)	255,024,667 (386,550) - - 2,331,973 (5,890) 2,300,000
Cash generated from operations Interest paid		322,631,725 (76,726)	259,264,200 (46,179)
Net cash flows generated from operating activities		322,554,999	259,218,021
CASH FLOWS FROM INVESTING ACTIVITIES Interest received (Increase)/decrease in time deposits with original maturity over three months		91,764,895 (2,839,714,969)	170,408,850 1,578,574,796
Net cash flows (used in)/generated from investing activities		(2,747,950,074)	1,748,983,646
CASH FLOWS FROM A FINANCING ACTIVITY Principal portion of lease payments	15	(584,846)	(644,157)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS Cash and cash equivalents at beginning of year		(2,425,979,921) 3,067,935,181	2,007,557,510 1,060,377,671
CASH AND CASH EQUIVALENTS AT END OF YEAR		641,955,260	3,067,935,181

STATEMENT OF CASH FLOWS (continued)

	Notes	2021 HK\$	2020 HK\$
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances	12	2,955,260	1,286,467
Time deposits with original maturity of three			, ,
months or less when acquired	12	639,000,000	3,066,648,714
		641,955,260	3,067,935,181

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3
Amendments to HKFRS 9, HKAS 39
and HKFRS 7
Amendment to HKFRS 16
Amendments to HKAS 1 and HKAS 8

Definition of a Business

Interest Rate Benchmark Reform Covid-19-Related Rent Concessions (early adopted) Definition of Material

The adoption of the above revised standards has had no significant financial effect on the Fund's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Fund has not applied any new and revised HKFRSs, that have been issued but are not yet effective for the financial year ended 31 March 2021, in these financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

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

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (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 lease. 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.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

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.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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 cost 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.

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 excepted 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

INCOME

An analysis of income is as follows:

	2021 HK\$	2020 HK\$
Levies Money recovered by subrogation Bank interest income	401,530,600 5,274,949 99,202,462	389,889,000 6,476,380 150,150,121
	506,008,011	546,515,501

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 HK\$22,500 or the equivalent of one month's wages of the applicant, 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

4. EX GRATIA PAYMENTS (continued)

(d) Pay for untaken annual leave and/or 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:

		2021 HK\$	2020 HK\$
	Employee benefit expense: Wages and salaries Pension scheme contributions	- - -	56,993 2,850 59,843
7.	FINANCE COST	2021 HK\$	2020 HK\$
	Interest on lease liability	76,726	46,179

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

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 (2020: Nil).

INCOME TAX

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

10. PROPERTY

Land and building HK\$

31 March 2021

At 1 April 2019, 31 March 2020, 1 April 2020 and 31 March 2021:

 Cost
 27,474,677

 Accumulated depreciation
 (27,474,677)

Net carrying amount

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

11. LEASES

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 assets outside the Fund.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

11. LEASES (continued)

(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 and 1 April 2020	293,866
Remeasurement on lease modification	1,255,093
Depreciation charge	(<u>628,557</u>)
At 31 March 2021	920,402

(b) Lease liability

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

	2021 HK\$	2020 HK\$
Carrying amount at the beginning of year Remeasurement on lease modification Accretion of interest recognised during the year Payments	279,422 1,255,093 76,726 (661,572)	923,579 - 46,179 (690,336)
Carrying amount at 31 March	949,669	279,422
Analysed into: Current portion Non-current portion	642,853 306,816	279,422

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

	2021 HK\$	2020 HK\$
Interest on lease liability Depreciation charge of right-of-use asset	76,726 628,557	46,179 629,713
Total amount recognised in profit or loss	705,283	675,892

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

12. CASH AT BANKS AND TIME DEPOSITS

	2021 HK\$	2020 HK\$
Bank balances Time deposits with original maturity of:	2,955,260	1,286,467
Three months or less	639,000,000	3,066,648,714
More than three months to 12 months, inclusive	5,636,476,152	2,796,761,183
	6,275,476,152	5,863,409,897

At the end of the reporting period, the cash at bank and time deposits of the Fund denominated in Renminbi ("RMB") amounted to RMB377,840,202 (equivalent to approximately HK\$447,476,152) (2020: RMB368,608,498 (equivalent to approximately HK\$402,409,897)).

PROVISION

	2021 HK\$	2020 HK\$
At beginning of year Reversal of unutilised amounts	40,354,309 (<u>16,261,868</u>)	50,464,558 (<u>10,110,249</u>)
At end of year	24,092,441	40,354,309

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

15. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of liability arising from a financing activity

	Lease liability HK\$
At 1 April 2019	923,579
Changes from financing cash flows	(644,157)
Interest expense	46,179
Interest paid classified as operating cash flows	(46,179)
At 31 March 2020 and 1 April 2020	279,422
Changes from financing cash flows	(584,846)
Remeasurement	1,255,093
Interest expense	76,726
Interest paid classified as operating cash flows	(76,726)
At 31 March 2021	949,669

(b) Total cash outflow for the lease

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

	2021 HK\$	2020 HK\$
Within operating activities Within financing activities	76,726 584,846	46,179 644,157
	661,572	690,336

16. CONTINGENT LIABILITIES

At 31 March 2021, 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\$161,406,609 (2020: HK\$133,978,096).

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

17. 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.

18. 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.

19. 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.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

19. 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\$
2021 If HK\$ weakens against RMB If HK\$ strengthens against RMB	<u> </u>	4,474,762 (4,474,762)
2020 If HK\$ weakens against RMB If HK\$ strengthens against RMB	1 (<u>1</u>)	4,024,099 (_4,024,099)

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".

NOTES TO FINANCIAL STATEMENTS

Year ended 31 March 2021

19. 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:

2	Λ	1	1
Z	U	Z	1

	Repayable on demand/less than 1 year HK\$	Within 2 to 5 years HK\$	Total HK\$
Approved applications payable Accrued operation expenses Accrued supervision fee Lease liability	4,261,977 113,000 26,240,000 690,336	322,157	4,261,977 113,000 26,240,000 1,012,493
2020	31,305,313	322,157	31,627,470
2020	Repayable on demand/less than 1 year HK\$	Within 2 to 5 years HK\$	Total HK\$
Approved applications payable Accrued operation expenses Accrued supervision fee Lease liability	6,246,310 109,000 28,100,000 293,393		6,246,310 109,000 28,100,000 293,393
	34,748,703	-	34,748,703

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 2021 and 31 March 2020.

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 26 August 2021.