



**Annual Report of
The Protection of Wages on
Insolvency Fund Board
2006-07**

CONTENTS	Page
Chairman's Foreword	4-5
Membership List of the Protection of Wages on Insolvency Fund Board 2006-07	6-7
Introduction	8
Protection of Wages on Insolvency Fund Board	8
Protection of Wages on Insolvency Fund	8
Maximum amount of ex gratia payment payable by the Fund	9
Prerequisites for making ex gratia payment from the Fund	9
Subrogation rights of the Fund	10
Application of the Fund's reserve	10
Annual Review of Applications Received and Processed	10
Applications received	10
Applications processed	11
Meetings of the Protection of Wages on Insolvency Fund Board	11
Financial Position of the Protection of Wages on Insolvency Fund	12
Activities Highlight	12
Publicity and promotion for the Fund	12-13
Customer Opinion Survey	13
Achievements of the inter-departmental Task Force	14

CONTENTS

Page

Appendix I	- Operating results of the Protection of Wages on Insolvency Fund in 2006-07	16-18
Appendix II	- Breakdown of applications for ex gratia payment on arrears of wages received in 2006-07	19
Appendix III	- Breakdown of applications for ex gratia payment on wages in lieu of notice received in 2006-07	20
Appendix IV	- Breakdown of applications for ex gratia payment on severance payment received in 2006-07	21
Appendix V	- Analysis of ex gratia payment approved in 2006-07	22
Appendix VI	- Analysis of approved ex gratia payment as percentage of applicants' claimed amount in 2006-07	23
Appendix VII	- Comparative figures on the performance of the Protection of Wages on Insolvency Fund from 2002-03 to 2006-07	24-27
Appendix VIII	- Analysis of applications received by economic sector in 1996-97, 2001-02 and 2006-07	28
Appendix IX	- Independent Auditors' Report and Audited Financial Statements for the year ended 31 March 2007	29

CHAIRMAN'S FOREWORD

It is my great pleasure to present this Annual Report of the Protection of Wages on Insolvency Fund Board covering the period from 1 April 2006 to 31 March 2007.

2006-07 was my first year as Chairman of the Board, and an encouraging one for the Protection of Wages on Insolvency Fund. Along with the strong recovery of Hong Kong's economy, the number of applications for ex gratia payment received by the Fund has continued to decline. During the year, the Fund received 7 265 applications, down by 17% over the figure of 8 751 in the preceding year. Indeed, this was a ten-year low since 1996-97.

By providing a safety net for employees affected by business closures, the Fund plays an important role in maintaining harmonious labour relations and social stability. A total of 6 600 applications were approved in the year, with the total sum of ex gratia payment made amounting to \$137.1 million. It is gratifying to note that, thanks to the meritorious efforts of the Wage Security Division of the Labour Department (LD), the average time in processing applications and effecting payment was further shortened from 3.7 weeks in 2005-06 to 3.2 weeks in 2006-07.

During the year, the inter-departmental Task Force, comprising representatives of the LD, Commercial Crime Bureau (CCB) of the Hong Kong Police Force, the Official Receiver's Office (ORO) and the Legal Aid Department (LAD), made unremitting efforts in pursuing and investigating cases involving possible abuses of the Fund. The LD also continued with its proactive and pre-emptive strategy in clamping down at source on employers evading their wage liabilities, thus preventing wage problems from developing into applications to the Fund. Regarding the construction industry which accounted for the largest number of applications in 2006-07, the LD already put in place a series of measures to tackle non-payment of wages. At the same time, the Administration adopted new monitoring measures in public works contracts and building projects with a view to safeguarding construction employees against wage default.

On the financial side, the Fund registered a surplus of \$362 million for the 2006-07 financial year. This was the third surplus of the Fund following seven years of deficits after the Asian financial crisis. Its accumulated surplus rose to \$772.1 million at end-March 2007, standing out in stark contrast to the accumulated deficit of \$18.4 million three years ago. We will continue to monitor closely the financial position of the Fund to ensure that it has sufficient reserve and cash flow to prepare for the rainy days and to cope with any sudden outbreak of major insolvency cases as well as any economic downturn.

I wish to take this opportunity to express my sincere thanks to all the members of the Board for their splendid contributions and commitment throughout the past year. On behalf of the Board, I would also like to convey our deep appreciation to those who have been rendering stalwart assistance to our various endeavours, notably the LD, the LAD, the ORO, the CCB of the Hong Kong Police Force and the Inland Revenue Department. Let us continue to support the Fund in serving our Hong Kong workforce with dedication and excellence!

Clement CHEN Cheng-jen, BBS, JP
Chairman
Protection of Wages on Insolvency Fund Board
August 2007

MEMBERSHIP LIST OF THE PROTECTION OF WAGES ON INSOLVENCY FUND BOARD 2006-07

Chairman

Mr. Clement CHEN Cheng-jen, BBS, JP

Members

Representing employees

Ms. LAM Shuk-yee, BBS

Mr. CHEUNG Pak-chi, MH

Mr. CHAN Wai-lun, MH

Representing employers

Mr. MA Ho-fai, SBS, JP

Mr. Paul YIN Tek-shing, BBS, JP

Mr. Patrick CHAN Kwok-wai

Representing government departments

Assistant Commissioner of the Labour Department
responsible for wage security matters

Assistant Official Receiver

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 2006-07



Rear row from left:

Mr. Alan WONG Kwok-lun, JP

Assistant Commissioner,
Labour Department

Mr. Chris CHONG Yan-tung

Assistant Principal Legal Aid Counsel,
Legal Aid Department

Mr. Patrick CHAN Kwok-wai

Representing employers

Mr. CHAN Wai-lun, MH

Representing employees

Ms. May LEE Mei-yee

Assistant Official Receiver,
Official Receiver's Office

Miss Mabel LI Po-yi

Secretary

Front row from left:

Mr. Paul YIN Tek-shing, BBS, JP

Representing employers

Mr. MA Ho-fai, SBS, JP

Representing employers

Mr. Clement CHEN Cheng-jen, BBS, JP

Chairman

Ms. LAM Shuk-yee, BBS

Representing employees

Mr. CHEUNG Pak-chi, MH

Representing employees

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 2007.

PROTECTION OF WAGES ON INSOLVENCY FUND BOARD

The Ordinance provides that the Board should consist of a chairman and not more than 10 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; and
- (c) to review applications upon request from applicants aggrieved by any decision of the Commissioner for Labour in connection with the application for ex gratia payment from the Fund.

PROTECTION OF WAGES ON INSOLVENCY FUND

The Fund is mainly financed by an annual levy of \$600 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 and severance payment 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 deemed to be wages under section 43 of the Employment Ordinance, namely, holiday pay, annual leave pay, end of year payment, maternity leave pay and sickness allowance);
- (b) wages in lieu of notice up to one month’s wages or \$22,500, whichever is the lesser; and
- (c) severance payment up to \$50,000 plus 50% of any entitlement, under the Employment Ordinance, in excess of \$50,000.

Prerequisites for making ex gratia payment from the Fund

Section 16(1) of the Ordinance requires the presentation of a winding-up or bankruptcy petition 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’ claims before making payment from the Fund. For the purpose of verifying applications, the Labour Department 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 and severance payment, his rights and remedies under the Companies 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 in the course of winding-up or bankruptcy proceedings any payment made to the applicant.

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

During the year 2006-07, 7 265 applications involving claims for ex gratia payment of \$303.2 million were received from employees in 1 161 suspected insolvency cases. Detailed breakdown of the applications is at **Appendix I**.

Of the 1 161 suspected insolvency cases, 1 097 involved less than 20 employees per case, 61 involved 20 to 99 employees per case, and the remaining 3 each involved 100 employees or more.

During the year, the construction industry recorded the largest number of applications, with 1 950 applications involving a total claim of \$61.7 million. This was followed by the catering trade with 1 761 applications and a total claim of \$30.7 million, and the import/export trade with 615 applications and a total claim of \$38.9 million. These three trades accounted for 59.5% of all applications and 43.3% of the total amount claimed.

Out of 7 265 applicants, 6 739 applied for ex gratia payment on arrears of wages, 4 350 applied for payment on wages in lieu of notice, and 2 190 applied for payment on severance payment. Breakdowns of these applications are at **Appendices II, III and IV**.

Applications processed

A total of 6 600 applications were approved during the year, resulting in payment amounting to \$137.1 million. Out of these, a total payment of \$27.2 million was made to 1 594 applicants under section 16(1)(a)(ii) and section 18(1) of the Ordinance.

An analysis of ex gratia payment approved is at **Appendix V**. As indicated at **Appendix VI**, the claimed amount was met in full in respect of 77.7% of applicants on arrears of wages, 97.4% of applicants on wages in lieu of notice, and 59.5% of applicants on severance payment.

The Commissioner for Labour rejected 132 applications involving claims totalling \$17.0 million. Most of these applications were not eligible for the claims for reasons such as the applicants' status as registered company directors, claims outside the 6-month qualifying period or claims without legal backing. At the same time, 811 applications involving claims amounting to \$29.1 million were withdrawn, mainly as a result of direct settlement between employees and their employers or liquidators.

Appendices VII and **VIII** set out the comparative figures on the Fund's performance in the last five to ten years.

MEETINGS OF THE PROTECTION OF WAGES ON INSOLVENCY FUND BOARD

The Board met three times during the year to discuss matters relating to the administration of the Fund. These included examination of its performance and financial statements as well as projection of income and expenditure. In addition, the Board reviewed four appeals against the decisions of the Commissioner for Labour under section 17 of the Ordinance.

FINANCIAL POSITION OF THE PROTECTION OF WAGES ON INSOLVENCY FUND

During the year, the Fund received levy income of \$490.8 million and paid out a total of \$137.1 million in ex gratia payment. The Fund registered a surplus of \$362.0 million, as compared with a surplus of \$286.4 million in the previous financial year. As at 31 March 2007, the Fund's accumulated surplus stood at \$772.1 million.

A copy of the independent auditors' report and the audited financial statements for the year ended 31 March 2007 is at **Appendix IX**.

ACTIVITIES HIGHLIGHT

Publicity and promotion for the Fund

With a view to promoting public knowledge about the Fund and its operation, Mr. Clement CHEN Cheng-jen, BBS, JP, Board Chairman, met the media in January 2007 to highlight the performance of the Fund in the year of 2006. This was reported in good coverage in various newspapers.



Board Chairman Mr. Clement CHEN Cheng-jen, BBS, JP, conducted a media session to publicise the Fund.

During the year, the Labour Department also continued with various activities to publicise the Fund and the provisions of the Ordinance. Among other things, four exhibitions were staged in different districts covering a number of themes, including an introduction about the Fund and employees' applications for ex gratia payment.

The Fund featured in the exhibitions organised by the Labour Department. Over 15 000 members of the public visited these exhibitions.



Customer Opinion Survey

The Board, in collaboration with the Labour Department, conducted a biennial customer opinion survey in the period from November 2006 to January 2007. Questionnaires were distributed to 1 542 applicants, of whom 236 subsequently completed and returned their responses. Our customers were generally satisfied with the service of the Labour Department. The survey findings, which recorded better ratings in most aspects as compared to the last survey launched two years ago, were presented to the Board at its meeting on 28 May 2007.



A customer opinion survey was organised in this financial year.

Achievements of the inter-departmental Task Force

The inter-departmental Task Force set up in November 2002 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 possible abuse of the Fund by employers and employees.

Since the inception of the Task Force and up to March 2007, the Labour Department recorded 111 convicted summonses under the Employment Ordinance and the Protection of Wages on Insolvency Ordinance against persons who were involved in fraudulent cases concerning applications to the Fund. As for those cases investigated by the Police, an employer, a manager and an employee were convicted and sentenced to imprisonment terms of 6 to 12 months. On the other hand, the Official Receiver's Office applied to the court for disqualifying company directors involved in fraudulent Fund cases from being directors. As a result, altogether 12 persons were so disqualified, with the disqualification period ranging from 2.5 to 5 years.

Appendices

Operating results of the Protection of Wages on Insolvency Fund in 2006-07

I. Breakdown of applications by result

(1) No. of cases received					1 161
(2) No. of applications					<u>1 161</u>
(i) b/f last period					2 787
received this period					7 265
reconsidered this period					<u>128</u>
					<u>10 180</u>
(ii) processed					7 543
<i>approved</i>					6 600
<i>refused</i>					132
<i>withdrawn</i>					<u>811</u>
outstanding					2 616
put aside *					<u>21</u>
					<u>10 180</u>
(3) Amount of ex gratia payment (in HK\$'000) applied for	Arrears of wages	Wages in lieu of notice	Severance payment		<u>HK\$'000</u>
(i) b/f last period					131,250
received this period	150,477 +	40,240 +	112,476 =		303,193
reconsidered this period	3,211 +	805 +	1,674 =		<u>5,690</u>
					<u>440,133</u>
	Arrears of wages	Wages in lieu of notice	Severance payment		<u>HK\$'000</u>
(ii) approved	82,325 +	24,160 +	30,636 =		137,121
screened					146,498
refused					17,045
withdrawn					29,139
outstanding } put aside * }					<u>110,330</u>
					<u>440,133</u>
(4) No. of applications seeking review by the Fund Board					<u>4</u>

II. Presentation of petition in relation to applications approved

(1) No. of applications where a winding-up petition has been made					4 527
(2) No. of applications where a bankruptcy petition has been made					479
(3) No. of applications dealt with under S.18(1) of the Protection of Wages on Insolvency Ordinance					1 542
(4) No. of applications dealt with under S.16(1)(a)(ii) of the Protection of Wages on Insolvency Ordinance					<u>52</u>
					<u>6 600</u>

III. Breakdown of cases by employment size

(1) Less than 20 employees					1 097
(2) 20 ~ 49 employees					44
(3) 50 ~ 99 employees					17
(4) 100 or more employees					<u>3</u>
					<u>1 161</u>

* Cases pending private settlement or withdrawal.

IV. Breakdown of applications by industry

Hong Kong Standard Industrial Classification	Industry in which applicants worked	No. of applicants		Amount claimed (including wages, wages in lieu of notice and severance payment)
<i>Division 1</i>	<i>Agriculture and Fishing</i>	1	(1)	\$60,300.00
<i>Division 3</i>	<i>Manufacturing</i>			
Sub-group				
311-312	Food	158	(5)	\$6,191,171.40
320-322	Wearing apparel (excluding footwear)	117	(15)	\$11,009,244.72
323	Leather and leather products (excluding footwear and wearing apparel)	59	(2)	\$2,901,296.81
324	Footwear (excluding rubber, plastic and wooden footwear)	19	(3)	\$1,622,491.20
325-329	Textiles	141	(17)	\$12,218,593.80
331	Wood and cork products (excluding furniture)	1	(1)	\$85,118.00
332	Furniture and fixtures (excluding primarily of metal)	3	(1)	\$516,762.32
342	Printing, publishing and allied industries	78	(11)	\$7,235,747.44
351-352	Chemicals and chemical products	5	(2)	\$793,945.55
355	Rubber products	1	(1)	\$17,268.61
356	Plastic products	13	(3)	\$1,368,896.12
361-369	Non-metallic mineral products (excluding products of petroleum and coal)	9	(1)	\$823,430.46
371-372	Basic metal	10	(3)	\$288,259.84
380-381	Fabricated metal products (excluding machinery and equipment)	6	(1)	\$623,354.61
383	Radio, television & communications equipment and apparatus	65	(3)	\$11,079,903.09
384	Electronic parts and components	51	(11)	\$8,905,432.92
385	Electrical appliances & houseware and electronic toys	47	(8)	\$4,122,312.13
386-387	Machinery, equipment, apparatus, parts and components, not elsewhere classified	2	(1)	\$287,368.01
388	Transport equipment	2	(1)	\$197,666.00
389	Professional & scientific, measuring & controlling equipment, not elsewhere classified, and photographic & optical goods	14	(5)	\$1,319,322.52
390-391	Manufacturing industries, not elsewhere classified	47	(6)	\$3,669,032.04
<i>Division 4</i>	<i>Electricity, Gas and Water</i>	48	(0)*	\$7,909,430.04
<i>Division 5</i>	<i>Construction</i>	1 950	(368)	\$61,670,818.37
<i>Division 6</i>	<i>Wholesale, Retail and Import/Export Trades, Restaurants and Hotels</i>			
Sub-group				
611-612	Wholesale	114	(12)	\$4,699,973.28
621	Retail	211	(47)	\$5,455,314.93
631-632	Import/Export	615	(158)	\$38,895,848.34
641	Restaurants	1 761	(161)	\$30,653,734.63

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

* All the applicants were of late applications of cases in the preceding year.

2006-07

Hong Kong Standard Industrial Classification	Industry in which applicants worked	No. of applicants		Amount claimed (including wages, wages in lieu of notice and severance payment)
<i>Division 7</i>	<i>Transport, Storage and Communications</i>			
Sub-group				
711	Land passenger transport	6	(2)	\$126,597.66
712	Land freight transport	471	(77)	\$24,363,367.67
713	Supporting services to land transport	15	(4)	\$805,178.43
714	Ocean and coastal water transport	7	(4)	\$466,701.18
717	Air transport	1	(1)	\$94,410.95
718	Services incidental to transport	18	(7)	\$778,499.51
721	Storage	10	(4)	\$394,939.94
732	Telecommunications	31	(5)	\$2,480,042.72
<i>Division 8</i>	<i>Financing, Insurance, Real Estate and Business Services</i>			
Sub-group				
812	Finance and investment companies	20	(6)	\$1,652,352.90
813	Stock, commodity and bullion brokers, exchanges and services	15	(2)	\$619,811.91
821	Insurance	4	(2)	\$250,551.24
831	Real estate	201	(5)	\$7,342,447.82
833	Business services (excluding rental of machinery and equipment)	395	(67)	\$26,241,067.52
<i>Division 9</i>	<i>Community, Social and Personal Services</i>			
Sub-group				
921	Sanitary and similar services	28	(8)	\$93,635.91
931	Education services	58	(10)	\$1,411,582.77
933	Medical, dental, other health and veterinary services	96	(10)	\$2,648,049.20
934	Welfare institutions	1	(1)	\$61,450.94
935	Business, professional and labour associations	20	(3)	\$285,672.54
936	Religious organisations	2	(1)	\$25,257.99
939	Miscellaneous social and related community services	24	(2)	\$186,360.75
940-941	Motion pictures and other entertainment services	27	(5)	\$840,898.54
942	Libraries, museums, gardens and cultural services	1	(0)*	\$37,500.00
949	Miscellaneous amusement & recreational services	56	(12)	\$2,623,621.27
951	Repair services	5	(2)	\$64,946.00
952	Laundry, dry cleaning and garment services	9	(5)	\$120,691.22
959	Miscellaneous personal services	196	(68)	\$4,555,115.30
	Total :	7 265	(1 161)	\$303,192,789.06

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

* The applicant was of late application of a case in the preceding year.

Breakdown of applications for ex gratia payment on arrears of wages received in 2006-07

A. By amount

(including overtime pay and “deemed wages” under S.43 of the Employment Ordinance)

Amount	No. of applicants	Percentage
No entitlement/Not claimed	526	7.24
\$8,000* or less	2 367	32.58
\$8,001 - \$18,000	2 223	30.60
\$18,001 - \$24,000	618	8.51
\$24,001 - \$27,000	225	3.10
\$27,001 - \$30,000	170	2.34
\$30,001 - \$33,000	139	1.91
\$33,001 - \$36,000 [#]	106	1.46
\$36,001 - \$39,000	113	1.56
More than \$39,000	778	10.71
Total :	<u>7 265</u>	<u>100.00</u>

B. By period of outstanding wages

(excluding overtime pay and “deemed wages” under S.43 of the Employment Ordinance)

Period	No. of applicants	Percentage
No entitlement/Not claimed	845	11.63
Half month or less	810	11.15
More than 1/2 month to 1 month	1 685	23.19
More than 1 month to 2 months	2 214	30.47
More than 2 months to 3 months	793	10.92
More than 3 months to 4 months	361	4.97
More than 4 months	557	7.67
Total :	<u>7 265</u>	<u>100.00</u>

* Preferential limit under the Companies 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 amount of ex gratia payment on arrears of wages under the Protection of Wages on Insolvency Ordinance.

2 0 0 6 - 0 7

Breakdown of applications for ex gratia payment on wages in lieu of notice received in 2006-07

A. By amount

Amount	No. of applicants	Percentage
No entitlement/Not claimed	2 915	40.12
\$2,000* or less	993	13.67
\$2,001 - \$6,000	1 292	17.78
\$6,001 - \$10,000	820	11.29
\$10,001 - \$15,000	628	8.64
\$15,001 - \$22,500 [#]	355	4.89
\$22,501 - \$25,000	61	0.84
More than \$25,000	201	2.77
Total :	7 265	100.00

B. By notice period

Notice period	No. of applicants	Percentage
No entitlement/Not claimed	2 915	40.12
1 day - 7 days	1 779	24.49
8 days - 14 days	127	1.75
15 days	31	0.43
16 days - less than 1 month	182	2.51
1 month* [#]	2 174	29.92
More than 1 month	57	0.78
Total :	7 265	100.00

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

Maximum amount 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 the lesser.

Breakdown of applications for ex gratia payment on severance payment# received in 2006-07

A. By amount

Amount	No. of applicants	Percentage
No entitlement/Not claimed	5 075	69.86
\$8,000* or less	205	2.82
\$8,001 - \$36,000	979	13.48
\$36,001 - \$50,000	254	3.50
\$50,001 - \$80,000	326	4.49
\$80,001 - \$110,000	171	2.35
\$110,001 - \$140,000	97	1.34
\$140,001 - \$170,000	61	0.84
\$170,001 - \$200,000	40	0.55
\$200,001 - \$250,000	32	0.44
\$250,001 - \$300,000	8	0.11
\$300,001 - \$350,000	12	0.17
\$350,001 - \$370,000	2	0.03
\$370,001 - \$390,000	0	0.00
More than \$390,000	3	0.04
Total :	<u>7 265</u>	<u>100.00</u>

B. By length of service

Length of service	No. of applicants	Percentage
Not claimed or less than 2 years' service	5 098	70.17
2 - 4.99 years	980	13.49
5 - 5.99 years	178	2.45
6 - 6.99 years	148	2.04
7 - 7.99 years	94	1.29
8 - 8.99 years	105	1.45
9 - 9.99 years	99	1.36
10 - 14.99 years	341	4.69
15 - 19.99 years	151	2.08
20 - 24.99 years	46	0.63
25 - 29.99 years	14	0.19
30 - 34.99 years	5	0.07
35 - 38.99 years	4	0.06
39 - 40.99 years	0	0.00
41 - 42.99 years	0	0.00
43 years' service and over	2	0.03
Total :	<u>7 265</u>	<u>100.00</u>

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

* Preferential limit under the Companies 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.

Analysis of ex gratia payment approved in 2006-07

A. Analysis of payment approved for arrears of wages

(including overtime pay and “deemed wages” under S.43 of the Employment Ordinance)

Amount	No. of applicants	Percentage
Not claimed/Not approved	575	8.71
\$4,000 or less	993	15.05
\$4,001 - \$8,000	1 365	20.68
\$8,001 - \$10,000	543	8.23
\$10,001 - \$12,000	518	7.85
\$12,001 - \$14,000	401	6.08
\$14,001 - \$16,000	317	4.80
\$16,001 - \$18,000	239	3.62
\$18,001 - \$28,000	792	12.00
\$28,001 - \$36,000 [#]	857	12.98
Total :	6 600	100.00

B. Analysis of payment approved for wages in lieu of notice

Amount	No. of applicants	Percentage
Not claimed/Not approved	2 945	44.62
\$2,000 or less	1 079	16.35
\$2,001 - \$3,000	543	8.23
\$3,001 - \$4,000	318	4.82
\$4,001 - \$5,000	132	2.00
\$5,001 - \$6,000	130	1.97
\$6,001 - \$10,000	574	8.70
\$10,001 - \$22,500 [†]	879	13.32
Total :	6 600	100.00

C. Analysis of payment approved for severance payment

Amount	No. of applicants	Percentage
Not claimed/Not approved	5 023	76.11
\$8,000 or less	598	9.06
\$8,001 - \$22,000	491	7.44
\$22,001 - \$36,000	245	3.71
\$36,001 - \$50,000	122	1.85
\$50,001 - \$80,000	82	1.24
\$80,001 - \$110,000	22	0.33
\$110,001 - \$140,000	11	0.17
\$140,001 - \$170,000	1	0.02
\$170,001 - \$200,000	2	0.03
\$200,001 - \$210,000	3	0.05
\$210,001 - \$220,000 [*]	0	0.00
Total :	6 600	100.00

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

[†] The maximum amount of ex gratia payment out of the Fund on wages in lieu of notice.

^{*} The maximum amount of ex gratia payment out of the Fund on severance payment.

Analysis of approved ex gratia payment as percentage of applicants' claimed amount in 2006-07

A. Arrears of wages at maximum payment of \$36,000

Approved payment as percentage of applicants' claimed amount	Percentage of applicants
100%	77.68
90% or above	80.81
80% or above	83.75
70% or above	86.49
60% or above	89.53
50% or above	92.02
40% or above	94.27
30% or above	96.36
20% or above	98.06
10% or above	99.05
5% or above	99.84

B. Wages in lieu of notice at maximum payment of \$22,500

Approved payment as percentage of applicants' claimed amount	Percentage of applicants
100%	97.41
90% or above	97.98
80% or above	98.60
70% or above	98.92
60% or above	99.38
50% or above	99.51
40% or above	99.81
30% or above	99.84
20% or above	99.95
10% or above	100.00

C. Severance payment at maximum payment of \$50,000 + 50% of excess entitlement

Approved payment as percentage of applicants' claimed amount	Percentage of applicants
100%	59.47
90% or above	62.35
80% or above	66.14
70% or above	69.13
60% or above	72.68
50% or above	76.16

Comparative figures on the performance of the Protection of Wages on Insolvency Fund from 2002-03 to 2006-07

Figure 1

Number of applications received by the Fund from 2002-03 to 2006-07

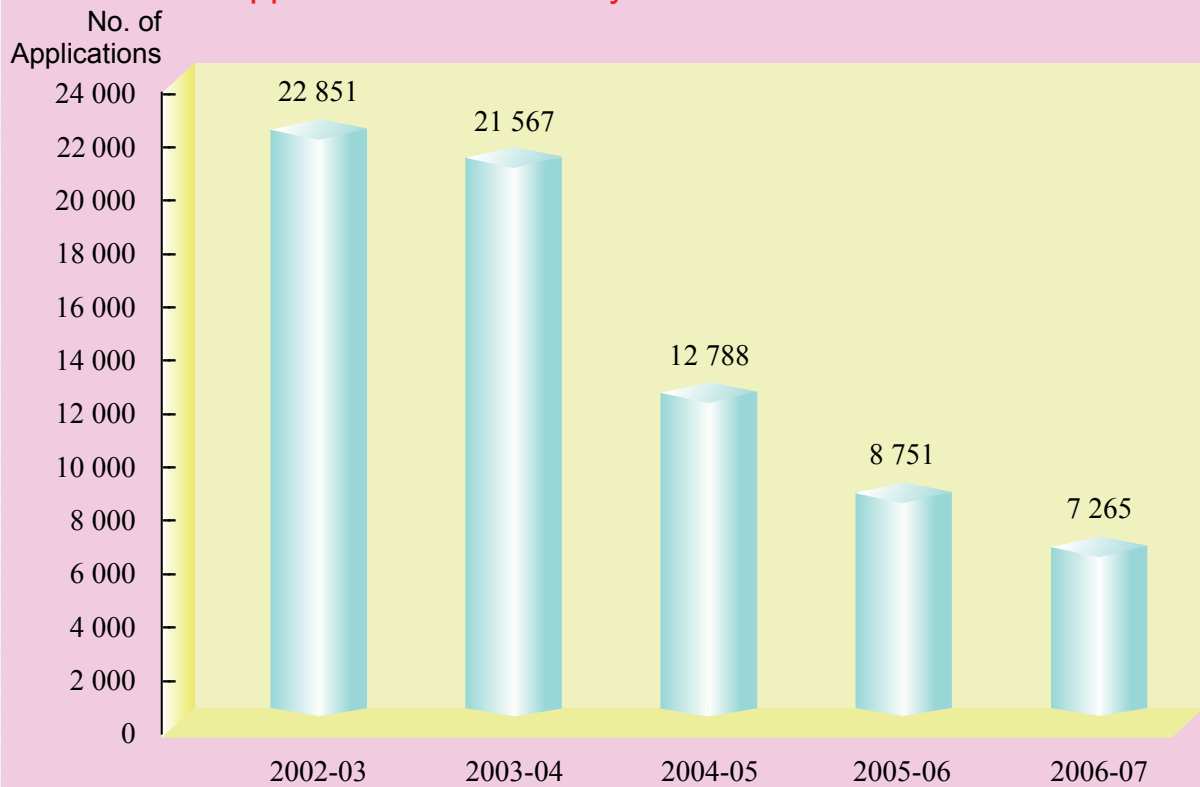


Figure 2

First three industries with the largest number of applications received from 2002-03 to 2006-07

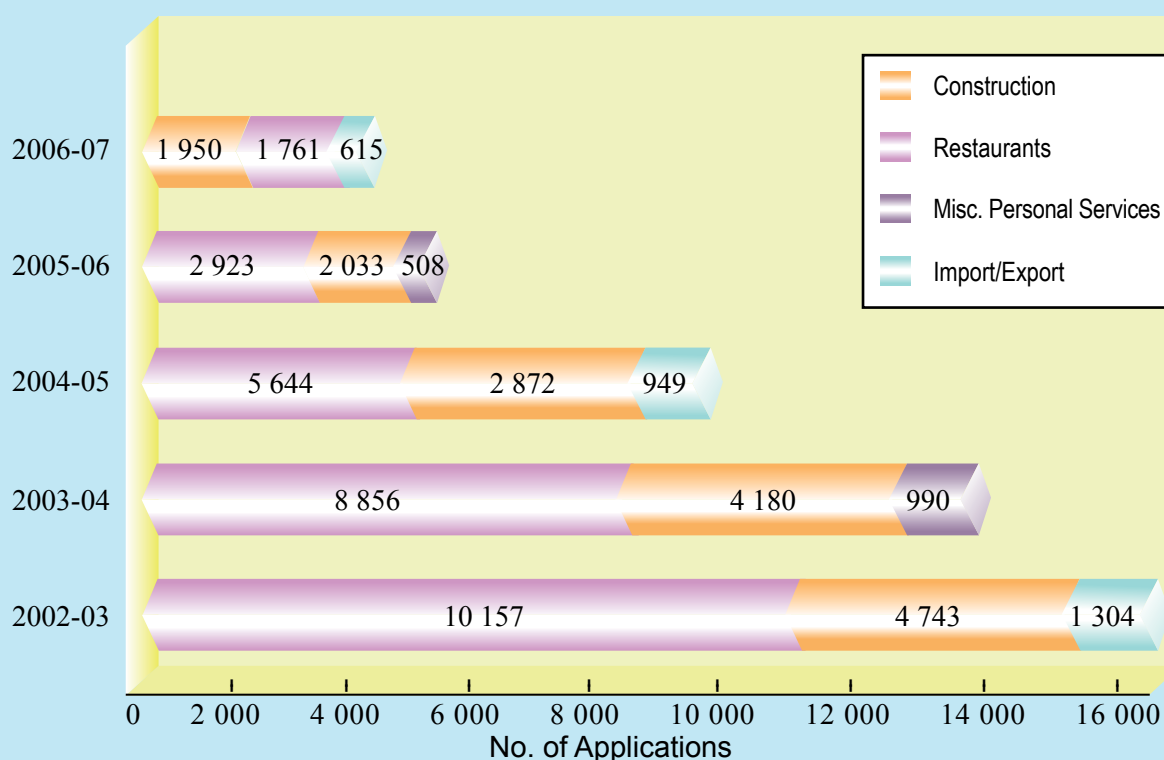


Figure 3
Number of applications and amount of ex gratia payment approved from 2002-03 to 2006-07

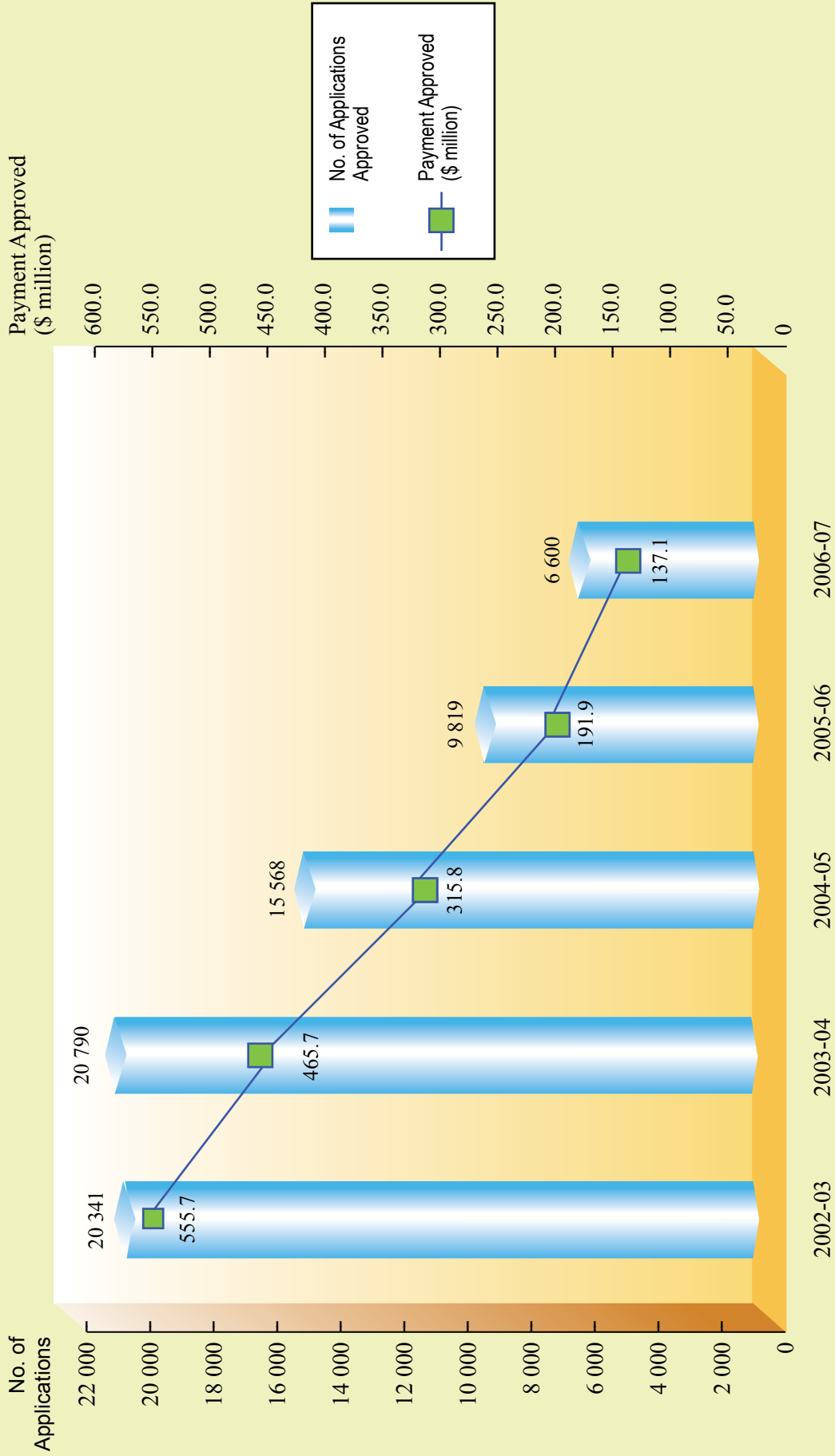


Figure 4

Total income and expenditure of the Fund from 2002-03 to 2006-07

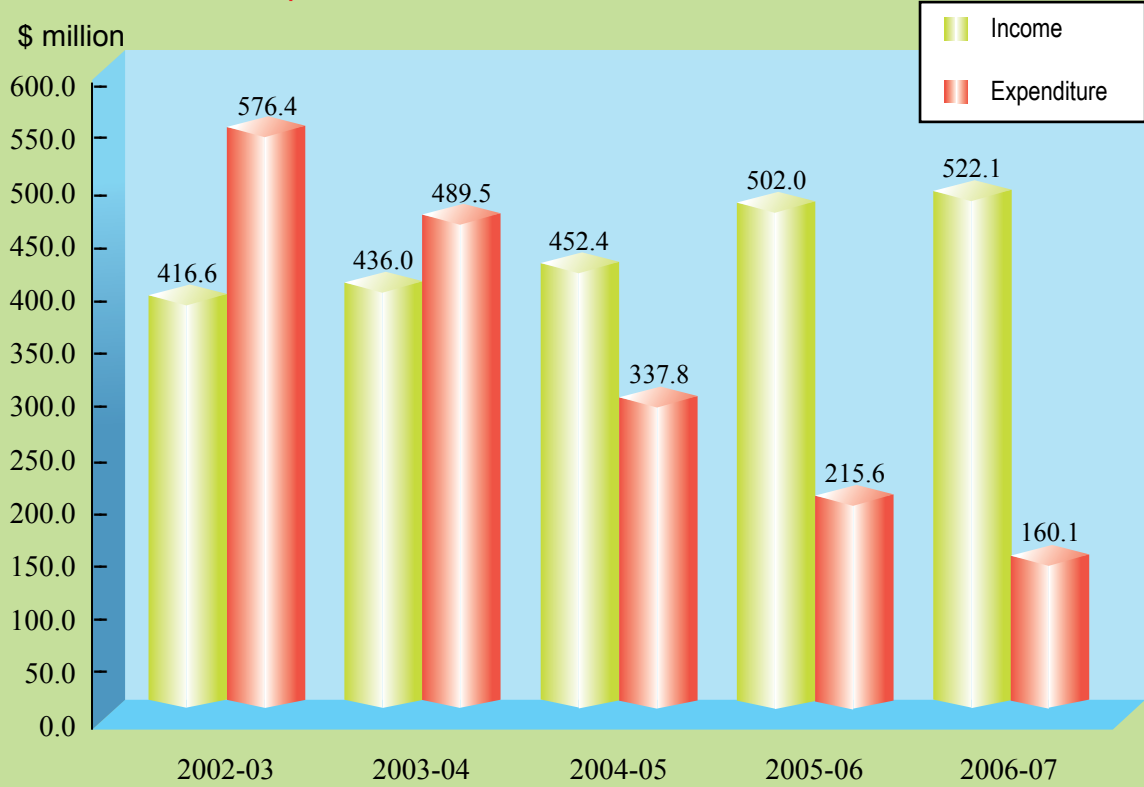


Figure 5

Breakdown of income and expenditure of the Fund from 2002-03 to 2006-07

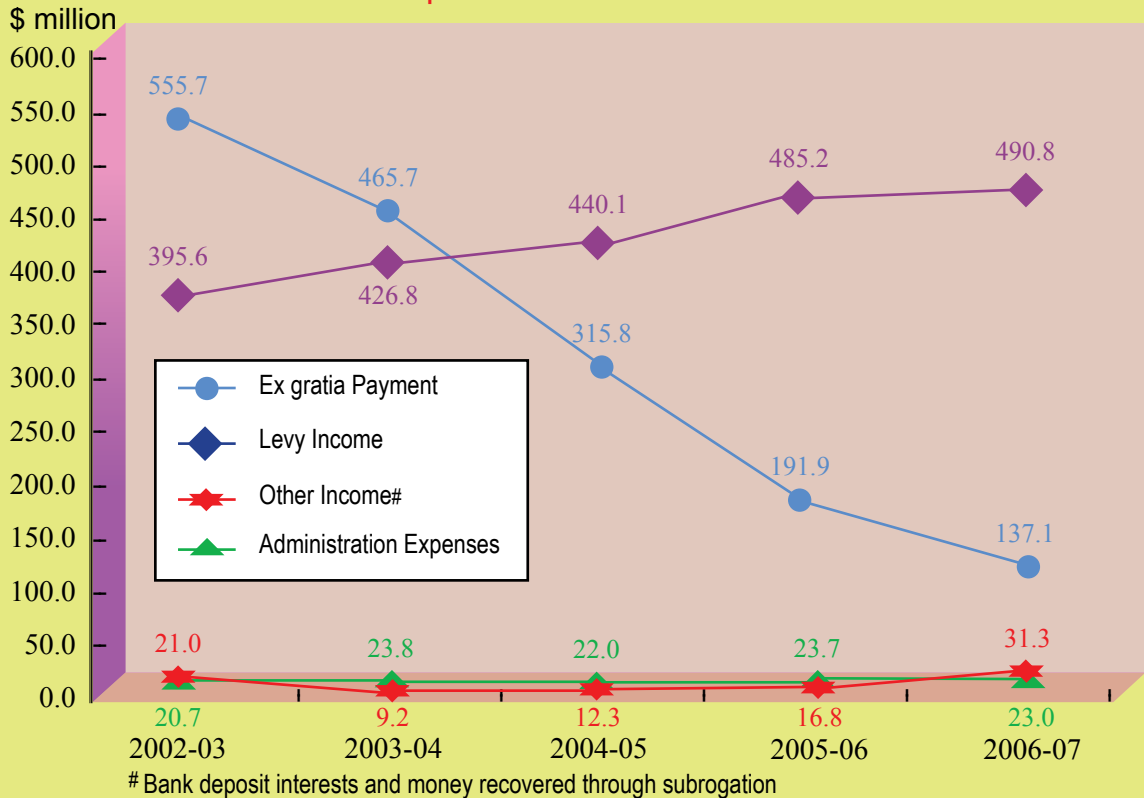
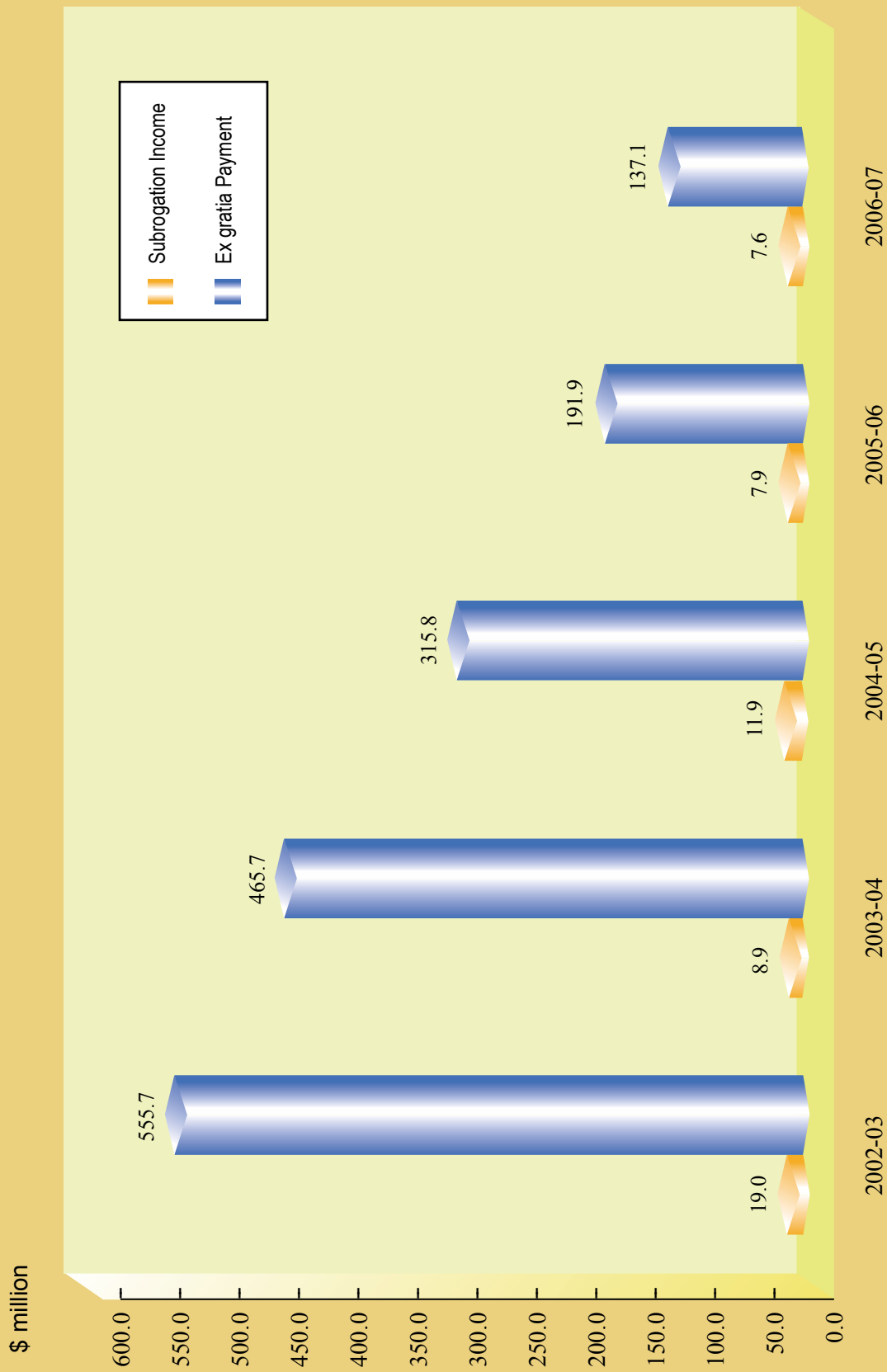
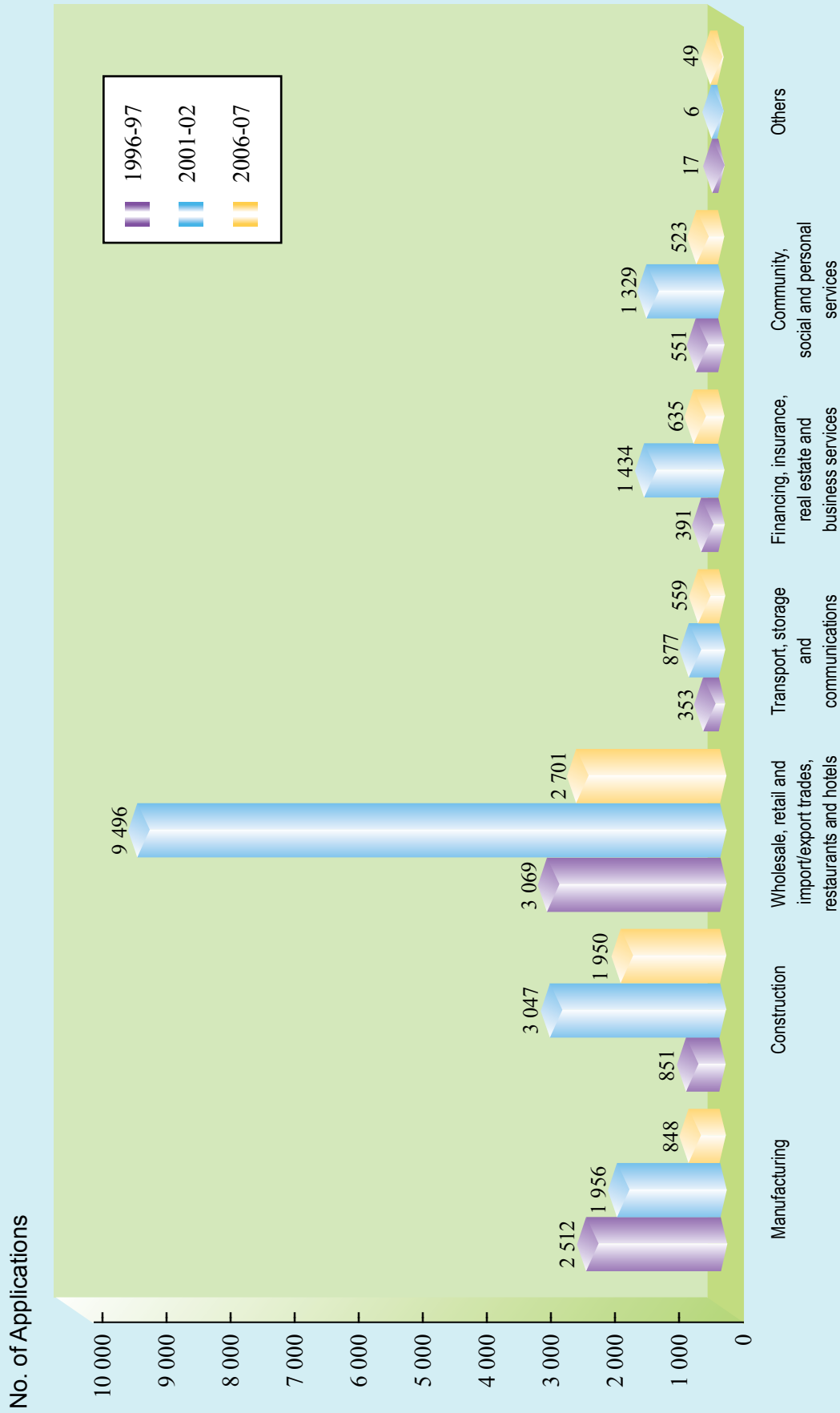


Figure 6
 Subrogation income and ex gratia payment of the Fund from 2002-03 to 2006-07



Analysis of applications received by economic sector in 1996-97, 2001-02 and 2006-07



**Independent Auditors' Report and Audited Financial Statements
for the year ended 31 March 2007**

ASSURANCE & **A**DVISORY
BUSINESS **S**ERVICES

Report and Audited Financial Statements

PROTECTION OF WAGES ON INSOLVENCY FUND

31 March 2007

 **ERNST & YOUNG**

PROTECTION OF WAGES ON INSOLVENCY FUND
CONTENTS

	Pages
INDEPENDENT AUDITORS' REPORT	1 - 2
AUDITED FINANCIAL STATEMENTS	
Statement of income and expenditure	3
Statement of assets and liabilities	4
Statement of changes in fund and reserves	5
Cash flow statement	6
Notes to financial statements	7 - 12

INDEPENDENT AUDITORS' REPORT

To the members

Protection of Wages on Insolvency Fund

(Established under the Protection of Wages on Insolvency Ordinance)

We have audited the financial statements of the Protection of Wages on Insolvency Fund (the "Fund") set out on pages 3 to 12 which comprise the statement of assets and liabilities as at 31 March 2007, and the statement of income and expenditure, the statement of changes in fund and reserves and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Protection of Wages on Insolvency Fund Board's responsibility for the financial statements

Protection of Wages on Insolvency Fund Board (the "Board") is responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Protection of Wages on Insolvency Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

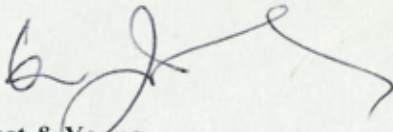
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Fund as at 31 March 2007 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Protection of Wages on Insolvency Ordinance.



Ernst & Young
Certified Public Accountants
Hong Kong
28 August 2007

2 0 0 6 - 0 7

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF INCOME AND EXPENDITURE

Year ended 31 March 2007

	Notes	2007 HK\$	2006 HK\$
INCOME	3	<u>522,074,531</u>	<u>501,953,060</u>
EXPENDITURE			
Claims	4	137,121,326	191,937,694
Supervision fee	7	16,428,846	16,852,124
Auditors' remuneration		59,093	54,800
Rates and building management charges		330,007	329,747
Insurance		6,536	6,869
Printing and stationery		38,978	49,108
Depreciation		5,494,935	5,494,935
Miscellaneous expenses		<u>605,005</u>	<u>841,906</u>
TOTAL EXPENDITURE		<u>160,084,726</u>	<u>215,567,183</u>
Surplus for the year		<u><u>361,989,805</u></u>	<u><u>286,385,877</u></u>

PROTECTION OF WAGES ON INSOLVENCY FUND

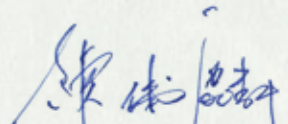
STATEMENT OF ASSETS AND LIABILITIES

31 March 2007

	Notes	2007 HK\$	2006 HK\$
NON-CURRENT ASSET			
Property	8	<u>16,484,807</u>	<u>21,979,742</u>
Total non-current asset		<u>16,484,807</u>	<u>21,979,742</u>
CURRENT ASSETS			
Levy receivable		52,017,400	48,872,700
Interest receivable		3,824,487	1,608,043
Sundry deposits		38,800	32,600
Sundry debtors		87,028	2,374
Equity security	9	145,520	-
Cash at banks	10	<u>723,223,087</u>	<u>362,810,018</u>
Total current assets		<u>779,336,322</u>	<u>413,325,735</u>
CURRENT LIABILITIES			
Approved claims payable		7,440,251	8,222,552
Accrued operation expenses		66,138	57,990
Accrued supervision fee	7	<u>16,200,000</u>	<u>16,900,000</u>
Total current liabilities		<u>23,706,389</u>	<u>25,180,542</u>
NET CURRENT ASSETS		755,629,933	388,145,193
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>772,114,740</u>	<u>410,124,935</u>
Net assets		<u>772,114,740</u>	<u>410,124,935</u>
FINANCED BY			
Accumulated surplus		755,575,953	393,586,148
General reserve	11	<u>16,538,787</u>	<u>16,538,787</u>
Total accumulated surplus and reserves		<u>772,114,740</u>	<u>410,124,935</u>



 Chairman



 Board Member

2 0 0 6 - 0 7

PROTECTION OF WAGES ON INSOLVENCY FUND
 STATEMENT OF CHANGES IN FUND AND RESERVES
 Year ended 31 March 2007

	Note	Accumulated surplus HK\$	General reserve HK\$	Building reserve HK\$	Total HK\$
At 1 April 2005		79,725,594	16,538,787	27,474,677	123,739,058
Adjustment for the building reserve	12	27,474,677	-	(27,474,677)	-
Surplus for the year		<u>286,385,877</u>	<u>-</u>	<u>-</u>	<u>286,385,877</u>
At 31 March 2006 and at 1 April 2006		393,586,148	16,538,787	-	410,124,935
Surplus for the year		<u>361,989,805</u>	<u>-</u>	<u>-</u>	<u>361,989,805</u>
At 31 March 2007		<u><u>755,575,953</u></u>	<u><u>16,538,787</u></u>	<u><u>-</u></u>	<u><u>772,114,740</u></u>

PROTECTION OF WAGES ON INSOLVENCY FUND

CASH FLOW STATEMENT

Year ended 31 March 2007

	Notes	2007 HK\$	2006 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		361,989,805	286,385,877
Adjustments for:			
Interest income	3	(23,630,633)	(8,857,553)
Depreciation	8	5,494,935	5,494,935
Fair value gain on equity security	9	(122,400)	-
Operating cash flows before working capital changes		343,731,707	283,023,259
Increase in levy receivable		(3,144,700)	(13,561,450)
Decrease/(increase) in sundry deposits		(6,200)	50,000
Decrease/(increase) in sundry debtors		(84,654)	9,200
Increase in equity security		(23,120)	-
Decrease in approved claims payable		(782,301)	(5,222,340)
Increase in accrued operation expenses		8,148	13,260
Decrease in accrued supervision fee		(700,000)	(3,100,000)
Cash generated from operating activities		<u>338,998,880</u>	<u>261,211,929</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		21,414,189	7,398,144
Increase in fixed deposits with maturity over three months		(308,523,590)	(190,961,029)
Net cash outflow from investing activities		<u>(287,109,401)</u>	<u>(183,562,885)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		-	(630,264)
Repayment of government loan		-	(22,000,000)
Net cash outflow from financing activities		<u>-</u>	<u>(22,630,264)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		51,889,479	55,018,780
Cash and cash equivalents at beginning of year		<u>97,044,540</u>	<u>42,025,760</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>148,934,019</u>	<u>97,044,540</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks	10	723,223,087	362,810,018
Time deposits with original maturity over three months		(574,289,068)	(265,765,478)
Cash at banks with maturity of three months or less		<u>148,934,019</u>	<u>97,044,540</u>

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2007

1. GENERAL INFORMATION

The Protection of Wages on Insolvency 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 payment to employees whose employers have become insolvent.

The Fund consists principally of moneys received from the Commissioner of the Inland Revenue Department 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 also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Protection of Wages on Insolvency Ordinance. They have been prepared under the historical cost convention and are presented in Hong Kong dollars.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Fund has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for giving rise to new and revised accounting policies and additional disclosures, the adoption of the revised standard and new interpretation has had no material effect on these financial statements.

HKAS 39 Amendment HK(IFRIC)-Int 4	The Fair Value Option Determining whether an Arrangement contains a Lease
--------------------------------------	--

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of the Fund's property over its estimated useful life. The principal annual rate used for this purpose is as follows:

Building	20%
----------	-----

Operating leases

Rentals payable under operating leases are charged to the statement of income and expenditure on the straight-line basis over the lease terms.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2007

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised on the following bases:

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

Recognition of claims

Claims are accounted for on an accrual basis upon approval of the Commissioner for Labour.

3. INCOME

	2007 HK\$	2006 HK\$
Levy	490,821,550	485,174,150
Money recovered by subrogation	7,622,348	7,921,357
Bank interest income	23,630,633	8,857,553
	<u>522,074,531</u>	<u>501,953,060</u>

In accordance with the provisions of Sections 7 and 21 of the Business Registration Ordinance and Section 6 in Part III of the Protection of Wages on Insolvency Ordinance, a levy is imposed at the rate of HK\$600 and HK\$1,800, respectively on one-year and three-year business registration certificates issued on or after 16 May 2002.

2 0 0 6 - 0 7

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2007

4. CLAIMS

In accordance with the provisions of Sections 16(1), (2) and (3) and Section 18 (1) in Part V 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 4 months prior to an applicant's last day of service; and/or

(b) Wages in lieu of notice

Not exceeding the equivalent of a 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; and/or

(c) Severance payment

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

5. REMUNERATION OF BOARD MEMBERS

No Board members received any fees or other emoluments in respect of their services rendered to the Fund during the year (2006: Nil).

6. TAX

The Fund is exempt from Hong Kong taxation.

7. SUPERVISION FEE

In accordance with the provisions of Section 14 in Part IV 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 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.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2007

8. PROPERTY

	Building HK\$
31 March 2007	
At 1 April 2006, net of accumulated depreciation	21,979,742
Depreciation provided during the year	<u>(5,494,935)</u>
At 31 March 2007, net carrying amount	<u>16,484,807</u>
31 March 2006	
At 1 April 2005, cost	27,474,677
Depreciation provided during the year	<u>(5,494,935)</u>
At 31 March 2006, net carrying amount	<u>21,979,742</u>

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

9. EQUITY SECURITY

	2007 HK\$	2006 HK\$
Listed equity security, at fair value	<u>145,520</u>	<u>-</u>

During the year, the Fund acquired the listed equity security by subrogation and its fair value gain recognised directly in the statement of income and expenditure amounted to HK\$122,400 (2006: Nil). The fair value of the listed equity security is based on quoted market price at the close of business on 31 March 2007.

2 0 0 6 - 0 7

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2007

10. CASH AT BANKS

	2007 HK\$	2006 HK\$
Bank balances	134,019	51,239
Time deposits	<u>723,089,068</u>	<u>362,758,779</u>
	<u>723,223,087</u>	<u>362,810,018</u>

11. GENERAL RESERVE

The levy collected and interest received prior to the establishment of the Protection of Wages on Insolvency Fund Board have been set aside in the general reserve account.

12. BUILDING RESERVE

	2007 HK\$	2006 HK\$
Building reserve	<u>-</u>	<u>-</u>

The cost of the Fund's property, as disclosed in note 8 to the financial statements, was funded from an appropriation from the accumulated surplus in the year of purchase. The appropriation was credited to the building reserve account. Due to the adoption of HKAS 16, the amount appropriated was written back to the accumulated surplus in the prior year.

13. OPERATING LEASE COMMITMENTS

The Fund leases storerooms under operating lease arrangements with leases negotiated for terms of two years at fixed monthly rentals.

At 31 March 2007, the Fund had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007 HK\$	2006 HK\$
Within one year	202,800	64,400
In the second to fifth years, inclusive	<u>98,787</u>	<u>-</u>
	<u>301,587</u>	<u>64,400</u>

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2007

14. CONTINGENT LIABILITIES

At 31 March 2007, contingent liabilities not provided for in the financial statements are as follows:

	2007 HK\$	2006 HK\$
Claims received but not yet approved	<u>110,330,058</u>	<u>131,250,000</u>

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

15. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 28 August 2007.

2 0 0 6 - 0 7