

**ANNUAL REPORT OF  
PROTECTION OF WAGES ON  
INSOLVENCY FUND BOARD**

***2010-11***

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## CHAIRMAN'S FOREWORD

With pleasure and delight, I present the Annual Report of the Protection of Wages on Insolvency Fund Board (the Board) covering the period from 1 April 2010 to 31 March 2011.

This year is particularly meaningful marked by the 100<sup>th</sup> meeting held by the Board. Since the establishment of the Protection of Wages on Insolvency Fund (the Fund) in 1985, the Board has dedicated to managing the Fund for the provision of a safety net to employees affected by business cessation. Looking back, the Fund has, over the years, progressed from its initial coverage of only \$8,000 wages to the current maximum payment of \$278,500 to an employee for wages, wages in lieu of notice and severance payment. Looking ahead, in relation to the proposal passed by the Board to expand the scope of the Fund to cover untaken annual leave and untaken statutory holidays under the Employment Ordinance, the Government introduced the Bill to the Legislative Council in July 2011 for scrutiny. We sincerely look forward to the early passage of the Bill to further strengthen the employee protection.

With the continued growth of the local economy, the Fund received a total of 3 910 applications in 2010-11, down 40% over the figure of 6 472 in 2009-10. In 2010-11, 4 189 applications for ex gratia payment were approved, leading to a total payout of \$90.6 million, a drop of 41% over the preceding year. On the financial side, I am pleased to report that the Fund registered a surplus of \$429.6 million for the 2010-11 financial year and an accumulative surplus reaching \$2,265.3 million by the end of March 2011. Yet, we are mindful of the various challenges faced by the global and local economy and the impact of the implementation of the Minimum Wage Ordinance as well as the imminent passage of the bill on the Fund and will continue to manage the Fund prudently so as to ensure its sustainability.



At the same time, we have never slackened our efforts in preventing abuse of the Fund by employers as well as employees. The inter-departmental Task Force, comprising representatives of the Labour Department (LD), Commercial Crime Bureau (CCB) of Hong Kong Police Force, Official Receiver's Office (ORO) and Legal Aid Department (LAD), have continued with its best endeavours to guard against potential abuse of the Fund. During 2010-11, a company director, two construction contractors and six employees were convicted by the Police of theft, conspiring to pervert the course of justice, and defrauding the Fund pursuant to the Theft Ordinance, Crimes Ordinance and common law respectively and sentenced to penalties of four to eight month's imprisonment, and 180 to 200 hours of community service order. I am confident that LD's proactive collaboration with other departments will continue to prevail.

I wish to take this opportunity to express my cordial thanks to all members of the Board for their active participation in the meetings and valuable views expressed on various agendas throughout the year. On behalf of the Board, I would also like to convey our great appreciation to those who have been in close partnership with us throughout the year, notably LD, LAD, ORO, CCB and Inland Revenue Department. The Board is dedicated to working closely with the Government and other partners with a view to contributing to a harmonious and stable society.

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

September 2011

## MEMBERSHIP LIST OF THE PROTECTION OF WAGES ON INSOLVENCY FUND BOARD 2010-11

### Chairman

Mr. Clement CHEN Cheng-jen, BBS, JP

### Members

#### Representing employees

Mr. CHAN Wai-lun, MH

Ms. LAM Suk-fun

Mr. HUNG Hing-chu

#### Representing employers

Mr. Patrick CHAN Kwok-wai

Dr. David WONG Yau-kar, JP

Mr. Mark LIN, 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 2010-11



### Rear row from left:

**Mr. Alan FONG Kim-fung**

Assistant Principal Solicitor,  
Official Receiver's Office

**Mr. Byron NG Kwok-keung, JP**

Assistant Commissioner (Labour Relations),  
Labour Department  
(From 1 April 2010 to 30 November 2010)

**Mr. Mark LIN, JP**

Representing employers

**Mr. HUNG Hing-chu**

Representing employees

**Mr. Ernest IP Yee-cheung**

Assistant Commissioner (Employees' Rights  
and Benefits), Labour Department  
(From 1 December 2010 to 31 March 2011)

**Mrs. Christina HADIWIBAWA**

Assistant Principal Legal Aid Counsel,  
Legal Aid Department

**Miss Bonny WONG Wai-man**

Secretary

### Front row from left:

**Dr. David WONG Yau-kar, JP**

Representing employers

**Mr. Patrick CHAN Kwok-wai**

Representing employers

**Mr. Clement CHEN Cheng-jen, BBS, JP**

Chairman

**Mr. CHAN Wai-lun, MH**

Representing employees

**Ms. LAM Suk-fun**

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 2011.

## **PROTECTION OF WAGES ON INSOLVENCY FUND BOARD**

The Ordinance provides that the Board shall 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 \$450 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 under the Employment Ordinance up to \$50,000 plus 50% of any entitlement 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 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 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 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**

During the year 2010-11, 3 910 applications involving claims for ex gratia payment of \$170.9 million were received from employees. A total of 699 suspected insolvency cases were recorded. Detailed breakdown of the applications is at **Appendix I**.

Of the 699 suspected insolvency cases, 672 involved less than 20 employees per case, 17 involved 20 to 49 employees per case, 6 involved 50 to 99 employees per case, and the remaining 4 each involved 100 employees or more.

During the year, the food and beverage service activities recorded the largest number of applications, with 1 117 applications involving a total claim of \$24.0 million. This was followed by the construction industry with 664 applications and a total claim of \$20.4 million, and other personal service activities with 543 applications and a total claim of \$11.1 million. These three trades accounted for 59.4% of all applications and 32.5% of the total amount claimed.

Out of the total 3 910 applicants in the year, 3 341 applied for ex gratia payment on arrears of wages, 2 615 applied for payment on wages in lieu of notice, and 1 256 applied for payment on severance payment. Breakdowns of these applications are at **Appendices II, III and IV**.

### **Applications processed**

A total of 4 189 applications were approved during the year, resulting in payment amounting to \$90.6 million. Out of these, a total payment of \$20.8 million was made to 1 154 applicants under section 16(1)(a)(ii) or section 18(1) of the Ordinance where presentation of a bankruptcy or winding-up petition was not required.

An analysis of ex gratia payment approved is at **Appendix V**. As indicated at **Appendix VI**, the claimed amount was met in full in respect of 75.6% of applicants for arrears of wages, 96.8% of applicants for wages in lieu of notice, and 50.9% of applicants for severance payment.

The Commissioner for Labour rejected 108 applications involving claims totalling \$14.9 million, mostly for reasons such as claims without legal backing, the applicants' status as registered company directors or claims outside the relevant qualifying period. At the same time, 569 applications involving claims amounting to \$25.9 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 the Fund's performance and financial statements, projection of income and expenditure, the progress of the legislative proposal to expand the scope of the Fund to cover pay for untaken annual leave and untaken statutory holidays under the Employment Ordinance and the rate of levy on business registration fee.



The Board held the 100<sup>th</sup> meeting in October 2010.

## FINANCIAL POSITION OF THE PROTECTION OF WAGES ON INSOLVENCY FUND

During the year, the Fund received levy income of \$510.9 million and paid out a total of \$90.6 million in ex gratia payment. The Fund registered a surplus of \$429.6 million, as compared with a surplus of \$289.5 million in the previous financial year. As at 31 March 2011, the Fund's accumulated surplus stood at \$2,265.3 million.

A copy of the independent auditors' report and the audited financial statements for the year ended 31 March 2011 is at **Appendix IX**.



## ACTIVITIES HIGHLIGHT

### Publicity and promotion for 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, six 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 and the Ordinance were publicised in the exhibitions organised by the Labour Department.

### **Achievements of the inter-departmental Task Force**

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

During the year 2010–11, a company director, two construction contractors and five workers, and one cross-border truck driver were convicted of theft, conspiring to pervert the course of justice, and defrauding the Fund pursuant to the Theft Ordinance, Crimes Ordinance and common law respectively. The penalties imposed on them included 4 to 8 months' imprisonment, and 180 to 200 hours of community service order. Including the director mentioned above, the court disqualified a total of 22 company responsible persons involving abuse of the Fund from being directors, and taking part in the promotion, formation or management of a company, with the disqualification period ranging from one to five years. Besides, the Labour Department adopted a multi-pronged enforcement strategy to alleviate cases of non-payment of wages from proliferating into applications for the Fund. In the same period, there were 1 232 convicted summonses for wage offences. Of these, 351 convictions were against company directors and responsible persons.



The background is a light yellow color with several white circles of varying sizes scattered across it. There are also several sets of parallel grey lines that form a large, stylized, rounded rectangular shape on the right side of the page. The lines are grouped into three distinct bundles, each containing three parallel lines.

# **APPENDICES**

Operating results of  
the Protection of Wages on Insolvency Fund in 2010-11

**I. Breakdown of applications by result**

(1) No. of cases received					699
(2) No. of applications					
(i) b/f last period					2 674
received this period					3 910
reconsidered this period					43
					6 627
(ii) processed					4 866
<i>approved</i>					4 189
<i>refused</i>					108
<i>withdrawn</i>					569
outstanding					1 705
put aside *					56
					6 627
(3) Amount of ex gratia payment (in HK\$'000) applied for	<b>Arrears of wages</b>	<b>Wages in lieu of notice</b>	<b>Severance payment</b>		<b>HK\$'000</b>
(i) b/f last period					169,364
received this period	85,958 +	23,287 +	61,613 =		170,858
reconsidered this period	1,108 +	490 +	415 =		2,013
					342,235
	<b>Arrears of wages</b>	<b>Wages in lieu of notice</b>	<b>Severance payment</b>		<b>HK\$'000</b>
(ii) approved	52,169 +	21,698 +	16,766 =		90,633
screened					123,070
refused					14,934
withdrawn					25,909
outstanding } put aside * }					87,689
					342,235
(4) No. of applications seeking review by the Fund Board					2

**II. Presentation of petition in relation to applications approved**

(1) No. of applications where a winding-up petition has been made	2 727
(2) No. of applications where a bankruptcy petition has been made	308
(3) No. of applications dealt with under S.18(1) of the Protection of Wages on Insolvency Ordinance	1 117
(4) No. of applications dealt with under S.16(1)(a)(ii) of the Protection of Wages on Insolvency Ordinance	37
	4 189

**III. Breakdown of cases by employment size**

(1) Less than 20 employees	672
(2) 20 ~ 49 employees	17
(3) 50 ~ 99 employees	6
(4) 100 or more employees	4
	699

\* 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 C</i>	<i>Manufacturing</i>			
Sub-group				
10	Manufacture of food products	29	(8)	\$ 969,621.82
11	Manufacture of beverages	1	(1)	\$ 64,468.00
13	Manufacture of textiles	141	(9)	\$ 19,091,434.92
14	Manufacture of wearing apparel	42	(7)	\$ 1,981,564.82
17	Manufacture of paper and paper products	11	(4)	\$ 552,636.90
18	Printing and reproduction of recorded media	3	(3)	\$ 44,284.50
22	Manufacture of rubber and plastics products (except furniture, toys, sports goods and stationery)	3	(1)	\$ 932,552.18
24	Manufacture of basic metals	4	(3)	\$ 482,262.29
25	Manufacture of fabricated metal products (except machinery and equipment)	13	(5)	\$ 1,114,237.74
26	Manufacture of computer, electronic and optical products	9	(3)	\$ 448,730.17
27	Manufacture of electrical equipment	35	(0)*	\$ 5,922,788.68
29	Body assembly of motor vehicles	4	(1)	\$ 166,268.58
31	Manufacture of furniture	6	(1)	\$ 23,774.92
32	Other manufacturing	18	(3)	\$ 1,857,802.27
33	Repair and installation of machinery and equipment	3	(1)	\$ 23,600.00
<i>Division E</i>	<i>Water supply, sewerage, waste management and remediation activities</i>			
Sub-group				
38	Waste collection, treatment and disposal activities; materials recovery	3	(2)	\$ 31,600.00
<i>Division F</i>	<i>Construction</i>	664	(152)	\$ 20,378,357.03
<i>Division G</i>	<i>Import/export, wholesale and retail trades</i>			
Sub-group				
45	Import and export trade	391	(134)	\$ 37,463,815.56
46	Wholesale	8	(4)	\$ 531,427.00
47	Retail trade	72	(31)	\$ 3,164,708.43

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

\* All the applicants were of late applications of a case in the preceding year.

# 破產欠薪保障基金委員會

## Protection of Wages on Insolvency Fund Board

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 H</i>	<i>Transportation, storage, postal and courier services</i>			
Sub-group				
49	Land transport	93	(38)	\$ 3,629,374.92
50	Water transport	16	(2)	\$ 255,866.95
52	Warehousing and support activities for transportation	7	(3)	\$ 63,262.55
53	Postal and courier activities	13	(6)	\$ 317,189.74
<i>Division I</i>	<i>Accommodation and food service activities</i>			
Sub-group				
56	Food and beverage service activities	1 117	(104)	\$ 24,040,822.13
<i>Division J</i>	<i>Information and communications</i>			
Sub-group				
58	Publishing activities	21	(6)	\$ 1,039,068.37
60	Programming and broadcasting activities	1	(0) *	\$ 35,200.00
61	Telecommunications	9	(2)	\$ 2,732,497.72
62	Information technology service activities	40	(9)	\$ 6,548,900.40
<i>Division K</i>	<i>Financial and insurance activities</i>			
Sub-group				
64	Financial service activities (except insurance and pension funding)	18	(9)	\$ 1,927,304.14
65	Insurance	12	(4)	\$ 926,703.08
66	Activities auxiliary to financial service and insurance activities	2	(2)	\$ 180,808.12
<i>Division L</i>	<i>Real estate activities</i>	21	(4)	\$ 271,541.65
<i>Division M</i>	<i>Professional, scientific and technical activities</i>			
Sub-group				
69	Legal and accounting activities	37	(1)	\$ 1,263,531.77
70	Activities of head offices; management and management consultancy activities	8	(6)	\$ 702,112.73
71	Architecture and engineering activities, technical testing and analysis	32	(6)	\$ 1,651,722.32
73	Veterinary activities	15	(3)	\$ 1,034,409.18
74	Advertising and market research	16	(5)	\$ 2,347,728.26
75	Other professional, scientific and technical activities	11	(0) *	\$ 92,840.25

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

\* All the applicants were of late applications of a case in the preceding year.

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 N</i>	<i>Administrative and support service activities</i>			
Sub-group				
78	Employment activities	8	(1)	\$ 661,342.95
80	Security and investigation activities	53	(3)	\$ 741,354.57
81	Services to buildings and landscape care activities	9	(6)	\$ 235,261.41
82	Office administrative, office support and other business support activities	36	(11)	\$ 1,365,527.12
<i>Division P</i>	<i>Education</i>	24	(14)	\$ 1,966,116.36
<i>Division Q</i>	<i>Human health and social work activities</i>			
Sub-group				
86	Human health activities	22	(8)	\$ 506,105.46
87	Residential care activities	7	(3)	\$ 162,325.01
<i>Division R</i>	<i>Arts, entertainment and recreation</i>			
Sub-group				
90	Creative and performing arts activities	29	(5)	\$ 953,358.76
93	Sports and other entertainment activities	191	(11)	\$ 7,952,450.74
<i>Division S</i>	<i>Other service activities</i>			
Sub-group				
95	Repair of motor vehicles, motorcycles, computers, personal and household goods	5	(4)	\$ 325,865.28
96	Other personal service activities	543	(20)	\$ 11,085,229.16
<i>Division T</i>	<i>Work activities within domestic households</i>			
Sub-group				
97	Activities of households as employers of domestic personnel	34	(30)	\$ 596,471.43
		Total : 3 910 (699)		\$ 170,858,228.34

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



**Breakdown of applications for  
ex gratia payment on arrears of wages received in 2010-11**

**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	569	14.55
\$8,000* or less	1 250	31.97
\$8,001 - \$18,000	942	24.09
\$18,001 - \$24,000	247	6.32
\$24,001 - \$27,000	91	2.33
\$27,001 - \$30,000	86	2.20
\$30,001 - \$33,000	86	2.20
\$33,001 - \$36,000 <sup>#</sup>	67	1.71
\$36,001 - \$39,000	57	1.46
More than \$39,000	515	13.17
Total :	3 910	100.00

**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	900	23.02
Half month or less	434	11.10
More than 1/2 month to 1 month	819	20.95
More than 1 month to 2 months	783	20.03
More than 2 months to 3 months	423	10.82
More than 3 months to 4 months	200	5.12
More than 4 months	351	8.98
Total :	3 910	100.00

\* 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.

### Appendix III

## Breakdown of applications for ex gratia payment on wages in lieu of notice received in 2010-11

#### A. By amount

Amount	No. of applicants	Percentage
No entitlement/Not claimed	1 295	33.12
\$2,000* or less	739	18.90
\$2,001 - \$6,000	730	18.67
\$6,001 - \$10,000	423	10.82
\$10,001 - \$15,000	316	8.08
\$15,001 - \$22,500 <sup>#</sup>	247	6.32
\$22,501 - \$25,000	39	1.00
More than \$25,000	121	3.09
Total :	3 910	100.00

#### B. By notice period

Notice period	No. of applicants	Percentage
No entitlement/Not claimed	1 295	33.12
1 day - 7 days	1 270	32.48
8 days - 14 days	37	0.95
15 days	39	1.00
16 days - less than 1 month	129	3.30
1 month* <sup>#</sup>	1 073	27.44
More than 1 month	67	1.71
Total :	3 910	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<sup>#</sup> received in 2010-11**

**A. By amount**

Amount	No. of applicants	Percentage
No entitlement/Not claimed	2 654	67.88
\$8,000* or less	100	2.56
\$8,001 - \$36,000	650	16.62
\$36,001 - \$50,000	144	3.68
\$50,001 - \$80,000	130	3.32
\$80,001 - \$110,000	91	2.33
\$110,001 - \$140,000	52	1.33
\$140,001 - \$170,000	28	0.72
\$170,001 - \$200,000	21	0.54
\$200,001 - \$250,000	20	0.51
\$250,001 - \$300,000	10	0.26
\$300,001 - \$350,000	7	0.18
\$350,001 - \$370,000	1	0.03
\$370,001 - \$390,000	2	0.05
More than \$390,000	0	0.00
Total :	<u>3 910</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	2 665	68.16
2 - 4.99 years	596	15.24
5 - 5.99 years	114	2.92
6 - 6.99 years	90	2.30
7 - 7.99 years	76	1.94
8 - 8.99 years	70	1.79
9 - 9.99 years	32	0.82
10 - 14.99 years	157	4.02
15 - 19.99 years	69	1.76
20 - 24.99 years	30	0.77
25 - 29.99 years	8	0.20
30 - 34.99 years	1	0.03
35 - 38.99 years	1	0.03
39 - 40.99 years	0	0.00
41 - 42.99 years	0	0.00
43 years' service and over	1	0.03
Total :	<u>3 910</u>	<u>100.00</u>

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

<sup>\*</sup> 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.

Appendix V

**Analysis of  
ex gratia payment approved in 2010-11**

**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	604	14.42
\$4,000 or less	702	16.76
\$4,001 - \$8,000	660	15.76
\$8,001 - \$10,000	288	6.88
\$10,001 - \$12,000	243	5.80
\$12,001 - \$14,000	193	4.61
\$14,001 - \$16,000	190	4.54
\$16,001 - \$18,000	156	3.72
\$18,001 - \$28,000	536	12.80
\$28,001 - \$36,000 <sup>#</sup>	617	14.73
Total :	4 189	100.00

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

Amount	No. of applicants	Percentage
Not claimed/Not approved	1 370	32.70
\$2,000 or less	843	20.12
\$2,001 - \$3,000	291	6.95
\$3,001 - \$4,000	224	5.35
\$4,001 - \$5,000	92	2.20
\$5,001 - \$6,000	59	1.41
\$6,001 - \$10,000	385	9.19
\$10,001 - \$22,500 <sup>†</sup>	925	22.08
Total :	4 189	100.00

**C. Analysis of payment approved for severance payment**

Amount	No. of applicants	Percentage
Not claimed/Not approved	2 867	68.44
\$8,000 or less	594	14.18
\$8,001 - \$22,000	545	13.01
\$22,001 - \$36,000	117	2.79
\$36,001 - \$50,000	30	0.72
\$50,001 - \$80,000	29	0.69
\$80,001 - \$110,000	6	0.14
\$110,001 - \$140,000	0	0.00
\$140,001 - \$170,000	1	0.02
\$170,001 - \$200,000	0	0.00
\$200,001 - \$210,000	0	0.00
\$210,001 - \$220,000 <sup>*</sup>	0	0.00
Total :	4 189	100.00

<sup>#</sup> The maximum amount of ex gratia payment out of the Protection of Wages on Insolvency Fund (the Fund) on arrears of wages.

<sup>†</sup> The maximum amount of ex gratia payment out of the Fund on wages in lieu of notice.

<sup>\*</sup> 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 2010-11**

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

Approved payment as percentage of applicants' claimed amount	Percentage of applicants
100%	75.61
90% or above	77.75
80% or above	80.32
70% or above	82.63
60% or above	85.37
50% or above	88.13
40% or above	90.79
30% or above	93.51
20% or above	96.30
10% or above	98.41
5% or above	99.62

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

Approved payment as percentage of applicants' claimed amount	Percentage of applicants
100%	96.83
90% or above	97.25
80% or above	97.98
70% or above	98.54
60% or above	99.10
50% or above	99.55
40% or above	99.65
30% or above	99.72
20% 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%	50.94
90% or above	55.95
80% or above	60.74
70% or above	65.46
60% or above	69.81
50% or above	75.18



Appendix VII

Comparative figures on the performance of the Protection of Wages on Insolvency Fund from 2006-07 to 2010-11

Figure 1

Number of applications received by the Fund from 2006-07 to 2010-11

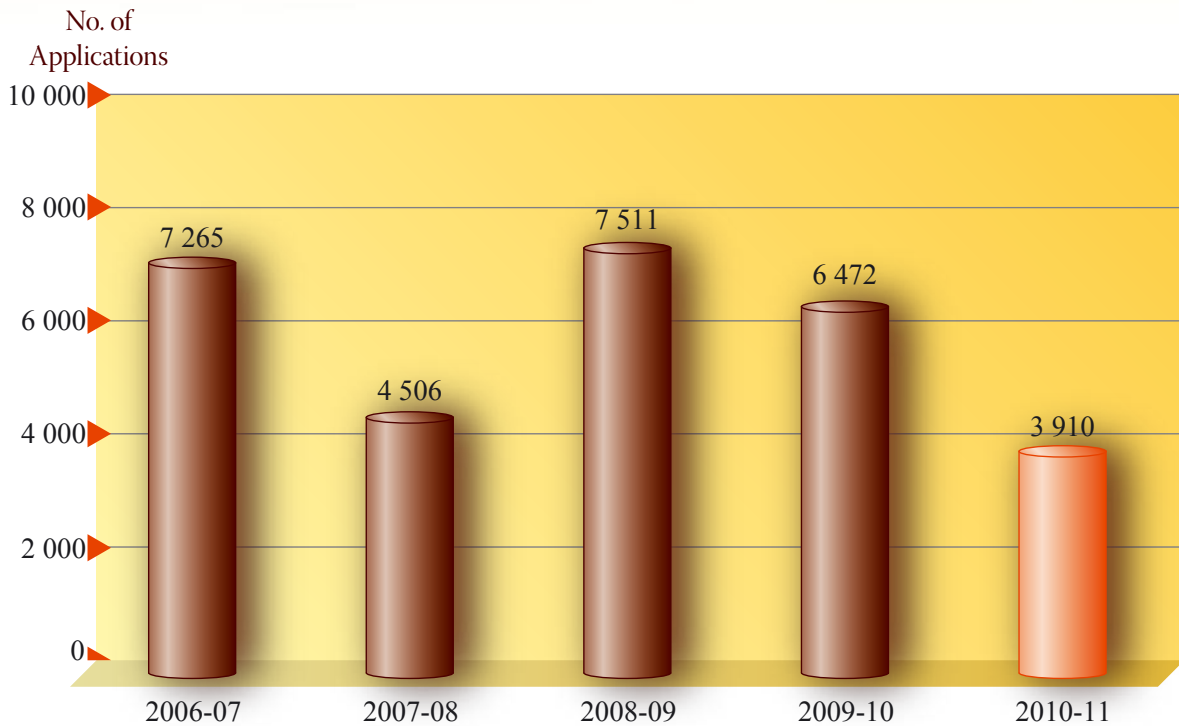
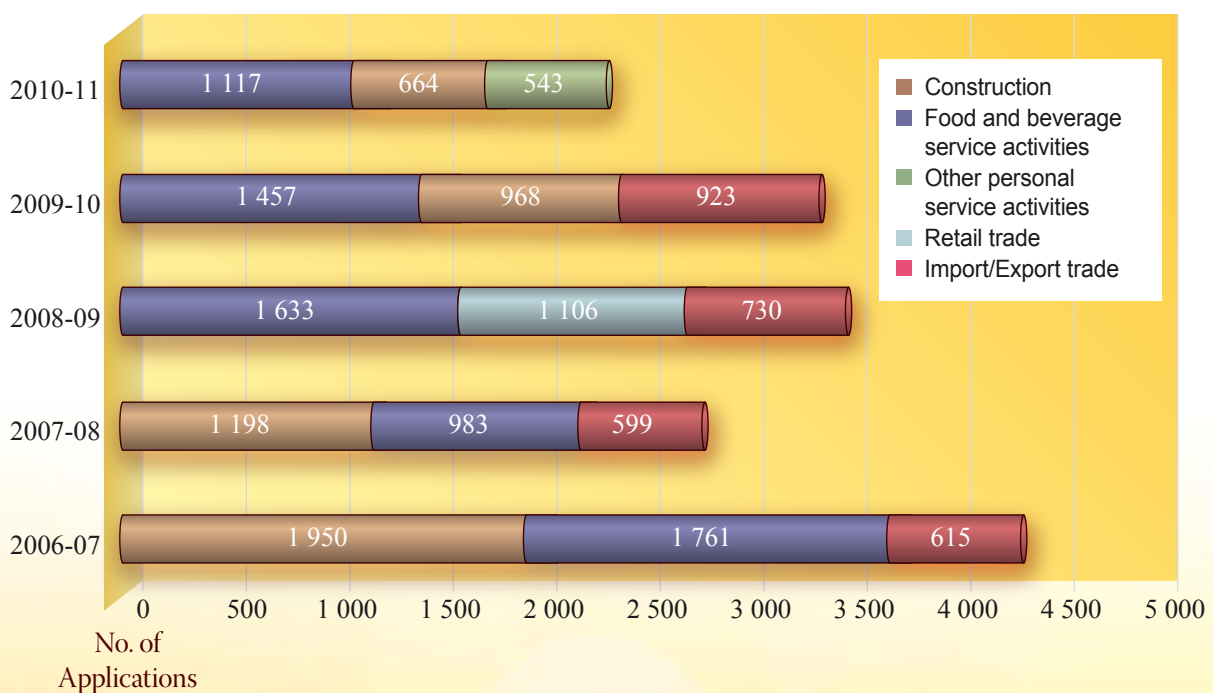


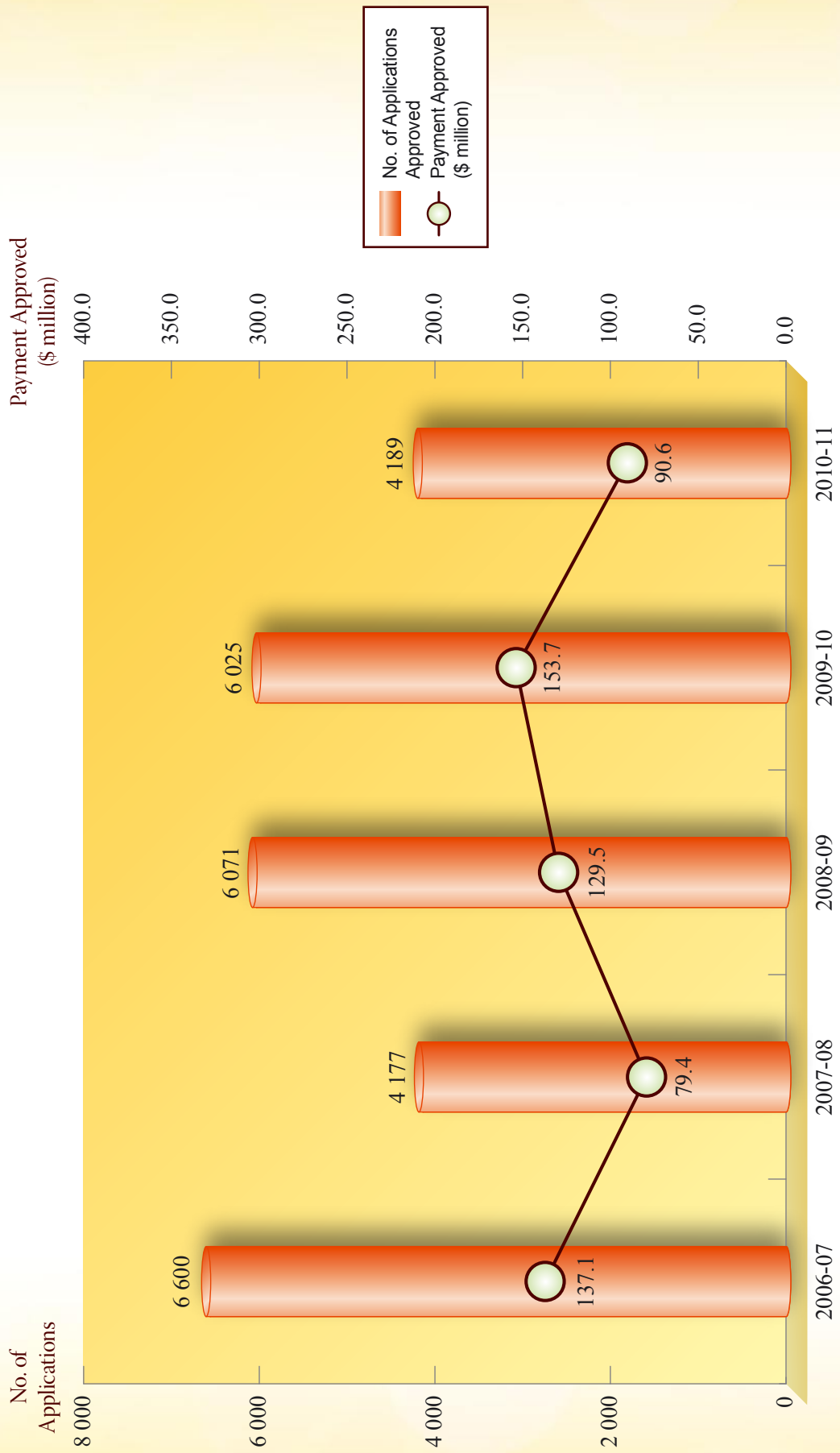
Figure 2

First three industries with the largest number of applications received from 2006-07 to 2010-11



**Figure 3**

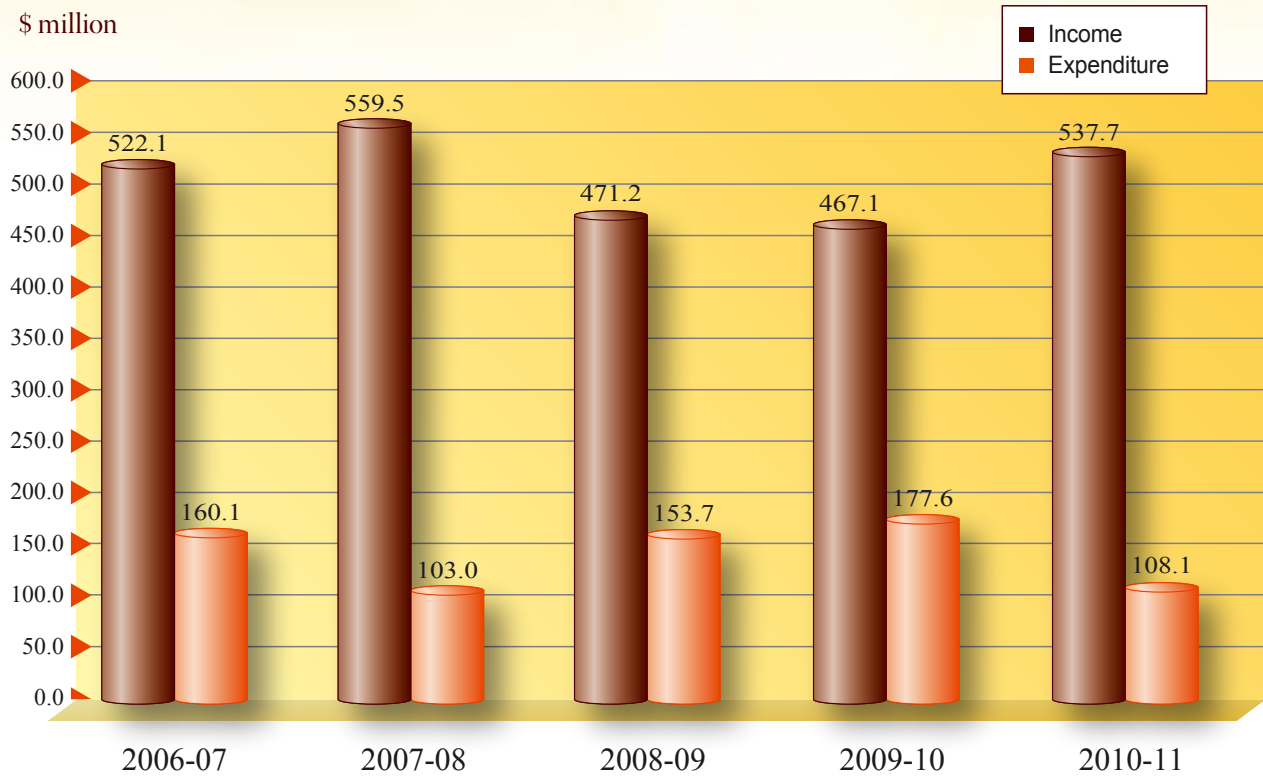
**Number of applications and amount of ex gratia payment approved from 2006-07 to 2010-11**



**Figure 4**

**Total income and expenditure of the Fund from 2006-07 to 2010-11**

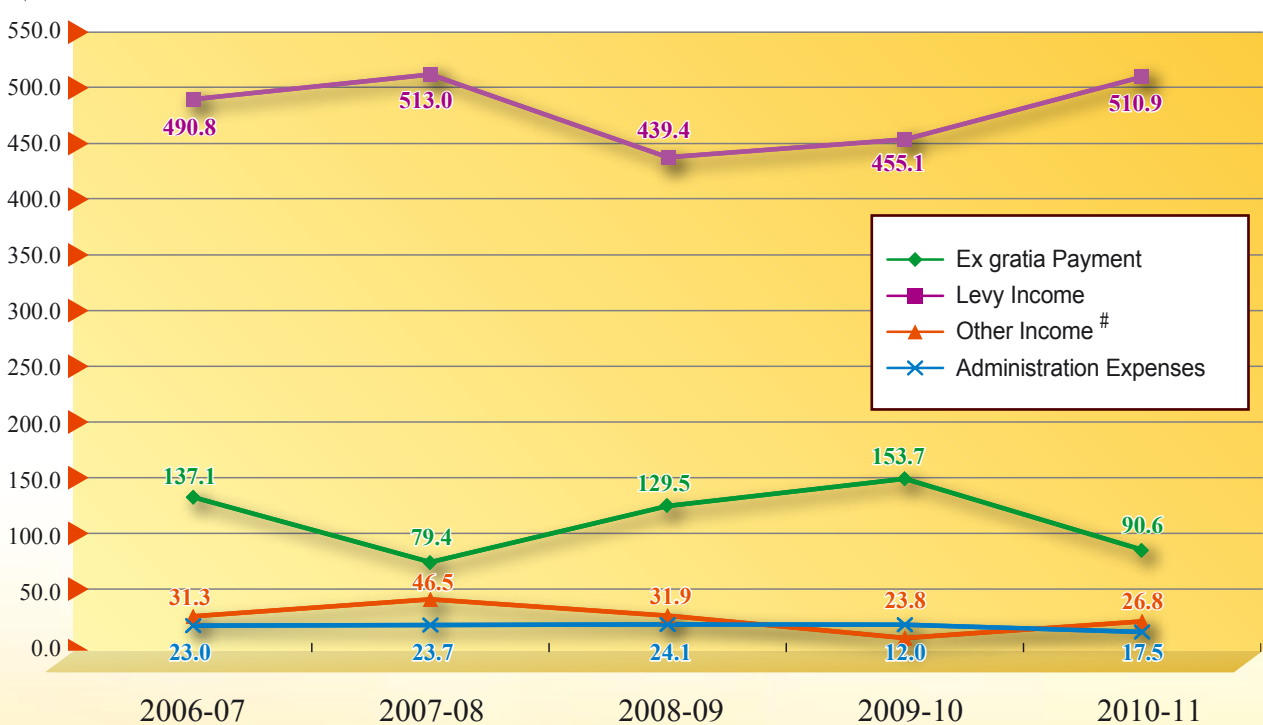
\$ million



**Figure 5**

**Breakdown of income and expenditure of the Fund from 2006-07 to 2010-11**

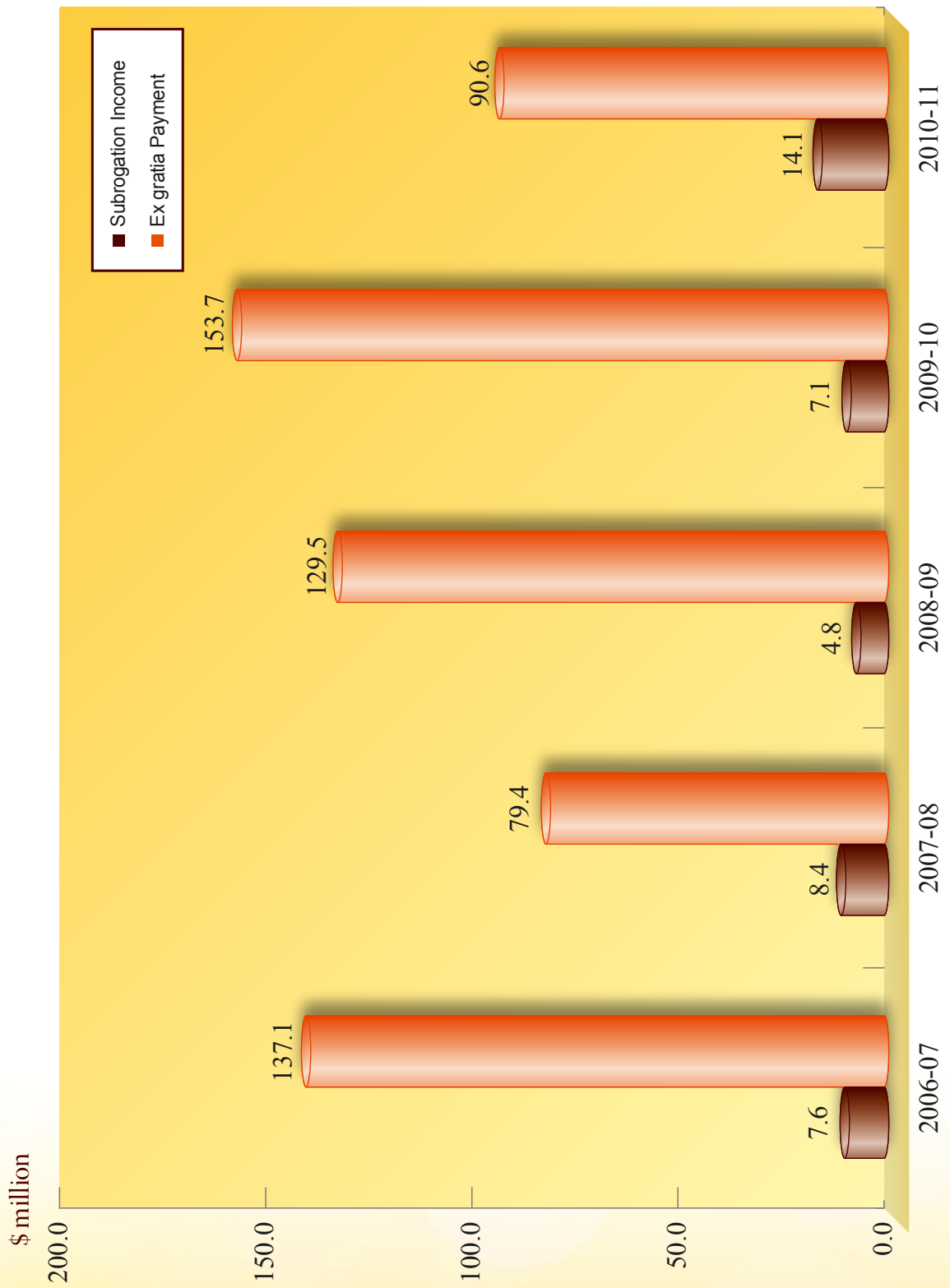
\$ million



# Bank deposit interests and money recovered through subrogation

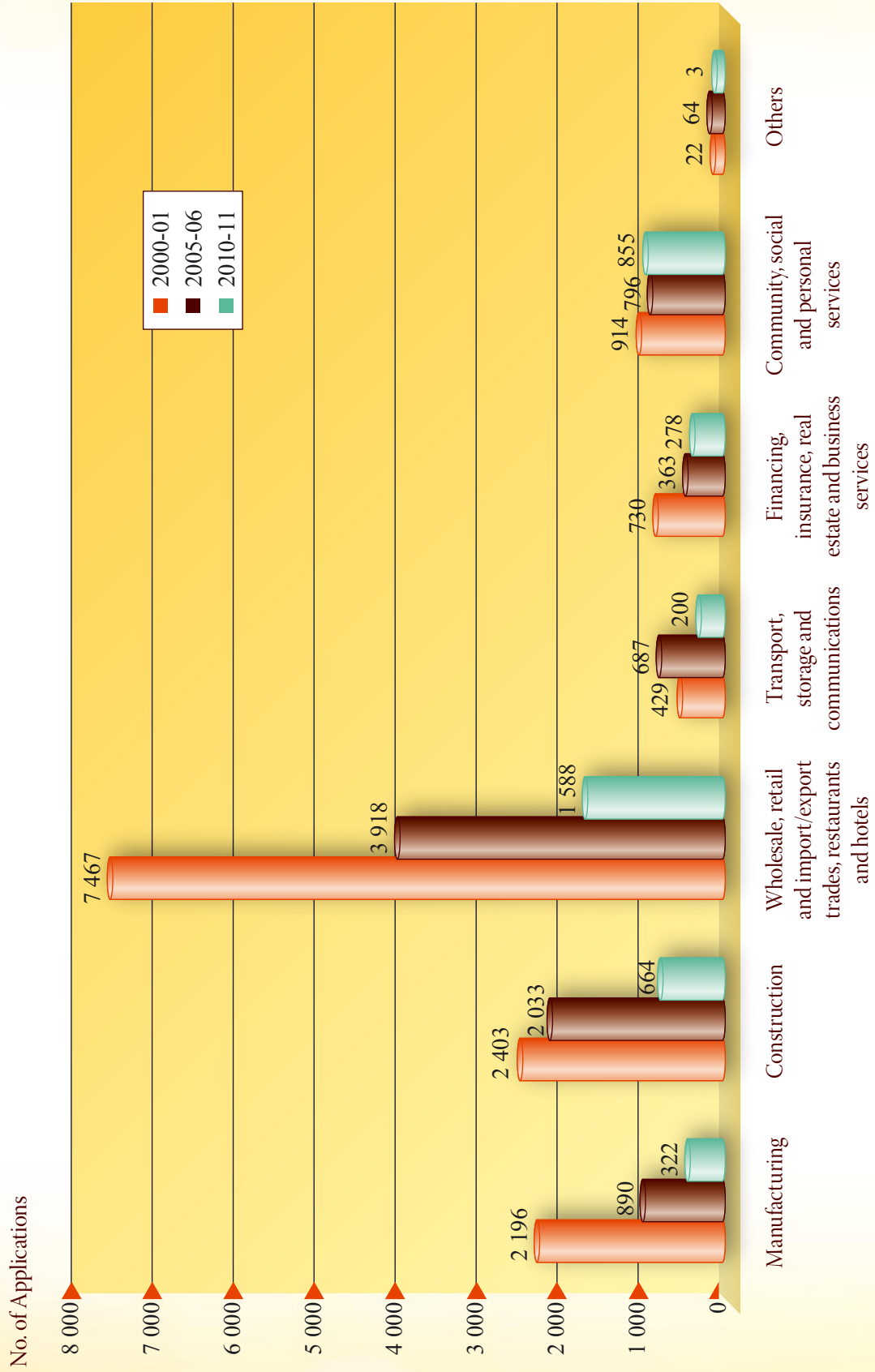
Figure 6

Subrogation income and ex gratia payment of the Fund from 2006-07 to 2010-11



Appendix VIII

Analysis of applications received by economic sector in 2000-01, 2005-06 and 2010-11







Appendix IX

**Independent Auditors' Report and Audited Financial Statements  
for the year ended 31 March 2011**



Independent Auditors' Report and Audited Financial  
Statements

PROTECTION OF WAGES ON INSOLVENCY FUND

31 March 2011

Ernst & Young

PROTECTION OF WAGES ON INSOLVENCY FUND

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Statement of changes in funds and reserves	5
Statement of cash flows	6
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## **Independent auditors' report**

### **To the members of Protection of Wages on Insolvency Fund Board** (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 15, which comprise the statement of financial position as at 31 March 2011, and the statement of comprehensive income and expenditure, the statement of changes in funds and reserves, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **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 of financial statements that give a true and fair view 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, 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.

### **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 about 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 of the financial statements that give a true and fair view 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.

破產欠薪保障基金委員會  
Protection of Wages on Insolvency Fund Board



**Independent auditors' report** (continued)  
**To the members of Protection of Wages on Insolvency Fund Board**  
(Established under the Protection of Wages on Insolvency Ordinance)

**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 2011, 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.

A handwritten signature in black ink, appearing to read 'Ernst &amp; Young', written in a cursive style.

Certified Public Accountants  
Hong Kong  
15 September 2011

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

Year ended 31 March 2011

	Notes	2011 HK\$	2010 HK\$
INCOME	3	<u>537,731,891</u>	<u>467,112,893</u>
EXPENDITURE			
Claims	4	90,633,352	153,730,427
Supervision fee	5	16,417,322	17,517,187
Auditors' remuneration		71,000	68,000
Rates and building management charges		266,406	227,920
Insurance		6,313	6,313
Printing and stationery		44,454	45,250
Depreciation		-	5,494,937
Miscellaneous expenses		<u>648,273</u>	<u>485,517</u>
TOTAL EXPENDITURE		<u>108,087,120</u>	<u>177,575,551</u>
SURPLUS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6	<u><u>429,644,771</u></u>	<u><u>289,537,342</u></u>

# 破產欠薪保障基金委員會


## Protection of Wages on Insolvency Fund Board

PROTECTION OF WAGES ON INSOLVENCY FUND

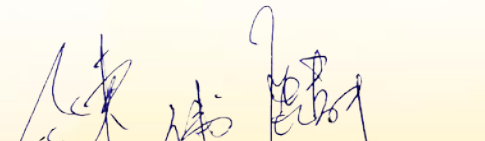
STATEMENT OF FINANCIAL POSITION

31 March 2011

	Notes	2011 HK\$	2010 HK\$
<b>NON-CURRENT ASSET</b>			
Property	9	-	-
<b>CURRENT ASSETS</b>			
Levies receivable		63,373,150	52,406,650
Interest receivables		2,338,028	383,084
Sundry deposits		35,000	35,000
Prepayment		58,333	-
Time deposits	10	2,220,500,000	1,804,696,244
Cash at banks	10	192,097	139,747
Total current assets		<u>2,286,496,608</u>	<u>1,857,660,725</u>
<b>CURRENT LIABILITIES</b>			
Approved claims payable		3,791,805	4,316,270
Accrued operation expenses		98,290	82,713
Accrued supervision fee	5	17,300,000	17,600,000
Total current liabilities		<u>21,190,095</u>	<u>21,998,983</u>
<b>NET CURRENT ASSETS</b>		<u>2,265,306,513</u>	<u>1,835,661,742</u>
Net assets		<u>2,265,306,513</u>	<u>1,835,661,742</u>
<b>FINANCED BY:</b>			
Accumulated surplus		2,248,767,726	1,819,122,955
General reserve	11	16,538,787	16,538,787
Total accumulated funds and reserves		<u>2,265,306,513</u>	<u>1,835,661,742</u>



Chairman



Board Member



PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF CHANGES IN FUNDS AND RESERVES

Year ended 31 March 2011

	Accumulated surplus HK\$	General reserve HK\$	Total accumulated funds and reserves HK\$
At 1 April 2009	1,529,585,613	16,538,787	1,546,124,400
Surplus and total comprehensive income for the year	<u>289,537,342</u>	<u>-</u>	<u>289,537,342</u>
At 31 March 2010 and at 1 April 2010	1,819,122,955	16,538,787	1,835,661,742
Surplus and total comprehensive income for the year	<u>429,644,771</u>	<u>-</u>	<u>429,644,771</u>
At 31 March 2011	<u><u>2,248,767,726</u></u>	<u><u>16,538,787</u></u>	<u><u>2,265,306,513</u></u>

**破產欠薪保障基金委員會**  
**Protection of Wages on Insolvency Fund Board**

PROTECTION OF WAGES ON INSOLVENCY FUND

STATEMENT OF CASH FLOWS

Year ended 31 March 2011

	Notes	2011 HK\$	2010 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus for the year		429,644,771	289,537,342
Adjustments for:			
Bank interest income	3	( 12,745,136)	( 4,930,922)
Depreciation	9	-	5,494,937
		<u>416,899,635</u>	<u>290,101,357</u>
Increase in levies receivable		( 10,966,500)	( 9,596,550)
Decrease in sundry debtors		-	174,393
Increase in prepayment		( 58,333)	-
Increase/(decrease) in approved claims payable		( 524,465)	211,589
Increase in accrued operation expenses		15,577	13,203
Decrease in accrued supervision fee		( 300,000)	( 200,000)
		<u>405,065,914</u>	<u>280,703,992</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		10,790,192	5,907,287
Increase in time deposits with original maturity over three months		( 103,611,478)	( 497,106,396)
		<u>( 92,821,286)</u>	<u>( 491,199,109)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<u>131,847,469</u>	<u>342,342,586</u>
		<u>444,092,097</u>	<u>131,847,469</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances		192,097	139,747
Time deposits with original maturity of less than three months when acquired		<u>443,900,000</u>	<u>131,707,722</u>
		<u>444,092,097</u>	<u>131,847,469</u>

## PROTECTION OF WAGES ON INSOLVENCY FUND

### NOTES TO FINANCIAL STATEMENTS

31 March 2011

#### 1. GENERAL INFORMATION

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

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

#### 2.1 BASIS OF PREPARATION

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

#### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The HKICPA had issued a number of new and revised HKFRSs which became effective in 2010. There have been no significant changes to the accounting policies of the Fund applied to these financial statements upon the adoption of these new and revised HKFRSs.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2011

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Fund has not early applied any new and revised HKFRSs, that have been issued but are not yet effective for the accounting year ended 31 March 2011, in these financial statements. The Fund is in the process of making an assessment of the impact of the new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Fund's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of the Fund's property 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 an 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.

## PROTECTION OF WAGES ON INSOLVENCY FUND

## NOTES TO FINANCIAL STATEMENTS

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Fund classifies its financial instruments into the following categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The financial assets are recognised using trade date accounting.

## (a) Loans and receivables

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

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

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

## (b) Financial liabilities

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

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

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



PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 bank balances which are not restricted as to use.

Operating leases

Rentals payable under operating leases are charged as expenditures on the straight-line basis over the lease terms.

Provision

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

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

Revenue recognition

Revenue is recognised on the following bases:

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

Recognition of claims

Claims are accounted for on an accrual basis upon approval of 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 those employees who are eligible to participate in the MPF Scheme. 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 in accordance with the rules of the MPF Scheme.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2011

3. INCOME

An analysis of income is as follows:

	2011 HK\$	2010 HK\$
Levies	510,853,700	455,081,850
Money recovered by subrogation	14,133,055	7,100,121
Bank interest income	<u>12,745,136</u>	<u>4,930,922</u>
	<u>537,731,891</u>	<u>467,112,893</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, levies of HK\$450 and HK\$1,350 are imposed on the issuance of one-year and three-year business registration certificates, respectively, according to the Business Registration Ordinance (Amendment: Levy Reduction) Order 2008.

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 four months prior to an applicant's last day of service.

(b) Wages in lieu of notice

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

(c) Severance payment

Not exceeding the aggregate of HK\$50,000 and half of the part of the applicant's entitlement 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.

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2011

5. 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 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:

	2011 HK\$	2010 HK\$
Employee benefit expense:		
Wages and salaries	144,179	175,567
Pension scheme contributions	13,602	18,839
	<u>157,781</u>	<u>194,406</u>
Minimum lease payments under an operating lease of a building	<u>180,000</u>	<u>180,000</u>

7. REMUNERATION OF MEMBERS OF THE BOARD

No members of the Board received any fees or other emoluments in respect of their services rendered to the Fund during the year (2010: Nil).

8. INCOME TAX

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

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

31 March 2011

9. PROPERTY

	Land and building HK\$
<b>31 March 2011</b>	
At 31 March 2010, 1 April 2010 and 31 March 2011:	
Cost	27,474,677
Accumulated depreciation	<u>(27,474,677)</u>
Net carrying amount	<u><u>-</u></u>
<b>31 March 2010</b>	
At 1 April 2009:	
Cost	27,474,677
Accumulated depreciation	<u>(21,979,740)</u>
Net carrying amount	<u><u>5,494,937</u></u>
At 1 April 2009, net of accumulated depreciation	5,494,937
Depreciation provided during the year	<u>( 5,494,937)</u>
At 31 March 2010, net of accumulated depreciation	<u><u>-</u></u>
At 31 March 2010:	
Cost	27,474,677
Accumulated depreciation	<u>(27,474,677)</u>
Net carrying amount	<u><u>-</u></u>

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

PROTECTION OF WAGES ON INSOLVENCY FUND

NOTES TO FINANCIAL STATEMENTS

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10. CASH AT BANKS AND TIME DEPOSITS

	2011 HK\$	2010 HK\$
Bank balances	192,097	139,747
Time deposits with original maturity of:		
3 months or less	443,900,000	131,707,722
More than 3 months but less than 12 months	<u>1,776,600,000</u>	<u>1,672,988,522</u>
	<u>2,220,692,097</u>	<u>1,804,835,991</u>

11. GENERAL RESERVE

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

12. OPERATING LEASE COMMITMENTS

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

At 31 March 2011, the Fund had total future minimum lease payments under the non-cancellable operating lease falling due as follows:

	2011 HK\$	2010 HK\$
Within one year	180,000	90,000
In the second to fifth years, inclusive	<u>90,000</u>	<u>-</u>
	<u>270,000</u>	<u>90,000</u>

13. CONTINGENT LIABILITIES

At 31 March 2011, contingent liabilities in respect of claims received but not yet approved and provided for in the financial statements amounted to HK\$87,688,663 (2010: HK\$169,364,172).

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.



PROTECTION OF WAGES ON INSOLVENCY FUND

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14. FAIR VALUE

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

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

Levies receivable, interest receivables, time deposits, cash at banks, approved claims payable, accrued operation expenses and accrued supervision fee approximate to their carrying amounts largely due to the short term maturities of these instruments.

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

*Credit risk*

The Fund's receivable balances are monitored on an ongoing basis and the Fund's exposure to bad debts is insignificant. The Fund's maximum exposure on credit risk arising from the default of the counterparty equal to the carrying amounts of these financial assets in the statement of financial position.

*Interest rate risk*

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

*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 2011 and 2010.

16. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 15 September 2011.

破產欠薪保障基金委員會

Protection of Wages on Insolvency Fund Board