

Pneumoconiosis Ex Gratia Fund

Annual Report

by the

Commissioner for Labour

for the Year

from 1 April 2016 to 31 March 2017

Report on the Pneumoconiosis Ex Gratia Fund for the Year from 1 April 2016 to 31 March 2017

The Fund

The Government introduced the Pneumoconiosis Ex Gratia Scheme (“the Ex Gratia Scheme”) in 1993 to provide lifelong quarterly payments to persons who were diagnosed before 1981 as suffering from pneumoconiosis. In this regard, the Pneumoconiosis Ex Gratia Fund (“the Fund”) has been established by the Government out of general revenue to support the Ex Gratia Scheme. Before then, the Government had paid a lump sum ex gratia payment to these pneumoconiotics.

2. The recurrent income of the Fund comes from investment of its reserves. The expenditure items comprise ex gratia payments made to the pneumoconiotics and their family members (which account for some 98% of the total expenditure) and administrative expenses charged by the Pneumoconiosis Compensation Fund Board (“PCFB”)¹.

Management of the Fund

3. Under a Memorandum of Understanding signed by the Government and PCFB, the Labour Department processes all applications and determines eligibility for payments while PCFB manages the funds under the Ex Gratia Scheme and disburses payments to eligible persons.

4. Membership of PCFB as at 31 March 2017 was as follows:

Chairman	Ir. CHAN Sau-kit, Allan
Members	Ir. TSUI Wai-tim
	Mr. CHEE Ying-keung, Joseph
	Mr. CHAN Chi-hung, Dave
	Dr. SO Ho-pui
	Ir. LAU Chi-kin
	Mr. WONG Ping
	Ms. FUNG Elsie
	Senior Treasury Accountant (Fund Management), Treasury
	Senior Labour Officer, Labour Department, responsible for pneumoconiosis and mesothelioma compensation

¹ PCFB is a statutory body set up under the Pneumoconiosis and Mesothelioma (Compensation) Ordinance to, inter alia, administer the Pneumoconiosis Compensation Fund for the purpose of providing compensation to persons who are diagnosed on or after 1 January 1981 as suffering from pneumoconiosis; and persons diagnosed as suffering from mesothelioma on or after 18 April 2008. It is also appointed by the Government as the paying agent for the Ex Gratia Scheme.

Disbursement of Ex Gratia Payments

5. The Ex Gratia Scheme provides a full range of ex gratia payments as follows:

- (a) Ex gratia payment for incapacity and pain, suffering and loss of amenities arising from pneumoconiosis payable on a quarterly basis to all pneumoconiotics until death.
- (b) Ex gratia payment for care and attention payable on a quarterly basis to pneumoconiotics whose incapacity is of such a nature that they are unable to perform the essential actions of life without the care and attention of others.
- (c) Medical expenses payable for medical treatments in connection with pneumoconiosis.
- (d) Expenses for approved medical appliances (i.e. wheelchair, oxygen concentrator and its accessories, and oxygen cylinder and its accessories) that are necessary for the incapacity arising from pneumoconiosis.
- (e) Death grant payable to family members of pneumoconiotics who die as a result of pneumoconiosis.
- (f) Funeral expenses payable on a reimbursement basis to any person who has incurred expenses for the funeral of a pneumoconiotic who dies as a result of pneumoconiosis.

6. As at 31 March 2017, there were 52 pneumoconiotics surviving under the Ex Gratia Scheme. During the year, ex gratia payments made out of the Fund amounted to \$6.89 million and the corresponding figure for the previous year was \$7.66 million. Breakdown by categories of ex gratia payment is shown as follows:

	2016-17 (\$ million)	2015-16 (\$ million)
Ex gratia payment for incapacity and pain, suffering and loss of amenities	4.62	5.61
Ex gratia payment for care and attention	0.06	0.15
Medical expenses	0.06	0.11
Expenses for medical appliances	0.07	0.08
Death grant	1.32	1.13
Funeral expenses	0.77	0.58
Total Payment	6.89[^]	7.66

[^] Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total.

Financial Position

7. Income for the year was \$0.19 million which was all derived from interest on bank deposits while expenditure was \$7.02 million including the payout of \$6.89 million as ex gratia payments. As at 31 March 2017, the Fund's accumulated balance stood at \$19.06 million. Income and expenditure in the past 2 years are as follows:

	Total Income (\$ million)	Total Expenditure (\$ million)	Fund Balance (\$ million)
2015-16	0.31	7.80	25.90
2016-17	0.19	7.02	19.06

8. The audited statement of accounts of the Fund for the year and the Report of the Director of Audit are shown at Appendix.

Pneumoconiosis Ex Gratia Fund

Financial statements for the year ended 31 March 2017

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report

To the Secretary for Labour and Welfare

Opinion

I have audited the financial statements of the Pneumoconiosis Ex Gratia Fund set out on pages 4 to 13, which comprise the statement of assets and liabilities as at 31 March 2017, and the statement of income and expenditure, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements give a true and fair view of the financial position of the Pneumoconiosis Ex Gratia Fund as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in accordance with clause 8 of the Memorandum of Understanding signed between the Pneumoconiosis Compensation Fund Board and the Government.

Basis for opinion

I conducted my audit in accordance with clause 8 of the Memorandum of Understanding and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I am independent of the Pneumoconiosis Ex Gratia Fund in accordance with those standards, and I have fulfilled my other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Pneumoconiosis Compensation Fund Board for the financial statements

The Pneumoconiosis Compensation Fund Board is responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and clause 8 of the Memorandum of Understanding, and for such internal control as the Pneumoconiosis Compensation Fund Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Pneumoconiosis Compensation Fund Board is responsible for assessing the Pneumoconiosis Ex Gratia Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pneumoconiosis Ex Gratia Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Pneumoconiosis Compensation Fund Board;
- conclude on the appropriateness of the Pneumoconiosis Compensation Fund Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pneumoconiosis Ex Gratia Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Pneumoconiosis Ex Gratia Fund to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

LIANG Kar-lun, Ken
Acting Principal Auditor
for Director of Audit

29 September 2017

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

PNEUMOCONIOSIS EX GRATIA FUND
STATEMENT OF ASSETS AND LIABILITIES
AS AT 31 MARCH 2017

	Note	2017 HK\$	2016 HK\$
CURRENT ASSETS			
Interest receivable		63,503	62,346
Fixed deposits	3	15,200,000	22,309,976
Cash and cash equivalents	4	3,960,484	3,722,000
		<u>19,223,987</u>	<u>26,094,322</u>
CURRENT LIABILITIES			
Accounts payable		(160,739)	(198,531)
NET ASSETS		<u>19,063,248</u>	<u>25,895,791</u>
REPRESENTING:			
OPERATING FUND		<u>19,063,248</u>	<u>25,895,791</u>

Approved by the Pneumoconiosis Compensation Fund Board on 29 September 2017.

Chan Sau Kit Allan
Chairman

Law Shiu Hung
Secretary General

The accompanying notes 1 to 8 form part of these financial statements.

PNEUMOCONIOSIS EX GRATIA FUND			
STATEMENT OF INCOME AND EXPENDITURE			
FOR THE YEAR ENDED 31 MARCH 2017			
	Note	2017	2016
		HK\$	HK\$
INCOME			
Interest income	5	<u>191,567</u>	<u>305,762</u>
EXPENDITURE			
Ex gratia payments		(6,894,074)	(7,655,175)
Administrative expenses		(128,875)	(145,052)
Bank charges		<u>(1,161)</u>	<u>(1,840)</u>
		<u>(7,024,110)</u>	<u>(7,802,067)</u>
DEFICIT FOR THE YEAR		(6,832,543)	(7,496,305)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS		-	-
FOR THE YEAR		<u>(6,832,543)</u>	<u>(7,496,305)</u>

The accompanying notes 1 to 8 form part of these financial statements.

PNEUMOCONIOSIS EX GRATIA FUND

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

OPERATING FUND

	2017	2016
	HK\$	HK\$
Balance at beginning of the year	25,895,791	33,392,096
Total comprehensive loss for the year	(6,832,543)	(7,496,305)
Balance at end of the year	<u>19,063,248</u>	<u>25,895,791</u>

The accompanying notes 1 to 8 form part of these financial statements.

PNEUMOCONIOSIS EX GRATIA FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 HK\$	2016 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficit for the year		(6,832,543)	(7,496,305)
Interest income		(191,567)	(305,762)
(Decrease) / Increase in accounts payable		<u>(37,792)</u>	<u>12,124</u>
NET CASH USED IN OPERATING ACTIVITIES		<u>(7,061,902)</u>	<u>(7,789,943)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease in fixed deposits with original maturity over three months		7,109,976	7,527,526
Interest received		<u>190,410</u>	<u>386,515</u>
NET CASH GENERATED FROM INVESTING ACTIVITIES		<u>7,300,386</u>	<u>7,914,041</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		238,484	124,098
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>3,722,000</u>	<u>3,597,902</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	<u><u>3,960,484</u></u>	<u><u>3,722,000</u></u>

The accompanying notes 1 to 8 form part of these financial statements.

PNEUMOCONIOSIS EX GRATIA FUND
NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Pneumoconiosis Ex Gratia Scheme was established by the Government on 9 July 1993 to make ex gratia payments from the Pneumoconiosis Ex Gratia Fund (the Fund) to those people who were diagnosed before 1 January 1981 to be suffering from pneumoconiosis and have received an ex gratia lump sum payment from the Government in respect of the disease.

Payments are made quarterly to these pneumoconiotics. If they die as a result of pneumoconiosis, a funeral expense allowance will be paid from the Fund. Medical appliances, including wheelchairs, oxygen concentrators and oxygen cylinders and their accessories, are provided to those pneumoconiotics who are in need of these appliances. The pneumoconiotics are entitled to receive an allowance for medical treatment, including medical expenses for Chinese medicine in connection with pneumoconiosis, and payments for care and attention. The spouse and children of pneumoconiotics can apply for a death grant if the pneumoconiotics are determined to have died as a result of pneumoconiosis.

The Pneumoconiosis Compensation Fund Board (the Board) has been appointed to act as the paying agent of the Pneumoconiosis Ex Gratia Scheme under the Memorandum of Understanding between the Government and the Board on the Pneumoconiosis Ex Gratia Scheme.

The address of the Board is 15/F, Nam Wo Hong Building, 148 Wing Lok Street, Sheung Wan, Hong Kong.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with applicable Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants.

(b) Basis of preparation

The financial statements have been prepared on an accrual basis and under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no critical accounting judgements involved in the application of the Fund's accounting policies. These are neither key assumptions concerning the future nor other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year.

(c) Adoption of new/revised HKFRSs

The Fund has adopted all new/revised HKFRSs which are effective and relevant to the Fund for the current accounting period.

The Fund has not early adopted any amendments, new standards and interpretations which are not yet effective for the current accounting period. The Fund is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial adoption. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Fund's results of operations and financial position.

(d) Revenue recognition

Interest income is recognised as it accrues using the effective interest method.

(e) Financial assets and financial liabilities

The Fund's financial assets and financial liabilities include interest receivable, fixed deposits, cash and cash equivalents and accounts payable. They are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of financial assets or issue of financial liabilities. Financial assets are subsequently measured at amortised cost using the effective interest method, less impairment losses, if any. Financial liabilities are subsequently measured at amortised cost using the effective interest method.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value, having been within three months of maturity when acquired.

3. FIXED DEPOSITS

	2017	2016
	HK\$	HK\$
Bank deposits with original maturity over three months	<u>15,200,000</u>	<u>22,309,976</u>

4. CASH AND CASH EQUIVALENTS

	2017	2016
	HK\$	HK\$
Cash at bank	<u>3,960,484</u>	<u>3,722,000</u>

5. INTEREST INCOME

	2017	2016
	HK\$	HK\$
Interest on fixed deposits	168,539	283,469
Interest on current account	<u>23,028</u>	<u>22,293</u>
	<u>191,567</u>	<u>305,762</u>

6. FINANCIAL RISK MANAGEMENT

The Fund's major financial instruments include bank deposits and receivables. The Board monitors the management of the portfolio to ensure that an appropriate investment strategy is implemented in a timely and effective manner. The risks associated with these financial instruments are set out below.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

To minimise credit risks arising from bank deposits, all fixed deposits are placed with reputable licensed banks in Hong Kong.

For other receivables, the Fund considers that adequate provision has been made against all amounts owing to the Fund which are known or may be expected to be irrecoverable.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of financial assets is the carrying amount of those assets as stated in the statement of assets and liabilities.

(b) Interest rate risk

Interest rate risk is the risk of loss arising from changes in market interest rate. This can be further classified into fair value interest rate risk and cash flow interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Since the Fund's investment in fixed deposits bear interest at fixed rates, their fair values will fall when market interest rates increase. However, as they are all stated at amortised costs, changes in market interest rates will not affect their carrying amounts and the Fund's deficit and equity.

Cash flow interest risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is not exposed to material cash flow interest rate risk because interest income from financial instruments bearing interest at a floating rate is not significant.

(c) Liquidity risk

In the management of liquidity risk, the Fund maintains a level of cash and cash equivalents that is deemed adequate to finance its operations and mitigate the effects of fluctuations in cash flows.

7. CAPITAL MANAGEMENT

The capital of the Fund consists solely of the operating fund. The Fund's objectives when managing capital are:

- (a) to comply with the Memorandum of Understanding signed between the Government and the Board in July 1993 and the Administrative Arrangements agreed by both parties; and
- (b) to maintain a strong capital base for carrying out the purpose of the Fund as stated in note 1 above.

The Fund manages capital by reviewing its level regularly to ensure that it is sufficient to fund future grants and expenditure, taking into account projected cash flow requirements, future financial obligations and commitments.

8. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

All financial assets and financial liabilities are stated in the statement of assets and liabilities at amounts equal to or not materially different from their fair values.