

# Challenges and Strategies

In this chapter, we set out our key challenges in running a sustainable business, the factors affecting our performance, and the strategies we have adopted for addressing them. Financial challenges and related issues are discussed separately in our Annual Report.

## Key Challenges

### Regulatory Requirements and Stakeholder Expectations

Hong Kong's laws and regulations are constantly being reviewed and updated, exposing HKEI to legal and regulatory compliance risks. Our main operating company, HK Electric, must also comply with applicable laws and regulations, particularly those related to tightening emission allowances.

Additionally, we must anticipate and address the concerns of our stakeholders who expect us to follow the highest standards in areas such as service delivery, health and safety, and environmental protection, and to operate with a high degree of transparency.

### The Future of the Electricity Market

Our electricity business in Hong Kong is subject to a Scheme of Control Agreement (SCA) signed with the Government. It sets a permitted level of earnings based principally on the average net fixed assets of electricity-related operations along with a broad spectrum of operational, performance and service requirements. The current SCA was renewed in 2008 for a term of ten years commencing 1 January 2009.

The implementation of the 2014–2018 Development Plan under the SCA, together with the structure and regulation of the power industry in Hong Kong upon the expiry of the current SCA, affect our business and, ultimately, our stakeholders. Other key factors include the Government's policies on the fuel mix for electricity generation to improve air quality and combat climate change as well as competition in the electricity market over the medium to long term.

### Fuel Supply

Coal and natural gas are used for our generating units at Lamma Power Station. Any interruptions or shortages in the supply of fuel, or instances of substandard fuel quality, could result in significant impact on our electricity generation. Moreover, interruptions to gas supply could hamper our ability to meet legislated emission allowances. Volatility of global fuel prices could also be a challenge in securing a reliable and quality fuel supply at reasonable prices.

### Economic Environment

Global economic growth remained slow with subdued demand across the major economies. The outcomes of the UK's "Brexit" referendum and the US presidential election also heightened uncertainty in the world economy and global financial market.

In Hong Kong, the economy grew at a modest pace as reflected in weak exports, slow retail sales and declines in visitor arrivals. All these could cause an economic downturn and have an adverse impact on our customers' businesses, leading to lower demand for electricity. As Hong Kong's electricity market is highly developed, with limited opportunities for growth, any economic slowdown could be a serious challenge to us.





## Principal Strategies

Our Vision, Mission and Core Values (VMV) guide us in how we face challenges at every level of our operations. It is reinforced by our Corporate Social Responsibility (CSR) Policy and corporate governance practices. We also take into consideration the views and concerns of our stakeholders. These form a sustainability framework under which our sustainability initiatives and activities are implemented.

### VMV and CSR Policy

To fulfil our Vision which is to excel in the power business in Hong Kong, our Mission is to enhance shareholder value, deliver excellent customer service and supply reliability, nurture a harmonious and engaged workforce, care for the environment and community, and drive for efficiency in our operations.

Our efforts to achieve the Mission are supported by our Core Values: Pursuit of Excellence, Integrity, Respect and Trust, and Caring. Our CSR Policy underlies our commitment to operating in a responsible manner and meeting the long-term energy needs of the community.

The implementation of our CSR Policy is overseen by our CSR Committee, chaired by the CEO and comprising senior management representatives. The Committee is responsible for formulating strategies, integrating CSR initiatives into our operations, and monitoring and improving our CSR performance. It also benchmarks our performance against industry best practices, promotes CSR among our employees and business partners, and enhances stakeholder engagement.

Guided by our VMV and CSR Policy, we endeavour to be a good corporate citizen in support of the sustainable development of the community, a world-class energy supplier providing a safe, reliable, affordable and environmentally friendly electricity supply, and an employer of choice for those who wish to pursue a fulfilling career in the energy sector.

## Corporate Governance

At HKEI, we are committed to upholding the highest standards of corporate governance. We have an Enterprise Risk Management Framework to identify, assess, mitigate and monitor key business, financial, operational and compliance risks. We also have a Crisis Management Plan to deal with emergencies that could damage our long-term business plans. Further details about our corporate governance can be found in the "Respecting our Shareholders" chapter and our Annual Report.

## Managing Key Challenges

In order to meet legal and regulatory requirements, we monitor changes in laws and regulations, and ensure compliance in all relevant functional units. This is achieved through our Compliance Framework, which is overseen by our Compliance Committee. Comprehensive management systems are also in place to oversee environmental matters, health and safety issues, and service quality standards. Various communication channels are in place for understanding and addressing stakeholder concerns. For details on how we engage our stakeholders, please refer to the previous chapter, "Stakeholder Engagement".

Factors that could affect the electricity market are regularly reviewed through an established mechanism. We also exchange views on the electricity market and related regulatory issues with stakeholders.

To secure a reliable and stable supply of quality fuels at reasonable prices, we have developed a fuel supply strategy and a fuel quality control system.

In an uncertain economic environment, HKEI adopts prudent and pragmatic strategies in financial management and capital investment. We also strive for efficiency and cost effectiveness in all aspects of our operations to enhance our financial performance.

