

# Challenges and Strategies

In this chapter, we set out our key challenges for 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, environmental protection, health and safety, as well as 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 HKSAR Government. The SCA sets a permitted level of earnings for our business 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, expiring on 31 December 2018, was renewed in 2017 for a term of 15 years commencing on 1 January 2019.

The implementation of the 2014–2018 Development Plan under the current SCA, implementation details for the new SCA as well as the 2019–2023 Development Plan that requires the Government's approval, all affect our business and the interests of 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 its policies on competition in the electricity market over the medium to long term.

### Fuel Supply

Coal and natural gas are the main types of fuel for our generating units at Lamma Power Station. Any interruptions or shortages in the supply of these fuels, or instances of sub-standard fuel quality, could significantly impact our electricity generation. Moreover, interruptions to gas supply could hamper our ability to meet legislated emission allowances. Volatility of global fuel prices can also undermine our ability to secure a reliable and high-quality supply of fuel at reasonable prices.

### Economic Environment

While the global economy continues to strengthen with moderate expansion, the pace of US monetary policy normalisation, policy differences among major central banks and Brexit-related negotiations all contribute to uncertainty impacting the world economy and global financial markets. Meanwhile, growth of the Hong Kong economy is moderate, showing signs of improvement in exports and retail sales.

The prevailing environment of global economic uncertainty may adversely affect the business of our customers or cause a slowdown in economic activities in Hong Kong, which, in turn, may lead to a lower demand for electricity. As Hong Kong's electricity market is highly developed, with limited opportunities for growth, any economic slowdown could present a serious challenge to our business.



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## Principal Strategies

Our Vision, Mission and Core Values (VMV) guide us in how we face challenges at every level of our operations and are reinforced by our CSR Policy and corporate governance practices. We also take into consideration the views and concerns of our stakeholders. These form a 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 this 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. During the year, a number of revisions were made to the Policy, putting greater emphasis on “transparency”, “innovation” and “engaged workplace”.

The implementation of our CSR Policy is overseen by the 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 supporting the sustainable development of our 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 Creating Value chapter of this report 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 chaired by the CEO. Comprehensive management systems are also in place to govern environmental, health and safety, and service quality issues. We also have various communication channels for understanding and addressing stakeholder concerns. For details on how we engage our stakeholders, please refer to the Stakeholder Engagement chapter of this report.

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

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.

