



Danish Energy Management

A part of Danish Management Group

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Malaysia

7th Sept 2007

Attn: Mr.Chee Keong Lai

Sir,

**Response to Request for Review for “Golden Hope Composting Project- Kerdau”
(Ref.no. 1107)**

Referring to the request for review from CDM EB for *Golden Hope Composting Project-Merotai*, we have prepared the responses to the 4 requests.

We have also made the necessary changes to the PDD according to the response given and have enclosed it with this letter.

The contact person for further correspondence will be;

Mr.Henrik Rytter Jensen (hrj@dem.dk) for Danish Energy Management who is the CDM consultant for the above project.

Yours truly,

Henrik Rytter Jensen
Chief Consultant
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Encl.: Clarifications to the request for review.

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Clarifications to the request for review

Request 1: The PP/DOE shall further demonstrate the additionality of the project activity, as the benchmark used for the investment analysis has not been selected from a documented source and the rates of POME production per year that are used are higher than those values actually measured at the plant.

The benchmark used for the calculation is based on the expected return on investment by the Golden Hope Plantations Berhad. The 10% benchmark is in accordance with the average return on assets (ROA) for the Group as a whole. This benchmark is verified by the Financial Reports of the Group, where the average ROA for the 3-year period (2003-2005) prior to the project was 10%. The financial highlight can be found on Golden Hope Plantations Berhad's web site: http://www.ghope.biz/financial_highlights.htm.

The additionality test includes an investment analysis, which is based on the expected POME production at the Palm Oil Mill and the expected POME utilization in the co-composting project. These figures are estimated from general assumptions. The actual POME production fluctuates over the years according to the processing of crops in the Palm Oil Mill and was not known before the project started and could therefore not be included in the investment analysis.

The actual measured values for year 2006 is not representative as an average as the composting facility only started operation by May 2006 and thus only 8 months was accounted for. Furthermore it took 3 months to fully build up the composting windrows, so the POME utilization for the first three months was lower than a "normal" month.

Request 2: Because the project has already started (start-date 02 May 2006), the DOE understands that it has verified that the CDM was seriously considered in the decision to initiate the project, through the documentation that demonstrates that Hope Composting began talking to the Danish government in September 2002 during their mission to Malaysia to identify potential CDM projects. An LOI between the two parties was signed in April 2003 to jointly develop CDM composting projects. Further clarification is required in regard to this LOI and further demonstration is needed in CDM project activity registration review form (F-CDM-RR) (By submitting this form, a Party involved (through the designated national authority) or an Executive Board member may request that a review is undertaken) relation to the additionality of this specific project and whether the LOI refers to it, to a set of prospective projects or to the plans of the company at large.

The Kerdau project was part of the pipeline of prospective CDM projects considered under the Letter of Intent of 8th April 2003. The final Emission Reduction Purchase Agreement was signed on 12th Dec 2006 and refers to the LOI signed on 8th April 2003. This ERPA includes the Kerdau composting project among the projects covered by the agreement and the cooperation between the parties.

Request 3; Further clarification is required of the benchmark analysis that has been carried out using the project IRR as the financial indicator. The benchmark was selected to be 10% based on the claim that this is higher than Malaysia's lending rates (these have ranged from 5.98 to 6.78 since the year 2000) and lower than the rate of 15% that is apparently used by other palm oil industries in Malaysia. This rate of 15% is not documented in the PDD and there is no clear evidence that it was verified by the DOE. The validation report simply states that "Justification for selecting a 10% benchmark

IRR was provided in the PDD and is deemed acceptable”. Further demonstration shall be provided and evidence of the validation work carried through.

The benchmark used for the calculation is based on the expected return on investment by the Golden Hope Plantations Berhad. The 10% benchmark is in accordance with the average return on assets (ROA) for the Group as a whole. This benchmark is verified by the Financial Reports of the Group, where the average ROA for the 3-year period (2003-2005) prior to the project was 10%. The financial highlight can be found on Golden Hope Plantations Berhad's web site: http://www.ghope.biz/financial_highlights.htm.

Request 4: The methodology requires the volume of the run-off water to be monitored

The run-off water will be monitored as per the request. Section D.3 of the PDD has been amended accordingly with the data parameters $Q_{ww,run-off}$ and $COD_{run-off}$