

PART B: DETAILED QUESTIONS FOR RESPONSE

Please indicate your preference by providing comments as appropriate. Where there is insufficient space, please attach additional pages as necessary.

- (1) **The first commitment period of the Kyoto Protocol will expire in 2012. The continuity of CERs as recognized carbon emission offsetting credits under the Kyoto Protocol is subject to a new international framework for the second commitment period under negotiation with a target completion in the United Nations Climate Change Conference in Copenhagen in December this year. Meanwhile, the US appears to be committed to develop a US emission trading scheme, but the details of the scheme are subject to further announcement and the relevance of CERs is uncertain. Against this background, do you think CERs should be the core carbon emission product to pursue in Hong Kong now or in a few years' time?**

China, European Union, and United States are arguably the three economic power-houses in the 21st century. When China is currently having the spot light as the locomotive of the global economy, thanks to its dynamic economic growth, EU and United States are still the center of the financial market, thanks to their well established capital market and well educated professionals.

When discussing about carbon credit, however, only EU from the three abovementioned countries (region) has a well established carbon trading market, as China is a developing, non Annex I country, while United States did not ratify the Kyoto Protocol.

A major good news for the carbon market came from North America when the Congress passed the climate change bill and it is getting more likely a emission trading scheme will be developed in the US plus a commitment in the post Kyoto period.

CER, the carbon credit generated by CDM projects, have been playing a major part during the first commitment period by offering Annex I countries alternatives in cooperating with developing countries rather than restricting clean energy projects in their home land. As it is now expected the United States is going to commit itself, we believe there will be a significant increase in demand of carbon credits. Given that CDM projects are comparatively more cost effective than running alternative energy projects in developed countries, we anticipate the CER will continue to play a major role in the post Kyoto period, and therefore, can be the core product for trading in Hong Kong if a climate future exchange is to be established.

As an associate company of a group specialized in forestry, we have not only focus on CER but a new form of carbon credit named REDD (Reduction Emission from Deforestation and Forest Degradation). As most of us should understand trees can sequester carbon dioxide through photosynthesis, the basic concept of REDD is to permit carbon credits to countries / companies

which has reduced the level of deforestation.

REDD, however, has not been included in the Kyoto Protocol, when another kind of tree based carbon generated from afforestation and reforestation represented a very small portion of credits generated. Tree based carbon credits are believed to be one of the major issue to be discussed in Copenhagen in December.

As deforestation contributed almost 20% of the global carbon emission, it cannot be left out if we are going to save the planet from global climate change. Assuming a new scheme is to be come out after the meeting in December, we strongly believe REDD is another kind of offsetting credits to play a significant part, more possibly in a few years time.

- (2) **At this stage, the global CER market is dominated by European participants connected to the EU ETS and the delivery of CERs is based on the EU standard. Mainland China is the major supplier of CERs, which focuses on clean development projects and CER origination. Under Mainland China's policy, CERs are usually engaged by foreign investors based on forward sale agreements before they are issued by the United Nations. As such, the secondary CER trading market is not developed. European participants are using CER markets in Europe to manage their carbon emission trading needs and risk exposure. Under the existing market conditions, in what way can Hong Kong add value to the business process of the CER market and attract carbon emission trading participants to the Hong Kong marketplace? What are the success factors for Hong Kong to develop a commercially viable CER trading platform that can attract trading activities and develop trading liquidity? Do you think Hong Kong possesses the success factors? Please explain your view.**

From paragraph 1, we have discussed the expectation on United States participating in the Post Kyoto commitment period. We also expect, with the participation of US, the carbon trading market is going to become a globalised market when all carbon credits become a universal commodity same as gold, copper, silver etc.

European Climate Exchange is a well established market and assuming US is going to develop a trading platform in their own soil, a market in the Asian time zone will be missing given that carbon credits has become a universal commodity. In that case, we believe Hong Kong will be the exclusive candidate to fit in the missing piece.

China is currently the largest supplier of CERs, and it has already set up a few climate exchanges including Beijing, Shanghai, and Tianjin. However, the products to be traded in these exchanges are still uncertain. In addition, uncertainties including the non - freely traded RMB, will be the major obstacle of setting up a trading platform given that China is yet an open economy.

Hong Kong, on the other hand, is an open economy with a well recognized currency, a world class Stock Exchange, and a financial market with sufficient numbers of sophisticated professionals to back up any trading platform for any kind of products. On the soft side, Hong Kong is a special administrative region of China, even though it is operating under "one country, two systems", we are still part of the motherland, and any administrative processes (to trade the CERs generated from China) will be easier and straight forward when compare to potential competitors including Singapore and Japan.

Besides, Hong Kong is arguably a more internationalized market comparing to Japan, and a capital market with more powerful fund raising potency compared to Singapore.

Given the above factors, we strongly believe Hong Kong has the success factors

to develop a trading platform for this new form of commodity.

- (3) **Do you consider Hong Kong investing communities have sufficient knowledge in carbon emission trading and are they ready to participate in trading CERs products? Please explain your view.**

Trading of a commodity requires participation of both financial institutions and also companies / market players which necessary require the commodity either to hedge or to operate their business.

Hong Kong, as a well established financial market, definitely has financial institutions which are capable to trade the CER products. However, we also believe Hong Kong is lack of the market players which actually requires the carbon credit for their business operations.

Without the business players, the products will have no demand but only supply, which brings no incentive for any financial institutions to participate.

We believe though, a platform has to be set up before there are market players. Pitching / promotion can only be started if there is a well established, regulated trading exchange.

Demand from Japan or even Australia, can be sourced once the exchange starts operating.

- (4) **If you are a financial intermediary, please respond to the following questions:**

- (i) **Do you see any potential in the asset class of carbon emissions and how would you rank the priority of carbon emission trading business among your other business initiatives? (high, medium or low)?**

We would like to answer this question in term of two aspects: Ethnical and Economical.

Longer summers, melting iceberg, extreme weathers are happening around the globe. The global warming does not stop there. It may also cause food crisis, flooding, and or even extinction of animals. The results may be disastrous. Something has to be done before it is getting too late. We believe carbon credit is one of the most effective ways to slow down or tackle the global warming crisis, by offering financial incentive to people who cares about the environment.

As mentioned in the previous paragraphs, the expected participation of US is going to drive up the demand of carbon credits, and also the price of the credit. In addition, investment banks including Goldman Sachs, Morgan Stanley, together with several big names private equity funds are increasing

their stake in environmental projects; together with professional firms including PWC also setting up their carbon team. The trend is definite and our company believes carbon credits will become one of the most popular and valuable commodity in the coming future.

As well as the potential development of REDD, given that our group is in forestry business, carbon emissions are simply something we would like to rank very high as it can help saving the planet as well as generating financial incentive.

(ii) How would you assess your clients' interest in carbon emission trading? Do you have the know-how and expertise in handling carbon emission trading related operations and providing advisory services to your clients?

Our group, specialized in forestry and agriculture business, has always believed in the concept of sustainable forest management. Together with a team of forestry specialists, we also have a team combined with professionals from areas including auditing, investment banking, and also NGO like WWF. For the carbon related advisory services, where Europe is currently the most sophisticated area, we have established a strong network around the area, particular in Holland, which is very advanced in carbon related consultancy services.

From the abovementioned, we believe we have established a solid base to handle carbon emission trading business, and we have targeted to become one of the best in the industry.

(iii) Are you located in Hong Kong and if so are you an Exchange Participant of Hong Kong Futures Exchange?

Our group's headquarter is based in Hong Kong and we have operations e.g. Tropical Rainforest concession and Plantation, in China and South America. Besides, our group does not participate in Hong Kong Futures Exchange.

(5) Are there any other issues regarding the introduction of CER futures not mentioned in this consultation paper that we ought to consider? Please explain your view.

(6) **Do you have any other comments in relation to the overall development of emissions or pollutants trading markets in Hong Kong?**

Other than CER and REDD which have been mentioned, we should not ignore the credits from voluntary markets. Currently, the voluntary markets play a major part especially in United States, while it is now still under Kyoto period. It may be the right product to cover some grey areas which the protocol has not / does not cover. (e.g. REDD in Kyoto period)

Voluntary credits, including VERs or Gold Standard, can play an active role in the transition period if a trading platform in Hong Kong is to be set up before year 2012.

However, in the longer run, we believe the voluntary credits will be diminishing or converting into compliance market credits as we expect the US participation is going to unite the global carbon trading market.

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