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7 September 2007

Our ref: TSH Bio-Gas /CDMEB/05/09/2007

UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D-53153 Bonn
Germany

Dear Members of the CDM Executive Board,

Subject: Response to Request for Review – Methane Recovery and Utilisation Project at TSH Kunak Palm Oil Mill (0916) ("the Project")

We refer to the requests for review from the three Board members dated 25 and 27 August 2007 in relation to our request for registration of the Project, and we wish to provide the following response to the issues raised by the requests for review.

Comment 1:

The Project Proponent ("PP") / Designated Operating Entities ("DOE") shall further demonstrate the additionality of the project.

Project Proponent's Response to Comment 1:

The additionality assessment for the Project activities has been carried out in accordance with the methodology outlined in AM0013 version 4. By this methodology, Option A has been adopted where the project additionality has been assessed with respect to the following aspects: (i) *Investment Barriers* and (ii) *Current Prevalent Mode of Organic Wastewater Treatment*. The assessment results show the project activity is additional.

In view of the revision to the IRR worksheet in response to Comment 2 of the request for review, a proposed revision to Section B.5. of the PDD with respect to additionality assessment has been incorporated accordingly. A copy of the proposed amendment is shown in the revised PDD (see **Attachment 1)** to this letter.

Comment 2:

The methodology requires that the data sources used in the financial analysis be identified and where project-specific data are used, these should not deviate from the range of accepted industry values. Further clarification and justification is sought with regard to the data sources used in the financial analysis to demonstrate additionality.

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Project Proponent's Response to Comment 2:

The original IRR computations have been performed in accordance with the procedures and requirements of the approved methodology AM0013. In response to comment 2, the original IRR worksheet has been revised whereby the data sources used in the IRR computations have been identified and included with the relevant clarifications. The revised computations have also ensured that the project-specific data used do not deviate from the range of accepted industry values.

A copy of the revised IRR worksheet is attached as **Attachment 2** to this letter. The project IRR without CDM registration obtained was 1.1% (slight variation from project IRR of -0.8% shown in original IRR worksheet). This is far below the benchmark IRR of 15% adopted by the company. The project IRR with CDM registration is 21.8% (as compared to earlier IRR value of 20.7%). Hence, the IRR analysis clearly demonstrates that the project activity is additional. In line with the company's investment policy and the industry benchmark of 15% for the palm oil industry, the project proponent will only undertake investment in new project of similar nature if the expected IRR is equal to or greater than 15%.

The benchmark IRR of 15% adopted by the company is in accordance with the fact that the average Return on Equity (ROE) based on the audited annual reports for the TSH Group of Companies for the last five years has been 15%, as shown in the table below.

Item	**2002 (RM'000)**	**2003 (RM'000)**	**2004 (RM'000)**	**2005 (RM'000)**	**2006 (RM'000)**	**Mean (RM'000)**
PBT	30,174	49,471	83,045	49,361	64,437	**55,298**
Total Equity	222,741	283,220	398,023	457,950	506,326	**373,652**
ROE	14%	17%	21%	11%	13%	**15%**

The benchmark IRR of 15% is also in line with the average Return on Equity (ROE) achieved by plantation companies of similar size in the region of 11.2% in 2006 and 11.9% in 2007. The source of this data is shown in **Attachment 3** to this letter.

We sincerely hope that the CDM Executive Board accepts our above explanations.

Yours faithfully,
for **TSH BIO-GAS SDN. BHD.**

Lim Fook Hin
Director

Attachment 1

Please refer to the separate document “0916_Attachment 1_ PDD V 5 15May07 - Section B 5 Revised (7Sep07).pdf”

Attachment 2

Please refer to the separate spreadsheet “0916_Attachment 2_2007-09-07.xls”

Attachment 3

CIMB

Investment Research Report

QUICK TAKES

23 November 2006

Plantation sector

Merger of PNB plantation companies

OVERWEIGHT Maintained

MALAYSIA

Ivy Ng, CFA + 60 (3) 2084-9697 – ivy.ng@cimb.com

KDN PP 5182/10/2007

PNB to announce merger of its plantation assets

It was reported in the *Business Times* that plans are underway to amalgamate Kumpulan Guthrie, Sime Darby and Golden Hope, in what would be the largest merger in Malaysia's corporate history. According to sources, a merger vehicle by the name of Synergy Drive has been incorporated to take over all the three companies, including their listed subsidiaries. The merger's main aim is to create an entity with a large earnings capacity, along the lines of Petronas Nasional. The details of the multi-billion ringgit merger remain sketchy but banking sources said CIMB Investment Bank will announce the merger today.

Comments

The plan to merge PNB's plantation assets is not new. PNB's plan to merge the plantation companies in its stable is not new and has been the subject of wide speculation for some time now.

Lacking details on merger. There was no mention on how the deal will be structured or the pricing of the proposed merger. As such, it is unclear whether the merged entity will be taking over Sime Darby, G Hope and K Guthrie or only their plantation-related assets. There is also the possibility that the merged group will be a separate listed entity, with Sime Darby holding a majority stake, to provide investors with an investment vehicle that offers pure exposure to the plantation assets of PNB group.

Rationale for large plantation group. The merged plantation entity will have combined planted estates of around 511,000ha and land bank of about 578,337ha, making it the largest listed plantation company in South-East Asia. The combined planted area is equivalent to around 12.6% of Malaysia's total planted oil palm estates. The merger of the plantation assets could lead to further economies of scale through operating synergies and cost savings arising from the pooling of the assets. For instance, operating efficiency could be strengthened by consolidating the group's management activities in the same area. Apart from operating synergies, we feel the merged group will be able to strategise better on its expansion into Indonesia. Currently, the three PNB companies are pursuing their own expansion plans in different parts of Indonesia. However, a strong management team will be required to push through the cost savings and efficiency gains, which may not be immediate, based on the experience of the earlier merger between G Hope and I&P. Overall, we would be positive on the deal as long as the merged group is able to deliver cost savings, improve efficiency and boost future earnings. By adding G Hope to the equation, the merged group will have an immediate downstream exposure to the oil palm business that it could build on further.

Figure 2: Comparison of merged entity's planted estates vs. its peers

Companies	Planted estates (ha)	Plantable area (ha)	Total oil palm land bank (ha)
Sime + G Hope + Guthrie	**511,354**	**66,983**	**578,337**
K Guthrie	261,856	21,000	282,856
G Hope	169,307	5,983	175,290
IOI Corp	143,696	682	144,378
KL Kepong	121,030	1,854	122,884
Kulim	96,493	84,588	181,081
PPBO Palms	86,627	206,241	292,868
Sime Darby	80,191	40,000	120,191
Tradewinds Plant	75,353	51,627	126,980
Asiatic	56,581	6,571	63,152

Source: Company , CIMB estimatss

M&A potential raises catalysts for stocks. Overall, we would be positive on the merger of the plantation assets if the deal were earnings accretive and the pricing fair. The merged entity will have good FFB growth potential due to G Hope's and Kumpulan Guthrie's young estates and scope for efficiency gains through cost savings, coupled with the expectation of higher CPO price in the coming years. We maintain our OUTPERFORM calls for Sime Darby and G Hope and our NEUTRAL recommendation for K Guthrie. The merger will be positive for all as it allows shareholders of the target companies to participate in the efficiency gain and growth prospects of the consolidated entity.

Sector comparisons

	Bloomberg ticker	Recom.	Price (RM)	Mkt cap (RM m)	Core P/E (x) CY06	CY07	3-yr EPS CAGR (%)	P/NTA (x) CY06	ROE (%) CY06	CY07	Div yield (%) CY06
Asiatic	ASP MK	O	3.96	2,941.9	18.2	14.4	9.3	1.8	10.8	10.9	1.9
Golden Hope	GHP MK	O	5.20	7,402.1	21.6	14.9	21.1	1.3	7.7	7.9	5.0
IOI Corp	IOI MK	N	18.90	21,638.5	22.7	19.1	10.8	3.8	17.5	18.9	2.9
KL Kepong	KLK MK	O	13.90	9,904.0	23.1	17.4	14.7	2.4	10.4	10.7	3.4
K Guthrie	KGB MK	N	4.06	4,095.3	41.9	19.5	42.9	1.5	8.0	9.7	2.0
PPB Oil Palms	PBOB MK	U	9.75	4,342.9	28.8	19.5	20.7	3.3	13.0	13.1	1.8
Simple average					26.0	17.4	19.9	2.4	11.2	11.9	2.8

O = Outperform, N = Neutral, U = Underperform, NR = Not Rated, TB = Trading Buy and TS = Trading Sell
Source: Company, CIMB/CIMB-GK Research, Bloomberg

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NEUTRAL: The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.	NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
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