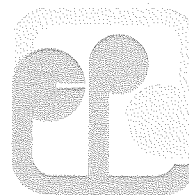


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3 June 2009

Mr. Don Johnston
Executive Director
Green Island Cement (Holdings) Limited
7 Lung Yiu Street
Tap Shek Kok
Tuen Mun, N.T., Hong Kong

Dear Mr. Johnston,

Sludge Treatment Facilities

I refer to your meeting with Ms Anissa Wong, Permanent Secretary for the Environment on 22 May 2009 and your subsequent letters of 23 May 2009 to the Chairman of the Legislative Council Public Works Subcommittee (PWSC), Ir Dr Hon Raymond Ho Chung-tai and a member of the PWSC, Hon Paul Chan Mo-po. In the above meeting and correspondences, you have raised a number of issues concerning the use of Green Island Cement. While we have already provided you with our views at the meeting and on many previous occasions, I believe that it would be useful to reiterate some of the key aspects with regard to your very recent interest in the Sludge Treatment Facilities (STF) project.

Fair and Open Tendering Process

As you would appreciate, the Government strives to provide and ensure an equal and fair environment in our tendering process so that anyone who possesses the necessary expertise, experience and resources may apply to be considered as a potential tenderer for any major infrastructure projects. The STF project is of no exception. We must adhere to the well-established open and fair process to ensure a level-playing field and not be, or seen to be, favouring any particular company especially after the process has commenced.

At issue is your insistence that the Government should consider your letter dated 23 January 2009 stating your interest in taking part in the STF project, issued two days after the deadline for submission of pre-qualification application on 21 January 2009. In the meeting on 22 May 2009 with the Permanent Secretary for the Environment, you stated that you were not aware of the STF prequalification exercise which started in December 2008 and was publicized through established channels. Your statement at the meeting did not seem to tally with what you mentioned in your letter to the PWSC Chairman. In your letter, you said that the reason

why your company has not participated in the prequalification exercise was because the tendering process was "site and process specific". While we do not understand the reason for the discrepancy, you may appreciate that to ensure a level-playing field, we cannot allow any situation that would lead to one interested party having an unfair advantage over the others. We have to specify very explicit terms and conditions in respect of the location, treatment process and technical know-how for the project, of which all tenderers must abide by. Having said that, our established tendering process also allows for innovation and cost-effectiveness to be taken into account.

The prequalification exercise of the STF project is open to all capable parties and joint ventures. Your very brief proposal in the form of a letter sent to us two days after the close of the prequalification submission period cannot be construed as a valid submission. As such, we see no grounds for us to consider your letter further under the current prequalification exercise. It will be highly detrimental to the long-established open and fair tender process of Hong Kong if the Government were to bend the rules to cater for the special request of any particular company. It goes without saying that this would not be fair to those who have participated in the process and abided by our established prequalification terms and conditions.

Concerns over Lack of Experience and Unproven Technology

As regards your proposed process, we should reiterate that we have strong reservation and concern on your experience as well as the sustainability and long term effectiveness of your proposal. For the STF project, having completed a sludge "characteristics" study with an education institution does not imply that you would have the necessary technical know-how and experience to design, construct and operate a 2,000 tonnes per day sludge treatment facility. Based on the brief information which you have provided us, your company has no previous experience in any form of sludge treatment. The small trial conducted in 2005 was for the incineration of a small quantity of municipal solid waste (MSW) and not sludge. We are also not aware of any overseas sludge treatment facilities that use your proposed process to treat sludge on a scale comparable to our proposal. The treatment of sludge is a project critical to the proper disposal of the large volume of sludge generated by the Harbour Area Treatment Scheme as well as the enhancement of other sewage treatment works for the improvement of Hong Kong's water quality. The adoption of a proven, competent and reliable technology is of paramount importance. We regret to say that we remained unconvinced of your recently-arisen claims of your facility's capability in processing sludge on a scale specified in the scope of the STF project.

Concerns over Market Risk and Costings

One important aspect of your proposal is the linkage of sludge treatment to your future cement production and the capacity of sludge treatment will be contingent on your cement production volume. This highlights another concern we have in applying your proposed process as a long term solution to the sewage sludge treatment problem in Hong Kong

as the heavy reliance on cement production may be vulnerable to fluctuating market situations both in Hong Kong and overseas. The STF, when built, will probably be the largest sludge treatment plant in the world and we need to be certain of its reliability and operational efficiency. We do not think it is prudent to align the sustainability of Hong Kong's sludge treatment capability to that of the profitability of cement production by your company and be exposed to the associated market risks.

As regards the costing estimate of \$950 million by your company, you have confirmed at the meeting of 22 May 2009 that it was not a firm offer and it only reflected your latest estimates, which we understand have ranged from \$300 per tonne cited in 2003 to \$500-500 per tonne in 2006 when municipal solid waste treatment was discussed. As we have indicated to you, we cannot ascertain the basis of the estimates based on the limited information provided. We do not know if your estimates include all the cost items in our PWSC items such as civil and site formation works, building and architectural works, incineration system, ancillary facilities, environmental education and associated facilities, environmental monitoring costs, etc.

Air Quality Impact

We are doubtful whether the emission of your proposed process at Tap Shek Kok can meet the statutory emission standards in Hong Kong in the absence of a statutory Environmental Impact Assessment process.

Land Use

Your company's proposal would involve handling and incineration of waste including sludge at the Tap Shek Kok site which is now zoned as "Other Specified Uses" annotated "Cement Plant" in the current draft Tuen Mun Outline Zoning Plan No.S/TM/25. The planning intention of this zoning is primarily for the provision of a cement plant. Apart from the statutory implications, in the absence of any detailed technical information of the operation, we are also not certain whether your proposal is acceptable in land use compatibility terms.

Your Proposal for MSW Treatment

In your letter of 23 May 2009 to Hon Paul Chan Mo-po, you tried to respond to our views on your proposal on MSW treatment by extracting some of your previous correspondences with our department. While we have already explained to you in our previous replies, I now attach a summary of our concerns at Annex again for your easy reference. Based on the foregoing, there are a number of issues of critical importance which your company needs to address before we can consider any further your proposal in a responsible manner. For the past two years, we have made repeated efforts to convey the above to you. Until concrete action is taken to address the issues concerned, it would be difficult for us to continue to further process your proposal.

I wish to reiterate that while we appreciate your strong interest in participating in the proposed STF project, it is important for the Administration to ensure a fair and open competition among all capable tenderers. In this regard, I would like to stress that it would not be possible at this stage to abandon or change the tendering process to accommodate your company's specific demands for the STF project.

Yours sincerely,



(Ellen Y.L. Chan)

for Director of Environmental Protection

c.c.

Clerk to Legislative Council Public Works Subcommittee with GIC's letters of 23 May 2009
Secretary for Financial Services and the Treasury

Annex

Comments on GIC's proposed MSW treatment facilities at Tap Shek Kok

Lack of Experience and Technical Know-how

Our letter to you dated 29 January 2009 refers. The Advisory Group (AG), which comprises independent local experts for technology selection for the Integrated Waste Management Facilities (IWMF) project, advised that the core technology to be adopted for the IWMF must be well-proven so as to ensure the certainty for the delivery of the project to address the pressing need for bulk reduction of MSW. Your proposed technology obviously cannot meet such requirement for the core technology to be adopted for the IWMF.

Unproven Technology

Our letter to you dated 5 November 2008 refers. Although we understand that while some process components of your proposed technology have been used individually in cement plants and incineration facilities, there has not been any integration of the whole so-called "Eco-co-combustion" process on a commercial scale, whether in Hong Kong or anywhere else in the world.

Market Risks

Our letters to you dated 29 January 2009 and 20 March 2009 refer. It is our concern whether the effectiveness of your proposed MSW project could be independent and not affected by your cement production activities which may be vulnerable to fluctuating market situation.

Costings

Our letter to you dated 29 January 2009 refers. You remarked that the information related to this would be addressed in the tendering process. However, please note that as advised by the AG and explained in our previous replies, cost, market competition as well as commercial viability are some of the critical factors that need to be resolved before the proposal can be considered further. In addition, you have not provided any breakdown of your estimated cost of \$2 billion.

Local Community Objection

Our letter to you dated 23 May 2008 refers. Some members of the community including Tuen Mun District Council (TMDC) have already indicated strong objection to developing MSW treatment facilities at the cement plant site. We also note that in March 2009, the TMDC declined to entertain your proposal to brief members on your waste treatment technologies.

I would like to advise that at the third meeting of the Tuen Mun Development Liaison Working Group held on 3 June 2009, all TMDC representatives presented including the Chairman of TMDC objected unanimously against your proposal of implementing MSW or sludge incineration facilities at the existing cement plant site in Tap Shek Kok.

Air Quality Impact

Our letters to you dated 5 November 2008 and 20 March 2009 refer. You mentioned that the use of waste as fuel under the so-called "Eco-co-combustion" system would reduce the amount of coal burnt in the cement plant and hence would result in a net improvement in cumulative air quality impact. However, there is no assessment or evidence from the pilot plant project that can substantiate your claim. In any case, you cannot simply assume a net reduction in emission and obviate the need to assess the cumulative air impact arising from all the existing and planned emission sources in the vicinity of the area. This can only be verified through a proper Environmental Assessment Impact process.

Land Use

Our letters to you dated 29 January 2009 and 20 March 2009 refer. The licence/approvals given by relevant Government departments were specifically for the operation of your short term pilot plant for incineration of MSW in 2005. You should not construe them as endorsement of any change in long term land use for a permanent plant. Given that your proposal may involve substantial development and large scale waste management and operation, we are doubtful if the proposal would be compatible with the current "Other Specified Uses" annotated "Cement Plant" zoning status of your site.