



AL MADINA AL ZARQA
THE BLUE CITY OMAN
PHASE 1-DEVELOPMENT

CONSTRUCTION REPORT
No. 1

27th FEBRUARY 2007

2. Executive Summary

The Financial Close for the project was achieved on 7 November 2006. This effectively released all relevant project documentation and contracts, including those related to the appointment of the Engineer, the Contractor and BCC1 Consultants from Escrow and marked the official start of the Project. On the same day, letters were issued to the Engineer, the Contractor and the Consultants notifying them officially of the Contract Effective Date.

A Project "Kick Off" meeting was held in Oman on 26 November 2006 which was attended by representatives from all key organisations involved in the implementation of the Project. Mutual introductions between all parties present, identification of lines of future communication and major topics of concern, such as mobilization and systems selection, etc. made up the bulk of the agenda in this important first formal interaction between these parties.

During this first Construction Report period, the key areas of concern to the Project Company, BCC1, have been the following items, all of which have been successfully handled in accordance with pre-determined milestones during the period and reference is made to relevant items on the list in this Construction Report. The key Quarter 1 items were:

- Creation of the Board, Appointments of Directors, Corporate Governance, Registrations, etc.
- Establishment and Mobilisation of BCC1 Office and Appointment of Key Personnel
- Resolving complications arising from the way Projects Accounts were set up and their associated protocols, and operational mandates, including matters regarding earning of interest on cash deposits
- All initial Time-Critical Contractual items, such as notices, permits, approvals and exchanges of documentations and issuing of instructions in a correct and time-critical manner
- Phase 1 revised master plan negotiations and approvals
- Formation and submission of initial ERDD packages
- Initial sales planning, targeting, launch programming, public relations and marketing plans, including the preparation and production of the first brochures, exhibition stands, sales and marketing material
- Advanced planning and liaison to ensure successful mobilization by the contractor and all other key members involved in the implementation of the project, signage, temporary utilities, access road, contractor's camp and all items that may be regarded as "early visible" signs of positive activity
- Advanced planning for infrastructure, utilities, and balance of works procurement, implementation and integration into the main works

Critical to the advancement of the Project was the issue of dealing with the revised Phase 1 master plan, as mentioned in the list above. During the period leading to Contract Effective Date certain changes to the Plan for Phase 1 had been considered due to various reasons that included the knowledge of the actual extent of the Khor. Following a process that included a master planning peer review workshop at its inception, held from 19 to 21 November 2006, and involved subsequent meetings with the Contractor in Muscat, Istanbul and Athens, an "Addendum" agreement was signed by BCC1 and AECO on 14th January 2007. The main points of Addendum Agreement were that:

- the changes introduced and agreed would not require adjustment to the GMP
- the changes would not adversely affect the overall construction period
- and finally, that the changes would not adversely affect the agreed cost and revenue profiles of the project or breach any of the obligations and covenants which appear in the Project documents

Hamptons International formally confirmed that the revised plans constituted a positive development. Indeed, the revised Financial Model further demonstrated that the revision to the plans can provide better return to Shareholders. This was confirmed by the Independent Modelling Consultant (the IMC) - PWC.

The Addendum Agreement, with its associated attached Schedules, and revised Employer's Requirement Documentation, was submitted for approval by the Government of Oman and Bank of New York (The Off-shore Trustees). These approvals were received on 3 February 2007.

The first Three Sections (Section 4 City Beach Apartments and City Beach Hotel, Section 11 Landscaping, Section 12 Infrastructure/ Utilities) of the project were commenced on the basis of the revised Employer's requirements documents on 3 February 2007 .

Early in the Second Quarter , which shall be covered by the next Construction Report, two sets of ERDD's (Employer's Requirements Development Documents) were issued to the Contractor on 13 and 20 February 2007 to formally commence two further Sections of the Project in accordance with Schedule 5 Part 1 of the Contract .

The key look-ahead item for the Second Quarter is to ensure that all aspects of BCC1 operations are organized in accordance with procedures, tools and systems that integrate in order to produce an efficient and effective organization ready to deliver on its mandate.