

Directors  
Issuer  
Blue City Investments I Limited  
Walker House  
PO Box 908GT  
Mary Street  
George Town  
Grand Cayman  
Cayman Islands

14 January 2010

Dear Sirs,

**Independent Model Consultant services for Blue City Development**

**Report on Compliance with Financial Covenants included in Loan Agreement**

In accordance with the engagement letter of 28 September 2006, PricewaterhouseCoopers ("PwC" or "we") undertook to carry out the following agreed procedures on a quarterly basis in its role as Independent Model Consultant ("IMC"):

- Ensure that appropriate change procedures are followed for the master copy of the Financial Model ("the Model") held by the IMC;
- Amend the Model to reflect the actual cash flows ("actuals") and update the projections of consolidated cash flows, as actual results become available through the life of the project and as the developers revise their expectations of the financial outcome of the project;
- Perform an ongoing review of the financial projections to provide evidence of compliance with the financial covenants included in the loan agreement; and
- Highlight potential changes that may be required to the financial covenants based on actual performance and revised expectations of the projected performance of the project.

In the project financial quarter to 6 May 2009, we have thus:

1. Performed a review of the financial projections to provide evidence of compliance with the financial covenants included in the loan agreement.
2. Amended the Model to reflect the actuals and compared the same with the financial projections to provide evidence of compliance with the financial covenants included in the loan agreement. The information provided includes revenue from sale of units for the quarter ended 6 May 2009, historical interest income, historical interest expense, and historical cash outflows for Quarter 10 in the excel file "PwC – Qtr 10 details.xls".

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A soft copy of the updated Model – “Blue City Financial Model\_report\_06\_May\_2009.xls” – is attached.

For the avoidance of doubt, we wish to clarify that as per our engagement letter:

- We have not audited the Model, nor are we responsible for doing so. Further, it should be noted that it is not practicable to test a computer model to an extent whereby it can be guaranteed that all errors have been detected. Accordingly, we will only be able to give assurance on the Model within the bounds of materiality; and
- We have not validated the accuracy of the assumptions and any actuals incorporated into the Model, nor are we responsible for doing so. Consequently, we will not warrant that the projections will correspond to actual financial results, and our comments on compliance with covenants and/or the need to amend covenants are predicated on the assumption that the actuals reported to us are correct.

### **Amendments to the Model**

Blue City Company I (“BCC1”) have informed us that the difference arising from “Historic marketing, advertising & public relations cost”, “Historic operating costs” and “Product Development and Management (BLL and ACE)” between the Quarter 9 results (provided in the excel file “PwC – Qtr 10 details.xls” and “Op Report Q9 Feb 2009 - PWC.xls”) be adjusted in Quarter 10. We would like to point out that this change has had no significant impact on historical test results.

### **Outcome of Review of Financial Projections and Actual Cash Flows**

Based on our review of the financial quarter ended 6 May 2009, we have noted a USD 393.9 million shortfall between the actual cumulative proceeds from the sales of residential units and the cumulative sales collections assumed in the base case financial model. This has resulted in the fifth consecutive breach of Sales Test 1 of the Residential Sales Test, the third consecutive breach of Sales Test 2, and the first breach of Sales Tests 3 and 4. As a result, we confirm that the projections and the actual cash flows are NOT in compliance with the financial covenants included in the loan agreement.

As per the loan agreement, BCC1 is required to cure the breach either through the sale of certain pre-agreed non-residential assets, such as the hotels or retail businesses, or through equity injections or shareholder loans from its ultimate shareholders. However, as per the loan agreement, the breach of Tests 3 and 4 will be deemed as cancelled if the shortfall in sales is remedied at the subsequent Test Date.

It should be noted that this report is solely for the benefit of BCC1. Therefore, any report, letter or any other document prepared in respect of this review should not be provided, whether in whole or in part, to any other third party without our prior written consent, which we may at our discretion grant, withhold or grant subject to conditions. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to which any report, letter or any other document is disclosed or otherwise made available.

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We agree though to allow disclosure, for information purposes only, to Fitch Rating Agency and to the Bank of New York, the Offshore Security Trustee. However, we owe neither of these parties any duty of care whatsoever and they may not rely on this information for any purpose.

Yours faithfully

A handwritten signature in cursive script, appearing to read "PricewaterhouseCoopers".

PricewaterhouseCoopers