

06th October 2009

To : Blue City Investment 1 Limited
Walker House
P.O. Box 908GT
Mary Street, George Town
Grand Cayman
Cayman Island

Attention : The Directors

Ref. BC/A10/RR/09/LTR0670

STRICTLY PRIVATE AND CONFIDENTIAL

Re: Blue City Company 1 S.A.O.C (Blue City) – Consent / Waiver Request

Dear Sirs,

We refer to our letter of 15 September to BNY Mellon and their reply dated 1st Oct 2009 (copy enclosed) and our various email correspondence regarding the above matter.

We kindly request you, as the Issuer, to send the enclosed letter to BNY Mellon on our behalf and request them to convene a meeting of Class A Noteholders. As the documentation requires 21 clear days notice prior to the meeting, we therefore suggest that the meeting please be held on or before 2nd November in London.

Hoping for your immediate action and confirmation at the earliest.

Yours faithfully,
For and on behalf of Blue City Company 1 SAOC

Richard P. Russell
Richard P. Russell, P.E.
Managing Director & CEO

R.





**BNY MELLON
CORPORATE TRUST**

101 Barclay Street
New York, New York 10286

To: The Directors
Blue City Company 1 S.A.O.C.
P.O. Box 3619
112 Ruwi
Sultanate of Oman
(BCC1) ✓

Copy: Hill International (UK) Limited
1 London Bridge
London SE1 9GB
United Kingdom
(Technical Advisor)

1 October 2009

Dear Sirs,

Blue City – Consent Request and Outstanding Issues

We refer to the \$925,000,000 Intercompany Loan Agreement dated 27 October 2006 (the ILA) between, amongst others, Blue City Company 1 S.A.O.C. and The Bank of New York Mellon (under its then name The Bank of New York) and your letter dated 15 September 2009 (the Consent Request Letter). Terms used herein and not otherwise defined shall have the meaning given to them in the ILA and the Note Trust Deed (as defined in the ILA).

Consent Requests

Having carefully considered the content of the Consent Request Letter both internally and with our legal counsel we do not feel that we can use our discretionary powers to grant the waivers being requested. Accordingly, separate Noteholder consent will be required should there still be a desire to have these waivers granted before any general restructuring of the Project is put to the Noteholders for their approval.

You should note the procedures to be followed when seeking Noteholder consent. If any consent request or proposal is to be put to the Noteholders it will need to be done by way of Noteholder meeting. The meeting should be convened by the Issuer and requires 21 clear days' notice. We would need to review and settle the notice before it was sent out along with any amendment documents that may accompany it. If the original meeting is inquorate and adjourned, it shall stand adjourned for not less 13 clear days and will require 10 clear days' notice. If an Extraordinary Resolution to be put to a meeting is seeking to sanction a Basic Terms Modification it will need to be sanctioned by each Class of Noteholders in separate meetings. An Extraordinary Resolution may be in writing (and signed) but you would need to be confident that you could obtain the consent of holders of at least 75% in principal amount of the Notes.

With respect to the waiver request in paragraph 3, we note here that Clause 12(r) of the Note Trust Deed also contains a covenant to maintain the ratings of the Notes.

Outstanding Issues

Our letter of 20 July 2009 listed a number of issues affecting the Project. Of particular concern are the following:

1. **Restructuring Proposals** - as we understand it you have been considering a restructuring of the Project since the beginning of the year. In your letter dated 25 August 2009, you expressed your intention to submit detailed proposals of the consent package for the consideration of the Noteholders and Trustee on or before 21 September 2009. We have yet to receive these proposals. Please confirm as soon as possible the date on which we will receive them. We note in particular the mandatory repayment of the Loans that, at your own admission, is likely to occur on 6th November 2009 unless the relevant provisions are waived.
2. **Reduction of the Advance Payment Security (APS)** - in our letter dated 20 July 2009, we requested and required you to immediately withdraw the notice of reduction given pursuant to your letter to Bayerische Hypo- und Vereinsbank AG (HVB) dated 29 June 2009 (the **Bond Reduction Letter**) and, with the agreement of HVB, restore the Security Amount of the APS to the level it was at immediately prior to the date of the Bond Reduction Letter. However, your letter dated 25 August 2009 informed us that the APS had been reconciled with actual costs expended on the project and your letter dated 26 August further informed us that HVB had reduced the APS by USD 70,543,068 almost a month earlier.

We again request and require that you restore the Security Amount of the APS to the level it was at immediately prior to the date of the Bond Reduction Letter.

General

This letter is sent without prejudice to our rights under the ILA and the other Transaction Documents and we reserve all our rights in that regard. This letter is not a waiver of any breach or potential breach of the ILA or any other Transaction Document or of any Default.

Yours faithfully,



David M. Kerr
Vice President

.....
for and on behalf of The Bank of New York Mellon
in its capacity as Phase 1 Offshore Security Trustee

BLUE CITY INVESTMENTS 1 LIMITED

6th October 2009

The Bank of New York Mellon
(in its capacity as Phase 1 Offshore Security Trustee)
101 Barclay Street
New York, NY 10286
United States of America

Attention : Corporate Trust Administration - Global Structured Finance - Attn.: Mr. Anthony Bausa

Subject : Class A Noteholders Meeting and BCC1 Consent/Waiver Request

Dear Sirs,

This is further to the consent request dated 15 September 2009 sent by BCC1 and your letter dated 1 October 2009 directing BCC1 to seek separate noteholders consent on various issues covered in their letter as above.

In view thereof, we hereby request you as Noteholders Trustee under Schedule 4 of the Note Trust Deed to initiate the process of convening a meeting of Class A Noteholders. We intend to hold the meeting on or before 2nd November in London and you are requested to proceed accordingly.

The agenda and the matters to be considered in the meeting are as per the attachment to this letter.

Kindly confirm immediate action.

Blue City Investment 1

Authorized Signatory
For and on behalf of
Blue City Investments 1 Limited

Authorized Signatory
For and on behalf of
Blue City Investments 1 Limited

BLUE CITY INVESTMENTS 1 LIMITED

Attachment 1: Blue City Company 1 - Consent / Waiver Request

Agenda for the proposed Class A Noteholders Meeting

1. Paragraph 2.3 h (i) of Schedule 6 of the ILA places an obligation upon Blue City to maintain a minimum balance of US\$20,000,000 in its Escrow accounts until the date of acquisition of Al Sawadi Hotel or its shares by the Borrower. However, there is no written obligation imposed on BCC1 or any entity to actually purchase the Hotel.

It is highly unlikely that BCC1 or any company affiliated with BCC1 will purchase the Hotel. In any event, if it is bought, it will have to be sold in line with the cures provided in ILA to rectify future the breach of Sales tests.

BCC1 therefore ask you to waive the requirements under para 2.3 (i) of Schedule 6 of the ILA to maintain a minimum balance of US\$ 20,000,000 in BCC1 offshore Escrow account with BONY.

2. Failure to meet Sales Test 5 as laid down in Schedule 8 of the Intercompany Loan Agreement (ILA) requires the Borrower to prepay the loans in accordance with Clause 7.1 (Mandatory Prepayment). It is extremely likely that BCC1 will not be able to deposit the minimum cumulative Net Sales proceeds of at least US\$ 455,000,000 on or before 12th IPD falling on 6th Nov. 2009. The tests and enforcement of this provision would require BCC1 to mandatorily prepay all outstanding loan balances, thereby effectively leading to closure of the project and related development.

BCC1 therefore ask you to waive the provisions regarding the Mandatory Prepayment under Clause 7.1 of ILA in this case.

3. Clause 24.24 of Intercompany Loan Agreement (ILA) place an obligation until termination date on Phase 1 obligors to maintain a rating for the Rated Notes from Fitch Ratings and for Class A1 from Moodys. This rating is required to be maintained while the notes remain outstanding.

The publicity surrounding the recent downgrades has negatively affected the project because potential buyers are questioning the feasibility of the project. The periodic rating update is having a dampening impact on BCC1's potential buyers.

BCC1 therefore seek your consent to waive the obligation to maintain rating under Clause 24.24 of the ILA.