

WEIL, GOTSHAL & MANGES

DMC/MA/27526.0003

27 January 2010

By fax + 1 441 296 3140 & Airmail

AXIS Speciality Limited
92 Pitts Bay Road
Pembroke HM 08
PO Box HM 1254
Hamilton HM FX
Bermuda

For the attention of Richard Bullen / General Counsel

Dear Sirs

**Blue City Investments 1 Limited – Policy Number 1131780106PR (the “Policy”)
PRECAUTIONARY Notification of Potential Loss**

We enclose a form of notification of potential loss dated 27 January 2010 in connection with the Policy (the “**Notification**”). Terms defined in this letter have the meaning given to them in the Policy unless the context requires otherwise.

The Notification is provided to you by the Insured on a precautionary basis only.

Our client received two letters from PricewaterhouseCoopers which are attached to the Notification (the “**Letters**”). The Letters state that there is a shortfall between the actual cumulative proceeds from the sales of residential units and the cumulative sales collections assumed in the base case financial model. The shortfalls in the Letters are \$253.6m and \$393.9m in the 28 December 2009 letter and the 14 January 2010 letter, respectively.

Clause 7.1 (a) of the Policy obliges the Insured, our client, to notify the Underwriter of the receipt by the Insured of “... *any written notice from the Borrower regarding a Potential Loss*”.

A Potential Loss is defined as “*any circumstance or circumstances that which (sic) if remain unchanged or unremedied will, with the passage of time, the making of any determination or the giving of notice or any combination of the foregoing, give rise to a Loss*”.

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Weil, Gotshal & Manges is a partnership of registered foreign lawyers and solicitors. A list of the names and professional qualifications of the partners is available at the above address.
Regulated by the Solicitors Regulation Authority

WEIL, GOTSHAL & MANGES

Our client does not accept that it is obliged to provide a notification of Potential Loss as a result of its receipt of the Letters for the following reasons:

1. It is not certain that the shortfalls *will* lead to a Potential Loss. A Potential Loss is only a possibility.
2. The Letters were provided by PricewaterhouseCoopers and consequently do not constitute 'written notice from the Borrower'.

In spite of the above, in the interests of cooperation between yourselves and our client, we are instructed to provide the enclosed Notification to you on a precautionary basis only.

Yours faithfully

Weil, Gotshal & Manges

Weil, Gotshal & Manges

cc The Bank of New York Mellon
101 Barclay Street 8 West
New York, NY 10286
USA

For the attention of David M. Kerr

Blue City Company 1 S.A.O.C.
P.O. Box 3619
112 Ruwi
Sultanate of Oman

For the attention of Richard Russell

Blue City Investments 1 Limited
Walker House
87 Mary Street
George Town
Cayman Islands
KY1-9002

27 January 2010

By Fax +1 441 296 3140 & Airmail

AXIS Speciality Limited
92 Pitts Bay Road
Pembroke HM 08
Bermuda

Attention: Richard Bullen/General Counsel

To Whom it May Concern

Reference: Policy Number 1131780106PR

In accordance with section 7.1(a) of the captioned policy (the "Policy"), the undersigned, in its capacity as the Insured under the Policy, for the avoidance of any doubt hereby provides notice to AXIS Speciality Limited as the underwriter of the Policy (the "Underwriter") of a Potential Loss.

Unless otherwise defined therein, all capitalised terms used in this notice shall have the meanings set forth under the Policy.

The undersigned, as an Officer of the Insured, certifies that to the best of its knowledge that the information contained herein is true and correct in all material respects.

Event giving rise to a Potential Loss:	See the attached correspondence from PricewaterhouseCoopers dated 28 December 2009 and 14 January 2010
Date of event giving rise to a Potential Loss:	As per the attached correspondence dated 28 December 2009 and 14 January 2010
Date of next insured principal payments as per Exhibit B:	7 November 2011
Principal payment due on this date:	US\$73,500,000.00
Limit of Liability as per Exhibit A with respect to this principal payment:	US\$57,000,000.00

Adjusted Limit of Liability as per the Adjusted Liability Schedule (if applicable): N/A

A copy of the communications received from the Borrower in respect of a Potential Loss is, as referred to above, attached hereto.

Should the event giving rise to a Potential loss, as set out above, (or any other event) give rise to a Loss then the undersigned hereby agrees to submit a Claim as set forth in section 7.1 of the Policy.

Furthermore, the undersigned agrees to provide to the Underwriter any further communications received from the Borrower in respect of the event giving rise to a Potential Loss as set out above consistent with our obligations under the Policy.

Yours faithfully



Feron Bartley-Davis
Director of Blue City Investments 1 Limited
27 January 2010

Directors,
Issuer
Blue City Investments 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".

14 January 2010

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.

14 January 2010

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

PricewaterhouseCoopers

PricewaterhouseCoopers

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

28 December 2009

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 February 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 include the following documents:
 - Revenue from sale of units for the quarter ended 6 February 2009 – "COLLECTIONS AS ON 0209.xls".
 - Historical interest income – "Bony Reserve Ac Interest 0209.xls".

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- Historical interest expense - "Actual Interest Cost 0209.xls".

- Historical cash outflows for Quarter 9 - "Op Report Q9 Feb 2009 - PWC.xls".

A soft copy of the updated Model - "Blue City Financial Model_report_06_Feb_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

We have made the following amendments to the Model to incorporate certain changes to the historical results provided earlier by Blue City Company, L ("BCC1"). A summary of the significant amendments made to the Model is provided below:

- BCC1 have informed us that Hamptons International & Partners LLC is no longer the exclusive sales agents for BCC1. As a result, the structure of the model has been altered to reflect sales commissions paid to other external sales agents. These outflows were previously not recorded in the Model. As a result of these sales commissions, cumulative actual sales collections up to Quarter 8 have reduced by USD 1.25m from USD 33.36m to USD 32.11m. We would like to point out that this change has had no significant impact on historical test results.
- BCC1 have informed us that interest expense incurred in Quarter 1 and Quarter 3 was actually paid out in the first week of Quarter 2 and Quarter 4, respectively. Management has attributed this short delay to the payment date falling on either the weekend or a public holiday. This timing difference has now been reflected in our Model. We would like to point out that this adjustment to the cash outflows for Quarter 2 and Quarter 4 has had no significant impact on historical test results.
- BCC1 have informed us that rating agency expense of USD 105,000, incurred in Quarter 3, was reversed in Quarter 7. This reversal has now been reflected in our Model.
- Interest income reported in previous quarters has been adjusted to reflect actual interest income earned by BCC1 from cash balances available in both the onshore and offshore escrow accounts. Previously, the model was automatically calculating this interest income using predetermined interest rates that were specified when the model was initially developed. As a result of this adjustment, total interest income earned between Quarter 1 and Quarter 8 has reduced by approximately USD 4.2m. We would like to point out that this adjustment to the cash inflows has had no significant impact on historical test results.

20 December 2009

- The purchase of the existing Al Sawadi Hotel by BCC1 has been postponed from the quarter ending 6 February 2009 to the quarter ending 6 November 2011. As a result, the cash flows from the Al Sawadi hotel have been adjusted as well.

Outcome of Review of Financial Projections and Actual Cash Flows

Based on our review of the financial quarter ended 6 February 2009, we have noted a USD 253.6 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 fourth consecutive breach of Sales Test 1 of the Residential Sales Test and the second consecutive breach of Sales Test 2. 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, Blue City Investments I Limited ("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.

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.

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

PricewaterhouseCoopers

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