Analysis

MERIS
Middle East Rating & Investors Service

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Golden Pyramids Plaza S.A.E. (City Stars)

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Rating Table:

Category	Current Rating	Previous Rating
Entity Rating: Senior Unsecured	BBB+	BBB+
Bond Rating: Senior Secured	A	A-
Rating Outlook	Stable	Positive

Operating Statistics:

Figures in US$ mn	3Q09*	FY08	FY06	FY06
EBITDA	97.6	103.1	55.9	44.7
EBITDA Margin (%)	86.0	87.4	76.9	70.7
Operating Margin (%)	72.0	74.0	62.0	52.4
ROA (%)	7.6	8.2	4.8	0.4
ROE (%)	12.1	16.1	9.2	0.8

* Annualized Figures

Balance Sheet Statistics:

Figures in US$ mn	3Q09*	FY08	FY06	FY06
Turnover	113.5	118.0	72.2	63.3
Total Assets	965.5	918.1	857.6	758.6
G. Debt/EBITDA (x)	2.9	2.9	5.3	5.4
G. Debt/Equity	70.0	64.5	65.9	60.2
EBITDA/Interest Ex. (x)	12.1	7.0	3.0	3.4

* Annualized Figures

This Analysis provides a discussion of the factors underpinning the credit rating

Opportunities/Strengths

- Pioneer in multi-use projects in Egypt with strong brand recognition.
- Well-diversified and integrated product mix, which helps reduce sensitivity to economic cycles.
- Despite the relatively short operating track record, projected cash flow has proven to be stable, supported by committed medium-long term leasing contracts.
- Strong operating margins and financial strength reflecting operating efficiency.
- Recent expansions initiatives give access to sizeable land bank and enhance the corporate value.
- Despite the recent changes in ownership structure, the company still benefits from strong shareholding support; particularly ensuring high probability of financial support (if needed).

Risks/Weaknesses

- The company is in an aggressive expansion mode, which is likely overstretch management capabilities.
- Although new investments in the pipeline enhance the company's business profile, they entail significant operational, financial as well as execution risk.
- Despite the change in shareholding structure, the company is still governed in a family-owned business manner. Some steps have been taken to rectify this situation, results and seriousness of which are yet to be tested.
- The Human Resource and corporate governance functions require further strengthening; also the communication of strategy needs further enhancement.
- An ongoing litigation with no clear prospects; nonetheless the shareholders' commitment towards these obligations offset this threat.

Summary Rating Rationale

The assigned rating reflects City Stars' position as a pioneer in multi-use projects in Egypt with strong brand recognition, a well-diversified and integrated product mix which helps in reducing economic cycle sensitivity. Operating efficiency reflects strong operating margins (a more than 60% EBIT margin over the last three years) coupled with a solid financial strength which reflects operating efficiency. Furthermore, City Stars' business portfolio has been growing rapidly over the last two years. It currently comprises different business lines (i.e. leasing and retail business via the commercial center and office buildings, hotel and tourism, real estate development, project management and other related activities), conducted through the parent company, as well as nine stand alone subsidiaries.

The projected cash flow has proven to be stable, supported by steady cash flow generation from its diversified portfolio. Committed medium-long term leasing contracts are considered another driving force for the rating grade. Despite the fact that business operations were slightly below initial bond assumptions, it was not affected significantly by the global turmoil.

City Stars main strategy is to manage and further expand its business portfolio in multiple destinations in Egypt, by replicating the successful master model of its landmark project (City Stars), which will reflect in a strengthened company value and enhanced vertical and horizontal integration. As a stepping stone towards its objective, management has undertaken many initiatives, including changes in the shareholding structure and the aggressive expansion initiatives spurred by both organic growth and acquisitions. The change in the ownership structure was an action to shift the company towards being a more institutionalized corporation and to tap the local stock exchange through its holding company. Nonetheless, the rating also considers that the company is still governed on a family owned business manner, regardless of the change in shareholding structure. On the other hand, despite the change in the shareholding structure, El Sharbatly family retains (directly and indirectly) the majority stake, a practice which management confirmed will be continued in the future; shareholders' support is considered a key rating positive trigger. It is notable that the shareholder's confirmed support several times since inception through several capital increases; a commitment which **MERIS** points out to as a key support for the future growth plans taking into consideration the significant investment requirement.

MERIS views City Stars' recent growth strategy as promising on a long term basis as wider scale and diversification will result in greater stability in earnings. Consolidating all of the above mentioned projects under the domain of City Stars will create a new giant in the Egyptian Tourism/Real Estate market. Nonetheless, it could be challenging in the short to medium term, since rapid growth usually creates execution and integration risks, together with a potential strain on management capacity and financial resources, especially since the projects backlog requires significant financial outlays. Outstanding projects are expected to be financed through a mix of internal and external resources according to management assumptions. With equal note, the new business model will depend significantly on the tourism and residential real estate sectors, which entail a relatively higher operational risk, especially taking into account the inherent risk of the semi-finished build-and-sell development model, which will be applied later. On the other hand, **MERIS** believes that management needs to focus on strengthening the internal corporate practices and procedures, to ensure the smooth and harmonious functioning of all business units and the organization as a whole. Regarding the bondholders' rights, **MERIS** views the bond's financial covenants obliging shareholders to finance any future capex/investments unrelated to the City Stars complex from their own resources, as a solid protection.

The upgrade of the bond rating to an **A**, while maintaining the entity rating at the same level (**BBB+**) and changing the outlook to **stable** is driven mainly by the significant increase in the complex value, which is the security package guaranteeing the bond (mortgage of all the tangible and intangible assets of the complex to the benefit of the bondholders). According to the latest appraisal report issued by PriceWaterHouse Cooper in November 2009, the current value stands at US$ 1.2bn (excluding Golden Coast value), compared to US$ 860mn, at the time of bond issuance. **MERIS** believes that the attached security is a strong protection to bondholders, covering the bond value more than four times over. In addition to the proven track record supported by steady cash flow generation from its diversified portfolio and committed medium-long term leasing contracts. On the other hand, the entity rating is constrained by the shift in management strategy towards tourism and real estate sectors, rather than multi use projects (with commercial center and office building combined accounting for more than 60% of revenue). This exposes the company to a different set of business risks. The fundamental factors supporting the stable outlook are the improvement in the company's position, in addition to the expected cash generated from the ongoing expansion, which will enhance City Stars' cash position.

Company Fundamentals

Golden Pyramids Plaza S.A.E. (City Stars) was established in 1991 by El Sharbatly Family, commencing operations in 2005. The company commenced the construction and operation of one of the foremost mixed-use projects in Egypt, containing a luxury shopping mall, residential apartments, administrative buildings, hotels, medical center … etc. (for more details please refer to annex 2) The project extends over a 750,000 sqm area. City Stars – as a stand alone company - is not listed on "Egypt Stock Exchange"; nonetheless, the holding company "South Valley Cement Co. (SVCC)" is listed and actively traded.

Historically, City Stars used to be owned directly by a number of well-known families in the gulf and the region (i.e. El Sharbatly, El Turky and El Shebouksky - Refer to annex 3). In late 2009, in an action to shift the company towards being a more institutionalized corporation and to tap the local stock exchange, SVCC fully acquired City Stars. SVCC is a holding company, 77% owned by El Sharbatly Family, while the remaining balance include other individual investors (with less than 5% each), in addition to the free float portion. SVCC business operations includes: cement operator and investment/portfolio fund management. The holding company was originally founded in 1997, as a cement manufacturer; nonetheless, management was heavily involved in the investment/trading activities (Investment available for sales EGP 2.0bn as of September 2009). With regard to the industrial part of the business, the company's sole production facility is located in Beni Seuif, with a designed capacity of 1.5mn tons. SVCC commenced the operation of phase one in 2008, with a total investment cost of EGP 1.1bn. Originally El Sharbatly family owned the majority stake (60%) of SVCC, which facilitated the take over transaction. According to the management, El Sharbatly family will continue to maintain the majority stake (directly or indirectly) in City Stars in the future. With equal note, the acquisition deal entails shares lock up clause for key shareholders, with a predetermined trading schedule for the next five years.

Historically, the company's authorized and paid in capital amounted to US$ 400mn. In April 2008, the company announced a 10:1 stock split, which decreased the par value to US$ 1/share and increased the number of outstanding shares to 400mn shares. Moreover, in August 2009, BoD agreed to increase the authorized and paid up capital to US$ 2.0bn and US$ 539mn, respectively, financed through the shareholders' current account. According to management, another future capital increase could be executed, based on expansion financing requirements.

Subsidiary / affiliate name Figures in US$ '000	% of Ownership	Investment Value
Golden Coast For Hotels and Touristic Villages	92.0	44,160.0
Stars for Entertainment & Touristic Attractions	25.0	2,272.7
Stars Cinema	25.0	909.1
Fashion International Group	33.3	582.0
Stars Telecommunication Co.	25.0	68.2
Next Generation Co.	45.0	69.5
City Stars for Management & Consultant	97.0	11.0
City Stars for Developing Real Estate & Touristic Projects	97.0	11.0
		48,083.6

As of September 2009, City Stars' investment portfolio was spread across eight affiliates and subsidiaries, with total investments of US$ 48mn, compared to US$ 41.4mn in December 2008. Going forward, City Stars' investment strategy is to seize growth opportunities within its core business and/or through integrated synergies which ensure better control over core business (i.e. real estate, industrial, technology, cinemas, textile and clothing … etc).

In a recent action, City Stars acquired 54% of the "Arab Company for Real Estate Development (ARCO)", a transaction which was executed through a share swap. Pre-acquisition, ARCO shareholding structure contains EL Sharbately Family controlling 62%, in addition to Sabbour Family and the National Bank of Egypt, holding the balance. It is worth mentioning that the presence of El Sharbately in the original structure supported the deal, to a certain extent. According to management, the above-mentioned deal will strongly support the growth strategy and enhance synergies; hence, management will capitalize on ARCO's projects in the pipeline (i.e. Sharm El Sheikh, Hurghada, New Cairo City, 6th of October, North Coast …etc), along with its vast land bank.

Management Strategy

The project is considered among the most prominent and luxurious multi-use projects in Egypt and the region. Management has put emphasis on being the leader in real estate developments and shopping tourism in Egypt; while at the same time pursing its growth strategy, without jeopardizing first class international standards/quality. With equal note, management expressed its interest on replicating the same success model in different destinations. Over the last two years, management pursued an aggressive expansion strategy, spurred by both organic growth and acquisitions. As we will elaborate on in detail later in the report, management started developing a new project in Sharm El Sheikh, through a stand alone subsidiary "Golden Coast for Hotels and Touristic Villages Company (GCC)". The launch of the first phase is expected in 2Q10. Furthermore, this pattern will be followed by other replicated projects in different districts (i.e. Hurghada, New Cairo District, 6th of October, North Coast …etc). It is worth mentioning that each new project is intended to be managed on a stand alone basis. It will be provided with sufficient capital at start-up – through shareholders' injections - to ensure it is funded until it starts generating sufficient operating cash flow through selling/leasing properties in the first development phase. Management applies the semi-finished build-and-sell business model, a practice which will be applied across all the projects in the pipeline. According to management, projects are not financed centrally, nor are they being cross-subsidized. The timeframe for commencing the rest of the projects is not clear yet. Moreover, City Stars will retain the majority stake and management control in the new project/subsidiaries to ensure preserving the quality of service.

In daily business operation, El Sharbatly Family is considered the driving force of the business with a high involvement in the decision making process. Going forward, the day to day management of the company is vested with the Board of Directors, which has Sheikh Abd El Rahman El Sharbatly as the Chairman. This is in addition to six other members, four of whom are non-executives; along with three committees: the executive, audit, operations, sales and leasing committees, some of them are conducted on the subsidiaries level. Going forward, the Board of Directors composition will be amended to reflect the new shareholding structure upon finalization of the restructuring transactions. With equal note, as a stepping stone to rectify the institutional set-up, management injected new bloods with sound experience into the daily operation; results and seriousness of initiatives are yet to be tested. On the group/holding level, management is in the process of hiring new human resource director and group chief financial officer to enhance the integration within the group. While on the subsidiaries level a new Managing Director was appointed to oversee “City Stars for Management & Consultant”; Mr. Aboul Yazid, originally used to work as an consultant with City Stars for more than 10 year. In addition to, Mr. Ashraf Farag, who is appointed as a Managing Director for both “City Stars for Project Development” and “Arab Company for Real Estate Development (ARCO), who has a quiet extensive experience in the real estate industry in Egypt.

On the organizational and corporate governance front, the company maintains high caliber management, especially in the operations, sales and marketing areas, which are considered the key engine of the company’s growth; nonetheless, management has to improve the internal communication channels and to better convey the company’s overall goals/strategy to establish a unified culture within the company. **MERIS** believes that this is one of the key challenges for management, taking into consideration the aggressive expansion plan which the company is currently pursuing, which necessitates standardizing the policies and processes to align all business units. As such, **MERIS** is rather concerned that management may be becoming over-stretched by the rapid growth of its portfolio. With equal note, corporate governance principals are another milestone which needs to be tackled by management in order to depart from the family owned business culture and all of its inefficiencies.

Project Fundamentals

The company has begun the construction of its foremost project “City Stars” with US$ 800mn investments. As of September 2009, the estimated value of the complex was US$ 1.2bn. The project is considered the sole complex in Egypt hosting these facilities on a single site. In general, management targets the upper socio-economic bracket in the local market and the region.

At present, the project has reached more than 75% operating capacity (three different towers are as of September 2009, yet not operating. Management is currently reviewing the business assumptions for these facilities to better address the market need; which justifies the reason for delay. According to management, the timeframe for launching these premises is not clear yet.

Star Center (Commercial Center):

The shopping area, differentiating the company’s business scope from other real estate developers, continued to be the key engine for the project, generating around 55% of revenue as of September 09. It caters to the basic daily needs of different customers (i.e. tenants, owners, office users, hotel visitors). Meanwhile, it attaches other facilities which generate other revenue streams, for instance, a medical center, theme park, & cinemas. The shopping mall has 646 stores, associated with 530 tenants, served through two phases/facilities, covering 5,800sqm. Currently, the commercial center is considered roughly fully operational with the exception of the exhibition floor in phase one and the anchor floor in the second phase; the delay was attributed to the unfavorable economic conditions. In early 2010, management signed an agreement with one of the prominent global retail stores, for the anchor floor (phase two). Thus, this will reflect positively on the business as well as the financial performance, taking into account the relatively high revenue sharing percentage which the contract entails; moreover, this action will offset challenges faced in phase two merchandise mix, which will affect tenant satisfaction. With regard to the exhibition floor, management is currently reviewing the feasibility of a number of proposals; the timeframe for closing the deal is not clear yet. Furthermore, management is also studying the feasibility of adding new facilities to the commercial center leveraging the proven success story. The practice is viewed positively by **MERIS**, taking into consideration the stability of the company's cash generating ability of the medium term lease contract.

Since operation, management has developed a proven, solid track record in efficiently running the commercial center operationally and financially. The latter was proven through a sound collection system that collects more than 90% of contracts. The figure dropped by roughly 5%, due to the financial crisis. As a response, management initiated stricter terms and conditions in renewed contracts (i.e. 1) six month instead of two month security deposits; 2) penalty charges and file transfer to legal departments starting from the first delayed installments instead of the second one); an initiative viewed favorably by **MERIS**.

Overall, the occupancy rate has been maintained at over 90% and 75% for phase one and two respectively, a practice which is foreseen to continue over the coming three years thanks to the favorable competitive environment. On the other hand, As of June 2009, excluding anchor investors, the largest top eight tenants accounted for around 20% of the commercial center gross revenue, contributing to 20% of the operational spaces; reflecting good matching patterns. It is of note that these tenants are well diversified, and are predominantly strong regional and international brands (i.e. Mango, Guess, Virgin Mega Store, Spinneys … etc). The mobility of this business is considered relatively low, given their nature and need to maintain presence within the elite community.

The contracts terms and conditions are considered a strong supporting factor for the City Stars business operation, securing a steady and stable source of cash. The tenor of the shops leasing contracts varies between five to ten years, most of which are subject to renewal. Average leasing fees stand at US$ 350/sqm and US$ 800/sqm for phase one and two respectively. Management has undertaken initiatives to amend leasing fees for renewed contracts to stand at an average of US$ 800/ sqm, which will reflect positively on revenue assumption going forward. The payment is made on a quarterly basis, which could be paid in US$ or the equivalent in local currency. In addition, other credit enhancement tools, which support the credit metrics of the transactions to a great extent (i.e. security deposit, rental guarantee deposit and the marketing contribution fund.) There are two kinds of contractual terms, fixed lease fees or revenue sharing agreements which are calculated based on a fixed minimum guaranteed rent or a revenue sharing percentage (which varies from one type of activity/tenant to another), whichever is greater. Roughly 10% of the tenant base is contracted as a revenue sharing agreement, giving more strength to the company's earnings. In light of that, the company took action to implement a new sophisticated automation system in coordination with NCR. This technology will give City Stars prompt access to the tenants' points of sales (POS), thus enhancing control over earnings received from revenue sharing contracts. This upgraded technology will be financed through the tenants; as such the company will not bear any additional investment cost. According to management, the application rates were below expectations, due to a variance in the software system applied across tenants. So far, only 300 tenants out of 530 are applying the POS, the number is expected to increase to 400 by the end of 2010.

It is worth mentioning that the commercial center benefits from other supporting factors for business operation. For instance, an indoor car park with 6000 car slots accounts for 2% of gross revenue as of June 2009.

Star Hotels:
At present, City Stars has three operating hotels with 1,245 rooms and suites. The hotels are managed by renowned international hotel operators against long-term management

agreements (i.e. Intercontinental, Holiday Inn, and Stay Bridge). With equal note, management is currently undergoing upgrades and adding new capacities to facilities to capitalize on the increase in demand; the outcome of this plan will add another 114 new units.

On the other hand, in May 2006 the company reviewed the management agreement signed in 1995 with Intercontinental Hotels Chain, as a result of the strong business performance and high occupancy rates. The revised fee structure will be applied to any other five-star hotel properties developed by City Stars prior to year 2010. According to the revised agreement, the Intercontinental Group management fees will be reduced to 10% of gross operating profits instead of 11%. The four-star hotels – Holiday Inn and Stay Bridge Brands – they will be subject to 9% of gross operating profits instead of 10%. **MERIS** believes that such action clearly shows a strong bargaining power vis-à-vis hotels operators and the investors' confidence in the company's business fundamentals.

As of September 09, the hotel segment contributed 28% of total revenue, more than 75% of which was generated through the Intercontinental Hotel. Over the last year, the occupancy rate dropped to 70% due to the slowdown in the global tourism industry, in addition to the stoppage in certain facilities due to upgrading/renovation initiatives. Nonetheless, the City Stars complex is still performing relatively well compared to its peer group, thanks to its unique proposition (i.e. attractive/central location and supporting facilities). Going forward, management expects that, over the medium term, revenue from the hotels segment will be maintained within the 20-25% range of gross revenue.

Star Capital (Admin. Offices):
Star Capital's segment has up to 68,112sqm in gross leasable area; divided into two development phases (six towers), with an average occupancy rate of 55% as of 2Q09. The monthly lease payment varies between US$ 17/sqm and US$ 29/sqm. It is worth mentioning that management has a proven, solid track record in efficiently running the office facilities operationally and financially. This was evidenced by a sound collection system, with an almost 100% performing rate. In general, the leasing contracts terms and condition are very close to those of the commercial center, excluding the revenue sharing clause. While City Stars also has the option to sell a number of these facilities, so far it has chosen to execute this option for 7% of the leased area, a pattern which could be continued in the future.

The company mainly targets multinational clientele through applying the most sophisticated technology. The facilities are designed based on international specifications and apply the most advanced multimedia infrastructure to serve all the customers' needs. Among these are CISCO System multi-service network offering voice, data and video over the same infrastructure, IP telephony, all available terrestrial stations and City Stars portal. This state of the art technology reflected positively on the client mix.

Key tenants in the portfolio as of June 2009:

Property (US$ mn)	% to total leased area
Equant	20%
British American Tobacco	7%
Maersk	5%
Oracle	5%
Booz Allen Hamilton	4%
Top Five Customers to total Segment	**41%**

Despite the strong performance of the Star Capital, the outcome is still below the base case scenario assumed at the initial bond projection; mainly due to the financial crisis. As such, management is currently reviewing the feasibility study of the three vacant towers. Among other suggested models currently being considered is selling an entire office/tower to a reputable financial institution and/or utilizing these facilities as an extension to the hotel or commercial center business, capitalizing on the strong demand for this service and its unique proposition. **MERIS** views management flexibility in adjusting the product mix positively, especially, since it will carry insignificant additional capex needs.

Star Living (Residential Apartments):
The Star Living segment consists of 168 luxury residential apartments, dividend over six towers and covering 77,698sqm. As of June 2009, 14% of existing stocks were sold, accounting for approximately 5% of total revenue.

The performance of Star Living was negatively affected by the global turmoil, because business operations were highly exposed to the cyclicality of the residential business; especially since management is targeting a tiny niche of the upper socio-economic bracket in the local and regional market. The underperformance measure was reflected in highly vacant areas (initial assumption: to be fully sold by year 2009). According to management, they are currently reviewing the feasibility study of the business to mitigate this challenge.

Key Rating Considerations

Unique and Well Diversified Product Mix Positively Differentiates the Company among its Peer Group
Despite the long setup period carrying out the project, the company succeeded to build up its franchise and market leadership in a short operating period, through targeting reputable international/regional brand names in different segments. Meanwhile, it maintained a close relationship with the existing and prospective tenants and partners through the revenue and management sharing agreements, which strengthens management control over the quality of services. It is of note that management is mainly targeting the upper-end of the market, a practice which will continue in the future.

On the other hand, despite the relatively short operating track record, the projected cash flow is considered stable, supported by steady cash flow generation from its diversified portfolio and tenant base.

…………………… Supported By Strong Asset Quality and Operating Efficiency
The company maintains a good risk management system backed by strong/solid selection criteria which resulted in a quality portfolio of tenants. This was reflected positively in a minimal number of non-performing clients. City Stars adopts conservative credit approval criteria; hence, most of the transactions have to be approved by the credit committee, which is composed of the External Financial Consultant (acting as a Chief Financial Officer), Asset Management General Manager, Financial Manager and the Sales or Leasing Manager; and followed up by the Chairman, Deputy Chairman and the General Manager. The Credit Committee meets on a weekly basis. According to management, the company will capitalize on the success model which has been applied in the first project across new investments in the pipeline, which will ease its efforts to promote the service and establish the operational set-up to a certain extent.

Management has Undertaken a Number of Corporate Initiatives, Which Are Anticipated to Reflect Positively on the Overall Performance in the Medium to Long Term
As we mentioned earlier, City Stars' main strategy is to manage and further expand its business portfolio in multiple destinations in Egypt by replicating the successful master model of its landmark project, which will be reflected in strengthening the company's value and enhancing vertical and horizontal integration. Going forward, as a stepping stone towards its objective, management has undertaken many initiatives (Refer to the chart in annex 1), including:

………………………. Establishing Stand Alone Subsidiaries to Undertake the Ongoing Operations

Amending the corporate and organizational structure, to match the designed growth strategy. Based on the recommendation of the outsourced consultant, management formed two stand alone subsidiaries (i.e. *City Stars for Developing Real Estate & Touristic Projects Company and City Stars for Management & Consultancy Company*) to undertake the execution of new projects and manage the existing as well as new projects. The main objective was to separate between the landlord activities and on-going operations. City Stars will focus primarily on the landlord development activities and will also provide project management and consulting services to its affiliates. The newly established entities will carry on the project development tasks and the daily management operation against management fees and on an arm length basis. Despite the fact, that this plan was implemented in 2008; currently, it didn't significantly affect the daily business operation. Going forward, **MERIS** believes that these initiatives will enhance the business efficiency and will support in standardizing the business operation; if successfully executed and supported by standardized manual and procedures. Moreover, management will capitalize on the above-mentioned facilities in the developments, as well as the operations of the on-going projects, in order to ensure the same service quality.

………………………. Initiating Two Other Projects Outside Greater Cairo

Secondly, City Stars established *"Golden Coast for Hotels and Touristic Villages (GCC)"*, an almost fully owned subsidiary. Management's main objective is to replicate City Stars model on a smaller scale. GCC's business portfolio currently includes two projects:

1) *Nabq Bay Project in Sharm El Sheik*: management is heavily involved in developing the project, over an area of 8.25mn sqm. Project includes infrastructure set-up, hotels, commercial center, villas and apartments. The projects will be developed over seven phases until 2025; with a total investment cost of approx. EGP 70bn. As an aggregate, the integrated community will encompass four hotels with more than 750 rooms, educational center, parks, golf course and lagoons, retail and commercial center, residential areas in addition to office buildings.

   The first phase (between 2008 and 2012): includes a five star hotel, a state of art Crystal Lagoon (the biggest artificial lagoon all over the world with 1,020 sqm), residential facilities, parks and landscaping zone, along with infrastructure and network zones. It is worth mentioning that the Crown Plaza Hotel with 440 rooms commenced operation with a soft opening in 1Q10.

   The residential section with roughly 1,100 apartments will be sold on a semi-finished basis (by starting marketing and selling the units upon finishing the construction phase) with the ability to develop and design different styles with different sizes. Despite the fact that this gives an edge to the project, as off-sale plan is considered a market norm in the Egyptian market; nonetheless it exposes the company to execution as well as construction and the cyclical risks posed by volatility in economic conditions. Moreover, it requires significant financial resources requiring funding upfront, which also entails financing risk pressuring the shareholders capacities.

2) *Soma Bay Project in Hurghada*; the project is very close to the Sharm El Sheik business mode, as the company will develop an integrated community over a plot of land of 20mn sqm. Currently, management started smoothly developing the master plan. The timeframe is not clear yet, as management highlighted the need for dedicating more resources to Sharm El Sheik project.

   It is worth mentioning that the land purchasing agreement between GCC and the Egyptian government is considered very attractive; given that the purchasing price is one dollar per sqm: 20% to be paid upon signing the contract, while the remaining amount is to be paid over seven installments with a three years grace period. Also, GCC has the right to sell land outright upon finalizing 25% of the infrastructure development of a pre-agreed schedule, against a revenue sharing basis with the "Egyptian Authority for Touristic Development". **MERIS** believes that the contract is considered a key edge for GCC projects, taking into consideration that the Egyptian government prohibits selling lands in the Sinai Peninsula. Moreover, the selling price entails a significant hidden value, taking into consideration the huge difference between the purchasing and the market prices (US$ 1/sqm compared to US$ 100/sqm, respectively).

……………………….. Acquiring a Real Estate Developer with Impressive Projects/Land Bank

Finally, in 4Q09 the company acquired 54% of "Arab Company for Real Estate Development (ARCO)". It is worth mentioning that the ARCO acquisition is considered a milestone in City Stars' business portfolio, as it adds an impressive projects backlog, along with unrivalled access to a sizeable land bank, which will solidify the company's footprint in the Egyptian market. Currently, ARCO is developing different luxuries projects in the pipeline, the most important of which are: Meadows (6th of October), Le Reve (New Cairo District), Amwaj (North Coast), and Dyar (New Cairo District). Initially, management will concentrate on the development of Meadows and Le Reve projects, financing will be sourced on a project-by-project basis.

In a conclusion, **MERIS** views City Star's recent growth strategy promising on a long term basis, as larger scale and wider diversification will result in greater stability in earnings. Consolidating all the above mentioned projects under the domain of City Stars' will create a new giant in the Egyptian Tourism/Real Estate market. Nonetheless, it could be challenging in the short to medium term, since rapid growth usually creates execution and integration risks, together with potential strain on management capacity and on the operational, administrative and financial resources of the company. Taking into consideration that the projects backlog requires significant financial outlays, which based on management assumptions will be financed through internal as well as external resources. In **MERIS** views, the bond financial covenants obliging shareholders to finance any future capex/investments unrelated to City Stars complex from their own resources, protects the bondholders to a great extent. Furthermore, the new growth initiatives indicate a shift in its strategy for the coming years, towards tourism and real estate sectors, rather than multi use projects (with commercial center and office building in combined accounting for more than 60% of revenue as of September 09), which was the key competitive edge for business operation. With equal note, **MERIS** believes the management needs to focus on strengthening the internal corporate practices and procedures, to ensure the smooth and harmonious functioning of all business units and the organization as a whole.

The Company Faces Relatively Low Market/Competition Risk; However, Competition is Anticipated to Become More Fierce in the Medium Term to Long Term

Initially, the competitive environment was projected to intensify rapidly over the short to medium term because of significant competitive projects in the pipeline. Nonetheless, the competition pace was below expectations, thanks to the financial crisis which slowed down the establishment phase to a certain extent. The slow down favored City Stars' competitive position at least in the short to medium term; especially because all the undergoing investments are still in the early stage of construction which gives City Stars more room to reinforce its position in the local market.

At present, the multi-use (integrated) business is fragmented in Egypt, resulting in soft market competition; so far most of the company's business rivals focus on only one segment of the business/market. Although there are a small number of players competing on a closer scale, each one of them applies different criteria, which do not provide a meaningful comparison. For instance, the “Nile Tower Project” owned by the Sawiris Family and located on the Nile River caters mainly to administrative/office clientele. On the residential front, the “Four Seasons Hotel” is considered one of its main competitors in Cairo, targeting a higher market bracket.

Strong Shareholding Structure Supports the Business Operation

The company’s shareholding structure directly or indirectly entails a number of prominent businessmen with solid and experienced track records in different industries (i.e. asset management, construction and real estate, financial investment/ institutions, automotive, petrochemicals, telecommunications ... etc.) in Egypt and the region (refer to annex 3). **MERIS** believes that the company has relied significantly on these experienced and wealthy shareholders in the business growth, a practice which is foreseen to continue in the future. This support was confirmed many times since inception and recently through several capital increases. A commitment which **MERIS** points out is a key support for the future growth plans; taking into consideration the significant investment requirements.

Regardless of the restructuring initiatives, **MERIS** does not foresee the main shareholders considering selling, wholly or partially, their stake in City Stars in the near future, particularly with the company’s current attractive returns, which reflects the shareholders’ commitment to the company’s growth and business models.

Highly Correlated to Macroeconomic Conditions, Nonetheless Proved Sound Performance in Downturn Conditions

The business nature is highly exposed to the inherent risk of different sectors/industries (i.e. residential real estate, tourism) and macroeconomic condition, nonetheless, management proved a sound operating performance over the last year. It was apparent that business performance, although slightly below the initial bond projections, was not affected significantly by the global financial turmoil. With equal note, the competition's pace was below expectations, which favors City Stars. It is of note that the stability of the business is driven to an extent by the portfolio diversity (i.e. commercial, office, residential, hotel and tourism), coupled with the proceeds from the shopping mall (more than 50% of cash generating ability) which was supported by the minimum five-year contracts signed with tenants. Nonetheless, **MERIS** believes that the company’s performance has not been harshly tested through serious competitive pressure.

FINANCIAL RISK FACTORS

Figures in US$ mn	3Q09	FY08	FY07	FY06	FY05
Size of Net Fixed Assets	595.4	589.7	578.2	554.1*	629.1
RE Investment / T. Fixed Assets (%)	104.7	102.5	96.2	71.5	49.4
Revenue	85.1	118.1	72.8	63.3	25.9
Growth (%)	(3.2)[a]	62.3	14.9	144.5	5,080.0
EBITDA	73.2	103.1	55.9	44.7	17.2
EBITDA Margin (%)	86.0	87.4	76.9	70.7	66.6
Operating Profit	61.2	87.9	45.1	35.0	8.7
Operating Profit Margin (%)	71.9	74.5	62.0	52.4	33.7
Interest Expense	(6.1)	(14.6)	(18.8)	(13.3)	(11.4)
Interest Income	0.1	1.1	1.2	0.2	0.0
Net Income	53.5	72.8	39.0	3.1	10.7
Net Income Margin (%)	62.8	61.7	53.6	4.9	41.2

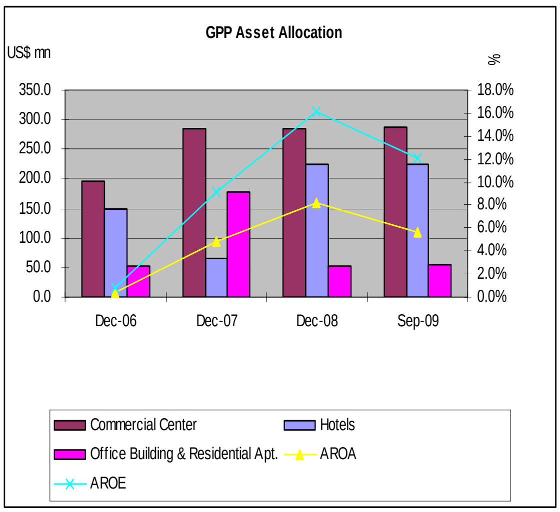
* The reason for the decrease in the fixed assets figures was the change in the lands accounting treatment
a: on a Y-o-Y basis

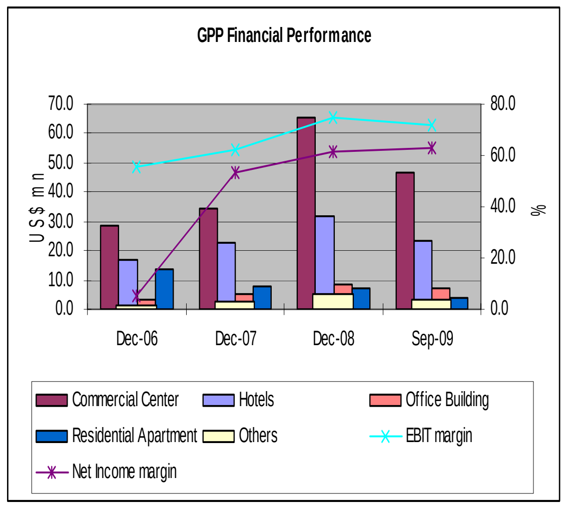
Revenue Increase Driven by Almost Full Operation of the Project

The project started operations in a soft opening in late 2004 and reached almost full operating capacity in year 2008. This included the two phases of the commercial center, three hotels, office buildings and residential premises), which explains the jump in revenue generated from operations. A strength factor supporting the company's performance is the projected cash flow associated with steady income stream from signed contracts with both the retail and the office buildings tenants.

Compared on a Y-o-Y basis, the unconsolidated nine month results reported a marginal decrease in performance. This was reflected in 4% decrease in revenue growth and operating profit margins. According to management, the decrease in performance was attributed to some difficulties faced in the merchandise mix of the commercial center (mainly in the second phase) coupled with the negative effect of the financial crisis on the revenue generated from hotels. Nonetheless, net income margin has improved slightly, thanks to the decrease in interest expenses.

Despite the decline in margins in September 2009, the company has reported very strong margins backed by the relatively high leasing prices in both the retail business and office premises, which management has succeeded in negotiating, capitalizing on the high demand rates. Average leasing prices for the commercial center stand within US$ 800/sqm2, compared the average initial of US$ 400sqm. While for the office building it stands at US$ 2,700/sqm vs. US$ 1,000/sqm initially. On the other hand, despite the improvement in returns in FY08, the company still generates relatively weak returns (ROA: 5.7%, ROE 12.1%), which is justified by the huge asset base and the nature of business.





As the above graph illustrates, the key earning engines for City Stars are the shopping mall and the hotel revenue, reporting 55% and 27% of gross revenue, respectively, in 3Q09. Its outlook is projected to continue within the same range over the coming five years. Residential apartments have been showing a downward trend over the last four years dropping to less than 5% in September 2009, compared to 20% in year-end 2006. Going forward and starting from year 2009, earning growth rates are anticipated to drop to between 10% and 15% as a result of concluding the sales of the residential apartments, which is projected to be finalized by that time.

Significant Increase in EBITDA Figures; Nonetheless, Cash Generating Ability is still weak

The company enjoys strong and steady income sources backed by signed contracts with lessees, which was reflected in the continuous increase in EBITDA figures. Nonetheless, the company's cash generating ability is still hampered by the excessive cash out flows needed for finishing the developments of the projects, investments needs and working capital requirements. According to management, the capex requirements for 2010, is roughly EGP 200mn, to be financed internally. Although City Stars is exposed indirectly (through

Funding & Coverage Ratios

Figures in US$ mn	3Q09	FY08	FY07	FY06	FY05
EBITDA	73.2	103.1	55.9	44.7	17.2
Chan. in Working Capital	(44.6)	28.1	(17.4)	37.4	(17.5)
Tax	(2.9)	(2.4)	(3.5)	(3.7)	(1.9)
Interest Paid	(6.1)	(14.6)	(18.8)	(13.3)	(11.4)
CAPEX	(13.4)	(29.3)	(25.5)	(30.6)	(12.9)
Investments*	(6.9)	(56.9)	(15.5)	(43.6)	(1.6)
Dividends Paid	0.0	(91.8)	0.0	0.0	0.0
Net Free Cash Flow	(0.7)	(63.8)	(24.8)	(9.1)	(28.1)
Retained Cash Flow	65.4	(3.8)	64.8	12.9	19.3
Revenue/Capex (X)	6.4	4.0	2.9	2.1	2.0
Cash & C. Equivalent / C. Liabilities (%)	4.1	3.5	26.1	2.2	3.8
EBIT / Interest Exp. (X)	10.0	6.0	2.4	2.6	0.8
Dividend Payout Ratio (%)	o.0	236.0	0.0	0.0	0.0

* Investments in subsidiaries & Available for Sale

subsidiaries) to significant cash outflows, **MERIS** believes that the bondholders are supported by the covenant which obliges the shareholders to finance any other capex/investments unrelated to the City Stars complex from their own resources/new equity injection.

The company has reported a healthy coverage ratio measured by EBIT/interest expense, improving notably over the last year, which was attributed to the increase in EBIT figures, coupled with the decrease in interest expenses. The same positive trend is expected to continue thanks to the favorable interest rates attached with the bond issuance.

Foreign Exchange Exposure:

A reasonable portion of the lease and management contracts are paid in US$, which may leave the company exposed to adverse currency movement. Nonetheless, this foreign income stream is considered a natural hedge for the bondholders.

Dividends Distribution/ Received Policy:

Management distributed dividends for the first time in 2008. The distribution was capitalized and re-injected as an increase in pay in capital, a practice which is foreseen to continue in the future (if needed). According to management, the future distribution policy will depend highly on the expansion needs and will continue as long as the company meets all the covenants stipulated in the bond prospectus (i.e. provided that dividend payouts do not lead to covenant breaches). On the other hand, the company didn't receive any dividends from subsidiaries, since all investments are considered in their initial expansionary phases.

Tax Position:

The company is currently exempt from corporate taxes for the coming five years; the exemption period extends till 2010 for the first phase of commercial center and the Intercontinental Hotel. For the commercial center - second phase, residential premises, office buildings and the other two hotels, it will commence between year 2011 and 2014 based in the opening date.

The real estate tax which will be applied in 2010 is anticipated to hit the company's performance significantly; nevertheless, according to management it will be passed to tenants through the service charges, which to a great extent will offset this risk.

Debt Structure:

The company's sole debt was a

Debt/Equity (%)	70.0	64.5	65.9	60.2	56.9
Net Debt/ EBITDA (x)	4.0	2.8	4.7	5.4	13.1
Debt / Capitalization (%)	39.0	38.0	38.0	37.0	36.0
FCF/ N. Debt	4.1	(1.4)	(6.3)	22.0	(1.7)
RCF / N. Debt (%)	23.0	(1.3)	25.5	5.4	8.6

Figure 4: Financial Leverage

Figures in US$ mn	3Q09	FY08	FY07	FY06	FY05
Short-term Debts	0.0	0.0	0.0	12.5	0.0
Long-term Debts	285.0	285.0	285.0	224.3	225.1
Total Debt	285.0	285.0	285.0	236.8	225.1
Cash and Cash Equivalent	9.7	5.6	30.6	2.7	2.0
Net Debt	275.3	279.4	254.4	234.1	223.1
Other Financial Obligations	14.4	11.5	9.1	5.6	1.9
Equity	427.4	459.4	446.4	402.8	398.6

secured bond issued in 2007 equivalent to US$ 285mn. The bond proceeds were directed to replace existing long-term debt and to partially finance capex. The seven-year non-convertible instrument has a three-year grace period, with a floating coupon rate (1.25% plus LIBOR) semi annual coupon rate. The first amortization installment will be due in June 2010. In **MERIS** view, the impact of the bond issuance on the company's coverage metrics is positive; hence, the bond issue carried a floating coupon rate (1.25% plus LIBOR and 12% on the local portion). As of September 2009, the company is in compliance with all covenants.

On the other hand, the bond was issued on an unconsolidated basis and backed by a mortgage for all the tangible and intangible assets of the complex. Following the full operation of the project and according to an appraisal report issued by the PriceWaterHouse Cooper firm in November 2009, the current value stands at US$ 1.2bn (excluding the Golden Coast value), compared to US$ 860mn at the time of the bond issuance; covering the bond more than four times over. **MERIS** believes that the security attached to the bondholders is considered a strong protection.

Currently, the company does not have any short term bank debt or back-up credit facilities thanks to the strong and steady cash generating ability. In **MERIS** view, this tightens the company's back-up liquidity options. Nonetheless, the shareholders' financial support was examined several times, is considered a strong mitigant.

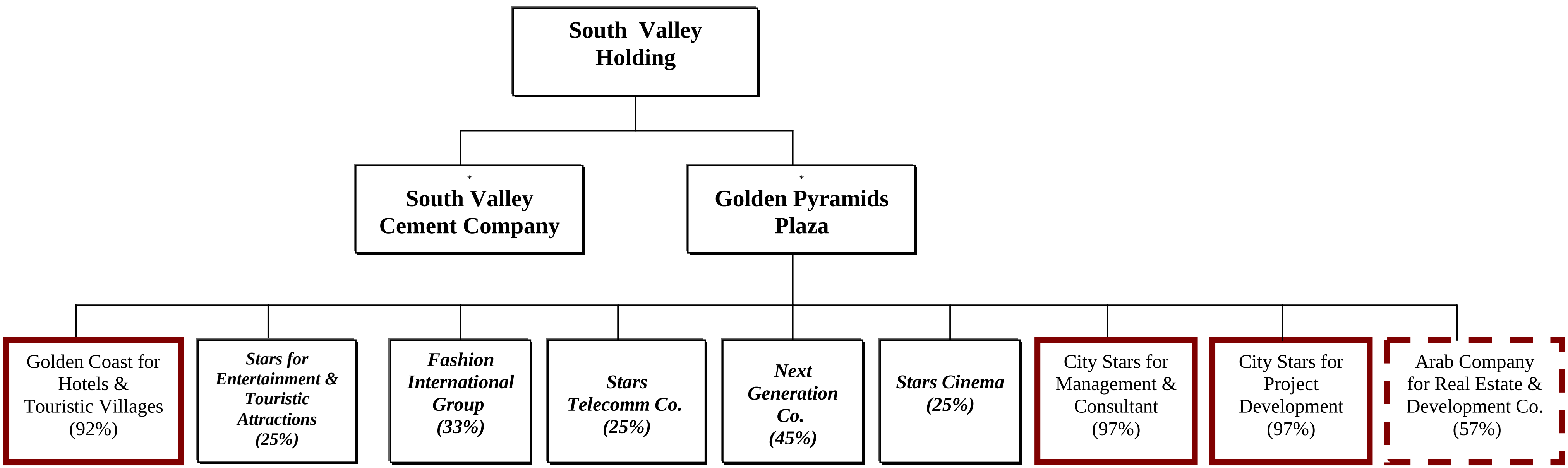
Significant Improvement in Debt Protection and Capitalization Ratios

The company maintains a healthy leverage ratio as measured by debt to equity reporting 70% in 3Q09, in light of the pre-determined bond/amortization schedule, and we expect to see a continuous improving trend in the future. Meanwhile, net debt to EBITDA has also improved to stand at 4x in the same reporting period, supported by the increases in funds generated by operations.

The company's capitalization has been maintained within the same range over the last four years. Moreover, in 2H09, it increased the authorized and paid up capital to US$ 2.0bn and US$ 539mn respectively accumulated from dividends distribution to shareholders. According to management, a further increase in paid in capital is anticipated in the near future, to reach US$ 575mn. The continuing capital increase practice reflects the shareholder's support and commitment to the operation, which is reflected positively in the rating grade.

Newly Established Entities

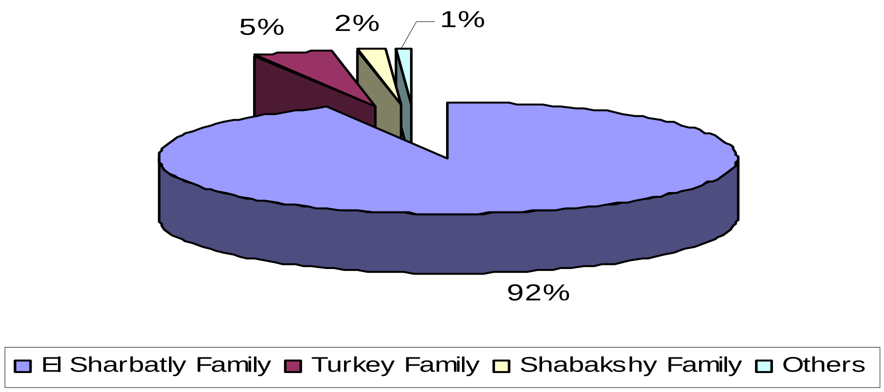
Newly Acquired Entity



Annex 2: Summary of the Project Details

Annex 3: shareholding structure – Pre-acquisition

City Stars Shareholding Structure - Pre- Acquisation Deal



Synopsis of the Original Key Shareholders

Sheikh Abdul Rahman Hassan Sharbatly – Chairman

Sheikh Sharbatly is a high net worth Saudi businessman. He is a shareholder in the following companies:

- Golden Pyramids Plaza Co. (Cairo, Egypt).
- South Valley Cement Factory (Cairo, Egypt).
- Egyptian Gulf Bank (Cairo, Egypt).
- Saudi Arabian Marketing & Agencies Company Ltd (SAMACO) (KSA) – Agent of (Volkswagen, Audi, Porsche).
- Saudi Co. for Hardware (KSA).
- Marketing Services & Commercial Projects Operation Co. (Jeddah, KSA).
- J.G.C Saudi Co. Ltd (KSA)
- Blue Nile
- El Nahla Trading & Contracting Co.

He is currently the chairman of:

- Arabian International Corp. (Jeddah, KSA).
- Saudi Arabian Marketing & Agencies Company LTD. (SAMACO) (KSA).
- Golden Pyramids Plaza Co. (Cairo, Egypt).

In addition, he is a board member of the following companies:

- Ryiad Bank (Ryiad, KSA).
- South Valley Cement Factory (Cairo, Egypt).
- Saudi Arabian Refinery Company (Jeddah, KSA).
- Marketing Services & Commercial Projects Operation Co. (Jeddah, KSA).
- Saudi Co. for Hardware (KSA).

Eng. Hassan Abdul Rahman Sharbatly -

Mr. Hassan Sharbatly graduated in 1995 from King Abdul Aziz University in Jeddah, Saudi Arabia and holds a Bachelor of Architecture Engineering. He has been with GPP since 1996. Mr. Sharbatly holds investments in:

- El Watany Bank
- South Valley Investment
- Sidi Krir Petrochemicals
- Stars Communication
- Golden Pyramids Plaza

Sheikh Abdul Rahman El Torki;

Sheikh El Torki is a high net worth Saudi Businessman. He is the Chairman and Owner of Abraaj Capital, in addition to other real estate and financial investments around the Gulf area. Abraaj Capital is a leading asset management firm with expertise in private equity buyouts, strategic minority block positions in public enterprises and real estate investments in the South Asia, Middle East and North Africa Region. It has USD 1 billion of assets under management, and has recently made a bid for the acquisition of a 25% stake in EFG – Hermes, and other activities in Egypt and the region.

Annex 4: National Rating Scale

Quality of credit	Long	Short	
Gilt edged	AAA	Prime 1	Investment Grade
Very high	AA+ AA AA-		
Upper-medium	A+ A A-	Prime 2	
Medium grade	BBB+ BBB BBB-	Prime 3	
Questionable	BB+ BB BB-	Not Prime	Speculative Grade
Poor quality	B+ B B-		
Very poor	CCC+ CCC CCC- CC C		