

To All Known Creditors

9 November 2009

Ref: ML7E/VS/IM/ARB/LO3472/PF16.1
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Victoria Smith
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Dear Sirs

Heritable Capital Partners Limited (In Administration)

High Court of Justice, Number 8979 of 2008

Registered office address: 1 More London Place, London, SE1 2AF

I write, in accordance with Rule 2.47 of the Insolvency Rules 1986, to provide creditors with a report on the progress of the administration. This report covers the period from 15 April 2009 to 14 October 2009 and should be read in conjunction with the Administrators' proposals dated 21 November 2008 (the "Proposals") and the Administrators' progress report dated 13 May 2009 (the "May Report").

Heritable Capital Partners Limited (In Administration) ("HCP"), registered number 01494348, entered administration on 15 October 2008 and AR Bloom and TM Burton were appointed to act as joint administrators (the "Administrators"). The appointment was made by HCP's directors under the provisions of paragraph 22(2) of Schedule B1 to the Insolvency Act 1986 (the "Act"). Under the terms of the appointment, any act required or authorised to be done by the Administrators can be done by either of them.

Extensions to the Initial Period of Appointment

On 16 September 2009, following an application by the Administrators, the Court ordered an extension of the initial one-year administration period, which was due to expire on 14 October 2009, by two years. In light of the progress of the administration to date, the extension was required to enable the Administrators to continue to progress the construction of the existing developments in order to achieve the best potential return to creditors.

Summary of Progress

Project Exposures

As stated in the Proposals and the May Report, the Administrators have reviewed HCP's exposure to all of its projects and have met with its various joint venture partners.

At the date of administration, HCP had a total exposure to its project partners of £25.4m. HCP's exposure in respect of these projects has subsequently increased by £6.6m as a result of further advances to project partners. However, the overall net exposure has reduced slightly

to £27.9m as a result of a set-off relating to the Swaylands project, as described in the May Report.

The two main projects, which comprise c.75% of the total loan exposure, relate to the Swaylands and Neptune developments.

Swaylands - Penshurst, Sevenoaks, Kent (Total HCP Exposure £15.9m)

- ▶ Swaylands is a 50 house/apartment development in Penshurst Kent. The development comprised the renovation of the existing house into 28 apartments, construction of two new blocks comprising an additional 21 units, the renovation of a separate lodge, and landscaping and infrastructure. The work on the existing house has been completed and a number of units had been sold prior to administration.
- ▶ While HCP acquired the site entirely with funding from Heritable Bank Plc ("Heritable"), Oakdene Homes plc (now in administration) ("Oakdene") and its subsidiary, Honeygrove (Swaylands) Limited ("HSL"), were to complete the development works. Heritable provided an additional loan to HCP to finance the payment of construction costs.
- ▶ As described previously, following breaches of contract by Oakdene and HSL, HCP terminated its contractual arrangements with those companies and took possession of the site on 6 January 2009. Oakdene has since entered administration.
- ▶ The Administrators have appointed Garrick Homes Limited ("Garrick", an existing HCP borrower – see below) as the new contractor to complete the construction work on site. Chamonix Estates Limited have also been appointed as the managing agent to deal with operational matters on the estate.
- ▶ The increase in exposure from £13.2m previously to £15.9m is as a result of WIP drawdowns made to fund construction on site.
- ▶ Since launching a marketing suite in August 2009, two reservations have been secured totalling £2.2m. Furthermore, the launch of a show apartment took place on 17 October 2009 and is understood to have generated significant interest on site.
- ▶ The strategy of completing the unfinished units and the general development works is considered the best way to maximise the potential returns to the creditors given the poor market for part-completed sites. The Administrators are hopeful of achieving full repayment of the loan advanced by Heritable to HCP by mid-2011.

Neptune Ealing Road LLP ("Neptune") – Ealing Road, Alperton (Total HCP Exposure £6.7m)

- ▶ Neptune is a 50:50 joint venture company between HCP and Neptune Property Developments Ltd ("NPDL") which was set up to acquire a 3.57 acre retail warehouse site in Alperton for £18.75m. The intention was to apply for a change of use to provide c.500 residential housing units on the site.

- ▶ In addition to £6.7m of funding provided by HCP, Heritable provided a £12.5m committed senior debt facility (in respect of which £12.6m is outstanding, including arrears and fees) and has a first charge over the site.
- ▶ As previously reported, the property was let to B&Q at the time of HCP's administration, but the Administrators agreed a surrender of the lease in February 2009 in return for a £3m premium from B&Q, which was applied in reduction of the Heritable loan.
- ▶ The Administrators continue to consider the strategy of seeking to obtain planning permission for a change of use for residential housing to be the best way to maximise potential returns for the creditors. The planning application was submitted in the week of 17 August 2009, with a decision expected by December 2009 to January 2010. The Administrators have agreed that HCP will continue to fund the professional fees for the planning application and demolition costs on the basis originally agreed.
- ▶ As reported in the May Report, the Administrators have agreed a variation to the existing profit share mechanism to encourage NPDL to remain fully incentivised in a falling market and to keep the planning application on track. At this time, HCP intends to sell the site to a Registered Social Landlord upon receipt of planning permission rather than funding the build-out.

In addition to Swaylands and Neptune, HCP has four other projects which make up the remainder of its exposure:

Garrick (Total HCP Exposure £2.2m)

- ▶ As previously reported, this is a 50:50 joint venture between HCP and Garrick for a four house development in Surrey. Heritable provided a £5.5m committed senior debt facility (in respect of which £5.6m is outstanding, including accrued interest and fees) and holds a first charge over the property. HCP holds a second charge over the property.
- ▶ The four houses were part-built when HCP entered into administration. Heritable has continued to fund building works to enable completed units to be sold and will fund the completion of the development. There have been no further advances from the HCP facility since the date of administration.
- ▶ Two of the houses are complete and on the market with a view to their sale at a reasonable market price by year-end. The other two properties will be finished this year and are expected to be sold in early 2010. This is considered the best way to optimise the recovery of HCP's investment.
- ▶ HCP's total exposure has reduced to £2.2m following the write-off of HCP's fees of £600k, which are considered non-recoverable.
- ▶ Based on current market prices, HCP is expected to recover c. £2m of this exposure.

The Black Ant Company Ltd ("Black Ant") (Total HCP Exposure £886k)

- ▶ HCP provided funding to Black Ant to purchase a cleared 0.39 acre site in South East London and to obtain planning for the construction of c. 31 residential units. Heritable has a committed senior debt facility in respect of which £1.2m is outstanding (including arrears and interest) and holds a first charge over the site. HCP holds a second charge over the site.
- ▶ There have been numerous delays in submitting a planning application for the residential units, primarily as a result of additional information requests from the local authority. To date, Black Ant has managed the planning process. However, this has not produced satisfactory results. As such, the Administrators have served demand on Black Ant and will appoint suitable professionals to finalise the planning application.
- ▶ There is currently little value in the cleared site. Given that Heritable has full cross-collateralisation across its loans to Black Ant and a number of these loans are impaired, any surplus on this site will first be applied to repaying Heritable. There is therefore little or no recovery expected on HCP's equity, unless there is a successful planning application.

Magri, Peter Esq ("Magri") - The Old Dairy (Total HCP Exposure £1.4m) and Little Copped Hall (Total HCP Exposure £330k)

- ▶ The two Magri exposures both relate to the Little Copped Hall site, including the adjoining buildings, which the borrower acquired in February 2007. The borrower is looking to secure planning consent for a redevelopment of various agricultural buildings to provide up to eight residential units. HCP agreed to fund the equity with Heritable providing debt facilities.
- ▶ Heritable has a committed senior debt facility in respect of which £1.2m is outstanding (including interest and arrears) and holds a first charge over the site. HCP has a second charge over all of the Little Copped Hall properties. As previously reported, there have been no advances since the date of the administration.
- ▶ The strategy is to continue to support the application for planning permission, which is due to be submitted within the next month, with a view to a sale of the site after this has been obtained. This is still considered the best way to optimise the recovery of the HCP loan.

Criterion Two LLP ("Criterion") (Total HCP Exposure £439k)

- ▶ This exposure relates to an industrial site with two units in East London. Criterion's strategy was to submit a planning application for c.100 residential units after the Local Development Framework had been announced. However, the Local Authority has not yet finalised this framework and it is therefore very unlikely that Criterion will be awarded planning consent at this stage.
- ▶ Heritable has a committed senior debt facility of £1.3m (fully drawn) and holds a first charge over the site. HCP holds a second charge over the site. Criterion also has assignment over an option on a third unit by way of a charge.

- ▶ The sites are currently let and are generating income, which is allowing Criterion to service interest repayments. However, the current market values would not provide any recovery for HCP.
- ▶ The original funding agreement committed HCP to providing further funding of £400k in August 2009 to fund deferred consideration from the purchase. Since the May Report, the Administrators have been in negotiations with Criterion to reduce the funding commitment with the intention of increasing HCP's recoveries, assuming a successful planning application. The additional funding commitment has since been negotiated down to £223k.
- ▶ The strategy to support the planning application is still considered the best way to optimise the recovery of HCP's exposure. Given that the Local Development Framework has yet to be finalised, the Administrators have appointed a firm of planning consultants to report on the likely outcome of an application. As a result of the advice received, HCP has agreed to support the borrower with its application.
- ▶ Pre-application consultation is underway and the application is expected to be submitted in March 2010. Subject to planning, the Administrators are hopeful of achieving full repayment.

Statutory Matters

The Administrators continue to fulfil their statutory requirements in respect of the administration.

Receipts and Payments Account

I enclose a receipts and payments account for the period from 15 October 2008 to 14 October 2009. This does not reflect estimated future realisations or costs.

To date, receipts total £4,332,636.83. Cash at 14 October 2009 was £168,281.16 after total payments of £4,164,355.67. Of the total receipts, £4,122,221.62 has been received from Heritable by way of intercompany loan for the purposes of allowing HCP to provide funds where required in respect of the above-mentioned developments, such loan ranking as an expense of the administration.

For the period from 15 April to 14 October 2009, receipts totalled £3,696,747.46 and payments totalling £3,728,540.96 were made.

Joint Administrators' Remuneration and Disbursements

The Administrators' remuneration was fixed on a time-cost basis by a resolution of the creditors passed on 9 December 2008. To date, the Administrators have incurred time costs, excluding VAT, of £372,517, against which the sum of £331,727 (excluding VAT) has been drawn. The Administrators' drawn fees are shown in Appendix 1 inclusive of VAT. An analysis of the time spent is attached as Appendix 2 to this report. At Appendix 3 there is a statement of the Administrators' policy in relation to charging time and disbursements.

To date, there have been no sums drawn in respect of Category 1 or Category 2 disbursements.

Creditors

Secured Creditors

HCP's only secured creditor is Heritable, which holds fixed and floating charges over all of HCP's assets, securing all liabilities of HCP to Heritable.

Preferential Creditors

There are no preferential creditors of HCP as all employees were employed by Heritable and, as such, will claim their preferential status within that administration.

Non-preferential Creditors

Intercompany

As reported previously, at the date of administration, the intercompany balance owed by HCP to Heritable was c. £24.2m. The total amount owing has subsequently reduced to c. £20.1m by reason of the set-off described in the May Report in connection with the Swaylands project.

Other Creditors

The indebtedness to Heritable makes up the majority of HCP's creditor balance, with other creditor claims totalling c. £1.3m. To date, we have received claims of £813,642 from the following unsecured creditors:

- ▶ HMRC £487,164;
- ▶ Swaylands Estate Management Limited £322,590; and
- ▶ Trade creditors £3,888.

We are in the process of adjudicating upon these claims.

In addition to the above, Oakdene was included in the statement of affairs as an unsecured creditor for an amount of £500k, but the Administrators have not yet received a proof of debt in respect of this amount.

The Prescribed Part

The prescribed part is a proportion of floating charge assets set aside for unsecured creditors pursuant to section 176A of the Act. The prescribed part applies to floating charges created on or after 15 September 2003.

As stated above, a floating charge was granted by HCP over all present and future assets in favour of Heritable. As the charge was created after 15 September 2003, the prescribed part does apply.

As reported previously, however, having reviewed the scope of the security, the Administrators do not believe that there are any assets subject to this floating charge which are not also the subject of (prior ranking) fixed charges granted in favour of Heritable. As such, there is no net property available under the floating charge out of which a prescribed part could be set aside.

Distributions to Creditors

As stated in the May Report, HCP's investments are in large complicated joint venture developments that will take considerable time to unwind. Due to the fact that HCP's exposures rank behind the Heritable debt funding, and all of the sites are currently in development and therefore subject to market movements and further costs being incurred in respect of their completion, it is not possible to accurately quantify the anticipated recovery at this stage. Impairments are also expected across a number of the loans. However, an element of the total HCP exposure is expected to be recovered.

In light of the above, the Administrators are not in a position to make any distribution to creditors at the present time.

I will report to you again in six months' time.

Yours faithfully
for Heritable Capital Partners Limited (In Administration)



AR Bloom
Joint Administrator

Enc: Joint Administrators' Receipts and Payments Account
Summary of Joint Administrators' Time-Costs and Category 2 Disbursements
Joint Administrators' Policy on Fees and Disbursements

The Institute of Chartered Accountants in England and Wales authorises AR Bloom to act as Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986 and The Institute of Chartered Accountants of Scotland authorises TM Burton to act as Insolvency Practitioner under section 390(2)(a) of the Insolvency Act 1986.

The affairs, business and property of the Company are being managed by the Joint Administrators, AR Bloom and TM Burton, who act as agents of the Company only and without personal liability.

Appendix 1

Heritable Capital Partners Limited (In Administration)

Joint Administrators' Abstract of Receipts and Payments from 15 October 2008 to 14 October 2009.

	Movement between 15 April and 14 October 2009			Balance as at 14 October 2009
	15 October 2008 to 14 April 2009	2009	2009	
	£	£	£	
Receipts				
Funds received from Heritable Capital Repayment	435,814.71	3,686,406.91	4,122,221.62	
Capital Reduction	-	10,066.74	10,066.74	
Bank Interest	200,000.00	-	200,000.00	
	74.66	273.81	348.47	
	635,889.37	3,696,747.46	4,332,636.83	
Payments				
Administrators' Fees	23,563.50	357,922.55	381,486.05	
Legal Fees	215,864.10	156,452.72	372,316.82	
Insurance	-	25,543.62	25,543.62	
Legal Disbursements	366.48	1,311.85	1,678.33	
HCP Drawdowns	141,402.73	213,472.04	354,874.77	
Swaylands	54,617.90	2,219,438.64	2,274,056.54	
Bank Charges	-	0.30	0.30	
Sundry Payments	-	27,639.41	27,639.41	
Other Staff Costs*	-	460.22	460.22	
Salaries*	-	535,929.42	535,929.42	
Employee Benefits*	-	48,750.89	48,750.89	
Equipment Supplies*	-	2,133.89	2,133.89	
IT Costs*	-	2,711.63	2,711.63	
Premises*	-	56,042.72	56,042.72	
Finance*	-	31,894.92	31,894.92	
House Management*	-	29,973.81	29,973.81	
Human Resources*	-	6,278.00	6,278.00	
Loans Administration*	-	12,584.32	12,584.32	
	435,814.71	3,728,540.96	4,164,355.67	
	200,074.66	(31,793.50)	168,281.16	
Represented by:				
Royal Bank of Scotland	200,074.66	(31,793.50)	168,281.16	
	200,074.66	(31,793.50)	168,281.16	

*Amounts recharged from Heritable Bank Plc (In Administration)

Appendix 2

Heritable Capital Partners Limited (In Administration)

Summary of Joint Administrators' Time-Costs and Category 2 Disbursements from 15 October 2008 to 14 October 2009 (excluding VAT).

Classification of work function	Partner	Executive Director	Senior Manager	Manager	Senior	Staff	Total Hours	Total		Average Hourly Rate £
								Time Costs £	Hourly Rate £	
Accounting & Administration	-	-	-	-	14.40	16.10	30.50	7,205.50	236.25	
Bank & Statutory Reporting	-	-	19.50	6.00	6.80	0.80	33.10	14,383.00	434.53	
Creditors	1.00	-	10.60	21.50	12.10	19.00	64.20	20,295.50	316.13	
Investigations & CDDA	-	-	-	-	15.70	-	15.70	3,218.50	205.00	
Legal Issues	-	-	-	-	0.60	-	0.60	159.00	265.00	
Property	184.00	150.00	81.00	-	41.10	-	456.10	302,211.50	662.60	
Sale Process	8.60	-	2.00	-	-	-	10.60	7,000.00	660.38	
Statutory Duties	3.30	-	12.80	1.00	12.20	1.00	30.30	12,320.00	406.60	
Trading	-	-	4.50	1.00	-	-	5.50	2,565.00	466.36	
VAT & Taxation	-	-	2.50	-	4.90	-	7.40	3,159.00	426.89	
Total		196.90	150.00	132.90	29.50	107.80	36.90	654.00	372,517.00	

Category 2 Disbursements

There have been no Category 2 disbursements.

Appendix 3

Heritable Capital Partners Limited (In Administration)

Office Holders' Charging Policy for Fees

HCP's creditors have determined that the Administrators' remuneration should be fixed on the basis of time properly spent by the Administrators and their staff in attending to matters arising in the Administration.

The Administrators have engaged a manager and other staff to work on the cases. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by cashiers dealing with the company's bank accounts and statutory compliance diaries, secretaries providing typing and other support services and filing clerks. Work carried out by all staff is subject to the overall supervision of the Administrators.

All time spent by staff working directly on case-related matters is charged to a separate time code established for each case. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rate for each category of staff over the period is shown in Appendix 2, as are the current hourly rates used. The current hourly rates may be higher than the average rates, if hourly rates have increased over the period covered by this report.

Office Holders' Charging Policy for Disbursements

Statement of Insolvency Practice No. 9 ("SIP 9") published by R3 (The Association of Business Recovery Professionals) divides disbursements into two categories.

Category 1 disbursements comprise payments made by the office holders' firm, which comprise specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. These disbursements can be paid from the insolvent's assets without approval from the Committee. In line with SIP 9, it is our policy to disclose such disbursements drawn but not to seek approval for their payment.

Category 2 disbursements comprise payments made by the office holders' firm which include elements of shared or overhead costs. Such disbursements are subject to approval from the Company's creditors as if they were remuneration. It is our policy, in line with SIP 9, to seek approval for this category of disbursement before they are drawn.

We do not propose to draw any Category 2 disbursements.

The Insolvency Act 1986

Administrators' progress report**2.24B**

Name of Company Heritable Capital Partners Limited	Company number 01494348
In the High Court of Justice [full name of court]	Court case number 8979/2008

(a) Insert full name(s) and address(es) of administrator(s)

I / We (a) Alan Robert Bloom and Thomas Merchant BurtonErnst & Young LLP, 1 More London Place, London, SE1 2AF

administrator(s) of the above company attach a progress report for the period

from

to

(b) Insert date

(b) 15 April 2009(b) 14 October 2009

Signed



Joint / Administrator(s)

Dated

9 November 2009**Contact Details:**

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record

Victoria Smith	
Ernst & Young LLP, 1 More London Place, London, SE1 2AF	
	Tel: 0207 951 2673
DX Number:	DX Exchange:

Companies House receipt date barcode

When you have completed and signed this form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff, CF14 3UZ**DX 33050 Cardiff**