

TO ALL KNOWN CREDITORS

13 May 2009

Ref: ML7E/JZ/IM/DM/ARB/LO-
3472/PF16.1
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Dear Sirs

Heritable Capital Partners Limited (In Administration)

High Court of Justice, Number 8979/2008

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 October 2008 to 14 April 2009 and should be read in conjunction with the Administrators' proposals dated 21 November 2008 (the "Proposals").

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. 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

To date, the Administrators have not submitted a request to the Court for an extension to the initial one year administration period. In light of the progress of the administration to date, it appears likely that an extension will be required and the Administrators will make an application to Court in due course.

Summary of Progress

Project Exposures

As stated in the proposals, 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 £1.3m as a result of further advances to project partners. However, the overall exposure has reduced to £22.6m as a result of a set-off relating to the Swaylands project, as described further below.



INVESTOR IN PEOPLE

The two main projects, which comprise c.79% of the total loan exposure, relate to Swaylands and Neptune.

Swaylands - Penshurst, Sevenoaks, Kent (Funding Commitment £13.7m; Current Exposure £11m)

- ▶ Swaylands is a 49 house/apartment development on the 'Old Drummond Estate' in Penshurst Kent. The development comprised the renovation of the existing house into 28 apartments, construction of two new blocks (Drummond & Woodgate) comprising an additional 20 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 with funding from Heritable, Oakdene Homes plc (now in administration) ("Oakdene") and its subsidiary, Honeygrove (Swaylands) Limited ("HSL"), was to complete the development works. Heritable provided an additional loan to HCP to finance the payment of construction costs and also made a working capital facility available to HSL.
- ▶ 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. Heritable has also set off a £5m sum deposited with and charged to the bank by HSL as security for the obligations of itself and HCP to the bank. C. £4.1m of such amount has been applied in reduction of the loans advanced by Heritable to HCP.
- ▶ The Administrators are currently in the process of appointing a new contractor to complete the work on site and to achieve sales. The Administrators are also negotiating a contract with a leading international construction and property consultancy to project manage the development. HCP has undertaken to fund the site holding costs, which includes security and maintenance costs, until a contractor is appointed.
- ▶ The strategy to complete the unfinished units is considered the best way to maximise the potential returns to the creditors given the poor market for part completed sites.

Neptune Ealing Road LLP ("Neptune") – Ealing Road, Alperton (Funding Commitment £6.6m; Current Exposure £6.1m)

- ▶ 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.
- ▶ Heritable has provided a £12.5m committed senior debt facility (of which £12.2m is drawn) and has a first charge over the site.
- ▶ At the date of administration, the property was let to B&Q with six years remaining on the lease. However, B&Q was not in occupation and had been attempting unsuccessfully to

dispose of its interest under the lease. The Administrators subsequently agreed a surrender of B&Q's lease in return for a £3m premium which was received in February. This has been used to reduce the capital balance on the Heritable element of the loan, in accordance with the terms of the loan facility.

- ▶ The strategy of seeking to obtain planning permission for a change of use for residential housing is considered the best way to maximise the potential returns for the creditors. The planning application is in the process of being finalised and is expected to be submitted in May 2009. 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.
- ▶ The Administrators have also agreed a variation to the profit share mechanism in the contractual arrangements between the parties to encourage NPDL to remain fully incentivised in a falling market and to keep the planning application on track. At this time HCP has no intention of funding the build-out of the site. Instead, the intention is to sell the site to a Registered Social Landlord upon receipt of planning permission.

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

Garrick Homes Ltd ("Garrick") (Funding Commitment £2.0m; Current Exposure £2.8m)

- ▶ This is a 50:50 joint venture between HCP and Garrick for a four house development on the Kingswood Estate in Surrey. Heritable provided a £5.5m committed senior debt facility (of which £4.7m is drawn) 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 the build-out of the development to enable the sale of the completed units. There have been no further drawdowns on this loan since the date of administration.
- ▶ The houses are near completion and are expected to go on the market in the next month with a view to achieving sales at a reasonable market price over the next three to six months. Completing the units is considered the best way to optimise the recovery of HCP's investment.

The Black Ant Company Ltd ("Black Ant") (Funding Commitment £518k; Current Exposure £794k)

- ▶ HCP provided funding for the purchase of 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 of £1.1m (fully drawn) and holds a first charge over the site. HCP holds a second charge over the site.

- ▶ There have been numerous delays in submitting planning application for the residential units, primarily as a result of additional information requests from the local authority. At present, Black Ant is managing the planning process.
- ▶ There is currently little value in the cleared site. The Administrators' ability to maximise recovery is therefore dependent on securing planning consent. However, given that Heritable has full cross-collateralisation across its loans to Black Ant and that a number of these loans are impaired, any surplus on this site will be first applied to repaying Heritable with little or no recovery expected on HCP's equity.
- ▶ The administrators of Heritable have agreed to fund costs incurred by HCP if there is no recovery in respect of HCP's exposure.

Magri, Peter Esq ("Magri") - The Old Dairy (Funding Commitment £1.1m; Current Exposure £1.3m) and Little Copped Hall (Funding Commitment £214k; Current Exposure £281k)

- ▶ The two Magri exposures 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.
- ▶ There have been no advances since the date of administration. Heritable has a committed senior debt facility of £1.1m (fully drawn) and holds a first charge over the site. HCP has a second charge over all of the Little Copped Hall properties.
- ▶ The strategy is to support the application for planning permission with a view to a sale of the site after this has been obtained. This is considered the best way to optimise the recovery of the HCP loan.

Criterion Two LLP ("Criterion") (Funding Commitment £800k; Current Exposure £400k)

- ▶ This exposure relates to an industrial site with two units in East London. Criterion's strategy was to submit planning 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 commits HCP to providing further funding of £400k in July 2009 to fund deferred consideration from the purchase.

- ▶ The strategy to support the planning application is considered the best way to optimise the recovery of HCP's exposure. However, as the Local Development Framework has yet to be finalised, the Administrators are currently considering the benefit of providing further funding.

Statutory Matters

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

In accordance with the Company Directors Disqualification Act 1986, we have performed a review of the conduct of HCP's directors and have submitted our report to the Department for Business, Enterprise and Regulatory Reform.

Receipts and Payments Account

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

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 of £160,850, against which the sum of £23,563.50 has been drawn. 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.

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 the parent company, Heritable, and as such, will claim their preferential status within that administration.

Non-preferential Creditors

Intercompany

At the date of administration, the intercompany balance owed by HCP to Heritable was c. £24.2m (£24.3m as per the Proposals). This comprised a loan of £8.4m provided to fund investments in joint ventures and two specific loans totalling £15.8m to fund the development at Swaylands. The total amount owing has subsequently reduced to c. £20.1m by reason of the set-off described above in connection with the Swaylands project.

Other Creditors

The indebtedness to Heritable makes up the majority of HCP's creditor balance, with other creditors 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;
- ▶ Trade creditors £3,888.

We are currently in the process of adjudicating 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 applied to floating charges created on or after 15 September 2003.

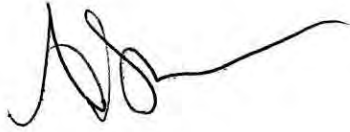
As stated above, a floating charge was granted by HCP over all present and future assets in favour of Heritable. As the charge was created after 15 September 2003, the prescribed part does apply. However, having reviewed the scope of the security since the publication of the Proposals, the Administrators 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

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 upon repayment, and all of the sites are currently in development and therefore subject to costs to complete and market movements, 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.

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 April 2009.

	Balance as at 20 November 2008 £	Movement between 20 November and 14 April 2009 £	Balance as at 14 April 2009 £
Receipts			
Funds Received from Heritable	0	435,814.71	435,814.71
Capital Reduction	0	200,000	200,000
Bank Interest	0	74.66	74.66
	<u>0</u>	<u>635,889.37</u>	<u>635,889.37</u>
Payments			
Administrators' Fees	0	23,563.50	23,563.50
Legal Fees	0	215,864.10	215,864.10
Legal Disbursements	0	366.48	366.48
HCP Drawdowns	0	141,402.73	141,402.73
Swaylands	0	54,617.90	54,617.90
	<u>0</u>	<u>435,814.71</u>	<u>435,814.71</u>
	<u>0</u>	<u>200,074.66</u>	<u>200,074.66</u>
Represented By:			
Royal Bank of Scotland	<u>0</u>	<u>200,074.66</u>	<u>200,074.66</u>

Appendix 2

Heritable Capital Partners Limited (In Administration)

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

Classification of work function	Partner	Executive Director	Senior Manager	Manager	Senior	Staff	Total Hours	Average Hourly Rate £	Total Time Costs £
Accounting & Administration	0	0	0	0	1	6	7	187	1,235
Bank & Statutory Reporting	0	0	9	0	2	0	11	454	4,861
Creditors	0	0	8	11	10	16	44	292	12,901
Investigations	0	0	0	0	16	0	16	205	3,219
Legal Issues	0	0	0	0	1	0	1	265	159
Property	99	144	7	0	0	0	172	703	120,982
Sale Process	9	0	2	0	0	0	11	660	7,000
Statutory Duties	3	0	10	0	3	1	18	466	8,290
Trading	0	0	5	0	0	0	5	490	2,205
Total	111	144	40	11	32	23	283	414	160,850

Charge out rates for the administration team

Grade	Standard Rates for Restructuring 2008/2009	Standard Rates for M&A 2008/2009
Partner	700	765
Director	635	670
Assistant Director	490	590
Senior Executive	360	-
Executive	265	330
Assistant Executive	205	-
Client Service Associate	195	-
Analyst	170	170
Business Trainee	145	-

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 of 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 October 2008

(b) 14 April 2009

Signed


 Joint / Administrator(s)

Dated

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 Cardif**