

TO ALL KNOWN CREDITORS

14 November 2017

Ref: ML5W/ARB/DE/TH/BG/LO3472
Direct Line: 020 7197 7271
Email: bgood@uk.ey.com

Dear Sirs

Heritable Capital Partners Limited (In Administration) (“the Company”)

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 the Court with a report on the progress of the Administration. This report covers the period from 15 April 2017 to 14 October 2017 and should be read in conjunction with the Administrators’ proposals dated 21 November 2008 (the “Proposals”) and the Administrators’ progress reports dated 13 May 2009 (the “May 2009 Report”), 9 November 2009 (the “November 2009 Report”), 13 May 2010 (the “May 2010 Report”), 10 November 2010 (the “November 2010 Report”), 11 May 2011 (the “May 2011 Report”), 10 November 2011 (the “November 2011 Report”), 2 May 2012 (the “May 2012 Report”), 14 November 2012 (the “November 2012 Report”), 7 May 2013 (the “May 2013 Report”), 12 November 2013 (the “November 2013 Report”), 13 May 2014 (the “May 2014 Report”), 5 November 2014 (the “November 2014 Report”), 6 May 2015 (the “May 2015 Report”), 12 November 2015 (the “November 2015 Report”), 10 May 2016 (the “May 2016 Report”), 11 November 2016 (the “November 2016 Report”) and 4 May 2017 (the “May 2017 Report”).

The Company, registered number 01494348, entered Administration on 15 October 2008 and Alan Robert Bloom and Thomas Merchant Burton were appointed to act as Joint Administrators (the “Administrators”). The appointment was made by the Company’s directors under the provisions of paragraph 22(2) of Schedule B1 to the Insolvency Act 1986 (the “Act”).

As previously advised, Thomas Merchant Burton was removed as a Joint Administrator and Colin Peter Dempster was appointed as his replacement by an order of the Court made on 17 June 2013 under the provisions of paragraph 88 of Schedule B1 of the Act and rule 7.10B(2) of the Insolvency Rules 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

As reported in the November 2016 Report, on 30 September 2015, the Court ordered a further extension of the Administration period by two years to 14 October 2017.



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On 4 October 2017, the Court ordered a further extension of the Administration period by one year to 14 October 2018 to allow the Joint Administrators time to progress matters at Swaylands House.

Summary of Progress

Project Exposures

A. Swaylands, Penshurst, Kent

At the date of Administration, the Company had a total exposure of £25.4 million to its original six project partners. The development known as Swaylands ("Swaylands") is the only remaining development to which the Company has exposure.

Background to the Swaylands exposure:

Swaylands is a 50 house/apartment development in Penshurst, Kent. The development comprised the renovation of the existing house (Swaylands House) into 28 apartments, construction of two new blocks (known as Drummond Hall and Woodgate Manor) comprising an additional 21 units, the renovation of a separate lodge and landscaping and infrastructure works.

The Company acquired the site entirely with funding from Heritable Bank plc (in Administration) ("Heritable"). Heritable's joint venture partner, Oakdene Homes plc (now in Administration) ("Oakdene") and its subsidiary, Honeygrove (Swaylands) Limited ("HSL"), were to complete the development works.

Following breaches of contract by Oakdene and HSL, the Company terminated its contractual arrangements with those companies and took possession of the site on 6 January 2009.

The Administrators appointed Garrick Homes Limited, an existing borrower, as the new contractor to complete the construction work on site. Chamonix Estates Limited was subsequently appointed as the managing agent to deal with operational matters on the estate. Chamonix Estates Limited resigned from their position in January 2011, providing 3 months' notice, and commenced handover proceedings to Alexandre Boyes, appointed through a Residents' Committee vote.

In May 2012, the Company transferred the Swaylands' freehold to Swaylands Estate Management Limited ("SEML"), which manages the estate on behalf of the residents.

The work on Swaylands House was substantially completed prior to the date of Administration, with the exception of work required to bring the roof of Swaylands House in line with the planning authorities' requirements, which was completed in November 2013. Drummond Hall and Woodgate Manor were completed in September 2011.

As previously reported, on 23 December 2013, the Joint Administrators became aware that several units in the Drummond Hall and Woodgate Manor blocks of the Swaylands development were materially affected by water ingress issues. Consequently, in February

2014 the Joint Administrators and SEML jointly instructed the Building Research Establishment (the “BRE”) to investigate the causes of the water ingress affecting the two new build apartment blocks on the Swaylands estate: Drummond Hall and Woodgate Manor.

- ▶ The final BRE report, which was received on 18 June 2014, recommended that further investigations be carried out to confirm the causes and extent of the defects.
- ▶ On 8 August 2014, the National House Building Council (the “NHBC”) wrote to the Joint Administrators of HCP to notify that a claim had been made to them in respect of the water ingress issues at Swaylands and that an investigation would take place. The results of this NHBC investigation were received by the Joint Administrators in November 2015. NHBC have arranged for remedial works to be undertaken in relation to the claim and it is anticipated that HCP will cover a proportion of the cost of these remedial works, however the Joint Administrators will not know the quantum of this cost until completion of the works.
- ▶ Towards the end of 2014, a claim was made by residents at Swaylands House in relation to works concerning fire safety. This was resolved by agreement between the Joint Administrators and the residents of Swaylands House.
- ▶ Towards the end of 2015, a claim was made by SEML in relation to water ingress issues at Swaylands. The Joint Administrators are in the process of investigating this claim and are currently unable to comment on the extent to which HCP may be liable.
- ▶ In February 2017, the Joint Administrators instructed an expert to inspect the reported water ingress issues and to produce a formal report of his findings. In June 2017, this report was finalised, and shared on a non-reliance and without prejudice basis with SEML and the leaseholder concerned. In summary, the report stated that there are a number of material issues with the workmanship and design of the structure of the roof at Swaylands House.

Latest update on the Swaylands exposure:

Swaylands House:

- ▶ The Joint Administrators asked SEML and all other long leaseholders who consider they may have a potential claim to provide full details, including quantum, of their potential claims by the middle of October 2017. SEML and the leaseholder concerned previously indicated that they intend to assert that at least some of their claims rank as expenses of the administration. If SEML or that leaseholder are able to establish that any of their claims rank as expenses claims in the administration then such expenses could be payable out of the funds received by the Company from HCP or the leaseholders in respect of property subject to the Company’s fixed charge.
- ▶ The Joint Administrators’ discussions with SEML and the leaseholders are ongoing; however, the Joint Administrators continue to take steps to attempt to reach a resolution so as to avoid formal legal proceedings.



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Drummond Hall: Drummond Hall

Certain works have been carried out by the original contractor, Garrick Homes Limited, to try to address water ingress issues at Drummond Hall and there have been a number of investigations undertaken into the cause of the water ingress, including a report jointly commissioned by HCP and SEML in June 2014. We understand that in around November 2015, certain NHBC works were commissioned at Drummond Hall (in response to claims by leaseholders under their individual NHBC insurance policies) in relation to alleged defects and instances of water ingress. In July 2016, the Joint Administrators were informed that certain leaseholders at Drummond Hall would pursue claims against HCP in the event that the NHBC works were unsuccessful.

In November 2016, the Joint Administrators were informed by certain leaseholders of Drummond Hall that the NHBC would not provide cover in respect of certain defects at Drummond Hall. The Joint Administrators are taking steps to investigate the basis of claims made by the leaseholders and have requested further information in order to consider the validity of claims, having responded to such claims to date.

In May 2017, the Joint Administrators arranged for a non-intrusive inspection of Drummond Hall and continue to take steps to investigate the basis of claims made by the leaseholders.

In relation to both Swaylands House and Drummond Hall, the Joint Administrators continue to request further information in order to consider the validity of claims, whilst exploring potential resolutions.

Statutory Matters Statutory Matters

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

Receipts and Payments Account Payment

We enclose a receipts and payments account for the period from 15 October 2008 to 14 October 2017. This does not reflect estimated future realisations or costs.

To date, receipts total £13,920,285.60. Cash at 14 October 2017 was £121,594.19 after total payments of £13,798,691.41. Of the total receipts, £13,363,524.13 has been received from Heritable by way of intercompany loan for the purposes of allowing the Company to provide funds where required in respect of the above-mentioned developments, such loan ranking as an expense of the Administration.

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 £1,271,242.50, against which the sum of £1,077,510.00 (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, Category 1 disbursements in the sum of £52 have been drawn.

Creditors

Secured Creditors

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

Preferential Creditors

There are no preferential creditors of the Company as all employees were employed by 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 the Company to Heritable was £24.1 million. The total amount owing has subsequently reduced to £20.0 million by reason of the set-off described in the May 2009 Report in connection with the Swaylands project.

Other Creditors

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

- ▶ HMRC £487,164; and
- ▶ Trade creditors £4,365.

We are in the process of adjudicating upon these claims.

The Joint Administrators had also received a claim from SEMML in the sum of £322,590. This claim has been rejected. The Joint Administrators continue to discuss the potential claims that SEMML and/or individual leaseholders may make.

In addition to the above, Oakdene was included in the statement of affairs as an unsecured creditor for an amount of £0.5 million; however 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 the Company over all present and future assets in favour of Heritable. As the charge was created after 15 September 2003, the prescribed part does apply.



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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 previously reported, the Company's investments were in large complicated joint venture developments that have taken considerable time to unwind. Due to the fact that the Company's exposures rank behind the Heritable debt funding and that impairments have also been experienced across a number of the loans, it is unlikely that there will be any return to unsecured creditors in the future.

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

Yours faithfully
for Heritable Capital Partners Limited (In Administration)

AR Bloom
Joint Administrator

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
- Form 2.24B Administrators' progress report

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 CP Dempster 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 CP Dempster, 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 2017

| | 15 October 2008 to 14 April 2017 | Movement between 15 April 2017 to 14 October 2017 | Balance as at 14 October 2017 |
|-------------------------------|-------------------------------------|--|-------------------------------------|
| | £ | £ | £ |
| Receipts | | | |
| Funds received from Heritable | 12,540,678.33 | 822,845.80 | 13,363,524.13 |
| Capital Repayment | 321,525.27 | 0.00 | 321,525.27 |
| VAT reimbursement | 23,040.85 | 0.00 | 23,040.85 |
| Interest Repayment | 5,483.72 | 0.00 | 5,483.72 |
| Capital Reduction | 200,000.00 | 0.00 | 200,000.00 |
| Miscellaneous Refunds | 0.00 | 400.41 | 400.41 |
| Bank Interest | 6,275.79 | 35.43 | 6,311.22 |
| | <u>13,097,003.96</u> | <u>823,281.64</u> | <u>13,920,285.60</u> |
| Payments | | | |
| Administrators' Fees | 1,279,728.60 | 0.00 | 1,279,728.60 |
| Legal Fees | 1,341,186.08 | 0.00 | 1,341,186.08 |
| Insurance | 49,575.62 | 0.00 | 49,575.62 |
| Legal Disbursements | 1,792.13 | 0.00 | 1,792.13 |
| HCP Drawdowns | 2,561,748.53 | 822,845.80 | 3,384,594.33 |
| Fire safety settlement | 107,000.00 | 0.00 | 107,000.00 |
| Swaylands | 4,490,431.87 | 0.00 | 4,490,431.87 |
| Interest Payments | 1,408,856.37 | 0.00 | 1,408,856.37 |
| Bank Charges | 78.50 | 0.00 | 78.50 |
| Sundry Payments* | 4,996.63 | 0.00 | 4,996.63 |
| Other Staff Costs* | 50,110.22 | 0.00 | 50,110.22 |
| Salaries* | 877,011.42 | 0.00 | 877,011.42 |
| Employee Benefits* | 84,367.89 | 0.00 | 84,367.89 |
| Equipment Supplies* | 25,917.89 | 0.00 | 25,917.89 |
| IT Costs* | 145,734.41 | 0.00 | 145,734.41 |
| Premises* | 201,452.72 | 0.00 | 201,452.72 |
| Finance* | 157,497.92 | 0.00 | 157,497.92 |
| House Management* | 105,194.81 | 0.00 | 105,194.81 |
| Human Resources* | 24,666.00 | 0.00 | 24,666.00 |
| Loans Administration* | 58,498.00 | 0.00 | 58,498.00 |
| | <u>12,975,845.61</u> | <u>822,845.80</u> | <u>13,798,691.41</u> |
| | <u>121,158.35</u> | <u>435.84</u> | <u>121,594.19</u> |
| Represented by: | | | |
| Royal Bank of Scotland | <u>121,158.35</u> | <u>435.84</u> | <u>121,594.19</u> |

*Amounts recharged from Heritable Bank Plc (In Administration)

Appendix 2

Appendix 2

Heritable Capital Partners Limited (In Administration)

Summary of Joint Administrators' Time-Costs and Category 2 Disbursements from 15 April 2017 to 14 October 2017 (excluding VAT)

| Classification of work function | Executive Director | Manager | Senior | Staff | Total Hours | Total Time Costs (£) | Average Hourly Rate (£) |
|---------------------------------|--------------------|------------|-------------|-------------|-------------|----------------------|-------------------------|
| Accounting & Administration | - | - | - | 14.7 | 14.7 | £3,295.50 | £224.18 |
| Bank & Statutory Reporting | 0.5 | - | - | - | 0.5 | £267.50 | £535.00 |
| Legal Issues | - | - | - | 1.5 | 1.5 | £330.00 | £220.00 |
| Property | 18.0 | - | - | 23.6 | 41.6 | £25,499.50 | £612.97 |
| Statutory Duties | - | - | 14.5 | 6.5 | 21.0 | £6,802.50 | £323.93 |
| VAT & Taxation | - | - | 1.0 | - | 1.0 | £395.00 | £395.00 |
| Total | 18.0 | 0.5 | 15.5 | 46.3 | 80.3 | £36,590.00 | £455.67 |

Summary of Joint Administrators' Time-Costs and Category 2 Disbursements from 15 October 2008 to 14 October 2017 (excluding VAT)

| Classification of work function | Partner | Executive Director | Senior Manager | Manager | Senior | Staff | Total Hours | Total Time Costs (£) | Average Hourly Rate (£) |
|---------------------------------|--------------|--------------------|----------------|--------------|--------------|--------------|----------------|----------------------|-------------------------|
| Accounting & Administration | - | - | 0.6 | 2.6 | 21.7 | 60.0 | 84.9 | £19,277.50 | £227.06 |
| Bank & Statutory Reporting | 1.5 | - | 19.5 | 14.0 | 24.9 | 9.2 | 69.1 | £25,633.50 | £370.96 |
| Creditors | 1.0 | - | 19.6 | 49.0 | 37.1 | 28.4 | 135.1 | £44,306.00 | £327.95 |
| Debtors | - | - | - | - | 5.0 | - | 5.0 | £1,505.00 | £301.00 |
| Investigations & CDDA | - | - | - | - | 15.7 | - | 15.7 | £3,218.50 | £205.00 |
| Legal Issues | 3.0 | - | 2.0 | 1.0 | 0.6 | 14.6 | 21.2 | £7,430.00 | £350.47 |
| Other Matters | - | - | 7.9 | - | 3.0 | - | 10.9 | £5,543.50 | £508.58 |
| Property | 350.3 | 199.5 | 659.2 | 19.0 | 496.9 | 29.8 | 1,754.7 | £1,006,543.50 | £573.63 |
| Sale Process | 8.6 | 3.0 | 2.0 | - | - | - | 13.6 | £9,055.00 | £665.81 |
| Statutory Duties | 5.3 | - | 12.8 | 29.5 | 129.2 | 13.7 | 190.5 | £66,320.00 | £348.14 |
| Trading | - | - | 4.5 | 1.0 | 3.0 | - | 8.5 | £3,495.00 | £411.18 |
| VAT & Taxation | - | 1.0 | 31.8 | 36.2 | 48.8 | 64.1 | 181.9 | £78,915.00 | £433.84 |
| Total | 369.7 | 203.5 | 769.9 | 152.3 | 785.9 | 219.8 | 2,491.1 | 1,271,242.50 | £510.31 |

Category 2 Disbursements

There have been no Category 2 disbursements.

Appendix 3

Heritable Capital Partners Limited (In Administration)

Office Holders' Charging Policy for Fees

The Company'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 Colin Peter Dempster
Ernst & 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) <u>15 April 2017</u> | (b) <u>14 October 2017</u> |
|--------------------------|----------------------------|

Signed  _____
 Joint Administrator

Dated 14/11/2017 _____

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

| | |
|---|--------------------|
| Ben Good | |
| Ernst & Young LLP, 1 More London Place, London, SE1 2AF | |
| | Tel: 020 7197 7271 |
| 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:
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