To All Known Creditors

13 May 2010

Ref: ML7E/LR/IM/ARB/LO/3472/PF16.1
Direct line: 0207 951 2673
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Lauren Read
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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
Registered company number: 01494348

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 2009 to 14 April 2010 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”) and 9 November 2009 (the “November 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.

Extension to the Initial Period of Appointment

As reported in the November Report, following an application by the Administrators in September 2009, the Court ordered an extension of the initial one-year administration period by two years, with the administration now due to end on 14 October 2011.

Summary of Progress

Project Exposures

As previously reported, the Administrators continue to review HCP’s exposures on a regular basis with its borrowers and, in the case of the Swaylands project, its project consultants. As previously reported, at the date of administration, HCP had a total exposure to its project partners of c.£25.4m. HCP’s net exposure in respect of these projects has subsequently increased by c.£2.9m to c.£28.3m (as at 15 April 2010), the increase comprises of:
▶ Work in progress ("WIP") draw downs of c.£4.9m, net of revenue from sales of units of c.£6m and a c.£4.1m write-back (as previously reported in the May Report) that relate to the Swaylands facility;

▶ Accrued interest and fees of c.£7.4m across all of the facilities provided by HCP; and

▶ c.£0.7m in other advances across all other facilities funded by HCP (other than Swaylands) for legal and consultancy fees in relation to those facilities.

The two main projects, which comprise c.81% of the total loan exposure (c.75% as per the November Report), relate to the Swaylands and Neptune developments.

**Swaylands - Penshurst, Kent (Total HCP exposure c.£16.1m, as at 15 April 2010)**

▶ As previously reported, 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.

▶ As previously reported, the work on the existing house was substantially complete prior to the date of administration. Drummond Hall has now been completed. Woodgate Manor is expected to be completed by the end of June 2010.

▶ Sales continue to progress well with all ten apartments in Drummond Hall sold and only nine apartments in Swaylands House remaining unsold. One apartment in Woodgate Manor has been sold, despite work still on-going.

▶ As reported in the November Report, HCP acquired Swaylands with funding from its parent company, Heritable Bank Plc ("Heritable"). Heritable’s joint venture partner, Oakdene Homes plc (now also in administration) ("Oakdene") and its subsidiary, Honeygrove (Swaylands) Limited ("HSL"), were to complete the development works.

▶ 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.

▶ 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 was subsequently appointed as the managing agent to deal with operational matters on the estate.

▶ The cost to complete the remaining construction and landscaping works is estimated to be c.£4m.

▶ The strategy of completing the unfinished apartments and landscaping is considered the best way to maximise the potential returns to HCP’s creditors. The Administrators are hopeful of achieving full repayment of the loan advanced by Heritable to HCP by mid 2011.
As previously reported, Neptune is a 50:50 joint venture vehicle 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 planning permission for a change of use to provide c.500 residential housing units on the site.

The total exposure for HCP is c.£7m (including capital and interest arrears). The total exposure has increased due to interest accruing on the facility. The facility is a mezzanine finance facility and HCP currently holds a second charge over the property.

Heritable provided a £12.5m committed senior debt facility in respect of which c.£13m is outstanding, including accrued interest and fees (c.£12.6m as per the November Report). Heritable has a first charge over the site.

The property was let to B&Q at the time of HCP’s administration. The Administrators subsequently agreed to 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.

As reported in the November Report, a planning application for a change of use of the site for residential housing was submitted in August 2009. On 3 February 2010, planning permission for a scheme comprising 441 residential units was obtained. Negotiation of the section 106 Agreement is expected to take approximately six months following which the site will be sold.

The Administrators are hopeful of achieving full repayment of the loan advanced by Heritable and HCP’s total outstanding exposure through the sale of the units.

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

**Garrick Homes Limited ("Garrick") (Total HCP exposure £2.3m, as at 15 April 2010)**

- HCP provided a mezzanine facility of £2m for the development of four houses in Surrey. HCP currently holds a second charge over the property.

- Heritable originally provided a senior debt facility of £5.5m of which c.£4.6m is outstanding, including accrued interest and fees. Heritable holds a first charge over the property.

- The four houses were part-built when HCP entered into administration. Since HCP’s administration, Heritable has continued to fund the building works to enable the completed houses to be sold and is currently funding the completion of the development.

- There have been no further advances made to the borrower under the HCP facility since the date of administration. The facility has increased by c.£0.1m due to accrued interest and fees on the facility.
Garrick has completed construction of two of the four houses, which together have been sold for £3.5m and these funds have been applied to the Heritable loan. The remaining two houses are due to be completed by the end of May 2010.

Based on current market prices, HCP expects to recover c.£1.5m of the current total exposure of c.£2.3m. However, ultimately the level of recoveries is dependant on prevailing market conditions and the sales prices achieved for the remaining two houses.

The Black Ant Company Ltd (“Black Ant”) (Total HCP exposure £972K, as at 15 April 2010)

HCP provided a mezzanine facility 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 c.£1.2m is outstanding, including accrued interest and fees. Heritable holds a first charge over the site and HCP holds a second charge over the site.

As previously reported, 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.

The Administrators served demand on Black Ant in August 2009.

Further to the November Report, the Administrators have decided that a planning application will not be submitted and that the best recovery to creditors will be achieved from an immediate sale of the site in its current state. Sales agents, Cluttons, were appointed to run a competitive sale process and the Administrators have since selected a preferred bidder and exchanged contracts at a price of £1.15m (before costs).

As described in the November Report, Heritable has full cross-collateralisation across its loans to Black Ant and as 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 mezzanine facility.

Magri, Peter Esq (“Magri”) – Home Farm (Total HCP exposure £939K, as at 15 April 2010) and Little Copped Hall (Total HCP exposure £361K, as at 15 April 2010)

As previously reported, 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 provide mezzanine finance with Heritable providing debt facilities.

Heritable has a committed senior debt facility in respect of which c.£1.2m is outstanding, including accrued interest and fees. Heritable holds a first charge over each of the properties and HCP has a second charge over each of the properties.

An agreement was reached with the borrower whereby certain fees and charges were written down in exchange for the borrower undertaking to obtain planning permission for
eight residential units, thereby significantly increasing the value of Heritable and HCP’s underlying security.

- The Administrators’ strategy is to continue to support the planning application following which the site will be sold. This is still considered the best way to optimise the recovery of the HCP loan. The borrower has begun negotiating with the relevant parties and is hoping to submit the planning application imminently.

**Criterion Two LLP (“Criterion”) (Total HCP exposure £676K, as at 15 April 2010)**

- As previously reported, this exposure relates to a site with two industrial buildings 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. Criterion also has an option agreement over a third adjacent site, which will form part of the scheme. Settlement on the option agreement will occur once planning approval is granted and the scheme is sold.

- Heritable has a committed senior debt facility of £1.3m (fully drawn) and holds a first charge over the site. The sites are currently let and are generating income, which is allowing Criterion to service interest repayments on the Heritable facility.

- HCP holds a second charge over the site and also has a charge over the option contract on the third site.

- The Administrators’ 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.

- Since the November Report, the Borrower has had productive meetings with the Local Planning Authority and the London Development Agency and the borrower is optimistic of being in a position to submit a planning application that will be positively received within the next six months.

**Statutory Matters**

The Administrators have complied with their statutory duties under the Act 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 April 2010. This does not reflect estimated future realisations or costs.

To date, receipts total £7,122,216.90. Cash at bank as 14 April 2010 was £198,739.88 after total payments of £6,923,477.02. Of total receipts, £6,881,342.97 has been received from Heritable by way of an inter-company 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 October 2009 to 14 April 2010, receipts totalled £2,789,580.07 and payments totalled £2,759,121.35.

**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 £493,217, 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 time spent is included at 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 Heritable’s administration.

**Non-preferential Creditors**

**Intercompany**

At the date of administration, the intercompany balance owed by HCP to Heritable was c. £24.1m (£24.2m per the November Report). The total amount owing has subsequently reduced to c. £20m (£20.1m as per the November Report) 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 £810,362 from the following unsecured creditors:

- HMRC, for an amount of £487,772 (£487,164 as per the November Report);
- Swaylands Estate Management Limited, for an amount of £322,590; and
- Trade creditors, for an amount of £nil (£3,888 as per the November Report).

We are in the process of adjudicating upon these claims.
In addition to the above, Oakdene was included in the directors’ statement of affairs dated 11 November 2008 as an unsecured creditor for an amount of £500k, but the Administrators have not yet received a proof of debt from Oakdene 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 November 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)

A R Bloom
Joint Administrator

Enc: Joint Administrators’ Abstract of 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 in the UK 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 in the UK 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 2010**

<table>
<thead>
<tr>
<th></th>
<th>15 October 2008 to 14 October 2009</th>
<th>Movement between 15 October 2009 and 14 April 2010</th>
<th>Balance as at 14 April 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Funds received from Heritable</td>
<td>4,122,221.62</td>
<td>2,759,121.35</td>
<td>6,881,342.97</td>
</tr>
<tr>
<td>Capital Repayment</td>
<td>10,066.74</td>
<td>30,239.60</td>
<td>40,306.34</td>
</tr>
<tr>
<td>Capital Reduction</td>
<td>200,000.00</td>
<td>0.00</td>
<td>200,000.00</td>
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<tr>
<td>Bank Interest</td>
<td>348.47</td>
<td>219.12</td>
<td>567.59</td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td>4,332,636.83</td>
<td>2,789,580.07</td>
<td>7,122,216.90</td>
</tr>
</tbody>
</table>

| **Payments**                   |                                    |                                                    |                            |
| Administrators’ Fees           | 381,486.05                         | 0.00                                                | 381,486.05                 |
| Legal Fees                     | 372,316.82                         | 57,675.35                                           | 429,992.17                 |
| Insurance                      | 25,543.62                          | 0.00                                                | 25,543.62                  |
| Legal Disbursements            | 1,678.33                           | 48.87                                               | 1,727.20                   |
| HCP Drawdowns                  | 354,874.77                         | 244,598.81                                          | 599,473.58                 |
| Swaylands                      | 2,274,056.54                       | 2,216,375.33                                       | 4,490,431.87               |
| Bank Charges                   | 0.30                               | 0.00                                                | 0.30                       |
| Sundry Payments*               | 2,711.63                           | 548.20                                              | 3,259.83                   |
| Other Staff Costs*             | 460.22                             | 74,278.62                                           | 74,738.84                  |
| Salaries*                      | 535,929.42                         | 84,135.74                                           | 620,065.16                 |
| Employee Benefits*             | 48,750.89                          | 13,357.22                                           | 62,108.11                  |
| Equipment Supplies*            | 2,133.89                           | 399.94                                              | 2,533.83                   |
| IT Costs*                      | 27,639.41                          | 11,408.83                                           | 39,048.24                  |
| Premises*                      | 56,042.72                          | 13,602.12                                           | 69,644.84                  |
| Finance*                       | 31,894.92                          | 23,583.24                                           | 55,478.16                  |
| House Management*              | 29,973.81                          | 11,455.41                                           | 41,429.22                  |
| Human Resources*               | 6,278.00                           | 2,324.18                                            | 8,602.18                   |
| Loans Administration*          | 12,584.32                          | 5,329.49                                            | 17,913.81                  |
| **Total Payments**             | 4,164,355.67                       | 2,759,121.35                                       | 6,923,477.02               |
| **Represented by:**            |                                    |                                                    |                            |
| Royal Bank of Scotland         | 168,281.16                         | 30,458.72                                           | 198,739.88                 |

*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 April 2010 (excluding VAT)

<table>
<thead>
<tr>
<th>Classification of work function</th>
<th>Partner</th>
<th>Executive Director</th>
<th>Senior Manager</th>
<th>Manager</th>
<th>Senior</th>
<th>Staff</th>
<th>Total Hours</th>
<th>Total Time Costs</th>
<th>Average Hourly Rate</th>
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</thead>
<tbody>
<tr>
<td>Accounting &amp; Administration</td>
<td></td>
<td>-</td>
<td>-</td>
<td>6.40</td>
<td>18.30</td>
<td>24.70</td>
<td>5,094.50</td>
<td>209.26</td>
<td></td>
</tr>
<tr>
<td>Bank &amp; Statutory Reporting</td>
<td></td>
<td>-</td>
<td>19.50</td>
<td>7.00</td>
<td>6.80</td>
<td>0.80</td>
<td>34.10</td>
<td>14,743.00</td>
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</tr>
<tr>
<td>Creditors</td>
<td>1.00</td>
<td>-</td>
<td>7.60</td>
<td>23.00</td>
<td>22.90</td>
<td>19.00</td>
<td>73.50</td>
<td>21,927.50</td>
<td>298.33</td>
</tr>
<tr>
<td>Investigations &amp; CDDA</td>
<td></td>
<td>-</td>
<td>-</td>
<td>15.70</td>
<td>-</td>
<td>15.70</td>
<td>3,218.50</td>
<td>205.00</td>
<td></td>
</tr>
<tr>
<td>Legal Issues</td>
<td></td>
<td>-</td>
<td>-</td>
<td>0.60</td>
<td>-</td>
<td>0.60</td>
<td>183.40</td>
<td>705.70</td>
<td>413,883.00</td>
</tr>
<tr>
<td>Other Matters</td>
<td>-</td>
<td>-</td>
<td>2.00</td>
<td>-</td>
<td>3.00</td>
<td>-</td>
<td>5.00</td>
<td>2,210.00</td>
<td>442.00</td>
</tr>
<tr>
<td>Property</td>
<td>219.30</td>
<td>150.00</td>
<td>150.00</td>
<td>2.00</td>
<td>183.40</td>
<td>1.00</td>
<td>705.70</td>
<td>413,883.00</td>
<td>586.49</td>
</tr>
<tr>
<td>Sale Process</td>
<td>8.60</td>
<td>3.00</td>
<td>2.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13.60</td>
<td>9,055.00</td>
<td>665.81</td>
</tr>
<tr>
<td>Statutory Duties</td>
<td>3.30</td>
<td>-</td>
<td>12.80</td>
<td>-</td>
<td>6.20</td>
<td>1.00</td>
<td>23.30</td>
<td>10,130.00</td>
<td>434.76</td>
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<tr>
<td>Trading</td>
<td>-</td>
<td>-</td>
<td>4.50</td>
<td>1.00</td>
<td>-</td>
<td>-</td>
<td>5.50</td>
<td>2,565.00</td>
<td>466.36</td>
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<td>VAT &amp; Taxation</td>
<td>-</td>
<td>-</td>
<td>11.20</td>
<td>-</td>
<td>9.90</td>
<td>-</td>
<td>21.10</td>
<td>10,231.50</td>
<td>484.91</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>232.20</td>
<td>153.00</td>
<td>209.60</td>
<td>33.00</td>
<td>254.90</td>
<td>40.10</td>
<td>922.80</td>
<td>493,217.00</td>
<td></td>
</tr>
</tbody>
</table>

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.