To All Known Creditors

11 May 2011

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 creditors with a report on the progress of the Administration. This report covers the period from 15 October 2010 to 14 April 2011 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 2009 Report”), 9 November 2009 (the “November 2009 Report”), 13 May 2010 (the “May 2010 report”) and 10 November 2010 (the “November 2010 Report”).

The Company, 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 the Company'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

As reported in the November 2009 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

The Administrators continue to review the Company’s exposures on a regular basis with its borrowers and project consultants (in the case of Swaylands). As previously reported, at the date of Administration, the Company had a total exposure of £25.4 million to its six project partners. The Company’s total exposure in respect of these projects is currently £23.1 million (£25.4 million as per the November 2010 Report) which comprises of:

- A total exposure of £9.4 million to Swaylands and £7.2 million to Neptune (Ealing Road) LLP;
A combined total exposure of £6.5 million to four other borrowers (Garrick, Black Ant, Magri and Criterion); and

Accrued interest and fees of £9.9 million across all of the facilities provided by the Company.

The two main projects, which comprise 72% (78% as per the November 2010 Report) of the net exposure, relate to the Swaylands and Neptune developments.

As the Administration has progressed, it has become possible to more accurately estimate the recoveries on the Company’s loans. The forecast net recoverable amount at 14 April 2011 totals £7.0 million and relates solely to the Swaylands loan exposure. Each of the six Company exposures is discussed in further detail below.

Swaylands - Penshurst, Kent (Total Exposure of £9.4 million  
Forecast Net Recoverable Amount of £7.0 million at 14 April 2011)

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 reported previously, the Company acquired the site entirely with funding from Heritable Bank Plc (“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 have appointed Garrick Homes Limited (“Garrick”), an existing 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.

As previously reported, the work on the existing house was substantially completed prior to the date of Administration. Drummond Hall was substantially completed by December 2009 and final internal works are being completed as the apartments are sold and the purchasers choose internal fixtures. As with Drummond Hall, Woodgate Manor is also now completed with the exception of internal fixtures which will be completed once the units are exchanged.

The decrease in the Swaylands exposure to £9.4 million from £12.7 million (in the November 2010 Report) comprises of £6.0 million of revenues from sales over the six month period less £0.9 million in WIP draw downs and £1.8 million of accrued interest.
The cost to complete the remaining construction and landscaping works is estimated to be £0.7 million.

The strategy of completing the unfinished apartments and landscaping is considered the best way to maximise the potential returns to the creditors. The Administrators are hopeful of selling the final units in the scheme in 2011.

**Neptune Ealing Road LLP (“Neptune”) – Ealing Road, Alperton**  
(Total Exposure of £7.2 million  
Forecast Net Recoverable Amount of nil at 14 April 2011)

- As previously reported, Neptune is a 50:50 joint venture vehicle between the Company and Neptune Property Developments Ltd (“NPDL”) which was set up to acquire a 3.6 acre retail warehouse site in Alperton for £18.8 million. The intention was to apply for planning permission for a change of use to provide approximately 500 residential housing units on the site.

- The total exposure for the Company is £7.2 million (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 the Company currently holds a second charge over the property.

- Heritable provided a committed senior debt facility of £14.6 million, of which £14.0 million (including accrued interest and fees) is outstanding (£13.5 million as per the November 2010 Report) and is secured by way of a first charge over the site.

- As reported in the November 2010 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.

- A draft s.106 Agreement has been agreed, however, it remains unsigned by the borrower because they believe it will be possible to negotiate an enhanced Agreement to increase the marketability of the site.

- The property was marketed by Cluttons in late 2010 and various offers were received. An unconditional bid of £10.0 million was received and accepted by Heritable in December 2010.

- The purchaser failed to exchange contracts and subsequently withdrew their offer. The property has therefore been withdrawn from the market, and will be brought to the market later in the year.

- The Administrators are hopeful of achieving partial repayment of the loan advanced by Heritable although it is unlikely that any of the Company’s outstanding exposure will be recovered through the sale of the site.
In addition to Swaylands and Neptune, the Company has four other projects which make up the remainder of its exposure:

**Garrick Homes Limited (“Garrick”) (Total Exposure of £2.5 million**

**Forecast Net Recoverable Amount of nil at 14 April 2011)**

- The Company provided a mezzanine facility of £2.0 million for the development of four houses in Surrey. The Company currently holds a second charge over the property. Heritable originally provided a senior debt facility of £5.5 million which has now been fully repaid (including accrued interest and fees). Heritable held a first charge over the property.

- The four houses were part-built when the Company entered into Administration. Heritable has continued to fund the building works to enable the completed houses to be sold. Garrick has completed construction of all of the four houses and all four have now been sold.

- There have been no further advances by the Company from the facility since the date of Administration.

- The last house has now been sold, so there is no prospect of further recovery and the remaining exposure has been written off. The facility has increased by £0.5 million due to accrued interest and fees, however as outlined above these amounts have not been recoverable.

**The Black Ant Company Ltd (“Black Ant”) (Total Exposure of £1.2 million**

**Forecast Net Recoverable Amount of nil at 14 April 2011)**

- The Company provided a mezzanine facility to Black Ant to purchase a cleared 0.4 acre site in South East London and to obtain planning for the construction of 31 residential units.

- Further to the November 2009 Report, the Administrators decided that a planning application would not be submitted and, as a result, Cluttons was appointed to run a competitive sale process. The property was subsequently sold for £1.2 million (before costs) and this sale has now completed.

- The funds were applied to the Heritable loan resulting in a current outstanding balance of £0.1 million (as mentioned above).

- The Company held a second charge over the site and given that there is no other expected route for further recoveries, the loan balance has been written down to nil.
Magri, Peter Esq (“Magri”) – Home Farm (Total Exposure of £1.1 million, Forecast Net Recoverable Amount of nil, at 14 April 2011) and Little Copped Hall (Total Exposure of £0.4 million, Forecast Net Recoverable Amount of nil, at 14 April 2011)

- 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. The Company agreed to provide mezzanine finance; with Heritable providing debt facilities.

- Heritable has a committed senior debt facility in respect of which £1.5 million is outstanding (including accrued interest and fees) and holds a first charge over the properties. The Company has a second charge over all 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 in order to increase the value of the underlying security.

- The strategy is to continue to support the planning application following which the site will either be sold or we will enter into a full and final settlement with the borrower at a price in excess of the market value. This is considered the best way to optimise the recovery of the loan. However, based on current values, whilst enhanced planning is likely to benefit Heritable, it is considered unlikely that the Company will recover its exposure.

Criterion Two LLP (“Criterion”) (Total Exposure of £1.3 million Forecast Net Recoverable Amount of nil at 14 April 2011)

- 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 around 100 residential units after the Local Development Framework had been announced. Criterion also has an option agreement over a third adjacent site, which was to form part of the scheme. Heritable had a committed senior debt facility of £1.3 million (fully drawn) and holds a first charge over the site. The sites were let and generating income, which has allowed Criterion to service interest on the Heritable facility.

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

- A proposal has been agreed with the Borrower to redeem the loan at 100% of a third party valuation of the property commissioned by Heritable.

- The settlement resulted in a total loss of the Company’s investment, although Heritable recovered the majority of its capital exposure. There is no other expected route for further recoveries, the loan balance has been written down to nil.
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 April 2011. This does not reflect estimated future realisations or costs.

To date, receipts total £10,499,823. Cash at 14 April 2011 was £285,126 after total payments of £10,214,697. Of the total receipts, £10,172,563 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 £761,926, against which the sum of £570,931 (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

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 (£24.2 million per the November 2009 Report). The total amount owing has subsequently reduced to £20.0 million (£20.1 million as per the November 2009 Report) 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 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 £0.5 million, 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 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.

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 2010 Report, the Company’s investments are in large complicated joint venture developments that will take considerable time to unwind. Due to the fact that the Company’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 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 Hertable 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 2011.

<table>
<thead>
<tr>
<th></th>
<th>15 October 2008 to 14 October 2010</th>
<th>Movement between 15 October 2010 to 14 April 2011</th>
<th>Balance as at 14 April 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
</tr>
<tr>
<td>Funds received from Heritable</td>
<td>9,778,099.06</td>
<td>394,463.77</td>
<td>10,172,562.83</td>
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<tr>
<td>Capital Repayment</td>
<td>93,661.22</td>
<td>27,275.61</td>
<td>120,936.83</td>
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<tr>
<td>Interest Repayment</td>
<td>0.00</td>
<td>4,500.00</td>
<td>4,500.00</td>
</tr>
<tr>
<td>Capital Reduction</td>
<td>200,000.00</td>
<td>0.00</td>
<td>200,000.00</td>
</tr>
<tr>
<td>Bank Interest</td>
<td>1,151.33</td>
<td>671.53</td>
<td>1,822.86</td>
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<tr>
<td><strong>Total Receipts</strong></td>
<td>10,072,911.61</td>
<td>426,910.91</td>
<td>10,499,822.52</td>
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<tr>
<td><strong>Payments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrators’ Fees</td>
<td>662,550.00</td>
<td>0.00</td>
<td>662,550.00</td>
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<tr>
<td>Legal Fees</td>
<td>570,538.31</td>
<td>50,994.77</td>
<td>621,533.08</td>
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<td>Insurance</td>
<td>32,863.62</td>
<td>5,788.00</td>
<td>38,651.62</td>
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<tr>
<td>Legal Disbursements</td>
<td>1,727.20</td>
<td>0.00</td>
<td>1,727.20</td>
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<tr>
<td>HCP Drawdowns</td>
<td>599,473.58</td>
<td>0.00</td>
<td>599,473.58</td>
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<tr>
<td>Swaylands</td>
<td>4,490,431.87</td>
<td>0.00</td>
<td>4,490,431.87</td>
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<tr>
<td>Interest Payments</td>
<td>2,222,894.00</td>
<td>0.00</td>
<td>2,222,894.00</td>
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<tr>
<td>Bank Charges</td>
<td>0.30</td>
<td>0.00</td>
<td>0.30</td>
</tr>
<tr>
<td>Sundry Payments*</td>
<td>3,644.63</td>
<td>1,097.00</td>
<td>4,741.63</td>
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<tr>
<td>Other Staff Costs*</td>
<td>20,506.22</td>
<td>22,217.00</td>
<td>42,723.22</td>
</tr>
<tr>
<td>Salaries*</td>
<td>671,523.42</td>
<td>160,884.00</td>
<td>832,407.42</td>
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<tr>
<td>Employee Benefits*</td>
<td>62,881.89</td>
<td>16,664.00</td>
<td>79,545.89</td>
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<td>Equipment Supplies*</td>
<td>12,315.89</td>
<td>11,028.00</td>
<td>23,343.89</td>
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<tr>
<td>IT Costs*</td>
<td>110,618.41</td>
<td>26,876.00</td>
<td>137,494.41</td>
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<tr>
<td>Premises*</td>
<td>113,597.72</td>
<td>66,833.00</td>
<td>180,430.72</td>
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<td>Finance*</td>
<td>107,414.92</td>
<td>15,096.00</td>
<td>122,510.92</td>
</tr>
<tr>
<td>House Management*</td>
<td>82,099.81</td>
<td>7,562.00</td>
<td>89,661.81</td>
</tr>
<tr>
<td>Human Resources*</td>
<td>17,639.00</td>
<td>2,296.00</td>
<td>19,935.00</td>
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<tr>
<td>Loans Administration*</td>
<td>37,512.32</td>
<td>7,128.00</td>
<td>44,640.32</td>
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<tr>
<td><strong>Total Payments</strong></td>
<td>9,820,233.11</td>
<td>394,463.77</td>
<td>10,214,696.88</td>
</tr>
<tr>
<td><strong>Represented by:</strong></td>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
<td><strong>£</strong></td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>252,678.50</td>
<td>32,447.14</td>
<td>285,125.64</td>
</tr>
</tbody>
</table>

*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 2011 (excluding VAT).**

<table>
<thead>
<tr>
<th>Classification of work function</th>
<th>Partner</th>
<th>Executive</th>
<th>Senior</th>
<th>Manager</th>
<th>Total Hours</th>
<th>Total Time Costs</th>
<th>Average Hourly Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting &amp; Administration</td>
<td>-</td>
<td>-</td>
<td>1.90</td>
<td>14.80</td>
<td>32.10</td>
<td>48.80</td>
<td>214.54</td>
</tr>
<tr>
<td>Bank &amp; Statutory Reporting</td>
<td>-</td>
<td>-</td>
<td>19.50</td>
<td>12.00</td>
<td>17.40</td>
<td>2.80</td>
<td>381.86</td>
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<td>Creditors</td>
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<td>-</td>
<td>7.60</td>
<td>41.00</td>
<td>27.10</td>
<td>28.00</td>
<td>292.01</td>
</tr>
<tr>
<td>Debtors</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.00</td>
<td>-</td>
<td>265.00</td>
<td>265.00</td>
</tr>
<tr>
<td>Investigations &amp; CDDA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>15.70</td>
<td>-</td>
<td>205.00</td>
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<tr>
<td>Legal Issues</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.60</td>
<td>-</td>
<td>265.00</td>
</tr>
<tr>
<td>Other Matters</td>
<td>-</td>
<td>-</td>
<td>2.00</td>
<td>-</td>
<td>3.00</td>
<td>-</td>
<td>442.00</td>
</tr>
<tr>
<td>Property</td>
<td>280.30</td>
<td>150.00</td>
<td>316.50</td>
<td>20.00</td>
<td>423.90</td>
<td>1.00</td>
<td>541.75</td>
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<tr>
<td>Sale Process</td>
<td>8.60</td>
<td>3.00</td>
<td>2.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>665.81</td>
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<tr>
<td>Statutory Duties</td>
<td>4.30</td>
<td>-</td>
<td>12.80</td>
<td>-</td>
<td>10.20</td>
<td>1.00</td>
<td>422.26</td>
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<tr>
<td>Trading</td>
<td>-</td>
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<td>4.50</td>
<td>-</td>
<td>1.00</td>
<td>-</td>
<td>486.36</td>
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<tr>
<td>VAT &amp; Taxation</td>
<td>-</td>
<td>-</td>
<td>12.20</td>
<td>14.00</td>
<td>29.50</td>
<td>1.50</td>
<td>456.51</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

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.