

To All Known Creditors

7 May 2013

Ref: ML7E/SB/DE/ARB/LO3472/PF16.1
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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 2.112 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 October 2012 to 14 April 2013 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”) and 14 November 2012 (the “November 2012 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 to 14 October 2011.

As reported in the November 2011 Report, the Court ordered a further extension of the Administration period by two years to deal with the outstanding issues discussed below, with the Administration now due to end on 14 October 2013.

Summary of Progress

Project Exposures

Swaylands, Penshurst, Kent (Current Exposure of £2.2 million and remaining net expenditure of £0.3 million required to complete the scheme as at 14 April 2013)

At the date of Administration, the Company had a total exposure of £25.4 million to its original six project partners. The total gross exposure in respect of the only remaining development (Swaylands) as at 14 April 2013, is £2.2 million.

Latest update on the Swaylands exposure:

- ▶ In June 2011, the Planning Inspectorate determined the planning appeal and ruled that the replacement roof did not comply with the planning permission. The Company reached an agreement with the local authority on the works to be undertaken and employed a contractor to carry out the required works.
- ▶ The re-roofing works were expected to be completed by early 2013, but a combination of additional remedial works (which were identified as the re-roofing work progressed), and an on-going dispute with one leaseholder, have delayed overall completion. The current forecast for completion is June 2013.
- ▶ The estimated cost to complete works at Swaylands is c. £0.4 million, of which c. £0.1 million is held in escrow and has already been accounted for within the exposure figure of £2.2 million.

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.
- ▶ 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 ("Garrick"), 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.

- ▶ The work on the existing house was substantially completed prior to the date of Administration. Drummond Hall was substantially completed by December 2009 and all units have now been sold and the works are complete. Swaylands House and Woodgate Manor are now complete, with the exception of work required to bring the roof of Swaylands House in line with the planning authorities requirements (as discussed above).
- ▶ In May 2012, the Company transferred the Swaylands' freehold to Swaylands Estate Management Limited ("SEML"), which manages the estate on behalf of the residents.

Neptune Ealing Road LLP (now in Members' Voluntary Liquidation) ("Neptune") – Ealing Road, Alperton

- ▶ As reported in April 2012, agreement was reached to dispose of the site for the sum of £9.6 million. The sale completed in May 2012, with the full proceeds being paid to Heritable to pay down the senior debt facility.
- ▶ Neptune was placed into Members' Voluntary Liquidation on 4 March 2013 and will subsequently be wound up.

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 2013. This does not reflect estimated future realisations or costs.

To date, receipts total £11,334,154. Cash at 14 April 2013 was £131,385 after total payments of £11,202,769. Of the total receipts, £10,918,447 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 £1,081,250, against which the sum of £1,077,458 (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 £3,888.

We are in the process of adjudicating upon these claims.

The Administrators had also received a claim from Swaylands Estate Management Limited in the sum of £322,590. This claim has subsequently been rejected.

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 2011 Report, 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, it is not currently possible to accurately quantify the anticipated recovery at this stage. Impairments have also been experienced across a number of the loans.

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 handwritten signature in black ink, appearing to be 'AR Bloom', written in a cursive style.

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 2013

	15 October 2008 to 14 October 2012	Movement between 15 October 2012 to 14 April 2013	Balance as at 14 April 2013
	£	£	£
Receipts			
Funds received from Heritable	10,555,733.65	362,713.07	10,918,446.72
Capital Repayment	157,353.19	24,947.77	182,300.96
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
Bank Interest	4,282.50	599.53	4,882.03
	<u>10,945,893.91</u>	<u>388,260.37</u>	<u>11,334,154.28</u>
Payments			
Administrators' Fees	900,882.00	369,562.80	1,270,444.80
Legal Fees	747,945.20	24,677.40	772,622.60
Insurance	49,575.62	0.00	49,575.62
Legal Disbursements	1,727.20	0.00	1,727.20
HCP Drawdowns	1,268,045.70	205,597.47	1,473,643.17
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	0.90	18.60	19.50
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>10,602,912.77</u>	<u>599,856.27</u>	<u>11,202,769.04</u>
	<u>342,981.14</u>	<u>(211,595.90)</u>	<u>131,385.24</u>
Represented by:			
Royal Bank of Scotland	<u>342,981.14</u>	<u>(211,595.90)</u>	<u>131,385.24</u>

*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 2013 (excluding VAT).

Classification of work function	Partner	Executive Director	Senior Manager	Manager	Senior	Staff	Total Hours	Total Time Costs £	Average Hourly Rate £
Accounting & Administration	-	-	0.10	2.60	19.60	32.40	54.70	12,361.50	225.99
Bank & Statutory Reporting	1.50	-	19.50	12.00	17.40	2.80	53.20	20,809.50	391.16
Creditors	1.00	-	19.60	48.00	27.10	28.00	123.70	40,153.50	324.60
Debtors	-	-	-	-	5.00	-	5.00	1,505.00	301.00
Investigations & CDDA	-	-	-	-	15.70	-	15.70	3,218.50	205.00
Legal Issues	-	-	-	-	0.60	-	0.60	159.00	265.00
Other Matters	-	-	7.90	-	3.00	-	10.90	5,543.50	508.58
Property	336.30	150.00	600.70	19.00	492.40	-	1,598.40	903,361.50	565.17
Sale Process	8.60	3.00	2.00	-	-	-	13.60	9,055.00	665.81
Statutory Duties	4.30	-	12.80	15.00	57.20	1.00	90.30	31,935.00	353.65
Trading	-	-	4.50	1.00	3.00	-	8.50	3,495.00	411.18
VAT & Taxation	-	-	24.20	24.50	41.50	6.30	96.50	49,652.50	514.53
Total	351.70	153.00	691.30	122.10	682.50	70.50	2,071.10	1,081,249.50	522.07

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.