

TO ALL KNOWN CREDITORS

25 June 2019

Ref: FLT/SEC/LJ/D16.1
Direct line: 0141 226 9332
Laura Jones
Email: scarragher@uk.ey.com

Dear Sirs

Land Engineering (Scotland) Limited (In Administration) ('the Company')

Court of Session

I write, in accordance with Rule 3.93 of the Insolvency (Scotland) (Company Voluntary Arrangements and Administration) Rules 2018, to provide creditors with a report on the progress of the Administration. This report covers the period from 30 November 2018 to 29 May 2019 and should be read in conjunction with the Joint Administrators' statement of proposals ('the proposals') dated 5 June 2017 and subsequent reports dated 13 December 2017, 19 June 2018 and 9 January 2019. Statutory information about the Company, the Administration and the office holders is given at Appendix 1.

Summary of progress

Overview

As set out in detail within the proposals, a sale of part of the Company's business and assets to idverde Limited ('idv') was completed on 30 May 2017 and the Company's remaining business ceased to trade on this date.

Progress with realising the Company's assets is discussed in further detail below. We are, however, pleased to report current gross asset realisations to date of £4.58m which compares favourably with the figure of £4.22m included in the Statement of Affairs submitted by the Company's Directors following the appointment.

Debtors and Retentions

As previously advised, the sale to idv did not include the book debts and retention sums owing to the Company in relation to the business transferred at the date of appointment and idv were appointed to act as our agents to collect these amounts on our behalf. We are pleased to advise that debtor and retention collections to date amount to £2.013m and we continue to work closely with idv and our agents, G A Johnston Associates ('GAJ'), to complete this exercise.

In relation to the remainder of the Company's business not sold to idv, GAJ were appointed as our agents to collect the WIP/debtors/retention balances due to the Company and collections currently amount to £256k. GAJ continue to liaise with a number of customers to agree the final accounts on some of the larger contracts and we are hopeful that additional recoveries will be achieved in the next couple of months. A further update will be provided in our next report.

Third Party Loans

As you may recall, the Company had provided loans to a number of third parties prior to the appointment amounting to £297k. Recoveries to date amount to £32k and we are in correspondence with the relevant parties with a view to recovering the remaining loans outstanding. Creditors should however note that certain elements of these loans are not yet due for repayment with maturity dates of between 2020 and 2025.

Intercompany Loans

Prior to the appointment, the Company had provided an unsecured loan of £1.068m to Green Engineering (Scotland) Limited ('GES'), a related company which subsequently went into Liquidation on 31 October 2017. The recovery of the loan was ultimately dependent on the sale of a bio-gas plant in the Lake District and the onward distribution of the resulting sale proceeds via dividends/loan repayments through a number of related companies.

The Company operating the plant went into Administration on 21 January 2019 and, whilst there is the potential for a going concern sale of the business, it is extremely unlikely that there will be funds available for the ordinary creditors and consequently the shareholding will have no value. The Administrators are due to provide their first progress report on the Administration by the end of August 2019 and this should provide more clarity on the likely outcome. We continue to assume that the Company will not recover any of the loan monies provided to GES.

Extension of Administration

As there were a number of key outstanding issues to be resolved in the Administration, including the recovery of debtors, adjudication of claims and payment of dividends to creditors, a further extension to the period of the Administration was required. Following no creditors objecting to the application, consent for a 12 month extension was received from the Court of Session on 22 March 2019 and the period of the Administration has been extended to 29 May 2020.

Receipts and payments account

A summary of our receipts and payments for the period from 30 November 2018 to 29 May 2019 is attached at Appendix 2. It does not reflect estimated future realisations or costs.

Joint Administrators' remuneration

The statutory provisions relating to remuneration are set out in Rules 3.95 to 3.101 of the Insolvency (Scotland) (Company Voluntary Arrangements and Administration) Rules 2018.

In certain circumstances, creditors are entitled to request further information about our remuneration or outlays, or to apply to court if they consider the costs to be excessive (Rule 3.100, Insolvency (Scotland) (Company Voluntary Arrangements and Administration) Rules 2018). Further information is given in 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the web site of the Institute of Chartered Accountants of Scotland at <https://www.icas.com/technical-resources/creditor-guides-to-office-holder-remuneration> or is available in hard copy upon written request to the Joint Administrators.

The Administrators' remuneration was fixed on a time-cost basis by resolutions of the floating charge holder and preferential creditors. During the period covered by this report, the Administrators have

incurred time costs of £140,596 and an analysis and narrative explanation of the time incurred and work completed is attached at Appendix 3 to this report. Together with the time incurred previously of £1,199,858, this results in total time incurred to 29 May 2019 of £1,340,454.

Since our last report, further interim fees of £101,874 have been approved as follows:

Assets subject to Standard Security (Fenwick property)

- £2,248 for the period from 30 May 2018 to 29 November 2018

Assets subject to Floating Charge (all other assets)

- £99,626 for the period from 30 May 2018 to 29 November 2018

The fees approved and drawn to date by the Administrators have been restricted to 75% of our normal hourly rates. Given that we anticipate being in a position to repay in full the debts due to both the Company's secured creditor and the preferential creditors, approval was recently sought from these creditors for the Administrators to draw an uplift in their remuneration (from 75% to 100% of their normal hourly rates) in respect of the period from the date of the Joint Administrators' appointment on 30 May 2017 to the date of repayment. Based on time incurred to 29 November 2018, the proposed uplift in remuneration, which has been approved (but will only be drawn upon full repayment being made), is as follows:

	Fees incurred 100%	Fees approved 75%	Fees uplift 25%
30 May 2017 to 18 August 2017	539,107	404,330	134,777
19 August 2017 to 26 January 2018	394,585	295,939	98,646
27 January 2018 to 29 May 2018	130,333	97,750	32,583
30 May 2018 to 29 November 2018	135,832	101,874	33,958
	<u>1,199,857</u>	<u>899,893</u>	<u>299,964</u>

At Appendix 3 there is a statement of the Administrators' policy in relation to charging time. A request for approval to draw further interim fees will be made to the secured creditor and preferential creditors shortly.

Joint Administrators' outlays

During the period covered by this report, Category 1 disbursements of £51 and Category 2 disbursements of £1,421 have been incurred. Together with the disbursements incurred previously of £9,488, this results in total disbursements incurred to 29 May 2019 of £10,960. An analysis of the disbursements is attached at Appendix 3.

Since our last report, disbursements have been approved as follows:

- Category 2 disbursements of £1,064 for the period from 30 May 2018 to 29 November 2018

At Appendix 4 there is a statement of the Administrators' policy in relation to charging disbursements. A request for approval to draw further disbursements will be made to the secured creditor and preferential creditors shortly.

Distributions to creditors

Secured creditors

Bank of Scotland plc ('the Bank'), the Company's secured lender, had total indebtedness at 30 May 2017 of c£2.15m (before accruing interest and costs) and held both a standard security over the Company's freehold property at Fenwick and a floating charge over the Company's other assets. To date, distributions of £2.14m have been made to the Bank (£640k standard security and £1.5m floating charge).

The aforementioned figure of £2.15m excludes any claim which the Bank may require to make as a result of performance bonds being called on certain of the Company's customer contracts. We are pleased to advise that Argyll & Bute Council have confirmed that a performance bond for £167k will be released shortly and the Company's contingent liability in respect of performance bonds has accordingly reduced from £251k to £87k. Our agents, GAJ, are continuing to seek a return of the remaining outstanding performance bond, however we are hopeful that this will not ultimately be called.

Preferential creditors

As previously advised, a distribution of 100p in £, equating to a total dividend of £101k, has been paid to the preferential creditors in respect of employees' salaries, holiday pay and pension contributions.

Non-preferential creditors

The Administrators continue to receive claims from non-preferential unsecured creditors of the Company. It is estimated that unsecured non-preferential claims will be in the region of £7.5m.

The Administrators are of the opinion that a distribution to the non-preferential unsecured creditors will be made in due course, however, the quantum and timing will be dependent on the extent of additional floating charge asset realisations achieved and whether or not the remaining performance bond is ultimately called. We anticipate commencing the adjudication of non-preferential unsecured claims shortly and a further update will be provided in our next report.

Remaining work

We will continue to deal with the Administration in line with the stated objectives outlined in the proposals. Future tasks will include, but may not be limited to, the following:

- seeking to realise value from all remaining assets including collecting outstanding book debts, retentions and non-trade balances;
- securing the release of the final outstanding performance bond;
- dealing with unsecured creditor enquiries;
- adjudicating on non-preferential claims and paying a dividend to non-preferential creditors;
- finalising the Administration including the payment of all Administration period liabilities;
- preparing and filing post appointment corporation tax and VAT returns;

- completion of statutory and reporting requirements of the Administration;
- any such actions the Joint Administrators consider, in their reasonable opinion, are necessary and/or expedient to fulfil the purpose of the Administration; and
- bringing the Administration to a conclusion.

Other matters

In order to make a distribution to the non-preferential unsecured creditors in the Administration, the Joint Administrators were required to amend the proposals agreed by the body of creditors at the beginning of the Administration. An application to the Court of Session seeking permission to make such a distribution was made and duly granted on 22 March 2019.

Next report

We will report to you again at the conclusion of the Administration or in six months' time, whichever is the sooner.

In the meantime, if you have any queries regarding the content of this report, please contact my colleague, Laura Jones, on 0141 226 9332.

Yours faithfully
for Land Engineering (Scotland) Limited (In Administration)



F L Taylor
Joint Administrator

F L Taylor is licensed in the United Kingdom to act as an Insolvency Practitioner by The Institute of Chartered Accountants in England and Wales and C P Dempster is licensed in the United Kingdom to act as an Insolvency Practitioner by The Institute of Chartered Accountants of Scotland.

The affairs, business and property of the Company are being managed by the Joint Administrators, F L Taylor and C P Dempster, who act as agents of the Company only and without personal liability.

The Joint Administrators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrator's appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

Appendix 1

Information about the proceedings, the Company and the office holders, as required by Rule 3.94 of the Insolvency (Scotland) (Company Voluntary Arrangements and Administration) Rules 2018

Name of court:	Court of Session
Registered name of the Company:	Land Engineering (Scotland) Limited (In Administration)
Registered office address of the Company:	c/o Ernst & Young LLP, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
Registered number:	SC070682
Country of incorporation (for a company incorporated outside the United Kingdom):	N/A
Date of appointment of the Joint Administrators:	30 May 2017
Details of any changes of Administrator:	Andrew James Davison replaced as office holder by Fiona Livingstone Taylor on 14 December 2017
Full names of the Administrators:	Colin Peter Dempster and Fiona Livingstone Taylor
Office holder numbers:	8908 and 8787
Administrators' addresses:	Ernst & Young LLP Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
Telephone number:	0141 226 9332
Name of alternative person to contact with enquiries about the case:	Laura Jones

Appendix 2

Land Engineering (Scotland) Limited (In Administration)

Joint Administrators' Summary of Receipts and Payments from 30 November 2018 to 29 May 2019

Estimated to Realise per Directors' Statement of Affairs	Receipts	Cumulative to 29 Nov 2018 (£)	Transactions since 30 Nov 2018 (£)	Cumulative to 29 May 2019 (£)
800,000	Property	1,020,020	0	1,020,020
1,500,000)	IDV - Pre Appointment Debtor Receipts	1,919,610	14,100	1,933,710
)	IDV - Retentions	79,114	0	79,114
)	Pre Appointment Debtor Receipts	256,396	0	256,396
640,000	IDV - Work in Progress	348,583	0	348,583
640,000)	IDV - Plant & Equipment	565,796	0	565,796
)	Plant & Equipment/Motor Vehicles/Fixtures	223,398	0	223,398
	Rental Income - Fenwick	68,676	163	68,839
25,000	IDV - Stock	25,000	0	25,000
	Prepayments	21,752	0	21,752
	Bank Interest	2,248	800	3,048
615,500	Loans and Advances	32,038	0	32,038
	Petty Cash/Sundry Income	108	225	333
4,220,500		4,562,739	15,287	4,578,027
Payments				
	Distribution to Floating Charge Holder	1,500,000	0	1,500,000
	Wage Arrears	36,625	0	36,625
	Gross Wages	55,085	0	55,085
	Rates & Utilities - Skypark	28,314	0	28,314
	Insurance	15,013	(137)	14,876
	Costs to be recharged - Fenwick	29,082	0	29,082
	Property Agents' Fees	28,650	0	28,650
	Legal Fees & Disbursements	57,458	14,451	71,909
	Agents' Fees - Debt Collection	25,639	4,831	30,470
	Agents' Disbursements	1,350	0	1,350
	Administrators' Fees	704,895	0	704,895
	Administrators' Expenses	5,422	0	5,422
	IDV - Debt Collection Commission	85,300	0	85,300
	Auctioneers' Commission & Other Costs	36,779	0	36,779
	Bank Charges & Interest	486	36	522
	Public Notices	694	0	694
	IT Support	72	0	72
	Motor Expenses	382	0	382
	Postage	928	0	928
	Storage Charges	1,409	264	1,673
	Retention of Title Payments	1,775	0	1,775
	Distribution to Secured Creditor	640,000	0	640,000
	Distribution to Preferential Creditors	101,433	0	101,433
	Specific Bond	968	0	968
		3,357,757	19,444	3,377,203
				1,200,823
Represented by:				
	Interest Bearing Current Account			253,934
	Fixed Term Deposit Account			900,000
	Non-Interest Bearing Current Account			43,486
	VAT			3,403
				1,200,823
Notes				
1. Receipts and payments are stated net of VAT				

Land Engineering (Scotland) Limited (In Administration)

Joint Administrators' time costs incurred from 30 November 2018 to 29 May 2019

(a) Time charging policy

The Administrators have engaged managers and other staff to work on the Administration. 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 accounting and treasury executives dealing with the Company's bank accounts and statutory compliance diaries. 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 time code established for the case. Time is recorded in units of six minutes. 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 below, as are the current hourly rates used.

(b) Analysis of time costs

Classification of work function	Hours				Total Hours	Total Time Cost £	Average Hourly Rate £
	Partner	Manager	Other Senior Professionals	Assistants & Support Staff			
Accounting & Administration	12.0	4.7	30.5	6.8	54.0	25,281	468
Bank and Statutory Reporting	14.4	20.2	21.0		55.6	29,647	533
Creditors		5.5	20.2	18.3	44.0	13,049	297
Debtors	2.0	17.4	5.7		25.1	13,475	537
Employee Matters	0.2	0.5	1.1		1.8	638	354
Legal Issues	4.5	18.6	8.5		31.6	16,993	538
Other Assets	2.5	14.0	0.2		16.7	10,098	605
Other Matters		1.6	0.5		2.1	1,091	519
Property		0.8	0.5		1.3	627	482
Retention of Title			1.0		1.0	325	325
Statutory Duties	2.1	21.8	22.5	8.5	54.9	23,093	421
VAT & Taxation		5.5	9.0	0.8	15.3	6,281	411
Total hours	37.7	110.6	120.7	34.4	303.4	140,596	
Total time costs (£)	30,011	64,123	40,328	6,135		140,596	
Average hourly rate (£)	796	580	334	178			

Current charge out rates

		£
Partner	Partner	855
	Associate Partner	765
	Director	655
Manager	Assistant Director	580
	Senior Executive	455
Other Senior Professionals	Executive	325-355
	Assistant Executive	255
Assistants & Support Staff	Analyst	180-255
	Accounting and Treasury Executive	145-150

(c) Narrative explanation of time incurred

Category of work	Description of work completed
Accounting & Administration	" Overall management of the case, treasury and accounting functions, statutory compliance diaries and time cost reporting.
Bank & Statutory Reporting	" Preparing and issuing six monthly progress reports to all known creditors and regular reporting to the secured creditor.
Creditors	" Receipt and recording of creditor claims. " Correspondence with creditors.
Debtors	" Working with idv and GAJ to realise value from book debts/WIP and retentions. " Correspondence with debtors regarding outstanding debts. " Discussions with customers regarding timing for the release of outstanding performance bonds.
Employee Matters	" Writing to employees regarding TUPE related matters. " Dealing with employee enquiries.
Legal Issues	" Dealing with ad hoc legal issues. " Liaising with HSE and legal advisors with regard to the fatal accident enquiry.
Other Assets	" Realising value from the Company's residual assets including third party and intercompany loans. " Liaison with the Liquidator of GES regarding the prospects of recovering the loan monies via the sale of the bio-gas plant.
Other Matters	" Assessing the status of the Company's physical books and records and electronic records.
Property	" Liaising with idv regarding issues arising from the short-term licence granted to occupy the property at Fenwick. " Dealing with issues relating to the settlement of liabilities for the Administration period. " Responding to ad hoc issues arising in relation to the Company's freehold property at Fenwick and leasehold property at Skypark.
Retention of Title	" Assessment and settlement of claims for retention of title from the Company's suppliers.
Statutory Duties	" Completion of statutory requirements of the Administration, including notifications to creditors and the Registrar of Companies regarding progress reports issued. " Seeking approval of remuneration and outlays from the secured creditor and the preferential creditors. " Seeking extension of the Administration from the Court. " Seeking permission from the Court to pay non-preferential unsecured creditors.
VAT & Taxation	" Preparing annual corporation tax and quarterly VAT returns, with input from EY VAT and tax specialists. " Issuing supporting documentation for a VAT inspection by HMRC. " Assessment of the VAT and tax treatment of transactions and agreements entered into during the Administration.

(d) Payments to other professionals

The Administrators have engaged the following professionals during the Administration to provide assistance. They were chosen on the basis of their experience in similar assignments.

Name of firm	Nature of services	How contracted to be paid	Paid during the period excl VAT (£)
Brodies LLP	Legal advisors	Time costs basis	14,451
G A Johnston Associates	Quantity surveyor services/debt collection	Time costs basis	4,831
Sweeney Kincaid	Plant/equipment advisors	7.5% of gross sale proceeds achieved from the sale of the plant and machinery, fixtures and stock. Time costs basis for the removal of the plant and machinery, fixtures and stock from the properties at Fenwick and Skypark	0
Graham & Sibbald	Property advisors	2% of gross sale proceeds achieved from the sale of the property at Fenwick	0
Total			19,282

Appendix 4

Land Engineering (Scotland) Limited (In Administration)

Summary of Joint Administrators' outlays incurred from 30 November 2018 to 29 May 2019

Type of Outlay	Paid as at 29 Nov 2018	Paid in period to 29 May 2019	Outstanding	Total
	£	£	£	£
Category 1 disbursements (see Note 1)				
Specific penalty bond	967.50	-	-	967.50
Ground transportation	1,264.37	-	151.00	1,415.37
Meals & subsistence	36.92	-	-	36.92
Category 2 disbursements (see Note 1)				
Mileage	53.65	-	-	53.65
Internal bulk copying, printing and postage	5,901.86	-	2,481.05	8,382.91
Meals & subsistence	99.60	-	3.90	103.50
Totals	8,323.90	-	2,635.95	10,959.85

Notes

- 1 Statement of Insolvency Practice 9 (Scotland) ('SIP 9') defines disbursements as a type of expense which is met by, and reimbursed to, an office holder in connection with an insolvency appointment. Disbursements fall into two categories: Category 1 and Category 2.
- Category 1 disbursements are payments to independent third parties where there is specific expenditure directly referable to the appointment
 - Category 2 disbursements are expenses which are directly referable to the appointment but are not payments to independent third parties. They may include shared and allocated costs.

It is our policy, in accordance with SIP 9, to disclose Category 1 and Category 2 disbursements but only to seek approval for Category 2 disbursements before they are drawn.