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TO ALL KNOWN CREDITORS

19 June 2018

Ref: FLT/SEC/DT/EW/LES/PF16.3

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Douglas Taylor

Email: scarragher@uk.ey.com

Dear Sirs

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

Registered office address: Atria One, 144 Morrison Street, Edinburgh, EH3 8EX

Registered number: SC070682

I write, in accordance with Rule 2.38 of the Insolvency (Scotland) Rules 1986, to provide creditors with a report on the progress of the Administration. This report covers the period from 30 November 2017 to 29 May 2018 and should be read in conjunction with the Joint Administrators' statement of proposals ('the proposals') dated 5 June 2017 and progress report dated 13 December 2017.

The Company entered Administration on 30 May 2017 and A J Davison and C P Dempster of Ernst & Young LLP ('EY'), Atria One, 144 Morrison Street, Edinburgh, EH3 8EX were appointed to act as Joint 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. Under the terms of the appointment, any act required or authorised to be done by the Joint Administrators can be done by either of them. Certain statutory information relating to the Company and the appointment of the Administrators is provided at Appendix 1.

Due to A J Davison's retiral from EY, Fiona Livingstone Taylor of EY was appointed as a substitute office holder by the Court of Session on 14 December 2017.

Summary of progress in the Administration

Overview

As set out in detail within the proposals, on 30 May 2017 we completed a sale of part of the Company's business and assets to idverde Limited ('idv') and 251 employees of the Company transferred to idv as part of the sale.

It was not appropriate to trade the Company's remaining business and offer it for sale as a going concern following the Administration appointment. Trading accordingly ceased on 30 May 2017 and the majority of employees were made redundant at that point. A limited number of employees were retained by the Administrators for a short period to assist with fulfilling the Administrators' statutory duties.

Progress with realising the Company's assets is discussed in further detail below. We are however pleased to report that gross asset realisations to date of £4.44m compare favourably with the figure of



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£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 this exercise has gone extremely well with debtor and retention collections to date amounting to £1.967m, an improvement of £14k since we last reported. We continue to work closely with idv to complete this exercise with a particular focus on the outstanding retention sums which will become due in the next 6 months and will update creditors further in our next progress report.

In relation to the remainder of the Company's business not sold to idv, G A Johnston Associates ('GAJ') continue to act as the Administrators' agents to collect the WIP/debtors/retention balances due to the Company and secure release of outstanding performance bonds where possible. Due to the majority of contracts being terminable on insolvency and various disputes, contra's and set off issues arising following the cessation of trading, the process is complicated and recoveries are not surprisingly significantly slower and below those achieved with the pre-pack sale. Debtor collections currently amount to £200k, an improvement of £10k since we last reported. GAJ are presently in negotiations with a number of customers to agree the final accounts on some large complex 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.

Property - Fenwick

As previously advised, the Company owned a freehold property near Fenwick in Ayrshire ('the Property') and, as part of the pre-pack sale, the Administrators granted idv a short term licence to occupy the Property. Following our appointment, the Property was formally marketed for sale through our agents, Graham and Sibbald with an asking price set of offers over £850k and 5 offers were received at the closing date. Whilst the first preferred bidder withdrew its offer shortly after selection, I am pleased to advise that the sale of the Property was completed with the second bidder, McTaggart Construction Limited, on 20 December 2017 for a total consideration of £1.02m.

Rental income to the date of sale from the lease of office premises and a telecommunications mast located on the Property together with the licence fee income received from idv is reflected within the receipts and payments account at Appendix 2.

Fixtures and Fittings

The fixtures and fittings located at the Company's freehold property in Fenwick were subsequently sold following idv terminating the licence to occupy at the end of April 2018. Net realisations from the sale of c£5k are expected to be received shortly from our agents, Sweeney Kincaid.

Third Party Loans

As you are aware, the Company had provided loans to a number of third parties prior to the appointment. These were in respect of the Company's previous involvement in wind farm project development (£173k), properties to accommodate foreign employees working on Company contracts (£119k) and loans advanced to Company employees (£5k). £2k of the loans advanced to Company

employees has now been recovered and we are in correspondence with the relevant parties with a view to recovering the remaining loans outstanding.

Intercompany Loans

Prior to our appointment, the Company had provided an unsecured loan of £1.068m to Green Engineering (Scotland) Limited ('GES'), a related company. The recovery of the loan is 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. Richard Gardiner of Thomson Cooper was appointed Interim Liquidator of GES on 31 October 2017 following by his appointment on 12 December 2017. We continue to liaise with him as regards the options available to maximise recoveries from this loan however creditors should note that we do not expect a sale of the plant to be achieved for at least another 12 months.

In addition, there is an amount of c£4.2m due from the Company's parent, Gardrum Investments Limited to which Richard Gardiner of Thomson Cooper has also been appointed Liquidator. It is clear that there will be no recoveries for the Company from this intercompany debt.

Joint Administrators' receipts and payments

I enclose a receipts and payments account for the period from 30 November 2017 to 29 May 2018. This does not reflect estimated future realisations or costs.

Joint Administrators' remuneration and disbursements

The statutory provisions relating to remuneration are set out in Rule 2.39 of the Insolvency (Scotland) Rules 1986. Further information is given in the Association of Business Recovery Professionals' publication 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the web site of the Insolvency Practitioners Association at <http://www.insolvency-practitioners.org.uk> (follow 'Regulation and Guidance' then 'Creditors' Guides to Fees, then 'Guides for Scotland', then 'Administration'), 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 £241,961 and an analysis of the time incurred is attached at Appendix 3 to this report. Together with the time incurred in the previous six months of £822,065, this results in total time incurred to 29 May 2018 of £1,064,026.

Since our last report, interim fees of £700,269 have been approved and drawn as follows:

Assets subject to Standard Security (Fenwick property)

- £79,559 for the period from 30 May 2017 to 26 January 2018

Assets subject to Floating Charge (all other assets):

- £404,330 for the period from 30 May 2017 to 18 August 2017
- £216,380 for the period from 19 August 2017 to 26 January 2018



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During the period covered by this report, Category 1 disbursements of £780 and Category 2 disbursements of £1,725 have been incurred and an analysis of the disbursements is attached at Appendix 3. Together with the disbursements incurred in the first six months of £5,818, this results in total disbursements incurred to 29 May 2018 of £8,324. Since our last report, disbursements have been approved and drawn as follows:

- Category 1 disbursements of £824 and Category 2 disbursements of £4,030 for the period from 30 May 2017 to 18 August 2017
- Category 1 disbursements of £747 and Category 2 disbursements of £334 for the period from 19 August 2017 to 26 January 2018

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

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.

In view of the progress made with asset realisations, distributions of £2.14m have made to the Bank to date including £640k in respect of the standard security in the current period.

The aforementioned figure of £2.15m excludes any claims which the Bank may require to make as a result of performance bonds being called on certain of the Company's customer contracts. I am pleased to advise that the contingent liability in this regard has reduced from £351k to £251k in the current period due to idv replacing a £100k bond with Scottish Water. Our agents, GAJ, are continuing to seek return of the remaining outstanding performance bonds.

Preferential creditors

Preferential claims of £101k have been received in respect of employees' salaries, holiday pay and pension contributions. I am pleased to advise that a distribution of 100p in the £ was recently made to all known employee preferential creditors.

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 it is possible a distribution to the non-preferential unsecured creditors may be made in due course, however, this will be dependent on the extent of additional floating charge asset realisations achieved and whether or the aforementioned performance bonds on customer contracts are ultimately called. A further update will be provided in our next report.

The prescribed part

The prescribed part is a proportion of floating charge assets set aside for unsecured creditors pursuant to Section 176A of the Insolvency Act 1986. The prescribed part applies to floating charges created on or after 15 September 2003. The Company's floating charge was created on 24 June 2011 and accordingly the prescribed part will apply.

The Administrators are of the opinion that a distribution to non-preferential unsecured creditors by virtue of the prescribed part will be made in due course.

Distributions to creditors

Distributions have been made to date in the Administration to the secured and preferential creditors and it is proposed that distributions will also be made to the non-preferential unsecured creditors (by virtue of the prescribed part) of the Company. In addition, a distribution to the non-preferential unsecured creditors of the Company may ultimately be possible depending on recoveries achieved from the remaining assets.

Extension of Administration

Following creditors' consent being obtained in terms of Section 76(2)(b) of Schedule B1 of the Insolvency Act 1986, the period of the Administration was extended by 12 months to 29 May 2019.

The End of the Administration

I am pleased to advise creditors that the proposed amendment to the proposals was passed, and F L Taylor has replaced A J Davison as the future proposed Liquidator, if it proves possible to make a distribution to the non-preferential unsecured creditors.

Conclusion

I trust this report has been informative and we will report to you again in six months' time. In the meantime, should you have any queries, please do not hesitate to contact my colleague, Dougie Taylor, on 0131 777 2403.

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, A J Davison 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 Administrators' appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy

Company Statutory Information

Company Information

Company Name: Land Engineering (Scotland) Limited (In Administration)
Registered Office Address: c/o Ernst & Young LLP, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
Registered Number: SC070682
Trading Name: Land Engineering (Scotland) Limited
Trading Addresses: Gardrum House, Stewarton Road, Fenwick, KA3 6AS
Suite 4A, Skypark 5, 45 Finnieston Street, Glasgow, G3 8JU

Details of the Administrators and of their appointment

Administrators: A J Davison of Ernst & Young LLP, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
C P Dempster of Ernst & Young LLP, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
F L Taylor of Ernst & Young LLP, Atria One, 144 Morrison Street, Edinburgh, EH3 8EX

Date of Appointment A J Davison 30 May 2017 – replaced as office holder on 14 December 2017
C P Dempster 30 May 2017
F L Taylor 14 December 2017

By Whom Appointed: 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 appointment of F L Taylor was made by the Court of Session, under the provisions of paragraph 91 of Schedule B1 to the Insolvency Act 1986.

Court Reference: Court of Session

Any of the functions to be performed or powers exercisable by the Administrators may be carried out/exercised by any one of them acting alone or by any or all of them acting jointly.

Statement concerning the EC Regulation

The EC Council Regulation on Insolvency Proceedings does apply to this Administration and the proceedings are main proceedings. This means that this Administration is conducted according to UK insolvency legislation and is not governed by the insolvency law of any other European Union Member State.

Land Engineering (Scotland) Limited (In Administration)

Joint Administrators' Abstract of Receipts and Payments from 30 November 2017 to 29 May 2018

Estimated to Realise per Directors' Statement of Affairs	Receipts	Cumulative to 29 Nov 2017 (£)	Transactions since 30 Nov 2017 (£)	Cumulative to 29 May 2018 (£)
800,000	Property	0	1,020,020	1,020,020
1,500,000)	IDV - Pre Appointment Debtor Receipts	1,873,765	13,869	1,887,634
)	IDV - Retentions	79,114	0	79,114
)	Pre Appointment Debtor Receipts	189,969	10,438	200,407
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	60,526	8,151	68,676
25,000	IDV - Stock	25,000	0	25,000
	Prepayments	21,277	475	21,752
	Bank Interest	676	941	1,617
615,500	Loans and Advances	600	1,438	2,038
	Petty Cash	108	0	108
4,220,500		3,388,813	1,055,331	4,444,144
	Payments			
	Distribution to Floating Charge Holder	1,500,000	0	1,500,000
	Wage Arrears	15,894	0	15,894
	Gross Wages	54,761	-24	54,737
	Rates & Utilities - Skypark	25,730	2,584	28,314
	Insurance	13,863	1,098	14,961
	Costs to be recharged - Fenwick	16,291	1,548	17,840
	Property Agents' Fees	5,750	20,400	26,150
	Legal Fees & Disbursements	30,053	14,997	45,050
	Agents' Fees - Debt Collection	10,955	9,096	20,051
	Agents' Disbursements	0	1,350	1,350
	Administrators' Fees	0	700,269	700,269
	Administrators' Expenses	0	5,336	5,336
	IDV - Debt Collection Commission	83,678	0	83,678
	Auctioneers' Commission & Other Costs	36,779	0	36,779
	Bank Charges & Interest	244	150	394
	Public Notices	614	80	694
	IT Support	72	0	72
	Motor Expenses	0	382	382
	Postage	185	743	928
	Storage Charges	903	134	1,037
	Retention of Title Payments	1,775	0	1,775
	Distribution to Secured Creditor	0	640,000	640,000
	Distribution to Preferential Creditors	0	37,771	37,771
	Specific Bond	0	355	355
		1,797,548	1,436,269	3,233,817
				1,210,326
	Represented by:			
	Interest Bearing Current Account			158,350
	Fixed Term Deposit Account			900,000
	Non-Interest Bearing Current Account			3,680
	VAT			148,296
				1,210,326
	Notes			
	1. Receipts and payments are stated net of VAT			

Land Engineering (Scotland) Limited (In Administration)

Summary of Joint Administrators' time-costs and disbursements from 30 November 2017 to 29 May 2018

Classification of work function	Hours					Total hours	Average hourly rate (£)	Time Cost (£)
	Partner / Director	Assistant Director / Manager	Other Senior Professionals	Assistants & Support				
Bank & Statutory Reporting	6.5	25.3	24.7	5.1		61.6	425	26,152
Creditors	0.5	15.7	44.2	6.7		67.1	345	23,129
Debtors	0.1	23.7	14.6	4.6		43.0	412	17,717
Employee Matters	2.3	5.9	33.9			42.1	350	14,745
General	2.5	5.0				7.5	638	4,788
Legal Issues	0.5	1.5	0.5			2.5	519	1,298
Other Assets	7.4	28.3	8.1	0.4		44.2	509	22,498
Other Matters		1.9	8.8	0.4		11.1	334	3,704
Property	12.4	35.8	30.7	10.5		89.4	431	38,534
Statutory Duties	3.8	27.9	33.5	32.1		97.3	335	32,593
VAT & Taxation		7.0	12.5	10.1		29.6	320	9,479
Trading				0.3		0.3	180	54
Retention of Title		3.3	7.5	0.4		11.2	359	4,017
Accounting & Admin	8.7	6.7	75.2	32.3		122.9	331	40,693
Matters and Enquires		2.2	4.2			6.4	375	2,399
Investigation / CDDA		0.2	0.2			0.4	410	164
Total hours	44.7	190.4	298.6	102.9		636.6		241,961
Time cost	31,721	101,035	91,996	17,209				241,961
Average hourly rate	710	531	308	167				

Charge out rates		Period from	Period from
		16 March 2018	17 March 2018 to 30 June 2018
		£	£
Partner		745	780
Associate Director		695	730
Director		595	625
Assistant Director		525	550
Manager		410	430
Other senior professionals	Executive	295	310-340
	Assistant Executive	235	245
Assistants and support	Analyst	160-235	170-245
	Accounting and Treasury Executive	135-140	140-145

Category 1 Disbursements	£
Bordereau	612.50
Ground transportation	167.87
Total	780.37

Category 2 Disbursements	£
Meals & subsistence	5.00
Printing & Postage	1,720.43
Total	1,725.43

Total Disbursements	2,505.80
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Appendix 4

Land Engineering (Scotland) Limited (In Administration)

Office Holders' Charging Policy for Fees

The Company's floating charge and preferential 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 case. 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 issues. 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 3, 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 Company's creditors. In line with SIP 9, it is our policy to disclose such disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as the Company's creditors require to support the disbursements drawn.

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 disbursements before they are drawn.

