

**Report of the Directors and
Audited Financial Statements
for the Year Ended 31 December 2006
for
North Highland Products Limited**

(A Company Limited by Guarantee)

Victor T Fraser & Co
Chartered Accountants and Registered Auditors
Market Place
Wick
Caithness
KW1 4LP

North Highland Products Limited

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for the Year Ended 31 December 2006

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North Highland Products Limited

Company Information
for the Year Ended 31 December 2006

DIRECTORS:

D H Miller, Chairman
Dr J Strak, Managing Director
The Rt Hon Lord MacLennan of Rogart
R Gray
A Mackay
D Richard-Jones
D Swanson

SECRETARY:

R Gray

REGISTERED OFFICE:

5 Atholl Crescent
Edinburgh
Midlothian
EH3 8EJ

REGISTERED NUMBER:

SC276482 (Scotland)

AUDITORS:

Victor T Fraser & Co
Chartered Accountants and Registered Auditors
Market Place
Wick
Caithness
KW1 4LP

North Highland Products Limited
Chairman's Report
for the Year Ended 31 December 2006

Dear Member,

The Spring of 2007 has given us an excellent spell of weather and Spring work is almost complete with only some grass and forage crops left to establish. Lambing will be mostly completed with some of the best survival rates seen in years. That's a good start to the farming year and I am pleased to report that North Highland Products Ltd has had a good year in 2006.

In our first full year of trading I can report that North Highland Products has increased its turnover to £4,609,014. In 2006 we calculate that we have earned gross premiums above market prices for our members that amounted to around £240,000. Furthermore, during 2006 the numbers of farmers selling their cattle and lambs under the Mey Selections brand exceeded 250. This is especially pleasing as NHP was formed by farmers with the aim of returning more money to farmers and food producers in the North Highlands. I am pleased to say that in 2006 we achieved this aim. Our 2006 accounts show a small loss of £4,948 which is on budget and reflects the start-up costs and investments we have made in systems, in people, and in our supply chains.

Cattle and lambs continue to be processed by Dunbia (formerly Dungannon meats) at a dedicated Mey Selections facility at Dornoch, with cattle slaughter taking place in Orkney and Inverurie. Sainsbury's has grown with NHP and continues to be a key partner in our plans. Our beef and lamb is available in over 100 Sainsburys stores and we have brought our Gourmet Beefburgers and Taste the Difference Mey Selections meatballs to the market through these retail outlets. I expect there to be more ready-cook and ready-meal meat products of this type from Mey Selections in 2007. Significantly, Sainsburys has offered North Highland Products a long term contract and I expect that this will be finalised soon.

Pioneer foods (Carlisle), McClay Foods (Glasgow) and Icefront (London) are signed up as our foodservice distributors and Mey Selections beef and lamb is now available locally through Harrold Brothers in Wick to a growing number of local hotels and restaurants. All of our customers, retail and food service, have been impressed with the consistent and high level of quality meat that we are supplying to them.

Our first "Producer of the Year" awards were a great success in November when around 60 members turned out to see live and deadweight carcass grading in action in Dornoch. Our website (www.mey-selections.com) now offers more services to customers, farmers, and our food company suppliers. And our regular newsletter has helped recruit more members and retain the loyalty of existing farmers. Nationally, 2006 also delivered recognition from the rest of the industry and from the media for our achievements. Our rib beef won the Best Fresh Meat product 2006 in the Supermeat awards in May 2006. In October North Highland Products was highly commended in the New Business Award category at the second Highlands and Islands Food and Drink Forum Awards in Inverness. In December our meat balls won the Best New Beef Product section in the Meat Industry Awards in London. Throughout the year we also made steady progress on developing supply chains for other non-meat products and the results of this work will be seen in 2007. As for the media, Mey Selections has featured in major trade and consumer press articles in 2006 and was the focus of attention at Ackergill Tower for several national journalists in August last year.

We were fortunate to receive support and financial aid from CASE and SEERAD, and from the Nuclear Decommissioning Agency in 2006. This has helped offset our start up costs which, for any brand-building venture, will always be high. Lastly, I should mention one of the key elements in our success in 2006 - the way in which our staff has taken up major challenges in order to serve our members. We now have a team of four on board and my confidence in the future of Mey Selections stems mainly from seeing their hard work and the outcomes achieved on behalf of our members.

Lastly I would like to thank the Directors of North Highland Products Ltd for their hard work in what has been a very busy and challenging year, but I want to stress the importance of YOU, the trading member, for your support. Everyone trading through Mey Selections is building a strong brand, with the real prospect of premiums now and in the future. We continue to require your quality product and, above all, your commitment so that Mey Selections can grow and develop in a competitive marketplace.



Danny Miller
Chairman

North Highland Products Limited

**Report of the Directors
for the Year Ended 31 December 2006**

The directors present their report with the financial statements of the company for the year ended 31 December 2006.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of the development, promotion and marketing of food produce from the North Highland Area.

DIRECTORS

The directors during the year under review were:

D H Miller - Chairman

Dr J Strak - Managing Director

The Rt Hon Lord MacLennan of Rogart

R Gray

A Mackay

D Richard-Jones

D Swanson

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Victor T Fraser & Co, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

ON BEHALF OF THE BOARD:

.....
Director – R Gray

Date:

**Report of the Independent Auditors to the Members of
North Highland Products Limited**

We have audited the financial statements of North Highland Products Limited for the year ended 31 December 2006 on pages five to nine. These financial statements have been prepared in accordance with the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (effective January 2005).

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out on page two.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 31 December 2006 and of its results for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

Victor T Fraser & Co
Chartered Accountants and Registered Auditors
Market Place
Wick
Caithness
KW1 4LP

Date:

North Highland Products Limited

Profit and Loss Account
for the Year Ended 31 December 2006

	Notes	Year Ended 31.12.06 £	Period 25.11.04 to 31.12.05 £
TURNOVER		4,609,014	1,268,216
Cost of sales		<u>4,490,704</u>	<u>1,243,711</u>
GROSS PROFIT		118,310	24,505
Administrative expenses		<u>230,424</u>	<u>52,398</u>
		(112,114)	(27,893)
Other operating income		<u>102,392</u>	<u>36,226</u>
OPERATING (LOSS)/PROFIT	2	(9,722)	8,333
Interest receivable and similar income		<u>5,174</u>	<u>400</u>
		(4,548)	8,733
Interest payable and similar charges		<u>400</u>	<u>125</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(4,948)	8,608
Tax on profit on ordinary activities	3	<u>-</u>	<u>-</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION		<u>(4,948)</u>	<u>8,608</u>

The notes form part of these financial statements

North Highland Products Limited

Balance Sheet
31 December 2006

	Notes	2006 £	£	2005 £	£
FIXED ASSETS					
Tangible assets	4		12,424		-
CURRENT ASSETS					
Debtors	5	206,186		93,202	
Cash at bank		<u>216,727</u>		<u>63,158</u>	
		422,912		156,360	
CREDITORS					
Amounts falling due within one year	6	<u>418,347</u>		<u>147,752</u>	
NET CURRENT ASSETS			<u>4,565</u>		<u>8,608</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			16,989		8,608
ACCRUALS AND DEFERRED INCOME	7		<u>13,329</u>		-
NET ASSETS			<u><u>3,660</u></u>		<u><u>8,608</u></u>
RESERVES					
Profit and loss account	8		<u>3,660</u>		<u>8,608</u>
			<u><u>3,660</u></u>		<u><u>8,608</u></u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective January 2005).

The financial statements were approved by the Board of Directors on its behalf by:

and were signed on

.....
Director

North Highland Products Limited

Notes to the Financial Statements
for the Year Ended 31 December 2006

1. **ACCOUNTING POLICIES**

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005).

Turnover

Turnover represents net invoiced sales of goods, excluding value added tax.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Motor Vehicles and Equipment - at variable rates on reducing balance

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

2. **OPERATING PROFIT**

The operating profit is stated after charging:

	Year Ended 31.12.06 £	Period 25.11.04 to 31.12.05 £
Depreciation - owned assets	4,059	-
Auditors' remuneration	<u>3,000</u>	<u>1,500</u>
Directors' emoluments and other benefits etc	<u>6,000</u>	<u>-</u>

3. **TAXATION**

Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows:

	Year Ended 31.12.06 £	Period 25.11.04 to 31.12.05 £
Current tax: UK corporation tax	<u>-</u>	<u>-</u>
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

North Highland Products Limited

**Notes to the Financial Statements - continued
for the Year Ended 31 December 2006**

4.	TANGIBLE FIXED ASSETS			
		Computer and other equipment £	Motor vehicles £	Totals £
	COST			
	Additions	<u>1,236</u>	<u>15,247</u>	<u>16,483</u>
	At 31 December 2006	<u>1,236</u>	<u>15,247</u>	<u>16,483</u>
	DEPRECIATION			
	Charge for year	<u>247</u>	<u>3,812</u>	<u>4,059</u>
	At 31 December 2006	<u>247</u>	<u>3,812</u>	<u>4,059</u>
	NET BOOK VALUE			
	At 31 December 2006	<u>989</u>	<u>11,435</u>	<u>12,424</u>
5.	DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
			2006 £	2005 £
	Trade debtors		148,489	88,421
	Other debtors		<u>57,697</u>	<u>4,782</u>
			<u>206,186</u>	<u>93,203</u>
6.	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
			2006 £	2005 £
	Bank loans and overdrafts		253,586	139,420
	Trade creditors		131,265	-
	Taxation and social security		10,118	-
	Other creditors		<u>23,378</u>	<u>8,332</u>
			<u>418,347</u>	<u>147,752</u>
7.	ACCRUALS AND DEFERRED INCOME			
			2006 £	2005 £
	NDA Grant		<u>13,329</u>	-
8.	RESERVES			
				Profit and loss account £
	At 1 January 2006			8,608
	(Loss) for the year			<u>(4,948)</u>
	At 31 December 2006			<u>3,660</u>
9.	TRANSACTIONS WITH DIRECTORS			

During the year amounts totalling £72,888 were paid to Euro PA Services Limited, a company controlled by Dr John Strak, Managing Director of North Highland Products Limited, for services provided and expenses incurred at normal commercial rates.

David Richard-Jones, a non-executive director, was paid a Directors fee amounting to £6,000 during the year.

North Highland Products Limited

Notes to the Financial Statements – continued
for the Year Ended 31 December 2006

10. **RELATED PARTY DISCLOSURES**

Non executive farmer directors in the normal course of business enter into transactions with the company which are at arms length and on the same terms as are available to other members of the company.

The value of these transactions in aggregate was:-

	2006	2005
Sales to the company	£467,379	£125,002
Purchases from the company	-	-