

**North Highland Products Limited
and
Mey Selections Limited

Proposed Restructuring**

The Present Position

The business was originally incorporated by a small group of farmers as a company limited by guarantee. The Company is now working with around five hundred farmers, fishers, and fine food producers and so the original business structure is no longer appropriate for the current scope of the Company's operations. It does not enable the Company to share any increase in the value of the business with its members, nor is it able to raise money from investors, pay dividends or borrow money in order to finance the development of the business. The establishment of the brand and sales penetration have all been achieved without a long term financial strategy and this note sets out the basis upon which it is proposed to re-structure the business.

Proposed Restructuring

Having taken professional advice, it is proposed that a new company (the "Company") limited by shares should be incorporated under the name of Mey Selections Limited. The Company will acquire the existing business of North Highland Products Limited ("NHP") in an arms length transaction for a sum equivalent to its open market value as assessed by our Accountants. All suppliers will benefit from this arrangement by becoming shareholders in the Company and will receive one Ordinary share in the Company credited as fully paid up. All shareholders will then be entitled to acquire additional shares in the Company if they wish to do so.

The Brand Premium

All suppliers who continue to trade with the Company will continue to receive the benefit of the Brand Premium. As shareholders, suppliers will be entitled to receive all or part of the Brand Premium in cash or in shares. This will give all suppliers the opportunity to share in the growth of the **Mey Selections** brand.

The Board of the Company

The Company will initially have a board of 7 directors comprising Danny Miller as Chairman and Messrs Andrew Mackay, Donald Swanson, Lord MacLennan of Rogart, Robert Gray, David Richard-Jones, Robert Nichol, and John Strak as directors and non-executive directors.

It is intended that the non-executive directors will retire by rotation every three years. [Non-executive directors will be entitled to serve for two consecutive terms but will not be entitled to serve for a [third] term without a special resolution of the Members].

Dr. John Strak will be employed as Managing Director of the Company. The non-executive directors will be entitled to expenses and a small honorarium which will be approved annually at each General Meeting.

Share Structure of the Company

It is proposed that one share of £1.00, credited as fully paid, will be given to each of the current members of NHP. These shares will be treated as non-voting shares until the proposed investment raising exercise has been completed when they will become voting shares.

All suppliers will then be entitled to acquire additional shares in accordance with the principles outlined above.

Immediately following the acquisition of the business by the Company, it is proposed that up to £1.5 Million should be raised from a number of external shareholders (“the Investors”) at a price of £1.00 per share. Those who subscribe for shares may be entitled to tax relief under the Enterprise Investment Scheme. These negotiations are still at an early stage but it is anticipated that the Investors will wish to enter into an Investment Agreement and adopt Articles of Association which will give them the usual investor protections.

As suppliers increase their share holding, they will acquire an increasing share in the capital of the Company. The long-term value of the Company will depend upon its ability to continue to develop the **Mey Selections** brand and improve its margins. Provided the Company continues to perform in line with expectations, it is anticipated that suppliers will be able to acquire up to 49% of the enlarged share capital of the Company.

The Investors will receive share warrants which will entitle them to subscribe for additional shares so that the Investors will be entitled to hold not less than 51% of the enlarged share capital.

Share Options

In order to provide an appropriate incentive to the management team, it is proposed that a share option pool representing up to 10% of the fully diluted share capital should be set aside for the benefit of the management team. The performance criteria for the exercise of these share options will be determined by a remuneration committee to be appointed by the Board. The option shares will be non-voting.

Articles of Association

The Company will adopt new Articles of Association setting out the rights of the Board to issue new shares and deal with the transfer of shares. These rights will be as follows:-

- The Board will have discretion to issue new shares representing a maximum of 25% of the enlarged share capital of the Company every year. This right will be exercised only if additional capital is required for the business of the Company. This will give the Board the right to raise additional share capital from third parties but they will not issue shares to themselves without first offering all shareholders the right to subscribe for a proportionate number of shares on the same terms;

- All shareholders will have the right to pass shares to “privileged relations” and/or “family trusts” in the event of death or incapacity;
- In the event of any shares being offered for sale, they may be transferred freely amongst members and to third parties who must first of all be approved by the Board;
- No individual shareholder (including privileged relations and family trusts) will be entitled to own more than 24.9% of the issued share capital of the Company from time to time; and
- In the event of an offer ever being made for a controlling interest or the entire issued share capital of the Company a 51% majority of shareholders may accept the offer and require all shareholders to sell provided the same terms are offered to all shareholders.