# Pathway Holdings Limited

# Annual report and financial statements

# for the year ended 31 December 2011

**Registered number 6618790**

# Pathway Holdings Limited

# Annual report and financial statements

# for the year ended 31 December 2011

## Contents

# Pathway Holdings Limited

## Directors and advisors for the year ended 31 December 2011

**Directors**
Mr N B Hay
Mr J Danules
Mr J D Meltham

**Secretary**
Vita Industrial (UK) Limited

**Independent auditors**
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

**Registered office**
Times Place
45 Pall Mall
London
SW1Y 5JG

**Registered number**
6618790

# Pathway Holdings Limited

# Directors' report for the year ended 31 December 2011

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2011

**Principal activity**
The principal activity of the Company during the year is to be the immediate parent of certain overseas investments of the Group (British Vita (Lux III) S àr l and its subsidiary companies) Principal investments are detailed in note 4 to the financial statements

**Business review**
Results for the year were in line with expectations The loss for the year was $6,319,779 (2010 $11,792,551)

At the year end the Company had net assets of $20,167,529 (2010 $26,487,308)

During the year, the Company incurred exceptional operating costs of $2,418,750 in respect of the impairment of intangible assets (2010 $8,650,000 relates to the impairment of investment in subsidiary undertakings)

**Environment**
The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities The Company operates in accordance with Group policies

**Principal risks and uncertainties**
The management of the business and the execution of the Company's strategy are subject to a number of risks

**Financial risk management**
The Group, of which the Company is a member, through its central treasury activities seeks to reduce financial risk, ensure sufficient liquidity and manage surplus cash The treasury department operates within parameters approved and monitored by the Group Board and restricts transactions to banks that have a defined minimum credit rating

The treasury department does not take speculative financial positions and makes limited use of derivative financial instruments The treasury department advises operational management on all financial risks and executes all major transactions in financial instruments In the UK, the treasury department arranges all foreign currency forward contracts to hedge transactional exposures and ensures exposures are fully hedged as they arise and, where appropriate, hedges future exposures up to six months forward In addition, the treasury department manages borrowings centrally At the year end the Company had no foreign currency forward contracts

**Key Performance Indicators ("KPIs")**
The Group, of which the Company is a member, is managed on a divisional basis As such the Company produces monthly reporting packs containing its financial results and these are consolidated into the total numbers for its division and submitted to Group for review The Key Performance Indicators on which the Group focuses are

- EBITDA
- Working Capital
- Operating Cash Flow

The three KPIs are measured in absolute terms and, in addition, working capital is also measured on days sales outstanding, days purchases outstanding and days inventory in hand The Group has confirmed through its reviews that the KPIs have been running at a level consistent with expectations and have satisfied the Group's relevant banking covenants

**Dividends**
The directors do not propose a dividend in respect of the year (2010 nil)

# Pathway Holdings Limited

## Directors' report for the year ended 31 December 2011 (continued)

**Directors and their interests**
The directors who held office during the year and up to the date of signing the financial statements are as follows

Mr N B Hay
Mr J Danules
Mr J D Meltham (appointed 12 April 2011)
Mr N J Burley (resigned 25 March 2011)

**Political and charitable contributions**
No political or charitable donations (2010 £nil) were made by the Company during the year

**Statement of directors' responsibilities**
The directors are responsible for preparing the Directors' report and 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 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 of disclosure of information to auditors**
Each director in office at the date the Directors' report is approved confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he 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

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006

**By order of the Board**

Mr G L Maundrell
Director
9 May 2012

## Independent auditors' report to the members of Pathway Holdings Limited

We have audited the financial statements of Pathway Holdings Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet the Accounting Policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Simon White (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
9 May 2012

## Pathway Holdings Limited

## Profit and loss account for the year ended 31 December 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **Turnover** | | **1,144,734** | 1,153,635 |
| Administrative expenses – before exceptional items | | **(4,837,500)** | (4,837,500) |
| Exceptional items – impairment of investment | | **-** | (8,650,000) |
| - impairment of intangible assets | | **(2,418,750)** | - |
| Administration costs | | **(7,256,250)** | (13,487,500) |
| **Operating loss** | 1 | **(6,111,516)** | (12,333,865) |
| Interest receivable and similar income | | **191,340** | 141,711 |
| **Loss on ordinary activities before taxation** | | **(5,920,176)** | (12,192,154) |
| Tax on loss on ordinary activities | 2 | **(399,603)** | 399,603 |
| **Loss for the financial year** | 9 | **(6,319,779)** | (11,792,551) |

All results are generated from continuing operations

The Company has no recognised gains and losses for the period other than those included in the loss above, therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the loss on ordinary activities before taxation and the loss for the years stated above and their historical cost equivalents

# Pathway Holdings Limited

## Balance sheet as at 31 December 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 3 | - | 7,256,250 |
| Investments | 4 | **15,900,000** | 15,900,000 |
| | | **15,900,000** | 23,156,250 |
| **Current assets** | | | |
| Debtors (includes £1,300,000 (2010 £1,300,000) due after one year) | 5 | **5,600,000** | 4,652,902 |
| | | **5,600,000** | 4,652,902 |
| **Creditors: amounts falling due within one year** | 6 | **(32,471)** | (21,844) |
| **Net current liabilities** | | **5,567,529** | 4,631,058 |
| **Total assets less current liabilities** | | **21,467,529** | 27,787,308 |
| **Creditors:** amounts falling due after more than one year | 7 | **(1,300,000)** | (1,300,000) |
| **Net assets** | | **20,167,529** | 26,487,308 |
| **Capital and reserves** | | | |
| Called up share capital | 8 | **1,994** | 1,994 |
| Share premium account | 9 | **43,898,006** | 43,898,006 |
| Profit and loss account | 9 | **(23,732,471)** | (17,412,692) |
| **Total shareholders' funds** | 10 | **20,167,529** | 26,487,308 |

The financial statements on pages 5 to 12 were approved by the board of directors on 8 May 2012 and were signed on its behalf by

Mr J D Meltham
Director
9 May 2012

Pathway Holdings Limited
Registered number
6618790

# Pathway Holdings Limited

## Accounting policies

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom A summary of the principal accounting policies, which have been applied consistently, is set out below

The functional and presentation currency of the Company is the US Dollar

**Basis of preparation**
The financial statements have been prepared on a going concern basis under the historical cost convention The Company is a subsidiary of Vita Investments North America Limited and is included in the consolidated financial statements of British Vita (Lux III) S ar l , which are publicly available Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006

**Investments**
Investments in subsidiary undertakings are stated at cost less provision for impairment

**Intangible assets**
Intangible assets comprise patents and trademarks and are stated at cost less provision for impairment They are amortised over their expected useful life of 4 years

**Impairment reviews**
Where circumstances indicate that there may have been an impairment of the carrying value of an investment, intangible or tangible fixed asset, an impairment review is carried out using cash flows calculated from budgets and projections approved by the board which are discounted at the Group's risk-adjusted weighted average cost of capital calculated from equity market data and borrowing costs The impairment cost, if material, is booked as an exceptional item

**Turnover**
Turnover represents royalty income on the Company's patents and is recognised on an accruals basis

**Taxation**
Corporation tax payable is provided on taxable profits at the current rate after adjusting for double taxation relief in respect of overseas taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

**Foreign currencies**
Transactions denominated in foreign currencies are translated into sterling at actual exchange rates as of the date of the transaction (or where appropriate, at the rate of exchange in a related foreign currency forward contract) Monetary assets and liabilities denominated in foreign currencies at the period end are translated into sterling at the rate of exchange prevailing at the period end (or, where appropriate, at the rate of exchange in a related foreign currency forward contract) Any gain or loss arising from a change in exchange rates subsequent to the date of transaction is included as an exchange gain or loss in the profit and loss account

**Financial liabilities and equity**
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities

**Cash flow statement**
The Company is a wholly owned subsidiary of British Vita (Lux III) S àr l , which produces consolidated financial statements that are publicly available Consequently, the Company is exempt from the requirement of Financial Reporting Standard (FRS) 1 "Cash flow statements" (Revised 1996) to prepare a cash flow statement

# Notes to the financial statements

**for the year ended 31 December 2011**

## 1 Operating loss

The turnover represents royalty income received from group companies in the USA

There were exceptional operating costs in 2011 of $2,418,750 in respect of the impairment of intangible assets Operating loss in 2010 is stated after charging an exceptional item in respect of the impairment of investments of $8,650,000 Amortisation of intangible fixed assets during the year was $4,837,500 (2010 $4,837,500)

Fees payable to the Company's auditor of $4,000 (2010 $4,000) for audit services were borne by Vita Industrial (UK) Limited, a fellow group undertaking No directors' emoluments were paid during the period The Company has no employees

The closing exchange rate of Sterling to US Dollar at 31 December 2011 used in preparing these financial statements was 1 54 (2010 1 55) The average rate was 1 60 (2010 1 54)

## 2 Tax on loss on ordinary activities

| | **2011** | 2010 |
|---|---|---|
| | **$** | $ |
| **Current tax** | | |
| United Kingdom corporation tax at 26 5% (2010 28%) | - | (399,603) |
| Adjustment in respect of previous years | **399,603** | - |
| Tax on loss on ordinary activities | **399,603** | (399,603) |

The tax assessed for the year differs (2010 differs) from the effective rate of Corporation tax in the UK The differences are explained as follows

| | **2011** | 2010 |
|---|---|---|
| | **$** | $ |
| Loss on ordinary activities before taxation | **(5,920,176)** | (12,192,154) |
| Tax on loss on ordinary activities at standard UK Corporation tax rate of 26 5% (2010 28%) | **(1,568,847)** | (3,413,803) |
| Expenses not deductible for tax purposes | **3,394,033** | 2,422,000 |
| Adjustment in respect of previous years | **399,603** | - |
| Tax losses (utilised)/not utilised | **(1,825,186)** | 592,200 |
| **Current tax credit for the year** | **399,603** | (399,603) |

Potential deferred tax assets of $0 3m (2010 $2 1m) have not been recognised in respect of losses carried forward, as it is considered the degree of certainty around the future is not sufficient to recognise these assets

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011 and a further reduction to 25% with effect from 1 April 2012 These changes became substantively enacted on 29 March 2011 and 5 July 2011 respectively The effect of these rate reductions has been included in the relevant figures above

In his budget of 21 March 2012, the Chancellor of the Exchequer announced certain tax changes The proposals included phased reductions in the corporation tax rate The rate reduced to 24% from 1 April 2012 and further reductions were proposed to 23% effective from 1 April 2013 and to 22% effective from 1 April 2014 As at 31 December 2011 these changes had not been substantively enacted and therefore are not recognised in the financial statements The overall effect of the further reductions from 25% to 22%, if these applied to the deferred tax balance not recognised at 31 December 2011, would not be significant

# Notes to the financial statements (continued)

**for the year ended 31 December 2011**

## 3 Intangible assets

| | Patents and trademarks $ |
|---|---|
| **Cost** | |
| At 1 January and 31 December 2011 | **19,350,000** |
| **Accumulated amortisation** | |
| At 1 January 2011 | 12,093,750 |
| Amortisation in the year | 4,837,500 |
| Impairment in the year | 2,418,750 |
| **At 31 December 2011** | **19,350,000** |
| **Net book value** | |
| **At 31 December 2011** | - |
| At 31 December 2010 | 7,256,250 |

## 4 Fixed asset investments

| | Subsidiary undertakings $ |
|---|---|
| **Cost** | |
| **At 1 January and 31 December 2011** | **24,550,000** |
| **Impairment** | |
| **At 1 January and 31 December 2011** | **8,650,000** |
| **Net book value** | |
| **At 31 December 2011** | **15,900,000** |
| At 31 December 2010 | 15,900,000 |

The directors believe that the carrying value of the investments is supported by their underlying net assets

## 4 Fixed asset investments (continued)

The principal investments are as follows

| Subsidiary undertakings | Country of incorporation, registration and operation | Description and proportion of shares held by Company | Principal activity |
|---|---|---|---|
| Pathway Polymers Inc | USA | 80% ordinary shares | Thermoplastic compounds |

The financial statements contain information about Pathway Holdings Limited as an individual Company and do not contain consolidated financial information as the parent of a group The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, British Vita (Lux III) S àr l

## 5 Debtors

| | **2011** **$** | 2010 $ |
|---|---|---|
| Amounts owed by group undertakings (includes £1,300 000 (2010 £1,300,000) due after one year) | **5,600,000** | 4,253,299 |
| Corporation tax recoverable | - | 399,603 |
| | **5,600,000** | 4,652,902 |

Amounts owed by group undertakings are unsecured and interest is charged on a floating rate basis The rates are linked to the libor (or equivalent) for the currency of each loan, and an appropriate margin is added

## 6 Creditors: amounts falling due within one year

| | **2011** **$** | 2010 $ |
|---|---|---|
| Amounts owed to group undertakings | **32,471** | 21,844 |

Amounts owed by group undertakings are interest free and repayable 45 days after the end of the month in which they arose

# Notes to the financial statements (continued)

**for the year ended 31 December 2011**

## 7 Creditors: amounts falling due after more than one year

| | **2011** **$** | 2010 $ |
|---|---|---|
| Amounts owed to group undertakings | **1,300,000** | 1,300,000 |

Amounts owed to group undertakings are unsecured and interest is charged on a floating rate basis The rates are linked to the libor (or equivalent) for the currency of each loan, and an appropriate margin is added

## 8 Called up share capital

| | **2011** **$** | 2010 $ |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 1,000 (2010 1,000) ordinary shares of £1 each | **1,994** | 1,994 |

## 9 Reserves

| | **Share premium account** **$** | **Profit and loss account** **$** |
|---|---|---|
| At 1 January 2011 | 43,898,006 | (17,412,692) |
| Loss for the year | - | (6,319,779) |
| **At 31 December 2011** | **43,898,006** | **(23,732,471)** |

## 10 Reconciliation of movements in shareholders' funds

| | **2011** **$** | 2010 $ |
|---|---|---|
| Loss for the year | **(6,319,779)** | (11,792,551) |
| Opening shareholders' funds | **26,487,308** | 38,279,859 |
| **Closing shareholders' funds** | **20,167,529** | 26,487,308 |

# Notes to the financial statements (continued)

**for the year ended 31 December 2011**

## 11 Related party transactions

The Company has taken advantage of the exemption under paragraph 3(C) from the provisions of FRS 8, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by the British Vita (Lux III) S ar l , whose financial statements are publicly available

## 12 Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking is Vita Investments North America Limited, which owns 80% (2010 80%) of the Company's shares Vita Industrial (UK) Limited, a fellow subsidiary company, owns 20% (2010 nil) of the Company's shares

British Vita (Lux III) S ar l is the parent undertaking of the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2011 The consolidated financial statements may be obtained from 5, Rue Guillaume Kroll, L-1882, Luxembourg

The Company's ultimate controlling party is TPG Partners IV-AIV, LP, a partnership located in the Cayman Islands The ultimate parent company is Vita Cayman Limited