

Hydro S & S

KINGFA

*Annual
Report*

2012 - 2013

Hydro S & S

KINGFA



**ACQUISITION OF
HYDRO S&S INDUSTRIES LTD.**

BY

KINGFA SCI & TECH CO. LTD

3rd July 2013



Board of Directors**V. SRINIVASAN** (upto 03-07-2013)**MURALI VENKATRAMAN**, *Vice-Chairman* (upto 03-07-2013)**V. THIRUPATHI****NARAYAN SETHURAMON** (upto 23-07-2012)**G. BALASUBRAMANYAN****DINSHAW KEKU PARAKH** (upto 03-07-2013)**S.K. SUBRAMANYAN**, *Director (Finance & Administration)* (upto 03-07-2013)**NIE DELIN** (w.e.f. 03-07-2013)**BO JINGEN**, *Managing Director* (w.e.f. 03-07-2013)**WU XIAOHUI**, *Whole-time Director* (w.e.f. 03-07-2013)**Chief Financial Officer****XIE DONGMING** (w.e.f. 03-07-2013)**Company Secretary****S.K. SUBRAMANYAN****Works**

Plot No. 15C, SIPCOT Indl. Complex, Pudukkottai - 622 002

RS No. 38/1, Sedarapet Industrial Area, Sedarapet, Puducherry - 605 111

G 34, Addl. Jejuri Industrial Area, Jejuri, Tal. Purandar, Pune - 412 303

Plot No-406, Sector-8, IMT Manesar, Gurgaon - 122050, Haryana

Registered Office

Dhun Building, III Floor,

827, Anna Salai, Chennai - 600 002

Telephone : 91-44-28521736 (4 lines)

Fax : 91-44-28520420

E-mail : info@hssil.com

Auditors

M/s. P. Srinivasan & Co.,

Chartered Accountants,

Chennai - 600 017

Bankers

State Bank of India, Chennai - 600 001

Canara Bank, Chennai - 600 002

Registrar & Share Transfer Agent

M/s. Integrated Enterprises (India) Limited

2nd Floor, Kences Towers,

No. 1, Ramakrishna Street,

North Usman Road,

T. Nagar, Chennai - 600 017.

Telephone : 91-44-28140801 - 03

Fax : 91-44-28142479

E-mail : yuvraj@integratedindia.in

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FIVE - YEAR FINANCIAL DATA

(₹ in Millions)

For the Year	2012-13	2011-12	2010-11	2009-10	2008-09
Sales : Domestic	1,754.307	1,645.481	1,542.326	1,183.225	1,337.834
Exports	2.329	1.567	0.427	1.933	0.001
Operating Profit (PBIDT)	26.863	91.004	86.498	71.142	42.958
Finance Cost	69.711	65.561	46.509	47.526	48.298
Depreciation and amortisation expense	28.185	26.794	26.909	25.768	20.565
Tax expenses - Current	—	—	3.200	—	0.660
- Deferred	(20.550)	(1.600)	(0.600)	(2.000)	(8.235)
Profit/(Loss) After Tax	(50.483)	0.249	10.480	(0.152)	(18.329)
As at the end of the Year					
Share Capital	64.072	64.072	64.072	64.072	65.104
Reserves & Surplus	134.607	185.090	184.817	178.818	181.636
Loan Funds	346.008	428.816	427.580	353.068	359.649
Gross Block	479.091	513.185	528.565	499.920	490.072
Net Current Assets	287.284	403.818	388.332	305.582	289.992
Measures of Investment					
Return on Capital Employed (%)	-0.24%	9.47%	9.55%	7.61%	3.69%
Return on Equity (%)	-25.41%	0.10%	4.21%	(0.06%)	(7.43%)
Earnings per Share (₹)	(7.88)	0.04	1.64	(0.02)	(2.82)
Dividend Cover (Times)	—	—	2.73	NA	NA
Dividend (%)	—	—	6	NA	NA
Book Value of an Equity Share	31.01	38.89	38.85	37.91	37.90
Of Performance					
- Profitability (%)					
Profit/(Loss) before Tax (%)	-4.56%	(0.09%)	0.94%	(0.20%)	(2.19%)
Profit/(Loss) after Tax (%)	-3.24%	0.02%	0.75%	(0.01%)	(1.55%)
- Capital Turnover (times)	3.23	2.43	2.28	1.99	2.21
- Stock Turnover (times)	9.17	9.03	7.32	7.66	8.43
- Working Capital Turnover (times)	6.11	4.08	3.97	3.88	4.61
Of Financial Status					
- Debt-Equity Ratio (times)	0.25:1	0.40:1	0.53:1	0.55:1	0.57:1
- Current Ratio	0.97:1	1.08:1	1.18:1	1.24:1	1.21:1
- Fixed Assets to Shareholders' Funds (times)	1.30:1	1.19:1	1.28:1	1.29:1	1.33:1

DIRECTORS' REPORT**PART I – PERFORMANCE / OPERATIONS**

Your Directors hereby present their 29th Annual Report alongwith Audited Statement of Accounts of the Company for the year ended March 31, 2013.

FINANCIAL RESULTS

(₹ in Lacs)

Particulars	Year Ended March 31, 2013		Year Ended March 31, 2012	
Revenue from Operations				
Gross		17,634.38		16,539.48
Net of Excise Duty		15,657.95		15,010.03
Other Income		83.63		14.36
Profit before Finance Costs & Depreciation and amortisation expense		268.64		910.04
Finance Costs		697.12		655.61
(Loss) / Profit before Depreciation and amortisation expense		(428.48)		254.43
Depreciation and amortisation expense		281.85		267.94
(Loss) / Profit before Tax		(710.33)		(13.51)
Tax expenses - Current Tax	—		—	
- Deferred Tax	(205.50)		(16.00)	
		(205.50)		(16.00)
(Loss) / Profit after Tax		(504.83)		2.49
Balance brought forward		104.80		102.32
(Loss) / Profit available for Appropriation		(400.03)		104.80
Appropriations:				
Transfers to				
General Reserve	—		—	
Special General Reserve	—		—	
Proposed Dividend				
On Equity Shares	—		—	
Tax on distributable profits	—		—	
		—		—
(Deficit) / Surplus carried forward		(400.03)		104.80
		(400.03)		104.80

BUSINESS OPERATIONS

Revenue from Operations grew moderately by 4% over the previous year, though volumes remain flat. The year witnessed continued turbulence on the business front with inflation continuing to rule high, leading to high interest rates and dampened consumer enthusiasm to buy automobiles.

Your Company had to continue facing the challenges of a sustained high inflation on input prices. The high input costs, in the context of resistance from customers to adequate compensation, led to erosion in margins.

As indicated in the last year's report, your company has completed the compounding facility at Manesar to cater to the requirements of the Northern market, with an initial capacity of 6000 MTPA. This facility was commissioned in March 2013 and is expected to contribute to growth of the company during the current year.

The Pultrusion division has been only achieving marginal performance during the recent years and hence it was decided to close down operations of this division.

As part of realignment of capacity, it was decided to curtail production at Pudukkottai. Consequently it was decided to sell the two Wind Mills which the Company had established. The proceeds from the sale were utilised for funding the Manesar facility and into operations.

Detailed analysis of the Company's performance during the year is provided in Annexure - F to this Report.

DIVIDEND

Due to the adverse business environment, the operations of the Company have resulted in a net loss as explained in detail in the Management's Discussion and Analysis Report. In order to conserve resources, your Directors regret that they are unable to recommend any dividend on the Equity Share Capital of the Company for the year under review.

ENVIRONMENT, HEALTH AND SAFETY

The facilities of the Company renewed their ISO 14001 and OHSAS 18001 certification.

Your Company's policy require the conduct of all operations in such a manner so as to ensure safety of all concerned, compliance of statutory and industrial requirements for environment protection and conservation of natural resources to the extent possible.

EMPLOYEE RELATIONS

Industrial relations remained cordial during the year. A new three year wage pact, upon expiry of the earlier agreement was signed with the workmen of the Puducherry plant.

Various HR initiatives are continuously taken to align the HR policies to the growing requirements of the business. Technical and Safety training programmes are given periodically to workers.

PART II - CORPORATE MATTERS

CORPORATE GOVERNANCE

Your Company continues to be committed to governance aligned with good management practices.

As per the requirement of Clause 49 of the Listing Agreement entered into with the Stock Exchanges, a detailed report on Corporate Governance is set out in **Annexure - B** to this Report.

The Statutory Auditors of the Company have examined the Company's compliance and have certified the same, as required under SEBI Guidelines. Such certificate is reproduced in **Annexure - C** to this Report.

The Whole Time Director and CFO certification is given in **Annexure - D** to this Report.

A Statement of General Business Principles is given in **Annexure - E** to this Report.

A separate Management's Discussion and Analysis Report on the Company's performance is given in **Annexure - F** to this Report.

A Declaration by Mr.S.K.Subramanyan (Whole-time Director) with regard to compliance of Company's Code of Conduct by the Board Members and Senior Management Personnel is furnished as **Annexure - G** to this Report.

The Directors' Responsibility Statement as required under Section 217(2AA) of the Companies Act, 1956 is furnished in **Annexure - H** to this Report.

CHANGE IN MANAGEMENT CONTROL

The Promoters of the Company have informed the Board that they have entered into a Share Purchase Agreement with M/s. Kingfa Sci. & Tech. Co., Ltd., Guangzhou, China, for transfer of their shareholding in the Company.

This process will be completed after necessary approvals are obtained.

The Board of Directors have considered this communication and taken note of the development.

The Board feels that it will be in the best interests of the Company, its Shareholders and the Employees if a strategic global player from the Industry is inducted into the Company.

DIRECTORS

Mr.Narayan Sethuramon, Director resigned from the Board with effect from 23rd July, 2012. The Board wishes to place on record its appreciation of the valuable services rendered by him during his tenure in office both in the Executive and Non Executive roles.

Your Directors, Mr..... and Mr..... retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible, offer themselves for re-appointment. - To be finalised (Refer Addendum to Directors' Report in Page No.7).

The necessary resolutions in this regard are being placed before the Shareholders for their approval.

AUDITORS

The Auditors of the Company, M/s. P. Srinivasan and Co., Chartered Accountants, Chennai hold office until the conclusion of the Annual General Meeting and have given their consent for re-appointment. The Company has received confirmation that their appointment will be within the limits prescribed under Section 224 (1B) of the Companies Act, 1956. The necessary resolution is being placed before the shareholders for their approval.

COST AUDITOR

Your Company has come under the purview of The Companies (Cost Audit Report) Rules, 2011 and is required to conduct an audit of the cost records, by a Cost Accountant. In requirement of this, the Company has appointed P. Raju Iyer, M.Pandurangan & Associates, Cost Accountants, Chennai as the Cost Auditors for the audit of Cost records for the year ended 31st March 2013.

The Company has duly filed the Cost Compliance Report for the year ended 31st March 2012.

STATUTORY INFORMATION

The provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, are not applicable since there is no employee drawing remuneration more than ₹ 60,00,000/- per annum (full year) or ₹ 5,00,000/- p.m (part of the year).

Particulars required under Section 217(1)(e) of the said Act relating to Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo are furnished in a separate statement annexed to and forming part of this Report as **Annexure - A**.

All the dividends of the earlier years, which have remained unclaimed, have since been transferred to the Investor Education and Protection Fund at the expiry of the specified period(s) as required under Section 205C of the Companies Act, 1956. Details of dividends remaining unclaimed as on 31.03.2013 are as under :

Year	Date of declaration	No. of Shareholders	Total Unclaimed Dividend (₹)	Due date for transfer to IEPF Account
2005 - 2006	18.09.2006	46	32,040.00	28.09.2013
2006 - 2007	13.09.2007	515	1,60,553.00	20.10.2014
2007 - 2008 (Interim)	31.01.2008	568	41,224.00	08.03.2015
2007 - 2008 (Final)	16.09.2008	569	54,305.70	22.10.2015
2008 - 2009	No Dividend declared	N.A.		
2009 - 2010	No Dividend declared	N.A.		
2010 - 2011	29.09.2011	732	61,588.80	05.11.2018
2011 - 2012	No Dividend declared	N.A.		

FIXED DEPOSITS

The Company has not accepted any fixed deposits from the public within the meaning of Section 58A of the Companies Act, 1956.

ACKNOWLEDGEMENT

Your Directors wish to record their appreciation of the continued support and co-operation from your Company's customers, vendors, bankers and all other stakeholders. Your Company will continue to build and maintain strong links with its business partners.

The Directors sincerely appreciate the high degree of professionalism, commitment and dedication displayed by employees at all levels. The Directors also place on record their gratitude to the Members for their continued support and confidence.

For and on behalf of the Board of Directors

Place : Chennai
Date : 21st May, 2013

V. SRINIVASAN
Chairman of the Meeting

MURALI VENKATRAMAN
Vice - Chairman

ADDENDUM TO DIRECTORS' REPORT**Under DIRECTORS' REPORT, PART II – CORPORATE MATTERS****DIRECTORS**

Your Director, Mr.V.Thirupathi retires by rotation at the forthcoming Annual General Meeting of the Company and being eligible, offer himself for re-appointment.

Consequent upon the signing of a Share Purchase Agreement, between the erstwhile Promoter Group of the Company and M/s. Kingfa Sci. & Tech. Co., Ltd., Guangzhou, China, (Kingfa) for the transfer of their Shareholding, Kingfa have nominated Mr. Nie Delin, Mr. Bo Jingen and Mr. Wu Xiaohui as Directors on the Board of the Company with effect from 3rd July, 2013.

Mr. V.Srinivasan, Mr. Murali Venkatraman and Mr. Dinshaw K.Parakh have resigned as Directors from the Board with effect from 3rd July, 2013.

Mr.S.K. Subramanyan, Whole Time Director [Director (Finance & Administration) & Company Secretary] has resigned as Director from the Board. However, Mr. S.K. Subramanyan will continue to be Company Secretary of the Company under Section 383A of the Companies Act, 1956 and designated as Director (Corporate Affairs) and Company Secretary with effect from 3rd July, 2013.

Mr. Nie Delin, Mr. Bo Jingen and Mr. Wu Xiaohui were co-opted as Additional Directors with effect from 3rd July, 2013. They hold office until the ensuing Annual General Meeting and are seeking election as Directors.

Yours Directors have appointed Mr.Bo Jingen as Managing Director and Mr. Wu Xiaohui as Whole-time Director of the Company with effect from 3rd July, 2013.

The necessary resolutions in this regard are being placed before the Shareholders for their approval.

APPOINTMENT OF CHIEF FINANCIAL OFFICER

Mr. Xie Dongming has been appointed as Chief Financial Officer of the Company with effect from 3rd July, 2013.

For and on behalf of the Board of Directors

Place : Chennai
Date : 31st July, 2013

G. BALASUBRAMANYAN
Chairman of the Meeting

BO JINGEN
Managing Director

ANNEXURE - A TO DIRECTORS' REPORT

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988.

(A) CONSERVATION OF ENERGY**(a) Energy Conservation measures taken:**

Single cooling tower now meets the requirement of both machine cooling and process water cooling, as compared to exclusive ones, thereby saving on power.

(b) Additional measures taken for reduction of consumption of energy:

1. Investment in Humidity Chamber in the Lab to place test specimens, has led to switching off Air conditioners in the Lab general area.
2. Office, plant and street lighting have been partially converted into CFL lighting, thereby saving on energy.

(B) TECHNOLOGY ABSORPTION**(a) Research and Development (R & D):****(i) Specific areas in which R & D carried out by the Company**

R&D focus remains on developing new formulations with available raw materials and new additives to meeting the dynamically evolving requirements of our key Industry - the Auto OEM's and Appliances. The Auto Industry is focussing on increased fuel efficiency and reduced CO2 footprint which are becoming more and more stringent and part of customer expectations. Compounds with higher strength, Impact Stiffness Balance, Aesthetic compounds to avoid secondary operations like painting, Low Shrinkage and Low CLTE compounds are the focus to win new business from Auto OEM's.

(ii) Expenditure on R & D (₹ in Lacs)

(a) Capital	—	4.26
(b) Recurring	—	33.01
Total	—	37.27

(b) Technology Absorption, Adaptation and Innovation:

Novel manufacturing using innovative formulation and new blending techniques for getting improved properties in our compounds have enabled us to win new business and be cost effective. We are seeing positive response from our customers.

(c) Imported Technology : Not applicable**(C) FOREIGN EXCHANGE EARNINGS & OUTGO (₹ in Lacs)**

Foreign Exchange Earnings	—	87.67
Foreign Exchange Outgo	—	3,256.72

The Company is taking continuous steps to develop export markets as appropriate to the nature of its products.

The details of the above are given in the Notes forming part of Financial Statements.

For and on behalf of the Board of Directors

Place : Chennai
Date : 21st May, 2013

V. SRINIVASAN
Chairman of the Meeting

MURALI VENKATRAMAN
Vice - Chairman