KINGFA | Hydro S & S

Annual Report

2014 - 2015

Board of Directors **NIE DELIN**
BO JINGEN, ***Managing Director***
WU XIAOHUI, ***Whole-time Director***
N. SUBRAMANIAN
KAMANA SRIKANTH (w.e.f. 13-02-2015)

Chief Financial Officer **XIE DONGMING**

Company Secretary **S.K. SUBRAMANYAN**

Works

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

Registered Office

Dhun Building, III Floor,
827, Anna Salai, Chennai - 600 002
Telephone : +91-44-28521736
Fax : +91-44-28520420
E-mail : info@hssil.com
Website : www.hssil.com
CIN : L25209TN1983PLC010438

Auditors

M/s. P. Srinivasan & Co.,
Chartered Accountants,
No. 6/24, Sambasivam Street,
T.Nagar, Chennai - 600 017.
Phone : 044 - 28151105
E-mail : pscom@vsnl.net

Bankers

Citibank N.A., Chennai - 600 002
Industrial and Commercial Bank of China Limited, Mumbai - 400 051
State Bank of India, Chennai - 600 001

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

Contents **Page Nos.**

Financial Highlights	2
Directors' Report	3
Corporate Governance Report	19
M D & A Report	32
Auditors' Report	35
Balance Sheet	38
Statement of Profit and Loss	39
Cash Flow Statement	40

FIVE - YEAR FINANCIAL DATA

(₹ in Millions)

For the Year	2014-15	2013-14	2012-13	2011-12	2010-11
Sales : Domestic	**2,409.968**	1,980.945	1,754.307	1,645.481	1,542.326
Exports	**58.090**	3.251	2.329	1.567	0.427
Operating (Loss) / Profit (PBIDT)	**65.817**	(30.651)	26.863	91.004	86.498
Finance Cost	**81.233**	65.636	69.711	65.561	46.509
Depreciation and amortisation expense	**31.418**	26.573	28.185	26.794	26.909
Tax expenses - Current	**—**	—	—	—	3.200
- Deferred	**(16.414)**	(38.088)	(20.550)	(1.600)	(0.600)
Profit / (Loss) After Tax	**(30.421)**	(84.772)	(50.483)	0.249	10.480
As at the end of the Year					
Share Capital	**64.072**	64.072	64.072	64.072	64.072
Reserves & Surplus	**17.557**	49.835	134.607	185.090	184.817
Loan Funds	**758.534**	621.785	346.008	428.816	427.580
Gross Block	**524.038**	490.653	479.091	513.185	528.565
Net Current Assets	**530.744**	451.900	287.284	403.818	388.332
Measures of Investment					
Return on Capital Employed (%)	**4.09%**	-7.76%	-0.24%	9.47%	9.55%
Return on Equity (%)	**-37.27%**	-74.42%	-25.41%	0.10%	4.21%
Earnings per Share (₹)	**(4.75)**	(13.23)	(7.88)	0.04	1.64
Dividend Cover (Times)	**—**	—	—	—	2.73
Dividend (%)	**—**	—	—	—	6
Book Value of an Equity Share	**12.74**	17.78	31.01	38.89	38.85
Of Performance					
- Profitability (%)					
Profit / (Loss) before Tax (%)	**-2.14%**	-6.94%	-4.56%	-0.09%	0.94%
Profit / (Loss) after Tax (%)	**-1.39%**	-4.79%	-3.24%	0.02%	0.75%
- Capital Turnover (times)	**2.94**	2.70	3.23	2.43	2.28
- Stock Turnover (times)	**7.72**	8.64	9.17	9.03	7.32
- Working Capital Turnover (times)	**4.65**	4.36	6.11	4.08	3.97
Of Financial Status					
- Debt-Equity Ratio (times)	**1.84:1**	1.05:1	0.25:1	0.40:1	0.53:1
- Current Ratio	**0.92:1**	0.97:1	0.97:1	1.08:1	1.18:1
- Fixed Assets to Shareholders' Funds (times)	**3.13:1**	2.15:1	1.30:1	1.19:1	1.28:1

DIRECTORS' REPORT

Your Directors hereby present their 31st Annual Report along with Audited Financial Statements for the year ended March 31, 2015.

FINANCIAL RESULTS (₹ in Lacs)

Particulars	Year Ended March 31, 2015		Year Ended March 31, 2014	
Revenue from Operations				
Gross		**24,680.58**		19,933.00
Net of Excise Duty		**21,879.24**		17,782.55
Other Income		**12.65**		23.26
(Loss) / Profit before Finance Costs & Depreciation and amortisation expense		**658.16**		(306.51)
Finance Costs		**812.33**		656.36
Loss before Depreciation and amortisation expense		**(154.17)**		(962.87)
Depreciation and amortisation expense		**314.18**		265.73
Loss before Tax		**(468.35)**		(1,228.60)
Tax expenses - Current Tax	**—**		—	
- Deferred Tax	**(164.14)**		(380.88)	
		(164.14)		(380.88)
Loss after Tax		**(304.21)**		(847.72)
Balance brought forward		**(1,247.75)**		(400.03)
Depreciation adjustment as per Companies Act, 2013		**(18.57)**		—
Deficit carried forward		**(1,570.53)**		(1,247.75)

BUSINESS OPERATIONS

Sales Revenue grew by 23% over the previous year, with volume growth of 15% achieved. Engineering Plastic Compounds sourced from HQ Kingfa, achieved its full year of sales, whilst the sale of EP compounds produced by the Company clocked revenue for last quarter of the year.

The benefit of drop of Polypropylene prices during the last quarter did not last long, as the prices started rising sharply towards the end of the last quarter.

Detailed analysis of the Company's performance during the year is provided in Annexure to this report under Management's Discussion and Analysis Report.

DIVIDEND

The operations of the Company have resulted in a loss as explained in detail in the Management's Discussion and Analysis Report. Hence, your Directors regret that they are unable to recommend any dividend on the Equity Share Capital of the Company for the year under review.

SHARE CAPITAL

The paid up equity capital as on March 31, 2015 was ₹ 640.72 lacs. The Company has not issued shares with differential voting rights nor granted stock options nor sweat equity.

OFFER FOR SALE BY PROMOTER

The Promoter, Kingfa Sci. & Tech. Co., Ltd., China in order to comply with the minimum public shareholding requirements of the listing agreement with Stock Exchanges had gone for Offer for Sale (OFS) of 5,00,000 Equity Shares on 16.12.2014 and had offloaded 2,58,930 Equity Shares (4.04%). A second Offer for Sale of 2,41,070 (3.76%) Equity Shares on 15.01.2015 was done and achieved successfully.

With the above two OFS's done, the promoter shareholding is now in compliance with the minimum public shareholding requirements of the listing agreement.

RIGHTS ISSUE OF EQUITY SHARES

The Company in order to augment resources for its long term funds requirement of the Company has proposed to go for Rights Issue of Equity Shares and intends to deploy the Issue Proceeds for Repayment of short term loans availed by the Company and Setting up of additional facilities at the existing locations. In this regard, the Company has filed draft letter of offer with SEBI and BSE Limited and awaiting its comments.

FINANCE

The Company's claim with the Government of Maharashtra for the Industrial Promotion Subsidy for its investment in Jejuri was approved during the year. The Company has received the refund of Electricity duty and is awaiting receipt of the VAT subsidy.

BIFR

Upon obtaining approval from the Shareholders at the Annual General Meeting held on 25th July, 2014, the Company had intimated Board for Industrial and Financial Reconstruction (BIFR) of the fact of erosion of more than 50% of the peak Net Worth. Subsequent status report of the steps undertaken have also been intimated.

FIXED DEPOSITS

Your Company has not accepted any deposits within the meaning of Section 73 of the Companies Act, 2013 and the Companies (Acceptance of Deposits) Rules, 2014.

PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS

The Company has not given any loans or guarantees nor has made any Investments covered under the provisions of Section 186 of the Companies Act, 2013.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has an Internal Control System, commensurate with the size, scale and complexity of its operations. The scope and authority of the Internal Audit function is defined in the Internal Audit Manual. To maintain its objectivity and independence, the Internal Audit function reports to the Chairman of the Audit Committee of the Board & to the Managing Director.

The Internal Audit Department monitors and evaluates the efficacy and adequacy of internal control system in the Company, its compliance with operating systems, accounting procedures and policies at all locations of the Company. Based on the report of internal audit function, process owners undertake corrective action in their respective areas and thereby strengthen the controls. Significant audit observations and recommendations along with corrective actions thereon are presented to the Audit Committee of the Board.

CORPORATE SOCIAL RESPONSIBILITY

The Company does not meet the criteria prescribed under Section 135 of the Companies Act 2013, hence the same is not applicable 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.

INDUSTRIAL RELATIONS

Industrial relations remained cordial during the year.

Various HR initiatives are continuously taken to align the HR policies to the growing requirements of the business. Reviews, training and tools are being provided for the personnel to improve overall efficiency.

DIRECTORS

Your Director, Mr.Wu Xiaohui retire by rotation and being eligible, offers himself for re-appointment.

The Board appointed Ms. Kamana Srikanth as an Additional Director - Non Executive Independent Director of the Company with effect from 13th February, 2015 for a period of 5 years subject to approval by the Shareholders at the ensuing Annual General Meeting.

Your Directors have re-appointed Mr.Bo Jingen as Managing Director and Mr.Wu Xiaohui as Whole-time Director of the Company at their Meeting held on 31st October, 2014.

All Independent Directors have given declarations that they meet the criteria of independence as laid down under Section 149(6) of the Companies Act, 2013 and Clause 49 of the Listing Agreement.

NUMBER OF MEETINGS OF THE BAORD

The details of the number of Meetings of the Board held during the Financial Year 2014 - 15 forms part of the Corporate Governance Report.

DIRECTORS' RESPONSIBILITY STATEMENT

To the best of knowledge and belief and according to the information and explanations obtained by them, your Directors make the following statement in terms of Section 134(3)(c) of the Companies Act, 2013:

(i) that in the preparation of the Annual Accounts for the year ended 31st March, 2015, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

(ii) and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2015 and of the profit or loss of the Company for the year ended on that date;

(iii) that the Directors has taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) the annual accounts have been prepared on a "going concern" basis.

(v) that the Directors had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and

(vi) that the Directors had devised proper system to ensure compliance with the provisions of all applicable laws and that such system were adequate and operating effectively.

RELATED PARTY TRANSACTIONS

All transactions entered into with the Related Parties as defined under the Companies Act, 2013 and Clause 49 of the Listing Agreement during the financial year were in the ordinary course of business and on arm's length basis.

SUBSIDIARY COMPANIES

The Company does not have subsidiary.

AUDITORS

M/s. P. Srinivasan and Co., Chartered Accountants, Chennai, Statutory Auditors, retire at the close of this Annual General Meeting and are eligible for reappointment. The Company has received confirmation regarding their consent and eligibility under sections 139 and 141 of the Companies Act, 2013 read with Companies (Accounts) Rules, 2014 for appointment as the auditors of the company.

As required under Clause 41 of the Listing Agreement, the Auditors have also confirmed that they hold valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India.

The Audit Committee and the Board of Directors have recommended the appointment of the Auditors for the financial year 2015 - 16. The necessary resolution is being placed before the shareholders for their approval.

SECRETARIAL AUDIT

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and rules made thereunder, the Company had appointed M/s.Lakshmmi Subramanian & Associates, Practising Company Secretaries to undertake the Secretarial Audit of the Company. The Secretarial Audit Report is included as ANNEXURE - I and forms an integral part of this Report.

EXTRACT OF ANNUAL RETURN

The details forming part of the extract of the Annual Return in Form MGT-9 is annexed herewith as ANNEXURE - II.

BUSINESS RISK MANAGEMENT

Business risk evaluation and management is an ongoing process within the Company. The Assessment is periodically examined by the Board.

STATUTORY INFORMATION

The information on Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo pursuant to Section 134(3)(m) of the Companies Act, 2013, read with the Rule 8(3) of the Companies (Accounts) Rules, 2014 is given in ANNEXURE - III to this Report.

The particulars of employees 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).

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 Companies Act. Details of dividends remaining unclaimed as on 31.03.2015 are as under :

Year	Date of declaration	No. of Shareholders	Total Unclaimed Dividend (₹)	Due date for transfer to IEPF Account
2007 - 2008 (Final)	16.09.2008	563	54,161.50	22.10.2015
2008 - 2009	No Dividend declared	N.A.		
2009 - 2010	No Dividend declared	N.A.		
2010 - 2011	29.09.2011	730	60,928.80	05.11.2018
2011 - 2012	No Dividend declared	N.A.		
2012 - 2013	No Dividend declared	N.A.		
2013 - 2014	No Dividend declared	N.A.		

CORPORATE GOVERNANCE AND MANAGEMENT'S DISCUSSION & ANALYSIS REPORTS

The Corporate Governance and Management's Discussion & Analysis Report, which form an integral part of this Report, are set out as separate Annexures, together with the Certificate from the Auditors of the Company regarding compliance with the requirements of Corporate Governance as stipulated in Clause 49 of the Listing Agreement.

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 : 28th May, 2015

N. SUBRAMANIAN
Chairman of the Meeting

BO JINGEN
Managing Director

ANNEXURE - I

SECRETARIAL AUDIT REPORT
FOR THE FINANCIAL YEAR ENDED 31.03.2015
[Pursuant to section 204(1) of the Companies Act, 2013 and rule No.9 of the Companies (Appointment and Remuneration Personnel) Rules, 2014]

To the Members
HYDRO S & S INDUSTRIES LIMITED
Dhun Building, III Floor, 827, Anna Salai, Chennai 600 002

We have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by HYDRO S & S INDUSTRIES LIMITED (hereinafter called the company). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing our opinion thereon.

Based on our verification of the Company's books, papers, minute books, forms and returns filed and other records maintained by the company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, we hereby report that in our opinion, the company has, during the audit period covering the financial year ended on 31st March, 2015 complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

We have examined the books, papers, minute books, forms and returns filed and other records maintained by HYDRO S & S INDUSTRIES LIMITED ("the Company") for the financial year ended on 31st March, 2015 according to the provisions as applicable to the Company during the period of audit:

(i) The Companies Act, 2013 (the Act) and the rules made thereunder;
(ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
(iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder to the extent of Regulation 55A;
(iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, and External Commercial Borrowings;
(v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
(a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
(b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
(c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;
(d) The Securities and Exchange Board of India (Share Based employee Benefits) Regulations, 2014. **(Not Applicable for the Audit Period);**
(e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008. **(Not Applicable for the Audit Period);**
(f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client to the extent of securities issued;
(g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009. **(Not Applicable for the Audit Period);** and
(h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998. **(Not Applicable for the Audit Period);**
(vi) There are no other laws/ Regulations (as amended from time to time), as informed and certified by the management of the Company which are specifically applicable to the Company based on their sector/industry.

We have also examined compliance with the applicable clauses of the following:

(i) Secretarial Standards issued by The Institute of Company Secretaries of India. **(Not applicable for the audit period).**

(ii) The Listing Agreements entered into by the Company with the Stock Exchanges, where the equity shares of the Company are listed.

It is reported that during the period under review, the Company has generally been regular in complying with the provisions of the Act, Rules, Regulations, Guidelines, Standards etc., as required under the Companies Act, listing agreement and SEBI Regulations.

We further report that, on examination of the relevant documents and records and based on the information provided by the Company, its officers and authorized representatives during the conduct of the audit, and also on the review of quarterly compliance reports by respective department heads / company secretary / CEO taken on record by the Board of Directors of the Company, in our opinion, adequate systems and processes and control mechanism exist in the Company to monitor and ensure compliance with applicable other general laws including Industrial Laws, Environmental Laws, Human Resources and labour laws.

We further report, that the compliance by the Company of applicable financial laws, like direct and indirect tax laws, has not been reviewed in this Audit since the same have been subject to review by statutory financial auditor and other designated professionals.

We further report that:

The Board of Directors of the Company is generally well constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The Managing Director and Whole-time directors are non-residents, and hence, an application has been made for their appointment to the Central Governement. Further, the Managing Director and the Whole-time director have made an application to the Company Law Board for compounding of the offense under section 269 of the Companies Act, 1956 on 20th May 2015 for continuing to hold office after the rejection of appointment by the Central Government for not possessing employment visa, which has been duly rectified prior to their re-appointment during the audit period. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were delivered at least 7 days in advance and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

All decisions at Board Meetings and Committee Meetings are carried out unanimously as recorded in the minutes of the meetings of the Board of Directors or Committee of the Board, as the case may be.

We further report that during the audit period the company has not carried on any major activity such as:

- Public / Rights / Preferential Issue of Securities.
- Redemption / Buy back of Securities
- Major Decisions taken by the Members in pursuance to Section 180 (1) (a) of the Companies Act, 2013
- Amalgamation / Merger / Reconstruction
- Foreign Technical Collaborations.

For **LAKSHMMI SUBRAMANIAN & ASSOCIATES**
P.S.SRINIVASAN
Partner
ACS No. 1090
C.P.NO. 3122

Place : Chennai
Date : 28th May, 2015

Note: This report is to be read with our letter of even date which is annexed as Annexure-A and forms an integral part of this report.