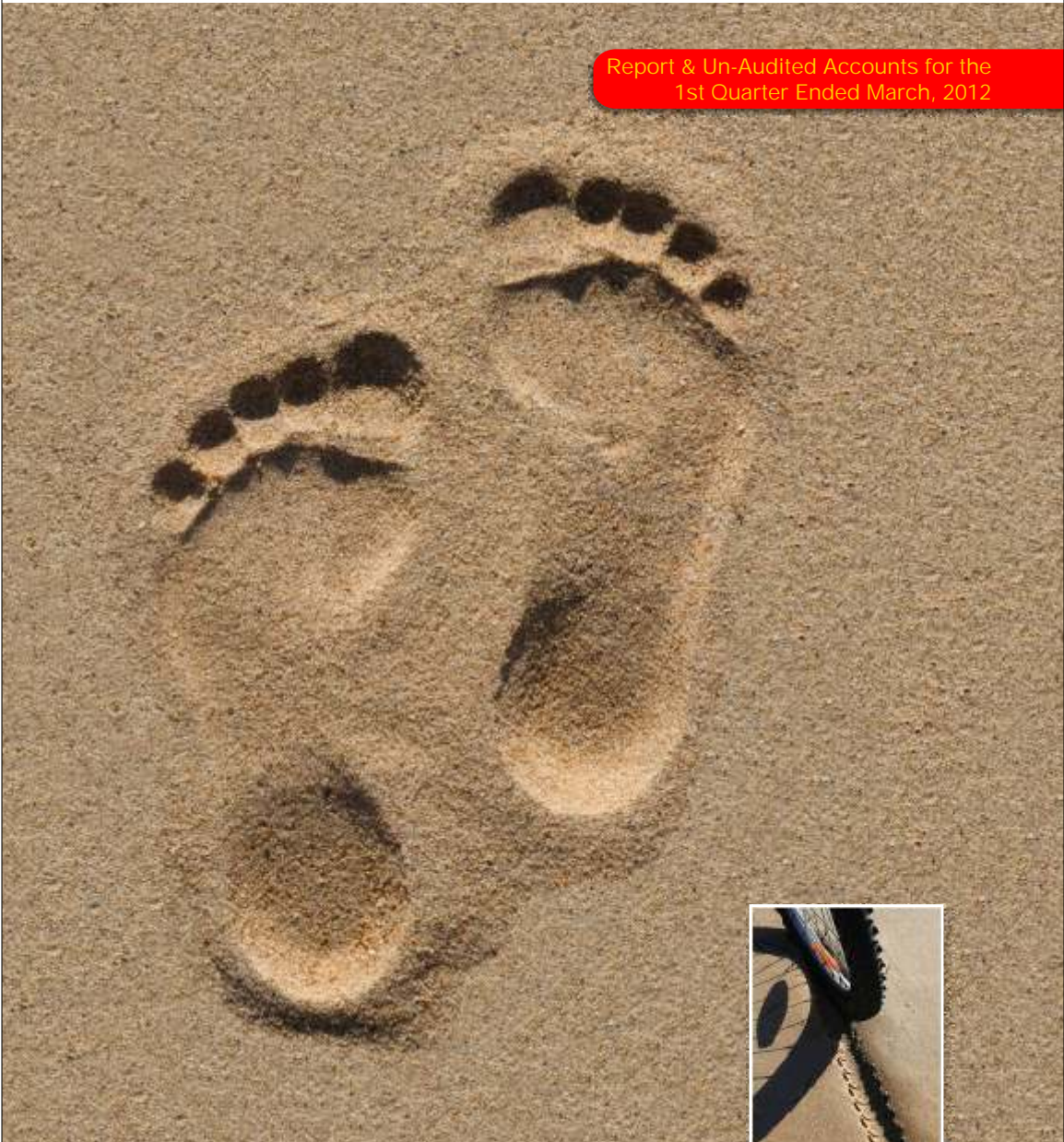


Report & Un-Audited Accounts for the  
1st Quarter Ended March, 2012



Give value to your moves...



SERVICE INDUSTRIES LIMITED

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## DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors are pleased to present the first quarter report on the performance of your company along with un-audited financial statements for the period ended March 31, 2012.

The country's economy continues to face serious challenges. Inflation has again risen to double digits, power shortages and the unstable political situation continue to adversely impact the economy. This year started with a weakening European economy as well where your company has major exports. All these odds have contributed in lower profitability than last year. The management of your company is aware of the situation and is taking steps towards addressing these challenges. We hope to recover the revenue and profit shortfall in the second half of the year.

The financial performance for the period under review is given below:

	2012	2011	Variance %
Sales Revenue	2,606	2,674	(3)%
Profit Before Tax	114	221	(48)%
Profit after Tax	96	176	(45)%
EPS	7.9	14.6	(46)%

Gross profit ratio declined to 15% from 17% mainly because of a decline in the Footwear Division's sale volume. Net profit ratio has also declined to 3.7% from 6.5% for the corresponding period last year.

Footwear sales during the period have declined by 21%, mainly on the back of shrinking orders in local market, which has decreased by 34%. Export sales have maintained last year levels despite economic turmoil in European Union. The management in continuing its efforts to diversify the business has added new customers in both local and export markets. Our brand Lark & Finch was launched in Europe in January. The management is pleased with the initial response.

Tyre & Tube (T&T) Division has shown 38% growth in sales compared to the same period LY. Growth is witnessed in both local and exports sales. Your company has launched a new media campaign in April, the results of which are expected in the coming quarters. We remain hopeful that Tyre & Tube business will be a key engine for our future growth.

The management of your company is continuing to focus on diversification of customers and markets both in domestic and export businesses. Our share in domestic market still leaves room for growth for which we are actively marketing our products. The capital investment policy of your company aimed at modernization of the manufacturing processes and at acquiring latest technology is being pursued vigorously.

We would like to place on record our profound gratitude to our employees for their dedicated services and look forward to their continued support.

For and on behalf of the Board

Dated: April 24, 2012  
Place: Lahore

Omar Saeed  
(Chief Executive)

## CONDENSED INTERIM BALANCE SHEET AS AT MARCH 31, 2012

	Note	(Unaudited) Mar. 31, 2012	(Audited) Dec. 31, 2011
(Rupees in thousand)			
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant & equipment	6	1,621,315	1,612,052
Intangible assets		14,649	13,301
Long term loans		564	376
Long term deposits		16,588	11,060
		1,653,116	1,636,789
<b>CURRENT ASSETS</b>			
Stores, spares & loose tools		114,101	84,727
Stock in trade		2,213,588	1,941,229
Trade debts		922,038	938,456
Loans and advances		705,508	656,231
Trade deposits and prepayments		13,938	7,682
Other receivables		408,776	362,156
Cash & bank balances		17,298	12,065
		4,395,247	4,002,546
<b>CURRENT LIABILITIES</b>			
Trade & other payables		1,443,191	1,308,458
Interest and mark-up accrued		37,243	58,404
Short term borrowings - Secured		1,863,590	1,601,089
Current portion:			
Long term financing		79,467	80,605
Liabilities against assets subject to finance lease		17,908	11,283
Provision for taxation		18,374	115,461
		3,459,773	3,175,300
Net current assets		935,474	827,246
Capital employed		2,588,590	2,464,035
<b>NON CURRENT LIABILITIES</b>			
Long term financing - Secured		218,173	218,173
Liabilities against assets subject to finance lease		37,242	14,950
Long term deposits		2,640	2,620
Deferred liabilities		219,726	215,386
Deferred income		1,895	-
		479,676	451,129
Contingencies & Commitments	7	-	-
<b>NET ASSETS</b>		<b>2,108,914</b>	<b>2,012,906</b>
<b>REPRESENTED BY</b>			
Share capital			
Authorized: (20,000,000) ordinary shares of Rs. 10/- each		200,000	200,000
Issued, subscribed & paid up:			
12,028,789 (Dec. 31, 2011: 12,028,789)			
ordinary shares of Rs. 10 each		120,288	120,288
Reserves and surplus		1,988,626	1,892,618
		2,108,914	2,012,906

Annexed notes form an integral part of these financial statements.

**Chaudhry Ahmed Javed**  
(Chairman)

**Omar Saeed**  
(Chief Executive)

**CONDENSED INTERIM PROFIT & LOSS ACCOUNT  
FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)**

	Note	MAR. 31, 2012	MAR. 31, 2011
		(Rupees in thousand)	
Sales	8	2,605,727	2,674,161
Cost of sales	9	<u>2,218,996</u>	<u>2,228,351</u>
<b>Gross profit</b>		386,731	445,810
Distribution cost		86,885	82,760
Administrative expenses		119,797	89,228
Other operating expenses		11,357	18,717
Finance cost		70,495	41,564
Other operating income		(15,786)	(7,046)
		272,748	225,223
<b>Profit before taxation</b>		113,983	220,587
<b>Taxation</b>		<u>17,975</u>	<u>44,357</u>
<b>Profit after taxation</b>		<u><u>96,008</u></u>	<u><u>176,230</u></u>
<b>EARNING PER SHARE</b>			
Basic & Diluted (Rupees)		<u><u>7.98</u></u>	<u><u>14.65</u></u>

Annexed notes form an integral part of these financial statements.

Chaudhry Ahmed Javed  
(Chairman)

Omar Saeed  
(Chief Executive)

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)**

	MAR. 31, 2012	MAR. 31, 2011
	(Rupees in thousand)	
Profit for the period	96,008	176,230
Other comprehensive income	-	-
	<u>96,008</u>	<u>176,230</u>

Annexed notes form an integral part of these financial statements.

Chaudhry Ahmed Javed  
(Chairman)

Omar Saeed  
(Chief Executive)

## CONDENSED INTERIM CASH FLOW STATEMENT FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)

	MAR. 31, 2012	MAR. 31, 2011
	(Rupees in thousand)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net profit before taxation and extra ordinary items	113,983	220,587
Adjustments for:		
Depreciation & amortization	43,612	35,734
Gratuity provision	4,739	3,310
Finance cost	70,495	41,564
Provision for W.P.P.F.	6,121	11,847
Provision for W.W.F.	2,326	4,502
Deferred income on sale & lease back	1,895	-
(Profit)/loss on sale of property, plant & equipment	(683)	(267)
Operating profit before working capital changes	242,488	317,277
Changes in working capital (Increase)/decrease in		
Stores, spares and loose tools	(29,374)	(5,465)
Stock in trade	(272,359)	(345,581)
Trade debts	16,417	(121,138)
Advances, deposits, prepayments & other receivables	(146,738)	(149,272)
Trade & other payables	155,002	186,036
Long term deposits	20	30
Long term loans	(189)	109
Cash generated from / (used in) operations	(34,733)	(118,004)
Finance cost paid	(91,657)	(61,403)
Income tax paid	(70,875)	(94,496)
Contribution to gratuity fund	-	(1,500)
W.P.P.F. paid	(28,712)	(25,000)
Net cash from / (used in) operating activities	(225,977)	(300,403)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditure	(55,308)	(62,619)
Long term deposits	(5,528)	-
Proceeds from sale of property, plant & equipments	1,765	597
Net cash (used in) investing activities	(59,071)	(62,022)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Lease rentals paid	(6,405)	(4,454)
Short term borrowings-net	262,500	141,732
Proceeds from sale & lease Back	35,324	-
Long term financing	(1,138)	(10,000)
Dividend paid	-	4
Net cash from/(used in) financing activities	290,281	127,282
Net increase / (decrease) in cash & cash equivalents	5,233	(235,143)
Cash & cash equivalents at beginning of the period	12,065	247,951
Cash & cash equivalents at close of the period	17,298	12,808

Annexed notes form an integral part of these financial statements.

**Chaudhry Ahmed Javed**  
(Chairman)

**Omar Saeed**  
(Chief Executive)

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)**

	(Rupees in thousand)					
	Share capital	Capital reserves		Revenue reserves	Un-appropriated profit	Total
		Capital gain	Share premium			
Balance as at Dec. 31, 2010	120,288	102,730	21,217	1,123,208	332,383	1,699,826
Net profit for the quarter ended Mar. 31, 2011	-	-	-	-	176,230	176,230
Balance as at Mar. 31, 2011	120,288	102,730	21,217	1,123,208	508,613	1,876,056
Balance as at Dec. 31, 2011	120,288	102,730	21,217	1,358,208	410,463	2,012,906
Net profit for the quarter ended Mar. 31, 2012	-	-	-	-	96,008	96,008
Balance as at Mar. 31, 2012	120,288	102,730	21,217	1,358,208	506,471	2,108,914

Annexed notes form an integral part of these financial statements.

**Chaudhry Ahmed Javed**  
(Chairman)

**Omar Saeed**  
(Chief Executive)



## NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)

### 1. The Company and its operations

Service Industries Limited is a Public Limited Company incorporated in Pakistan. Its shares are quoted on Lahore and Karachi Stock Exchanges. Its registered office is located at Servis House, 2-Main Gulberg, Lahore. The principal activities of the Company are manufacture and sale of footwear, tyre & tube and technical rubber products.

### 2. Basis of preparation

These financial statements for the period ended March 31, 2012 are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements are unaudited and are being submitted to the shareholders as required under section 245 of the Companies Ordinance, 1984.

### 3. Accounting policies

Accounting policies adopted for the preparation of these financial statements are the same as those applied in the preparation of preceding annual financial statements of the Company.

The preparation of condensed interim financial information requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed interim financial information, the significant judgments made by the management in applying accounting policies and key sources of estimation were the same as those that were applied to the financial statements as at and for the year ended December 31, 2011.

4. Provisions for income tax, workers' profit participation fund and workers' welfare fund have been made on the basis of three months profit. These are subject to change on final results.

5. Figures have been rounded off to the nearest thousand and corresponding period figures have been re-arranged, where necessary, for comparison purposes. However no significant reclassification has been made.

		(Unaudited) MAR. 31, 2012	(Audited) DEC. 31, 2011
	Note	(Rupees in thousand)	
<b>6. PROPERTY, PLANT &amp; EQUIPMENT</b>			
Operating fixed assets	6.1	1,553,635	1,543,297
Capital work in progress		67,680	68,755
		1,621,315	1,612,052
<b>6.1 Operating fixed assets</b>			
Opening written down value		1,543,297	1,320,304
Add: Additions during the period	6.2	86,284	398,627
		1,629,581	1,718,931
Less: Disposals during the period (at book value)		34,265	16,815
		1,595,316	1,702,116
Less: Depreciation charged during the period		41,681	158,819
		1,553,635	1,543,297

## NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)

	(Unaudited) MAR. 31, 2012	(Audited) DEC. 31, 2011
Note	(Rupees in thousand)	
<b>6.2 Following is the detail of additions during the period</b>		
Building on freehold land	16,981	33,654
Plant & machinery	20,884	286,063
Furniture, fixture & fittings	46	5,694
Vehicles	36,380	47,218
Service equipments	9,784	25,998
Last and mould	2,209	-
	86,284	398,627

### 7. CONTINGENCIES AND COMMITMENTS

- 7.1 Guarantees issued through banks Rs. 64.81 million (Dec-2011 : Rs. 28.64 million).
- 7.2 Irrevocable letters of credit Rs. 550.81 million (Dec-2011 : Rs. 508.65million).
- 7.3 The Collectorate of Customs, Sambrial (Sialkot) initiated a case against the Company on March 15, 2003 before the Collector of Customs, Sales Tax and Central Excise (Adjudication) Lahore. The Customs department had alleged that the consignments of the Company were released without the payment of duties and taxes amounting to Rs. 17.99 million. The Company has strongly put forward its case that the said consignments were cleared against demand drafts prepared in favour of Collector of Customs, Sambrial Dry Port Trust and had been duly credited in the designated bank account. The case has been decided in favour of the company by Collector (Appeal) Customs. The department has filed an appeal against the said decision before Sales Tax, Federal Excise and Customs Tribunal, Lahore, which is still pending. However, the Company has a strong case as the department allegations are factually and legally incorrect and therefore no provision has been made in these financial statements against the case.
- 7.4 The Additional Collectorates of Sales Tax (Lahore and Gujranwala respectively) had initiated cases against the Company for the failure to realize and collect Sales Tax amounting to Rs. 10.92 million against interest income received from associated company during the years 1997 and 1998. The SIG case has been decided in favour of Company by the Appellate Tribunal Inland Revenue, Lahore, while SIM case is still pending before said court. According to the Company's legal counsel, the Company has a strong case with high probability of its success.
- 7.5 The Additional Collector (Adjudication) PACCS, Karachi had initiated case against the Company for failure to pay Levi able sales tax and income tax of Rs. 18.6 million and Rs. 4.1 million respectively at import of tyre cord fabrics during the period w.e.f. August 2007 to July 2008 by wrongly claiming Sales Tax zero rating in terms of S.R.O 509 (1)/2007 dated 09-06-2007. The case has been remanded back by the Appellate Tribunal Inland Revenue, Lahore to the Commissioner (Appeals) LTU, Lahore, which is still pending. According to the company's legal counsel, the Company has a strong case with high probability of its success.
- 7.6 The Deputy Director PESSI, Gujrat has initiated two cases against Service Industries Limited. In the first case the alleged amount recoverable by the PESSI is Rs. 4.80 million covering the period January 1987 to September 1992 on account of short payment of contributions. In the second case, Rs. 1.98 million is to be recoverable by the company from PESSI on account of wrongly paid contributions covering the period July 1992 to September 1993. Both cases have been decided against the company by the Director General Recovery PESSI, Lahore. Now the company has filed an appeal before Social Security Court, Lahore. As per legal counsel of the Company, the Company has strong legal grounds for its success.
- In management's opinion, chances of success in the aforesaid case are strong and there is no likelihood of any unfavourable outcome.

## NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)

	Note	MAR. 31, 2012	MAR. 31, 2011
		(Rupees in thousand)	
<b>8. SALES</b>			
Sale of Footwear (Net)			
Export sales		657,980	648,620
Local sales		772,338	1,167,813
		1,430,318	1,816,433
Sale of Tyre and Tube (Net)			
Export sales		131,287	66,583
Local sales		1,032,535	775,279
		1,163,822	841,862
Others (Net)			
Export sales		5	-
Local sales		11,582	15,866
		11,587	15,866
		<u>2,605,727</u>	<u>2,674,161</u>
<b>9. COST OF SALES</b>			
Raw material consumed	9.1	1,622,937	1,805,814
Salaries, wages & benefits		274,455	270,757
Stores & spares consumed		33,354	35,873
Packing material consumed		80,845	104,695
Fuel & power		96,474	104,010
Insurance		2,260	2,010
Depreciation		36,353	30,663
Travelling and conveyance		989	859
Repair and maintenance		20,783	22,043
Entertainment		295	437
Provision of slow moving and obsolete item		(2,295)	-
Other manufacturing charges		51,906	47,543
		2,218,356	2,424,704
Work in process:-			
Opening stock		300,306	182,686
Closing stock		(270,984)	(262,540)
		29,322	(79,854)
Cost of goods manufactured		2,247,678	2,344,850
Finished goods:-			
Opening stock		579,504	359,240
Finished goods purchased		19,263	-
Closing stock		(627,449)	(475,739)
		(28,682)	(116,499)
Cost of goods sold		<u>2,218,996</u>	<u>2,228,351</u>
<b>9.1 Raw Material Consumed:</b>			
Stock-Opening		968,134	705,584
Purchases		1,580,358	1,796,469
Stock-Closing		(925,555)	(696,239)
		<u>1,622,937</u>	<u>1,805,814</u>

**NOTES TO THE CONDENSED INTERIM ACCOUNTS  
FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)**

**10. SEGMENT REPORTING**

	(Rupees in thousand)							
	Footwear		Tyre Division		Technical Rubber Products		Total	
	3 months ended Mar 31, 2012	3 months ended Mar 31, 2011	3 months ended Mar 31, 2012	3 months ended Mar 31, 2011	3 months ended Mar 31, 2012	3 months ended Mar 31, 2011	3 months ended Mar 31, 2012	3 months ended Mar 31, 2011
External sales	1,430,318	1,816,433	1,163,823	841,862	11,586	15,866	2,605,727	2,674,161
Inter-segment sales	-	-	-	-	-	-	-	-
Total revenue	1,430,318	1,816,433	1,163,823	841,862	11,586	15,866	2,605,727	2,674,161
Profit/ (loss) before tax and unallocated expenses	76,927	271,587	196,033	52,263	(585)	(364)	272,375	323,486
Unallocated corporate expenses	-	-	-	-	-	-	(64,729)	(34,870)
Finance cost	-	-	-	-	-	-	(95,650)	(73,019)
Other operating expenses	-	-	-	-	-	-	1,987	4,990
Other operating income	-	-	-	-	-	-	(17,975)	(44,357)
Taxation	-	-	-	-	-	-	96,008	176,230
Profit after taxation	-	-	-	-	-	-	-	-

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED MARCH 31, 2012 (UN-AUDITED)**

MAR. 31,      MAR. 31,  
2012          2011

(Rupees in thousand)

**11. TRANSACTIONS WITH RELATED PARTIES**

**Related**

SAB Polymer Industries (Private) Limited	Sales	3,678	1,167
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**Post employment benefit plan**

Provident Fund	Contribution	14,512	13,403
Gratuity Fund	Contribution	3,736	3,310
Pension Fund	Contribution	25	25

**12. AUTHORIZATION DATE**

These financial statements were authorised for issue by the Board of directors as on April 24, 2012.

**Chaudhry Ahmed Javed**  
(Chairman)

**Omar Saeed**  
(Chief Executive)

Report & Un-Audited Accounts for the  
1st Quarter Ended March, 2012



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