



SERVICE INDUSTRIES LIMITED

Report & Un-Audited Accounts for the
3rd Quarter Ended September 30, 2014

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DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors are pleased to present their report on the performance of your company along with un-audited financial statements for the nine months period ended September 30, 2014.

During the third quarter of the year, overall economic growth suffered due to catastrophic monsoon floods and ongoing political instability in the country. The upsurge in overhead costs due to higher energy and fuel costs continue to put pressure on large-scale manufacturing sector. However, we have continued to post double digit revenue growth that enabled your company to achieve higher profitability compared with corresponding period last year.

Financial performance for the period under review:

	Nine Months ended Sep 30,			Quarter ended Sep 30,		
	2014	2013	Variance	2014	2013	Variance
	Rs. In Million			Rs. In Million		
Sales Revenue	12,565	11,056	14%	4,211	3,790	11%
Profit Before Tax	811	596	36%	217	202	8%
Profit After Tax	653	517	26%	177	165	8%
EPS	Rs. 54.32	Rs. 42.98	26%	Rs. 14.75	13.69	8%

Your company achieved sales of Rs. 12.56 billion compared to Rs. 11.05 billion during the corresponding period last year representing growth of 14%.

The Company continued to improve its profitability as a result of revenue growth and improved gross margins. Profit after tax increased to Rs. 653 million in nine months period as against Rs. 517 million for the same period in 2013. Gross margin percentage increased to 17.2% from 15.9% for the same period last year.

The earnings per share were Rs. 54.32 during the period under review.

Your company continues to invest in top manufacturing technology to further strengthen its market leadership position. The management of your company will continue its focus on improving shareholders value through revenue growth and efficient financial management.

The directors wish to place on record their appreciation for the confidence placed by our valued customers, continued support extended by all stakeholders and committed efforts of employees.

Dated: October 28, 2014

Place: Lahore

For and on behalf of the Board



Omar Saeed
(Chief Executive)

**CONDENSED INTERIM BALANCE SHEET
AS AT SEPTEMBER 30, 2014**

	Note	(Unaudited) Sep. 30, 2014	(Audited) Dec. 31, 2013
(Rupees in thousand)			
ASSETS			
NON CURRENT ASSETS			
Property, plant & equipment	5	2,633,748	1,901,092
Intangible assets		9,810	16,119
Long term investments	6	192,402	177,032
Long term loans		7,018	5,106
Long term deposits		54,690	29,837
		<u>2,897,668</u>	<u>2,129,186</u>
CURRENT ASSETS			
Stores, spares & loose tools		106,136	115,791
Stock in trade		2,699,337	2,322,432
Trade debts		1,509,308	1,244,470
Loans and advances		240,717	241,099
Trade deposits and prepayments		30,869	17,033
Other receivables		13,167	6,389
Tax refunds due from government		997,169	890,923
Short term investment		31,694	-
Cash & bank balances		28,316	24,406
		<u>5,656,713</u>	<u>4,862,543</u>
CURRENT LIABILITIES			
Trade & other payables		2,078,538	1,975,589
Interest and mark-up accrued		49,197	51,125
Short term borrowings		2,010,770	1,514,289
Current portion:			
Long term financing		171,548	114,013
Provision for taxation		136,853	114,889
		<u>4,446,906</u>	<u>3,769,905</u>
NET CURRENT ASSETS		<u>1,209,807</u>	<u>1,092,638</u>
CAPITAL EMPLOYED		4,107,475	3,221,824
NON CURRENT LIABILITIES			
Long term financing		825,392	514,365
Long term deposits		3,665	3,655
Deferred liabilities		291,690	256,718
		<u>1,120,747</u>	<u>774,738</u>
Contingencies & Commitments	7	-	-
NET ASSETS		<u>2,986,728</u>	<u>2,447,086</u>
REPRESENTED BY			
Share capital			
Authorized: 20,000,000 (December 31, 2013: 20,000,000)			
ordinary shares of Rs. 10/- each			
		<u>200,000</u>	<u>200,000</u>
Issued, subscribed and paid up:			
12,028,789 (December 31, 2013: 12,028,789)			
ordinary shares of Rs. 10/- each			
		120,288	120,288
Reserves and surplus		2,866,440	2,326,798
		<u>2,986,728</u>	<u>2,447,086</u>

Annexed notes 1 to 13 form an integral part of these financial statements.


Chaudhry Ahmed Javed
(Chairman)


Omar Saeed
(Chief Executive)

**CONDENSED INTERIM PROFIT & LOSS ACCOUNT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)**

	Note	Nine Months Ended		Three Months Ended	
		Sep. 30, 2014	Sep. 30, 2013	Sep. 30, 2014	Sep. 30, 2013
(Rupees in thousand)					
Sales - net	8	12,565,161	11,056,055	4,210,863	3,789,635
Cost of sales	9	<u>10,405,964</u>	<u>9,299,147</u>	<u>3,527,372</u>	<u>3,193,175</u>
Gross profit		2,159,197	1,756,908	683,491	596,460
Distribution cost		<u>572,895</u>	<u>426,543</u>	<u>186,585</u>	<u>126,563</u>
Administrative expenses		<u>499,292</u>	<u>450,595</u>	<u>182,440</u>	<u>166,096</u>
Other operating expenses		<u>104,900</u>	<u>90,792</u>	<u>34,759</u>	<u>43,436</u>
		<u>1,177,087</u>	<u>967,930</u>	<u>403,784</u>	<u>336,095</u>
Operating profit before other income		982,110	788,978	279,707	260,365
Other operating income		<u>76,915</u>	<u>43,817</u>	<u>23,115</u>	<u>21,094</u>
Operating profit		1,059,025	832,795	302,822	281,459
Finance cost		<u>247,615</u>	<u>236,436</u>	<u>85,411</u>	<u>79,531</u>
Profit before taxation		811,410	596,359	217,411	201,928
Taxation		<u>158,020</u>	<u>79,381</u>	<u>40,037</u>	<u>37,235</u>
Profit after taxation		<u>653,390</u>	<u>516,978</u>	<u>177,374</u>	<u>164,693</u>
Earnings Per Share					
- Basic & Diluted - (Rupees)		<u>54.32</u>	<u>42.98</u>	<u>14.75</u>	<u>13.69</u>

Annexed notes 1 to 13 form an integral part of these financial statements.



Chaudhry Ahmed Javed
(Chairman)

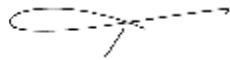


Omar Saad
(Chief Executive)

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)**

	Nine Months Ended		Three Months Ended	
	Sep. 30, 2014	Sep. 30, 2013	Sep. 30, 2014	Sep. 30, 2013
	(Rupees in thousand)			
Profit for the period	653,390	516,978	177,374	164,693
Other comprehensive income				
Item that will not be reclassified to profit or loss	-	-	-	-
Item that may be reclassified subsequently to profit or loss	-	-	-	-
Fair value gain on short term investment	6,540	-	6,540	-
	<u>659,930</u>	<u>516,978</u>	<u>183,914</u>	<u>164,693</u>

Annexed notes 1 to 13 form an integral part of these financial statements.



Chaudhry Ahmed Javed
(Chairman)

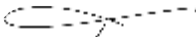


Omar Saeed
(Chief Executive)

CONDENSED INTERIM CASH FLOW STATEMENT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)

	Nine Months Ended	
	Sep. 30, 2014	Sep. 30, 2013
	(Rupees in thousand)	
Cash flow from operating activities		
Profit before taxation	811,410	596,359
Adjustments for:		
Depreciation	171,310	150,650
Gratuity provision	25,489	16,948
Ijarah rentals	31,612	25,676
Finance cost	247,615	236,436
Provision for W.P.P.F.	43,577	32,029
Provision for W.W.F.	16,559	12,171
Provision for slow moving stocks	4,120	40,209
Loss/(Profit) on sale of fixed assets	2,462	(747)
Operating profit before working capital changes	<u>1,354,154</u>	<u>1,109,731</u>
Changes in working capital		
Decrease in stores, spares and loose tools	8,612	19,304
(Increase) in stock in trade	(379,980)	(190,339)
(Increase)/decrease in trade debts	(264,838)	190,508
(Increase) in advances, deposits, prepayments and other receivables	(20,232)	(108,913)
(Increase)/decrease in tax refunds due from government	(103,725)	32,927
Increase in trade and other payables	96,094	321,819
Increase in long term loans	(1,912)	(5,323)
Cash generated from / (used in) operations	<u>688,173</u>	<u>1,369,714</u>
Finance cost paid	(249,542)	(248,923)
Income tax paid	(117,409)	(33,557)
Gratuity paid	(11,683)	(8,412)
W.P.P.F. and W.W.F. paid	(54,710)	(21,325)
Net cash from / (used in) operating activities	<u>254,829</u>	<u>1,057,497</u>
Cash flow from investing activities		
Capital expenditure	(905,644)	(429,283)
Proceeds from sale of property, plant and equipment	5,527	5,147
Long term investment	(15,370)	(162,408)
Long term deposits	(24,853)	(10,585)
Short term investment	(25,154)	-
Net cash (used in) investing activities	<u>(965,494)</u>	<u>(597,129)</u>
Cash flow from financing activities		
Lease rentals paid	(31,612)	(40,575)
Short term borrowings - net	496,481	(374,983)
Long term financing	368,562	85,693
Dividend paid	(118,856)	(88,899)
Net cash (used in)/generated from financing activities	<u>714,575</u>	<u>(418,764)</u>
Net increase in cash and cash equivalents	3,910	41,604
Cash and cash equivalents at beginning of the period	24,406	13,429
Cash and cash equivalents at the end of the period	<u>28,316</u>	<u>55,033</u>

Annexed notes 1 to 13 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 NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)**

(Rupees in thousand)

	Share Capital	CAPITAL RESERVE		Revenue Reserves	Un-appropriated Profit	Total
		Capital Gain	Share Premium			
Balance as at Dec. 31, 2012 (audited)	120,288	102,730	21,217	1,558,208	217,508	2,019,951
Final dividend @ Rs.7.50 per share	-	-	-	-	(90,220)	(90,220)
Total comprehensive income for the period	-	-	-	-	516,978	516,978
Balance as at Sep. 30, 2013 (un-audited)	120,288	102,730	21,217	1,558,208	644,266	2,446,709
Balance as at Dec. 31, 2013 (audited)	120,288	102,730	21,217	1,558,208	644,643	2,447,086
Final Dividend @ Rs.10.00 per share	-	-	-	-	(120,288)	(120,288)
Total comprehensive income for the period	-	-	-	-	659,930	659,930
Balance as at Sep. 30, 2014 (un-audited)	120,288	102,730	21,217	1,558,208	1,184,285	2,986,728

Annexed notes 1 to 13 form an integral part of these financial statements.


Chaudhry Ahmed Javed
(Chairman)


Omar Saeed
(Chief Executive)

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (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 nine months ended September 30, 2014 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 affect 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, 2013.

4. Provisions for income tax, Workers' Profit Participation Fund and Workers' Welfare Fund have been made on the basis of nine months' profit. These are subject to change on final results.

	Note	(Unaudited) Sep. 30, 2014	(Audited) Dec. 31, 2013
(Rupees in thousand)			
5. PROPERTY, PLANT & EQUIPMENT			
Operating fixed assets	5.1	2,319,097	1,819,162
Capital work in progress		314,651	81,930
		<u>2,633,748</u>	<u>1,901,092</u>
5.1 Operating fixed assets			
Opening written down value		1,819,162	1,502,733
Add: Additions during the period/year	5.2	672,519	550,155
		<u>2,491,681</u>	<u>2,052,888</u>
Less: Disposals during the period/year (at book value)		<u>7,988</u>	<u>34,991</u>
		2,483,693	2,017,897
Less: Depreciation charged during the period/year		<u>164,596</u>	<u>198,735</u>
		<u>2,319,097</u>	<u>1,819,162</u>

**NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)**

	(Unaudited) Sep. 30, 2014	(Audited) Dec. 31, 2013
(Rupees in thousand)		
5.2 Following is the detail of additions during the period/year		
Building on freehold land	16,958	86,078
Plant & machinery	434,846	342,607
Furniture, fixture & fittings	941	1,059
Vehicles	654	3,753
Service equipments	218,930	98,569
Last and moulds	-	12,725
Leasehold improvements	190	5,364
	<u>672,519</u>	<u>550,155</u>
6. LONG TERM INVESTMENTS		
Investment in Associate:		
Cost of investment		
1,624,079 fully paid ordinary shares of Rs. 100/- each	162,408	162,408
Share of post acquisition profit:		
As at the beginning of the year / period	14,624	-
Share of post acquisition (loss) / profit	33,940	14,624
Distributions received during the period	(18,570)	-
	<u>29,994</u>	<u>14,624</u>
	<u>192,402</u>	<u>177,032</u>
7. CONTINGENCIES AND COMMITMENTS		
Contingencies		
7.1	<p>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 therefore no provision has been made in these financial statements against the case.</p>	
7.2	<p>The Additional Collector (Adjudication) Pakistan Customs Computerized System, Karachi had initiated case against the Company for failure to pay leviable 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.</p>	
7.3	<p>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, which is pending. As per legal counsel of the Company, the Company has strong legal grounds for its success.</p>	

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)

- 7.4 The Director Pakistan Employees Social Security Institute has initiated a case against the Company. The alleged amount recoverable by PESSI is Rs. 7.76 million on account of less payment of social security in respect of workers wages paid by our vendors. According to the Company's legal counsel, the Company has strong case with high probability of its success.
- 7.5 The Deputy Commissioner Inland Revenue, LTU had initiated a case against the Company after post sales tax refund audit in which demand of Rs. 27.92 million was raised. The Company filed an appeal before CIR appeals in which the demand was cancelled except two points having impact of Rs. 2.65 million. The Company had further filed an appeal before Tribunal against said points. As per legal counsel of the Company, the Company has strong legal grounds for its success.

Commitments

- 7.6 Guarantees issued through banks Rs. 52.76 million (Dec-2013 : Rs. 60.03 million).
- 7.7 Irrevocable letters of credit Rs. 711.76 million (Dec-2013 : Rs. 994.22 million).
- 7.8 The amount of future Ijarah financing and the period in which these payments will become due are as follows:

	(Unaudited) September 30, 2014	(Audited) December 31, 2013
	(Rupees in thousand)	
Not later than one year	64,207	25,867
Later than one year but not later than five years	126,827	62,057

8. SALES

Sale of Footwear (Net)

Export

Local

Sale of Tyre & Tubes (Net)

Export

Local

Others (Net)

Export

Local

	Nine Months Ended Sep. 30, 2014 Sep. 30, 2013		Three Months Ended Sep. 30, 2014 Sep. 30, 2013	
	(Rupees in thousand)			
Export	3,873,205	2,677,277	1,441,814	986,098
Local	3,158,431	3,477,250	877,427	1,028,057
	7,031,636	6,154,527	2,319,241	2,014,155
Export	261,424	263,453	107,412	102,331
Local	5,237,199	4,632,761	1,763,630	1,672,753
	5,498,623	4,896,214	1,871,042	1,775,084
Export	7,018	-	6,922	-
Local	27,884	5,314	13,658	396
	34,902	5,314	20,580	396
	<u>12,565,161</u>	<u>11,056,055</u>	<u>4,210,863</u>	<u>3,789,635</u>

**NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)**

	Note	Nine Months Ended		Three Months Ended	
		Sep. 30, 2014	Sep. 30, 2013	Sep. 30, 2014	Sep. 30, 2013
(Rupees in thousand)					
9. COST OF SALES					
Raw material consumed	9.1	7,300,433	6,699,516	2,345,069	2,327,208
Salaries, wages and benefits		1,413,827	1,237,673	510,035	426,555
Stores & spares consumed		149,737	144,394	39,716	39,667
Packing material consumed		370,750	330,172	123,471	108,776
Fuel & power		616,532	502,233	222,135	204,381
Insurance		8,519	7,419	2,922	2,497
Depreciation		151,579	119,286	58,698	42,172
Travelling and conveyance		8,259	4,409	2,244	1,439
Repair and maintenance		82,839	65,048	29,099	23,161
Entertainment		3,016	2,216	1,302	672
Provision for slow moving and obsolete item		13,557	40,208	1,033	20,530
Other manufacturing charges		168,777	178,812	58,273	48,066
		<u>10,287,825</u>	<u>9,331,386</u>	<u>3,393,997</u>	<u>3,245,124</u>
Work in process					
Opening stock		345,118	419,117	452,754	450,331
Closing stock		(455,307)	(354,309)	(455,307)	(354,309)
		<u>(110,189)</u>	<u>64,808</u>	<u>(2,553)</u>	<u>96,022</u>
Cost of goods manufactured		10,177,636	9,396,194	3,391,444	3,341,146
Finished goods					
Opening stock		711,604	480,371	734,754	449,402
Finished goods purchased		180,123	28,457	64,573	8,502
Closing stock		(663,399)	(605,875)	(663,399)	(605,875)
		<u>228,328</u>	<u>(97,047)</u>	<u>135,928</u>	<u>(147,971)</u>
		<u>10,405,964</u>	<u>9,299,147</u>	<u>3,527,372</u>	<u>3,193,175</u>
9.1 Raw Material Consumed:					
Stock-opening		1,136,077	1,164,968	1,228,837	1,100,955
Purchases		7,443,522	6,673,590	2,395,398	2,365,295
Stock-closing		(1,279,166)	(1,139,042)	(1,279,166)	(1,139,042)
		<u>7,300,433</u>	<u>6,699,516</u>	<u>2,345,069</u>	<u>2,327,208</u>

**NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)**

10. SEGMENT REPORTING

	(Rupees in thousand)									
	Footwear		Tyre Division		Technical Rubber Products		Total		Total	
	9 months ended Sep 30, 2014	9 months ended Sep 30, 2013	9 months ended Sep 30, 2014	9 months ended Sep 30, 2013	9 months ended Sep 30, 2014	9 months ended Sep 30, 2013	9 months ended Sep 30, 2014	9 months ended Sep 30, 2013	9 months ended Sep 30, 2014	9 months ended Sep 30, 2013
External sales	7,031,636	6,154,527	5,498,623	4,896,214	34,902	5,314	12,565,161	11,056,055	-	-
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
Total revenue	7,031,636	6,154,527	5,498,623	4,896,214	34,902	5,314	12,565,161	11,056,055	-	-
Profit/ (loss) before tax and unallocated expenses	687,766	438,029	704,575	794,988	18,347	(59,207)	1,410,688	1,173,810	-	-
Unallocated corporate expenses	-	-	-	-	-	-	(223,492)	(214,750)	-	-
Finance cost	-	-	-	-	-	-	(430,812)	(364,967)	-	-
Other operating expenses	-	-	-	-	-	-	55,026	2,266	-	-
Other operating income	-	-	-	-	-	-	(158,020)	(79,381)	-	-
Taxation	-	-	-	-	-	-	-	-	-	-
Profit after taxation	-	-	-	-	-	-	653,390	516,978	-	-

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 (UN-AUDITED)

11. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise associated companies, entities over which the directors are able to exercise influence, staff retirement funds, directors and key management personnel. Balances and transactions with the related party are shown as follows;

<-----Rupees in thousand----->

Party Name	Relationship with Company	Nature of transactions	Amount of transactions	Sep-14		Dec-13	
				Closing balance		Closing balance	
				Debit	Credit	Debit	Credit
SAB Polymer Industries (Private) Limited	Associate	Sales	-	-	-	15,289	-
Service Provident Fund Trust	Provident fund	Contribution	62,783	-	21,520	-	19,036
Service Industries Pension Fund Trust	Pension fund	Contribution	79	-	3	16	-
Service Industries Limited Employees Gratuity Fund	Gratuity fund	Contribution	25,489	-	53,547	-	39,742

12. CORRESPONDING FIGURES

Corresponding figures have been re-classified, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made.

13. AUTHORIZATION DATE

These financial statements were approved and authorized for issue by the Board of Directors as on October 28, 2014.



Chaudhry Ahmed Javed
(Chairman)



Omar Saeed
(Chief Executive)