

CONTENTS

Inside This Issue

Directors' Report to the Shareholders	2
Condensed Interim Balance Sheet	3
Condensed Interim Profit and Loss Account	4
Condensed Interim Statement of Comprehensive Income	5
Condensed Interim Cash Flow Statement	6
Condensed Interim Statement of Changes in Equity	7
Notes to the Condensed Interim Accounts	8-12

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, 2013.

Q1, 2013 was last quarter for the Government and country is going into elections. This has slowed down the pace in all spheres which is expected to continue till end of Q2 when new Government will take charge. The country's economy continues to face serious challenges. Power crisis is main contributor towards slow economic growth and the country is not expected to meet its 2011/12 GDP growth target. Despite all odds, the steps taken by the management has converted into growth both in top and bottom line which is evident from Q1 results. The Euro has shown some resistance in Q1 which also supported the growth in profitability.

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

	2013	2012	Variance %
Sales Revenue	3,475	2,606	33%
Profit Before Tax	190	114	66%
Profit after Tax	143	96	49%
EPS	11.9	7.9	49%

Gross profit ratio increased to 17% from 15% mainly because of increase in the Footwear Division's sale volume. Net profit ratio has also increased to 4.1% from 3.7% for the corresponding period last year.

Footwear sales during the period have increased by 48.7%, which is a result of growth in both domestic and export markets. Sales in domestic market have increased by 55% over last year, and despite economic slowdown in European Union, Export sales have also increased by 40%. The steps taken by management to improve productivity and filling in sales and production gaps have yielded results and there is increase in profitability of Footwear division as well. Our brand Lark & Finch has been rejuvenated and management has plans to expand the retail network.

Tyre & Tube (T&T) Division has shown revenue growth of 15.5% in sales compared to the same period LY. In line with strategy of strengthening its brands, your company has continued investing in media. The enhanced capacity for motorcycle Tyres and Tubes will be available in Q2 and we remain hopeful that Tyre & Tube business will be a key engine for your company's future growth.

The management of your company is continuing to focus on price rationalization, improving efficiencies and further strengthening control measures to improve profitability. The capital investment policy of your company aimed at modernization of 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 30, 2013
Place: Lahore

Omar Saeed
(Chief Executive)

CONDENSED INTERIM BALANCE SHEET AS AT MARCH 31, 2013

	Note	(Un-audited) Mar. 31, 2013	(Audited) Dec. 31, 2012
(Rupees in thousand)			
ASSETS			
NON CURRENT ASSETS			
Property, plant & equipment	5	1,743,987	1,648,805
Intangible assets		12,451	11,994
Long term loans		542	326
Long term deposits		29,016	23,465
		1,785,996	1,684,590
CURRENT ASSETS			
Stores, spares & loose tools		121,720	104,370
Stock in trade		2,131,724	2,132,742
Trade debts		1,233,810	1,244,889
Loans and advances		238,910	230,423
Trade deposits and prepayments		21,284	15,128
Other receivables		8,382	14,805
Tax refunds due from government		971,195	981,132
Cash & bank balances		25,188	13,429
		4,752,213	4,736,918
CURRENT LIABILITIES			
Trade & other payables		1,579,349	1,497,358
Interest and mark-up accrued		37,062	51,581
Short term borrowings - Secured		2,005,288	2,087,818
Current portion:			
Long term financing		56,370	57,508
Liabilities against assets subject to finance lease		9,081	14,898
Provision for taxation		37,945	53,785
		3,725,095	3,762,948
Net current assets		1,027,118	973,970
Capital employed		2,813,114	2,658,560
NON CURRENT LIABILITIES			
Long term financing - Secured		400,215	400,215
Long term deposits		2,690	2,600
Deferred liabilities		246,997	235,794
		649,902	638,609
Contingencies & Commitments	6	-	-
NET ASSETS		2,163,212	2,019,951
REPRESENTED BY			
Share capital			
Authorized: 20,000,000 (Dec. 31, 2012:20,000,000) ordinary shares of Rs. 10/- each		200,000	200,000
Issued, subscribed & paid up: 12,028,789 (Dec. 31, 2012: 12,028,789) ordinary shares of Rs. 10 each		120,288	120,288
Reserves and surplus		2,042,924	1,899,663
		2,163,212	2,019,951

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, 2013 (UN-AUDITED)**

	Note	MAR. 31, 2013 (Rupees in thousand)	MAR. 31, 2012
Sales	7	3,475,261	2,605,727
Cost of sales	8	2,892,740	2,218,996
Gross profit		582,521	386,731
Distribution cost		159,603	86,885
Administrative expenses		145,454	119,797
Other operating expenses		23,209	11,357
		328,266	218,039
Operating profit before other income		254,255	168,692
Other operating income		11,451	15,786
Operating profit		265,706	184,478
Finance cost		75,949	70,495
Profit before taxation		189,757	113,983
Taxation		46,496	17,975
Profit after taxation		143,261	96,008
EARNING PER SHARE			
Basic & Diluted (Rupees)		11.91	7.98

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, 2013 (UN-AUDITED)**

	MAR. 31, 2013	MAR. 31, 2012
	(Rupees in thousand)	
Profit for the period	143,261	96,008
Other comprehensive income	-	-
	<u>143,261</u>	<u>96,008</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, 2013 (UN-AUDITED)

	MAR. 31, 2013	MAR. 31, 2012
	(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before taxation and extra ordinary items	189,757	113,983
Adjustments for:		
Depreciation & amortization	46,716	43,612
Gratuity provision	5,751	4,739
Finance cost	75,949	70,495
Provision for slow moving	6,031	-
Provision for W.P.P.F.	10,191	6,121
Provision for W.W.F.	3,873	2,326
Deferred income on sale & lease back	-	1,895
Ijarah rentals	8,400	-
(Profit)/loss on sale of property, plant & equipment	(639)	(683)
Operating profit before working capital changes	346,029	242,488
Changes in working capital (Increase)/decrease in		
Stores, spares and loose tools	(17,341)	(29,374)
Stock in trade	(5,022)	(272,359)
Trade debts	11,079	16,417
Advances, deposits, prepayments & other receivables	(5,806)	(146,738)
Trade & other payables	79,422	155,002
Long term deposits	90	20
Long term loans	(216)	(189)
Cash generated from / (used in) operations	408,235	(34,733)
Finance cost paid	(90,468)	(91,657)
Ijarah rentals	(8,400)	-
Income taxes paid	(46,252)	(70,875)
Contribution to gratuity fund	(3,100)	-
W.P.P.F. paid	(11,500)	(28,712)
Net cash from / (used in) operating activities	248,515	(225,977)
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure	(143,153)	(55,308)
Long term deposits	(5,551)	(5,528)
Proceeds from sale of property, plant & equipments	1,437	1,765
Net cash (used in) investing activities	(147,267)	(59,071)
CASH FLOW FROM FINANCING ACTIVITIES		
Lease rentals paid	(5,817)	(6,405)
Short term borrowings-net	(82,530)	262,500
Long term financing	(1,138)	(1,138)
Sales and lease back	-	35,324
Dividend paid	(4)	-
Net cash from/(used in) financing activities	(89,489)	290,281
Net increase / (decrease) in cash & cash equivalents	11,759	5,233
Cash & cash equivalents at beginning of the period	13,429	12,065
Cash & cash equivalents at close of the period	25,188	17,298

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, 2013 (UN-AUDITED)**

	(Rupees in thousand)					
	Share capital	Capital reserves		Revenue reserves	Un-appropriated profit	Total
		Capital gain	Share premium			
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
Balance as at Dec. 31, 2012	120,288	102,730	21,217	1,558,208	217,508	2,019,951
Net profit for the quarter ended Mar. 31, 2013	-	-	-	-	143,261	143,261
Balance as at Mar. 31, 2013	120,288	102,730	21,217	1,558,208	360,769	2,163,212

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, 2013 (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, 2013 are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements are un-audited 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, 2012.

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.

	Note	(Un-audited) MAR. 31, 2013 (Rupees in thousand)	(Audited) DEC. 31, 2012
5. PROPERTY, PLANT & EQUIPMENT			
Operating fixed assets	5.1	1,640,013	1,502,733
Capital work in progress		103,974	146,072
		1,743,987	1,648,805
5.1 Operating fixed assets			
Opening written down value		1,502,733	1,543,297
Add: Additions during the period	5.2	183,031	193,977
		1,685,764	1,737,274
Less: Disposals during the period (at book value)		797	57,427
		1,684,967	1,679,847
Less: Depreciation charged during the period		44,954	177,114
		1,640,013	1,502,733

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2013 (UN-AUDITED)

	(Un-audited) MAR. 31, 2013	(Audited) DEC. 31, 2012
	(Rupees in thousand)	
5.2 Following is the detail of additions during the period		
Building on freehold land	46,837	53,233
Plant & machinery	116,795	83,772
Furniture, fixture & fittings	92	802
Vehicles	292	3,686
Service equipments	17,078	21,059
Last and mould	450	31,425
Leasehold improvements	1,487	-
	<u>183,031</u>	<u>193,977</u>

6. CONTINGENCIES AND COMMITMENTS

Contingencies

- 6.1** 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, Sumbrial 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.
- 6.2** The Additional Collector (Adjudication) PACCS, 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.
- 6.3** 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.
- 6.4** The DCIR, 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

- 6.5** Guarantees issued through banks Rs.65.01 million (Dec-2012 : Rs.65.01 million).
- 6.6** Irrevocable letters of credit Rs.530.05 million (Dec-2012 : Rs.466.79 million).
- 6.7** The amount of future Ijarah financing and the period in which these payments will become due are as follows:

Not later than one year	35,117	32,049
Later than one year but not later than five years	75,091	75,990
	<u>75,091</u>	<u>75,990</u>

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2013 (UN-AUDITED)

		(Un-audited)	
		MAR. 31, 2013	MAR. 31, 2012
		(Rupees in thousand)	
7. SALES	Note		
Sale of Footwear (Net)			
Export sales		926,385	657,980
Local sales		1,200,499	772,338
		2,126,884	1,430,318
Sale of Tyre and Tube (Net)			
Export sales		55,058	131,287
Local sales		1,288,854	1,032,535
		1,343,912	1,163,822
Others (Net)			
Export sales		-	5
Local sales		4,465	11,582
		4,465	11,587
		<u>3,475,261</u>	<u>2,605,727</u>
8. COST OF SALES			
Raw material consumed	8.1	2,147,995	1,622,937
Salaries, wages & benefits		392,295	274,455
Stores & spares consumed		42,952	33,354
Packing material consumed		105,836	80,845
Fuel & power		142,444	96,474
Insurance		2,467	2,260
Depreciation		37,062	36,353
Travelling and conveyance		953	989
Repair and maintenance		20,887	20,783
Entertainment		681	295
Provision of slow moving and obsolete item		6,031	(2,295)
Other manufacturing charges		69,120	51,906
		<u>2,968,723</u>	<u>2,218,356</u>
Work in process:-			
Opening stock		419,117	300,306
Closing stock		(492,266)	(270,984)
		<u>(73,149)</u>	<u>29,322</u>
Cost of goods manufactured		2,895,574	2,247,678
Finished goods:-			
Opening stock		480,371	579,504
Finished goods purchased		10,776	19,263
Closing stock		(493,981)	(627,449)
		<u>(2,834)</u>	<u>(28,682)</u>
Cost of goods sold		<u>2,892,740</u>	<u>2,218,996</u>
8.1 Raw Material Consumed:			
Stock-Opening		1,164,968	968,134
Purchases		2,021,785	1,580,358
Stock-Closing		(1,038,758)	(925,555)
		<u>2,147,995</u>	<u>1,622,937</u>

**NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE PERIOD ENDED MARCH 31, 2013 (UN-AUDITED)**

9. SEGMENT REPORTING

(Rupees in thousand)

	Footwear		Tyre Division		Technical Rubber Products		Total	
	3 months ended Mar 31, 2013	3 months ended Mar 31, 2012	3 months ended Mar 31, 2013	3 months ended Mar 31, 2012	3 months ended Mar 31, 2013	3 months ended Mar 31, 2012	3 months ended Mar 31, 2013	3 months ended Mar 31, 2012
External sales	2,126,884	1,430,318	1,343,912	1,163,823	4,465	11,586	3,475,261	2,605,727
Inter-segment sales	-	-	-	-	-	-	-	-
Total revenue	2,126,884	1,430,318	1,343,912	1,163,823	4,465	11,586	3,475,261	2,605,727
Profit/ (loss) before tax and unallocated expenses	180,566	76,927	200,671	196,033	(4,908)	(585)	376,329	272,375
Unallocated corporate expenses	-	-	-	-	-	-	(68,717)	(64,729)
Finance cost	-	-	-	-	-	-	(118,148)	(95,650)
Other operating expenses	-	-	-	-	-	-	293	1,987
Other operating income	-	-	-	-	-	-	(46,496)	(17,975)
Taxation	-	-	-	-	-	-	143,261	96,008
Profit after taxation	-	-	-	-	-	-	-	-

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2013 (UN-AUDITED)

		(Un-audited) MAR. 31, 2013	(Audited) DEC. 31, 2012
		(Rupees in thousand)	
10. RELATED PARTY TRANSACTIONS			
Associated			
SAB Polymer Industries (Private) Limited	Balance	17,828	20,089
SBL Trading (Private) Limited	Balance	24,717	40,405
		(Un-audited)	
		MAR. 31, 2013	MAR. 31, 2012
SAB Polymer Industries (Private) Limited	Sales	849	3,678
Service Sales Corporation (Private) Limited*	Sales	-	207,285
Post employment benefit plan			
Provident Fund	Contribution	18,243	14,512
Gratuity Fund	Contribution	5,751	3,736
Pension Fund	Contribution	29	25

* Service Sales Corporation (Private) Limited was associated company in last year till February 13, due to common directorship which is no longer the case now.

11. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual financial statements as at December 31, 2012.

There have been no changes in the risk management policies since the year end.

12. CORRESPONDING FIGURES

In order to comply with the requirements of International Accounting Standard 34 - 'International Financial Reporting', the condensed interim balance sheet and condensed interim statement of changes in equity have been compared with the balances of annual audited financial statements of preceding financial year, whereas, the condensed interim profit and loss account, condensed interim statement of comprehensive income and condensed interim cash flow statement have been compared with the balances of comparable period of immediately preceding financial year.

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 authorised for issue by the Board of directors as on April 30, 2013.

Chaudhry Ahmed Javed
(Chairman)

Omar Saeed
(Chief Executive)