

Report & Un-Audited Accounts for the
1st Quarter Ended March 31, 2014



Servis

SERVICE INDUSTRIES LIMITED

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, 2014.

The Economy

Almost all major economic indicators for the Pakistan economy have moved in the positive direction over the past few months. These are triggered by positive macro economic developments in the country. Inflows from IMF, home remittances, Coalition Support Fund and Middle East have helped improve the macro-economic indicators and in turn business sentiment. The foreign exchange reserves have reached US\$ 10 billion at the end of March 2014 and consequently there has been an appreciation in the Pak Rupee. This will help the GDP growth which is likely to hit 4% this fiscal year.

However, persistent law and order problems coupled with rapid increase in power tariffs remain the biggest threats for the performance of manufacturing sector. The lack of gas availability is also putting further strain on our energy intensive businesses.

Exports increased to US\$ 16.8 billion during July-2013 to February-2014, up 3.7% as compared to US\$ 16.2 billion in the corresponding period last year. Imports increased to US\$ 27.6 billion during July-2013 to February-2014, up 4.0% as compared to US\$ 26.5 billion in the corresponding period last year.

Company Performance

While the overall sales growth was limited to just 10% in the quarter under review, both PBT and PAT showed healthy increases of 37% and 32% respectively.

Financial performance for the first quarter of the year is given below:

	2014	2013	Variance %
Sales (Rs. in m)	3,840	3,475	10%
Profit Before Tax (Rs. in m)	259	190	37%
Profit after Tax (Rs. in m)	189	143	32%
EPS (Rs.)	15.75	11.91	32%

The company achieved sales of Rs 3,840 million compared to Rs 3,475 million during corresponding period last year, an increase of 10.5%. All business segments of the company witnessed growth and we expect sales growth to pick up in the upcoming two quarters as added capacity comes online.

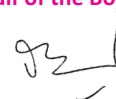
Your company continued to improve its financial performance as a result of sales growth and improved gross margins. The company achieved a gross margin of 17.9% for the period as compared to 16.7% achieved during same period last year. Resultantly, the net profit margin increased to 4.9% from 4.1% during corresponding period last year.

The earnings per share were Rs 15.75 during the period under review.

The management is continuing to focus on increasing market share in both domestic and export markets and to further strengthen financial position of your company to improve shareholder value.

We would like to place on record our appreciation for the confidence placed by our valued customers, continued support extended by all stakeholders and the dedicated efforts of our employees.

For and on behalf of the Board



Omar Saeed
(Chief Executive)

Dated: April 29, 2014
Place: Lahore

**CONDENSED INTERIM BALANCE SHEET
AS AT MARCH 31, 2014**

	Note	(Un-audited) Mar. 31, 2014	(Audited) Dec. 31, 2013
(Rupees in thousand)			
ASSETS			
NON CURRENT ASSETS			
Property, plant & equipment	5	2,134,730	1,901,092
Intangible assets		13,235	16,119
Long term investment		167,747	177,032
Long term loans		5,713	5,106
Long term deposits		45,847	29,837
		<u>2,367,272</u>	<u>2,129,186</u>
CURRENT ASSETS			
Stores, spares & loose tools		140,144	115,791
Stock in trade		2,623,112	2,322,432
Trade debts		1,418,906	1,244,470
Loans and advances		223,448	241,099
Trade deposits and prepayments		32,922	17,033
Other receivables		7,037	6,389
Tax refunds due from government		881,877	890,923
Cash & bank balances		24,923	24,406
		<u>5,352,369</u>	<u>4,862,543</u>
CURRENT LIABILITIES			
Trade & other payables		2,027,904	1,975,589
Interest and mark-up accrued		40,689	51,125
Short term borrowings - Secured		1,956,877	1,514,289
Current portion:			
Long term financing		114,013	114,013
Provision for taxation		63,340	114,889
		<u>4,202,823</u>	<u>3,769,905</u>
Net current assets		<u>1,149,546</u>	<u>1,092,638</u>
Capital employed		<u>3,516,818</u>	<u>3,221,824</u>
NON CURRENT LIABILITIES			
Long term financing - Secured		613,229	514,365
Long term deposits		5,144	3,655
Deferred liabilities		261,914	256,718
		<u>880,287</u>	<u>774,738</u>
Contingencies & Commitments	6	-	-
NET ASSETS		<u>2,636,531</u>	<u>2,447,086</u>
REPRESENTED BY			
Share capital			
Authorized: 20,000,000 (Dec. 31, 2013:20,000,000) ordinary shares of Rs. 10/- each		<u>200,000</u>	<u>200,000</u>
Issued, subscribed & paid up: 12,028,789 (Dec. 31, 2013: 12,028,789) ordinary shares of Rs. 10 each		<u>120,288</u>	<u>120,288</u>
Reserves and surplus		<u>2,516,243</u>	<u>2,326,798</u>
		<u>2,636,531</u>	<u>2,447,086</u>

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, 2014 (UN-AUDITED)**

	Note	MAR. 31, 2014	MAR. 31, 2013
(Rupees in thousand)			
Sales	8	3,840,354	3,475,261
Cost of sales	9	<u>3,154,322</u>	<u>2,892,740</u>
Gross profit		686,032	582,521
Distribution cost		<u>172,365</u>	<u>159,603</u>
Administrative expenses		<u>161,708</u>	<u>145,454</u>
Other operating expenses		<u>29,330</u>	<u>23,209</u>
		363,403	328,266
Operating profit before other income		322,629	254,255
Other operating income		<u>13,462</u>	<u>11,451</u>
Operating profit		336,091	265,706
Finance cost		<u>76,830</u>	<u>75,949</u>
Profit before taxation		259,261	189,757
Taxation		<u>69,816</u>	<u>46,496</u>
Profit after taxation		189,445	<u>143,261</u>
 EARNING PER SHARE			
Basic & Diluted (Rupees)		<u>15.75</u>	<u>11.91</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, 2014 (UN-AUDITED)**

	MAR. 31, 2014	MAR. 31, 2013
	(Rupees in thousand)	
Profit for the period	189,445	143,261
Other comprehensive income	-	-
	<u>189,445</u>	<u>143,261</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, 2014 (UN-AUDITED)**

	MAR. 31, 2014	MAR. 31, 2013
	(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit before taxation and extra ordinary items	259,261	189,757
Adjustments for:		
Depreciation & amortization	51,319	46,716
Gratuity provision	6,556	5,751
Finance cost	76,830	75,949
Provision for slow moving	1,018	6,031
Provision for W.P.P.F.	13,924	10,191
Provision for W.W.F.	5,291	3,873
Ijarah rentals	10,234	8,400
(Profit)/loss on sale of property, plant & equipment	(50)	(639)
Operating profit before working capital changes	424,383	346,029
Changes in working capital (Increase)/decrease in		
Stores, spares and loose tools	(24,623)	(17,341)
Stock in trade	(301,425)	(5,022)
Trade debts	(174,436)	11,079
Advances, deposits, prepayments & other receivables	(65,721)	(5,806)
Trade & other payables	73,604	79,422
Long term deposits	1,489	90
Long term loans	(607)	(216)
Cash generated from / (used in) operations	(67,336)	408,235
Finance cost paid	(87,267)	(90,468)
Ijarah rentals	(10,234)	(8,400)
Income taxes paid	(39,008)	(46,252)
Contribution to gratuity fund	(7,835)	(3,100)
W.P.P.F. paid	(40,115)	(11,500)
Net cash from / (used in) operating activities	(251,795)	248,515
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure	(283,991)	(143,153)
Long term deposits	(16,010)	(5,551)
Speed Private Limited (Associated company)	9,285	1,437
Proceeds from sale of property, plant & equipments	1,967	1,437
Net cash (used in) investing activities	(288,749)	(147,267)
CASH FLOW FROM FINANCING ACTIVITIES		
Lease rentals paid	-	(5,817)
Short term borrowings-net	442,588	(82,530)
Long term financing	98,863	(1,138)
Dividend paid	(390)	(4)
Net cash from/(used in) financing activities	541,061	(89,489)
Net increase / (decrease) in cash & cash equivalents	517	11,759
Cash & cash equivalents at beginning of the period	24,406	13,429
Cash & cash equivalents at close of the period	24,923	25,188

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, 2014 (UN-AUDITED)**

	(Rupees in thousand)					Total
	Share capital	Capital reserves		Revenue reserves	Un-appropriated profit	
		Capital gain	Share premium			
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
Balance as at Dec. 31, 2013	120,288	102,730	21,217	1,558,208	644,643	2,447,086
Net profit for the quarter ended Mar. 31, 2014	-	-	-	-	189,445	189,445
Balance as at Mar. 31, 2014	120,288	102,730	21,217	1,558,208	834,088	2,636,531

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, 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 period ended March 31, 2014 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, 2013.

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, 2014 (Rupees in thousand)	(Audited) DEC. 31, 2013
5. PROPERTY, PLANT & EQUIPMENT			
Operating fixed assets	5.1	1,835,534	1,819,162
Capital work in progress		299,196	81,930
		2,134,730	1,901,092
5.1 Operating fixed assets			
Opening written down value		1,819,162	1,502,733
Add: Additions during the period	5.2	66,322	550,155
		1,885,484	2,052,888
Less: Disposals during the period (at book value)		1,918	34,991
		1,883,566	2,017,897
Less: Depreciation charged during the period		48,032	198,735
		1,835,534	1,819,162

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2014 (UN-AUDITED)

	(Un-audited) MAR. 31, 2014	(Audited) DEC. 31, 2013
	(Rupees in thousand)	
5.2 Following is the detail of additions during the period		
Building on freehold land	6,339	86,078
Plant & machinery	30,263	342,607
Furniture, fixture & fittings	-	1,059
Vehicles	275	3,753
Service equipments	29,255	98,569
Last and mould	190	12,725
Leasehold improvements	-	5,364
	66,322	550,155

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 Director PESSI has initiated a case against Service Industries Limited. 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.
- 6.5** 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

- 6.6** Guarantees issued through banks Rs.52.70 million (Dec-2013 : Rs.60.03 million).
- 6.7** Irrevocable letters of credit Rs.911.80 million (Dec-2013 : Rs.994.22 million).
- 6.8** The amount of future Ijarah financing and the period in which these payments will become due are as follows:

Not later than one year	42,143	25,867
Later than one year but not later than five years	90,670	62,057

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2014 (UN-AUDITED)

7. LONG TERM INVESTMENT

This represents amount invested in Speed (Private) Limited. As a result Service Industries Limited holds 22.22% ownership of the aforementioned company which makes the Speed (Private) Limited an associate of Service Industries Limited. Share of Post acquisition profit /(loss) has been accounted for latest un-audited financial statements of the Speed (Private) Limited as on December 31, 2013.

	(Un-audited) MAR. 31, 2014	(Audited) DEC. 31, 2013
	(Rupees in thousand)	
Cost of investment	153,123	162,408
1,624,079 fully paid ordinary shares of Rs. 100/- each	14,624	14,624
Share of post acquisition profit	<u>167,747</u>	<u>177,032</u>

8. SALES

Sale of Footwear (Net)

	(Un-audited) MAR. 31, 2014	MAR. 31, 2013
	(Rupees in thousand)	
Export sales	1,181,823	926,385
Local sales	1,075,173	1,200,499
	<u>2,256,996</u>	<u>2,126,884</u>

Sale of Tyre and Tube (Net)

Export sales	48,050	55,058
Local sales	1,531,835	1,288,854
	<u>1,579,885</u>	<u>1,343,912</u>

Others (Net)

Export sales	96	-
Local sales	3,377	4,465
	<u>3,473</u>	<u>4,465</u>
	<u>3,840,354</u>	<u>3,475,261</u>

9. COST OF SALES

	9.1	
Raw material consumed	2,441,611	2,147,995
Salaries, wages & benefits	447,659	392,295
Stores & spares consumed	33,139	42,952
Packing material consumed	109,312	105,836
Fuel & power	195,576	142,444
Insurance	2,545	2,467
Depreciation	43,637	37,062
Travelling and conveyance	2,417	953
Repair and maintenance	25,206	20,887
Entertainment	856	681
Provision of slow moving and obsolete item	1,018	6,031
Other manufacturing charges	54,872	69,120
	<u>3,357,848</u>	<u>2,968,723</u>
Work in process:-		
Opening stock	345,118	419,117
Closing stock	(367,688)	(492,266)
	<u>(22,570)</u>	<u>(73,149)</u>
Cost of goods manufactured	<u>3,335,278</u>	<u>2,895,574</u>
Finished goods:-		
Opening stock	711,604	480,371
Finished goods purchased	40,553	10,776
Closing stock	(933,113)	(493,981)
	<u>(180,956)</u>	<u>(2,834)</u>
Cost of goods sold	<u>3,154,322</u>	<u>2,892,740</u>

**NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE PERIOD ENDED MARCH 31, 2014 (UN-AUDITED)**

(Un-audited)
MAR. 31, 2014 MAR. 31, 2013
(Rupees in thousand)
1,136,077
2,370,672
(1,065,138)
<u>2,441,611</u>
1,164,968
2,021,785
(1,038,758)
<u>2,147,995</u>

9.1 Raw Material Consumed:

Opening stock
Purchases
Closing stock

10. SEGMENT REPORTING

	(Rupees in thousand)									
	Footwear		Tyre Division		Technical Rubber Products				Total	
	3 months ended Mar 31, 2014	3 months ended Mar 31, 2013	3 months ended Mar 31, 2014	3 months ended Mar 31, 2013	3 months ended Mar 31, 2014	3 months ended Mar 31, 2013	3 months ended Mar 31, 2014	3 months ended Mar 31, 2013	3 months ended Mar 31, 2014	3 months ended Mar 31, 2013
External sales	2,256,996	2,126,884	1,579,885	1,343,912	3,473	4,465	3,840,354	3,475,261	-	-
Inter-segment sales	-	-	-	-	-	-	-	-	-	-
Total revenue	<u>2,256,996</u>	<u>2,126,884</u>	<u>1,579,885</u>	<u>1,343,912</u>	<u>3,473</u>	<u>4,465</u>	<u>3,840,354</u>	<u>3,475,261</u>	<u>3,840,354</u>	<u>3,475,261</u>
Profit/ (loss) before tax and unallocated expenses	267,642	180,566	196,536	200,671	(100)	(4,908)	464,078	376,329	-	-
Unallocated corporate expenses	-	-	-	-	-	-	(68,952)	(68,717)	-	-
Finance cost	-	-	-	-	-	-	(138,564)	(118,148)	-	-
Other operating expenses	-	-	-	-	-	-	2,699	293	-	-
Other operating income	-	-	-	-	-	-	(69,816)	(46,496)	-	-
Taxation	-	-	-	-	-	-	-	-	-	-
Profit after taxation	-	-	-	-	-	-	189,445	143,261	-	-

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE PERIOD ENDED MARCH 31, 2014 (UN-AUDITED)

		(Un-audited) MAR. 31, 2014	(Audited) DEC. 31, 2013
		(Rupees in thousand)	
11. TRANSACTIONS WITH RELATED PARTIES			
Associated			
SAB Polymer Industries (Private) Limited	Balance	15,274	15,289
SBL Trading (Private) Limited	Balance	-	-
		(Un-audited) MAR. 31, 2014 MAR. 31, 2013	
		(Rupees in thousand)	
SAB Polymer Industries (Private) Limited	Sales	-	849
Post employment benefit plan			
Provident Fund	Contribution	20,775	18,243
Gratuity Fund	Contribution	6,556	5,751
Pension Fund	Contribution	25	29

12. 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, 2013.

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

13. 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.

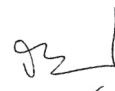
Corresponding figures have been re-classified, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made.

14. AUTHORIZATION DATE

These financial statements were authorized for issue by the Board of directors as on April 29, 2014.



Chaudhry Ahmed Javed
(Chairman)



Omar Saeed
(Chief Executive)