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DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of your Company take pleasure in presenting the 3rd Quarter report on the performance of your company along with un-audited financial statements for the period ended September 30, 2012.

Your Company's revenue grew by 2% compared to same period last year. The footwear business remained under pressure because of lower volumes sold in Pakistan and in export markets. Additionally, the increases in minimum wages and energy costs could not be passed on to our customers during the third quarter. The tyre business continues to do well both within Pakistan and in the export market.

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

	Nine Months ended Sep 30,			Quarter ended Sep 30,		
	2012	2011	Variance %	2012	2011	Variance %
Sales Revenue - Rs m	8,930	8,743	2%	3,125	2,998	4%
Profit Before Tax - Rs m	126	489	(73)%	(96)	114	(184)%
Profit after Tax - Rs m	53	378	(86)%	(96)	95	(201)%
EPS - (Rs) - Rs	4.4	31.4	(86)%	(7.98)	7.89	(201)%

Gross profit ratio has declined to 12.5% from 14.1% of the corresponding period last year. Net profit ratio has also declined to 0.6% from 4.3% for the corresponding period last year. The margin weaknesses are also attributable to the company's investment in launching a new brand and a new category of footwear in Europe which involved major start up costs.

We continue to face the same challenges in the final quarter of the year. However, we are confident that we will be showing improvements in all segments of our business partially in Q4, and fully in the first quarter of 2013.

We would like to place on record our profound gratitude to our employees, bankers, suppliers and customers for their continued cooperation and support.

For and on behalf of the Board

Dated: October 24, 2012
Place: Lahore

Omar Saeed
(Chief Executive)

CONDENSED INTERIM BALANCE SHEET AS AT SEPTEMBER 30, 2012

	Note	(Unaudited) Sep. 30, 2012	(Audited) Dec. 31, 2011
(Rupees in thousand)			
ASSETS			
NON CURRENT ASSETS			
Property, plant & equipment	5	1,654,053	1,612,052
Intangible assets		12,965	13,301
Long term loans		371	376
Long term deposits		23,661	11,060
		1,691,050	1,636,789
CURRENT ASSETS			
Stores, spares & loose tools		97,960	84,727
Stock in trade		2,183,130	1,941,229
Trade debts		1,027,837	938,456
Loans and advances		846,105	656,231
Trade deposits and prepayments		30,628	7,682
Other receivables		353,313	362,156
Cash & bank balances		30,499	12,065
		4,569,472	4,002,546
CURRENT LIABILITIES			
Trade & other payables		1,442,334	1,308,458
Interest and mark-up accrued		50,190	58,404
Short term borrowings		2,153,788	1,601,090
Current portion:			
Long term financing		59,467	80,604
Liabilities against assets subject to finance lease		31,762	11,283
Provision for taxation		36,448	115,461
		3,773,989	3,175,300
Net current assets		795,483	827,246
Capital employed		2,486,533	2,464,035
NON CURRENT LIABILITIES			
Long term financing		197,870	218,173
Liabilities against assets subject to finance lease		74,049	14,950
Long term deposits		2,620	2,620
Deferred liabilities		264,341	215,386
Deferred income on sale and lease back		2,111	-
		540,991	451,129
Contingencies and Commitments	6	-	-
NET ASSETS		1,945,542	2,012,906
REPRESENTED BY			
Share capital			
Authorized: 20,000,000 (Dec. 31, 2011 : 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		1,825,254	1,892,618
		1,945,542	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 NINE MONTHS AND QUARTER ENDED SEPTEMBER 30, 2012 (UN-AUDITED)

	Note	Nine Months Ended		Three Months Ended	
		Sep. 30, 2012	Sep. 30, 2011	Sep. 30, 2012	Sep. 30, 2011
(Rupees in thousand)					
Sales	7	8,930,356	8,743,143	3,125,233	2,998,628
Cost of sales	8	<u>7,812,847</u>	<u>7,504,554</u>	<u>2,846,792</u>	<u>2,597,817</u>
Gross profit		1,117,509	1,238,589	278,441	400,811
Distribution cost		394,836	238,907	170,421	89,855
Administrative expenses		374,540	330,777	129,880	134,340
Other operating expenses		20,400	50,566	(3,325)	9,935
Finance cost		243,201	159,163	90,247	64,877
Other operating income		<u>(41,996)</u>	<u>(29,471)</u>	<u>(13,161)</u>	<u>(12,058)</u>
		990,981	749,942	374,062	286,949
Profit before taxation		126,528	488,647	(95,621)	113,862
Taxation		<u>73,597</u>	<u>110,593</u>	<u>374</u>	<u>18,953</u>
Profit after taxation		<u><u>52,931</u></u>	<u><u>378,054</u></u>	<u><u>(95,995)</u></u>	<u><u>94,909</u></u>
EARNING PER SHARE					
Basic & Diluted (Rupees)		<u><u>4.40</u></u>	<u><u>31.43</u></u>	<u><u>(7.98)</u></u>	<u><u>7.89</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 NINE MONTHS AND QUARTER ENDED SEPTEMBER 30, 2012 (UN-AUDITED)

	Nine Months Ended		Three Months Ended	
	Sep. 30, 2012	Sep. 30, 2011	Sep. 30, 2012	Sep. 30, 2011
				(Rupees in thousand)
Profit for the period	52,931	378,054	(95,955)	94,909
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>52,931</u></u>	<u><u>378,054</u></u>	<u><u>(95,955)</u></u>	<u><u>94,909</u></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 NINE MONTHS ENDED SEPTEMBER 30, 2012 (UN-AUDITED)

	SEP. 30, 2012	SEP. 30, 2011
	(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	126,528	488,647
Adjustments for:		
Depreciation	139,858	115,473
Gratuity provision	12,886	12,311
Finance cost	243,201	159,163
Provision for W.P.P.F.	6,795	26,243
Provision for W.W.F.	2,582	9,972
Provision for slow moving stocks	12,994	-
(Profit) on sale of fixed assets	(4,885)	(4,811)
Operating profit before working capital changes	539,959	806,998
Changes in working capital		
(Increase) in stores, spares and loose tools	(15,762)	(18,542)
(Increase) / decrease in stock in trade	(252,366)	(743,698)
(Increase) in trade debts	(89,381)	(90,273)
(Increase) in advances, deposits, prepayments and other receivables	(133,102)	(200,639)
Increase in trade and other payables	152,026	204,891
(Increase) / decrease in long term deposits	(12,601)	1,815
(Increase) / decrease in long term loans	(89)	985
Cash generated from / (used in) operations	188,684	(38,463)
Finance cost paid	(251,415)	(176,960)
Income tax paid	(186,336)	(278,883)
Gratuity paid	(1,082)	(4,700)
W.P.P.F. and W.W.F. paid	(28,713)	(26,229)
Net cash from / (used in) operating activities	(278,862)	(525,235)
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure	(135,969)	(173,524)
Proceeds from sale of property, plant and equipments	63,074	14,721
Net cash (used in) investing activities	(72,895)	(158,803)
CASH FLOW FROM FINANCING ACTIVITIES		
Long term deposits	-	160
Lease rental paid	(21,975)	(9,661)
Short term borrowings-net	552,698	583,767
Long term financing	(41,440)	(30,806)
Dividend paid	(119,092)	(89,378)
Net cash from/(used in) financing activities	370,191	454,082
Net increase in cash & cash equivalents	18,434	(229,956)
Cash & cash equivalents at beginning of the period	12,065	247,951
Cash & cash equivalents at end of the period	30,499	17,995

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 NINE MONTHS ENDED SEPTEMBER 30, 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 (audited)	120,288	102,730	21,217	1,123,208	332,383	1,699,826
Final Dividend @ Rs.7.50 per share	-	-	-	235,000	(90,216)	(90,216)
Transferred to general reserve	-	-	-	-	(235,000)	-
Interim dividend @Rs. 2.50 per share for the year ended December 31, 2011.	-	-	-	-	(30,072)	(30,072)
Net profit for the period	-	-	-	-	378,054	378,054
Balance as at Sep. 30, 2011 (un-audited)	120,288	102,730	21,217	1,358,208	355,149	1,957,592
Net profit for the period	-	-	-	-	55,314	55,314
Balance as at Dec. 31, 2011 (audited)	120,288	102,730	21,217	1,358,208	410,463	2,012,906
Final Dividend @ Rs.10.00 per share	-	-	-	-	(120,295)	(120,295)
Transferred to general reserve	-	-	-	200,000	(200,000)	-
Net profit for the period	-	-	-	-	52,931	52,931
Balance as at Sep. 30, 2012 (un-audited)	120,288	102,730	21,217	1,558,208	143,099	1,945,542

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 NINE MONTHS ENDED SEPTEMBER 30, 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 nine-months ended September 30, 2012 are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements are unaudited and are being submitted to 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 nine months' profit. These are subject to change on final results.

		(Unaudited) SEP. 30, 2012	(Audited) DEC. 31, 2011
	Note	(Rupees in thousand)	
5. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	5.1	1,589,351	1,543,297
Capital work in progress		64,702	68,755
		1,654,053	1,612,052
5.1 Operating fixed assets			
Opening written down value		1,543,297	1,320,304
Add: Additions during the period/year	5.2	242,950	398,627
		1,786,247	1,718,931
Less: Disposals during the period/year (at book value)		57,038	16,815
		1,729,209	1,702,116
Less: Depreciation charged during the period/year		139,858	158,819
		1,589,351	1,543,297

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (UN-AUDITED)

	(Unaudited) SEP. 30, 2012	(Audited) DEC. 31, 2011
	(Rupees in thousand)	
5.2 Following is the detail of additions during the period/year		
Building on freehold land	51,977	33,654
Plant and machinery	40,499	286,063
Furniture, fixture and fittings	642	5,694
Vehicles	105,171	47,218
Service equipments	16,028	25,998
Last & mould	28,633	-
	242,950	398,627

6. CONTINGENCIES AND COMMITMENTS

6.1 Guarantees issued through banks Rs.65.00 million (Dec-2011 : Rs.28.64 million).

6.2 Irrevocable letters of credit Rs.469.16 million (Dec-2011 : Rs.508.65 million).

6.3 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.

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 case has been decided in favour of Company by the Appellate Tribunal Inland Revenue, Lahore. There is a chance that department may file an appeal before High Court against order. According to the Company's legal counsel, the Company has a strong case with high probability of its success.

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.

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 NINE MONTHS ENDED SEPTEMBER 30, 2012 (UN-AUDITED)**

	Note	Nine Months Ended		Three Months Ended	
		Sep. 30, 2012	Sep. 30, 2011	Sep. 30, 2012	Sep. 30, 2011
(Rupees in thousand)					
7. SALES					
Sale of Footwear (Net)					
Export		1,878,957	2,165,492	678,760	905,284
Local		2,946,907	3,488,796	1,009,256	1,056,346
		4,825,864	5,654,288	1,688,016	1,961,630
Sale of Tyres and Tubes (Net)					
Export		218,189	199,509	52,151	71,555
Local		3,835,237	2,849,166	1,361,273	957,666
		4,053,426	3,048,675	1,413,424	1,029,221
Others (Net)					
Export		11	-	-	-
Local		51,055	40,180	23,793	7,777
		51,066	40,180	23,793	7,777
		<u>8,930,356</u>	<u>8,743,143</u>	<u>3,125,233</u>	<u>2,998,628</u>
8. COST OF SALES					
Raw material consumed	8.1	5,802,950	5,839,195	2,060,555	1,862,885
Salaries, wages and benefits		926,373	827,061	350,324	281,251
Stores & spares consumed		148,803	113,622	42,595	29,731
Packing material consumed		268,885	332,196	90,417	104,141
Fuel & power		351,970	316,822	136,525	93,480
Insurance		6,943	6,169	2,322	2,109
Depreciation		111,391	100,124	37,997	36,202
Travelling and conveyance		3,800	3,560	1,180	1,303
Repair and maintenance		66,423	61,729	25,600	21,073
Entertainment		1,139	789	411	285
Provision of slow moving and obsolete item		12,994	-	10,359	-
Other manufacturing charges		169,560	204,138	59,203	62,744
		7,871,231	7,805,405	2,817,488	2,495,204
Work in process:-					
Opening stock		300,306	182,686	415,619	387,868
Closing stock		(487,813)	(304,878)	(487,813)	(304,878)
		(187,507)	(122,192)	(72,194)	82,990
Cost of goods manufactured		7,683,724	7,683,213	2,745,294	2,578,194
Finished goods:-					
Opening stock		579,504	359,240	575,800	557,522
Finished goods purchased		43,954	-	20,033	-
Closing stock		(494,335)	(537,899)	(494,335)	(537,899)
		129,123	(178,659)	101,498	19,623
Cost of goods sold		<u>7,812,847</u>	<u>7,504,554</u>	<u>2,846,792</u>	<u>2,597,817</u>
8.1 Raw Material Consumed:					
Stock-Opening		968,134	705,584	997,563	1,117,512
Purchases		5,847,292	6,113,595	2,075,468	1,725,357
Stock-Closing		(1,012,476)	(979,984)	(1,012,476)	(979,984)
		<u>5,802,950</u>	<u>5,839,195</u>	<u>2,060,555</u>	<u>1,862,885</u>

**NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (UN-AUDITED)**

9. SEGMENT REPORTING

	(Rupees in thousand)							
	Footwear		Tyre Division		Technical Rubber Products		Total	
	9 months ended Sep 30, 2012	9 months ended Sep 30, 2011	9 months ended Sep 30, 2012	9 months ended Sep 30, 2011	9 months ended Sep 30, 2012	9 months ended Sep 30, 2011	9 months ended Sep 30, 2012	9 months ended Sep 30, 2011
External sales	4,825,864	5,654,288	4,053,426	3,048,675	51,066	40,180	8,930,356	8,743,143
Inter-segment sales	-	-	-	-	-	-	-	-
Total revenue	4,825,864	5,654,288	4,053,426	3,048,675	51,066	40,180	8,930,356	8,743,143
Profit / (loss) before tax and unallocated expenses	82,963	765,543	523,422	124,248	15,131	113	621,516	889,904
Unallocated corporate expenses	-	-	-	-	-	-	(224,342)	(140,376)
Finance cost	-	-	-	-	-	-	(278,165)	(270,828)
Other operating expenses	-	-	-	-	-	-	7,519	9,947
Other operating income	-	-	-	-	-	-	(73,597)	(110,593)
Taxation	-	-	-	-	-	-	52,931	378,054
Profit after taxation	-	-	-	-	-	-	52,931	378,054

**NOTES TO THE CONDENSED INTERIM ACCOUNTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (UN-AUDITED)**

(Un-Audited) (Audited)
SEP. 30, DEC. 31,
2012 2011
(Rupees in thousand)

10. 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;

Party Name	Relationship		(Un-Audited)	(Audited)
			SEP. 30, 2012	DEC. 31, 2011
			(Rupees in thousand)	
SBL Trading (Pvt.) Ltd.	Associated	Trade debts	44,576	-
SAB Polymer Industries (Pvt.) Ltd.	Related	Trade debts	14,090	4,732
			Nine Months Ended	
			SEP. 30, 2012	SEP. 30, 2011
			(Rupees in thousand)	
Associated				
Sales			44,576	-
Services			150	-
Related Party				
Sales			21,446	10,589
Post employment benefit plan				
Provident fund		Contribution	44,938	42,246
Gratuity fund		Contribution	12,886	12,311
Pension fund		Contribution	78	84

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, 2011.

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

NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 (UN-AUDITED)

12. CORRESPONDING FIGURES

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 approved and authorized for issue by the Board of Directors as on October 24, 2012.

Chaudhry Ahmed Javed
(Chairman)

Omar Saeed
(Chief Executive)