

Report & Un-Audited Accounts for the 1st Quarter Ended March 31, 2016

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Servis

Service Industries Limited

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Directors' Report to the Shareholders

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The Directors are pleased to present the first quarter report on the performance of your company along with unaudited financial statements for the period ended March 31, 2016.

Global economy review for 2016 shows expected estimated annual growth rate at 3.4% in comparison with 3.1%. Risks to the global outlook remain tilted to the downside and relate to ongoing adjustments in the global economy: a generalized slowdown in emerging market economies, China's rebalancing, lower commodity prices. Emerging Europe is projected to continue growing at a broadly steady pace, albeit with some slowing in latter half of 2016.

Pakistan's GDP growth is expected to edge up to 4.5% in first half of the calendar year 2016, assuming continued low prices for oil and other commodities, expected growth pick-up in the advanced economies and some alleviation of energy shortages, this growth rate is likely to sustain and inch upwards.

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

	2016	2015	Variance (%)
Sales (Rs. in m)	4,251	4,190	1%
Profit Before Tax (Rs. in m)	340	291	17%
Profit After Tax (Rs. in m)	252	212	19%
EPS (Rs.)	20.92	17.63	19%

During the first quarter of the year, your company achieved sales of Rs. 4,251 million as compared to Rs. 4,190 million in the corresponding period of last year, representing an overall growth of 1%. The company earned a profit after tax of Rs. 252 million compared to Rs. 212 million during the same period last year, an increase of 19%.

The earnings per share were Rs. 20.92 during the period under review.

The management has increased its efforts to expand both footwear and tyre businesses in the coming years. Your company is continuously investing in product and sales channel development, capacity expansion and modernization of machinery. Additionally, the management is pursuing a diversification plan in the current year.

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

Dated: April 27, 2016
Place: Lahore

Omar Saeed
(Chief Executive)

Condensed Interim Balance Sheet

As at March 31, 2016 (Unaudited)

	(Unaudited) Mar. 31, 2016	(Audited) Dec. 31, 2015
Note	(Rupees in thousand)	
EQUITY AND LIABILITIES		
Share capital and reserves		
Authorized share capital 20,000,000 (2014: 20,000,000) ordinary shares of Rs. 10/- each:	200,000	200,000
Paid up share capital	120,288	120,288
Reserves	3,736,669	3,482,781
	3,856,957	3,603,069
Non-current liabilities		
Long term financing	655,007	881,850
Long term deposits	3,665	3,665
Deferred liabilities	338,974	343,331
	997,646	1,228,846
Current liabilities		
Trade and other payables	2,325,177	3,223,831
Interest and mark-up accrued	34,224	52,986
Short term borrowings	3,294,772	1,662,360
Current portion of long term financing	212,974	221,170
Provision for taxation	91,753	251,056
	5,958,900	5,411,403
	10,813,503	10,243,318
Contingencies and commitments	7	-

The annexed notes from 1 to 14 form an integral part of these financial statements.

Chaudhry Ahmed Javed
(Chairman)

	(Unaudited) Mar. 31, 2016	(Audited) Dec. 31, 2015
Note	(Rupees in thousand)	
ASSETS		
Non-current assets		
Property, plant and equipment	5	3,750,900
Intangible assets	4,163	5,640
Long term investments	6	315,288
Long term loans	10,998	7,083
Long term deposits	51,424	52,152
	4,132,773	3,771,095
Current assets		
Stores, spares and loose tools	112,410	114,570
Stock in trade	2,995,278	2,719,856
Trade debts	1,610,510	1,527,479
Loans and advances	466,733	233,671
Trade deposits and prepayments	99,643	76,719
Other receivables	79,595	58,126
Tax refunds due from government	1,264,209	1,281,956
Cash and cash equivalents	52,352	459,846
	6,680,730	6,472,223
	10,813,503	10,243,318

Omar Saeed
(Chief Executive)

Condensed Interim Profit & Loss Account

For the period ended March 31, 2016 (Unaudited)

	Note	Mar. 31, 2016 (Rupees in thousand)	Mar. 31, 2015
Sales	8	4,250,725	4,189,668
Cost of sales	9	3,424,604	3,469,927
Gross profit		826,121	719,741
Distribution cost		183,863	151,430
Administrative expenses		214,058	177,608
Other operating expenses		45,985	34,576
		443,906	363,614
Operating profit before other income		382,215	356,127
Other operating income		18,035	23,241
Operating profit		400,250	379,368
Finance cost		60,368	88,763
Profit before taxation		339,882	290,605
Taxation		88,208	78,544
Profit after taxation		251,674	212,061
Earnings per share			
Basic and diluted (Rupees)		20.92	17.63

The annexed notes from 1 to 14 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, 2016 (Unaudited)

	Mar. 31, 2016 (Rupees in thousand)	Mar. 31, 2015
Profit after taxation for the period	251,674	212,061
Items that may reclassify to profit and loss account		
Gain/(loss) on investments	2,214	(14,102)
Items that may not reclassify to profit and loss account	-	-
Total comprehensive income for the period	253,888	197,959

The annexed notes from 1 to 14 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, 2016 (Unaudited)

	Mar. 31, 2016	Mar. 31, 2015
	(Rupees in thousand)	
Cash flow from operating activities		
Profit before taxation	339,882	290,605
Adjustments for:		
Depreciation and amortization	83,805	69,715
Employee benefit plans	9,719	9,812
Finance cost	60,368	88,763
Provision for slow moving	(22,770)	7,221
Provision for W.P.P.F.	18,253	15,607
Provision for W.W.F.	6,936	5,931
Ijarah rentals	19,143	16,417
Unrealized income on short term investment	-	(9,610)
Profit on sale of property, plant and equipment	(4,807)	(376)
Operating profit before working capital changes	510,529	494,085
Changes in working capital		
(increase) / decrease in current assets		
Stores, spares and loose tools	2,249	(9,200)
Stock in trade	(252,742)	(230,802)
Trade debts	(83,031)	(452,668)
Short term investment	-	(750,000)
Advances, deposits, prepayments and other receivables	(277,455)	(136,113)
Tax refunds, due from / to government	(113,485)	57,873
	(724,464)	(1,520,910)
(decrease) / increase in current liabilities		
Trade and other payables	(856,765)	263,011
Cash (used in) operations	(1,070,700)	(763,814)
Finance cost paid	(79,130)	(120,336)
Income taxes paid	(119,824)	(41,312)
Staff retirement benefits paid	(10,529)	(3,454)
W.P.P.F. paid	(67,000)	(52,000)
Net cash (used in) operating activities	(1,347,183)	(980,916)
Cash flow from investing activities		
Capital expenditure	(456,984)	(163,179)
Long term investment	-	(50,731)
Long term loans	(3,915)	(2,122)
Long term deposit	728	1,803
Speed (Private) Limited (Associated company)	10,446	8,570
Proceeds from sale of property, plant and equipment	11,263	6,122
Net cash (used in) investing activities	(438,462)	(199,537)
Cash flow from financing activities		
Short term borrowings - net	1,632,412	1,266,929
Long term financing	(235,039)	(25,093)
Ijarah rentals	(19,143)	(16,417)
Dividend paid	(79)	(100)
Net cash from financing activities	1,378,151	1,225,319
Net (decrease) / increase in cash and cash equivalents	(407,494)	44,865
Cash and cash equivalents at the beginning of the period	459,846	18,442
Cash and cash equivalents at the end of the period	52,352	63,307

The annexed notes from 1 to 14 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, 2016 (Unaudited)

	(Rupees in thousand)				Total
	Share capital	Capital reserves	Revenue reserves	Un-appropriated profit	
	Capital gain	Share premium			
Balance as at Dec. 31, 2014	120,288	102,730	21,217	1,558,208	2,963,949
Net profit for the quarter ended Mar. 31, 2015	-	-	-	-	197,959
Balance as at Mar. 31, 2015	120,288	102,730	21,217	1,558,208	3,161,908
Balance as at Dec. 31, 2015	120,288	102,730	21,217	1,558,208	3,603,069
Net profit for the quarter ended Mar. 31, 2016	-	-	-	-	253,888
Balance as at Mar. 31, 2016	120,288	102,730	21,217	1,558,208	3,856,957

The annexed notes from 1 to 14 form an integral part of these financial statements.

Chaudhry Ahmed Javed
(Chairman)

Omar Saeed
(Chief Executive)

Notes to the Condensed Interim Financial Information For the period ended March 31, 2016 (Unaudited)

1 The Company and its operations

Service Industries Limited ("the Company") is a Public Limited Company incorporated in Pakistan. Its shares are quoted on the Pakistan Stock Exchange. 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, 2016 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, incomes 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, 2015.

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.

		(Unaudited) Mar. 31, 2016	(Audited) Dec. 31, 2015
(Rupees in thousand)			
5 Property, plant and equipment	Note		
Operating fixed assets	5.1	3,173,331	3,240,772
Capital work in progress		577,569	141,928
		3,750,900	3,382,700
5.1 Operating fixed assets			
Opening written down value		3,240,772	2,618,793
Add: Additions during the period	5.2	21,343	952,623
		3,262,115	3,571,416
Less: Disposals during the period (at book value)		6,456	14,734
		3,255,659	3,556,682
Less: Depreciation charged during the period		82,328	315,910
		3,173,331	3,240,772

Notes to the Condensed Interim Financial Information For the period ended March 31, 2016 (Unaudited)

5.2 Following is the detail of additions and disposals during the period/ year

	Additions		Disposals - NBV	
	Unaudited Mar. 31, 2016	Audited Dec. 31, 2015	Unaudited Mar. 31, 2016	Audited Dec. 31, 2015
(Rupees in thousand)				
Land	-	-	35	-
Building on freehold land	750	238,343	-	-
Plant and machinery	5,391	351,721	5,911	9,826
Furniture, fixture and fittings	432	2,954	-	-
Vehicles	280	8,820	-	1,542
Service equipments	11,981	337,917	510	686
Leasehold improvements	2,509	12,868	-	2,680
	21,343	952,623	6,456	14,734

6 Long term investment

Investment in Associate

Cost of investment 160,709 (2015: 160,709)
fully paid ordinary shares of Rs. 100/- each

Share of post acquisition reserve

As at the beginning of the year
Share of post acquisition profit
Less: Dividends received during the period

Other - Available for sale

Quoted
Less: Fair value adjustment

	(Unaudited) Mar. 31, 2016	(Audited) Dec. 31, 2015
(Rupees in thousand)		
	190,949	190,949
	36,259	41,871
	-	60,094
	(10,446)	(65,706)
	25,813	36,259
	216,762	227,208
	106,707	106,707
	(8,181)	(10,395)
	98,526	96,312
	315,288	323,520

7 Contingencies and commitments

Contingencies

7.1 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, 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.

Notes to the Condensed Interim Financial Information For the period ended March 31, 2016 (Unaudited)

7.2 The Additional Collector (Adjudication) of Pakistan Customs Computerized System, Karachi 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 Inland Revenue (Appeals-I), Lahore, which is still pending. According to the Company's legal counsel, the Company has a good arguable case and there is likelihood that the same will be decided in its favour.

7.3 The Deputy Director of Pakistan Employees Social Security Institute (PESSI), Gujrat initiated three cases against the Company. In the first case the alleged amount recoverable by the PESSI is Rs. 4.80 million covering the period from 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 from July 1992 to September 1993. Both cases have been decided against the Company by the Director General Recovery PESSI, Lahore. At appeal level these cases are set aside and pending before Director General Recovery PESSI, Lahore. In the third case, Rs. 77.6 million is recoverable by PESSI. The case had been decided in the favour of the Company in the year 2013 but the case is re-opened in the year 2014. The Company has filed an appeal before Social Security Court, Lahore, during the pendency of the matter PESSI send a recovery notice for the same amount. The Company has filed a writ petition before Lahore High Court, Lahore. As per legal counsel of the Company, the Company has strong legal grounds for its success.

7.4 The Deputy Commissioner Inland Revenue, LTU 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. In management's opinion, chances of success in the aforesaid case are strong and there is no likelihood of any unfavourable outcome.

Commitments

7.5 Guarantees issued through banks Rs. 1,347.94 million (Dec-2015 : Rs. 1,302.83 million).

7.6 Irrevocable letters of credit Rs. 953.78 million (Dec-2015 : Rs. 1,169.53 million).

7.7 The amount of future Ijarah financing and the period in which these payments will become due are as follows:

	(Unaudited) Mar. 31, 2016	(Audited) Dec. 31, 2015
	(Rupees in thousand)	
Not later than one year	61,728	64,351
Later than one year but not later than five years	105,657	161,951
Later than 5 years	-	-
	167,385	226,302

Notes to the Condensed Interim Financial Information For the period ended March 31, 2016 (Unaudited)

		(Unaudited)	
Note		Mar. 31, 2016	Mar. 31, 2015
		(Rupees in thousand)	
8	Sales		
	Sale of footwear (Net)		
	Export sales	987,422	1,226,782
	Local sales	1,515,330	1,284,435
		2,502,752	2,511,217
	Sale of tyre and tube (Net)		
	Export sales	117,199	77,706
	Local sales	1,632,854	1,600,745
		1,750,053	1,678,451
	Sale of technical rubber products (Net)		
	Export sales	-	-
	Local sales	(2,080)	-
		(2,080)	-
		4,250,725	4,189,668
9	Cost of sales		
	Raw material consumed	2,413,225	2,450,992
	Salaries, wages and benefits	601,478	555,626
	Stores and spares consumed	57,485	39,279
	Packing material consumed	149,983	146,901
	Fuel and power	169,112	183,184
	Insurance	5,688	2,837
	Depreciation	78,707	65,101
	Travelling and conveyance	4,730	4,858
	Repair and maintenance	27,331	21,883
	Entertainment	459	813
	Provision of slow moving and obsolete item	(22,770)	7,221
	Other manufacturing charges	43,051	54,046
		3,528,479	3,532,741
	Work in process		
	Opening stock	392,647	441,215
	Closing stock	(333,634)	(400,110)
		59,013	41,105
	Cost of goods manufactured	3,587,492	3,573,846
	Finished goods		
	Opening stock	1,057,958	757,398
	Finished goods purchased	334,785	150,652
	Closing stock	(1,555,631)	(1,011,969)
		(162,888)	(103,919)
	Cost of goods sold	3,424,604	3,469,927
9.1	Raw material consumed		
	Opening stock	1,213,355	1,251,540
	Purchases	2,144,479	2,465,273
	Closing stock	(944,609)	(1,265,821)
		2,413,225	2,450,992

Notes to the Condensed Interim Financial Information For the period ended March 31, 2016 (Unaudited)

10 Segment Reporting

(Rupees in thousand)

	Footwear		Tyre Division		Technical Rubber Products		Total
	3 months ended Mar. 31, 2016	3 months ended Mar. 31, 2015	3 months ended Mar. 31, 2016	3 months ended Mar. 31, 2015	3 months ended Mar. 31, 2016	3 months ended Mar. 31, 2015	
External sales	2,502,752	2,511,217	1,750,053	1,678,451	(2,080)	-	4,189,668
Inter - segment sales	-	-	-	-	-	-	-
Total revenue	2,502,752	2,511,217	1,750,053	1,678,451	(2,080)	-	4,189,668
Profit / (loss) before tax and unallocated expenses	282,186	230,124	284,868	275,332	(2,250)	(2,592)	502,864
Unallocated corporate expenses							
Finance cost	-	-	-	-	-	-	(77,766)
Other operating expenses	-	-	-	-	-	-	(175,903)
Other operating income	-	-	-	-	-	-	2,953
Taxation	-	-	-	-	-	-	(88,208)
Profit after taxation	-	-	-	-	-	-	212,061

10.1 Reconciliation of segment profit

Total profit for reportable segments
Unallocated expenses
Profit before tax

	564,804	502,864
	(224,922)	(212,259)
	339,882	290,605

Notes to the Condensed Interim Financial Information For the period ended March 31, 2016 (Unaudited)

(Rupees in thousand)

	Footwear		Tyre Division		Technical Rubber Products		Total
	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2016	Dec. 31, 2015	Mar. 31, 2016	Dec. 31, 2015	
Total assets for reportable segments	4,446,929	4,423,137	4,813,849	4,026,899	15,982	21,133	8,471,169
Unallocated assets							1,536,742
Total assets as per balance sheet							10,813,503
							10,243,318

Segment liabilities

Unallocated liabilities

Total liabilities as per balance sheet

	-	-	-	-	-	-	-
	6,956,546	6,640,249	6,956,546	6,640,249	6,956,546	6,640,249	6,640,249

Notes to the Condensed Interim Financial Information For the period ended March 31, 2016 (Unaudited)

- 11 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 parties are shown as follows:

(Rupees in thousand)

Party name	Relationship	Nature of transactions	Amount of transactions for the period	March-16		December-15	
				Closing balance		(Audited)	
				Debit	Credit	Debit	Credit
Speed (Private) Limited	Associated company	Investment	-	216,762	-	227,208	-
Shahid Arif Investments (Private) Limited	Associated company	-	-	-	-	-	-
SBL Trading (Private) Limited	Associated company	-	-	-	-	-	-
SAB Polymer Industries (Private) Limited	Associated company	-	-	-	-	-	-
Service Provident Fund Trust	Provident fund	Contribution	26,669	-	12,346	-	20,802
Service Industries Pension Fund Trust	Pension fund	Contribution	8	60,510	-	60,497	-
Service Industries Limited Employees Gratuity Fund	Gratuity fund	Contribution	9,711	-	80,739	-	81,551

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, 2015.

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 27, 2016.

Chaudhry Ahmed Javed
(Chairman)

Omar Saeed
(Chief Executive)

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