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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, 2011.

### Operating Results:

Company's sales revenue grew by 26% in nine months of 2011. The positive growth represents improved volume and better sales mix. Both businesses contributed in top line growth with Footwear growing by 25% and Tyre and Tube by 28%.

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

	Nine months ended Sep. 30			Quarter ended Sep 30		
	2011	2010	Variance	2011	2010	Variance
Sales revenue	8,743	6,923	26%	2,999	2,302	30%
Profit before tax	488	387	26%	114	37	209%
Profit after tax	378	263	43%	95	30	217%
EPS	31.4	21.9	43%	7.9	2.5	217%

Footwear revenue is Rs. 5,654m against Rs. 4,526m and is mainly driven by Exports which has shown remarkable growth of 70% and closed at Rs. 2,165m against Rs. 1,273m in corresponding period last year. Growth in Local Footwear remained at 7% due to declining purchasing power of consumer. Tyre & Tube revenue closed at Rs. 3,048m against Rs. 2,372m last year fuelled by growth of 33% in motor cycle business.

Gross profit ratio declined to 14.2% from 14.5% of the corresponding period last year. Increase in raw material prices impacted both Footwear and Tyre and Tube businesses. The Footwear business continues to do well both in sales and in profitability, whereas Tyre and Tube profitability is under pressure despite sales growth due to volatility in commodity market.

### Business Risks, Challenges and Future Outlook:

Recent floods in southern part of country and dengue epidemic in Punjab has started impacting business in Pakistan. However, management of your company is committed to take all possible steps to minimize this impact. Continuing with its strategy of balancing short term with long term, your management will keep investing in building capacities balance of year 2011 to get its benefits in years to come.

### Acknowledgment:

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 28, 2011  
Place: Lahore

**Omar Saeed**  
Chief Executive

## **CONDENSED INTERIM FINANCIAL STATEMENT**

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## CONDENSED INTERIM BALANCE SHEET

AS AT September 30, 2011

	Note	(Unaudited) Sep. 30, 2011	(Audited) Dec. 31, 2010
(Rupees in thousand)			
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Property, plant & equipment	7	1,473,310	1,425,169
Long term loans		465	1,450
Long term deposits		11,060	12,875
		<b>1,484,835</b>	1,439,494
<b>CURRENT ASSETS</b>			
Stores, spares & loose tools		69,514	50,972
Stock in trade		2,101,826	1,358,128
Trade debts		987,948	897,675
Loans and advances		550,865	317,585
Trade deposits and prepayments		12,965	6,105
Other receivables		369,899	224,949
Cash & bank balances		17,995	247,951
		<b>4,111,012</b>	3,103,365
<b>CURRENT LIABILITIES</b>			
Trade & other payables		1,279,004	1,033,217
Interest and mark-up accrued		22,565	40,362
Short term borrowings		1,702,910	1,119,143
Current portion:			
Long term financing		89,397	78,762
Liabilities against assets subject to finance lease		11,301	10,070
Provision for taxation		118,695	94,433
		<b>3,223,872</b>	2,375,987
<b>Net current assets</b>		<b>887,140</b>	727,378
<b>Capital employed</b>		<b>2,371,975</b>	2,166,872
<b>NON CURRENT LIABILITIES</b>			
Long term financing		172,822	214,263
Liabilities against assets subject to finance lease		15,370	26,262
Long term deposits		1,040	880
Deferred liabilities		225,151	225,641
		<b>414,383</b>	467,046
Contingencies & commitments	8	-	-
<b>Net assets</b>		<b>1,957,592</b>	1,699,826
<b>REPRESENTED BY</b>			
Share capital			
<b>Authorized:</b>			
20,000,000 (Dec. 31, 2010 : 20,000,000)			
ordinary shares of Rs. 10/- each		<b>200,000</b>	200,000
<b>Issued, subscribed &amp; paid up:</b>			
12,028,789 (Dec. 31, 2010: 12,028,789)			
ordinary shares of Rs. 10/- each		<b>120,288</b>	120,288
Reserves and surplus		<b>1,837,304</b>	1,579,538
		<b>1,957,592</b>	1,699,826

Annexed notes form an integral part of these financial statements.

**Ahmad Javed**  
Chairman

**Omar Saeed**  
Chief Executive

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (UN-AUDITED)**

	Note	Nine Months Ended Sep. 30, 2011	Sep. 30, 2010	Three Months Ended Sep. 30, 2011	Sep. 30, 2010
(Rupees in thousand)					
Sales	9	8,743,143	6,923,326	2,998,628	2,302,334
Cost of sales	10	7,504,554	5,921,371	2,597,817	2,042,125
<b>Gross profit</b>		<b>1,238,589</b>	1,001,955	<b>400,811</b>	260,209
Distribution cost		238,907	218,578	89,855	81,861
Administrative expenses		330,777	246,364	134,340	91,226
Other operating expenses		50,566	35,385	9,935	5,181
Finance cost		159,163	130,976	64,877	48,268
Other operating income		(29,471)	(15,947)	(12,058)	(3,169)
		<b>749,942</b>	615,356	<b>286,949</b>	223,367
<b>Profit before taxation</b>		<b>488,647</b>	386,599	<b>113,862</b>	36,842
<b>Taxation</b>		<b>110,593</b>	123,067	<b>18,953</b>	6,889
<b>Profit after taxation</b>		<b>378,054</b>	263,532	<b>94,909</b>	29,953
<b>EARNING PER SHARE -</b>					
<b>Basic &amp; Diluted (Rupees)</b>		<b>31.43</b>	21.91	<b>7.89</b>	2.49

Annexed notes form an integral part of these financial statements.

**Ahmad Javed**  
Chairman

**Omar Saeed**  
Chief Executive

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED SEPTEMBER 30, 2011 (UN-AUDITED)**

	<b>Nine Months Ended</b>		<b>Three Months Ended</b>	
	<b>Sep. 30, 2011</b>	<b>Sep. 30, 2010</b>	<b>Sep. 30, 2011</b>	<b>Sep. 30, 2010</b>
	(Rupees in thousand)			
Profit for the period	<b>378,054</b>	263,532	<b>94,909</b>	29,953
Other comprehensive income	-	-	-	-
	<u><b>378,054</b></u>	<u>263,532</u>	<u><b>94,909</b></u>	<u>29,953</u>

Annexed notes form an integral part of these financial statements.

**Ahmad Javed**  
Chairman

**Omar Saeed**  
Chief Executive

**CONDENSED INTERIM CASH FLOW STATEMENT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (UN-AUDITED)**

	<b>Nine Months Ended</b>	
	<b>Sep. 30, 2011</b>	<b>Sep. 30, 2010</b>
	(Rupees in thousand)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	488,647	386,599
<b>Adjustments for:</b>		
Depreciation	115,473	90,835
Gratuity provision	12,311	8,780
Finance cost	159,163	130,976
Provision for W.P.P.F	26,243	31,737
Provision for WWF	9,972	12,060
Provision for slow moving stocks	-	(6,769)
(Profit) on sale of fixed assets	(4,811)	(126)
<b>Operating profit before working capital changes</b>	<b>806,998</b>	<b>654,092</b>
<b>Changes in working capital</b>		
(Increase) in stores, spares and loose tools	(18,542)	(15,047)
(Increase)/ decrease in stock in trade	(743,698)	(411,967)
(Increase) in trade debts	(90,273)	(129,153)
(Increase) in advances, deposits, prepayments and other receivables	(200,639)	(205,954)
Increase in trade and other payables	204,891	562,871
(Increase)/ decrease in long term deposits	1,815	(76)
Decrease in long term loans	985	795
<b>Cash generated from/ (used in) operations</b>	<b>(38,463)</b>	<b>455,561</b>
Finance cost paid	(176,960)	(116,711)
Income tax paid	(278,883)	(309,603)
Gratuity paid	(4,700)	(3,700)
W.P.P.F. and W.W.F. paid	(26,229)	(83,804)
<b>Net cash from/ (used in) operating activities</b>	<b>(525,235)</b>	<b>(58,257)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditure	(173,524)	(419,382)
Proceeds from sale of property, plant & equipments	14,721	1,320
<b>Net cash (used in) investing activities</b>	<b>(158,803)</b>	<b>(418,062)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Long term deposits	160	60
Lease rental paid	(9,661)	(8,565)
Short term borrowings - net	583,767	328,030
Long term financing	(30,806)	108,875
Dividend paid	(89,378)	(150,485)
<b>Net cash from/ (used in) financing activities</b>	<b>454,082</b>	<b>277,915</b>
<b>Net increase cash and cash equivalents</b>	<b>(229,956)</b>	<b>(198,404)</b>
<b>Cash &amp; cash equivalents at beginning of the period</b>	<b>247,951</b>	<b>208,445</b>
<b>Cash &amp; cash equivalents at end of the period</b>	<b>17,995</b>	<b>10,041</b>

Annexed notes form an integral part of these financial statements.

**Ahmad Javed**  
Chairman

**Omar Saeed**  
Chief Executive

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (UN-AUDITED)**

	Share capital	Capital reserves		Revenue reserves	(Rupees in thousand)	
		Capital gain	Share premium		Un-appropriated profit	Total
<b>Balance as at Dec. 31, 2009</b>	120,288	102,730	21,217	698,208	579,641	1,522,084
Final dividend @ Rs. 12.50 per share	—	—	—	—	(150,363)	(150,363)
Transferred to general reserve	—	—	—	425,000	(425,000)	—
Net profit for the nine months ended Sep. 30, 2010	—	—	—	—	263,532	263,532
<b>Balance as at Sep. 30, 2010</b>	<u>120,288</u>	<u>102,730</u>	<u>21,217</u>	<u>1,123,208</u>	<u>267,810</u>	<u>1,635,253</u>
<b>Balance as at Dec. 31, 2010</b>	120,288	102,730	21,217	1,123,208	332,383	1,699,826
Final dividend @ Rs. 7.50 per share	—	—	—	—	(90,216)	(90,216)
Transferred to general reserve	—	—	—	235,000	(235,000)	—
Interim dividend @ Rs. 2.50 per share for the year ended December 31, 2011	—	—	—	—	(30,072)	(30,072)
Net profit for nine months ended Sep. 30, 2011	—	—	—	—	378,054	378,054
<b>Balance as at Sep. 30, 2011</b>	<u>120,288</u>	<u>102,730</u>	<u>21,217</u>	<u>1,358,208</u>	<u>355,149</u>	<u>1,957,592</u>

Annexed notes form an integral part of these financial statements.

**Ahmad Javed**  
Chairman

**Omar Saeed**  
Chief Executive



## **NOTES TO THE CONDENSED INTERIM ACCOUNTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (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, tyres & tubes and technical rubber products.

### **2. Basis of preparation**

These financial statements for the nine-months ended September 30, 2011 are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These financial statements are un-audited 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, 2010.

### **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.**

### **5. Figures have been rounded off to the nearest thousand and corresponding period figures have been rearranged, where necessary, for better comparison purposes. However no significant reclassification has been made.**

**NOTES TO THE CONDENSED INTERIM ACCOUNTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (UN-AUDITED)**

	Note	(Unaudited) Sep. 30, 2011 (Rupees in thousand)	(Audited) Dec. 31, 2010
<b>6. PROPERTY, PLANT &amp; EQUIPMENT</b>			
Operating fixed assets	6.1	1,416,167	1,320,304
Capital work in progress		<u>57,143</u>	<u>104,865</u>
		<u><b>1,473,310</b></u>	<u><b>1,425,169</b></u>
<b>6.1 Operating fixed assets</b>			
Opening written down value		1,320,304	920,720
Add: Additions during the period/ year	6.2	<u>221,246</u>	<u>532,114</u>
		<b>1,541,550</b>	1,452,834
Less: Disposals during the period/ year (at book value)		<u>9,910</u>	<u>2,286</u>
		<b>1,531,640</b>	1,450,548
Less: Depreciation charged during the period/ year		<u>115,473</u>	<u>130,244</u>
		<b>1,416,167</b>	<b>1,320,304</b>
<b>6.2 Following is the detail of additions during the period/ year</b>			
Building on freehold land		21,095	43,389
Plant & machinery		147,418	349,676
Furniture, fixture & fittings		1,847	965
Vehicles		33,936	16,738
Service equipments		16,950	110,834
Lease hold improvements		-	10,512
		<u><b>221,246</b></u>	<u><b>532,114</b></u>

**7. CONTINGENCIES AND COMMITMENTS**

- 7.1 Guarantees issued through banks Rs.87.88 million (Dec-2010 : Rs.85.60 million).
- 7.2 Irrevocable letters of credit Rs.488.39 million (Dec-2010 : Rs.314.93 million).
- 7.3 The Company is contingently liable for the custom duty demand amounting to Rs.17.99 million, sales tax demand amounting to Rs. 10.92 million, sales tax and income tax demand of Rs. 18.6 million and 4.1 million respectively and PESSI demand amounting of Rs. 5.76 million (as explained in detail in the preceding annual published accounts).

**NOTES TO THE CONDENSED INTERIM ACCOUNTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (UN-AUDITED)**

		<b>Nine months ended</b>	<b>Three months ended</b>		
	<b>Note</b>	<b>Sep. 30,</b>	<b>Sep. 30,</b>	<b>Sep. 30,</b>	<b>Sep. 30,</b>
		<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
		(Rupees in thousand)			
<b>8. SALES</b>					
<b>Sale of Footwear (Net)</b>					
Export		2,165,492	1,273,717	905,284	417,681
Local		3,488,796	3,252,504	1,056,346	1,117,377
		<b>5,654,288</b>	4,526,221	<b>1,961,630</b>	1,535,058
<b>Sale of Tyres &amp; Tubes (Net)</b>					
Export		199,509	170,519	71,555	70,624
Local		2,849,166	2,201,954	957,666	687,560
		<b>3,048,675</b>	2,372,473	<b>1,029,221</b>	758,184
<b>Others (Net)</b>					
Local		40,180	24,632	7,777	9,092
		<b>8,743,143</b>	6,923,326	<b>2,998,628</b>	2,302,334
<b>9. COST OF SALES</b>					
Raw material consumed	9.1	5,839,195	4,391,698	1,862,885	1,454,354
Salaries, wages & benefits		827,061	694,417	281,251	249,180
Stores & spares consumed		113,622	127,691	29,731	36,041
Packing material consumed		332,196	284,570	104,141	100,221
Fuel and power		316,822	314,579	93,480	89,536
Insurance		6,169	6,050	2,109	2,101
Depreciation		100,124	77,683	36,202	30,153
Travelling and conveyance		3,560	4,277	1,303	1,103
Repair and maintenance		61,729	61,634	21,073	20,949
Provision of slow moving and obsolete item		-	(6,769)	-	-
Other manufacturing charges		204,927	174,447	63,029	56,273
		<b>7,805,405</b>	6,130,277	<b>2,495,204</b>	2,039,911
Work in process:-					
Opening stock		182,686	123,136	387,868	220,431
Closing stock		(304,878)	(192,600)	(304,878)	(192,600)
		<b>(122,192)</b>	(69,464)	<b>82,990</b>	27,831
<b>Cost of goods manufactured</b>		<b>7,683,213</b>	6,060,813	<b>2,578,194</b>	2,067,742
Finished goods:-					
Opening stock		359,240	308,442	557,522	422,267
Closing stock		(537,899)	(447,884)	(537,899)	(447,884)
		<b>(178,659)</b>	(139,442)	<b>19,623</b>	(25,617)
		<b>7,504,554</b>	5,921,371	<b>2,597,817</b>	2,042,125
<b>9.1 Raw material consumed:</b>					
Stock-Opening		705,584	739,878	1,117,512	806,405
Purchases		6,113,595	4,492,843	1,725,357	1,488,972
Stock-Closing		(979,984)	(841,023)	(979,984)	(841,023)
		<b>5,839,195</b>	4,391,698	<b>1,862,885</b>	1,454,354

**NOTES TO THE CONDENSED INTERIM ACCOUNTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (UN-AUDITED)**

**10. SEGMENT REPORTING**

(Rupees in thousand)

	Footwear		Tyre Division		Other operations		Total	Total
	9 months ended Sep 30, 2011	9 months ended Sep 30, 2010	9 months ended Sep 30, 2011	9 months ended Sep 30, 2010	9 months ended Sep 30, 2011	9 months ended Sep 30, 2010	6 months ended Sep. 30, 2011	9 months ended Sep 30, 2010
External sales	5,654,288	4,526,221	3,048,675	2,372,473	40,180	24,632	8,743,143	6,923,326
Inter-segment sales	-	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>5,654,288</b>	<b>4,526,221</b>	<b>3,048,675</b>	<b>2,372,473</b>	<b>40,180</b>	<b>24,632</b>	<b>8,743,143</b>	<b>6,923,326</b>
Profit/ (loss) before tax and unallocated expenses	765,543	567,488	124,248	103,033	113	(679)	889,904	669,842
<b>Unallocated corporate expenses</b>								
Finance cost	-	-	-	-	-	-	(140,376)	(113,346)
Other operating expenses	-	-	-	-	-	-	(270,828)	(178,756)
Other operating income	-	-	-	-	-	-	9,947	8,859
Taxation	-	-	-	-	-	-	(110,593)	(123,067)
Profit after taxation	-	-	-	-	-	-	378,054	263,532

**NOTES TO THE CONDENSED INTERIM ACCOUNTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 (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;

<b>Party name</b>	<b>Relationship</b>	<b>(Un-audited) Sep. 30, 2011 (Rupees in thousand)</b>	<b>(Audited) Dec. 31, 2010</b>
Service Sales Corporation (Pvt) Ltd.	Associated Trade debts	<b>600,525</b>	650,033
SAB Polymer Industries (Pvt) Limited	Related Party Trade debts	<b>4,073</b>	4,067
<b>Nine months ended</b>			
		<b>Sep. 30, 2011</b>	<b>Sep. 30, 2010</b>
		(Rupees in thousand)	
<b>Associated</b>			
Sales		<b>3,197,356</b>	2,732,979
Services		<b>4,500</b>	4,500
Others		<b>4,182</b>	4,883
<b>Related Party</b>			
Sales		<b>10,589</b>	973
<b>Post employment benefit plan</b>			
Provident fund	Contribution	<b>42,246</b>	33,989
Gratuity fund	Contribution	<b>12,311</b>	8,780
Pension fund	Contribution	<b>84</b>	84

**12. AUTHORIZATION DATE**

These financial statements were approved and authorised for issue by the Board of Directors as on October 28, 2011.

**Ahmad Javed**  
Chairman

**Omar Saeed**  
Chief Executive