

Report & Un-Audited Accounts for the
1st Quarter Ended March 31, 2020

Taking it further..



Servis

Service Industries Limited

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Company Information

Board of Directors

Chaudhry Ahmed Javed
(Chairman)

Non-Executive Director

Mr. Arif Saeed
(Chief Executive Officer)

Executive Director

Mr. Omar Saeed
Executive Director

Mr. Hassan Javed
Executive Director

Mr. Riaz Ahmed
Non-Executive Director

Mr. Osman Saifullah Khan
Independent Director

Mr. Rehman Naseem
Independent Director

Mr. Muhammad Amin
Independent Director

Mr. Shahid Hussain Jatoti
Independent Director

Chief Financial Officer

Mr. Badar Ul Hassan

Company Secretary

Mr. Waheed Ashraf

Audit Committee

Mr. Muhammad Amin
Chairman

Mr. Riaz Ahmed
Member

Mr. Rehman Naseem
Member

Human Resource and Remuneration Committee

Mr. Osman Saifullah Khan
Chairman

Mr. Arif Saeed
Member

Mr. Riaz Ahmed
Member

Bankers

Allied Bank Limited

Askari Bank limited

Bank Al Habib Limited

Bank Alfalah Limited

Faysal Bank limited

Habib Bank Limited

Habib Metro Bank

ICBC Pakistan

MCB Bank Limited

MCB Islamic Bank

Meezan Bank Limited

National Bank Limited

Samba Bank Limited

Standard Chartered Bank (Pakistan) Limited

Soneri Bank limited

The Bank of Punjab

United Bank Limited

Legal Advisor

M/s. Bokhari Aziz & Karim
2-A, block-G, Gulberg-II, Lahore.

Registered Office

Servis House,
2-Main Gulberg, Lahore-54662.

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Fax: +92-42-35710593,
35712109

Shares Registrar

M/s. Corplink (Pvt.) Limited

Wings Arcade, 1-K

Commercial, Model Town, Lahore

Tel: +92-42-35916714,

35916719,

35839182

Fax: +92-42-35869037

Pakistan Stock Exchange Limited

Stock Exchange Symbol SRVI

Factories

G.T. Road, Gujrat.

Muridke-Sheikhupura Road, Muridke.

Web Presence

www.servisgroup.com

**" Strength and Growth
come only through
Continuous Effort and
Struggle."** -Napolean Hill



Directors' Report to the Shareholders

The Directors take pleasure in presenting their Report along with the condensed interim financial information of Service Industries Limited ("SIL") for three months ended March 31, 2020.

Scheme of Compromises, Arrangements and Reconstruction

In accordance with the Scheme of Compromises, Arrangement and Reconstruction (under section 279 to 283 and 285 of the Companies Act, 2017 entered between SIL and its wholly owned subsidiary, Service Global Footwear Limited ("SGFL"), approved by the shareholders of SIL and shareholders of SGFL on 14 December 2019 and sanctioned by the Lahore High Court, Lahore vide its order dated 15 January 2020, the undertaking comprising the assets, liabilities, rights, entitlements and obligations of SIL has been split into two (2) separate segments i.e. Muridke Footwear Undertaking and Retained Undertaking. The segment comprising all the assets, liabilities, rights, entitlements and obligations of Muridke Footwear Undertaking has been carved out / bifurcated from SIL and stand merged / amalgamated with, transferred to, vested in, and be assumed by SGFL with effect from 01 July 2019 against issuance of shares by SGFL to SIL in accordance with the Scheme.

This bifurcation / merger / amalgamation will allow SIL to act as a Holding Company in respect of SGFL and to oversee, supervise and control the same (to the extent applicable). The managements of SIL and SGFL shall independently operate the businesses on a regular basis. This structure will result in the businesses being managed and carried out in a more effective and efficient manner, thus benefitting the shareholders.

The financial statements of SIL for the three months ended March 31, 2020 have been prepared in accordance with the sanctioned scheme. Hence, the financial results of Muridke Footwear Undertaking are not included in the financial statements of SIL for the three months ended March 31, 2020. These financial results have been included in the separate financial statements of SGFL. Since SGFL is a wholly owned subsidiary of SIL, the consolidated financials of SIL and its subsidiaries will reflect these results.

Company's Performance:

Key Performance Indicators (KPIs) for the Quarter ended March 2020 Vs March 2019

Please find below key performance indicators of **separate condensed interim financial statement of Service Industries Limited** for the quarter ended March 31, 2020.

Particulars	Quarter Ended March 31		
	March 2020 (SIL excluding SGFL) "000"	March 2019 (SIL including SGFL) "000"	Percentage Change
Net Sales	4,625,480	6,025,608	-23%
Operating profit	478,206	510,454	-6%
Profit before tax	132,177	316,317	-58%
Net profit after tax	13,754	278,595	-95%

Please find below key performance indicators of **consolidated condensed interim financial statements of Service Industries Limited and its subsidiaries (including SGFL)** for the quarter ended March 31, 2020.

Particulars	Quarter Ended March 31		
	Period 2020 Rs'000	Period 2019 Rs'000	Percentage Change
Net Sales	6,876,676	6,133,224	12%
Operating profit	738,662	525,491	41%
Profit before tax	410,514	335,119	22%
Net profit after tax	268,149	297,397	-10%

SIL and its subsidiaries (including SGFL) recorded sales of PKR 6.87 billion in its consolidated interim financial statements during the quarter under review as compared to PKR 6.13 billion during the corresponding period last year showing a growth of 12%. Net profit before tax increased to Rs 410.51 million during current quarter as compared to Rs 335.12 million during corresponding period showing a growth of 22%. However, net profit after tax reduced by 10% due to abolishment of tax credit available under Section 65B of the Income Tax Ordinance, 2001 w.e.f. 01 July 2019 which was earlier available to the Company on the amount of investment made in the purchase of plant and machinery at the rate of 10% of the amount invested.

Footwear and Tyre businesses showed a healthy growth both in sales and profitability. The efficiencies achieved in production, maintaining quality, better product mix and brand awareness helped maintaining our market share and attain a better profitability. The tough market competition and uncertain economic environment continued to prevail in the country.

The earnings per share recorded in the separate financials of SIL stood at PKR 0.73 during the quarter under review as compared to PKR 14.82 recorded in the same period last year. However, the earnings per share in the consolidated financials of SIL and its subsidiaries stood at PKR 14.27 during the quarter under review as compared to PKR 15.82 recorded in the same period last year.

Future Outlook amid COVID-19

On March 11, 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe. The pandemic has not only resulted in significant number of infections but has also adversely impacted the global economy. The outbreak of the COVID-19 introduced additional challenges and risks to the Company's operations. The Company undertook specific measures to ensure the health and safety of its employees. The management of the Company has established a crisis management team. This team is analyzing the situation on daily basis and taking prompt actions to implement all possible preventive measures and to ensure continuity of business operations. During these difficult times, the Company has endeavored to maintain business continuity despite slowed down economic activity.

Economic growth of Pakistan is set to slow down in the year 2020 as domestic demand takes a significant corona virus-related hit amid contracting private spending. The duration and extent of the pandemic pose significant downside risks to future outlook. The management of the Company is working hard to optimize the cost levels and finding avenues of revenue generation in all segments of the company to minimize the impact to COVID 19 on company financial outlook and to maximize benefit to the shareholders.

Acknowledgment

The Directors wish to place on record the efforts of the staff and especially the workers in attaining these excellent financial results. We remain indebted to all our stakeholders for their continued support.

For and on behalf of the Board



CHAUDHRY AHMED JAVED
Chairman



ARIF SAEED
Chief Executive

Dated: June 25, 2020
LAHORE.

روزانہ صورتحال کا جائزہ لے رہی ہے اور ہر ممکنہ تدابیر کو عملی جامہ پہنانے اور کاروبار کی روزمرہ کی سرگرمیوں کو تسلسل سے جاری رکھنے کو یقینی بنانے کے لیے فوری اقدامات اٹھا رہی ہے۔ ان مشکل حالات میں اور باوجود معاشی سست روی کے، کمپنی نے کاروباری سرگرمیاں جاری رکھنے کی کوشش کی ہے۔

سال 2020 میں کرونا وائرس کے پھیلاؤ کی وجہ سے مصنوعات کے مقامی مانگ میں نمایاں کمی ہوئی ہے جس کے نتیجہ میں معاشی نموست رہے گی۔ مستقبل میں کمپنی کی کاروباری سرگرمیوں کو اس بات سے خطرہ لاحق ہے کہ کرونا کی وبا مزید کتنی پھیلتی ہے اور کب تک پھیلتی ہے۔ کمپنی کی انتظامیہ لاگت کم کرنے اور آمدنی بڑھانے کے ذرائع تلاش کرنے کے لئے کوشاں ہے تاکہ کمپنی کے مالی معاملات پر کرونا وبا کے اثرات کو کم سے کم کیا جاسکے اور حصص یافتگان کو زیادہ سے زیادہ فائدہ پہنچایا جاسکے۔

اعتراف

ان نتائج کو حاصل کرنے میں ڈائریکٹر اپنے اسٹاف اور کارکنوں کی کوششوں کو سراہتے ہیں اور ہم اپنے اسٹیک ہولڈرز کے لگاتار تعاون کے بھی ممنون ہیں۔

منجانب بورڈ



عارف سعید
چیف ایگزیکٹو



چوہدری احمد جاوید
چیرمین

مورخہ 25 جون 2020

لاہور

31 مارچ 2020 کو ختم ہونے والی سہ ماہی میں سروس انڈسٹریز لمیٹڈ اور اس کے ذیلی اداروں (بشمول ایس جی ایف ایل) کے مجموعی عبوری مالیاتی کارکردگی درج ذیل ہے۔

سہ ماہی اختتام 31 مارچ 2020		
فیصد تبدیلی	سال 2019	سال 2020
روپے ہزار میں		
12%	6,133,224	6,876,676
41%	525,491	738,662
22%	335,119	410,514
-10%	297,397	268,149

خالص فروخت
آپریٹنگ منافع
منافع قبل از ٹیکس
منافع بعد از ٹیکس

سروس انڈسٹریز لمیٹڈ اور اس کے ماتحت ذیلی ادارے بشمول سروس گلوبل فنڈ وئیر لمیٹڈ نے پہلی سہ ماہی میں اپنے مجموعی مالی گوشواروں کے مطابق 6.87 ارب روپے فروخت کی جو پچھلے سال کی اسی سہ ماہی میں 6.13 ارب روپے تھی جو کہ 12 فیصد نمو ظاہر کرتا ہے۔ ٹیکس سے قبل خالص منافع اس سہ ماہی کے دوران بڑھ کر 410.5 ملین روپے ہو گیا جو کہ پچھلے سال کی اسی مدت کے دوران 335.12 ملین روپے تھا جو کہ 22 فیصد نمو ظاہر کرتا ہے۔ تاہم 1 جولائی 2019 سے لاگو کردہ انکم ٹیکس آرڈیننس 2001 کی شق نمبر 65 بی کے تحت دستیاب ٹیکس میں چھوٹ کے خاتمے کی وجہ سے ٹیکس کے بعد خالص منافع میں 10 فیصد کمی ہوئی۔ یہ چھوٹ 1 جولائی 2019 سے پہلے کمپنی کے پلانٹ اور مشینری کی خریداری پر صرف کی گئی رقم پر 10 فیصد کی شرح سے دستیاب تھی۔

جو توں اور ٹائر دونوں کاروباروں میں فروخت اور منافع میں صحت مند اضافہ ہوا ہے۔ پیداواری اصلاحات، مصنوعات کا معیار برقرار رکھنے، بہتر ملی جلی مصنوعات اور اپنے برینڈ کی لگاتار تشریح سے ہمیں مارکیٹ میں اپنی جگہ برقرار رکھنے اور بہتر منافع حاصل کرنے میں مدد ملی۔ ملک میں شدید مقابلے کی فضا اور غیر یقینی معاشی ماحول رہا۔

سروس انڈسٹریز لمیٹڈ کے انفرادی مالی گوشواروں کے مطابق اس سہ ماہی کی فی شیئر آمدنی 0.73 روپے رہی جو پچھلے سال کی اسی مدت کے دوران 14.82 روپے تھی۔ سروس انڈسٹریز لمیٹڈ اور اس کے ماتحت اداروں کے مجموعی مالی گوشواروں کے مطابق فی شیئر آمدنی 14.27 فیصد رہی جو پچھلے سال کی اسی مدت کے دوران 15.82 روپے تھی۔

کورونا کے تناظر میں مستقبل پر ایک نظر

11 مارچ 2020 کو عالمی ادارہ صحت نے کرونا وائرس کو پوری دنیا میں تیزی سے پھیلنے پر ایک وبا قرار دے دیا۔ کرونا وائرس کی وجہ سے نہ صرف بہت لوگ بیمار ہوئے ہیں بلکہ عالمی معیشت پر بھی اس کے منفی اثرات مرتب ہوئے ہیں۔ کرونا وائرس پھیلنے سے کمپنی کے روزمرہ کے کاموں میں مشکلات اور خطرات کا اضافہ ہوا ہے۔ کمپنی نے اپنے ملازمین کی صحت اور حفاظت کو یقینی بنانے کے لیے خاطر خواہ اقدامات کیے ہیں۔ کمپنی کی انتظامیہ نے اس بحران سے نمٹنے کے لیے ایک ٹیم تشکیل دی ہے یہ ٹیم

ڈائریکٹرز کی رپورٹ برائے حصص یافتگان

ڈائریکٹرز اپنی رپورٹ بمعہ کمپنی کی 31 مارچ 2020 تک کی سہ ماہی کی مختصر عبوری مالیاتی معلومات پیش کرتے ہوئے خوشی محسوس کر رہے ہیں۔

سکیم آف کپرمائز، اریجنٹس اینڈ ری کنسٹرکشن

سکیم آف کپرمائز، اریجنٹس اینڈ ری کنسٹرکشن (کمپنیز ایکٹ 2017 کے سیکشن 279 سے 283 اور 285 کے تحت) کے مطابق سروس انڈسٹریز لمیٹڈ اور اس کی مکمل ملکیتی ماتحت کمپنی سروس گلوبل فٹ ویئر لمیٹڈ کے مابین طے پایا، جس کی منظوری سروس انڈسٹریز لمیٹڈ اور سروس گلوبل فٹ ویئر لمیٹڈ کے حصص یافتگان نے 14 دسمبر 2019 کو دی ہے اور اسے لاہور ہائی کورٹ نے اپنے حکم مورخہ 15 جنوری 2020 کے تحت توثیق کی ہے۔ ایس آئی ایل کے اثاثوں، واجبات، حقوق، حقداروں اور ذمہ داریوں پر مشتمل معاہدہ کو دو حصوں یعنی مرید کے فٹ ویئر انڈر ٹیکنگ اور ریٹینڈ انڈر ٹیکنگ میں تقسیم ہو گئی ہے۔ مرید کے فٹ ویئر انڈر ٹیکنگ اپنے تمام اثاثوں، واجبات، حقوق، اور ذمہ داریوں سمیت سروس انڈسٹریز لمیٹڈ سے منتقم کر دیا گیا ہے اور سروس گلوبل فٹ ویئر لمیٹڈ میں مورخہ 01 جولائی 2019 سے سروس گلوبل فٹ ویئر لمیٹڈ کے سروس انڈسٹریز لمیٹڈ کو حصص جاری کرنے کے عوض ضم کر دیا گیا ہے۔

اس تقسیم / انضمام / ملاپ کے توسط سے سروس انڈسٹریز لمیٹڈ کو سروس گلوبل فٹ ویئر لمیٹڈ کی ہولڈنگ کمپنی کی حیثیت سے کام کرنے اور اس کی نگرانی اور کنٹرول کرنے (جس حد تک قابل اطلاق ہے) کی اجازت ہوگی۔ سروس انڈسٹریز لمیٹڈ اور سروس گلوبل فٹ ویئر لمیٹڈ کی انتظامیہ کاروبار کو چلانے میں خود مختار ہوں گے۔ اس طرح کاروبار زیادہ موثر انداز میں چلایا جاسکے گا اور اس سے حصص یافتگان کو فائدہ ہوگا۔

31 مارچ 2020 کو ختم ہونے والی سہ ماہی کے لئے سروس انڈسٹریز لمیٹڈ کے مالی گوشوارے منظور شدہ اسکیم کے مطابق تیار کیے گئے ہیں۔ لہذا مرید کے فٹ ویئر انڈر ٹیکنگ کے مارچ 2020 کو ختم ہونے والی سہ ماہی تک کے مالی گوشوارے، سروس انڈسٹریز لمیٹڈ کے انفرادی مالی گوشوارے میں شامل نہیں ہیں بلکہ سروس گلوبل فٹ ویئر لمیٹڈ کے انفرادی مالی گوشوارے میں شامل ہیں اور اس طرح سروس انڈسٹریز لمیٹڈ اور اس کے ماتحت اداروں کے مجموعی مالیاتی گوشوارے میں شامل ہیں۔

کمپنی کی کارکردگی

31 مارچ 2020 کو ختم ہونے والی سہ ماہی کے لئے سروس انڈسٹریز لمیٹڈ کی انفرادی عبوری مالیاتی کارکردگی درج ذیل ہے۔

سہ ماہی اختتام 31 مارچ 2020		
درجہ ہزار میں	مارچ 2019 SIL (SGFL کے نسبت)	مارچ 2020 SIL (SGFL کے عائد)
خالص فروخت	4,625,480	6,025,608
آپریٹنگ منافع	478,206	510,454
منافع قبل از ٹیکس	132,177	316,317
منافع بعد از ٹیکس	13,754	278,595

Condensed Interim Statement of Financial Position (Unaudited)

As at March 31, 2020

	(Unaudited) March 31, 2020	(Audited) December 31, 2019
Note	(Rupees in thousand)	
EQUITY AND LIABILITIES		
Share capital and reserves		
Authorized share capital	1,000,000	1,000,000
100,000,000 (2019: 100,000,000) ordinary shares of Rupees 10 each		
Issued, subscribed and paid-up share capital	187,950	187,950
Reserves	5,556,372	5,553,258
Total equity	5,744,322	5,741,208
LIABILITIES		
Non-current liabilities		
Long term financing	3,415,966	2,770,768
Long term deposits	1,940	2,406
Lease liabilities	1,422,055	1,302,055
Employees' retirement benefit	157,018	148,408
Deferred income tax liability - net	238,190	186,637
	5,235,169	4,410,274
Current liabilities		
Trade and other payables	2,861,983	2,707,757
Accrued mark-up	401,960	256,471
Short term borrowings	7,832,155	5,078,215
Current portion of non-current liabilities	60,853	918,111
Unclaimed dividend	37,295	37,784
Provision for taxation	435,673	368,803
	11,629,919	9,367,141
Total liabilities	16,865,088	13,777,415
Contingencies and commitments	5	
TOTAL EQUITY AND LIABILITIES	22,609,410	19,518,623

The annexed notes from 1 to 16 form an integral part of this condensed interim financial statements.



Chaudhry Ahmed Javed
(Chairman)

		(Unaudited) March 31, 2020	(Audited) December 31, 2019
	Note	(Rupees in thousand)	
ASSETS			
Non-current assets			
Fixed assets	6	6,115,379	6,117,464
Right-to-use assets		1,351,846	1,403,090
Intangible assets		2,334	2,688
Long term investments	7	3,508,087	2,668,005
Long term loans to employees		17,664	14,770
Long term security deposits		2,515	105,894
		10,997,825	10,311,911
Current assets			
Stores, spares and loose tools		206,294	252,240
Stock-in-trade		5,468,393	4,247,068
Trade debts		3,848,886	3,021,121
Loans and advances		531,157	390,886
Trade deposits and prepayments		193,811	131,628
Other receivables		1,337,010	1,125,266
Cash and bank balances		26,034	38,503
		11,611,585	9,206,712
		22,609,410	19,518,623



Arif Saeed
(Chief Executive)




Badar Ul Hassan
(Chief Financial Officer)

Condensed Interim Statement of Profit or Loss (Unaudited)


For the period ended March 31, 2020

	Note	March 31, 2020 Amount (Rupees in thousand)	March 31, 2019 Amount
Sales - net	8	4,625,480	6,025,608
Cost of sales	9	(3,518,795)	(4,846,151)
Gross profit		1,106,685	1,179,457
Distribution cost		(369,572)	(446,947)
Administrative expenses		(234,555)	(290,107)
Other expenses		(39,909)	(33,994)
		(644,036)	(771,048)
		462,649	408,409
Other Income		15,557	102,045
Profit from Operations		478,206	510,454
Finance cost		(346,751)	(203,634)
		131,455	306,820
Share of profit in equity accounted investee - net of taxation		722	9,497
Profit before taxation		132,177	316,317
Taxation		(118,423)	(37,722)
Profit after taxation		13,754	278,595
Earnings per share - basic and diluted (Rupees)		0.73	14.82

The annexed notes from 1 to 16 form an integral part of this condensed interim financial statements.



Chaudhry Ahmed Javed
(Chairman)



Arif Saeed
(Chief Executive)



Badar Ul Hassan
(Chief Financial Officer)

Condensed Interim Statement of Comprehensive Income (Unaudited)

For the period ended March 31, 2020

	March 31, 2020	March 31, 2019
	(Rupees in thousand)	
Profit after taxation	13,754	278,595
Other comprehensive income / (loss)		
Items that will not be reclassify to profit or loss:		
Surplus arising on remeasurement of investment at fair value through other comprehensive income - net of tax	(10,640)	1,010
Items that may be reclassified subsequently to profit or loss		
Other comprehensive income / (loss) for the period - net of tax	(10,640)	1,010
Total comprehensive income for the period	3,114	279,605

The annexed notes from 1 to 16 form an integral part of this condensed interim financial statements.



Chaudhry Ahmed Javed
(Chairman)



Arif Saeed
(Chief Executive)



Badar Ul Hassan
(Chief Financial Officer)

Condensed Interim Statement of Changes in Equity (Unaudited)

For the period ended March 31, 2020

[illegible]

For the period ended March 31, 2020

The annexed notes from 1 to 16 form an integral part of this condensed interim financial statements.

Chaudhry Ahmed Javed
(Chairman)

Arif Saeed
(Chief Executive)

Badar Ul Hassan
(Chief Financial Officer)

Condensed Interim Statement of Cash Flows (Unaudited)

For the period ended March 31, 2020

	March 31, 2020	March 31, 2019
	(Rupees in thousand)	
Cash flow from operating activities		
Profit before taxation	132,177	316,317
Adjustments for non-cash charges and other items:		
Depreciation and amortisation	158,085	153,904
Depreciation on right to use assets	51,244	-
Provision for gratuity	10,637	12,065
Finance cost	346,751	203,634
Provision for workers' profit participation fund	6,020	17,260
Provision for workers' welfare fund	2,523	2,325
Provision / (reversal of provision) for slow moving and obsolete inventory	(1,554)	14,141
Allowance for expected credit losses	23,135	4,844
Share of profit in equity accounted investee	(722)	(9,497)
Operating profit before working capital changes	596,119	398,676
Working capital changes		
(Increase)/ decrease in current assets		
Stores, spares and loose tools	45,946	16,426
Stock in trade	(1,219,771)	(761,487)
Trade debts	(850,900)	(614,373)
Loans, advances, trade deposits, prepayments and other receivables	(364,623)	(215,433)
	(2,389,348)	(1,574,867)
Increase in trade and other payables	145,683	308,170
	(2,243,665)	(1,266,697)
Cash generated from / (used in) operations	(1,515,369)	(551,704)
Finance cost paid	(158,973)	(184,158)
Income tax paid	(48,102)	(62,875)
Employees' retirement benefits paid	(2,027)	(3,282)
Long term loans - net	(4,367)	378
Long term deposits - net	103,379	(13,284)
Net cash generated from / (used in) operating activities	(1,625,459)	(814,925)
Cash flow from investing activities		
Capital expenditure on operating fixed assets	(155,646)	(181,405)
Long term investments - net	(850,000)	(1,010)
Net cash used in investing activities	(1,005,646)	(182,415)
Cash flow from financing activities		
Long term financing - net	(61,480)	(88,460)
Short term borrowings - net	2,753,940	1,110,748
Repayment of lease liabilities	(72,869)	-
Dividend paid	(489)	(603)
Long term deposits - net	(466)	-
Net cash (used in) financing activities	2,618,636	1,021,685
Net (decrease) / increase in cash and cash equivalents	(12,469)	24,345
Cash and cash equivalents at the beginning of the period	38,503	53,761
Cash and cash equivalents at the end of the period	26,034	78,106

The annexed notes from 1 to 16 form an integral part of this condensed interim financial statements.



Chaudhry Ahmed Javed
(Chairman)



Arif Saeed
(Chief Executive)



Badar Ul Hassan
(Chief Financial Officer)

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

1. The Company and its Operations

Service Industries Limited (the Company) was incorporated as a private limited Company on 20 March 1957 in Pakistan under the Companies Act, 1913 (now the Companies Act, 2017), converted into a public limited company on 23 September 1959 and got listed on 27 June 1970. The shares of the Company are quoted on Pakistan Stock Exchange Limited. The principal activities of the Company are purchase, manufacture and sale of footwear, tyres and tubes and technical rubber products. These financial statements are the unconsolidated condensed interim financial statements of the Company. Consolidated financial statements of the Company are prepared separately.

2. Basis of preparation and statement of compliance

2.1 These unconsolidated condensed interim financial statements are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These condensed financial statements are unaudited and are being submitted to the shareholders as required under section 237 of the Companies Act, 2017. These do not include all of the information required for the full set of annual financial statements and the unconsolidated condensed interim financial statements should be read in conjunction with the annual financial statements of the company for the year ended 31 December 2019.

As per the requirements of circular No. 23/2017 dated October 4, 2017 issued by Securities & Exchange Commission of Pakistan (SECP), companies whose financial year closes after December 31, 2017 shall prepare financial statements in accordance with the provisions of the Companies Act, 2017.

2.2 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.
Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRSs, the provisions of and directives issued under the Companies Act, 2017 have been followed.

2.3 The unconsolidated condensed interim financial statements are presented in Pak Rupee which is the company's functional and presentation currency.

3. Accounting Policies

Accounting policies adopted for the preparation of these unconsolidated condensed Interim Financial Statements are same as those applied in the preparation of preceding annual financial statements of the Company.

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

Preparation of these unconsolidated condensed interim financial statements requires management to make judgments, estimates and assumptions that affects 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 unconsolidated condensed interim financial statements, 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, 2019.

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.

5. CONTINGENCIES AND COMMITMENTS

5.1 Contingencies

- 5.1.1 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 Rupees 18.630 million and Rupees 4.108 million respectively at import of tyre cord fabrics during the period from August 2007 to July 2008 by wrongly claiming sales tax zero rating in terms of SRO 509 (1)/2007 dated 09 June 2007. The case has been remanded back by the Appellate Tribunal Inland Revenue (ATIR), Lahore to the Commissioner Inland Revenue Appeals [CIR (Appeals)], 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.
- 5.1.2 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 Rupees 4.804 million covering the period from January 1987 to September 1992 on account of short payment of contributions. In the second case, Rupees 1.982 million is 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. In the third case, Rupees 31.807 million is recoverable by PESSI. This case was decided in the favour of the Company in the year 2013, however, the case is re-opened in the year 2014. The Company has filed an appeal before Social Security Court, Lahore against the aforesaid cases. During the pendency of the matter PESSI sent 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.
- 5.1.3 Deputy Commissioner Inland Revenue (DCIR) initiated a case against the Company after post sales tax refund audit in which demand of Rupees 27.922 million was raised. The Company filed an appeal before CIR (Appeals) in which the demand was cancelled except two points having impact of Rupees 2.650 million. The Company had further filed an appeal before ATIR against said points. The management of the Company is confident that decision will be in favour of the Company. Hence, no provision has been made in these financial statements.

- 5.1.4 DCIR initiated sales tax audit for the year 2013-2014 in which demand of Rupees 182.707 million was created. The Company filed appeal with CIR (Appeals) who confirmed the demand of Rupees 10 million and remanded back certain charges to the tune of 172.7 million. The Company filed an appeal with ATIR against the decision of CIR (Appeals) which is pending for hearing. The management of the Company is confident that decision will be in favour of the Company, hence, no provision has been made in these financial statements.
- 5.1.5 DCIR initiated income tax audit for the year 2014 in which a demand of Rupees 123.412 million was created. The Company preferred an appeal before CIR (Appeals) which is pending for hearing. The management is confident that decision will be in favour of the Company, hence, no provision has been made in these financial statements.
- 5.1.6 Honourable Lahore High Court has allowed a petition filed by the Company against show-cause notice issued by DCIR amounting to Rupees 13.076 million. The show-cause notice was issued on account of post sales tax refunds audit of various tax periods. FBR challenged the decision of Honourable Lahore High Court in Honourable Supreme Court of Pakistan which is pending for hearing. The management is confident that decision will be in favour of the Company, hence, no provision has been made in these financial statements.
- 5.1.7 DCIR conducted income tax audit for the year 2011 in which a demand of Rupees 19.605 million was created. The Company preferred an appeal before CIR (Appeals) which is pending for hearing. The management is confident that decision will be in favour of the Company, hence, no provision has been made in these financial statements.
- 5.1.8 The Company has challenged, before Honourable Lahore High Court, Lahore, the vires of first proviso to sub-clause (x) of clause (4) of SRO 491(1)/2016 dated 30 June 2016 issued under sections 3 and 4 read with sections 8 and 71 of the Sales Tax Act, 1990 whereby through amendment in the earlier SRO 1125(I)/2011 dated 31 December 2011 adjustment of input sales tax on packing material of all sorts has been disallowed. The Honourable Lahore High Court has issued stay order in favour of the Company. Consequently, the Company has claimed input sales tax on packing material of Rupees 58.123 million in its monthly sales tax returns. The management, based on advice of the legal counsel, is confident of favourable outcome of its appeal.
- 5.1.9 The Company has challenged, before Honourable Lahore High Court, Lahore, the vires of clauses (h) and (i) to sub-section (1) of section 8 of the Sales Tax Act, 1990 whereby claim of input sales tax in respect of building materials, electrical and gas appliances, pipes, fittings, wires, cables and ordinary electrical fittings and sanitary fittings have been disallowed. The Honourable Lahore High Court, Lahore has passed order against the Company and the Company being aggrieved with the order has preferred Intra Court Appeal before the Honourable Lahore High Court, Lahore. The Company has claimed input sales tax of Rupees 21.784 million on such goods in its respective monthly sales tax returns. The management, based on advice of the legal counsel, is confident of favourable outcome of its appeal.

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

- 5.1.10 DCIR initiated income tax cases of tax years 2006 and 2008. A demand of Rupees 12.774 million and Rupees 68.406 million respectively were created by amending returns. Appeals were preferred with CIR(A) which were dismissed against the Company without discussing the merits of the cases. The Company has filed appeal with ATIR which is pending for hearing. The management is confident that decision will be in favour of the Company, hence, no provision has been made in these financial statements.
- 5.1.11 CIR passed an order regarding CREST discrepancies of sales tax for an amount of Rupees 10.324 million. The Company filed an appeal with ATIR which is pending for hearing. The management is confident that decision will be in favour of the Company, hence, no provision has been made in these financial statements.
- 5.1.12 The Company received show cause notice dated 14 December 2018 for which detailed reply was furnished to Assistant Commissioner Unit-07 Sindh Revenue Board (SRB). Taxation officer subsequently passed assessment order under section 47 read with section 44 of the Sindh Sales Tax on Services Act, 2011 demanding sales tax amounting to Rupees 30.572 million. Aggrieved with impugned order, the Company has preferred an appeal to the Commissioner Appeals SRB, which is pending adjudication. Based on merits of the case and advice of the tax advisor, no provision against this demand has been recognized in these financial statements.
- 5.2 Commitments
- 5.2.1 Guarantees issued in ordinary course of business through banks are of Rupees 733.113 million (2019: Rupees 879.505 million).
- 5.2.2 Contracts for capital expenditure are approximately of Rupees 80.414 million (2019: Rupees 82.054 million).
- 5.2.3 Letters of credit other than capital expenditure are of Rupees 545.790 million (2019: Rupees 483.486 million).
- 5.2.4 The Company has obtained vehicles under ijarah arrangements from Meezan Bank Limited, Allied Bank Limited and Bank Al Habib Limited for a period of five years. Future Ujrah payments under Ijarah are as follows:

	March 31, 2020	December 31, 2019
	(Rupees in thousand)	
Not later than one year	53,173	63,299
Later than one year and not later than five years	74,578	103,214
	127,751	166,513

		March 31, 2020	December 31, 2019
		(Rupees in thousand)	
6	Property, plant and equipment		
	Operating fixed assets (Note 6.1)	5,916,870	5,969,030
	Capital work-in-progress	198,509	148,434
		6,115,379	6,117,464
6.1	Operating fixed assets		
	Opening written down value	5,969,030	5,726,524
	Add: Additions during the period (Note 6.2)	107,151	1,678,740
		6,076,181	7,405,264
	Less: Disposals during the period (at book value)	(1,580)	(19,406)
		6,074,601	7,385,858
	Less: Transferred to Service Global Footwear Limited - subsidiary company pursuant to the Scheme	-	(756,753)
		6,074,601	6,629,105
	Less: Depreciation charged during the period	(157,731)	(660,075)
		5,916,870	5,969,030

6.2 Following is the detail of additions and disposals during the period.

	Additions		Disposals - NBV	
	Unaudited March 31, 2020	Audited December 31, 2019	Unaudited March 31, 2020	Audited December 31, 2019
	(Rupees in thousand)			
Land	-	-	-	655
Building on freehold land	5,369	317,963	-	-
Plant and machinery	33,435	1,161,615	-	1,184
Furniture, fixture and fittings	871	9,195	-	-
Vehicles	34,801	7,399	1,531	843
Service equipments	23,754	158,132	49	5,125
Leasehold improvements	8,921	24,436	-	11,599
	107,151	1,678,740	1,580	19,406

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

	Note	(Unaudited) March 31, 2020 (Rupees in thousand)	(Audited) December 31, 2019
7 Long term investments			
Investment in subsidiary companies - at cost	(Note 7.1)	3,164,021	2,314,021
Investment in associate (with significant influence) - under equity method	(Note 7.2)	329,676	328,954
Investment in joint ventures - at cost	(Note 7.3)	480	480
Other investment - at FVTOCI	(Note 7.4)	13,910	24,550
		3,508,087	2,668,005
7.1 Investment in subsidiary companies - at cost			
Service Industries Capital (Private) Limited			
29,999,997 (2019: 29,999,997)			
fully paid ordinary shares of Rupees 10 each		300,000	300,000
Service Global Footwear Limited			
13,550,000 (2019: 5,050,000)			
fully paid ordinary shares of Rupees 10 each		135,500	50,500
150,000,000 shares to be issued pursuant to the Scheme		1,963,521	1,963,521
		2,099,021	2,014,021
Service Long March Tyres (Private) Limited			
76,500,000 (2019: Nil) fully paid			
ordinary shares of Rupees 10 each		765,000	-
		3,164,021	2,314,021
7.2 Investment in associate (with significant influence) - under equity method			
Speed (Private) Limited			
160,709 (2019: 160,709) fully paid			
ordinary shares of Rupees 100 each		190,949	190,949
Share of post acquisition reserve			
As at the beginning of the year		138,005	117,757
Share of post acquisition profit for the period		722	20,248
		138,727	138,005
		329,676	328,954

	Note	(Unaudited) March 31, 2020 (Rupees in thousand)	(Unaudited) March 31, 2019
7.3 Investment in joint ventures - at cost			
S2 Power Limited			
24,000 (2019: 24,000) fully paid ordinary shares of Rupees 10 each		240	240
S2 Hydro Limited			
24,000 (2019: 24,000) fully paid ordinary shares of Rupees 10 each		240	240
		480	480
7.4 Other investment - at FVTOCI			
TRG Pakistan Limited			
1,000,000 (2019: 1,000,000) fully paid ordinary shares of Rupees 10 each		24,550	22,050
Fair value adjustment		(10,640)	2,500
		13,910	24,550
8 Sale of footwear (Net)			
Export sales		305,169	1,912,723
Local sales		1,036,675	1,201,251
Duty draw back		3,443	81,165
		1,345,287	3,195,139
Sale of tyres (Net)			
Export sales		197,613	224,013
Local sales		3,063,801	2,604,385
Duty draw back		707	-
		3,262,121	2,828,398
Sale of technical rubber products (Net)			
Local sales		18,072	2,071
		4,625,480	6,025,608

	Note	(Unaudited) March 31, 2020 (Rupees in thousand)	(Unaudited) March 31, 2019
9 Cost of sales			
Raw materials consumed	(Note 9.1)	2,599,943	3,190,547
Salaries, wages and other benefits		558,502	749,192
Stores and spares consumed		63,283	54,866
Packing materials consumed		115,328	181,817
Fuel and power		229,454	209,420
Insurance		4,511	5,162
Travelling		3,068	5,890
Repair and maintenance		46,817	36,926
Entertainment		312	1,258
Depreciation		141,045	137,910
Provision / (reversal of provision) for slow moving and obsolete inventory		(1,554)	14,141
Other manufacturing charges		17,798	60,359
		3,778,507	4,647,488
Work in process:			
Opening Stock		225,852	398,415
Less: Closing stock		(440,582)	(524,147)
		(214,730)	(125,732)
Cost of goods manufactured		3,563,777	4,521,756
Finished goods:			
Opening stock		2,413,252	1,959,114
Add: Purchases during the period		1,054,173	779,206
Less: Closing stock		(3,512,407)	(2,413,925)
		(44,982)	324,395
		3,518,795	4,846,151
9.1 Raw material consumed			
Opening Stock		1,182,782	1,500,550
Add: Purchases during the period		2,616,729	3,245,390
Less: Closing stock		(1,199,568)	(1,555,393)
		2,599,943	3,190,547

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

10. Segment reporting

The Company has three reportable segments. The following summary describes the operation in each of the Company's reportable segments:

Footwear: Purchase, manufacturing and sale of different qualities of footwear.

Tyre: Manufacturing of different qualities of tyres.

Technical Rubber Products: Manufacturing of different qualities of rubber products on specifications.

	(Rupees in thousand)					
	Footwear		Tyre		Technical Rubber Products	
	Period ended	Mar. 31, 2019	Period ended	Mar. 31, 2019	Period ended	Total - Company Period ended
	Mar. 31, 2020	Mar. 31, 2019	Mar. 31, 2020	Mar. 31, 2019	Mar. 31, 2020	Mar. 31, 2020
Sales	1,345,287	3,195,139	3,262,121	2,828,398	18,072	4,625,480
Profit/(loss) before taxation and unallocated income and expenses	95,903	350,380	472,196	362,901	1,468	569,567
Unallocated income and expenses:						(437,390)
Taxation						(118,423)
Profit after taxation						13,754
						278,595

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

10.1 Reconciliation of reportable segment assets and liabilities

	Footwear		Tyre		Technical Rubber Products		Total - Company	
	Period ended		Period ended		Period ended		Period ended	
	Mar. 31, 2020	Dec. 31, 2019	Mar. 31, 2020	Dec. 31, 2019	Mar. 31, 2020	Dec. 31, 2019	Mar. 31, 2020	Dec. 31, 2019
Total assets for reportable segment	6,365,496	5,947,499	10,378,917	9,121,739	159,789	152,290	16,904,202	15,221,528
Unallocated assets							5,705,208	4,297,095
Total assets as per statement of financial position							22,609,410	19,518,623
Unallocated liabilities							16,865,088	13,777,415
Total liabilities as per statement of financial position							16,865,088	13,777,415

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

11 Recognized fair value measurements - financial instruments

(i) Fair value hierarchy

Judgements and estimates are made in determining the fair values of the financial instruments that are recognised and measured at fair value in these financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the following three levels. An explanation of each level follows underneath the table.

Recurring fair value measurements At 31 March 2020	Level 1	Level 2	Level 3	Total
	----- Rupees in thousand -----			
Financial assets				
Financial assets at fair value through other comprehensive income	13,910	-	-	13,910
Total financial assets	13,910	-	-	13,910
Recurring fair value measurements At 31 December 2019	Level 1	Level 2	Level 3	Total
	----- Rupees in thousand -----			
Financial assets				
Available for sale financial asset	24,550	-	-	24,550
Total financial assets	24,550	-	-	24,550

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

The above table does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts.

There were no transfers between levels 1 and 2 for recurring fair value measurements during the period. Further, there was no transfer in and out of level 3 measurements.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include the use of quoted market prices.

12 Transactions with Related Parties

Transaction with related parties and associated undertakings, other than those disclosed elsewhere in the financial statements are as follows:

	March 31, 2020	December 31, 2019
(Rupees in thousand)		
Subsidiary companies		
Investment made	850,000	-
Sale of goods	-	39,832
Purchase of goods	5,081	28,864
Associated companies		
Dividend received	-	-
Sale of goods	-	51,282
Donations made	5,242	9,503
Reimbursement of expenses	-	171
Bonus shares issued	-	57
Key management personnel		
Cash dividend paid	-	24,700
Bonus shares issued	-	30,209
Other related parties		
Service Provident Fund Trust	26,258	127,310
Service Industries Limited Employees Gratuity Fund Trust	11,589	51,970
Bonus shares issued	-	3,202

13 The 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, 2019.

14 Date of authorization for issue

These financial statements were authorized for issue on 25 June 2020 by the Board of Directors of the Company.

15 Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant rearrangements have been made.

16 General

Figures have been rounded off to nearest thousand of Rupees, except stated otherwise.



Chaudhry Ahmed Javed
(Chairman)



Arif Saeed
(Chief Executive)



Badar Ul Hassan
(Chief Financial Officer)

Consolidated Financial Statements

Group Directors' Report to the Shareholders

The Directors take pleasure in presenting their Report along with the Group Condensed Interim Financial information of the Service Industries Limited for the Quarter ended March 31, 2020.

The Group comprises of Service Industries Limited, Service Industries Capital (Private) Limited, a wholly owned subsidiary of Service Industries Limited, Service Global Footwear Limited, a wholly owned subsidiary of Service Industries Limited, Service Long March Tyres (Private) Limited, partially owned subsidiary of Service Industries Limited and Service Shoes Lanka (Private) Limited, a subsidiary company of Service Industries Capital (Private) Limited.

Service Industries Limited

The Director Report providing a commentary on the performance of Service Industries Limited for the Quarter ended March 31, 2020 has been presented separately. Service Industries Limited has annexed its Condensed Consolidated Interim Financial Information along with its Separate Condensed Interim Financial information, in accordance with the requirements of International Financial Reporting Standards and Companies Act 2017.

Service Industries Capital (Private) Limited

Service Industries Capital (Private) Limited is wholly owned subsidiary of the Service Industries Limited. Service Industries Capital (Private) Limited got registered under the Companies Ordinance, 1984 (now the Companies Act 2017) in Pakistan as a company limited by shares on November 10, 2015. The registered office of Service Industries Capital (Private) Limited is situated at Service House, 2-Main Gulberg, Lahore. The main object of Service Industries Capital (Private) Limited is to make investment in new ventures, shares and securities, listed or otherwise, in Pakistan or elsewhere in the world, subject to requirements of applicable law.

Service Global Footwear Limited

Service Global Footwear Limited was incorporated as a public limited company on 19 July 2019 in Pakistan under the Companies Act, 2017. The principal activities of the Company are manufacturing, sale, marketing, import and export of footwear, leather and allied products. It is wholly owned subsidiary of Service Industries Limited.

Service Long March Tyres (Private) Limited

Service Long March Tyres (Private) Limited is a Private Limited Company incorporated in Pakistan on January 07, 2020 under Companies Act, 2017 (XIX of 2017). The registered office of the Company is situated at Servis House, 2-Main Gulberg, Lahore. The principle line of business of the Company is to carry on the business of manufacturing, sale, marketing, import and export of all steel radial truck and bus tyres. The shareholding of Service Industries Limited in Service Long March Tyres (Private) Limited is 51%.

Service Shoes Lanka (Private) Limited

Service Shoes Lanka (Private) Limited is a subsidiary company of Service Industries Capital (Private) Limited, which is wholly owned subsidiary of Service Industries Limited. Service Shoes Lanka (Private) Limited is a Private Limited Liability Company incorporated on July 16, 2015 and domiciled in Sri Lanka under the provisions of the Companies Act No. 07 of 2007. The registered office of the Company is located at No. 143/17, Sri Wickrema Mawatha, Colombo 15 and the principal place of business is located at Katunayake.

For and on Behalf of the Board



CHAUDHRY AHMED JAVED
Chairman

June 25, 2020
Lahore.

For and on Behalf of the Board



ARIF SAEED
Chief Executive

سروس شوز لنکا (پرائیویٹ) لمیٹڈ

سروس شوز لنکا (پرائیویٹ) لمیٹڈ SICPL کا ایک ماتحت ادارہ ہے جو کہ SIL کا ایک ملکیتی ماتحت ادارہ ہے۔ سروس شوز لنکا (پرائیویٹ) لمیٹڈ ایک (پرائیویٹ) لمیٹڈ لائسنسڈ کمپنی ہے جو کہ 16 جولائی 2015 کو سری لنکا میں کمپنیوں کے ایکٹ 2007 کے نمبر 7 کے تحت رجسٹر ہوئی۔ کمپنی کا رجسٹرڈ دفتر نمبر 143/17 سری وکرما مادا تھا، کولمبو 15 پر واقع ہے اور کاروبار کی مرکزی جگہ کاتونائیکے میں واقع ہے۔

منجانب بورڈ



عارف سعید
چیف ایگزیکٹو



چوہدری احمد جاوید
چیرمین

مورخہ 25 جون 2020

لاہور

گروپ کی ڈائریکٹرز رپورٹ برائے حصص یافتگان

ڈائریکٹرز کمپنی کی رپورٹ پیش کرتے ہوئے خوشی محسوس کر رہے ہیں۔ اس رپورٹ میں سروس انڈسٹریز لمیٹڈ (SIL) کی 31 مارچ 2020 تک گروپ کی مجموعی سہ ماہی مختصر عبوری مالیاتی معلومات پیش کی جا رہی ہیں۔ گروپ میں SIL، سروس انڈسٹریز کمپیٹل (پرائیویٹ) لمیٹڈ (SICPL) جو کہ SIL گروپ کا مکمل ملکیتی ماتحت ادارہ ہے، سروس گلوبل فٹ ویئر لمیٹڈ (SGFL)، جو کہ SIL گروپ کا مکمل ملکیتی ماتحت ادارہ ہے، سروس لاگ مارچ ٹائز (پرائیویٹ) لمیٹڈ (SLMTL) جو کہ SIL گروپ کی جزوی ملکیتی ادارہ ہے، اور سروس شوز لنکا (پرائیویٹ) لمیٹڈ جو کہ (SICPL) کا ماتحت ادارہ ہے، پر مشتمل ہے۔

سروس انڈسٹریز لمیٹڈ

31 مارچ 2020 کو ختم ہونے والے دورانیے کے لیے سروس انڈسٹریز لمیٹڈ کی کارکردگی پر ڈائریکٹرز رپورٹ، علیحدہ سے پیش کی گئی ہے۔ سروس انڈسٹریز لمیٹڈ نے انٹرنیشنل فائننسٹل رپورٹنگ سٹینڈرڈز اور کمپنیز ایکٹ 2017 کے مطابق 31 مارچ 2020 تک کی گروپ اور انفرادی سہ ماہی معلومات اس رپورٹ میں منسلک کر دی ہیں۔

سروس انڈسٹریز کمپیٹل پرائیویٹ لمیٹڈ

SIL، SICPL کا ایک مکمل ملکیتی ماتحت ادارہ ہے۔ SICPL کمپنی آرڈیننس 1984 (جو کہ اب کمپنی ایکٹ 2017 ہے) کے تحت 10 نومبر 2015 کو پاکستان میں ایک لمیٹڈ کمپنی کے طور پر رجسٹر ہوئی۔ SICPL کا رجسٹرڈ دفتر سروس ہاؤس، 2- مین گلبرگ، لاہور پر واقع ہے۔ اس ماتحت ادارے کا بنیادی مقصد پاکستان میں یا دنیا میں کہیں بھی، نئے کاروبار اور حصص میں متعلقہ قوانین کے مطابق سرمایہ کاری کرنا ہے۔

سروس گلوبل فٹ ویئر لمیٹڈ

سروس گلوبل فٹ ویئر لمیٹڈ کو 19 جولائی 2019 کو پاکستان میں کمپنیز ایکٹ، 2017 کے تحت پبلک لمیٹڈ کمپنی کے طور پر تشکیل کیا گیا ہے۔ کمپنی کی بنیادی سرگرمیوں میں جوتے، چمڑے اور اس سے منسلک مصنوعات کی تیاری، فروخت، مارکیٹنگ، درآمد اور برآمد شامل ہیں۔ یہ سروس انڈسٹریز لمیٹڈ کی مکمل ملکیتی ماتحت ادارہ ہے۔

سروس لاگ مارچ ٹائز (پرائیویٹ) لمیٹڈ

سروس لاگ مارچ ٹائز (پرائیویٹ) لمیٹڈ کو 7 جنوری 2020 کو پاکستان میں کمپنیز ایکٹ، 2017 کے تحت (پرائیویٹ) لمیٹڈ کمپنی کے طور پر تشکیل کیا گیا ہے۔ کمپنی کا رجسٹرڈ آفس سروس ہاؤس، 2- مین گلبرگ، لاہور میں واقع ہے۔ کمپنی کا بنیادی کاروبار تمام اسٹیل ریڈیل ٹرک اور بس ٹائزوں کی تیاری، فروخت، مارکیٹنگ، درآمد اور برآمد کرنا ہے۔ سروس لاگ مارچ ٹائز (پرائیویٹ) لمیٹڈ میں سروس انڈسٹریز لمیٹڈ کے 51 فیصد شیئر ہیں۔

Condensed Consolidated Interim Statement of Financial Position (Unaudited)

As at March 31, 2020

	(Unaudited) March 31, 2020	(Audited) December 31, 2019
Note	(Rupees in thousand)	
EQUITY AND LIABILITIES		
Share capital and reserves		
Authorized share capital	1,000,000	1,000,000
100,000,000 (2019: 100,000,000) ordinary shares of Rs 10/- each		
Issued, subscribed and paid-up share capital	187,950	187,950
Reserves	6,280,987	6,027,682
Non-controlling interest	705,014	(31,693)
Total equity	7,173,951	6,183,939
LIABILITIES		
Non-current liabilities		
Long term financing	3,738,130	3,090,252
Long term deposits	1,940	2,406
Lease liabilities	1,422,055	1,302,055
Employees' retirement benefit	226,352	215,979
Deferred income tax liability - net	240,684	189,131
	5,629,161	4,799,823
Current liabilities		
Trade and other payables	4,261,420	4,006,199
Accrued mark-up	263,299	142,320
Short term borrowings	9,166,075	6,284,209
Current portion of non-current liabilities	88,084	947,685
Unclaimed dividend	37,295	37,784
Provision for taxation	498,676	407,864
	14,314,849	11,826,061
Total liabilities	19,944,010	16,625,884
Contingencies and commitments	5	
TOTAL EQUITY AND LIABILITIES	27,117,961	22,809,823

The annexed notes from 1 to 16 form an integral part of this condensed consolidated interim financial statements.



Chaudhry Ahmed Javed
(Chairman)

		(Unaudited) March 31, 2020	(Audited) December 31, 2019
	Note	(Rupees in thousand)	
ASSETS			
Non-current assets			
Fixed assets	6	8,034,580	7,260,918
Right-to-use assets		1,351,846	1,403,090
Intangible assets		50,057	48,173
Long term investments	7	533,192	542,646
Long term loans to employees		29,926	25,031
Long term security deposits		8,792	112,171
		<u>10,008,393</u>	<u>9,392,029</u>

Current assets

Stores, spares and loose tools	252,509	289,399
Stock-in-trade	6,713,008	5,903,758
Trade debts	4,972,547	3,617,736
Loans and advances	804,946	684,295
Trade deposits and prepayments	202,744	136,379
Other receivables	3,059,856	2,681,253
Accrued interest	8,280	1,426
Cash and bank balances	1,095,678	103,548
	<u>17,109,568</u>	<u>13,417,794</u>

<u>27,117,961</u>	<u>22,809,823</u>
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Arif Saeed
(Chief Executive)




Badar Ul Hassan
(Chief Financial Officer)

Condensed Consolidated Interim Statement of Profit or Loss (Unaudited)

For the period ended March 31, 2020

	Note	March 31, 2020 Amount (Rupees in thousand)	March 31, 2019 Amount
Sales - net	8	6,876,676	6,133,224
Cost of sales	9	(5,319,186)	(4,926,903)
Gross profit		1,557,490	1,206,321
Distribution cost		(507,282)	(448,277)
Administrative expenses		(336,178)	(300,648)
Other expenses		(53,817)	(33,994)
		(897,277)	(782,919)
		660,213	423,402
Other Income		78,449	102,089
Profit from Operations		738,662	525,491
Finance cost		(329,334)	(205,968)
		409,328	319,523
Share of profit in equity accounted investee - net of taxation		1,186	15,596
Profit before taxation		410,514	335,119
Taxation		(142,365)	(37,722)
Profit after taxation		268,149	297,397
Share of Profit Attributable to:			
Equity holders of the holding company		264,680	292,313
Non-controlling interest		3,469	5,084
		268,149	297,397
Earnings per share - basic and diluted (Rupees)		14.27	15.82

The annexed notes from 1 to 16 form an integral part of this condensed consolidated interim financial statements.



Chaudhry Ahmed Javed
(Chairman)



Arif Saeed
(Chief Executive)



Badar Ul Hassan
(Chief Financial Officer)

Condensed Consolidated Interim Statement of Comprehensive Income (Unaudited)

For the period ended March 31, 2020

	March 31, 2020	March 31, 2019
	(Rupees in thousand)	
Profit after taxation	268,149	297,397
Other comprehensive income / (loss)		
Items that will not be reclassified to profit or loss account		
Surplus arising on remeasurement of investment at fair value through other comprehensive income - net of tax	(10,640)	1,010
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign subsidiary	(4,406)	(2,492)
Exchange difference on translation of goodwill	1,909	1,923
	(2,497)	(570)
Other comprehensive income / (loss) for the period - net of tax	(13,137)	440
Total comprehensive income for the period	255,012	297,837
Share of total comprehensive income attributable to:		
Equity holders of the holding company	253,305	292,981
Non-controlling interest	1,707	4,857
	255,012	297,837

The annexed notes from 1 to 16 form an integral part of this condensed consolidated interim financial statements.



Chaudhry Ahmed Javed
(Chairman)



Arif Saeed
(Chief Executive)



Badar Ul Hassan
(Chief Financial Officer)

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

For the period ended March 31, 2020


Share Capital	Reserves										Non-controlling interest	Total Equity
	Capital Reserves					Revenue Reserves						
	Capital gains	Fair value reserve FVTOCI investment	Share premium	Share held by equity accounted investee	Exchange translation reserve	Sub Total	General reserve	Unappropriated profit	Sub total			
										Total Reserves		
Rupees in thousand												
Balance as at 31 December 2018 - restated	120,288	102,730	-	21,217	44,395	3,785	172,127	1,558,208	3,648,863	5,207,071	5,379,198	5,483,164
Adjustment on adoption of IFRS 9	-	-	-	-	-	-	-	-	(51,358)	(51,358)	(51,358)	(51,358)
Adjustment on adoption of IFRS 15	-	-	-	-	-	-	-	-	(70,612)	(70,612)	(70,612)	(70,612)
Adjusted total equity as at 01 January 2019	120,288	102,730	-	21,217	44,395	3,785	172,127	1,558,208	3,526,893	5,085,101	5,257,228	5,361,194
Profit for the period	-	-	-	-	-	-	-	-	292,313	292,313	292,313	297,397
Other comprehensive income for the period	-	-	1,010	-	-	(342)	668	-	-	-	668	441
Total comprehensive income for the period	-	-	1,010	-	-	(342)	668	-	292,313	292,313	292,981	297,838
Balance as at 31 March 2019	120,288	102,730	1,010	21,217	44,395	3,443	172,795	1,558,208	3,819,206	5,377,414	5,550,209	5,659,032
Transactions with owners:												
Final dividend for the year ended 31 December 2018 @ Rupees 30 per share	-	-	-	-	-	-	-	-	(360,862)	(360,862)	(360,862)	(360,862)
Issue of bonus shares for the year ended 31 December 2019 @ Rupees 25%	30,072	-	-	-	-	-	-	-	(30,072)	(30,072)	(30,072)	-
Interim dividend for the year ended 31 December 2019 @ Rupees 12.50 per share	-	-	-	-	-	-	-	-	(187,950)	(187,950)	(187,950)	(187,950)
Issue of bonus shares during the year ended 31 December 2019 @ 25%	37,590	-	-	-	-	-	-	-	(37,590)	(37,590)	(37,590)	-
	67,662	-	-	-	-	-	-	-	(616,474)	(616,474)	(616,474)	(548,812)

Condensed Consolidated Interim Statement of Cash Flows (Unaudited)


For the period ended March 31, 2020

	March 31, 2020	March 31, 2019
	(Rupees in thousand)	
Cash flow from operating activities		
Profit before taxation	410,514	335,119
Adjustments for non-cash charges and other items:		
Depreciation and amortisation	185,269	156,884
Depreciation on right to use assets	51,244	-
Provision for gratuity	15,469	12,065
Finance cost	329,334	205,968
Provision for workers' profit participation fund	14,346	17,260
Provision for workers' welfare fund	8,105	2,325
Provision / (reversal of provision) for slow moving and obsolete inventory	1,839	14,141
Allowance for expected credit losses	20,969	4,844
Share of profit in equity accounted investee	(1,186)	(15,598)
Exchange gain / (loss)	(2,238)	(1,923)
Operating profit before working capital changes	623,151	395,966
Working capital changes		
(Increase)/ decrease in current assets		
Stores, spares and loose tools	36,890	16,426
Stock in trade	(811,089)	(729,161)
Trade debts	(1,375,780)	(670,195)
Accrued interest	(6,854)	-
Loans, advances, trade deposits, prepayments and other receivables	(499,735)	(215,081)
	(2,656,568)	(1,598,011)
Increase in trade and other payables	232,771	326,336
	(2,423,797)	(1,271,675)
Cash generated used in operations	(1,390,132)	(540,590)
Finance cost paid	(208,355)	(186,492)
Income tax paid	(68,325)	(62,875)
Employees' retirement benefits paid	(5,096)	(3,282)
Long term loans - net	(2,455)	378
Long term deposits - net	103,379	(13,284)
Net cash generated used in operating activities	(1,570,984)	(806,145)
Cash flow from investing activities		
Capital expenditure on operating fixed assets	(958,577)	(184,520)
Proceed for investment in subsidiary (Service Long March (Private) Limited)	735,000	-
Long term investments - net	-	(1,010)
Net cash used in investing activities	(223,577)	(185,530)
Cash flow from financing activities		
Long term financing - net	(18,854)	(88,460)
Short term borrowings - net	2,881,866	1,099,628
Repayment of lease liabilities	(72,869)	-
Dividend paid	(489)	(603)
Long term deposits - net	(466)	-
Net cash from financing activities	2,789,188	1,010,565
Effects of exchange rate changes on cash and cash equivalents	(2,497)	(570)
Net increase / (decrease) in cash and cash equivalents	992,130	18,320
Cash and cash equivalents at the beginning of the period	103,548	72,841
Cash and cash equivalents at the end of the period	1,095,678	91,161

The annexed notes from 1 to 16 form an integral part of this condensed consolidated interim financial statements.



Chaudhry Ahmed Javed
(Chairman)



Arif Saeed
(Chief Executive)



Badar Ul Hassan
(Chief Financial Officer)

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

For the period ended March 31, 2020

1. The Group and Its Operations

The Group consists of:

Holding Company

- Service Industries Limited

Subsidiary Companies

- Service Global Footwear Limited
- Service Industries Capital (Private) Limited
- Service Shoes Lanka (Private) Limited
- Service Long March Tyres (Private) Limited

Service Industries Limited

Service Industries Limited was incorporated as a private limited company on 20 March 1957 in Pakistan under the Companies Act, 1913 (now the Companies Act, 2017), converted into a public limited company on 23 September 1959 and got listed on 27 June 1970. The shares of the Company are quoted on Pakistan Stock Exchange Limited. The principal activities of the Company are purchase, manufacture and sale of footwear, tyres and tubes and technical rubber products.

Service Global Footwear Limited

Service Global Footwear Limited was incorporated as a public limited company on 19 July 2019 in Pakistan under the Companies Act, 2017. The principal activities of the Company are manufacturing, sale, marketing, import and export of footwear, leather and allied products. It is wholly owned subsidiary of Service Industries Limited.

Service Industries Capital (Private) Limited

Service Industries Capital (Private) Limited is a private limited company incorporated in Pakistan on 10 November 2015 under the repealed Companies Ordinance, 1984 (Now Companies Act, 2017). Its registered office and head office is situated at Servis House, 2-Main Gulberg, Lahore. The principal objects of the Company are to hold investments in subsidiaries / joint ventures and other companies, entities and organizations, listed or otherwise in Pakistan or elsewhere in the world subject to all the applicable laws and procedures but not to act as an investment company. It is wholly owned subsidiary of Service Industries Limited.

Service Shoes Lanka (Private) Limited

Service Shoes Lanka (Private) Limited is a Private Limited Liability Company incorporated on 16 July 2015 under the provisions of the Companies Act No. 07 of 2007 in Sri Lanka. The registered office of the Company is located at No. 143 / 17, Sri Wickrema Mawatha, Colombo and the principal place of business is located at Katunayake, Sri Lanka. It is subsidiary of Service Industries Capital (Private) Limited which is wholly owned subsidiary of Service Industries Limited. Ownership interest held by non-controlling interest in Service Shoes Lanka (Private) Limited - Subsidiary Company is 40% (2018: 40%).

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

For the period ended March 31, 2020

Service Long March Tyres (Private) Limited

Service Long March Tyres (Private) Limited is a Private Limited Company incorporated in Pakistan on January 07, 2020 under Companies Act, 2017 (XIX of 2017). The registered office of the Company is situated at Servis House, 2-Main Gulberg, Lahore. The principle line of business of the Company is to carry on the business of manufacturing, sale, marketing, import and export of all steel radial truck and bus tyres. The shareholding of Service Industries Limited in Service Long March Tyres (Private) Limited is 51%.

2. Basis of Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The assets and liabilities of Subsidiary Companies have been consolidated on a line by line basis and carrying value of investments held by the Holding Company is eliminated against Holding Company's share in paid up capital of the Subsidiary Companies.

Intragroup balances and transactions have been eliminated.

Non-controlling interest are that part of net results of the operations and of net assets of Subsidiary Companies attributable to interest which are not owned by the Holding Company. Non-controlling interest are presented as separate item in the consolidated financial statements.

b) Associate

Associate is an entity over which the Group has significant influence but not control or joint control. Investment in associate is accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investment is initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associate is recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associate is eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investment in equity method accounted for associate is tested for impairment in accordance with the provision of IAS 36 'Impairment of Assets'.

c) Translations of the financial statements of foreign subsidiary

The financial statements of foreign subsidiary of which the functional currency is different from that used in preparing the Group's financial statements are translated in functional currency of the Group. Statement of financial position items are translated at the exchange rate at the reporting date and statement of profit and loss items are converted at the average rate for the period. Any resulting translations differences are recognized under exchange translation reserve in consolidated reserves.

3. Basis of Preparation

- 3.1** These condensed consolidated financial statements for the period ended March 31, 2020 are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". These condensed consolidated financial statements are unaudited and are being submitted to the shareholders as required under section 237 of the Companies Act, 2017. These do not include all of the information required for the full set of annual financial statements and the condensed interim financial statements should be read in conjunction with the annual financial statements of the company for the year ended 31 December 2019.

As per the requirements of circular No. 23/2017 dated October 4, 2017 issued by Securities & Exchange Commission of Pakistan (SECP), companies whose financial year closes after December 31, 2017 shall prepare financial statements in accordance with the provisions of the Companies Act, 2017.

- 3.2** These condensed consolidated interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:
- International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
 - Provisions of and directives issued under Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

For the period ended March 31, 2020

- 3.3 The condensed consolidated interim financial statements are presented in Pak Rupee which is the company's functional and presentation currency.

4. Accounting Policies

Accounting policies adopted for the preparation of these condensed consolidated Interim financial statements are the same as those applied in the preparation of preceding annual financial statements of the Company.

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect 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 consolidated interim financial statements, 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, 2019.

The group has adopted IFRS 16 from 01 January 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. IFRS 16 is not applicable on short-term leases and leases of low-value assets. Further, as per SRO 431(I)/2007 dated 22 May 2007, the Securities and Exchange Commission of Pakistan directed that the Islamic Financial Accounting Standard 2 (IFAS 2), issued by the Institute of Chartered Accountants of Pakistan, shall be followed in regard to the financial statements by companies while accounting for Ijarah (Lease) transactions as defined in IFAS 2. As stated in Note 3.2 (Basis of preparation), where provisions of and directives issued under the Companies Act, 2017 differ from the IFRSs, the provisions of and directives issued under the Companies Act, 2017 have been followed. Therefore, the group is not required to account for operating leases (Ijarah) under IFRS 16 'Leases'. Hence, the adoption of IFRS 16 does not have any impact on the amounts recognized in prior periods and is not expected to significantly affect the current or future periods.

5 Contingencies And Commitments

5.1 Contingencies

- 5.1.1 The Additional Collector (Adjudication) of Pakistan Customs Computerized System, Karachi initiated case against the Holding Company for failure to pay leviable sales tax and income tax of Rupees 18.630 million and Rupees 4.108 million respectively at import of tyre cord fabrics during the period from August 2007 to July 2008 by wrongly claiming sales tax zero rating in terms of SRO 509 (1)/2007 dated 09 June 2007. The case has been remanded back by the Appellate Tribunal Inland Revenue (ATIR), Lahore to the Commissioner Inland Revenue Appeals [CIR (Appeals)], Lahore, which is still pending. According to the Holding Company's legal counsel, the Holding Company has a good arguable case and there is likelihood that the same will be decided in its favour.

- 5.1.2** Deputy Director of Pakistan Employees Social Security Institute (PESSI), Gujrat initiated three cases against the Holding Company. In the first case the alleged amount recoverable by the PESSI is Rupees 4.804 million covering the period from January 1987 to September 1992 on account of short payment of contributions. In the second case, Rupees 1.982 million is recoverable by the Holding 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 Holding Company by the Director General Recovery PESSI, Lahore. In the third case, Rupees 31.807 million is recoverable by PESSI. This case was decided in the favour of the Holding Company in the year 2013, however, the case is re-opened in the year 2014. The Holding Company has filed an appeal before Social Security Court, Lahore. During the pendency of the matter PESSI sent a recovery notice for the same amount. The Holding Company has filed a writ petition before Lahore High Court, Lahore against the aforesaid cases. As per legal counsel of the Holding Company, the Holding Company has strong legal grounds for its success.
- 5.1.3** Deputy Commissioner Inland Revenue (DCIR) initiated a case against the Holding Company after post sales tax refund audit in which demand of Rupees 27.922 million was raised. The Holding Company filed an appeal before CIR (Appeals) in which the demand was cancelled except two points having impact of Rupees 2.650 million. The Holding Company had further filed an appeal before ATIR against said points. The management of the Holding Company is confident that decision will be in favour of the Holding Company. Hence, no provision has been made in these consolidated financial statements.
- 5.1.4** DCIR initiated sales tax audit for the year 2013-2014 in which demand of Rupees 182.707 million was created. The Holding Company filed appeal with CIR (Appeals) who confirmed the demand of Rupees 10 million and remanded back certain charges to the tune of 172.7 million. The Holding Company filed an appeal with ATIR against the decision of CIR (Appeals) which is pending for hearing. The management of the Holding Company is confident that decision will be in favour of the Holding Company, hence, no provision has been made in these consolidated financial statements.
- 5.1.5** DCIR initiated income tax audit for the year 2014 in which a demand of Rupees 123.412 million was created. The Holding Company preferred an appeal before CIR (Appeals) which is pending for hearing. The management is confident that decision will be in favour of the Holding Company, hence, no provision has been made in these consolidated financial statements.
- 5.1.6** The Holding Company received show cause notice dated 14 December 2018 for which detailed reply was furnished to Assistant Commissioner Unit-07 Sindh Revenue Board (SRB). Taxation officer subsequently passed assessment order under section 47 read with section 44 of the Sindh Sales Tax on Services Act, 2011 demanding sales tax amounting to Rupees 30.572 million. Aggrieved with impugned order, the Holding Company has preferred an appeal to the Commissioner Appeals SRB, which is pending adjudication. Based on merits of the case and advice of the tax advisor, no provision against this demand has been recognized in these consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

For the period ended March 31, 2020

- 5.1.7 Honourable Lahore High Court has allowed a petition filed by the Holding Company against show-cause notice issued by DCIR amounting to Rupees 13.076 million. The show-cause notice was issued on account of post sales tax refunds audit of various tax periods. FBR challenged the decision of Honourable Lahore High Court in Honourable Supreme Court of Pakistan which is pending for hearing. The management is confident that decision will be in favour of the Holding Company, hence, no provision has been made in these consolidated financial statements.
- 5.1.8 DCIR conducted income tax audit for the year 2011 in which a demand of Rupees 19.605 million was created. The Holding Company preferred an appeal before CIR (Appeals) which is pending for hearing. The management is confident that decision will be in favour of the Holding Company, hence, no provision has been made in these consolidated financial statements.
- 5.1.9 The Holding Company has challenged, before Honourable Lahore High Court, Lahore, the vires of first proviso to sub-clause (x) of clause (4) of SRO 491(1)/2016 dated 30 June 2016 issued under sections 3 and 4 read with sections 8 and 71 of the Sales Tax Act, 1990 whereby through amendment in the earlier SRO 1125(I)/2011 dated 31 December 2011 adjustment of input sales tax on packing material of all sorts has been disallowed. The Honourable Lahore High Court has issued stay order in favour of the Holding Company. Consequently, the Holding Company has claimed input sales tax on packing material of Rupees 58.123 million in its monthly sales tax returns. The management, based on advice of the legal counsel, is confident of favourable outcome of its appeal.
- 5.1.10 The Holding Company has challenged, before Honourable Lahore High Court, Lahore, the vires of clauses (h) and (i) to sub-section (1) of section 8 of the Sales Tax Act, 1990 whereby claim of input sales tax in respect of building materials, electrical and gas appliances, pipes, fittings, wires, cables and ordinary electrical fittings and sanitary fittings have been disallowed. The Honourable Lahore High Court, Lahore has passed order against the Holding Company and the Holding Company being aggrieved with the order has preferred Intra Court Appeal before the Honourable Lahore High Court, Lahore. The Holding Company has claimed input sales tax of Rupees 21.784 million on such goods in its respective monthly sales tax returns. The management, based on advice of the legal counsel, is confident of favourable outcome of its appeal.
- 5.1.11 DCIR initiated income tax cases of tax years 2006 and 2008. A demand of Rupees 12.774 million and Rupees 68.406 million respectively were created by amending returns. Appeals were preferred with CIR(A) which were dismissed against the Holding Company without discussing the merits of the cases. The Holding Company has filed appeal with ATIR which is pending for hearing. The management is confident that decision will be in favour of the Holding Company, hence, no provision has been made in these consolidated financial statements.

5.1.12 CIR passed an order regarding CREST discrepancies of sales tax for an amount of Rupees 10.324 million. The Holding Company filed an appeal with ATIR which is pending for hearing. The management is confident that decision will be in favour of the Holding Company, hence, no provision has been made in these consolidated financial statements.

5.1.13 Post dated cheques have been issued to custom authorities in respect of duties amounting to Rupees 959.506 million on imported material availed on the basis of consumption and export plans. In the event the documents of exports are not provided on due dates, cheques issued as security shall be encashable.

5.2 Commitments

5.2.1 Guarantees issued in ordinary course of business through banks are of Rupees 733.113 million (2019: Rupees 879.505 million).

5.2.2 Contracts for capital expenditure are approximately of Rupees 93.667 million (2019: Rupees 88.215 million).

5.2.3 Letters of credit other than capital expenditure are of Rupees 545.790 million (2019: Rupees 515.023 million).

5.2.4 The Company has obtained vehicles under ijarah arrangements from Meezan Bank Limited, Allied Bank Limited and Bank Al Habib Limited for a period of five years. Future Ujarah payments under Ijarah are as follows:

	March 31, 2020	December 31, 2019
	(Rupees in thousand)	
Not later than one year	60,460	70,917
Later than one year and not later than five years	79,875	109,932
	140,335	180,849

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

For the period ended March 31, 2020

		March 31, 2020	December 31, 2019
		(Rupees in thousand)	
6	FIXED ASSETS		
	Operating fixed assets (Note 6.1)	7,744,757	7,008,694
	Capital work-in-progress	289,823	252,224
		8,034,580	7,260,918
6.1	Operating fixed assets		
	Opening written down value	7,008,694	5,835,196
	Add: Additions during the period (Note 6.2)	919,093	1,895,257
		7,927,787	7,730,453
	Less: Disposals during the period (at book value)	(1,584)	(16,860)
		7,926,203	7,713,593
	Currency retranslation	3,469	13,336
		7,929,672	7,726,929
	Less: Depreciation charged during the period	(184,915)	(718,235)
		7,744,757	7,008,694

6.2 Following is the detail of additions and disposals during the period:

	Additions		Disposals - NBV	
	Unaudited March 31, 2020	Audited December 31, 2019	Unaudited March 31, 2020	Audited December 31, 2019
	(Rupees in thousand)			
Land	791,671	-	-	655
Building on freehold land	6,366	428,636	-	-
Plant and machinery	51,973	1,241,827	-	1,406
Furniture, fixture and fittings	973	9,787	-	-
Vehicles	34,801	7,399	1,531	843
Service equipments	24,388	183,172	53	2,357
Leasehold improvements	8,921	24,436	-	11,599
	919,093	1,895,257	1,584	16,860

	Note	(Unaudited) March 31, 2020 (Rupees in thousand)	(Audited) December 31, 2019
7 Long term investments			
Investment in associate (with significant influence)			
- under equity method	(Note 7.1)	518,802	517,616
Investment in joint ventures - at cost	(Note 7.2)	480	480
Other investment - at FVTOCI	(Note 7.3)	13,910	24,550
		533,192	542,646
7.1 Investment in associate (with significant influence) - under equity method			
Speed (Private) Limited			
263,909 (2019: 263,909) fully paid			
ordinary shares of Rupees 100 each		342,526	342,526
fully paid ordinary shares of Rupees 10 each			
Share of post acquisition reserve			
As at the beginning of the year		175,090	141,858
Share of post acquisition profit for the period		1,186	33,232
		176,276	175,090
		518,802	517,616
7.2 Investment in joint ventures - at cost			
S2 Power Limited			
24,000 (2019: 24,000) fully paid ordinary			
shares of Rupees 10 each		240	240
S2 Hydro Limited			
24,000 (2019: 24,000) fully paid ordinary			
shares of Rupees 10 each		240	240
		480	480
7.3 Other investment - at FVTOCI			
TRG Pakistan Limited			
1,000,000 (2019: 1,000,000) fully paid			
ordinary shares of Rupees 10 each		24,550	22,050
Fair value adjustment		(10,640)	2,500
		13,910	24,550

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

For the period ended March 31, 2020

	Note	(Unaudited) March 31, 2020 (Rupees in thousand)	(Unaudited) March 31, 2019
8	Sale of footwear (Net)		
Export sales		2,450,877	2,019,442
Local sales		1,057,929	1,202,148
Duty draw back		87,677	81,165
		3,596,483	3,302,755
Sale of tyres (Net)			
Export sales		197,613	224,013
Local sales		3,063,801	2,604,385
Duty draw back		707	-
		3,262,121	2,828,398
Sale of technical rubber products (Net)			
Local sales		18,072	2,071
		6,876,676	6,133,224
9	Cost of sales		
Raw materials consumed	(Note 9.1)	3,760,635	3,243,626
Salaries, wages and other benefits		983,058	768,356
Stores and spares consumed		98,436	54,866
Packing materials consumed		207,242	187,435
Fuel and power		255,938	214,928
Insurance		6,025	5,162
Travelling		8,310	5,890
Repair and maintenance		55,408	37,109
Entertainment		1,317	1,258
Depreciation		172,198	139,475
Provision / (reversal of provision) for slow moving and obsolete inventory		1,839	14,141
Other manufacturing charges		45,406	61,050
		5,595,812	4,733,296

	Note	(Unaudited) March 31, 2020 (Rupees in thousand)	(Unaudited) March 31, 2019
Work in process:			
Opening Stock		479,707	423,069
Less: Closing stock		(655,723)	(531,238)
		(176,016)	(108,169)
Cost of goods manufactured		5,419,796	4,625,127
Finished goods:			
Opening stock		2,970,441	1,968,388
Add: Purchases during the period		718,371	756,641
Less: Closing stock		(3,789,422)	(2,423,252)
		(100,610)	301,776
		5,319,186	4,926,903
9.1 Raw material consumed			
Opening Stock		1,878,197	1,545,085
Add: Purchases during the period		3,725,315	3,224,717
Less: Closing stock		(1,842,877)	(1,526,175)
		3,760,635	3,243,626

Notes to the Condensed Consolidated Interim Financial Information (Unaudited) For the period ended March 31, 2020

10. Segment reporting

The Company has three reportable segments. The following summary describes the operation in each of the Company's reportable segments:

Footwear: Purchase, manufacturing and sale of different qualities of footwear.

Tyre: Manufacturing of different qualities of tyres.

Technical Rubber Products: Manufacturing of different qualities of rubber products on specifications.

	(Rupees in thousand)					
	Footwear		Tyre		Technical Rubber Products	
	Period ended		Period ended		Period ended	
	Mar. 31, 2020	Mar. 31, 2019	Mar. 31, 2020	Mar. 31, 2019	Mar. 31, 2020	Mar. 31, 2019
Sales	3,596,483	3,302,755	3,262,121	2,828,398	18,072	2,071
Profit / (loss) before taxation and unallocated income and expenses	420,637	362,862	490,082	362,901	1,468	(2,530)
Unallocated income and expenses:						
Taxation					(501,673)	(388,114)
					(142,365)	(37,722)
Profit after taxation					268,149	297,397

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

For the period ended March 31, 2020

10.1 Reconciliation of reportable segment assets and liabilities

	Footwear		Tyre		Technical Rubber Products		Total - Company	
	Period ended		Period ended		Period ended		Period ended	
	Mar. 31, 2020	Dec. 31, 2019	Mar. 31, 2020	Dec. 31, 2019	Mar. 31, 2020	Dec. 31, 2019	Mar. 31, 2020	Dec. 31, 2019
Total assets for reportable segment	10,787,203	8,782,272	11,896,788	9,121,739	159,789	152,290	22,843,780	18,056,301
Unallocated assets							4,274,181	4,753,522
Total assets as per statement of financial position							27,117,961	22,809,823
Unallocated liabilities							19,944,010	16,625,884
Total liabilities as per statement of financial position							19,944,010	16,625,884

Notes to the Condensed Interim Financial Information (Unaudited)

For the period ended March 31, 2020

11 Recognized fair value measurements - financial instruments

(i) Fair value hierarchy

Judgements and estimates are made in determining the fair values of the financial instruments that are recognised and measured at fair value in these consolidated financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the following three levels. An explanation of each level follows underneath the table.

Recurring fair value measurements At 31 March 2020	Level 1	Level 2	Level 3	Total
----- Rupees in thousand -----				
Financial assets				
Financial assets at fair value through other comprehensive income	13,910	-	-	13,910
Total financial assets	13,910	-	-	13,910

Recurring fair value measurements At 31 December 2019	Level 1	Level 2	Level 3	Total
----- Rupees in thousand -----				
Financial assets				
Available for sale financial asset	24,550	-	-	24,550
Total financial assets	24,550	-	-	24,550

The above table does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amounts are a reasonable approximation of fair value. Due to short term nature, carrying amounts of certain financial assets and financial liabilities are considered to be the same as their fair value. For the majority of the non-current receivables, the fair values are also not significantly different to their carrying amounts.

There were no transfers between levels 1 and 2 for recurring fair value measurements during the period. Further, there was no transfer in and out of level 3 measurements.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include the use of quoted market prices.

Notes to the Condensed Consolidated Interim Financial Information (Unaudited)

For the period ended March 31, 2020

12 Transactions with Related Parties

Transaction with related parties and associated undertakings, other than those disclosed elsewhere in the financial statements are as follows:

	March 31, 2020 (Rupees in thousand)	December 31, 2019
Associated companies		
Sale of goods	-	51,282
Donations made	5,242	9,503
Reimbursement of expenses	-	171
Loan given	-	50,000
Interest charged	1,753	792
Bonus shares issued	-	57
Key management personnel		
Cash dividend paid	-	24,700
Bonus shares issued	-	30,209
Other related parties		
Service Provident Fund Trust	43,368	143,745
Service Industries Limited Employees Gratuity Fund Trust	16,421	52,704
Bonus shares issued	-	3,202

13 The 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, 2019.

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

14 Date of authorization for issue

These financial statements were authorized for issue on 25 June 2020 by the Board of Directors of the Company.

15 Corresponding Figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. However, no significant rearrangements have been made.

16 General

Figures have been rounded off to nearest thousand of Rupees, except stated otherwise.



Chaudhry Ahmed Javed
(Chairman)



Arif Saeed
(Chief Executive)



Badar Ul Hassan
(Chief Financial Officer)

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