

**NETSOL TECHNOLOGIES LIMITED**  
**CONSOLIDATED BALANCE SHEET (UN-AUDITED)**  
**AS AT DECEMBER-31, 2006**

NOTES	Dec-06	Jun-06
	Rupees '000'	

**ASSETS**

**FIXED CAPITAL EXPENDITURE**

Operating Fixed Assets	4	329,227	328,749
Intangible Assets	5	112,475	68,202
		<u>441,702</u>	<u>396,951</u>

**LONG TERM LOANS**

25,341      31,628

**CURRENT ASSETS**

Current maturity of long term loans	2,950	3,800
Account receivables - Unsecured	249,604	197,082
Excess of revenue over billing	400,217	251,072
Advances, deposits, prepayments and other receivables	69,075	95,405
Due From related parties	5,202	5,028
Cash & bank balances	138,264	160,832
	<u>865,312</u>	<u>713,219</u>
	<u>1,332,355</u>	<u>1,141,798</u>

**EQUITY & LIABILITIES**

**SHARE CAPITAL & RESERVES**

<b>Authorized Capital</b>		<u>500,000</u>	<u>500,000</u>
50,000,000 ordinary shares of Rs.10/- each			

<b>Issued, subscribed and paid up capital</b>	6	354,820	354,820
35,482,000 ordinary shares of Rs.10/- each			

<b>Capital reserve</b>		189,470	189,470
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<b>Share deposit money</b>		313	313.00
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<b>Un - appropriated profit</b>		577,225	430,673
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<b>Total shareholders' equity</b>		<u>1,121,828</u>	<u>975,276</u>
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**LONG TERM LOAN**

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**MINORITY INTEREST**

61,268      48,328

**NON CURRENT LIABILITIES**

Liabilities against assets subject to Finance lease		9,607	7,918
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Deferred Income		2,684	2,495
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**CURRENT LIABILITIES**

Current portion of lease liability	6,949	5,462
Short term Financing	75,000	40,000
Creditors, accrued and other liabilities	38,421	47,071
Excess of billing over revenue	13,587	12,506
Provision for taxation	3,011	2,742

136,968      107,781

**CONTINGENCIES & COMMITMENTS**

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1,332,355      1,141,798

*The annexed notes form an integral part of these accounts.*

**CHIEF EXECUTIVE**

**DIRECTOR**

**NETSOL TECHNOLOGIES LIMITED**  
**CONSOLIDATED PROFIT & LOSS ACCOUNT (UN-AUDITED)**  
**FOR HALF YEAR ENDED DECEMBER-31, 2006**

NOTES	For the 2nd Quarter		Cumulative	
	Oct - Dec 2006	Oct - Dec 2005	Jul - Dec 2006	Jul - Dec 2005
Rupees '000'				
<b>Revenue</b>	<b>254,358</b>	116,846	<b>420,405</b>	257,382
Cost of Sales	<b>110,022</b>	59,875	<b>192,802</b>	111,724
<b>Gross profit</b>	<b>144,336</b>	56,971	<b>227,603</b>	145,658
<b>Operating expenses</b>				
Administrative and General Expenses	<b>26,421</b>	25,401	<b>49,580</b>	42,598
Selling & Promotion Expenses	<b>17,941</b>	13,039	<b>28,934</b>	20,570
	<b>44,362</b>	38,440	<b>78,514</b>	63,168
<b>Operating profit</b>	<b>99,974</b>	18,531	<b>149,089</b>	82,490
Other income / (expenses)	<b>9,810</b>	4,787	<b>15,400</b>	6,762
Financial charges	<b>(2,128)</b>	(1,118)	<b>(3,897)</b>	(2,641)
<b>Net Profit for the period before taxation</b>	<b>107,656</b>	22,200	<b>160,592</b>	86,611
<b>Taxation</b>				
Current	<b>480</b>	420	<b>1,088</b>	2,555
Prior	<b>15</b>	-	<b>15</b>	-
<b>Net Profit for the period after taxation before minority interest</b>	<b>107,161</b>	21,780	<b>159,489</b>	84,056
Minority interest	<b>7,143</b>	5,019	<b>12,938</b>	13,156
<b>Net Profit for the period after taxation and minority interest</b>	<b>100,018</b>	16,761	<b>146,551</b>	70,900
Un - appropriated profit brought Forward	<b>477,208</b>	335,825	<b>430,674</b>	281,686
<b>Un - appropriated profit carried Forward</b>	<b>577,226</b>	352,586	<b>577,225</b>	352,586
<b>Earning Per Share - Basic &amp; Diluted</b>	<b>8</b>	0.47	<b>4.13</b>	2.08

*The annexed notes form an integral part of these accounts.*

**CHIEF EXECUTIVE**

**DIRECTOR**

**NETSOL TECHNOLOGIES LIMITED**  
**CONSOLIDATED NOTES TO THE ACCOUNTS (UN-AUDITED)**

**1 STATUS & ACTIVITIES**

NetSol Group comprises of:

- NetSol Technologies Ltd
- TiG-NetSol (Pvt) Ltd

NetSol Technologies Limited ("the Company") is incorporated in Pakistan and is listed on Karachi Stock Exchange on August-26, 2005.

TiG-NetSol (Pvt) Ltd ("the Subsidiary") is incorporated in Pakistan as a Private limited company and is 50.52% owned subsidiary of NetSol Technologies Limited.

The Company is engaged in the business of export of computer software and its related services developed in Pakistan. The Subsidiary company is engaged in business of providing online software development services.

**2 BASIS OF PREPARATION**

**2.1** These interim financial statements have been prepared under "Historical Cost Convention" except certain exchange differences which have been incorporated in the cost of relevant assets and are in compliance with the International Accounting Standard (IAS) 34, Interim Financial Reporting.

**2.2** These interim financial statements are unaudited and are being submitted to the shareholders as required by Sec 245 of Companies Ordinance 1984

**3 ACCOUNTING POLICIES**

The accounting policies adopted for the preparation of these interim financial statements are consistent with those applied in the preparation of the preceding annual published financial statements of the company for the year ended June 30, 2006

**4 Operating Fixed Assets**

		Dec-06	Jun-06
		Rupees '000'	
Opening Balance (NBV)		328,749	234,005
Additions:	4.1	28,506	157,341
		<u>357,255</u>	<u>391,346</u>
Less:			
Disposals (NBV)		(7,820)	(17,872)
Depreciation		<u>(20,209)</u>	<u>(44,725)</u>
		<u>329,226</u>	<u>328,749</u>

**4.1 Following is the detail of addition:**

Land	-	25,476
Building	-	22,112
Computers	7,250	32,064
Air Conditioners	-	3,466
Furniture & Fixture	293	5,500
Office equipment	707	3,436
Electric fittings	-	872
Vehicles	10,456	36,108
Generator	991	8,803
Leasehold improvements	-	2,700
Software	8,809	16,804
<b>Total</b>	<u>28,506</u>	<u>157,341</u>

**5 Intangible Assets**

Opening Balance (NBV)		68,202	55,441
Additions:	5.1	46,869	16,959
		<u>115,071</u>	<u>72,400</u>
Less:			
Amortization		(2,596)	(4,198)
		<u>112,475</u>	<u>68,202</u>

**5.1 Following is the detail of addition:**

Knit Info System	-	71
NetSol's Pay Soft	-	1,034
Inbanking (PTS) Software	6,106	15,854
LRMIS	17,710	-
SMART	23,053	-
<b>Total</b>	<u>46,869</u>	<u>16,959</u>

**6 ISSUED, SUBSCRIBED & PAID-UP CAPITAL**

Dec-2006	Jun-2006		Dec-2006	Jun-2006
(Numbers of shares)				
32,516,482	32,516,482	Ordinary Shares of Rs. 10 each (Jun-2005: 10 each) fully paid in cash	325,165	325,165
2,965,518	2,965,518	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	29,655	29,655
<u>35,482,000</u>	<u>35,482,000</u>		<u>354,820</u>	<u>354,820</u>

The Parent Company NetSol Technologies Inc. 24011 Ventura Blvd, Suit No. 101, Calabasas CA 91302, holds 21,496,000 (Jun-2005:21,496,000) ordinary shares of Rs. 10/- each, representing 60.58% (Jun-2005: 84%) of the issued capital of the company.

**NETSOL TECHNOLOGIES LIMITED**  
**CONSOLIDATED NOTES TO THE ACCOUNTS (UN-AUDITED)**

**7 CONTINGENCIES & COMMITMENTS**

The company has no contingent liabilities & commitments outstanding as at December-31, 2006 except to the tune of Rs. 55.88/- million (June 30, 2006 Rs. 22.38 million) guarantees issued to various customers against sale of software and allied services.

**8 EARNING PER SHARE - BASIC & DILUTED**

Profit after taxation for the year	<b>100,018</b>	16,761	<b>146,551</b>	70,900
Average number of ordinary shares in issue during the period	<b>35,482</b>	35,482	<b>35,482</b>	34,017
Earning per share basic & diluted	<b>2.82</b>	0.47	<b>4.13</b>	2.08

**9 TRANSACTIONS WITH RELATED PARTIES**

**NetSol Technologies Inc (Parent)**

Management fee	<b>3,045</b>	-	<b>3,045</b>	-
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**10 SEGMENT REPORTING**

	Asia Pacific			Australia & USA		Others		Total			
	2006	2005		2006	2005	2006	2005	2006	2005		
	R	U	P	E	E	S	i	n	'0	0	0'
	<b>For the 2nd Quarter</b>										
Revenue	<b>135,420</b>	95,451		<b>83,379</b>	10,925	<b>35,559</b>		10,470	<b>254,358</b>		116,846
Segment result	<b>57,316</b>	18,136		<b>35,289</b>	2,076	<b>15,051</b>		1,988	<b>107,656</b>		22,200
	<b>Cumulative</b>										
Sales	<b>258,507</b>	175,689		<b>92,910</b>	27,643	<b>68,988</b>		54,050	<b>420,405</b>		257,382
Segment result	<b>98,748</b>	59,121		<b>35,491</b>	9,301	<b>26,353</b>		18,189	<b>160,592</b>		86,611

**10.1** Asia Pacific includes : Pakistan, China, Thailand, Japan, Taiwan & Korea ; Australia & USA includes: Australia, New Zealand & USA  
Others include Europe & Middle East.

**11 TAXATION**

Income of the Company from export of computer software and its related services developed in Pakistan is exempt from tax as per clause 133 of the Second Schedule to the Income Tax Ordinance, 2001 upto 2016. However tax as per applicable rates is charged to the income of the company generated from local business activities.

**12 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on February -01, 2007 by the Board of Directors.

**13 FIGURES**

Figure have been rearranged and reclassified to give the retrospective effect of merger of NetSol (Private) Limited under IAS 22 "Business Combination" for the purpose of comparison.

Figures have been rounded off to the nearest thousand rupee

**CHIEF EXECUTIVE**

**DIRECTOR**

**NETSOL TECHNOLOGIES LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE HALF YEAR ENDED DECEMBER-31, 2006**

	2006	2005
	Rupees in '000'	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Profit for the period before tax	160,592	86,611
Add: Non cash charges to income		
Depreciation - own assets	17,262	12,683
Amortization of lease assets	2,947	1,822
Amortization of intangible assets	2,596	2,258
(Gain )/Loss on disposal of fixed assets	761	(64)
Amortization of Deferred revenue	(703)	(516)
Exchange (gain) / loss on debtors	(7,966)	1,015
Interest	887	545
Bad debts	-	418
	<u>15,784</u>	<u>18,161</u>
<i>Cash flows from operating activities before working capital</i>	<b>176,376</b>	<b>104,772</b>
 <i>Decrease / (increase) in current assets &amp; liabilities</i>		
Accounts receivables	(193,452)	(106,362)
Due from related parties	(174)	(2,596)
Advances, prepayments and other receivables	27,382	(31,866)
Creditors, accrued and other liabilities	(8,650)	(16,865)
	<u>(174,894)</u>	<u>(157,689)</u>
<i>Cash generated from operations</i>	<b>(174,894)</b>	<b>(157,689)</b>
Interest paid	(887)	(545)
Taxes paid	(1,052)	(45)
	<u>(457)</u>	<u>(53,507)</u>
<i>Net cash flow from operating activities</i>	<b>(457)</b>	<b>(53,507)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Property and equipments purchased	(20,656)	(71,677)
Sales proceeds of fixed asset	100	873
Capital Work in Progress	-	(407)
Intangible assets	(46,869)	(9,273)
Short term investment	-	(90,000)
Long term employee loan	7,137	-
	<u>(60,288)</u>	<u>(170,484)</u>
<i>Net cash flow from investing activities</i>	<b>(60,288)</b>	<b>(170,484)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Issuance of share capital	-	99,820
Share deposit money	-	450
Share premium	-	129,470
Paid against obligation under capital lease	(4,673)	(2,313)
Received against obligation under capital lease	7,850	4,597
Short term finance	35,000	13,363
	<u>38,177</u>	<u>245,387</u>
<i>Net cash flow from financing activities</i>	<b>38,177</b>	<b>245,387</b>
<i>Net (decrease) / increase in cash and cash equivalents</i>	<b>(22,568)</b>	<b>21,396</b>
<i>Cash and cash equivalents at the beginning of the year</i>	<b>160,832</b>	<b>49,315</b>
<i>Cash and cash equivalents at the end of the period</i>	<b>138,264</b>	<b>70,711</b>

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

**NETSOL TECHNOLOGIES LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
**FOR HALF YEAR ENDED DECEMBER-31, 2006**

	Share Capital	Share Premium	Share Deposit Money	Retained Earning	Bonus Shares	Total Equity
	Rupees In '000'					
<b>Balance at June 30, 2005</b>	225,345	60,000	-	289,199	29,655	604,199
Net profit for half year ended December 31, 2005	-	-	-	70,900	-	70,900
Share deposit money received	-	-	313	-	-	313
Shares issued against IPO	99,820	-	-	-	-	99,820
Share premium on IPO	-	129,470	-	-	-	129,470
<b>Balance at December 31, 2005</b>	<b>325,165</b>	<b>189,470</b>	<b>313</b>	<b>360,099</b>	<b>29,655</b>	<b>904,702</b>
Net profit for six months ended June 30, 2006	-	-	-	70,575	-	70,575
<b>Balance at June 30, 2006</b>	<b>325,165</b>	<b>189,470</b>	<b>313</b>	<b>430,674</b>	<b>29,655</b>	<b>975,277</b>
Net profit for the half year ended December 31, 2006	-	-	-	146,551	-	146,551
<b>Balance at December 31, 2006</b>	<b>325,165</b>	<b>189,470</b>	<b>313</b>	<b>577,225</b>	<b>29,655</b>	<b>1,121,828</b>

*The annexed notes form an integral part of these accounts.*

**CHIEF EXECUTIVE**

**DIRECTOR**