

Annual Report 2007



NetSol Technologies Limited
Annual Report 2007

**CONSOLIDATED
FINANCIAL
STATEMENTS**

Auditors' Report on Consolidated Financial Statements

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of **NetSol Technologies Limited** and its subsidiary company as at **June 30, 2007** and the related consolidated Profit and Loss Account, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of NetSol Technologies Limited and its subsidiary company. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures, as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of NetSol Technologies Limited and its subsidiary company as at **June 30, 2007** and the results of their operations for the year then ended.

September 14, 2007
Lahore

Saeed Kamran Patel & Co.
Chartered Accountants



Consolidated Balance Sheet

As at June 30, 2007

	NOTES	Jun-07 Rupees '000'	Jun-06 Rupees '000'
ASSETS			
FIXED CAPITAL EXPENDITURE			
Operating fixed assets	4	392,688	328,749
Intangible assets	5	197,839	68,202
		590,527	396,951
LONG TERM LOANS & ADVANCES	6	27,088	31,628
CURRENT ASSETS			
Current maturity of long term loans & advances	6	12,806	3,800
Account receivables	7	377,502	197,082
Excess of revenue over billing	8	499,012	251,072
Advances, deposits, prepayments and other receivables	9	89,959	95,405
Due from related parties	10	3,704	5,028
Cash & bank balances	11	149,683	160,832
		1,132,666	713,219
		1,750,281	1,141,798
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized Capital			
50,000,000 ordinary shares of Rs.10/- each		500,000	500,000
Issued, subscribed and paid up capital			
40,804,300 ordinary shares of Rs.10/- each	12	408,043	354,820
Capital reserve			
		189,470	189,470
Share deposit money			
		313	313
Un - appropriated profit			
		766,087	430,673
Minority interest			
		84,253	48,328
Total shareholders' equity		1,448,166	1,023,604
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	13	13,031	7,918
Long term payable	14	39,270	-
Deferred income	15	1,713	2,495
CURRENT LIABILITIES			
Current portion of lease liability		9,773	5,462
Short term financing	16	127,500	40,000
Creditors, accrued and other liabilities	17	94,986	47,071
Excess of billing over revenue	18	11,778	12,506
Provision for taxation		4,064	2,742
		248,101	107,781
CONTINGENCIES & COMMITMENTS			
	19	-	-
		1,750,281	1,141,798

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE



DIRECTOR

NetSol Technologies Limited

Annual Report 2007

Consolidated Profit & Loss Account

For the Year Ended June 30, 2007

	NOTES	Jun-07 Rupees '000'	Jun-06 Rupees '000'
Revenue	20	1,082,420	600,152
Cost of sales	21	465,783	291,734
Gross profit		616,637	308,418
Operating expenses			
Administrative and general expenses	22	124,363	92,995
Selling & promotion expenses	23	74,963	64,146
		199,326	157,141
Operating profit		417,311	151,277
Other income / (expenses)	25	21,653	23,708
Financial charges	26	(9,476)	(5,767)
Net profit for the period before taxation		429,488	169,218
Taxation			
Current		4,068	1,592
Prior		858	57
Net profit for the period		424,562	167,569
Attributable to:			
Equity holders of parent		388,637	141,474
Minority interest		35,925	26,095
		424,562	167,569
Earning per share	27	9.52	3.53

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE



DIRECTOR

Consolidated Cash Flow Statement

For the Year Ended June 30, 2007

	Jun-07 Rupees '000'	Jun-06 Rupees '000'
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before tax	429,488	169,218
Add: Non cash charges to income		
Depreciation - own assets	32,821	37,814
Amortization of lease assets	4,665	5,502
Amortization of intangible assets	5,191	4,198
(Gain)/loss on disposal of fixed assets	1,135	2,275
Amortization of deferred revenue	(1,549)	(1,054)
Exchange (gain) / loss on debtors	(10,842)	(5,244)
Interest expense	8,155	4,707
Interest income	(8,505)	(15,112)
Bad debts	-	1,593
	31,071	34,679
Cash flows from operating activities before working capital	460,559	203,897
Decrease / (increase) in current assets & liabilities		
Account receivables	(418,246)	(162,076)
Due from related parties	1,324	(1,959)
Advances, prepayments and other receivables	1,435	(35,365)
Creditors, accrued and other liabilities	45,425	(7,563)
Cash generated from operations	(370,062)	(206,963)
Interest paid	(5,665)	(4,211)
Taxes paid	(4,611)	(4,059)
Net cash flow from operating activities	80,221	(11,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(111,198)	(130,806)
Sales proceeds of fixed asset	1,514	1,244
Intangible assets	(128,389)	(16,959)
Long term employee loan	(4,466)	5,000
Long term payable	39,270	-
Interest received	15,447	8,589
Net cash used in investing activities	(187,822)	(132,932)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	-	99,820
Share deposit money	-	313
Share premium	-	129,470
Paid against obligation under finance lease	(9,789)	(7,578)
Received against obligation under finance lease	18,741	15,760
Short term finance	87,500	18,000
Net cash from financing activities	96,452	255,785
Net (decrease) / increase in cash and cash equivalents	(11,149)	111,517
Cash and cash equivalents at the beginning of the year	160,832	49,315
Cash and cash equivalents at the end of the period	149,683	160,832

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE



DIRECTOR

NetSol Technologies Limited

Annual Report 2007

Consolidated Statement of Changes in Equity

For the Year Ended June 30, 2007

	Attributable to equity holders of the Parent						Minority Interest	Total Equity
	Share Capital	Share Premium	Share Deposit Money	Retained Earning	Bonus Shares	Total		
Balance at June 30, 2005	225,345	60,000	-	289,199	29,655	604,199	22,233	626,432
Net profit for the year ended June 30, 2006	-	-	-	141,474	-	141,474	26,095	167,569
Share deposit money received	-	-	313	-	-	313	-	313
Shares issued against IPO	99,820	-	-	-	-	99,820	-	99,820
Share premium on IPO	-	129,470	-	-	-	129,470	-	129,470
Balance at June 30, 2006	325,165	189,470	313	430,673	29,655	975,276	48,328	1,023,604
Net profit for the year ended June 30, 2007	-	-	-	388,637	-	388,637	35,925	424,562
Bonus shares issued	-	-	-	(53,223)	53,223	-	-	-
Balance at June 30, 2007	325,165	189,470	313	766,087	82,878	1,363,913	84,253	1,448,166

..... Rupees in '000'

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR



Notes to the Consolidated Accounts

1 Status & Nature of Business

NetSol Group consists of:

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

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

TiG-NetSol (Pvt) Ltd ("the subsidiary") is incorporated in Pakistan as a Private limited company in which NetSol Technologies Limited has share holding of 50.52%.

The Company is engaged in the business of sale 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

These financial statements have been prepared by consolidating the accounts of subsidiary in accordance with the requirements of IAS 27 "Consolidated and Separate Financial Statements" using the line by line consolidation method. All inter company balances and transactions have been eliminated for the purpose of consolidation.

Standards, interpretations and amendments to published accounting standards adopted in Pakistan that are not yet effective:

Amendments to existing IAS 1 (Presentation of Financial Statements - Capital Disclosure) have been published that are mandatory for the accounting periods beginning on or after January 1, 2007. Adoption of these amendments may only impact of disclosures presented in the financial statements.

3 Summary of Significant Accounting Policies

3.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Ordinance. Wherever the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan (the SECP) differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

3.2 Accounting convention

These Financial statements have been prepared under the historical cost convention, except for revaluation of certain Financial instruments at fair value.

3.3 Property and equipments

Property and equipment are stated at cost less accumulated depreciation.

Depreciation is charged by applying reducing balance method to write off the cost over the remaining useful life of the assets. Rates of depreciation are stated in note 4.

Depreciation on additions to property and equipments is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed off.

The Company charged full year depreciation on additions, while no depreciation was charged in the month of disposal. During the year Company has changed its accounting method in compliance with IAS 16 "Property Plant & Equipment" of charging depreciation, whereby depreciation is charged from the month in which assets are put to use upto the month before the disposal of asset. Such change, being a change in accounting estimate, has been accounted for prospectively to conform to the treatment prescribed by IAS 8 "Accounting Policies, Change in Accounting Estimate and Errors". Had there been no change in the estimate, the profit for the year ended 30 June 2007 and un-appropriated profit would have been reduced by Rs. 21.21 Million



Notes to the Consolidated Accounts

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized.

Gain or loss on disposal of assets, if any, is charged to income.

3.4 Assets subject to finance lease

Assets acquired under finance leases are capitalized and are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. The related obligations of the leases are accounted for as liabilities

Assets acquired under finance lease are amortized over the useful life of the assets on a reducing balance method at the rates given in note 4.4

Amortization on additions to property and equipment is charged for the month in which an asset is acquired under the finance lease while no amortization is charged for the month in which the asset is disposed off.

The Company charged full year amortization on additions, while no amortization was charged in the month of disposal. During the year Company has changed its accounting method in compliance with IAS 16 "Property Plant & Equipment" of charging amortization, whereby amortization is charged from the month in which assets are put to use upto the month before the disposal of asset. Such change, being a change in accounting estimate, has been accounted for prospectively to conform to the treatment prescribed by IAS 8 "Accounting Policies, Change in Accounting Estimate and Errors". Had there been no change in the estimate, the profit for the year ended 30 June 2007 and un-appropriated profit would have been reduced by Rs. 3.33 Million

The company assesses at each balance sheet date whether there is any indication that the operating fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceeds the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment charge is recognised in income.

3.5 Intangible assets

There are two components of intangible assets:

- i In-house developed intangible assets
- ii Intangible assets acquired from market

i In-house developed intangible assets

The Company capitalizes certain computer software development costs in accordance with IAS 38 Intangible Assets and USA SFAS No. 86, Accounting for the Costs of Computer Software to be sold, leased, or otherwise marketed. Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers.

The Company makes ongoing evaluations of the recoverability of its capitalized software projects developed in-house by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, the Company writes off the amount by which the unamortized software development costs exceed net realizable value. Capitalised software costs are amortised on a product-by-product basis. Annual amortisation is charged by using straight-line method over the remaining estimated economic life of the product including the period being reported on. Amortisation starts when the product is available for general release to customers.

ii Intangible assets acquired from market

Intangible assets acquired from market are stated at cost less accumulated amortization.

Amortization is charged by applying reducing balance method to write off the cost over the remaining useful life of the intangible assets. Rates of amortization are stated in note 4.



Notes to the Consolidated Accounts

3.6 Foreign currency translation

Transactions denominated in foreign currencies are translated in Pak Rupees at the foreign exchange rate ruling at the date of transaction. Assets and liabilities in foreign currencies are translated into Pak Rupees at the foreign exchange rates prevailing at the balance sheet date.

All exchange differences are charged to profit and loss account.

3.7 Financial assets and liabilities

Financial assets

All financial assets have been stated in accordance with the requirements of IAS-39 (Financial Instruments: Recognition and Measurement). Financial assets are initially recognised at cost which is the fair value of the consideration given at initial recognition. Subsequent to initial recognition, financial assets are carried at fair value except for any financial assets whose fair value cannot be estimated reliably.

Financial liabilities

All financial liabilities are initially recognised at cost, which is the fair value of the consideration received at initial recognition. Subsequent to initial recognition financial liabilities are carried at fair value, amortised cost or cost as the case may be.

3.8 Account receivables

Account receivables from local customers are stated at cost while foreign debtors are stated at revalued amount by applying exchange rate applicable on balance sheet date.

3.9 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the company.

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.10 Investments

Investments in subsidiary is classified as available for sale and are stated at cost .

3.11 Revenue recognition

License sale

The Company recognizes revenue from license contracts without major customization when a non-cancellable, non-contingent license agreement has been signed, delivery of the software has occurred, fee is fixed or determinable, and collectibility is probable.

Revenue from sale of license with major customization, modification, and development is recognized on percentage of completion basis

Rendering of Services

Revenue from software services includes fixed price contracts and is recognized in accordance with the percentage of completion method. An output measure i.e. Unit Completion Method is used to determine the percentage of completion. Unit completed are certified by the Project Manager and EVP IT/ Operations.



Notes to the Consolidated Accounts

Maintenance

Revenue from maintenance is recognized on time proportion basis.

Sale of hardware and third party software

Revenue from sale of hardware and third party software is recognised when delivery has occurred and invoices are raised to customers.

The Company's revenue recognition policies are in compliance with all applicable accounting regulations including IAS 18 "Revenue" & US AICPA SOP 81-1 and SOP 97-2, "Software Revenue Recognition" as amended by SOP 98-4 and 98-9.

3.12 Segment reporting

A segment is a distinguishable component within a company that is engaged in providing products and under a common control environment (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

3.13 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and cash at current and/or deposit accounts held with banks.

3.14 Staff retirement benefits

Company's retirement benefit plans comprise of provident fund schemes for eligible employees. The company operates contributory provident fund for all its staff. Equal contribution is made by the company in the provident fund on monthly basis.

3.15 Off-setting

Assets and liabilities are offset and the net amount is reported in the financial statements only when there is legally enforceable right to set-off the recognised amount and the Company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.



Notes to the Consolidated Accounts

4

OPERATING FIXED ASSETS

Net book value of owned assets Note 4.1
Net book value of leased assets Note 4.4

Jun-07 Rupees in '000'	Jun-06 Rupees in '000'
359,078	306,002
33,610	22,747
392,688	328,749

4.1

Particulars	COST		Rate %	DEPRECIATION				Net book value as at June 30, 2007
	As at July-01 2006	Additions/ (Deletions)		As at Jun-30 2007	As at July 01, 2006	Adjustment during the Year	Charge for the Period	
Tangible Assets								
Land - freehold	36,599	—	—	—	—	—	—	36,599
Building on free hold land	197,576	350	5	21,101	—	8,828	29,929	167,997
Computers	70,330	73,206 (15,544)	33	41,769	(2,315)	13,915	53,369	74,623
Air conditioners	8,701	328	10	2,611	—	617	3,228	5,801
Furniture & fixtures	16,040	2,095 (770)	10	4,797	(369)	1,176	5,604	11,761
Office equipment	6,966	3,198 (452)	10	1,577	200	594	2,371	7,341
Electric fittings	4,939	—	10	1,117	—	382	1,499	3,440
Vehicles	21,734	2,900 (13,219)	20	4,176	(3,653)	2,348	2,872	8,543
Generator	896	991	10	187	—	160	347	1,540
Leasehold improvements	9,403	2,186	20	2,417	—	1,543	3,960	7,629
Intangible Assets								
Software	19,027	30,047	33	6,457	—	8,813	15,270	33,804
June-2007	392,211	115,301 (29,985)		86,209	(6,137)	38,376	118,449	359,078
June-2006	279,383	138,952 (26,124)		56,030	(8,838)	39,017	86,209	306,002

4.2 Depreciation is allocated in the following manner

Cost of sales
Administrative expenses
Development cost

Jun-07 Rupees in '000'	Jun-06 Rupees in '000'
24,748	29,882
8,073	7,932
5,555	1,203
38,376	39,017



Notes to the Consolidated Accounts

4.3 Disposal of Operating fixed assets

Details of operating property and equipment disposed off during the year:

Particulars	Cost	Book Value	Sale Proceed	Mode of Disposal	Particular of Purchaser
..... Rupees in '000'					
Honda Citi	810	729	750	Accidented	Insurance claim
Honda Civic EXI	951	622	700	Negotiation	Mr. Fashih-Ud-Din
Computers	5,768	1,345	681	Negotiation	Scrap - Miscellaneous
Furniture	770	401	24	Negotiation	Scrap - Miscellaneous
Office Equipment	452	236	43	Negotiation	Scrap - Miscellaneous
June-2007	8,751	3,333	2,198		
June-2006	19,832	15,535	18,408		



Notes to the Consolidated Accounts

4.4 ASSETS SUBJECT TO FINANCE LEASE

Following is the statement of leased assets:

Particulars	COST			AMORTIZATION					Net book value as at June 30, 2007
	As at July-01 2006	Additions/ (Deletions)	As at Jun-30 2007	Rate %	As at July 01, 2006	Adjustment during the Year	Charge for the Period	As at Jun-30 2007	
Vehicles	13,464	8,650	22,114	20	5,246	(81)	2,744	7,909	14,205
Generator	7,486	—	7,486	10	1,013	—	648	1,661	5,825
Computes	9,654	6,818	16,472	33	4,315	(2,107)	1,919	4,127	12,345
Electric fittings	1,118	—	1,118	10	213	—	91	304	814
Office equipment	1,659	(1,659)	—	10	315	(416)	100	—	—
Air conditioners	578	—	578	10	110	—	47	157	421
June-2007	33,959	13,809	47,768		11,212	(2,604)	5,549	14,158	33,610
June-2006	16,387	18,389 (817)	33,959		5,736	(229)	5,705	11,212	22,747

..... Rupees in '000'

4.5 Amortization is allocated in the following manner

	Jun-07	Jun-06
Cost of sales	3,278	4,084
Administrative expenses	1,387	1,418
Development cost	884	203
	5,549	5,705



Notes to the Consolidated Accounts

5 INTANGIBLE ASSETS

Particulars	COST			Rate %	AMORTIZATION				Net book value as at June 30, 2007
	As at July-01 2006	Additions/ (Deletions)	As at Jun-30 2007		As at July 01, 2006	Adjustment during the Year	Charge for the Period	As at Jun-30 2007	
..... Rupees in '000'									
In-house Developed software									
CMS software	21,459	—	21,459	10	6,438	—	2,145	8,583	12,876
ePOS software	3,521	—	3,521	10	1,056	—	352	1,408	2,113
WFS software	16,999	—	16,999	10	2,709	—	1,700	4,409	12,590
Knit Info System	4,342	—	4,342	10	—	—	434	434	3,908
NetSol's Pay Soft	5,596	—	5,596	10	—	—	560	560	5,036
Under Development									
Inbanking (PTS) software	26,488	13,515	40,003	—	—	—	—	—	40,003
LRMIS	—	54,169	54,169	—	—	—	—	—	54,169
SMART	—	67,144	67,144	—	—	—	—	—	67,144
June-2007	78,405	134,828	213,233		10,203	—	5,191	15,394	197,839
June-2006	61,446	16,959	78,405		6,005	—	4,198	10,203	68,202

5.1 Amortization is allocated in the following manner

Cost of sales

	Jun-07	Jun-06
Rupees in '000'		
	5,191	4,198
	<u>5,191</u>	<u>4,198</u>



Notes to the Consolidated Accounts

	NOTES	Jun-07 Rupees '000'	Jun-06 Rupees '000'
6	LONG TERM LOANS & ADVANCES - Unsecured		
	Long term loan: considered good		
	Opening balance		
	Loan to employees	25,928	30,928
	Loan to directors	9,500	9,500
		35,428	40,428
	Repayment during the year	(24,761)	(5,000)
		10,667	35,428
	Less: current maturity	6.3 (1,429)	(3,800)
		6.3 9,238	31,628
6.1	The Company has granted an unsecured long term loan amounting to Rs 10.667 Million to its employees (June-2006: Rs. 35.428 Million). It carries mark-up @ 9.84% p.a. (Jun-2006: 9.04%) which is 1% above the weighted average borrowing cost of the company. The maximum amount outstanding during the period under this head at any point of time was Rs.35.428 Million.		
	These loans are provided under staff loan scheme to facilitate purchase/construction of residential houses and are repayable over a period of 10 years. However the loan can be settled earlier at any time with mutual consent.		
	Long term advance: considered good		
	Amount advanced	29,227	—
	Less: current maturity	6.3 (11,377)	—
		6.3 17,850	—
6.2	It represents the advance rent for the space acquired on rent for a period of two years. This amount will be expensed out over a period of two years starting from the date of possession of rented space.		
6.3	Long term portion of loans & advances	27,088	31,628
	Current portion of loans & advances	12,806	3,800
7	ACCOUNT RECEIVABLES		
	It represents amount receivable from customers. It is unsecured but considered good by the management.		
8	EXCESS OF REVENUE OVER BILLING		
	It represents unbilled debtors arising due to recognition of revenue on the basis of percentage of completion as per IAS 18 "Revenue" and AICPA SOP 81-1		
9	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
	Loan to employees - considered good	687	681
	Advances - considered good		
	-To employees	2,390	185
	-Against expenses	21,905	10,943
	-Against assets	—	15,011
	-For software & licences	—	28,851
	Security deposit	12,669	2,295
	Prepayments	2,657	3,114
	Advance income tax	8,288	5,357
	Tender money receivable	24,446	6,955
	Mark up receivable	908	7,850
	Other receivable	16,009	14,163
		89,959	95,405



Notes to the Consolidated Accounts

NOTES

Jun-07 Rupees '000'	Jun-06 Rupees '000'
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10 DUE FROM RELATED PARTIES

NetSol Connect (Pvt.) Ltd.		2,814	2,814
NetSol Technologies Limited Inc		627	—
NetSol Technologies Limited UK		263	2,214
		3,704	5,028

These relate to normal business of the company and are interest free.

11 CASH AND BANK BALANCES

At banks			
Saving accounts	11.1	83,993	23,174
Current accounts		97	1,411
Term deposit	11.2	65,000	135,000
		149,090	159,585
In hand		593	1,247
		149,683	160,832

11.1 The balances in savings accounts bear mark up which ranges from 0.75 % to 2 % per annum.

11.2 The balances placed in fixed deposit accounts bear mark up which ranges from 4 % to 10.5 % per annum

12 ISSUED, SUBSCRIBED & PAID-UP CAPITAL

Jun-2007 (Number of shares)	Jun-2006			
32,516,482	32,516,482	Ordinary Shares of Rs. 10 each (June-2006: 10 each) fully paid in cash	325,165	325,165
8,287,818	2,965,518	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	82,878	29,655
40,804,300	35,482,000		408,043	354,820

NetSol Technologies Inc. 24011 Ventura Blvd, Suit No. 101, Calabasas CA 91302, is the parent company holding majority of issued capital of the company.

13 Liabilities against assets subject to finance lease

Present value of minimum lease payments		22,804	13,380
Less: Current portion of obligation shown under current liabilities		9,773	5,462
		13,031	7,918

Present value of minimum lease payments have been discounted at an implicit interest rate from 9% to 14 % to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.

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

	Minimum Lease Payment	Future Finance Charges	Present value of lease liability	
Not later than one year	12,392	2,619	9,773	5,462
Later than one year but not later than five years	14,593	1,562	13,031	7,918
	26,985	4,181	22,804	13,380



Notes to the Consolidated Accounts

		NOTES	Jun-07 Rupees '000'	Jun-06 Rupees '000'
14	LONG TERM PAYABLE			
	Due to related party - unsecured		39,270	—
	This represent interest free loan obtained from an associated undertaking.			
15	DEFERRED INCOME			
	Opening balance		2,495	742
	Addition during the year		767	2,807
			3,262	3,549
	Amortized during the year		(1,549)	(1,054)
			1,713	2,495
15.1	This amount represents gain on sale and lease back of fixed assets. According to IAS 17 "Lease" this gain is deferred and amortized over the lease term.			
16	SHORT TERM FINANCING			
	Export refinance - secured	16.1	120,000	40,000
	Running finance - secured	16.2	7,500	—
			127,500	40,000
16.1	The facility for export refinance available from Askari Bank Ltd amount to Rs 120 million (Jun-2006: Rs 40 million) and carry mark-up ranging from 7% to 7.5% per annum (Jun-2006: 7% to 9% per annum). The due balance is payable in bi-annually installments.			
	The facility of running finance availed from Askari Bank Ltd up to Rs. 7.5 Million (June-2006 : Nil). It carries mark up 12% p a.			
	All these facilities are secured by way of first exclusive charge over the company's current assets including stocks/receivable/ book debt up to Rs. 180 Million. and balance Rs. 172 Million by way of hypothecation charge over the land, building and equipment of the Company and personal guarantee of all directors.			
17	CREDITORS, ACCRUED AND OTHER LIABILITIES			
	Creditors		26,631	18,151
	Accrued liabilities		39,323	24,508
	Interest payable		3,607	1,117
	Other payables		202	202
	Security refundable		223	223
	Due to related parties	17.1	19,564	507
	Withholding tax		3,993	1,528
	Provident fund payable		1,443	835
			94,986	47,071
17.1	Due to related parties			
	NetSol Technologies Inc.		18,168	238
	NetSol Consulting Services (Pvt) Ltd.		1,396	269
			19,564	507
18	EXCESS OF BILLING OVER REVENUE			
	It represents maintenance fee received in advance and transferred to revenue from maintenance on time proportion basis.			



Notes to the Consolidated Accounts

19 CONTINGENCIES & COMMITMENTS

The company has no contingent liabilities & commitments outstanding as at June-30, 2007 except to the tune of Rs. 34.82/- million (June 30, 2006 Rs. 22.38 million) guarantees issued to various customers against sale of software and allied services.

20 REVENUE

Export Revenue

	Jun-07	Jun-06
License	452,636	149,223
Services	415,494	312,279
Maintenance	39,600	28,681

Local Revenue

License	36,495	2,880
Services	136,962	96,943
Maintenance	1,233	234

1,082,420	600,152
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21 COST OF SALES

Staff salaries & benefits	228,300	135,420
Consultancy charges	7,296	12,929
Technical services	5,668	6,084
Third party software & hardware	43,710	11,743
Staff training	6,835	5,842
Rent, rates & taxes	128	3,463
Traveling & conveyance	87,245	38,815
Communication	8,717	7,230
Utilities	12,282	8,724
Printing & stationery	2,101	2,129
Entertainment	4,744	5,158
Insurance	934	976
Vehicle running & maintenance	2,987	1,698
Repair & maintenance	18,978	12,817
Certifications	2,104	542
Fee & subscription	536	---
Depreciation	24,748	29,882
Amortization of leased assets	3,278	4,084
Amortization of intangible assets	5,192	4,198

465,783	291,734
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22 ADMINISTRATIVE & GENERAL EXPENSES

Directors remuneration	8,774	4,827
Staff salaries and benefits	40,479	29,750
Staff training	111	98
Management fee	21,251	---
Rent, rates and taxes	1,527	1,259
Traveling and conveyance	9,237	6,545
Communication & postage	1,394	1,441
Printing and stationery	382	614
Utilities	3,229	3,955
Entertainment	4,452	2,596
Insurance	666	579
Advertisement	3,615	1,658
Public Relation	—	13
Vehicle running expenses	3,562	2,962
Repairs and maintenance	6,001	7,845
Legal and professional charges	5,086	4,803
Auditors remuneration	1,850	1,450
News papers & periodicals	265	257
Security expenses	139	1,415
Office supplies	926	651
Charity & donation	1,312	8,505
Miscellaneous expenses	125	111
Fee & subscription	520	718
Depreciation	8,073	7,932
Amortization of leased assets	1,387	1,418
Bad debts	—	1,593

124,363	92,995
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Notes to the Consolidated Accounts

	Jun-07	Jun-06
	Rupees '000'	
22.1 AUDITOR REMUNERATION		
Audit fee	950	400
Certifications of group reporting	600	650
Professional services	175	300
Out-of-pocket expenses	125	100
	1,850	1,450
23. SELLING & PROMOTION EXPENSES		
Staff salaries & benefits	20,591	17,642
Staff training	71	924
Rent, rates & taxes	3,999	2,879
Traveling and conveyance	13,307	10,838
Communication	2,274	1,561
Utilities	1,113	647
Printing & stationery	336	314
Entertainment	849	951
Insurance	137	65
Vehicle running expenses	986	853
Repairs and maintenance	828	2,314
Commission on sales	15,239	1,378
Advertisement	442	2,019
Tender money	46	31
Sale promotional expenses	14,745	21,730
	74,963	64,146
24. RETIREMENT BENEFIT		
Staff salaries and benefits includes the amount of provident fund contributed by the company		
25. OTHER INCOME / (EXPENSES)		
Gain / (loss) on foreign currency translation	10,842	5,244
Profit on bank deposits	5,602	11,387
Amortization of deferred revenue	1,549	1,054
Rental income	1,892	4,573
Gain / (loss) on disposal of assets	(1,135)	(2,275)
Mark up on loan	2,903	3,725
	21,653	23,708
26. FINANCIAL CHARGES		
Lease finance charges	1,987	935
Interest on short term loans	6,168	3,772
Lease documentation charges	58	46
Bank charges	1,263	1,014
	9,476	5,767
27. EARNING PER SHARE - BASIC & DILUTED		
Profit after taxation for the year	388,637	141,474
Average number of ordinary shares in issue during the period	40,804	40,066
Earning per share basic & diluted	9.52	3.53



Notes to the Consolidated Accounts

28 REMUNERATION OF CHIEF EXECUTIVE DIRECTORS & EXECUTIVES

The aggregate amounts charged in the accounts for the remuneration, including all benefits, to the Chief Executive, Directors and Executives of the Company were as follows:

	Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	Rupees in '000'					
Managerial remuneration	3,200	2,900	2,484	301	49,597	23,679
Retirement benefits	—	—	248	33	2,614	1,259
Rent and house maintenance	1,280	1,160	994	120	19,839	9,472
Utilities	320	290	248	30	4,960	2,368
Medical expenses	91	5	63	21	1,341	731
Total	4,891	4,355	4,037	505	78,351	37,509
No. of Persons	1	1	2	1	69	33

29 TRANSACTION WITH RELATED PARTIES

Related parties comprise holding, associated undertakings, directors of the company, key employees and staff retirement fund. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables.

Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows.

	Relationship with the company	Nature of transaction		
(i)	Parent	Management fee	21,251	—
(ii)	Associated undertaking	Provision of services	24,046	8,351
		Expenses incurred by	2,368	11,278
		Purchase of services	3,152	1,030
(iii)	Other related parties	Interest on long term loans	2,903	3,725
(v)	Post employment benefit	Contribution to defined contribution plan	7,051	4,976

30 FAIR VALUE OF FINANCIAL ASSETS & LIABILITIES

Carrying amounts of the financial assets and liabilities approximate their fair values.



Notes to the Consolidated Accounts

31. INTEREST / MARK-UP RISK MANAGEMENT

Interest / mark-up rate risk arises from the possibility that changes in interest / mark-up rates will affect the value of financial instruments. In respect of income earning financial assets and interest / mark-up bearing financial liabilities, following table indicate their effective interest / mark-up rates at the balance sheet date and the periods in which they will re-price or mature:

	2 0 0 7			2 0 0 6		
	Interest/ mark-up bearing	Non Interest/ mark-up bearing	TOTAL	Interest/ mark-up bearing	Non Interest/ mark-up bearing	TOTAL
Rupees in '000'						
Financial Assets						
Maturity up to one year:						
Account receivables	—	377,502	377,502	—	197,082	197,082
Excess of revenue over billing	—	499,012	499,012	—	251,072	251,072
Security deposits	—	12,669	12,669	—	2,295	2,295
Tender money receivable	—	24,446	24,446	—	6,955	6,955
Mark up receivable	—	908	908	—	7,850	7,850
Other receivables	—	16,009	16,009	—	14,163	14,163
Cash & bank balances	148,993	690	149,683	158,174	2,658	160,832
Due from related party	—	3,704	3,704	—	5,028	5,028
Loans and advances	1,429	11,377	12,806	3,800	—	3,800
Maturity after one year:						
Long term loans and advances	9,238	17,850	27,088	31,628	—	31,628
Total Financial Assets	159,660	964,167	1,123,827	193,602	487,103	680,705
Financial Liabilities						
Maturity up to one year:						
Short term financing	127,500	—	127,500	40,000	—	40,000
Creditors, accrued & other liabilities	—	94,986	94,986	—	47,071	47,071
Lease liabilities	9,773	—	9,773	5,462	—	5,462
Maturity after one year:						
Lease liabilities	13,031	—	13,031	7,918	—	7,918
Long term payable	—	39,270	39,270	—	—	—
Total Financial Liabilities	150,304	134,256	284,560	53,380	47,071	100,451
Net financial assets / (liabilities)	9,356	829,911	839,267	140,222	440,032	580,254
Off balance sheet						
Guarantees issued to customers	—	34,820	34,820	—	22,380	22,380



Notes to the Consolidated Accounts

31.1 INTEREST RATE RISK EXPOSURE

The company is exposed to interest / mark - up rate risk on some of the financial assets and obligations. Rates of interest / mark - up and their maturities are given in the respective notes.

32 CONCENTRATION OF CREDIT RISK

Credit risk represents the accounting loss that would be recognised at the reporting date if counter-parties failed completely to perform as contracted. The Company does not have significant exposure to any individual customer. To reduce exposure to credit risk the Company has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors credit exposure towards the customers and makes provision against those balances considered doubtful of recovery.

33 FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The Company is exposed to foreign currency risk on revenues and borrowings that are entered in a currency other than Pak Rupees.

34 LIQUIDITY RISK

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate actions for new requirements.

35. SEGMENT REPORTING

	Pakistan		Asia Pacific		Australia & USA		Others		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	----- Rupees in '000' -----									
Revenue	174,690	109,969	608,451	308,423	126,265	64,116	173,013	117,644	1,082,419	600,152
Cost of sales	119,286	78,194	232,257	134,359	48,198	27,931	66,042	51,250	465,783	291,734
Gross profit	55,404	31,775	376,194	174,064	78,067	36,185	106,971	66,394	616,636	308,418
Segment result	17,112	5,793	276,415	102,828	57,360	21,377	78,600	39,220	429,487	169,218
Other Information										
Segment assets	525,295	426,170	—	—	—	—	—	—	525,295	426,170
Depreciation	37,486	43,316	—	—	—	—	—	—	37,486	43,316
Non cash expenses other than depreciation	5,192	4,198	—	—	—	—	—	—	5,192	4,198
Segment liabilities	284,560	100,451	—	—	—	—	—	—	284,560	100,451

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

36 ANNUAL SOFTWARE DEVELOPMENT CAPACITY

NetSol Technologies Ltd is engaged in software development, maintenance and licensing, due to the complicated nature of the software development process annual development capacity can not be determined.

37 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.



Notes to the Consolidated Accounts

38 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 14, 2007 by the Board of Directors.

39 EVENTS AFTER BALANCE SHEET DATE

The board of director's of parent company has declared bonus issue of 22% to the shareholders in its meeting held on September 14, 2007.

40 FIGURES

40.1 The following items have been rearranged for the purpose of better presentation. Accordingly prior year figures have also been rearranged.

Rearrangement from component	Note	Rearrangement to component	Note	Rupees in '000'
Accrued liabilities	17	Provident fund payable	17	835
Other payable	17	Accrued liabilities	17	150
Accrued liabilities	17	Other payable	17	202
Staff salaries & benefits	21	Consultancy charges	21	12,929
Staff salaries & benefits	21	Technical services	21	6,084

40.2 Figures have been rounded off to the nearest thousand rupee.

CHIEF EXECUTIVE

DIRECTOR





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