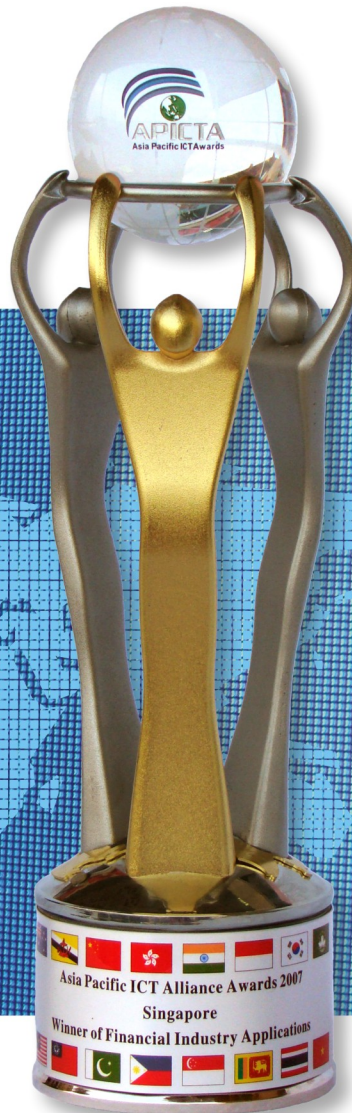




NetSol Technologies Limited

ANNUAL REPORT

2008



**' APICTA Award
(Asia Pacific ICT Alliance)
Awarded to LeaseSoft
for the year
2007 '**

Asia Pacific ICT Alliance Awards 2007
Singapore
Winner of Financial Industry Applications

ANNUAL REPORT

2008



NetSol Technologies Limited



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COMPANY PROFILE

BOARD OF DIRECTORS

Salim U. Ghauri	Chief Executive & Chairman
Najeeb U. Ghauri	Non-Executive Director
Naeem U. Ghauri	Non-Executive Director
Irfan Mustafa	Non-Executive Director
Shahid Javed Burki	Non-Executive Director
Sajjad Hussain Kirmani	Executive Director
Zahid Bashir Mirza	Executive Director
Rehmat U. Ghauri	Alternate Director
Ayub Ghauri	Alternate Director

COMPANY SECRETARY

Boo-Ali Siddiqui

AUDIT COMMITTEE

Najeeb U. Ghauri	Chairman
Irfan Mustafa	
Sajjad Hussain Kirmani	

HEAD - INTERNAL AUDIT

Imran Ahmad

AUDITORS

Kabani Saeed Kamran Patel & Co.
Chartered Accountants
321 - Upper Mall, Lahore

LEGAL ADVISOR

Corporate Law Associates
1st Floor Queen's Centre
Shahra-e-Fatima Jinnah
Lahore

BANKERS

Askari Bank Limited
United Bank Limited
Bank Al Falah Limited
JS Bank Limited
IGI Investment Bank Limited
First National Bank Modaraba
Innovative Investment Bank Limited

SHARE REGISTRAR

Vision Consulting Ltd
3-C, LDA Flats, Lawrence Road, Lahore.
Tel: +92-42-6375531, 6375339
Fax: +92-42-6374839

CONTACT DETAILS

Registered Office
NetSol Technologies Limited
Software Technology Park, NetSol Avenue
Main Ghazi Road, Lahore Cantt, Pakistan
Tel: +92-42-111-44-88-00, 5727096-7
Fax: +92-42-5701046, 5726740

Rawalpindi Office

House No. 26, Street No. 5, Safari Villas
Rawalpindi-46000.
Tel: +92-51-5595377, 5595480
Fax: +92-51-5595376

Islamabad Office

3rd Floor, Software Technology Park,
5-A, Constitution Avenue, Sector F - 5/1
Tel: +92 51-2829972
Fax: +92 - 51-2828964

Karachi Office

Office-203, The Forum, Khayaban-e-Jami
Block-9 Clifton, Karachi 75600.
Tel: +92-21-5301486-8
Fax: +92-21-5301489

Web Presence

www.netsolpk.com
info@netsolpk.com



VISION & MISSION STATEMENT

OUR VISION

By 2010, we wish to be a No.1 Solution Provider in Asia-Pacific for Lease & Finance sector and the best IT Company in Pakistan.

OUR MISSION

Deliver high quality, innovative and best-in-class IT solutions and services to help our customers achieve their business objectives and operational efficiencies.

OUR VALUES

- o We care for our employees who are our most valuable asset. We offer our employees a challenging and harmonious work environment where we encourage everyone to work to their utmost potential.
- o We will always aim to develop long lasting relationship with our customers by delivering value for their investments.
- o Our workplace will be an environment of great learning, extraordinary customer service, consideration for our colleagues and self-development. A place where we are happy to spend our working days.
- o We will be diligent expending company resources. We'll use them to serve our clients better and perform our roles more effectively.
- o While we grow in size and scale, we will continue to improve our quality of service delivery.
- o We will work tirelessly to grow in efficiency and productivity using best practices, innovation and imagination.
- o As we are a global Company, we'll respect every other culture, religion and embrace the change & the challenges that come with such diversity.

OUR BEHAVIOUR

- o While we grow in size and scale, we will continue to improve our quality of service delivery.
- o We will continue to invest in training in Quality.
- o We'll grow quality initiatives with better "Best Practices" and more quality accreditations
- o We'll implement better tools for measuring quality both in production and Customer Services.
- o Quality is not a domain with the few chosen ones but is a responsibility of all.
- o We'll not pass the buck to the "Quality People" when we can see and address deficiencies ourselves.



QUALITY FOCUS

Our commitment is to continually improve the effectiveness of our quality management system through;

- o monitoring and enhancing customer satisfaction
- o reviewing and enhancing quality objectives
- o regular assessments against international standards
- o developing and maintaining a skilled & motivated resource base
- o effective implementation of Software Measurement Program

Our focus in quality engineering and processes improvement has been definitive in ensuring the excellence of operations and customer satisfaction.

NetSol is continuously investing in software processes improvement and ISO/SEI authorized trainings for its teams.

Our vigor, experience and experimentation in the quality domain since our inception puts us in an ideal position to assist other IT companies in areas like Software Process Improvement, ISO Certification, SW - CMMi appraisals and other quality-related matters.

STATEMENT OF ETHICAL PRACTICES

- o All directors and employees and other personnel must observe the laws and regulations.
- o NetSol does not permit bribery in any form of any person involved in the company's business.
- o NetSol requires competition in the marketplace and compliance with anti-trust and competition rules.
- o All employees and personnel must maintain the confidentiality of price sensitive information.
- o Employees and other personnel should not use price sensitive/inside information for their personal advantage.
- o Employees and other personnel should avoid situations where personal interests could conflict, or appear to conflict, with the interests of their employer.



BOARD OF DIRECTORS

**Salim
Ghauri**
Chairman & CEO



**Najeeb
Ghauri**
Director



**Naeem
Ghauri**
Director



**Irfan
Mustafa**
Director



**Shahid
Javid Burki**
Director



**Zahid
Bashir Mirza**
Director



**Sajjad
Kirmani**
Director



CHAIRMAN'S MESSAGE



I am very happy to report 2007-2008 as one of our best years since our going public. This year we have been able to consolidate our revenue due to maturity of product and services. We have also seen major break through in demand of our products from new regions, which were opened in last one year.

LeaseSoft, our flagship brand, has emerged as a foremost leasing product in Asia Pacific. With already a strong presence in this market, and an enviable customer list including leading global organizations, the capping moment came this year with LeaseSoft receiving the Best Financial Product award at the Asia Pacific ICT Alliance Awards in Singapore. I believe this is only

the beginning and we will continue to win more recognition for our product excellence and our focus on delivering exceptional value to our customers.

It is this belief in our ability and commitment to serve a global customer base that has driven our strategy to expand into other, new markets. We have already started to achieve major breakthroughs in this area, as well. One such breakthrough has been in the European market in the form of a major deal with a leading European bank. Another is the high value agreement signed with one of the largest leasing companies in the Middle East. These are both significant achievements in that they have provided us a strong foothold in new markets with great potential. In the meanwhile, we are well on our way to build a stronger presence in the North American market.

Our expansion continues not only into new markets, but also into major new business areas. NetSol has launched an ambitious Global Business Services division which will allow us to bring our competencies in delivering IT services, to the global market. Our 'Best Shoring' model is aimed at leveraging our global presence and our in-house capabilities to help businesses across the world acquire high quality services to enhance their growth and profitability. For NetSol, we hope to make this a major new source of revenues.

Another key achievement this year has been the ISO 27001 certification. It provides further assurance to our clients of our commitment to protect their information assets, and together with our CMMI Level 5 rating, increases our attractiveness in international markets.

NetSol remains committed to develop the IT environment domestically, leading to greater opportunities and prosperity for the literate youth and improved export competitiveness for the country. We, therefore, extend our complete support to government initiatives towards these objectives. This year, we successfully carried out the first phase of Pakistan Software Export Board's IT Apprenticeship Programme to impart technical and leadership skills to 200 IT students. We stand to benefit directly from a growing domestic IT talent base to help extend our 'Best Shoring' services to the global market.

Our ongoing efforts to build on our success and carry out our vision for growth have resulted in a year on year growth in annual revenues of 40%. We expect to carry this momentum into 2008-2009 to make it an even bigger year in terms of revenues and growth into new areas, so that NetSol continues to emerge as a global leader in providing IT solutions and services.



Salim Ghauri
Chairman & CEO

Lahore
September 10, 2008



NETSOL EVENTS



Mr. Salim Ghauri, receiving 8th Teradata National IT Excellence Award from Senator Raza Rabbani, Leader of the House in Senate



Mr. Salim Ghauri honored by CIO Pakistan as "Building Pakistan Image Abroad" on the occasion of launching CIO and CEO Publication from Pakistan



Mr. Sajjad H. Kirmani-EVP & Head of Operations receiving FPCCI Best Export Performance Award 2007-2008 from Acting Prime Minister of Pakistan Mr. Muhammad Mian Soomro.





Mr. James A. Julian, Director Thales Raytheon Systems with Mr. Salim Ghauri and other senior officials on his visit to NetSol IT Village



Mr Sajjad H. Kirmani, welcoming Mr. Peter Courtney, Country Manager, South Asia for UK Trade & Investment, and Ms. Charlotte Pinder, CEO, Asia House, on their visit to NetSol Technologies Limited



Mr. Najeeb Ghauri, Chairman & CEO of NetSol Technologies Inc. & Mr. Arman Papazian Senior Vice President DIFX, during the inaugural ceremony of NetSol Technologies Inc.'s listing for trading on Dubai International Finance Exchange (DIFX)



SERVICES PORTFOLIO

Industries we serve

- Lease & Finance
- Manufacturing
- Health
- Banking
- Education
- Information Technology
- Insurance
- E-Government
- Defense

Services we offer

- Application Development & Maintenance
- Technology Outsourcing
- IT Consulting & BPR
- System Integration
- Software Process Consulting
- Business Intelligence Consulting
- Information Security Consulting
- Product Based Solutions
- Education



MAJOR CUSTOMERS

Global

- Mercedes Benz Leasing Thailand
- Mercedes Benz Auto Finance China
- Mercedes Benz Financial Services Australia
- Mercedes Benz Financial Services Taiwan
- Mercedes Benz Services Korea
- Mercedes Benz Services New Zealand
- Mercedes-Benz Finance Company Japan
- BMW Financial Services China
- BMW Hong Kong
- Yamaha Motors Finance Australia
- Toyota Leasing Thailand
- Toyota Motor Finance Company China
- UMF Singapore
- Australian Motor Finance
- CNH Capital Australia
- Finlease Company Limited Mauritius
- Al-Amthal Leasing Saudi Arabia
- FIAT Motors China
- Nissan Motor Company Limited China
- Innovation Group UK



Local

- State Bank of Pakistan
- Information Technology Department, Punjab
- General Head Quarter, Rawalpindi
- Electronic Government Directorate, Ministry of IT
- Excise & Taxation Department, Islamabad
- Command & Staff College, Quetta
- Ministry of Health, Government of Punjab
- MCB Bank Limited
- Highnoon Laboratories Limited
- Pakistan Military Academy, Kakul
- USAID
- Punjab Rural Support Program
- Punjab Assembly



SHAREHOLDERS' INFORMATION

Registered Office

NetSol IT Village (Software Technology Park)
Main Ghazi Road, Lahore Cantt. 54792, Pakistan
Tel: +92-42-111-44-88-00, 5727096-7
Fax: +92-42-5726740, 5701046

Listing on Stock Exchange

Equity shares of NetSol Technologies Ltd are listed & traded on Karachi Stock Exchange since Aug, 2005.

Listing Fees

The annual listing fees for the financial year 2007-08 has been paid to the Karachi Stock Exchange within specified time period.

Stock Code

The stock code for dealing in equity shares of the company at KSE is NETSOL.

Shares Registrar

Vision Consulting Limited
3-C, LDA Flats, Lawrence Road, Lahore
Tel: +92-42-6375531, 6375339
Fax: +92-42-6374839

The Share Registrar has online connectivity with Central Depository Company of Pakistan Limited (CDC). It under-takes all activities related to share transfers, transmission, issue of duplicate/re-validated dividend warrants, issue of duplicate / replaced share certificates, change of address and other related matters.

For assistance, shareholders may contact the following person of Shares Registrar;

Contact Person

Mr. Abdul Ghaffar Ghaffari
Manager Shares

Service Standards

NetSol Technologies Ltd has always endeavoured to provide our valued investors with prompt services. Listed below are various investor services with their maximum time limit set out against each for their execution.

S. No.	ACTIVITIES	For Request Received through post	Over the Counter
1	Transfer of Shares	30 days after receipt	30 days after receipt
2	Transmission of Shares	30 days after receipt	30 days after receipt
3	Issue of duplicate share certificates	30 days after receipt	30 days after receipt
4	Issue of duplicate dividend warrants	5 days after receipt	5 days after receipt
5	Issue of re-validated dividend warrants	5 days after receipt	5 days after receipt
6	Change of Address	2 days after receipt	15 minutes



SHARE PRICE AND VOLUME

The monthly high and low prices and the Monthly Turnover of shares traded on the Karachi Stock Exchange (KSE) during the financial year 2008 are as under:

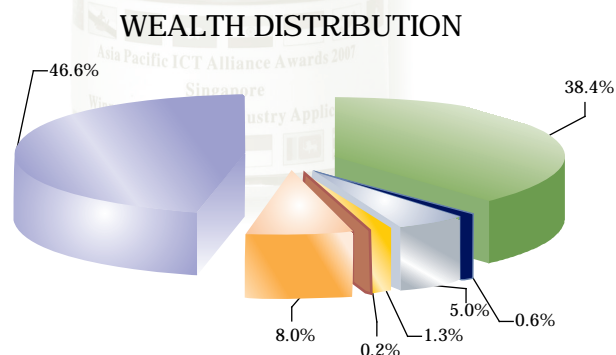
Month	Share price on the KSE (Rs.)		Monthly Turnover
	Highest	Lowest	
Jul-07	110.95	79.35	51,825,700
Aug-07	113.45	94.40	14,255,800
Sep-07	120	94.50	33,353,800
Oct-07	155.90	121.00	44,303,600
Nov-07	151.5	117.80	71,772,900
Dec-07	141.55	124.4	57,252,400
Jan-08	137.25	112.30	73,051,200
Feb-08	140.80	127.9	83,015,500
Mar-08	123.45	116.70	40,672,800
Apr-08	120.15	105.00	29,437,500
May-08	108.75	85.52	21,928,400
Jun-08	103.63	90.73	13,874,300



STATEMENT OF VALUE ADDITION

	2008	% age	2007	% age
RUPEES IN THOUSAND				
WEALTH GENERATED				
Revenue	1,556,158		1,082,420	
Other Income	133,223		21,650	
	<u>1,689,381</u>		<u>1,104,070</u>	
Less: Operations & General Expenses	374,141		331,749	
Value Added	<u>1,315,240</u>	100%	<u>772,321</u>	100%
WEALTH DISTRIBUTION				
To Employees Salaries & Other employee benefits	432,174	33%	289,370	37%
To Government Income Taxes & Other Taxes	6,208	0%	4,926	0.6%
To Provider of Capital Bonus Shares & Dividends	189,332	14%	53,223	6.9%
Minority Shareholders	56,837	4%	35,924	5%
To Financial Institutions As mark-up on borrowings	14,260	1%	9,476	1%
To Charitable Institution	1,936	0.1%	1,312	0%
To Provide for Maintenance & Expansion of Assets Depreciation / Amortization	90,382	7%	42,678	6%
Retained Profit	524,111	40%	335,412	43%
	<u>1,315,240</u>		<u>772,321</u>	

- To Employees
- To Government
- To Provider of Capital
- To Financial Institutions
- To Charitable Institution
- To Provide for Maintenance & Expansion of Assets
- Retained Profit



NETSOL GROUP SIX YEAR SUMMARY

	2008	2007	2006	2005	2004	2003
FIXED CAPITAL EXPENDITURE						
Tangible	556,474	392,688	327,848	241,860	194,770	71,099
Intangible	435,688	197,839	68,202	55,441	40,306	33,782
	992,162	590,527	396,050	297,301	235,076	104,881
CAPITAL WORK IN PROGRESS	14,988	-	-	-	-	-
NON CURRENT ASSETS						
Long Term Loans & Advances	7,390	27,088	31,628	40,428	-	-
Working Capital	1,214,214	884,565	606,339	291,374	58,891	24,185
NET ASSETS EMPLOYED	2,228,754	1,502,180	1,034,017	629,102	293,967	129,066
EQUITY & LIABILITIES						
Shareholders' equity	2,077,356	1,363,912	975,276	604,199	292,981	128,885
Minority Interest	91,610	84,254	48,328	22,233	-	-
Non Current Liabilities	59,788	54,014	10,413	2,671	986	181
TOTAL FUND INVESTED	2,228,754	1,502,180	1,034,017	629,102	293,967	129,066
Revenue	1,556,158	1,082,420	600,152	462,281	212,454	92,241
Cost of Sales	613,493	465,783	291,734	163,312	71,245	23,429
Gross profit	942,665	616,637	308,418	298,969	141,209	68,811
Operating expenses	172,385	192,078	140,849	98,545	46,229	51,890
Net Profit for the period	770,280	424,559	167,569	200,424	94,980	16,921
Earning Per Share	11.94	9.52	3.53	10.04	11.20	2.13

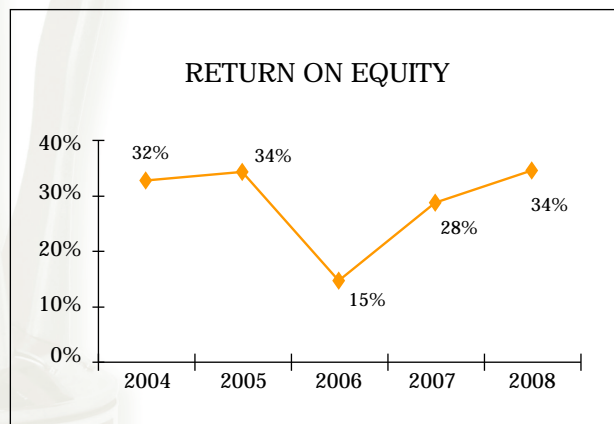
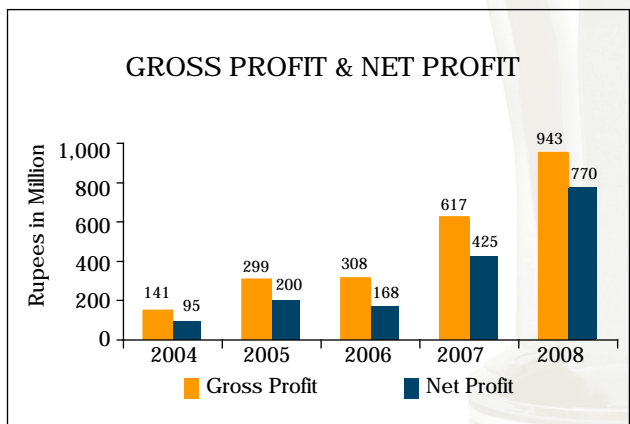
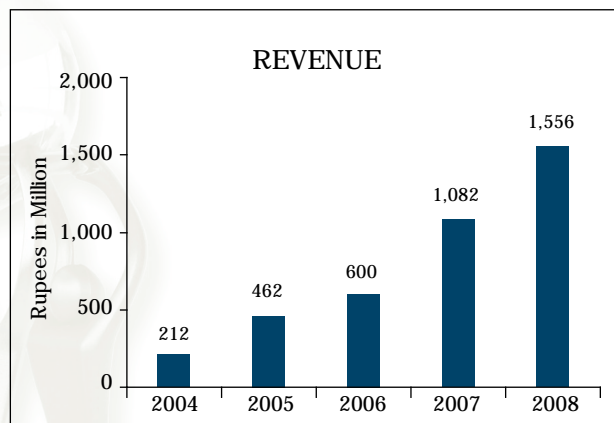
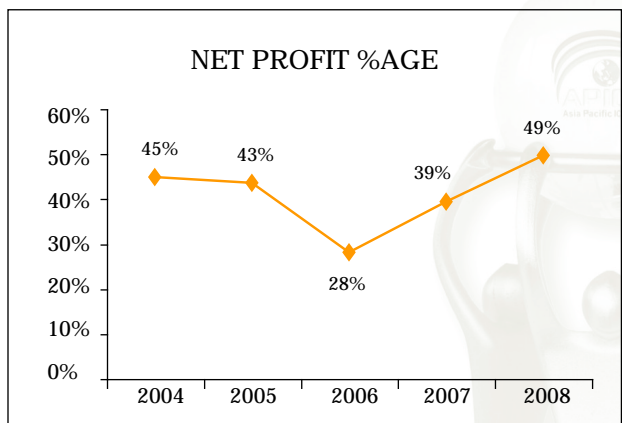


NETSOL GROUP KEY FINANCIAL RATIOS

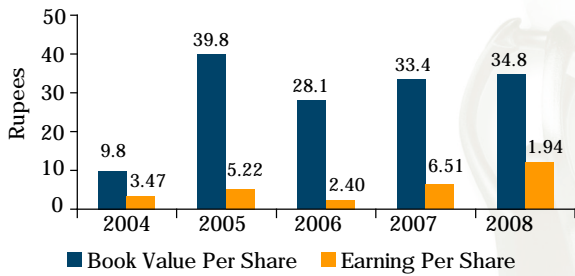
		2008	2007	2006	2005	2004	2003
Working Capital	Rupees in thousand	1,214,214	884,565	606,339	291,374	58,891	24,185
Current Ratio	Times	3.84	4.57	6.62	4.26	1.74	1.45
Return on Assest Employed	%	27%	22%	12%	29%	25%	10%
Return on Equity	%	34%	28%	15%	34%	32%	14%
Gross Profit Ratio	%	61%	57%	51%	65%	66%	75%
Net Profit Margin	%	50%	40%	28%	46%	47%	19%
Average Collection Period	Days	110	96	108	79	60	171
Debtor's Turnover	Times	3.27	3.77	3.35	4.56	6.01	2.10
Outstanding No of Shares	Shares	59,737,495	40,804,300	40,066,300	20,516,266	8,487,818	8,487,818
Book Value Per Share	Rupees	34.78	33.43	28.07	39.77	9.81	4.32



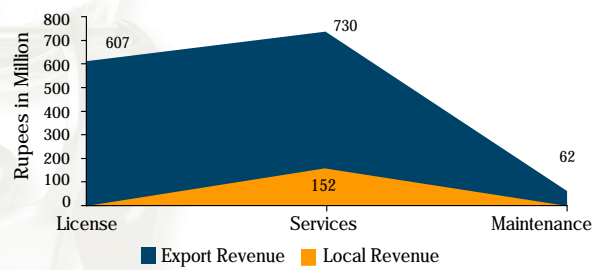
NETSOL GROUP FINANCIAL SUMMARY



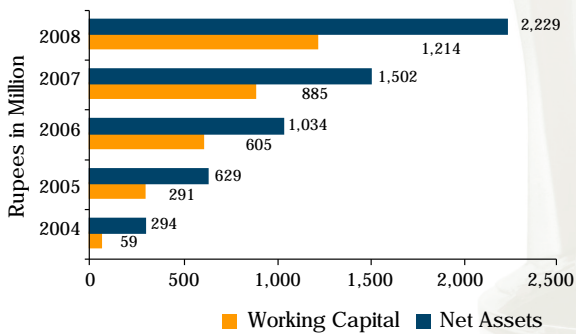
EPS & BOOK VALUE PER SHARE



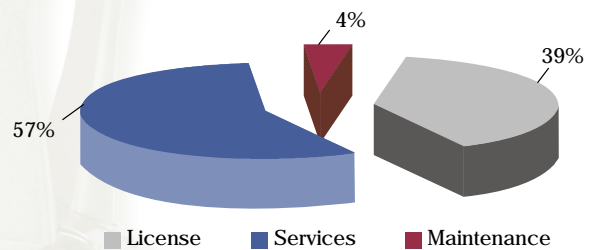
EXPORT Vs. LOCAL REVENUE



NET ASSETS & WORKING CAPITAL



REVENUE BREAKUP



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 12th Annual General Meeting of the shareholders of NetSol Technologies Limited will be held on Monday October 20, 2008 at 11:00 a.m. at the Registered Office of the Company situated at NetSol IT Village (Software Technology Park) NetSol Avenue, Main Ghazi Road, Lahore Cantt., to transact the following business:

Ordinary Business

1. To confirm the minutes of the last Extra-Ordinary General Meeting held on July 11, 2008.
2. To receive, consider and adopt financial statements of the company for the year ended June 30, 2008 together with the Directors' and Auditors' Reports thereon.
3. To approve 10% cash dividend as recommended by the board of directors.
4. To approve final stock dividend @ 20% i.e (2 shares for every 10 shares already held) in addition to interim stock dividend @ 20% i.e. (2 shares for every 10 shares already held), as recommended by the board of directors
5. To appoint Auditors for the year 2008-2009 and fix their remuneration.

Special Business

6. To Consider and if thought fit, to approve the formation of new Company in partnership with Raseen Technologies LLC and if thought fit pass the following resolutions with or without any modification or alteration:

RESOLVED THAT:

“The formation of the new company with the name and style 'RASEEN INNOVATION CENTER PAKISTAN (PVT) LIMITED' in partnership with Raseen Technologies LLC, (an Abu Dhabi Group company) be and is hereby approved.”

RESOLVED FURTHER THAT:

“Pursuant to the requirements of Section 208 of the Companies Ordinance, 1984, the company is hereby authorized to make capital investment, in phases, upto the limit US\$ 500,000 in the share capital of the proposed company. Exchange rate will be considered the rate of the date on which investment is made.”

RESOLVED FURTHER THAT:

The Chief Executive Officer and the Company Secretary be are hereby jointly and severally authorized to complete all necessary corporate and legal formalities and to do all necessary deeds, acts and things as may be deemed necessary to give effect to the above mentioned resolutions. They are also authorized to sign and file all relevant documents with the Securities & Exchange Commission of Pakistan and any other regulatory body.

7. To transact any other business with the permission of the Chair.



A statement under section 160(1)(b) of the Companies Ordinance, 1984 in the above matter with respect to special business item No. 6 is being sent to the member's alongwith the notice.

By Order of the Board

Boo-Ali Siddiqui
Company Secretary

Lahore
September 26, 2008

NOTE:

1. The share transfer books of the Company will remain closed from October 13, 2008 to October 20, 2008 (both days inclusive).
2. Shareholders are requested to notify the change of addresses, if any, to our Shares Registrar, M/s Vision Consulting Ltd., 3-C, LDA Flats, Lawrence Road, Lahore Tel # +92(42) 6375531, 6375339 and Fax # +92(42) 6374839 by the close of business hours on October 12, 2008 which will be treated in time for the entitlement of dividend payment/Bonus issuance.
3. A member entitled to attend and vote at this Meeting may appoint another member as his/her proxy to attend and vote instead of his/her place. A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote in his/her place. Proxies, complete in every respect, in order to be effective, must be received at the registered office of the company not less than 48 hours before the time of the meeting.

CDC account holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan:

A) For Attending the Meeting:

- a) In case of individuals, the account holder or sub-account holder's registration details are uploaded as per the CDC regulations shall authenticate his identity by showing his original NIC or original passport at the time of attending the meeting.
- b) In case of Corporate entity, the board of Director's Resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

B) For Appointing Proxies:

- a) In case of individuals, the Account holder or sub-account holder's registration details are uploaded as per the CDC regulations, shall submit the proxy form as per the above requirements.



- b) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.
- c) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- d) The proxy shall produce his original NIC or original passport at the time of the meeting.
- e) In case of corporate entity, the Board of Director's resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the company.

Emplanatory Statement Accompanying Notice To The Members Under Section 160(1) (b) Of The Companies Ordinance, 1984

Formation of New Company in Partnership With Raseen Technologies LLC., with the name and style "RASEEN INNOVATION CENTER PAKISTAN (PVT) LIMITED

Raseen Technologies LLC, (Raseen) is a UAE based company. Having established its corporate presence in Abu Dhabi, Raseen is now looking forward to provide solutions in the technology space specializing in mobile commerce, billing, CRM, e-banking and ERP applications; intrinsically utilizing the best that it has to offer in terms of its human resources across Communication & Information Technologies. In order to identify a lower cost development, test and services alternative, Raseen is interested in establishing an "Innovation Center" in Pakistan to cater for all its development needs. Board of directors of both Raseen Technologies LLC and NetSol Technologies Limited have approved and principally agreed to start development of Raseen products under a new venture. Proposed name of the venture is "Raseen Innovation Center Pakistan (Pvt) Limited" [RICP]. It is also agreed that at the time of incorporation of the new company, shareholding will be 80:20 per cent in the name of Raseen and NetSol respectively. However, after one year of incorporation, Raseen will sell out its holding upto 10% of total paid-up capital of RICP to NetSol at par value at which it had invested in RICP resulting in increase of NetSol's holding to 30%. Similarly after two years of incorporation of the Company, Raseen will further sell out its holding upto 10% of total paid-up capital of RICP to NetSol at par value at which it had invested in RICP resulting in increase of NetSol's holding to 40%. This mix of 60:40 per cent of shareholding will then remain effective for the remaining life of the company. It is also agreed that nomination on the Board of directors shall be in proportion of the shareholding of the partners. Initial capital investment is expected to be around a million dollar and NetSol's initial share coming to around USD200,000 and at a max will go around USD 500,000.



As required by SRO No. 865(1)/2000 dated 06-12-2000, requisite information is given below.

Sr. No.	Description	Information Required under the SRO
i)	Name of the Investee Company	Raseen Innovation Center Pakistan (Pvt) Limited (Proposed)
ii)	Nature, amount and extent of investment	Equity investment to the tune of US\$ 500,000 in the ordinary shares of the proposed company by investing initially in 20% share Capital of the proposed company with the intention to increase it by 10% per annum at par value. Maximum shareholding by NetSol Technologies at any point of time will remain at 40% of the paid up capital of the proposed company.
iii)	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	N/A (new set up/ incorporation)
iv)	Break-up value of shares intended to be purchased on the basis of last published financial statements	N/A (new set up/ incorporation)
v)	Price at which shares will be purchased	Par value of Rs. 10 per share
vi)	Earnings per share, profit/(loss) of investee company in last 3 years	N/A (new set up/ incorporation)
vii)	Source of funds from where shares will be purchased	Investment will be made from the company's internally generated funds
viii)	Period for which investment will be made	Permanent
ix)	Purpose of investment	To establish a new & profitable business area in business process outsourcing (BPO)
x)	Benefits likely to accrue to the company and the shareholders from the proposed investment.	The new investment will not only diversify the business of the company but it will also increase revenues and profits resulting in better return on investment to the shareholders
xi)	Interest of Directors and their relatives in the investee company.	The directors and their relatives have no interest in the above investment



DIRECTORS' REPORT TO THE MEMBERS

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

On behalf of the Board of Directors, I am pleased to present the 12th Annual Report of the Company along with audited financial statements for the year ended June 30, 2008, as well as consolidated financial results of NetSol Group together with auditors' report thereon.

GENERAL OVERVIEW & FUTURE OUTLOOK

Pakistan's economy, which seemed to be growing rapidly in the last few years, saw one of the most challenging periods in the year under review. A GDP growth of only 5.8% is predicted to be achieved against the target of 7.2% for the year. This decline can be attributed to a combination of domestic and international issues like political unrest in the country, worsening law and order situation resulting in low foreign direct investment, unprecedented inflation & soaring oil prices, recession in the international market, depletion of foreign exchange reserves, and the devaluation of Pakistani currency resulting in huge trade deficit. Despite efforts made by the State Bank of Pakistan to improve the situation by tightening the monetary policy and by increasing the discount rate, the situation has not improved; rather the cost of doing business has increased to a great extent. The greater challenge is the high inflation and while the central bank continues to take steps to contain inflation, the coming year will pose a severe test of economic and political management.

Even though the overall picture of the economy is not encouraging, we feel immense pleasure to inform our valued shareholders that we have closed another remarkable year in NetSol's history. The IT sector of Pakistan has registered around 30% growth in revenue over the last few years. While the fundamentals of the sector are strong, the recent dollar appreciation has significantly boosted our revenues.

LEASESOFT DIVISION

The export of our flagship product "LeaseSoft", a suite of end-to-end leasing and finance software solutions catering to the needs of retail and wholesale finance businesses, has touched the level of around \$20 million. We are very bullish and foreseeing the exports of LeaseSoft & services to touch the \$100 million mark in the next five to seven years. During the last year, apart from the Asia-Pacific region, we broadened our marketing activities to Europe and North America. There are still a lot of opportunities in the Asia-Pacific region, like China and Australia, and while focusing on them, we have decided to enter the new markets of Europe and North America. Alhamdulillah, the North American division has won a multimillion dollar contract for licensing our leasing solutions to a major Asian-based automobile manufacturer. The agreement provides for product licensing, software customisation, system implementation, and ongoing maintenance and support services for the NetSol Financial Suite (NFS). NFS provides a comprehensive platform, allowing the customer to expand its addressable markets rapidly, deploy new systems and processes, increase owner loyalty, and improve customer service by delivering a flexible yet cost effective solution. Our European division has also won a contract of the implementation of LeaseSoft at a major European bank in four countries. This is another breakthrough in the untapped European market and we are expecting healthy revenues from this region in the years to come.



After winning the confidence of the leasing and finance industry in the Asia-Pacific region, we have now marked another success story in the Middle East market by signing lucrative agreements with large leasing companies in Saudi Arabia. This opportunity allows us to customise our product to the Sharia compliance mode of financing as well as conversion to the Arabic language. The Middle East is another emerging and lucrative market and NetSol foresees great opportunities there in the coming years.

PUBLIC SECTOR PROJECTS

In the local market, we have also won a contract to design and implement an IT system for a major public sector hospital. This opportunity for NetSol represents a new business sector vertical focused on the development and implementation of Hospital Management Systems (HMS). NetSol is collaborating on this project with a partner organization that specializes in process automation for the healthcare sector and related services through its indigenously developed software applications.

We have also signed a consultancy contract with a leading bank in Pakistan to assess its readiness and to help it conform to the framework of the Basel II Capital Accord. The contract covers advisory services concerning conformity to the Basel II Capital Accord regulatory framework developed by the bank for International Settlements (BIS).

Besides, Government of the Punjab is also very focused on the automation of its major operations. One classic example is the initiative to automate the complete land revenue record of Punjab. NetSol, along with three other competitors, was awarded the pilot project for this World Bank funded initiative. We have successfully delivered the project to the concerned department and are now waiting for the final evaluation of this mega project. We are very hopeful of getting a reasonable portion from this large project. In addition to it, a major upside is the opportunity of the automation of land revenue record in the rest of Pakistan.

GLOBAL BUSINESS SERVICES DIVISION

We have also launched an ambitious Global Business Services division, which will allow us to bring our competencies in delivering IT services to the global market. Our 'BestShoring' model is aimed at leveraging our global presence and our in-house capabilities to help businesses across the world and deliver high quality services to enhance their growth and profitability.

TECHNOLOGY OUTSOURCING

Our outsourcing business with the UK partner Innovation Group PLC (IG) is also flourishing with the passage of time. Outsourcing is an upcoming business in Pakistan and there is lot of potential in this area. Besides providing the customer outsourcing services, our engineers at Extended Innovation are also working closely with product development team of Innovation Group to develop newer versions of policy and claims applications. It is expected that these new products will be more flexible and robust for IG's customers and greater level of demand for these products is expected in 2009 when these are ready for implementation. With these plans, in future, we are expecting steady growth in terms of revenue from this area.



NETSOL TECHNOLOGY INSTITUTE

A major issue which the IT industry of Pakistan is facing at the moment is the shortfall of skilled IT resources. After the burst of the IT bubble in 2001, the focus of people shifted from IT education to other certifications. For this reason, the intake of students in IT education during the last four to five years was quite small, resulting in a low passing out percentage. The brain drain of skilled resources to the Middle East and European markets has further worsened the situation. Keeping in view the demand of skilled resources, NetSol established its training division named "NetSol Technology Institute (NTI)". The institute is operating as an IT finishing school, equipping the workforce with the knowledge of IT and soft skills deemed necessary for the promotion of IT in the region. NTI tends to bridge the gap between human resource (mostly fresh graduates) and the IT industry by bringing the experience and best practices that have evolved at NetSol over the past few years into the reach of individuals as well as organizations. The training programs at NTI are particularly tailored to meet the growing business needs of today's IT industry. With due emphasis on practical principles and processes, these programs focus on providing both the employed and unemployed workforce the knowledge, skills and practices required for continuous improvement and to overcome the challenges at work. The motive is also to acquaint the workforce with the expertise required to add value to business.

BRANCH OFFICE NETWORK

To further strengthen our presence in the Asia-Pacific market and to provide exclusive services to our clients, we have established a support office in Bangkok, Thailand. This office is established at a prime location in Bangkok and suits all LeaseSoft clients in Thailand. The core responsibilities of this office are to enhance business through targeting potential customers, and to provide technical support to our existing clients over there. In addition to it, we have upgraded our Beijing office from representative to sales office. This will help us to tap more customers from the ever-growing Chinese market. Keeping in view the potential present in the GCC region, we are also in the process of establishing a new office in Dubai. The focus of this office would be to generate new business leads for LeaseSoft and Global Business Services.

FRAME AGREEMENT WITH MERCEDES BENZ

The company has signed a new frame agreement with Mercedes Benz Financial Services AG Germany, to service their needs in Middle East, Africa, and the Asia-Pacific regions. The frame agreement outlines the implementation of basic and general provisions, regulations, and processes of existing and all future individual agreements for the development and delivery of software or services to Mercedes Benz Financial Services. The newly signed frame agreement supersedes all earlier agreements with Daimler Financial Services, of which the last agreement renewal was signed in 2004 for the use of NetSol's flagship LeaseSoft solution. We are extremely pleased to further expand our relationship as a global service and LeaseSoft software provider with Mercedes Benz Financial Services, which has been a valued and long standing global customer since 1996.

ENTERPRISE AGREEMENT WITH MICROSOFT

During the year, Microsoft and NetSol have signed an enterprise agreement under which, the latter will get the Microsoft Desktop and Server Platform tools with Core Infrastructure and Developer tools. Developer tools significantly improve data handling ways, enable developers to share data



through process integration, and reduce development time. With the Desktop and Server Platform tools, NetSol will enhance their performance for office automation and optimise their core infrastructure.

The future outlook of the company seems very promising. We have a robust sales pipeline for our product, LeaseSoft. We are optimistic to make major breakthroughs in the new markets like Europe, North America, and the Middle East. Likewise, we see good potential for our outsourcing services in Europe and North America as we launch our Global Business Services division. In local business, there seems to be a good potential to win lucrative projects in the areas of Electronic Government and Land Revenue Management System. We are also very much hopeful to sustain the momentum of growth, which has been built up during the last year.

FINANCIAL PERFORMANCE

	NetSol Group		NetSol Technologies Limited	
	For the Year ended June 30, 2008	For the ended Year ended June 30, 2007	For the Year ended June 30, 2008	For the Year ended June 30, 2007
	----- Rupees in '000' -----			
Revenue	1,556,127	1,082,420	1,298,089	927,810
Gross Profit	942,353	616,637	819,321	533,802
Net Profit	712,735	388,637	705,177	352,042
Outstanding Shares	59,737	59,737	59,737	59,737
EPS - Basic & Diluted	11.93	6.51	11.80	5.89

During the year under review, the financial performance of the company remained good. The company closed the FY with a 1.3 billion rupee revenue, showing a YoY growth of 40%. The gross profit margin also improved to 63% as compared to 57% for the corresponding year, validating the corporate and financial controls implemented by the management. Net profits of the company increased to Rs. 705.177 million, indicating the net profit ratio improving from 38% to 54% in the current year. In addition to high value license sales, dollar appreciation was also a major factor in this rising net profits. Diluted earnings per share improved to Rs. 11.80 in comparison with last year's diluted EPS of Rs. 5.89.

DIVIDEND AND BONUS ISSUE

In addition to the interim stock dividend in the form of 20% bonus shares, the board of directors in their meeting held on September 10, 2008 have approved a further 20% bonus issue i.e., two (02) shares for every ten (10) shares held by the shareholders. In addition to the bonus issue, the board has also approved a 10% cash dividend to its shareholders.



AWARDS & RECOGNITION

During the fiscal year 2007-2008, NetSol was honoured with the following awards:

- o Asia Pacific ICT Alliance (APICTA) Award for the “Best Financial Industry Application” in 2007
- o CIO Award for “Pioneer in Taking Technology Global: Building Pakistan Image Abroad”
- o 8th Teradata National IT Excellence Awards in the field of Software Exports for the year 2006
- o FPCCI's Best IT Export Performance Award 2006-2007

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

We are very much committed to maintain high standards of good corporate governance without any exception. The directors are pleased to inform you that the company is compliant with the provisions of the Code of Corporate Governance as introduced by the Securities & Exchange Commission of Pakistan and adopted by the Karachi Stock Exchange. The statement of compliance with the Code of Corporate Governance is also annexed.

CORPORATE & FINANCIAL REPORTING FRAMEWORK

Please note the following with regard to the corporate and financial reporting framework:

- o The financial statements, prepared by the management of the company, fairly present its state of affairs, the result of its operations, cash flows, and changes in equity.
- o Proper books of account of the company have been maintained.
- o Appropriate accounting policies have been consistently applied in the preparation of financial statements, and accounting estimates are based on reasonable and prudent judgment.
- o International Financial Reporting Standards (IFRS), as applicable in Pakistan, have been followed in the preparation of the financial statements.
- o The system of internal control is sound in design and has been effectively implemented and monitored.
- o The Board is satisfied that the company is doing well and there are no significant doubts upon the listed company's ability to continue as a going concern.
- o There has been no material departure from the best practice of corporate governance, as detailed in the listing regulation of Karachi Stock Exchange.
- o The key operating and financial data of the last six years is annexed herewith.
- o There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2008 except those as disclosed in the financial statements.
- o The value of the Provident Fund Investments as on June 30, 2008 was Rs. 56.06 million (June 30, 2007: Rs. 29.49 million).
- o No material changes and commitments affecting the financial position of the company have occurred between the end of the financial year to which this balance sheet relates and the date of the directors' report.



STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Board has adopted the Statement of Ethics and Business Practices as documented by the management. All employees have signed this statement and are required to observe these rules of conduct in relation to customers, suppliers, and regulators.

EMPLOYEE STOCK OPTION SCHEME

The retention of an experienced and skilled team of employees is one of the biggest challenges which the IT industry of Pakistan is facing at present. To incentivise employees, in addition to normal salaries, the most commonly and globally used tool is the grant of stock options to them. This not only gives them financial benefit but keeps them motivated as well. Keeping this in view, we started working on the Stock Option scheme, which was also approved by the shareholders later. At present, the scheme is pending with Securities and Exchange Commission of Pakistan, Islamabad for approval.

NETSOL CORPORATE UNIVERSITY

NetSol marked another milestone by launching Pakistan's first Corporate University. NetSol Corporate University (NCU) is the first-ever initiative taken by any corporate entity in Pakistan, and focuses on imparting management skills to expand organisational capability. We believe that besides nurturing leadership and developing capable back-ups for positions to maintain organizational continuity, the Corporate University would play a pivotal role in discovering, developing, and retaining the talent at NetSol.

LISTING ON DIFX

NetSol Technologies Inc., our holding company got listed on Dubai International Financial Exchange (DIFX) on June 16, 2008 under the symbol NTWK. The symbol also complements the company's current NASDAQ listing, where its common shares are traded since 1998. The approval of NetSol common shares to list for trading on DIFX reflects the further globalisation of our business. Being the first US-listed company to go live with a dual listing on DIFX will help broaden our investor base within this dynamic region as well as increase our brand visibility within the international markets.

ISO- 27001 CERTIFICATION

ISO-27001 is a globally recognized standard and best practice for Information Security Management. We feel proud in saying that NetSol is an ISO-27001 certified company. We have regimented ourselves to one guiding principle of "turning vision into reality", which drives our commitment to deliver the best of software solutions. ISO-27001 certification is very important for our global customers, as it enhances our credibility regarding the security of information at the development facility in Lahore. We have vowed to keep focusing on attaining such global certifications in the future in order to win the confidence of our customers all across the globe.

SOX 404 COMPLIANCE

Sarbanes-Oxley is a US law passed in 2002 to strengthen Corporate Governance and restore investor confidence. The SOX 404 section of Sarbanes-Oxley requires from the management to



certify the suitability of the design and effectiveness of the internal control system whereas external auditors are required to give their opinion on the management's assertions of internal control. Compliance with SOX 404 is mandatory for all US based listed companies and their subsidiaries. NetSol Technologies Inc., the holding company of NetSol Group, being listed on NASDAQ, is also required to comply with the requirements of SOX 404. That is why we took the initiative of implementing the requirements of SOX 404 in our company and hired the services of one of the top four accounting firms, KPMG Taseer Hadi & Co., Chartered Accountants to assist the management in implementing the requirements of SOX 404.

ATTENDANCE AT BOARD MEETING

During the year ended June 30, 2008, four (04) board meetings were held and attended as follows:

Name of Director	Name of Alternate Directors	No. of Meeting Attended
Salim Ullah Ghauri		04
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	03
Naeem Ullah Ghauri	Ayub Ghauri	02
Shahid Javed Burki		03
Irfan Mustafa		03
Sajjad Hussain Kirmani		04
Zahid Bashir Mirza		04

Leave of absence was granted to the members not able to attend the board meetings.

During the year under review, CEO, Director, CFO, Company Secretary, and their spouses and minor children have made no transaction in the company's shares except as stated below:

Name	Designation	Shares Purchased	Shares Sold
Salim Ullah Ghauri	Chief Executive	53,626*	-
Najeeb Ullah Ghauri	Director	782,293*	589,000
Naeem Ullah Ghauri	Director	266*	17,750
Shahid Javed Burki	Director	13,629*	8,000
Irfan Mustafa	Director	94,976*	-
Sajjad Hussain Kirmani	Director	464*	7,000
Zahid Bashir Mirza	Director	266*	-

* Purchase also includes 22% bonus shares allotted as per decision taken in the Shareholder Meeting held on October 19, 2007 and 20% bonus shares allotted as per decision taken in the Board of Directors Meeting held on February 11, 2008.



AUDIT COMMITTEE

The Board of Directors, in compliance with the Code of Corporate Governance, has established an Audit Committee comprising of the following three (03) members:

Name of Director	Alternate Director	Designation	Executive/Non-Executive
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	Chairman	Non-Executive Director
Irfan Mustafa	--	Member	Non-Executive Director
Sajjad Hussain Kirmani	--	Member	Executive Director

During the year, the Audit committee duly reviewed and approved all quarterly, half yearly, and annual financial statements before submission to the Board of Directors and their publication.

HOLDING COMPANY

NetSol Technologies Inc., USA, a Nevada Corporation, 24025 Park Sorrento Ste. 220, Calabasas, Ca 91302 holds a majority of the shareholding of the company.

AUDITORS

The present external auditors, Messrs Kabani Saeed Kamran Patel and Co. Chartered Accountants retire and being eligible, offer themselves for reappointment.

The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP). They have further confirmed that their firm is in compliance with International Federation of Accountants' (IFAC) guidelines on the Code of Ethics as adopted by the ICAP. The external auditors have not been appointed to provide other services except in accordance with the listing regulations and they have confirmed that they have observed IFAC guidelines in this respect.

As suggested by the Audit committee, the Board recommends their reappointment for the year ending June 30, 2009.

PATTERN OF SHAREHOLDING

The pattern of shareholding as at June 30, 2008, as required by section 236 of the Companies Ordinance 1984 and including the information under the Code of Corporate Governance, is annexed.



ACKNOWLEDGEMENT

The Board of Directors places on record its appreciation for the support by its shareholders, valued customers, government agencies, and financial institutions which enabled the company to achieve these tremendous results. The Board would also like to express its appreciation for the services, loyalty and efforts being continuously rendered by the executives and all the staff members of the company and hope that they will continue with these efforts in future.

On behalf of the Board



Salim Ullah Ghauri
Chairman & CEO

Lahore
September 10, 2008



REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the statement of compliance with the best practices contained in the code of Corporate Governance prepared by the Board of Directors of NetSol Technologies Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited where the company is listed.

The responsibility for the compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company's personnel and review of various documents prepared by the company to comply with the code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to company for the year ended June 30, 2008.

Kabani Saeed Kamran Patel & Co.
Chartered Accountants

Lahore
September 10, 2008



NetSol Technologies Limited

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2008

The Statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulation No. 37 of Karachi Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes four independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFIs or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year under consideration.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. Meetings of the Board were presided over by the Chairman, and in his absence, by a director elected by the Board for this purpose. Board met at least once in every quarter. Notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board had approved the appointment, remuneration and terms & conditions of employment of Chief Financial Officer, Company Secretary & Head of Internal Audit.



10. Director's report for the year ended 30-06-2008 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. Financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
12. Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
13. Company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee which comprises of three members of whom two are independent non-executive directors including the Chairman of the committee.
15. Meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Company as required by the Code. Terms of reference of the committee have been formed and advised to the committee for compliance.
16. The Board has set-up an effective internal audit function managed by suitably qualified and experienced personnel who is well conversant with the policies and procedures of the company and is involved in the internal audit function on full time basis.
17. Statutory auditors of the Company have confirmed:
 - o that they have been given a satisfactory rating under the quality control review programme of the institute of Chartered Accountants of Pakistan,
 - o that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and,
 - o that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
18. Statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. We confirm that all other material principles contained in the code have been complied with.

For and on behalf of the Board of Directors

(Salim Ullah Ghauri)
Chief Executive/Chairman

Lahore
September 10, 2008



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **NetSol Technologies Limited** as at **June 30, 2008** and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's Management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and the statement of changes in equity together with the notes forming part thereof conform with approved Accounting Standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2008 and of the profit, cash flow statement and statement of changes in equity, for the year then ended; and
- (d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

September 10, 2008
Lahore.

Kabani Saeed Kamran Patel & Co.
Chartered Accountants



BALANCE SHEET AS AT JUNE 30, 2008

	Notes	Jun-08 Rupees in '000'	Jun-07
ASSETS			
NON CURRENT ASSETS			
Property & equipments	4	522,553	364,151
Intangible assets	5	435,688	197,839
		958,241	561,990
CAPITAL WORK IN PROGRESS		14,988	-
LONG TERM INVESTMENTS	6	15,188	15,188
LONG TERM LOANS & ADVANCES	7	7,390	27,088
CURRENT ASSETS			
Trade debts	8	432,861	319,109
Current maturity of long term loans & advances	7	14,997	12,806
Excess of revenue over billing	9	741,634	499,012
Advances, deposits, prepayments and other receivables	10	148,618	87,560
Due from related parties	11	15,648	2,814
Cash & bank balances	12	127,933	67,529
		1,481,691	988,830
TOTAL ASSETS		2,477,498	1,593,096
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized Capital			
80,000,000 ordinary shares of Rs.10/- each		800,000	500,000
Issued, subscribed and paid up capital	13	597,375	408,043
Share deposit money		313	313
Reserves	14	1,401,358	884,805
Total shareholders' equity		1,999,046	1,293,161
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	15	18,092	13,031
Long term payable	16	39,214	39,270
Deferred income	17	2,482	1,713
CURRENT LIABILITIES			
Current portion of lease liability		14,759	9,773
Short term financing	18	200,000	127,500
Creditors, accrued and other liabilities	19	172,076	94,635
Excess of billing over revenue	20	23,331	11,778
Provision for taxation		8,498	2,235
		418,664	245,921
CONTINGENCIES & COMMITMENTS	21	-	-
TOTAL EQUITY AND LIABILITIES		2,477,498	1,593,096

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE



DIRECTOR

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2008

	Notes	Jun-08 Rupees in '000'	Jun-07
Revenue	22	1,298,120	927,810
Cost of sales	23	478,487	394,008
Gross profit		819,633	533,802
Operating expenses			
Administrative expenses	24	184,453	118,722
Selling & promotion expenses	25	96,733	74,963
		281,186	193,685
Operating profit		538,447	340,117
Other income / (expenses)	27	137,330	26,462
Financial cost	28	(14,149)	(11,459)
Dividend income		50,520	-
Net profit for the period before taxation		712,148	355,120
Taxation			
Current		6,263	2,235
Prior			843
Net profit for the period after taxation		705,885	352,042
Earning per share	29	11.82	5.89

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



NetSol Technologies Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2008

	Jun-08	Jun-07
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before tax	712,148	355,120
Add: Non cash charges to income		
Depreciation - own assets	56,295	26,249
Amortization of leased assets	8,348	4,665
Amortization of intangible assets	6,123	5,192
(Gain)/loss on disposal of fixed assets	2,333	589
Amortization of Deferred revenue	(1,342)	(1,549)
Exchange (gain) / loss on debtors	(121,893)	(8,386)
Interest expense	13,107	10,185
Interest income	(1,299)	(5,299)
Dividend income	(50,520)	-
	(88,848)	31,646
Cash flows from operating activities before working capital	623,300	386,766
Decrease / (increase) in current assets & liabilities		
Trade debts	(223,881)	(408,626)
Due from related parties	(12,834)	2,295
Advances, prepayments and other receivables	(50,422)	2,442
Creditors, accrued and other liabilities	76,657	46,924
Cash generated from operations	(210,480)	(356,965)
Interest paid	(12,323)	(5,665)
Taxes paid	(6,340)	(3,561)
Net cash flow from operating activities	394,157	20,575
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(209,232)	(95,947)
Sales proceeds of fixed asset	138	957
Intangible assets	(233,774)	(128,389)
Capital work in progress	(14,988)	-
Long term loan	6,297	(4,466)
Long term payable	(56)	39,270
Interest received	2,055	11,801
Dividend received	50,520	-
Net cash used in investing activities	(399,040)	(176,774)
CASH FLOWS FROM FINANCING ACTIVITIES		
Paid against obligation under capital lease	(15,522)	(9,789)
Received against obligation under capital lease	8,309	18,741
Short term finance	72,500	87,500
Net cash from financing activities	65,287	96,452
Net (decrease) / increase in cash and cash equivalents	60,404	(59,747)
Cash and cash equivalents at the beginning of the year	67,529	127,276
Cash and cash equivalents at the end of the period	127,933	67,529

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



NetSol Technologies Limited

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2008

	Share Capital	Share Premium	Share Deposit Money	Retained Earnings	Bonus Shares	Total Equity
	Rupees In '000'					
Balance at June 30, 2006	325,165	189,470	313	396,516	29,655	941,119
Net profit for the year ended June 30, 2007	-	-	-	352,042	-	352,042
Bonus shares issued	-	-	-	(53,223)	53,223	-
Balance at June 30, 2007	325,165	189,470	313	695,335	82,878	1,293,161
Net profit for the year ended June 30, 2008	-	-	-	705,885	-	705,885
Bonus shares issued	-	-	-	(189,332)	189,332	-
Balance at June 30, 2008	325,165	189,470	313	1,211,888	272,210	1,999,046

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

1 LEGAL STATUS AND NATURE OF BUSINESS

NetSol Technologies Limited incorporated in Pakistan on August-22, 1996 under the Companies Ordinance, 1984 as a private company limited by shares was later on converted into Public limited company on November-05, 2004. The company was listed on Karachi Stock Exchange on August 26, 2005. The business of the Company is development and sale of computer software and its related services in Pakistan as well as abroad. The registered office of the Company is situated at NetSol IT Village, NetSol Avenue (Software Technology Park) Main Ghazi Road, Lahore Cantt. 54792, Pakistan.

2 BASIS OF PREPARATION

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 Financial Reporting Standards 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, requirements of the Ordinance or the requirements of the said directives take precedence.

Functional and presentation currency

These financial statements are presented in Pak Rupee, which is the company's functional currency. All financial information presented in Pak Rupee has been rounded to the nearest thousand.

Use of estimates and judgement

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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, 2009. Adoption of these amendments may only impact of disclosures presented in the financial statements.

Accounting standards not yet effective

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation.



NOTES TO THE ACCOUNTS

Standard or Interpretation

IAS 1	Presentation of Financial Statements (Revised)	January-01, 2009
IAS 23	Borrowings Costs (Revised)	January-01, 2009
IAS 27	Consolidated and Separate Financial Statements (Revised)	January-01, 2009
IAS 29	Financial Reporting in Hyperinflationary Economies	July-01, 2008
IAS 32	Financial Instruments: Presentation (Amendment)	January-01, 2009
IFRS 2	Share-based Payment (Amendment)	January-01, 2009
IFRS 3	Business Combinations	January-01, 2009
IFRS 7	Financial Instruments: Disclosures	July-01, 2008
IFRS 8	Operating Segments	January-01, 2009
IFRIC 12	Service Concession Arrangements	January-01, 2009
IFRIC 13	Customer Loyalty Programmes	July-01, 2008
IFRIC 14	The Limit On Defined Benefit Assets, Minumum Funding Requirements and Their Interactions	January-01, 2008
IFRIC 15	Agreement For Construction Of Real Estate	October-01, 2009
IFRIC 16	Hedge of Net Investment In foreign Operaiions	October-01, 2008

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Accounting convention

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

3.2 Property and equipments

Property and equipments are stated at cost less accumulated depreciation execept capital work-in-progress which is stated at cost.

All expenditures connected to the specific assets incurred during installation and construction period are carried under capital work in-progress. These are transferred to specific assets as and when assets are available for use.

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 for 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.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

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

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



NOTES TO THE ACCOUNTS

3.3 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 using reducing balance method at the rates given in note 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 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 charged to income.

3.4 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.



NOTES TO THE ACCOUNTS

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.

3.5 Foreign currency translation

Transactions denominated in foreign currencies are translated in Pak Rupees at the foreign exchange rate prevailing 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.

3.6 Financial instruments

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.

3.7 Trade debts

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

3.8 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 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.

3.9 Investments

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



NOTES TO THE ACCOUNTS

3.10 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.

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.

3.11 Segment reporting

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

3.12 Cash and cash equivalents

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

3.13 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 permanent staff. Equal contribution is made by the company in the provident fund on monthly basis.

3.14 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 ACCOUNTS

		Jun-08 Rupees in '000'	Jun-07
4 PROPERTY & EQUIPMENTS			
Net book value of owned assets	4.1	474,850	330,541
Net book value of leased assets	4.4	47,703	33,610
Total		522,553	364,151

4.1

Particulars	COST			Rate %	DEPRECIATION			As at June-30 2008	Net book value as at June 30 2008
	As at July-01 2007	Additions / (Deletions)	As at June-30 2008		As at July 01, 2007	Adjustment during the year	Charge for the period		
Rupees In '0 0 0'									
Tangible Assets									
Land - freehold	36,599	26,500	63,099	-	-	-	-	-	63,099
Building on freehold land	197,926	-	197,926	5	29,929	-	8,400	38,329	159,597
Computers	109,586	124,225 (25,243)	208,568	33	47,250	(9,828)	32,264	69,686	138,882
Air conditioners	7,856	177	8,033	10	3,021	(50)	541	3,512	4,521
Furniture & fixtures	15,692	3,091 (119)	18,664	10	5,368	(9)	1,185	6,544	12,120
Office equipment	8,709	8,683 (3,061)	14,331	10	2,187	(1,238)	744	1,693	12,638
Electric fittings	4,939	177	5,116	10	1,499	-	358	1,857	3,259
Vehicles	7,225	4,312 (2,374)	9,163	20	1,559	472	1,274	3,305	5,858
Generator	957	2,500	3,457	10	262	667	262	1,191	2,266
Intangible Assets									
Computer software	45,775	61,362 (52)	107,085	33	13,648	(1)	20,828	34,475	72,610
June-2008	435,264	231,027 (30,849)	635,442		104,723	(9,987)	65,856	160,592	474,850
June-2007	362,744	100,562 (28,042)	435,264		77,703	(4,784)	31,804	104,723	330,541

4.2 Depreciation is allocated in the following manner

	Jun-08 Rupees in '000'	Jun-07
Cost of sales	39,831	18,176
Administrative expenses	16,464	8,073
Development cost	9,561	5,555
	65,856	31,804



NOTES TO THE ACCOUNTS

4.3 Disposal of Operating fixed assets

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

Particulars	Cost	Book value	Sale proceed	Mode of Disposal	Particular of purchaser
	Rupees In '000'				
Office equipments	3,061	1,851	100	Negotiation	open market scrap merchant
Computers	1,175	155	37	Negotiation	open market scrap merchant
June-2008	4,236	2,006	137		
June-2007	7,392	2,996	2,407		

4.4 Assets subject to finance lease

Particulars	COST			Rate %	AMORTIZATION			Net book value as at June 30 2008	
	As at July-01 2007	Additions / (Deletions)	As at June-30 2008		As at July 01, 2007	Adjustment during the year	Charge for the period		As at June-30 2008
Rupees In '000'									
Vehicles	22,114	3,056 (1,000)	24,170	20	7,909	(488)	3,043	10,464	13,706
Generator	7,486	2,515 (2,735)	7,266	10	1,661	(758)	427	1,330	5,936
Computers	16,472	17,122	33,594	33	4,127		5,343	9,470	24,124
Electric fittings	1,118	-	1,118	10	304		82	386	732
Office equipment	-	836	836	10	-		14	14	822
Air conditioners	578	2,038	2,616	10	157		76	233	2,383
June-2008	47,768	25,567 (3,735)	69,600		14,158	(1,246)	8,985	21,897	47,703
June-2007	33,959	19,460 (5,651)	47,768		11,213	(2,604)	5,549	14,158	33,610

4.5 Amortization is allocated in the following manner

	Jun-08	Jun-07
	Rupees in '000'	
Cost of sales	6,102	3,278
Administrative expenses	2,246	1,387
Development cost	637	884
	8,985	5,549



NOTES TO THE ACCOUNTS

5 INTANGIBLE ASSETS

Particulars	COST			Rate %	AMORTIZATION			Net book value as at June 30 2008
	As at July-01 2007	Additions / (Deletions)	As at June-30 2008		As at July 01, 2007	Charge for the period	As at June-30 2008	
Rupees In '000'								
In-house								
Developed software								
NetSol Financial Suite	81,982	-	81,982	10	14,400	4,531	18,931	63,051
Knit Info System	4,342	-	4,342	10	434	434	868	3,474
NetSol's Pay Soft	5,596	-	5,596	10	560	559	1,119	4,477
LRMIS	54,169	17,657	71,826	10	-	599	599	71,227
Under Development								
SMART	67,144	63,913	131,057	-	-	-	-	131,057
Fleet Management System (FMS)	-	44,643	44,643	-	-	-	-	44,643
Blue Star	-	88,626	88,626	-	-	-	-	88,626
HMIS	-	8,483	8,483	-	-	-	-	8,483
Loan Origination System	-	14,000	14,000	-	-	-	-	14,000
Business Intelligence Scoring Model & Risk Management	-	6,650	6,650	-	-	-	-	6,650
June-2008	213,233	243,972	457,205		15,394	6,123	21,517	435,688
June-2007	78,405	134,828	213,233		10,203	5,192	15,394	197,839

Note:

Developed softwares naming CMS, ePOS, WFS and Inbanking have been merged into "NetSol Financial Suite".

5.1 Amortization is allocated in the following manner

	Jun-08 Rupees in '000'	Jun-07
Cost of sales	6,123	5,192
	6,123	5,192

6 LONG TERM INVESTMENT - at cost

NetSol Innovation (Pvt) Limited formerly TIG-NetSol (Private) Limited (Subsidiary Co)	6.1	15,188	15,188
--	-----	---------------	--------

- 6.1** The Company holds 1,518,785 (Jun-2007: 1,518,785) fully paid ordinary shares of Rs. 10/- each i.e. 50.52% of Equity held (Jun-2007: 50.52%). Based on audited accounts for the year ended June-30, 2008, break-up value per share is Rs. 28.49 (June : 2007 Rs. 56.20).

Mr. Salim Ullah Ghauri is the Chief Executive Officer of the company.



NOTES TO THE ACCOUNTS

		Jun-08	Jun-07
		Rupees in '000'	
7	LONG TERM LOANS & ADVANCES- Unsecured		
	Long term loan: considered good		
	Opening balance		
	Loan to employees	10,667	25,928
	Loan to directors	-	9,500
		10,667	35,428
	Repayment during the period	(6,297)	(24,761)
		4,370	10,667
	Less: current maturity	7.3 (550)	(1,429)
		7.3 3,820	9,238
7.1	The Company has granted an unsecured long term loan amounting to Rs 4.37 Million to its employees (June-2007: Rs. 10.667 Million). The maximum amount outstanding during the period under this head at any point of time was Rs.10.667 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.		
7.2	Long term advance: considered good		
	Amount of advance	18,017	29,227
	Less: current maturity	7.3 (14,447)	(11,377)
		7.3 3,570	17,850
7.3	Long term portion of loans & advances	7,390	27,088
	Current portion of loans & advances	14,997	12,806

8 TRADE DEBTS

It represents amount receivable from customers. It is unsecured but considered good by the management.

9 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. It is unsecured but considered good by the management.



NOTES TO THE ACCOUNTS

	Jun-08	Jun-07
	Rupees in '000'	
10 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Loan to employees - considered good	1,736	687
Advances - considered good		
- To employees	1,286	2,340
- Against expenses	18,973	21,268
- Against capital expenditure	56,197	-
Security deposit	13,086	12,644
Prepayments	2,394	2,576
Advance income tax	19,263	7,871
Tender money receivable	20,047	24,446
Mark up receivable	28	784
Other receivable - considered good	15,608	14,944
	148,618	87,560
11 DUE FROM RELATED PARTIES		
NetSol Connect (Pvt.) Ltd.	2,814	2,814
NetSol Innovation (Pvt) Ltd. formerly TIG-NetSol (Private) Ltd.	12,737	-
NetSol Consulting Services (Pvt) Ltd	97	-
	15,648	2,814
These relate to normal course of business of the company and are interest free.		
12 CASH AND BANK BALANCES		
At banks		
Saving accounts	12.1 104,363	27,045
Current accounts	56	57
Foreign currency current account	853	28
Term deposit	12.2 22,120	40,000
	127,392	67,130
In hand	541	399
	127,933	67,529

12.1 The balances in savings accounts bear mark up which ranges from 0.75 % to 3 % per annum.

12.2 The balances placed in fixed deposit accounts bear mark up which ranges from 4 % to 5 % per annum.



NOTES TO THE ACCOUNTS

			Jun-08	Jun-07
			Rupees in '000'	
13	ISSUED, SUBSCRIBED & PAID-UP CAPITAL			
	Jun-08	Jun-07		
	(Number of shares)			
	32,516,482	32,516,482	Ordinary Shares of Rs. 10 each fully paid in cash	325,165 325,165
	27,221,013	8,287,818	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	272,210 82,878
	59,737,495	40,804,300		597,375 408,043

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

14 RESERVES

Capital reserve

Premium on issue of ordinary shares **189,470** 189,470

Revenue reserve

Un - appropriated profit **1,211,888** 695,335

1,401,358 884,805

15 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Present value of minimum lease payments **32,851** 22,804

Less: Current portion of obligations shown under current liabilities **14,759** 9,773

18,092 13,031

Present value of minimum lease payments have been discounted at an implicit interest rate ranging between 13 % to 16.50 % 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 Financial charges	Present value of lease liability	
Not later than one year	18,745	3,986	14,759	9,773
Later than one year but not later than five years	20,486	2,394	18,092	13,031
	39,231	6,380	32,851	22,804



NOTES TO THE ACCOUNTS

	Jun-08	Jun-07
	Rupees in '000'	
16 LONG TERM PAYABLE		
Due to related party - unsecured	39,214	39,270
This represent interest free loan obtained from an associated undertaking.		
17 DEFERRED INCOME		
Opening balance	1,713	2,495
Addition during the year	2,111	767
Amortized during the year	3,824 (1,342)	3,262 (1,549)
Un amortized gain on sale and lease back transaction	2,482	1,713
17.1	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.	
18 SHORT TERM FINANCING		
Export refinance - secured	18.1 200,000	120,000
Running finance - secured	18.2 -	7,500
	200,000	127,500

18.1 The facility for export refinance is availed from Askari Bank Ltd amounting to Rs 200 million (Jun-2007: Rs 120 million) and carry mark-up of 7.5% per annum (Jun-2007: 7% to 7.5% per annum). The due balance is payable in bi-annually installments.

18.2 The facility of running finance is available from Askari Bank Ltd up to Rs. 7.5 Million availed Nil (June-2007 : 7.5 Million). It carries mark up at the rate 3 months Kibor + 2.4% with a floor of 11% p a.

18.3 The facility of term finance is available from Askari Bank Ltd up to Rs. 200 Million (June-2007 : Nil). It carries mark up at the rate 6 months Kibor + 3%, payable in semi annual installments.

All these facilities are secured by way of first charge over the company's current assets including stocks/receivable/ book debt up to Rs. 285.71 Million. and further Rs. 580 Million by way of hypothecation charge over the land, building and equipment of the Company.



NOTES TO THE ACCOUNTS

	Jun-08	Jun-07		
	Rupees in '000'			
19 CREDITORS, ACCRUED AND OTHER LIABILITIES				
Creditors	39,622	23,576		
Accrued liabilities	55,865	36,714		
Advance from customers	1,500	4,470		
Interest payable	4,391	3,607		
Security refundable	223	223		
Due to related parties	56,394	21,073		
Withholding tax	11,306	3,327		
Provident fund payable	2,533	1,443		
Other payables	242	202		
	172,076	94,635		
19.1 Due to related parties				
NetSol Technologies Inc.	56,394	18,168		
NetSol Consulting Services (Pvt) Ltd.	-	1,396		
NetSol Innovation (Pvt) Ltd. formerly TIG-NetSol (Private) Ltd.	-	1,509		
	56,394	21,073		
20 EXCESS OF BILLING OVER REVENUE				
It represents maintenance fee received in advance and transferred to revenue from maintenance on time proportion basis.				
21 CONTINGENCIES & COMMITMENTS				
The company has no contingent liabilities & commitments outstanding as at June-30, 2008 except to the tune of Rs. 32.38/- million (June 30, 2007 Rs. 34.82 million) guarantees issued to various customers against sale of software and allied services.				
22 REVENUE	Domestic Jun-08	Foreign Jun-08	Total Jun-08	Total Jun-07
	Rupees in '000'			
Export Revenue				
License	-	607,398	607,398	452,636
Services	-	467,315	467,315	256,307
Maintenance	-	61,917	61,917	39,600
Local Revenue				
License	-	-	-	36,495
Services	156,727	-	156,727	141,539
Maintenance	4,763	-	4,763	1,233
	161,490	1,136,630	1,298,120	927,810



NOTES TO THE ACCOUNTS

	Domestic Jun-08	Foreign Jun-08	Total Jun-08	Total Jun-07
	Rupees in '000'			
23 COST OF SALES				
Staff salaries & benefits	69,804	201,983	271,787	188,135
Consultancy charges	1,422	3,508	4,930	7,296
Technical services	6,100	9,837	15,937	5,240
Third party software & hardware	8,546	2,346	10,892	43,710
Staff training	1,702	1,094	2,796	4,229
Rent, rates & taxes	-	12,210	12,210	-
Traveling & conveyance	8,663	54,039	62,702	76,544
Communication	845	3,424	4,269	3,741
Utilities	1,385	8,777	10,162	10,493
Printing & stationery	765	1,943	2,708	1,794
Entertainment	1,260	4,167	5,427	3,803
Insurance	251	1,142	1,393	763
Vehicle running & maintenance	955	1,612	2,567	2,155
Repair & maintenance	4,225	12,262	16,487	16,819
Certifications	-	293	293	2,104
Fee & subscription	1,134	737	1,871	536
Depreciation	4.2	4,955	34,876	18,176
Amortization of leased assets	4.5	759	5,343	3,278
Amortization of intangible assets	5.1	1,373	4,750	5,192
	114,144	364,343	478,487	394,008
24 ADMINISTRATIVE EXPENSES				
Directors remuneration	1,317	9,269	10,586	8,774
Staff salaries and benefits	7,161	50,404	57,565	40,479
Staff training	38	267	305	111
Management fee	4,676	32,908	37,584	21,251
Rent, rates and taxes	247	1,740	1,987	1,527
Traveling and conveyance	955	6,724	7,679	6,906
Communication & postage	312	2,195	2,507	1,394
Printing and stationery	52	370	422	382
Utilities	574	4,044	4,618	3,229
Entertainment	562	3,958	4,520	3,575
Insurance	145	1,024	1,169	666
Advertisement	397	2,797	3,194	2,929
Vehicle running expenses	648	4,563	5,211	3,539
Repairs and maintenance	1,685	11,860	13,545	6,001
Legal and professional charges	1,188	8,363	9,551	4,603
Auditors remuneration	149	1,051	1,200	1,200
News papers & periodicals	20	142	162	253
Security expenses	39	274	313	139
Office supplies	109	765	874	793
Charity & donation	126	889	1,015	876
Fee & subscription	163	1,148	1,311	510
Miscellaneous expenses	53	372	425	125
Depreciation	4.2	2,048	14,416	8,073
Amortization of leased assets	4.5	279	1,967	1,387
	22,943	161,510	184,453	118,722



NOTES TO THE ACCOUNTS

		Jun-08	Jun-07		
		Rupees in '000'			
24.1 Auditor remuneration					
Audit fee		300	300		
Certifications of group reporting		600	600		
Professional services		140	175		
Out-of-pocket expenses		160	125		
		1,200	1,200		
	Domestic	Foreign	Total	Total	
	Jun-08	Jun-08	Jun-08	Jun-07	
		Rupees in '000'			
25 SELLING & PROMOTION EXPENSES					
Staff salaries & benefits	26	10,639	14,671	25,310	20,591
Staff training		-	58	58	71
Rent, rates & taxes		5,292	15	5,307	3,999
Traveling and conveyance		1,693	20,139	21,832	13,307
Communication		1,080	1,432	2,512	2,274
Utilities		773	530	1,303	1,113
Printing & stationery		350	55	405	336
Entertainment		376	186	562	849
Insurance		72	104	176	137
Vehicle running expenses		866	246	1,112	986
Repairs and maintenance		1,418	2,036	3,454	828
Commission on sales		60	12,336	12,396	15,239
Advertisement		3,052	1,796	4,848	442
Tender money		52	-	52	46
Sale promotional expenses		2,644	14,762	17,406	14,745
		28,367	68,366	96,733	74,963
26 RETIREMENT BENEFIT					
Staff salaries and benefits includes the amount of provident fund contributed by the company.					
27 OTHER INCOME / (EXPENSES)					
Gain / (loss) on foreign currency translation		-	121,893	121,893	8,386
Profit on bank deposits		1,299	-	1,299	2,396
Amortization of deferred revenue		1,342	-	1,342	1,549
Rental income		15,129	-	15,129	11,817
Gain / (loss) on disposal of assets		(2,333)	-	(2,333)	(589)
Mark up on loan		-	-	-	2,903
		15,437	121,893	137,330	26,462



NOTES TO THE ACCOUNTS

	Domestic Jun-08	Foreign Jun-08	Total Jun-08	Total Jun-07
	Rupees in '000'			
28 FINANCIAL COST				
Lease finance charges	382	2,692	3,074	1,987
Interest on short term loans	-	10,033	10,033	8,198
Lease documentation charges	4	30	34	58
Bank charges	287	721	1,008	1,216
	673	13,476	14,149	11,459

	Jun-08	Jun-07
	Rupees in '000'	
29 EARNING PER SHARE		
Profit after taxation for the year	705,885	352,042
Average number of ordinary shares in issue during the period	59,737	59,737
Earning per share basic	11.82	5.89

30 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	
	2008	2007	2008	2007	2008	2007
	Rupees in '000'					
Managerial remuneration	3,200	3,200	3,616	2,484	91,603	42,571
Retirement benefits	-	-	362	248	5,095	2,394
Rent and house maintenance	1,280	1,280	1,446	994	36,641	17,029
Utilities	320	320	362	248	9,160	4,257
Medical expenses	69	91	110	63	3,476	1,312
Total	4,869	4,891	5,896	4,037	145,975	67,563
No. of Persons	1	1	2	2	160	60

The chief executive, directors and some executives have been provided with company maintained cars.



NOTES TO THE ACCOUNTS

31 TRANSACTION WITH RELATED PARTIES

Related parties comprise of holding company, 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. Parent, subsidiary and associated undertakings also have some common directorship.

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 transactions	Jun-08	Jun-07
		Rupees in '000'	
(i) Parent	Management fee	37,584	21,251
(ii) Subsidiary	Rental income	13,606	9,925
	Provision of services	4,838	4,525
	Sale of assets	-	800
(iii) Associated undertaking	Provision of services	47,556	24,046
	Expenses incurred by	2,243	2,368
	Purchase of services	6,275	3,152
(iv) Post employment benefit	Contribution to defined contribution plan	9,029	6,562

32 FAIR VALUE OF FINANCIAL ASSETS & LIABILITIES

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

33 CAPITAL MANAGEMENT

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholder or issue new shares.

As of the balance sheet date, the management considers that the capital of the company is sufficient to meet the requirements of the business.



NOTES TO THE ACCOUNTS

34 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 indicates 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 8			2 0 0 7		
	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:						
Trade debts	-	432,861	432,861	-	319,109	319,109
Excess of revenue over billing	-	741,634	741,634	-	499,012	499,012
Security deposits	-	13,086	13,086	-	12,644	12,644
Tender money receivable	-	20,047	20,047	-	24,446	24,446
Mark up receivable	-	28	28	-	784	784
Other receivables	-	15,608	15,608	-	14,944	14,944
Cash & bank balances	126,483	1,450	127,933	67,045	484	67,529
Due from related parties	-	15,648	15,648	-	2,814	2,814
Long term loan current maturity	-	550	550	-	1,429	1,429
Maturity after one year:						
Long term investment	-	15,188	15,188	-	15,188	15,188
Long term loan	-	3,820	3,820	-	9,238	9,238
Total Financial Assets	126,483	1,259,920	1,386,403	67,045	900,092	967,137
Financial Liabilities						
Maturity up to one year:						
Short term financing	200,000	-	200,000	127,500	-	127,500
Creditors, accrued & other liabilities	-	172,076	172,076	-	94,635	94,635
Lease liabilities	14,759	-	14,759	9,773	-	9,773
Maturity after one year:						
Lease liabilities	18,092	-	18,092	13,031	-	13,031
Long term payable	-	39,214	39,214	-	39,270	39,270
Total Financial Liabilities	232,851	211,290	444,141	150,304	133,905	284,209
Net financial assets / (liabilities)	(106,368)	1,048,630	942,262	(83,259)	766,187	682,928
Off balance sheet						
Guarantees issued to customers	-	32,382	32,382	-	34,820	34,820



NOTES TO THE ACCOUNTS

34.1 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.

35 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.

36 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.

37 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.

38 SEGMENT REPORTING

	Pakistan		Asia Pacific		Australia & USA		Others		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	R U P E E S i n ' 0 0 0 '									
Revenue	161,490	179,267	545,582	608,565	372,474	126,279	218,574	13,699	1,298,120	927,810
Cost of sales	114,144	130,901	174,885	213,906	119,395	44,386	70,063	4,815	478,487	394,008
Gross profit	47,346	48,366	370,698	394,659	253,078	81,893	148,511	8,884	819,633	533,802
Administrative expenses	22,943	22,938	77,525	77,872	52,927	16,159	31,058	1,753	184,453	118,722
Selling expenses	28,367	24,561	32,816	40,977	22,404	8,503	13,147	922	96,734	74,963
Operating profit	(3,964)	867	260,357	275,810	177,748	57,231	104,306	6,209	538,447	340,117
Other Income	65,957	18,076	58,509	6,818	39,944	1,415	23,440	153	187,850	26,462
Other / Financial charges	673	1,699	6,468	7,935	4,416	1,647	2,592	178	14,149	11,459
Segment result	61,320	17,244	312,398	274,693	213,276	56,999	125,154	6,184	712,148	355,120
Other Information										
Segment assets	705,042	483,032	-	-	-	-	-	-	705,042	483,032
Depreciation	64,643	30,914	-	-	-	-	-	-	64,643	30,914
Non cash expenses other than depreciation	6,123	5,192	-	-	-	-	-	-	6,123	5,192
Segment liabilities	444,141	284,209	-	-	-	-	-	-	444,141	284,209



NOTES TO THE ACCOUNTS

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

39 ANNUAL SOFTWARE DEVELOPMENT CAPACITY

The company is engaged in Software development, maintenance and licensing. Due to complicated nature of the software development process annual development capacity can not be determined.

40 TAXATION

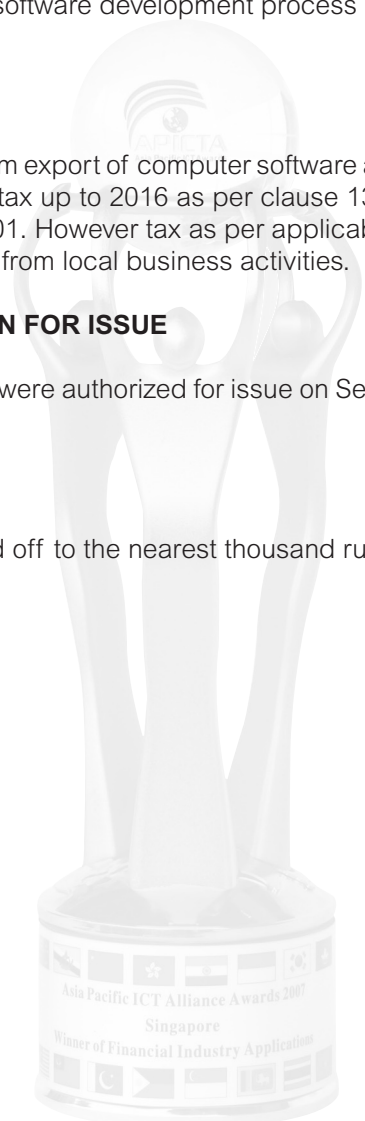
Income of the Company from export of computer software and its related services developed in Pakistan is exempt from tax up to 2016 as per clause 133 of the Second Schedule of the Income Tax Ordinance, 2001. However tax as per applicable rates is charged to the income of the company generated from local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

41 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 10, 2008 by the Board of Directors.

42 FIGURES

Figures have been rounded off to the nearest thousand rupee.



CHIEF EXECUTIVE

DIRECTOR





**CONSOLIDATED
FINANCIAL
STATEMENTS**



NetSol Technologies Limited

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

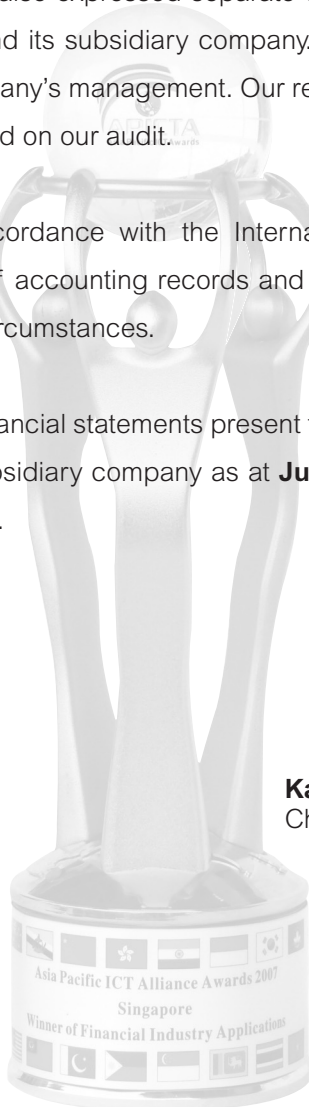
We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of **NetSol Technologies Limited** and its subsidiary company as at **June 30, 2008** and the related consolidated Profit and Loss Account, consolidated Cash Flow Statement and consolidated Statement of 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, 2008** and the results of their operations for the year then ended.

September 10, 2008
Lahore.

Kabani Saeed Kamran Patel & Co.
Chartered Accountants



CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 2008

	Notes	Jun-08 Rupees in '000'	Jun-07
ASSETS			
NON CURRENT ASSETS			
Property & equipments	4	556,474	392,688
Intangible assets	5	435,688	197,839
		992,162	590,527
CAPITAL WORK IN PROGRESS			
		14,988	-
LONG TERM LOANS & ADVANCES			
	6	7,390	27,088
CURRENT ASSETS			
Trade debts	7	574,231	377,502
Current maturity of long term loans & advances	6	14,997	12,806
Excess of revenue over billing	8	741,634	499,012
Advances, deposits, prepayments and other receivables	9	159,637	89,959
Due from related parties	10	2,911	3,704
Cash & bank balances	11	147,807	149,683
		1,641,217	1,132,666
TOTAL ASSETS			
		2,655,757	1,750,281
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized Capital			
80,000,000 ordinary shares of Rs.10/- each		800,000	500,000
Issued, subscribed and paid up capital			
	12	597,375	408,043
Share deposit money		313	313
Reserves	13	1,479,668	955,557
Minority interest		91,610	84,253
Total shareholders' equity		2,168,966	1,448,166
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	14	18,092	13,031
Long term payable	15	39,214	39,270
Deferred income	16	2,482	1,713
CURRENT LIABILITIES			
Current portion of lease liability		14,759	9,773
Short term financing	17	200,000	127,500
Creditors, accrued and other liabilities	18	179,763	94,986
Excess of billing over revenue	19	23,331	11,778
Provision for taxation		9,150	4,064
		427,003	248,101
CONTINGENCIES & COMMITMENTS			
	20	-	-
TOTAL EQUITY AND LIABILITIES			
		2,655,757	1,750,281

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



NetSol Technologies Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2008

	Notes	Jun-08 Rupees in '000'	Jun-07
Revenue	21	1,556,158	1,082,420
Cost of sales	22	613,493	465,783
Gross profit		942,665	616,637
Operating expenses			
Administrative expenses	23	187,757	124,363
Selling & promotion expenses	24	97,383	74,963
		285,140	199,326
Operating profit		657,525	417,311
Other income / (expenses)	26	133,223	21,653
Financial cost	27	(14,260)	(9,476)
Net profit for the period before taxation		776,488	429,488
Taxation			
Current		6,915	4,068
Prior		(707)	858
Net profit for the period		770,280	424,562
Attributable to:			
Equity holders of parent		713,443	388,637
Minority interest		56,837	35,925
		770,280	424,562
Earning per share	28	11.94	6.51

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



NetSol Technologies Limited

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2008

	Jun-08	Jun-07
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before tax	776,488	429,488
Add: Non cash charges to income		
Depreciation - own assets	65,713	32,821
Amortization of leased assets	8,348	4,665
Amortization of intangible assets	6,123	5,191
(Gain)/loss on disposal of fixed assets	2,350	1,135
Amortization of deferred revenue	(1,342)	(1,549)
Exchange (gain) / loss on debtors	(127,463)	(10,842)
Interest expense	13,026	8,155
Interest income	(1,478)	(8,505)
Unrealized gain on short term investment	(3,767)	-
	(38,490)	31,071
Cash flows from operating activities before working capital	737,998	460,559
Decrease / (increase) in current assets & liabilities		
Trade debts	(301,289)	(418,246)
Due from related parties	793	1,324
Advances, prepayments and other receivables	(59,267)	1,435
Short term investment	3,767	-
Creditors, accrued and other liabilities	83,993	45,425
Cash generated from operations	(272,003)	(370,062)
Interest paid	(12,242)	(5,665)
Taxes paid	(7,361)	(4,611)
Dividend paid	(49,480)	-
Net cash flow from operating activities	396,912	80,221
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(224,051)	(111,198)
Sales proceeds of fixed asset	138	1,514
Intangible assets	(233,773)	(128,389)
Capital work in progress	(14,988)	-
Long term employee loan	6,297	(4,466)
Long term payable	(56)	39,270
Interest received	2,358	15,447
Net cash used in investing activities	(464,075)	(187,822)
CASH FLOWS FROM FINANCING ACTIVITIES		
Paid against obligation under finance lease	(15,522)	(9,789)
Received against obligation under finance lease	8,309	18,741
Short term finance	72,500	87,500
Net cash from financing activities	65,287	96,452
Net (decrease) / increase in cash and cash equivalents	(1,876)	(11,149)
Cash and cash equivalents at the beginning of the year	149,683	160,832
Cash and cash equivalents at the end of the period	147,807	149,683

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



NetSol Technologies Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2008

	Attributable to equity holders of the Parent						Minority Interest	Total Equity
	Share Capital	Share Premium	Share Deposit Money	Retained Earnings	Bonus Shares	Total		
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
Net profit for the year ended June 30, 2008	-	-	-	713,443	-	713,443	56,837	770,280
Dividend declared	-	-	-	-	-	-	(49,480)	(49,480)
Bonus shares issued	-	-	-	(189,332)	189,332	-	-	-
Balance at June 30, 2008	325,165	189,470	313	1,290,198	272,210	2,077,356	91,610	2,168,966

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2008

1 STATUS & NATURE OF BUSINESS

NetSol Group consists of:

- NetSol Technologies Ltd
- NetSol Innovation (Private) Limited Formerly TiG-NetSol (Pvt) Ltd

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

NetSol Innovation (Private) Limited Formerly 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. The registered office of the Company is situated at NetSol IT Village, NetSol Avenue (Software Technology Park) Main Ghazi Road, Lahore Cantt. 54792, Pakistan.

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.

Functional and presentation currency

These financial statements are presented in Pak Rupee, which is the company's functional currency. All financial information presented in Pak Rupee has been rounded to the nearest thousand.



NOTES TO THE CONSOLIDATED ACCOUNTS

Use of estimates and judgement

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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 except capital work-in-progress which is stated at cost.

All expenditures connected to the specific assets incurred during installation and construction period are carried under capital work in-progress. These are transferred to specific assets as and when assets are available for use.

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.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

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.



NOTES TO THE CONSOLIDATED ACCOUNTS

Assets acquired under finance lease are amortized over the useful life of the assets using 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 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 charged to 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.

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.



NOTES TO THE CONSOLIDATED ACCOUNTS

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 Trade debts

Trade debts 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 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 either in providing products or services (business segment), or in providing products or services 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

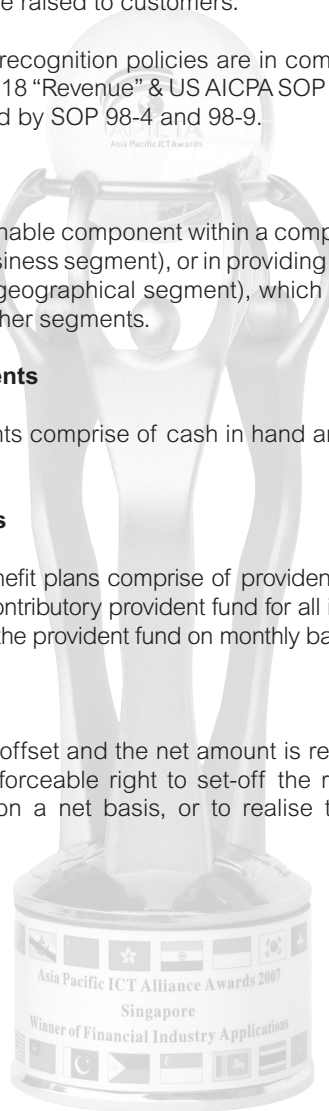
Cash and cash equivalents comprise of cash in hand and at current and/ or deposit accounts held with banks.

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 permanent 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

		Jun-08	Jun-07
		Rupees in '000'	
4 PROPERTY & EQUIPMENTS			
Net book value of owned assets	4.1	508,771	359,078
Net book value of leased assets	4.4	47,703	33,610
Total		556,474	392,688

4.1

Particulars	COST				DEPRECIATION				Net book value as at June 30 2008
	As at July-01 2007	Additions / (Deletions)	As at June-30 2008	Rate %	As at July 01, 2007	Adjustment during the year	Charge for the period	As at June-30 2008	
Rupees In '000'									
Tangible Assets									
Land - freehold	36,599	50,641	87,240		-	-	-	-	87,240
Building on freehold land	197,926	1,354	199,280	5	29,929		8,400	38,329	160,951
Computers	127,992	107,758 (25,243)	210,507	33	53,369	(9,828)	37,104	80,645	129,862
Air conditioners	9,029	720	9,749	10	3,228	(50)	653	3,831	5,918
Furniture & fixtures	17,365	1,418 (119)	18,664	10	5,604	(9)	1,344	6,939	11,725
Office equipment	9,712	13,560 (3,061)	20,211	10	2,371	(1,238)	832	1,965	18,246
Electric fittings	4,939	1,107	6,046	10	1,499		358	1,857	4,189
Vehicles	11,415	11,617 (2,374)	20,658	20	2,872	487	2,116	5,477	15,181
Generator	1,887	11,197	13,084	10	347	667	347	1,361	11,723
Leasehold improvements	11,589	(11,589)	-	20	3,960	-	1,526	5,486	(5,486)
Intangible Assets									
Software	49,074	58,063 (52)	107,085	33	15,270	(1)	22,594	37,863	69,222
June-2008	477,527	245,846 (30,849)	692,524		118,449	(9,972)	75,274	183,753	508,771
June-2007	392,211	115,301 (29,985)	477,527		86,209	(6,137)	38,376	118,449	359,078

4.2 Depreciation is allocated in the following manner

	Jun-08	Jun-07
	Rupees in '000'	
Cost of sales	49,249	24,748
Administrative expenses	16,464	8,073
Development cost	9,561	5,555
	75,274	38,376



NOTES TO THE CONSOLIDATED ACCOUNTS

4.3 Disposal of operating fixed assets

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

Particulars	Cost	Book value	Sale proceed	Mode of Disposal	Particular of purchaser
	Rupees In '000'				
Office equipments	3,061	1,851	100	Negotiation	open market scrap merchant
Computers	1,175	155	37	Negotiation	open market scrap merchant
June-2008	4,236	2,006	137		
June-2007	8,751	3,333	2,198		

4.4 Assets subject to finance lease

Particulars	COST			Rate %	AMORTIZATION			As at June-30 2008	Net book value as at June 30 2008
	As at July-01 2007	Additions / (Deletions)	As at June-30 2008		As at July 01, 2007	Adjustment during the year	Charge for the period		
Rupees In '000'									
Vehicles	22,114	3,056 (1,000)	24,170	20	7,909	(488)	3,043	10,464	13,706
Generator	7,486	2,515 (2,735)	7,266	10	1,661	(758)	427	1,330	5,936
Computers	16,472	17,122	33,594	33	4,127	-	5,343	9,470	24,124
Electric fittings	1,118	-	1,118	10	304	-	82	386	732
Office equipment	-	836	836	10	-	-	14	14	822
Air conditioners	578	2,038	2,616	10	157	-	76	233	2,383
June-2008	47,768	25,567 (3,735)	69,600		14,158	(1,246)	8,985	21,897	47,703
June-2007	33,959	13,809	47,768		11,212	(2,604)	5,549	14,158	33,610

4.5 Amortization is allocated in the following manner

	Jun-08	Jun-07
	Rupees in '000'	
Cost of sales	6,102	3,278
Administrative expenses	2,246	1,387
Development cost	638	884
	8,986	5,549



NOTES TO THE CONSOLIDATED ACCOUNTS

5 INTANGIBLE ASSETS

Particulars	COST			Rate %	AMORTIZATION			Net book value as at June 30 2008
	As at July-01 2007	Additions / (Deletions)	As at June-30 2008		As at July 01, 2007	Charge for the period	As at June-30 2008	
Rupees In '000'								
In-house Developed software								
NetSol Financial Suite	81,982	-	81,982	10	14,400	4,531	18,931	63,051
Knit Info System	4,342	-	4,342	10	434	434	868	3,474
NetSol's Pay Soft	5,596	-	5,596	10	560	559	1,119	4,477
LRMIS	54,169	17,657	71,826	10	-	599	599	71,227
Under Development								
Net-SMART	67,144	63,913	131,057	-	-	-	-	131,057
Fleet Management System (FMS)	-	44,643	44,643	-	-	-	-	44,643
Blue Star	-	88,626	88,626	-	-	-	-	88,626
HMIS	-	8,483	8,483	-	-	-	-	8,483
Loan Origination System	-	14,000	14,000	-	-	-	-	14,000
Business Intelligence Scoring Model & Risk Management	-	6,650	6,650	-	-	-	-	6,650
June-2008	213,233	243,972	457,205		15,394	6,123	21,517	435,688
June-2007	78,405	134,828	213,233		10,203	5,191	15,394	197,839

Note:

Developed softwares naming CMS, ePOS, WFS and Inbanking have been merged into "NetSol Financial Suite".

5.1 Amortization is allocated in the following manner

	Jun-08 Rupees in '000'	Jun-07
Cost of sales	6,123	5,191
	6,123	5,191

6 LONG TERM LOANS & ADVANCES- Unsecured

Long term loan: considered good

Opening balance		
Loan to employees	10,667	25,928
Loan to directors	-	9,500
	10,667	35,428
Repayment during the year	(6,297)	(24,761)
	4,370	10,667
Less: current maturity	(550)	(1,429)
	3,820	9,238



NOTES TO THE CONSOLIDATED ACCOUNTS

- 6.1** The Company has granted an unsecured long term loan amounting to Rs 4.37 Million to its employees (June-2007: Rs. 10.667 Million). The maximum amount outstanding during the period under this head at any point of time was Rs.10.667 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.

	Jun-08	Jun-07
	Rupees in '000'	
6.2 Long term advance: considered good		
Amount advanced	18,017	29,227
Less: current maturity	6.3 (14,447)	(11,377)
	6.3 3,570	17,850

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	7,390	27,088
Current portion of loans & advances	14,997	12,806

7 TRADE DEBTS

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. It is unsecured but considered good by the management.

9 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Loan to employees - considered good	1,736	687
Advances - considered good		
- To employees	1,290	2,390
- Against expenses	24,105	21,905
- Against assets	56,197	-
Security deposit	14,785	12,669
Prepayments	3,854	2,657
Advance income tax	19,579	8,288
Tender money receivable	20,047	24,446
Mark up receivable	28	908
Other receivable - considered good	18,016	16,009
	159,637	89,959



NOTES TO THE CONSOLIDATED ACCOUNTS

	Jun-08	Jun-07
	Rupees in '000'	
10 DUE FROM RELATED PARTIES		
NetSol Connect (Pvt.) Ltd.	2,814	2,814
NetSol Consulting Services (Pvt) Ltd	97	-
NetSol Technologies Limited Inc	-	627
NetSol Technologies Limited UK	-	263
	2,911	3,704

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

11 CASH AND BANK BALANCES		
At banks		
Saving accounts	11.1	123,499
Current accounts		83,993
Foreign currency current account		229
Term deposit	11.2	853
		28
		22,120
		65,000
		146,701
In hand		149,090
		1,106
		593
		147,807
		149,683

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.

	Jun-08	Jun-07			
	(Number of shares)				
12 ISSUED, SUBSCRIBED & PAID-UP CAPITAL					
	32,516,482	32,516,482	Ordinary Shares of Rs. 10 each fully paid in cash	325,165	325,165
	27,221,013	8,287,818	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	272,210	82,878
	59,737,495	40,804,300		597,375	408,043

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 RESERVES		
Capital reserve		
Premium on issue of ordinary shares	189,470	189,470
Revenue reserve		
Un - appropriated profit	1,290,198	766,087
	1,479,668	955,557



NOTES TO THE CONSOLIDATED ACCOUNTS

	Jun-08	Jun-07	
	Rupees in '000'		
14 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments	32,851	22,804	
Less: Current portion of obligations shown under current liabilities	14,759	9,773	
	18,092	13,031	
<p>Present value of minimum lease payments have been discounted at an implicit interest rate ranging between 13 % to 16.50 % to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.</p> <p>The amount of future payments of the lease and the period in which these payments will become due are as follows:</p>			
	Minimum Lease Payment	Future Financial charges	Present value of lease liability
Not later than one year	18,745	3,986	14,759
Later than one year but not later than five years	20,486	2,394	18,092
	39,231	6,380	32,851
15 LONG TERM PAYABLE			
Due to related party - unsecured	39,214	39,270	
This represent interest free loan obtained from an associated undertaking.			
16 DEFERRED INCOME			
Opening balance	1,713	2,495	
Addition during the year	2,111	767	
Amortized during the year	3,824 (1,342)	3,262 (1,549)	
Un amortized gain on sale and lease back transaction	2,482	1,713	
16.1 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.			



NOTES TO THE CONSOLIDATED ACCOUNTS

		Jun-08	Jun-07
		Rupees in '000'	
17 SHORT TERM FINANCING			
Export refinance - secured	17.1	200,000	120,000
Running finance - secured	17.2	-	7,500
		200,000	127,500

17.1 The facility for export refinance is availed from Askari Bank Ltd amounting to Rs 200 million (Jun-2007: Rs 120 million) and carry mark-up of 7.5% per annum (Jun-2007: 7% to 7.5% per annum). The due balance is payable in bi-annually installments.

17.2 The facility of running finance is available from Askari Bank Ltd up to Rs. 7.5 Million availed Nil (June-2007: 7.5 Million). It carries mark up at the rate 3 months Kibor + 2.4% with a floor of 11% p a.

17.3 The facility of term finance is available from Askari Bank Ltd up to Rs. 200 Million (June-2007: Nil). It carries mark up at the rate 6 months Kibor + 3%, payable in semi annual installments.

All these facilities are secured by way of first charge over the company's current assets including stocks/receivable/ book debt up to Rs. 285.71 Million and further Rs. 580 Million by way of hypothecation charge over the land, building and equipment of the Company.

18 CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors		41,849	26,631
Accrued liabilities		60,097	39,323
Interest payable		4,391	3,607
Other payables		242	202
Security refundable		223	223
Due to related parties	18.1	57,158	19,564
Withholding tax		11,770	3,993
Provident fund payable		2,533	1,443
		179,763	94,986

18.1 Due to related parties

NetSol Technologies Inc.		57,158	18,168
NetSol Consulting Services (Pvt.) Ltd		-	1,396
		57,158	19,564

19 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

20 CONTINGENCIES & COMMITMENTS

The company has no contingent liabilities & commitments outstanding as at June-30, 2008 except to the tune of Rs. 32.38/- million (June 30, 2007 Rs. 34.82 million) guarantees issued to various customers against sale of software and allied services.

	Jun-08	Jun-07
	Rupees in '000'	
21 REVENUE		
Export Revenue		
License	607,398	452,636
Services	730,177	415,494
Maintenance	61,917	39,600
Local Revenue		
License	-	36,495
Services	151,903	136,962
Maintenance	4,763	1,233
	1,556,158	1,082,420
22 COST OF SALES		
Staff salaries & benefits	338,713	228,300
Consultancy charges	4,930	7,296
Technical services	16,291	5,668
Third party software & hardware	10,892	43,710
Staff training	4,767	6,835
Rent, rates & taxes	12,431	128
Traveling & conveyance	104,377	87,245
Communication	8,198	8,717
Utilities	14,918	12,282
Printing & stationery	3,244	2,101
Entertainment	7,359	4,744
Insurance	1,596	934
Vehicle running & maintenance	4,169	2,987
Repair & maintenance	17,970	18,978
Certifications	293	2,104
Fee & subscription	1,871	536
Depreciation	49,249	24,748
Amortization of leased assets	6,102	3,278
Amortization of intangible assets	6,123	5,192
	613,493	465,783



NOTES TO THE CONSOLIDATED ACCOUNTS

	Jun-08	Jun-07
	Rupees in '000'	
23 ADMINISTRATIVE & GENERAL EXPENSES		
Directors remuneration	10,586	8,774
Staff salaries and benefits	57,565	40,479
Staff training	305	111
Management fee	37,584	21,251
Rent, rates and taxes	1,987	1,527
Traveling and conveyance	8,873	9,237
Communication & postage	2,507	1,394
Printing and stationery	422	382
Utilities	4,618	3,229
Entertainment	4,688	4,452
Insurance	1,169	666
Advertisement	3,194	3,615
Vehicle running expenses	5,235	3,562
Repairs and maintenance	13,560	6,001
Legal and professional charges	9,963	5,086
Auditors remuneration	1,600	1,850
News papers & periodicals	182	265
Security expenses	313	139
Office supplies	1,015	926
Charity & donation	1,936	1,312
Miscellaneous expenses	425	125
Fee & subscription	1,320	520
Depreciation	16,464	8,073
Amortization of leased assets	2,246	1,387
	187,757	124,363
23.1 Auditor remuneration		
Audit fee	700	950
Certifications of group reporting	600	600
Professional services	140	175
Out-of-pocket expenses	160	125
	1,600	1,850
24 SELLING & PROMOTION EXPENSES		
Staff salaries & benefits	25,310	20,591
Staff training	58	71
Rent, rates & taxes	5,307	3,999
Traveling and conveyance	21,832	13,307
Communication	2,512	2,274
Utilities	1,303	1,113
Printing & stationery	405	336
Entertainment	562	849
Insurance	176	137
Vehicle running expenses	1,112	986
Repairs and maintenance	3,454	828
Commission on sales	12,396	15,239
Advertisement	5,498	442
Tender money	52	46
Sale promotional expenses	17,406	14,745
	97,383	74,963



NOTES TO THE CONSOLIDATED ACCOUNTS

25 RETIREMENT BENEFIT

Staff salaries and benefits includes the amount of provident fund contributed by the company.

	Jun-08	Jun-07
	Rupees in '000'	
26 OTHER INCOME / (EXPENSES)		
Gain / (loss) on foreign currency translation	127,463	10,842
Profit on bank deposit	1,478	5,602
Amortization of deferred revenue	1,342	1,549
Rental income	1,523	1,892
Gain / (loss) on disposal of assets	(2,350)	(1,135)
Mark up on loans	-	2,903
Unrealised profit on short term investment	3,767	-
Profit on short term investment	-	-
	133,223	21,653
27 FINANCIAL COST		
Lease finance charges	3,074	1,987
Interest on short term loans	9,952	6,168
Lease documentation charges	34	58
Bank charges	1,200	1,263
	14,260	9,476
28 EARNING PER SHARE		
Profit after taxation for the year	713,443	388,637
Average number of ordinary shares in issue during the period	59,737	59,737
Earning per share	11.94	6.51



NOTES TO THE CONSOLIDATED ACCOUNTS

29 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	
	2008	2007	2008	2007	2008	2007
	Rupees in '000'					
Managerial remuneration	3,200	3,200	3,616	2,484	108,040	49,597
Retirement benefits	-	-	362	248	6,120	2,614
Rent and house maintenance	1,280	1,280	1,446	994	43,216	19,839
Utilities	320	320	362	248	10,804	4,960
Medical expenses	69	91	110	63	4,174	1,341
Total	4,869	4,891	5,896	4,037	172,354	78,351
No. of Persons	1	1	2	2	188	69

The Chief Executive, Directors and some Executives have been provided with company maintained cars.

30 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. Parent and associated undertakings also have some common directorship.

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 transactions	Jun-08	Jun-07
		Rupees in '000'	
(i) Parent	Management fee	37,584	21,251
(ii) Associated undertaking	Provision of services	47,556	24,046
	Expenses incurred by	2,243	2,368
	Purchase of services	6,275	3,152
(iv) Post employment benefit	Contribution to defined contribution plan	10,707	7,051



NOTES TO THE CONSOLIDATED ACCOUNTS

31 FAIR VALUE OF FINANCIAL ASSETS & LIABILITIES

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

32 CAPITAL MANAGEMENT

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholder or issue new shares.

As of the balance sheet date, the management considers that the capital of the company is sufficient to meet the requirements of the business.

33 INTEREST / MARK-UP RATE 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 8			2 0 0 7		
	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:						
Trade debts	-	574,231	574,231	-	377,502	377,502
Excess of revenue over billing	-	741,634	741,634	-	499,012	499,012
Security deposits	-	14,785	14,785	-	12,669	12,669
Tender money receivable	-	20,047	20,047	-	24,446	24,446
Mark up receivable	-	28	28	-	908	908
Other receivables	-	18,016	18,016	-	16,009	16,009
Cash & bank balances	145,619	2,188	147,807	148,993	690	149,683
Due from related parties	-	2,911	2,911	-	3,704	3,704
Long term loan current maturity	-	550	550	-	1,429	1,429
Maturity after one year:						
Long term loan	-	3,820	3,820	-	9,238	9,238
Total Financial Assets	145,619	1,378,210	1,523,829	148,993	945,607	1,094,600



NOTES TO THE CONSOLIDATED ACCOUNTS

	2 0 0 8			2 0 0 7		
	Interest / mark-up bearing	Non-Interest /mark-up bearing	TOTAL	Interest / mark-up bearing	Non-Interest /mark-up bearing	TOTAL
Rupees in '000'						
Financial Liabilities						
Maturity up to one year:						
Short term financing	200,000	-	200,000	127,500	-	127,500
Creditors, accrued & other liabilities	-	179,763	179,763	-	94,986	94,986
Lease liabilities	14,759	-	14,759	9,773	-	9,773
Maturity after one year:						
Lease liabilities	18,092	-	18,092	13,031	-	13,031
Long term payable	-	39,214	39,214	-	39,270	39,270
Total Financial Liabilities	232,851	218,977	451,828	150,304	134,256	284,560
Net financial assets / (liabilities)	(87,232)	1,159,233	1,072,001	(1,311)	811,351	810,040
Off balance sheet						
Guarantees issued to customers	-	32,382	32,382	-	34,820	34,820

33.1 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.

34 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.

35 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.

36 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.



NOTES TO THE CONSOLIDATED ACCOUNTS

37 SEGMENT REPORTING

	Pakistan		Asia Pacific		Australia & USA		Others		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	R U P E E S i n ' 0 0 0 '									
Revenue	156,666	174,690	545,662	608,451	372,545	126,265	481,284	173,014	1,556,157	1,082,420
Cost of sales	113,881	119,286	194,799	232,257	132,997	48,198	171,816	66,042	613,493	465,783
Gross profit	42,785	55,404	350,863	376,194	239,548	78,068	309,469	106,971	942,665	616,637
Administrative expenses	22,891	20,088	64,281	69,896	43,887	14,505	56,697	19,874	187,756	124,363
Selling expenses	28,710	24,561	26,776	33,784	18,281	7,011	23,617	9,607	97,384	74,963
Operating profit	(8,816)	10,755	259,806	272,514	177,380	56,552	229,155	77,490	657,525	417,311
Other Income	1,827	8,056	51,231	9,114	34,978	1,891	45,187	2,592	133,223	21,653
Other / Financial charges	673	1,699	5,298	5,213	3,617	1,082	4,673	1,482	14,261	9,476
Segment result	(7,662)	17,112	305,739	276,415	208,741	57,361	269,669	78,600	776,487	429,488
Other Information										
Segment assets	762,124	525,295	-	-	-	-	-	-	762,124	525,295
Depreciation	74,061	37,486	-	-	-	-	-	-	74,061	37,486
Non cash expenses other than depreciation	6,123	5,191	-	-	-	-	-	-	6,123	5,191
Segment liabilities	769,573	425,420	-	-	-	-	-	-	769,573	425,420

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

38 ANNUAL SOFTWARE DEVELOPMENT CAPACITY

The company and its subsidiary are engaged in software development, maintenance and licensing. Due to complicated nature of the software development process annual development capacity can not be determined.

39 TAXATION

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

40 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 10, 2008 by the Board of Directors.

41 FIGURES

Figures have been rounded off to the nearest thousand rupee.

CHIEF EXECUTIVE

DIRECTOR



NetSol Technologies Limited

FORM OF PROXY

I/We _____
(Name)

Of _____
(Place)

being a member(s) of **NETSOL TECHNOLOGIES LIMITED** hereby appoint

(Name and Folio No. / Participant Account No. & Sub-Account No.)

Of _____
(Place)

who is also a member of the Company, as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the Company to be held at registered office, NetSol Technologies Limited, NetSol IT Village (Software Technology Park) NetSol Avenue, Main Ghazi Road, Lahore Cantt. on Monday **October 20, 2008 at 11:00 a.m.** and at any adjournment thereof.

Signed at _____ this _____ Day of _____ 2008.

Witness:

Signature : _____

Name : _____

Address : _____

NIC or

Passport No. _____

Five Rupees
Revenue Stamp

Signature of Member(s)

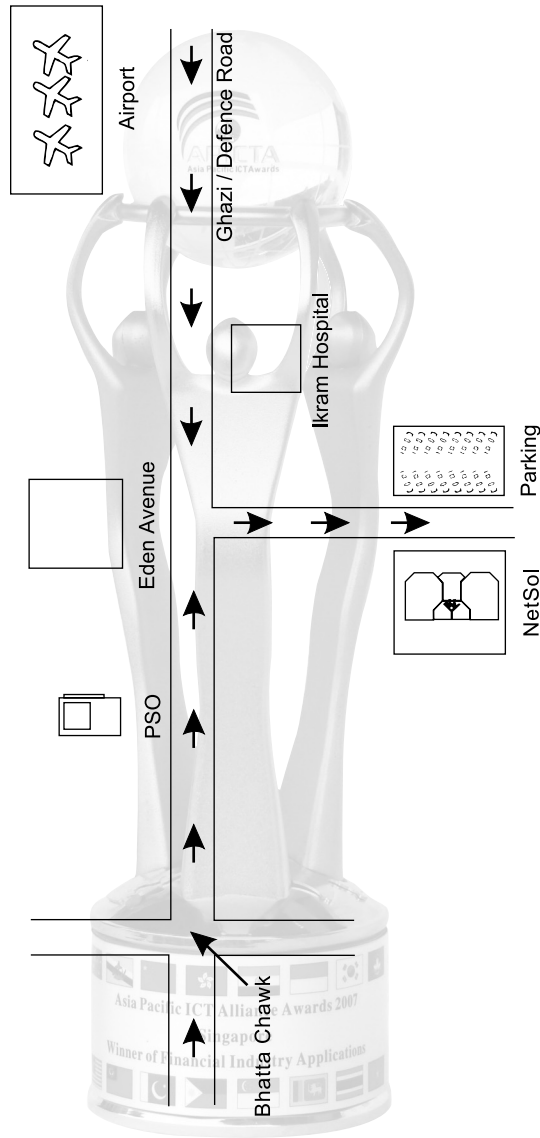
Shareholder's Folio No. _____

and/or Participant I.D. No. _____

Note:

- 1) This form of proxy, in order to be effective, must be deposited duly completed, at the Company's registered Office at NetSol Technologies Limited, NetSol IT Village (Software Technology Park) NetSol Avenue, Main Ghazi Road, Lahore Cantt. not less than 48 hours before the time of holding the meeting.
- 2) A Proxy must be a member of the Company. Signature should agree with the specimen registered with the Company.





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