

The background of the page is a complex, abstract geometric pattern. It consists of numerous thin, light blue lines that intersect to form a variety of irregular polygons and shapes. Scattered throughout this network of lines are small, solid grey dots of varying sizes. The overall effect is a sense of interconnectedness and dynamic structure, typical of a modern corporate or financial document cover.

CONSOLIDATED FINANCIAL  
**STATEMENTS**  
For the Quarter Ended September  
30, 2019

## Condensed Consolidated Interim statement Of Financial Position - Unaudited

As at September 30, 2019

	NOTE	Sep-19 Unaudited	Jun-19 Audited
Rupees in '000'			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment	5	1,671,502	1,679,165
Intangible assets	6	1,141,025	1,214,401
		<b>2,812,527</b>	2,893,566
Long term Investment	7	271,155	293,379
Long term loans to employees	8	728	470
		<b>3,084,410</b>	3,187,415
<b>CURRENT ASSETS</b>			
Trade debts	9	1,619,589	2,531,603
Contract assets		1,498,281	1,167,646
Loans and advances	10	57,513	52,261
Trade deposits & short term prepayments		46,814	20,948
Other receivables		7,174	7,219
Due from related parties		193,448	23,117
Taxation - net		48,367	52,716
Cash & bank balances	11	1,974,521	1,951,746
		<b>5,445,707</b>	5,807,256
Assets-Discontinued operations	15	432,798	455,976
<b>TOTAL ASSETS</b>		<b>8,962,915</b>	9,450,647
<b>EQUITY &amp; LIABILITIES</b>			
<b>SHARE CAPITAL &amp; RESERVES</b>			
Authorized share capital			
150,000,000 ordinary shares of Rs.10/- each	12	1,500,000	1,500,000
Issued, subscribed and paid-up capital	12	898,369	897,229
Share deposit money		13	13
Reserves	13	6,002,397	6,197,317
		<b>6,900,779</b>	7,094,559
Non - controlling Interest		213,426	225,035
		<b>7,114,205</b>	7,319,594
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		45,828	55,404
Deferred income		4,469	5,140
Long term advances		5,817	5,143
		<b>56,114</b>	65,687
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	438,039	491,754
Contract liabilities		249,878	468,827
Short term borrowings		1,053,000	1,053,000
Current portion of long term liabilities		46,595	46,947
Unclaimed dividend		4,145	4,183
		<b>1,791,657</b>	2,064,711
Liabilities-Discontinued operations	15	939	655
<b>CONTINGENCIES &amp; COMMITMENTS</b>	16	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8,962,915</b>	9,450,647

The annexed notes from 1 to 24 form an integral part of these condensed consolidated interim financial statements.



CHIEF EXECUTIVE OFFICER



CHIEF FINANCIAL OFFICER



DIRECTOR

**Condensed Consolidated Interim Statement of Profit or Loss - Unaudited**  
For The Quarter Ended September 30, 2019

	NOTE	Jul-Sep 2019	Jul-Sep 2018
Rupees in '000'			
<b>Continuing operations</b>			
Revenue from contracts with customers - net	17	1,317,583	1,221,875
Cost of revenue		(806,943)	(737,762)
<b>Gross profit</b>		<b>510,640</b>	<b>484,113</b>
Selling and promotion expenses		(142,600)	(118,263)
Administrative expenses		(301,740)	(228,481)
Other operating expenses		(248,768)	-
Other income		46,942	32,513
		<b>(646,166)</b>	<b>(314,231)</b>
<b>Operating (Loss)/profit</b>		<b>(135,526)</b>	<b>169,882</b>
Finance cost		(9,238)	(12,075)
Loss of share from Associate		(20,787)	-
<b>(Loss)/Profit before taxation from continuing operations</b>		<b>(165,551)</b>	<b>157,807</b>
Taxation	18	(23,991)	(25,364)
<b>(Loss)/Profit after taxation for the period from continuing operations</b>		<b>(189,542)</b>	<b>132,443</b>
<b>Discontinued operations:</b>			
(Loss)/Profit after tax for the period from discontinued operations	15	(23,463)	(14,256)
(Loss)/Profit for the period		(213,005)	118,187
<b>Attributable to:</b>			
Equity holders of NetSol Technologies Limited		(201,396)	126,661
Non - controlling interest		(11,609)	(8,474)
		<b>(213,005)</b>	<b>118,187</b>
<b>(Loss)/Earning per share</b>			
Basic - In Rupees	20	(2.24)	1.41
Diluted - In Rupees	20	(2.24)	1.41
<b>(Loss)/Earning per share for continuing operations</b>			
Basic - In Rupees	20	(2.11)	1.48
Diluted - In Rupees	20	(2.11)	1.47

The annexed notes from 1 to 24 form an integral part of these condensed consolidated interim financial statements.



CHIEF EXECUTIVE OFFICER



CHIEF FINANCIAL OFFICER



DIRECTOR

**Condensed Consolidated Interim Statement of Other Comprehensive Income - Unaudited**  
For The Quarter Ended September 30, 2019

	Jul-Sep 2019	Jul-Sep 2018
	Rupees in '000'	
<b>(Loss) / Profit after taxation for the period</b>	<b>(213,005)</b>	118,187
<b>Other comprehensive income/(loss)</b>		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):		
Share of other comprehensive loss of an associate	(1,437)	-
<b>Total comprehensive (loss)/income for the period</b>	<b>(214,442)</b>	118,187
<b>Attributable to:</b>		
Equity holders of NetSol Technologies Limited	<b>(202,833)</b>	126,661
Non - controlling interest	<b>(11,609)</b>	(8,474)
	<b>(214,442)</b>	118,187

*The annexed notes from 1 to 24 form an integral part of these condensed consolidated interim financial statements.*



CHIEF EXECUTIVE OFFICER



CHIEF FINANCIAL OFFICER



DIRECTOR

**Condensed Consolidated Interim Statement of Cash Flows - Unaudited**  
For The Quarter Ended September 30, 2019

NOTE	Jul-Sep 2019	Jul-Sep 2018
Rupees in '000		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss) / Profit before taxation from continuing operations	(165,551)	157,807
Loss before taxation from discontinued operations	(22,812)	(13,917)
(Loss) / Profit before taxation for the period	(188,363)	143,890
Adjustments for non cash charges and other items:		
Depreciation - own assets	41,351	46,581
Amortization of right of use assets	7,383	5,556
Amortization of intangible assets	73,376	73,376
Loss / (Gain) on disposal of fixed assets	46	(6,481)
Amortization of deferred revenue	(671)	(671)
Foreign exchange Loss / (gain)	273,771	(8,061)
Interest expense	8,907	11,799
Interest income	(48,290)	(23,887)
Deferred employee compensation expense	7,200	11,673
Provision for impairment	15,403	-
Share of loss of Associate	20,787	-
	399,262	109,885
<b>Cash generated from operations before working capital changes</b>	<b>210,899</b>	<b>253,775</b>
<b>Working Capital Changes</b>		
Trade debts & Contract Assets/Liabilities	97,261	(390,063)
Loans and advances	(5,510)	(35,261)
Trade deposits & short term prepayments	(25,866)	(11,218)
Other receivables	45	18,162
Due from related parties	(170,331)	(88,853)
Trade and other payables	(47,135)	(73,300)
<b>Cash (used in) operations</b>	<b>(151,536)</b>	<b>(580,533)</b>
Interest paid	(15,517)	(14,581)
Income taxes paid	(19,979)	(26,572)
Dividend paid	(38)	(15)
<b>Net cash generated from/ (used in) operations</b>	<b>23,830</b>	<b>(367,926)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property, plant and equipment purchased	(64,120)	(40,954)
Sales proceeds of fixed asset	152	31,067
Advances against capital expenditure	22,854	(19,252)
Interest received	48,290	23,887
<b>Net cash generated from/ (used in) investing activities</b>	<b>7,173</b>	<b>(5,252)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of share capital	1,140	200
Share premium	714	129
Paid against lease liabilities	(10,280)	(17,582)
Received against lease liabilities	-	17,908
Long term advances	1,026	(6,108)
<b>Net cash (Used in) financing activities</b>	<b>(7,400)</b>	<b>(5,453)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>23,602</b>	<b>(378,631)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2,053,102</b>	<b>2,235,272</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2,076,704</b>	<b>1,856,641</b>

The annexed notes from 1 to 24 form an integral part of these condensed consolidated interim financial statements.



CHIEF EXECUTIVE OFFICER



CHIEF FINANCIAL OFFICER



DIRECTOR



## Notes to the Condensed Consolidated Interim Financial Statements Unaudited

For The Quarter Ended September 30, 2019

### 1. LEGAL STATUS AND NATURE OF BUSINESS

NetSol Group consists of:

- NetSol Technologies Limited
- NetSol Innovation (Private) Limited

NetSol Technologies Limited ("the Company"), incorporated in Pakistan on August 22, 1996 under the repealed Companies Ordinance, 1984, (Now Companies Act 2017) as a private company limited by shares, was later on converted into public limited company and subsequently listed on Pakistan Stock Exchange on August 26, 2005. Main business of the Company is development and sale of computer software and allied services in Pakistan as well as abroad.

Address/Location	Purpose
1 NetSol IT Village,(Software Technology Park) Lahore Ring Road, Ghazi Road Interchange, Lahore Cantt. Pakistan.	Registered office and business unit
2 43/1/Q, Amna Villa 1, Block-6, PECHS Housing Society Karachi.	Branch office
3 House No. 4, Safari villas 1, Bahria town, Rawalpindi. Pakistan.	Branch office

NetSol Innovation (Private) Limited ("the subsidiary Company" or "Subsidiary") is incorporated in Pakistan as a private limited company in which NetSol Technologies Limited has share holding of 50.52%. 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, Lahore Ring Road, Main Ghazi Interchange, Lahore Cantt. Pakistan.

NetSol Technologies Limited is a majority owned subsidiary of NetSol Technologies Inc., USA.

### 2. BASIS OF PREPARATION

#### 2.1 Statement of compliance

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

-International Accounting Standard (IAS) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and

-Provisions of and directives issued under the Companies Act, 2017.

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

These condensed interim financial statements are unaudited and do not include all the disclosures and information required in the annual financial statements and should be read in conjunction with the preceding annual published financial statements of the company for the year ended June 30, 2019.

#### 2.2 Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments at fair value as disclosed in respective accounting notes. These accounts have been prepared under accrual basis of accounting.

#### 2.3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in Pak Rupee, which is the Group's functional currency. All financial information presented in Pak Rupee has been rounded off to the nearest thousand unless stated otherwise.

### 3. ACCOUNTING POLICIES

3.1. The accounting policies adopted for the preparation of these condensed interim financial statements are consistent with those applied in the preparation of the preceding annual published financial statements of the Group for the year ended June 30, 2019 except for change in accounting policies for leases detailed below.

### 3.2. Standards, amendments and interpretations to approved accounting standards that are effective in the current period

#### (i) IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Group implemented the new standard IFRS 16 Leases as of July 1, 2019. The group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

#### a) The effect of adoption IFRS 16 is as follows:

The group has lease contracts for various vehicles and computer equipments. Before the adoption of IFRS 16, the group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased asset was not capitalised and the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. On Initial application date, group had lease contracts in place which were previously classified as finance lease or operating lease under IAS 17, There is no material change in accounting for leases previously classified as finance lease under IAS 17 and for all leases previously classified as operating leases management has assessed and concluded these to be short term leases which under new IFRS 16 will continue to be accounted for as expense on a straight line basis.

Therefore, the adoption of IFRS 16 at 01 July 2019 did not have any monetary impact on the recognition and measurement of leases and thus didn't affect the financial statements of the Group.

#### b) Summary of new accounting policies

##### Right-of-use assets

The group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated over the shorter of its estimated useful life and the lease term. Right-of-use assets are also subject to impairment.

##### Lease liabilities

At the commencement date of the lease, the group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.



In calculating the present value of lease payments, the group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### **Short-term leases and leases of low-value assets**

The group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

#### **Significant judgement in determining the lease term of contracts with renewal options**

The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

- (ii) Certain other standards, amendments and interpretations to approved accounting standards are also effective for accounting periods beginning on July 01, 2019, but are neither relevant nor have any significant effect on the group's operations (although they may affect the accounting for future transactions and events) and are, therefore, not detailed in this condensed interim financial information.

#### **4. USE OF ESTIMATES AND JUDGMENT**

The preparation of condensed consolidated interim financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make judgments, 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 judgments 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 recognized 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.

In preparing these condensed consolidated interim financial statements, the judgements, estimates and assumptions made by the management were the same as those that were applied to the preceding annual published financial statements of the company for the year ended June 30, 2019.

		Sep-19 Unaudited	Jun-19 Audited			
Rupees in '000'						
<b>5. PROPERTY, PLANT &amp; EQUIPMENT</b>						
Net book value of owned assets	5.1	1,536,368	1,506,400			
Net book value of right of use assets	5.2	135,134	149,911			
Advances against capital expenditure		-	22,854			
		<b>1,671,502</b>	1,679,165			
<b>5.1 PROPERTY, PLANT &amp; EQUIPMENT</b>						
Opening Balance - net book value		1,506,400	1,635,901			
Additions	5.1.1	71,515	207,560			
		<b>1,577,915</b>	1,843,461			
Less:						
Disposals - net book value	5.1.2	(198)	(142,654)			
Depreciation & amortization		(41,350)	(194,407)			
		<b>1,536,368</b>	1,506,400			
<b>5.1.1 Following is the detail of addition / (transfer)</b>						
Furniture & fixture		1,328	4,598			
Vehicles		47,688	161,420			
Office equipment		2,240	4,065			
Computers		18,685	31,817			
Air conditioners		1,575	5,659			
<b>Total</b>		<b>71,515</b>	207,560			
<b>5.1.2 Following is the detail of deletions</b>						
	Cost	Sep-19 Unaudited Accumulated Depreciation	Written down Value	Cost	Jun-19 Audited Accumulated Depreciation	Written down Value
	Rupees in '000'					
Furniture & fixture	-	-	-	1,563	755	809
Vehicles	56	17	40	165,142	24,302	140,840
Office equipment	-	-	-	87	46	41
Computers	996	838	158	4,574	3,624	950
Air conditioners	-	-	-	42	29	13
<b>Total</b>	<b>1,052</b>	<b>854</b>	<b>198</b>	<b>171,409</b>	<b>28,755</b>	<b>142,654</b>
<b>5.2 RIGHT OF USE ASSETS</b>						
Opening Balance - net book value					149,911	92,991
Additions	5.2.1				-	102,858
					<b>149,911</b>	195,849
Less:						
Disposals - net book value	5.2.2				(7,395)	(16,177)
Amortization					(7,382)	(29,760)
					<b>135,134</b>	149,911
<b>5.2.1 Following is the detail of addition / (transfer):</b>						
Vehicles					-	96,550
Computers					-	6,308
<b>Total</b>					<b>-</b>	102,858

5.2.2 Following is the detail of deletions	Cost	Sep-19	Written down Value	Cost	Jun-19	Written down Value
		Unaudited Accumulated Depreciation			Audited Accumulated Depreciation	
Rupees in '000'						
Vehicles	13,843	6,448	7,395	32,499	16,321	16,177
Total	13,843	6,448	7,395	32,499	16,321	16,177
Rupees in '000'						
<b>6. INTANGIBLE ASSETS</b>					Sep-19	Jun-19
Opening Balance - net book value					Unaudited	Audited
Additions					1,214,401	1,507,905
Less:					-	-
Amortization					1,214,401	1,507,905
					(73,376)	(293,504)
					1,141,025	1,214,401
<b>7. LONG TERM INVESTMENTS - at cost</b>						
<b>Investment in associate</b>						
WRLD3D inc. (Unquoted company)				7.1	271,155	293,379
					271,155	293,379
7.1	During the fiscal year 2016, the Company entered into an agreement with WRLD3D Inc a USA based gaming and 3D mapping Company (a Delaware Corporation) to purchase 4,092,189 preference BB shares for \$2,777,778 which was to be earned over the period partly by providing IT and enterprise software solutions and partly in cash. The company had successfully complied with the terms and conditions of the agreement and 4,092,189 shares are issued to the company. Company holds 12.2% ownership interest in WRLD3D. The Company uses equity method to account for investment in associate.					
<b>8. LONG TERM LOANS TO EMPLOYEES-Unsecured</b>						
Loan to employees				8.1	8,442	5,237
Less: current maturity					(7,714)	(4,767)
					728	470
8.1	Long term loans have been carried at cost as the effect of carrying these balances at amortised cost would not be material in the overall context of these financial statements					
<b>9. TRADE DEBTS</b>						
Considered good - unsecured				9.3	1,619,589	2,531,603
Considered doubtful - unsecured				9.2	132,031	116,629
					1,751,620	2,648,232
Less: Provision for impairment					(132,031)	(116,629)
					1,619,589	2,531,603
9.1	It represents amount receivable from customers. It is unsecured but considered good by the management.					
9.2	This is a general provision created by the Company for any future doubtful trade debts.					
9.3	<b>Amount receivable from related parties included in trade debts are as under:</b>					
NetSol Technologies (Thailand) Limited					165,097	179,957
NetSol Technologies (Beijing) Company Limited					583,837	604,477
NetSol Australia Pty. Limited					9,281	14,156
Netsol Technologies North Americas					151,408	139,767
WRLD3D Inc					183,130	166,417
					1,092,753	1,104,774

	NOTE	Sep-19 Rupees in '000'	Jun-19
<b>10. LOANS AND ADVANCES - Unsecured</b>			
Current maturity of loans to employees	8	7,714	4,767
<b>Advances</b>			
- to executives		146	33
- against expenses	10.1	49,653	47,461
		<b>57,513</b>	52,261

10.1 Advances to employees are given to meet business expenses and are settled as and when the expenses are incurred.

11. For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 30 Sep:

	NOTE	Sep-19 Rupees in '000'	Sep-18
Cash and bank balances		1,974,521	1,765,704
Cash and bank balances-Discontinued operations	15	102,183	90,937
		<b>2,076,704</b>	1,856,641

## 12. SHARE CAPITAL

### 12.1 Authorised share capital

	Sep-19 Unaudited	Jun-19 Audited		Sep-19 Unaudited	Jun-19 Audited
	Number of shares			Rupees in '000'	
	150,000,000	150,000,000	Ordinary Shares of Rs. 10 each.	1,500,000	1,500,000

### 12.2 Issued, subscribed & paid-up capital

	42,686,191	42,572,191	Ordinary Shares of Rs. 10 each fully paid in cash	426,862	425,722
	47,150,732	47,150,732	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	471,507	471,507
	<b>89,836,923</b>	89,722,923		<b>898,369</b>	897,229

NetSol Technologies Inc. 23975, Park Sorrento, Suite 250, Calabasas CA 91302, is the parent company holding 66.12% (2019 : 66.20%) of issued capital of the Company.

## 13. RESERVES

<b>Capital reserve</b>					
Premium on issue of ordinary shares				304,167	303,266
Employee share option compensation reserve				174,037	167,025
Foreign currency translation reserve				(1,437)	-
<b>Revenue reserve</b>					
Un - appropriated profit				5,525,630	5,727,026
				<b>6,002,397</b>	6,197,317

14. Trade and other payables also include payable to related parties, detail of which is given below:

### 14.1 Due to related party

<b>Parent</b>					
NetSol Technologies Inc.	14.1.1	-			19,779
<b>Associated</b>					
NetSol Technologies Europe Ltd	14.1.1	3,793			7,076
		<b>3,793</b>			26,855

14.1.1 This relates to normal course of business of the Group and is interest free.

## 15. DISCONTINUED OPERATIONS

On June 21, 2018, the company publicly announced the decision of its Board of Directors made in a board meeting held on June 20, 2018 to discontinue the operations of its subsidiary NetSol Innovation (Pvt) Limited. Subsidiary's outsourcing business partner in UK, Innovation Group had witnessed change in its management in last couple of years and the new management was not much interested in the insurance business and had decided to consolidate and reduce these operations across the globe. As a result of this decision, the subsidiary's outsourcing business was negatively impacted as they were the sole customers of the services provided by the joint venture. Moreover, they had expressed their willingness to close the operations of NetSol Innovation (Pvt) Limited and as per mutual agreement last date of business operations of NetSol Innovation (Pvt) Limited was agreed to be July 31, 2018. At September 30, 2019, classification of subsidiary NetSol Innovation (Pvt) Limited was discontinued operation.

The major classes of assets and liabilities of NetSol Innovation (Pvt) Limited classified as discontinued operation are as follows:

	Sep-19	Jun-19
	Rupees in '000'	
<b>Assets</b>		
Property, plant and equipment	7,296	7,296
Trade debts	323,319	347,324
Cash & bank balances	102,183	101,356
Assets classified as discontinued operations	432,798	455,976
<b>Liabilities</b>		
Trade and other payables	625	655
Provision for taxation	314	-
Liabilities classified as discontinued operations	939	655

The results from operations of NetSol Innovation (Pvt) Limited for the year are presented below:

	Jul-Sep 2019	Jul-Sep 2018
	Rupees in '000'	
Revenue-Export	-	8,339
Cost of revenue	-	(28,669)
<b>Gross Loss</b>	-	(20,330)
Administrative expenses	-	(334)
Other operating expenses	(25,049)	-
Other income	2,244	6,784
<b>Operating Loss</b>	(22,805)	(13,880)
Finance cost	(7)	(37)
<b>Loss before taxation for the period from discontinued operations</b>	(22,812)	(13,917)
<b>Taxation</b>		
Current period	(651)	(339)
<b>Loss after taxation for the period from discontinued operations</b>	(23,463)	(14,256)
<b>Loss per share</b>		
Loss after taxation for the year from discontinued operations	(23,463)	(14,256)
Less Non controlling interest	(11,609)	(8,474)
Loss from discontinued operations attributable to ordinary shareholders of NetSol Technologies Limited	(11,854)	(5,782)
Basic loss per share from discontinued operations	(0.13)	(0.07)
Diluted loss per share from discontinued operations	(0.13)	(0.06)

## 16. CONTINGENCIES & COMMITMENTS

### 16.1 Contingencies

**16.1.1** Mr. Ahsan Zubair, ex-employee of the Company has filed a case for recovery of damages dated 26th January 2013 for malicious prosecution before the civil court, Lahore and has sought the damages to the tune of PKR 500 million. The case was filed after the complaint filed by NetSol pertaining to use of NetSol's IP without authority by a company formed by Mr. Ahsan Zubair and his partner who was also an ex-employee of the Company. Keeping in view the facts and circumstances of the case, including the nature of evidence of the plaintiff and the laws applicable, it can safely be inferred that, on merits, no case for damages is made out. This is also endorsed by the fact that case is barred by the laws relating to limitation as it has been filed by some two years beyond prescribed time. Moreover none of the ingredients forming basis for allowing a case of malicious prosecution are attracted. Therefore, on the facts of the case, there appears to be no chances of the case being allowed and there is no likelihood of this case having any adverse financial impact on the Company.

**16.1.2** While disposing off a show cause notice issued by FBR under section 161 of the Income Tax Ordinance, 2001 for the tax year 2015, the assessing authority, in its judgement dated 26th July 2016 contended and considered the commission paid to a non-resident as fee for technical services and imposed a tax of Rs. 1,516,535 u/s 152 of the Income Tax Ordinance, 2001. The company filed an appeal u/s 127 of the said Ordinance before the Commissioner Inland Revenue (Appeals), Lahore dated 24th August 2016 on the grounds that amount paid to non resident is in respect of commission and cannot be considered fee for technical services, hence exempt from tax. The decision is currently pending with the competent authority. The company is confident that final outcome will be in its favor and accordingly no provision has been made in these financial statements in this respect.

## 16.2 Commitments

- 16.2.1** The Company has issued worth Rs. 11.488 million (2019: 11.488 million) bank guarantees to LESCO and Standard Chartered Bank against its corporate credit cards.
- 16.2.2** The Company has capital commitments of Rs. Nil under capital purchase agreements as at September 30, 2019. (2019: 16.8 million)

	Jul-Sep 2019	Jul-Sep 2018
	Rupees in '000'	
<b>17. REVENUE FROM CONTRACTS WITH CUSTOMERS</b>		
<b>DISAGGREGATION OF REVENUE:</b>		
<b>Export Revenue</b>		
License	389,129	470,736
Services	463,105	439,076
Maintenance	389,658	209,621
Reimbursable expenses	72,667	99,693
	<b>1,314,559</b>	<b>1,219,126</b>
<b>Local Revenue</b>		
Services	-	3,189
Maintenance	3,508	-
	<b>3,508</b>	<b>3,189</b>
<b>Sales tax</b>	<b>(484)</b>	<b>(440)</b>
	<b>1,317,583</b>	<b>1,221,875</b>

## 18. TAXATION

Income of the Group from export of computer software and its related services developed in Pakistan is exempt from tax up to June 30, 2025 provided that eighty per cent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels as per clause 133 of part 1 of the Second Schedule to the Income Tax Ordinance, 2001. However tax as per applicable rates is charged to the income of the Group generated from other than core business activities.

## 19. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### Financial risk factors

The Company's activities expose it to a variety of financial risks namely market risk (including currency risk, price risk and interest rate risk), credit risk, foreign exchange risk and liquidity risk. There has been no change in the risk management policies during the period, consequently this condensed interim financial information does not include all financial risk management information and disclosures required in the annual financial statements.

### Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in this condensed interim financial information approximate their fair value.

<b>20. (LOSS) / EARNINGS PER SHARE</b>		
<b>Basic</b>		
Loss / Earning attributable to ordinary shareholders of NetSol Technologies Limited	(201,396)	126,661
(Loss) / Profit from continuing operations attributable to ordinary shareholders of NetSol Technologies Limited	(189,542)	132,443
Weighted average number of ordinary shares in issue during the period	89,806	89,722
Basic - In Rupees	(2.24)	1.41
Basic - In Rupees Continued operations	(2.11)	1.48
<b>Diluted</b>		
(Loss) / Profit attributable to ordinary shareholders of NetSol Technologies Limited	(201,396)	126,661
(Loss) / Profit from continuing operations attributable to ordinary shareholders of NetSol Technologies Limited	(189,542)	132,443
Weighted average number of ordinary shares in issue during the period	89,831	89,835
Diluted - In Rupee	(2.24)	1.41
Diluted - In Rupees Continued operations	(2.11)	1.47

## 21. TRANSACTION WITH RELATED PARTIES

Related parties comprise of holding company, subsidiary, associated undertakings, key management personnel of the company and post employment benefits. The Company in its 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	Jul-Sep 2019	Jul-Sep 2018
			Rupees in '000'	
(i)	Associated undertaking	Rental Income	225	225
		Provision of services	173,586	414,452
		Purchase of services	7,393	6,273
(ii)	Key management personnels	Salaries and benefits	44,855	39,578
		Retirement benefits	1,237	718
		Commission paid	78,551	57,917
(iii)	Post employment benefit	Contribution to defined contribution plan	28,669	24,846
(vi)	There are no transactions with any key management personnel other than under the terms of employment.			

## 22. SEGMENT REVENUES AND RESULTS

Following is an analysis of the Group's revenue and results by reportable segment.

	Sep-19					Discontinued operations	Total	
	Continued operations			Total	BPO			Total
	NFS	IS & SSS	BPO					
Rupees in '000'								
Revenue - net								
External sales								
License	389,129	-	-	389,129	-	-	389,129	
Services	425,913	-	37,193	463,106	-	-	463,106	
Maintenance	389,657	3,024	-	392,681	-	-	392,681	
Reimbursable expenses	68,384	-	4,283	72,667	-	-	72,667	
Total revenue	1,273,083	3,024	41,476	1,317,583	8,339	8,339	1,317,583	
Cost of revenue	(760,798)	(1,190)	(44,956)	(806,943)	(28,626)	(28,626)	(806,943)	
Segment results	512,286	1,834	(3,480)	510,640	(20,287)	(20,287)	510,640	
Unallocated corporate expenses:								
Selling and promotion expenses				(142,600)	-	-	(142,600)	
Administrative expenses				(301,740)	-	-	(301,740)	
Other operating expenses				(248,768)	(25,049)	(25,049)	(273,817)	
Other income				46,942	2,244	2,244	49,186	
Finance cost				(9,238)	(7)	(7)	(9,245)	
Loss of share from Associate				(20,787)			(20,787)	
Taxation				(23,991)	(651)	(651)	(24,642)	
<b>Loss after taxation</b>				<b>(189,542)</b>	<b>(23,463)</b>	<b>(23,463)</b>	<b>(213,005)</b>	

Sep-18

Continued operations				Discontinued operations	
NFS	IS & SSS	BPO	Total	BPO	Total

Rupees in '000

Revenue - net						
External sales						
Licence	470,736	-	-	470,736	-	470,736
Services	397,097	-	41,979	439,076	8,339	447,415
Maintenance	209,621	2,749	-	212,370	-	212,370
Reimbursable expenses	99,693	-	-	99,693	-	99,693
<b>Total revenue</b>	<b>1,177,146</b>	<b>2,749</b>	<b>41,979</b>	<b>1,221,875</b>	<b>8,339</b>	<b>1,230,214</b>
<b>Cost of revenue</b>	<b>(688,163)</b>	<b>(1,923)</b>	<b>(47,674)</b>	<b>(737,762)</b>	<b>(28,669)</b>	<b>(766,431)</b>
<b>Segment results</b>	<b>488,983</b>	<b>826</b>	<b>(5,695)</b>	<b>484,113</b>	<b>(20,330)</b>	<b>463,783</b>
Unallocated corporate expenses:						
Selling and promotion expenses	-	-	-	(118,263)	-	(118,263)
Administrative expenses	-	-	-	(228,481)	(334)	(228,814)
Other operating expenses	-	-	-	-	-	-
Other income	-	-	-	32,513	6,784	39,296
Finance cost	-	-	-	(12,075)	(37)	(12,112)
Taxation	-	-	-	(25,364)	(339)	(25,703)
<b>Profit after taxation</b>				<b>132,443</b>	<b>(14,256)</b>	<b>118,187</b>

\*Key

NFS = NetSol Financial Suite &amp; NFS Ascent

IS = Information Security and other services

BPO = Business Process Outsourcing

SSS = Software Services and Solutions

Segment assets and liabilities are not regularly provided to the CODM. The Group has elected as provided under IFRS 8 'Operating Segments' (amended) not to disclose a measure of segment assets or liabilities where these amounts are not regularly provided to the CODM.

**23. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on October 30, 2019 by the Board of Directors.

**24. GENERAL**

Figures have been rounded off to the nearest thousand rupee unless otherwise stated.

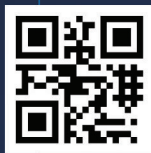
CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

DIRECTOR







## **NETSOL Technologies Limited**

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