

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

NOTES	Dec-06	Jun-06
	Rupees '000'	

ASSETS

FIXED CAPITAL EXPENDITURE

Operating Fixed Assets	4	308,210	307,788
Intangible Assets	5	112,475	68,202
		<u>420,685</u>	<u>375,990</u>

LONG TERM INVESTMENTS

15,188 15,188

LONG TERM LOANS

25,341 31,628

CURRENT ASSETS

Current maturity of long term loans	2,950	3,800
Account receivables - Unsecured	222,875	150,765
Excess of revenue over billing	391,070	251,072
Advances, deposits, prepayments and other receivables	64,931	93,786
Due From related parties	2,880	5,109
Cash & bank balances	73,929	127,276
	<u>758,635</u>	<u>631,808</u>
	<u>1,219,849</u>	<u>1,054,614</u>

EQUITY & LIABILITIES

SHARE CAPITAL & RESERVES

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

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

Capital reserve		189,470	189,470
------------------------	--	---------	---------

Share deposit money		313	313
----------------------------	--	-----	-----

Un - appropriated profit		529,858	396,516
---------------------------------	--	---------	---------

Total shareholders' equity		<u>1,074,461</u>	<u>941,119</u>
-----------------------------------	--	------------------	----------------

NON CURRENT LIABILITIES

Liabilities against assets subject to finance lease		9,607	7,918
---	--	-------	-------

Deferred Income		2,684	2,495
-----------------	--	-------	-------

CURRENT LIABILITIES

Current portion of lease liability	6,949	5,462
Short term financing	75,000	40,000
Creditors, accrued and other liabilities	35,327	43,191
Excess of billing over revenue	13,587	12,506
Provision for taxation	2,234	1,923

133,097 103,082

CONTINGENCIES & COMMITMENTS

	7	-	-
		<u>1,219,849</u>	<u>1,054,614</u>

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

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

NOTES	For the 2nd Quarter		Cumulative	
	Oct - Dec 2006	Oct - Dec 2005	Jul - Dec 2006	Jul - Dec 2005
	Rupees '000'			
Revenue	222,506	97,121	359,075	217,608
Cost of Sales	92,612	54,037	158,514	100,325
Gross profit	129,894	43,084	200,561	117,283
Operating expenses				
Administrative and General Expenses	26,206	24,242	49,184	41,284
Selling & Promotion Expenses	17,941	13,039	28,934	20,562
	44,147	37,281	78,118	61,846
Operating profit	85,747	5,803	122,443	55,437
Other income / (expenses)	9,198	4,779	15,096	6,949
Financial charges	(2,120)	(1,119)	(3,886)	(2,641)
Net Profit for the period before taxation	92,825	9,463	133,653	59,745
Taxation				
Current	101	136	311	2,271
Net Profit for the period after taxation	92,724	9,327	133,342	57,474
Un - appropriated profit brought Forward	437,134	329,833	396,516	281,686
Un - appropriated profit carried Forward	529,858	339,160	529,858	339,160
Earning Per Share - Basic & Diluted	8	0.26	3.75	1.69

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

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

1 STATUS & ACTIVITIES

NetSol Technologies Limited incorporated in Pakistan on August-22, 1996 under the Companies Ordinance, 1984 as a private company limited by shares was later converted into Public Limited Company on November-05, 2004 .Now the company has been listed on Karachi Stock Exchange on August 26, 2005. The business of the Company is export of computer software and its related services developed in Pakistan.

2 BASIS OF PREPARATION

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

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

3 ACCOUNTING POLICIES

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

4 Operating Fixed Assets

		Dec-06	Jun-06
		Rupees '000'	
Opening Balance (NBV)		307,788	222,845
Additions:	4.1	25,548	140,564
		<u>333,336</u>	<u>363,409</u>
Less:			
Disposals		(7,818)	(17,872)
Depreciation		(17,308)	(37,749)
		<u>308,210</u>	<u>307,788</u>

4.1 Following is the detail of addition:

Land	-	25,476
Building	-	22,112
Computers	5,291	26,139
Air Conditioners	-	3,056
Furniture & Fixture	225	5,024
Office equipment	707	2,496
Electric fittings		872
Vehicles	10,455	32,624
Generator	61	8,803
Software	8,809	13,962
Total	<u>25,548</u>	<u>140,564</u>

5 Intangible Assets

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

5.1 Following is the detail of addition:

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

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

Dec-06	Jun-06
Rupees '000'	

6 ISSUED, SUBSCRIBED & PAID-UP CAPITAL

Jun-2006 (Numbers of shares)	Jun-2005		Dec-06	Jun-06
32,516,482	32,516,482	Ordinary Shares of Rs. 10 each (Jun-2005: 10 each) fully paid in cash	325,165	325,165
2,965,518	2,965,518	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	29,655	29,655
<u>35,482,000</u>	<u>35,482,000</u>		<u>354,820</u>	<u>354,820</u>

The Parent Company NetSol Technologies Inc. 24011 Ventura Blvd, Suit No. 101, Calabasas CA 91302, holds 21,496,000 (Jun-2006:21,496,000) ordinary shares of Rs. 10/- each, representing 60.58% (Jun-2006: 60.58%) of the issued capital of the company.

7 CONTINGENCIES & COMMITMENTS

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

8 EARNING PER SHARE - BASIC & DILUTED

Profit after taxation for the year	92,724	9,327	133,342	57,474
Average number of ordinary shares in issue during the period	35,482	35,482	35,482	34,017
Earning per share basic & diluted	2.61	0.26	3.75	1.69

9 TRANSACTIONS WITH RELATED PARTIES

NetSol Technologies Inc (Parent)

Management fee	3,045	-	3,045	-
----------------	-------	---	-------	---

10 SEGMENT REPORTING

	Asia Pacific			Australia & USA		Others			Total		
	2006	2005	2005	2006	2005	2006	2005	2006	2005	2005	0'
	R	U	P	E	E	S	i	n	'0	0	0'
For the 2nd Quarter											
Revenue	136,040	79,338		83,774	9,081	2,692	8,702		222,506		97,121
Segment result	56,754	7,730		34,949	885	1,122	848		92,825		9,463
Cumulative											
Revenue	259,898	176,807		93,431	27,832	5,746	12,969		359,075		217,608
Segment result	96,737	48,543		34,777	7,641	2,139	3,561		133,653		59,745

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

11 DATE OF AUTHORIZATION FOR ISSUE

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

12 FIGURES

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

Figures have been rounded off to the nearest thousand rupee

CHIEF EXECUTIVE

DIRECTOR

NETSOL TECHNOLOGIES LIMITED
CASH FLOW STATEMENT (UN-AUDITED)
FOR SIX MONTHS ENDED DECEMBER-31, 2006

	Dec-06	Dec-05
	Rupees '000'	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Profit for the period before tax	133,653	59,745
Add: Non cash charges to income		
Depreciation - own assets	14,361	10,483
Amortization of lease assets	2,947	1,822
Amortization of intangible assets	2,596	2,258
(Gain)/Loss on disposal of fixed assets	761	(64)
Amortization of Deferred revenue	(703)	(516)
Exchange (gain) / loss on debtors	(5,710)	138
Interest	887	545
Bad debts		418
	<u>15,139</u>	<u>15,084</u>
<i>Cash flows from operating activities before working capital</i>	148,792	74,829
<i>Decrease / (increase) in current assets & liabilities</i>		
Accounts receivables	(205,318)	(103,793)
Due from related parties	2,229	(312)
Advances, prepayments and other receivables	29,815	(33,891)
Short term investment	-	(90,000)
Creditors, accrued and other liabilities	(7,864)	(15,411)
	<u>(181,138)</u>	<u>(243,407)</u>
<i>Cash generated from operations</i>	(181,138)	(243,407)
Interest paid	(887)	(545)
Taxes paid	(960)	(314)
	<u>(34,193)</u>	<u>(169,437)</u>
<i>Net cash flow from operating activities</i>	(34,193)	(169,437)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Property and equipments purchased	(17,699)	(65,508)
Sales proceeds of fixed asset	100	873
Capital Work in Progress	-	(407)
Intangible assets	(46,869)	(9,628)
Long Term Investment	-	
Long Term Loan	7,137	
	<u>(57,331)</u>	<u>(74,670)</u>
<i>Net cash flow from investing activities</i>	(57,331)	(74,670)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issuance of share capital	-	99,820
Share deposit money	-	450
Share premium	-	129,470
Paid against obligation under capital lease	(4,673)	(2,313)
Received against obligation under capital lease	7,850	4,597
Short term finance	35,000	13,363
	<u>38,177</u>	<u>245,387</u>
<i>Net cash flow from financing activities</i>	38,177	245,387
<i>Net (decrease) / increase in cash and cash equivalents</i>	(53,347)	1,280
<i>Cash and cash equivalents at the beginning of the year</i>	127,276	30,962
<i>Cash and cash equivalents at the end of the period</i>	<u>73,929</u>	<u>32,242</u>

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

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

	Share Capital	Share Premium	Share Deposit Money	Retained Earning	Bonus Shares	Total Equity
	Rupees In '000'					
Balance at June 30, 2005	225,345	60,000	-	281,686	29,655	596,686
Net profit for half year ended December 31, 2005	-	-	-	57,474	-	57,474
Share deposit money received	-	-	313	-	-	313
Shares issued against IPO	99,820	-	-	-	-	99,820
Share premium on IPO	-	129,470	-	-	-	129,470
Balance at December 31, 2005	325,165	189,470	313	339,160	29,655	883,763
Net profit for six months ended June 30, 2006	-	-	-	57,356	-	57,356
Balance at June 30, 2006	325,165	189,470	313	396,516	29,655	941,119
Net profit for the half year ended December 31, 2006	-	-	-	133,342	-	133,342
Balance at December 31, 2006	325,165	189,470	313	529,858	29,655	1,074,461

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR