



CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

We have audited the annexed consolidated Financial Statements Comprising Consolidated Balance Sheet of **NetSol Technologies Limited** and its subsidiary companies, as at June 30, 2005 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 companies. 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 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 companies as at June 30, 2005 and results of their operations for the year then ended.

Lahore:
October 03, 2005

Saeed Kamran Patel & Co.,
Chartered Accountants

CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 2005

	NOTES	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
ASSETS			
FIXED CAPITAL EXPENDITURE			
OPERATING FIXED ASSETS	4	234,005	98,486
CAPITAL WORK IN PROGRESS	5	7,855	95,661
INTANGIBLE ASSETS	6	66,565	36,625
		<u>308,425</u>	<u>230,772</u>
LONG TERM LOANS	7	40,428	40,539
CURRENT ASSETS			
Account receivables - Unsecured		161,504	34,830
Excess of revenue over billing	8	117,302	46,563
Advances, deposits, prepayments and other receivables	9	49,657	8,460
Due from related parties	10	2,871	3,051
Cash & bank balances	11	49,315	24,386
		<u>380,650</u>	<u>117,290</u>
		<u>729,503</u>	<u>388,601</u>
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized Capital			
50,000,000 ordinary shares of Rs.10/- each (2004: 20,000 ordinary shares of Rs. 100 each)		<u>500,000</u>	<u>2,000</u>
Issued, subscribed and paid up capital			
25,500,000 ordinary shares of Rs.10/- each (2004: 20,000 ordinary shares of Rs. 100 each)	12	255,000	2,000
Capital reserve	13	60,000	-
Share deposit money	14	-	164,613
Un - appropriated profit		301,907	150,902
Total shareholders' equity		<u>616,907</u>	<u>317,515</u>
MINORITY INTEREST		25,653	-
NON CURRENT LIABILITIES			
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
	15	1,928	986
DEFERRED INCOME	16	742	-
CURRENT LIABILITIES			
Current portion of lease liability		3,101	1,750
Short term financing	17	22,000	26,775
Creditors, accrued and other liabilities	18	49,136	35,687
Excess of billing over revenue	19	8,886	5,888
Provision for taxation		1,150	-
		<u>84,273</u>	<u>70,100</u>
CONTINGENCIES & COMMITMENTS	20	-	-
		<u>729,503</u>	<u>388,601</u>

The annexed notes from 1 to 39 form an integral part of these accounts.

CONSOLIDATED PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED JUNE-30, 2005

	NOTES	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
Revenue	21	433,475	184,543
Cost of Sales	22	152,994	59,529
Gross profit		280,481	125,014
Operating expenses			
Administrative and General Expenses	23	57,293	30,806
Selling & Promotion Expenses	24	20,669	3,838
		77,962	34,644
Operating profit		202,519	90,370
Other income / (expenses)	25	2,811	1,348
Financial charges	26	(3,977)	(2,776)
Profit before taxation		201,354	88,942
Taxation	27	783	-
Profit after taxation		200,571	88,942
Minority Interest		7,013	-
Profit after taxation & minority interest		193,558	88,942
Un - appropriated profit brought forward		150,902	62,060
Prior period adjustment		-	(100)
Translation loss on Share deposit money		(12,898)	-
Profit available for appropriation		331,562	150,902
Appropriation:			
Bonus Shares		(29,655)	-
Un - appropriated profit carried forward		301,907	150,902
Earning Per Share - Basic and Diluted	28	11.89	28.07

The annexed notes from 1 to 39 form an integral part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE-30, 2005

	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax for the period	201,354	88,842
Add: Non cash charges to income		
Depreciation - own assets	20,784	10,076
Amortization of lease assets	2,177	1,571
(Gain)/Loss on disposal of fixed assets	124	(107)
Amortization of development cost	3,507	2,498
Amortization of Deferred revenue	(767)	-
Exchange (gain) / loss on debtors	(530)	(1,338)
Bad debts	713	2,050
	26,008	14,750
Cash flows from operating activities before working capital	227,362	103,592
Decrease / (increase) in current assets & liabilities		
Accounts receivables	(197,596)	(27,046)
Due from related parties	180	(1,469)
Advances, prepayments and other receivables	(41,197)	(964)
Excess of billing over revenue	2,998	-
Creditors, accrued and other liabilities	13,450	15,696
Cash generated from operations	(222,166)	(13,783)
Net cash inflow / (outflow) from operating activities	5,196	89,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(42,997)	(77,404)
Sales proceeds of fixed asset	2,685	1,941
Capital Work in Progress	(28,064)	(60,061)
Intangible assets	(22,323)	(7,911)
Long term loan	7,082	(1,345)
Net cash inflow / (outflow) from investing activities	(83,618)	(144,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	223,345	-
Share deposit money	(177,513)	70,668
Share premium	60,000	-
Received against obligation under capital lease	2,294	5,083
Short term finance	(4,775)	1,514
Net cash inflow / (outflow) from financing activities	103,351	77,265
Net (decrease) / increase in cash and cash equivalents	24,929	22,294
Cash and cash equivalents at the beginning of the year	24,386	2,092
Cash and cash equivalents at the end of the period	49,315	24,386

The annexed notes from 1 to 39 form an integral part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE-30, 2005

	Share Capital Rupees in '000'	Share Premium Rupees in '000'	Share Deposit Money Rupees in '000'	Foreign Currency Translation Rupees in '000'	Retained Earning Rupees in '000'	Bonus Shares Rupees in '000'	Total Equity Rupees in '000'
Balance at June 30, 2003	2,000	-	103,414	(7,916)	61,960	-	159,458
Net profit for the year ended June 30, 2004	-	-	-	-	88,941	-	88,941
Share deposit money received	-	-	69,115	-	-	-	69,115
Adjustment of foreign currency translation	-	-	1,552	(1,552)	-	-	-
Balance at June 30, 2004	2,000	-	174,081	(9,468)	150,902	-	317,515
Net profit for the year ended June 30, 2005	-	-	-	-	193,558	-	193,558
Share deposit money received	-	-	15,255	-	-	-	15,255
Share issued against share deposit money	183,315	-	(183,315)	-	-	-	-
Right shares issued	30	-	-	-	-	-	30
Bonus shares issued	-	-	-	-	(29,655)	29,655	-
Pre IPO Shares issued	40,000	-	-	-	-	-	40,000
Share premium on Pre IPO	-	60,000	-	-	-	-	60,000
Adjustment of foreign currency translation	-	-	(6,020)	9,468	(12,898)	-	(9,451)
Balance at June 30, 2005	225,345	60,000	-	-	301,906	29,655	616,907

The annexed notes from 1 to 39 form an integral part of these accounts.

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Status & Nature of Business

The NetSol Group consists of:

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

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

The NetSol (Pvt) Ltd ("the Subsidiary") is incorporated in Pakistan as a Private limited company and is a wholly owned subsidiary company of NetSol Technologies Ltd.

TiG-NetSol (Pvt) Ltd ("the Sub-subsidiary") is incorporated in Pakistan as a Private limited company and is a subsidiary of NetSol (Pvt) Ltd with a share holding of 51%, as a result subsidiary of NetSol Technologies Ltd.

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

2. Basis of preparation

The consolidated financial statements include the financial statements of NetSol Technologies Ltd, NetSol (Pvt) Ltd & TiG-NetSol (Pvt) Ltd. The financial statements of the Subsidiary have been consolidated in accordance with the requirements of IAS 27 "Consolidated and Separate Financial Statements" using the line by line consolidation method.

Any excess of cost of investment over acquired equity of the subsidiary is treated as goodwill.

All inter company balances and transactions have been eliminated.

3. Summary of Significant Accounting Policies

3.1 Statement of compliance

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

3.2 Accounting Convention

These Accounts have been prepared under the historical cost convention.

3.3 Property and equipments

Property and equipment are stated at cost less accumulated depreciation.

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

Depreciation on additions to property, plant and equipment is charged from the year in which an asset is acquired or capitalized while no depreciation is charged for the month in which the asset is disposed off.

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 for the year.

3.4 Assets subject to finance lease

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

Assets acquired under finance leases are amortized over the useful life of the assets on a reducing balance method at the rates given in note 4.

NOTES TO THE CONSOLIDATED ACCOUNTS

3.5 Intangible assets

The Company capitalizes certain computer software development costs in accordance with IAS 18 "Intangible Assets". 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 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. Capitalized software costs are amortized on a product-by-product basis. The annual amortization is charged on monthly basis using the straight-line method over the remaining estimated economic life of the product including the period being reported on. Amortization shall start when the product is available for general release to customers.

3.6 Foreign currencies

Transactions denominated in foreign currencies are translated to 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 approximating those prevailing at the balance sheet date. All exchange differences are taken to the profit and loss account.

3.7 Financial assets and liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

3.8 Accounts receivables

Accounts receivables are stated at cost less impairment losses.

3.9 Investments

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

3.10 Revenue recognition

Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with all applicable accounting regulations including IAS 18 "Revenue". Any Revenue from software arrangements with multiple elements are allocated to each element of the arrangement based on the relative fair values using specific objective evidence. If no such objective evidence exists, revenue from the arrangements is not recognized until the entire arrangement is completed and accepted by the customer. For arrangements that require significant production, modification or customization of software, the entire arrangement is accounted for by the percentage of completion method. Contracts for services are recognized over the period of contract.

3.11 Segment reporting

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

3.12 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and current and or deposit accounts held with banks. Running finance facilities availed by the Company, which are payable on demand and form an integral part of the Company's cash management are included as part of cash and cash equivalents for the purpose of statement of cash flows.

3.13 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 recognized amount and the Company intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

NOTES TO THE CONSOLIDATED ACCOUNTS

4. OPERATING FIXED ASSETS

Net book value of owned assets
Net book value of leased assets

JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
223,353	92,410
10,652	6,076
234,005	98,486

Note: 4.1
Note: 4.4

4.1 OWNED ASSETS

Particulars	COST			DEPRECIATION				Net book value as at June 30, 2005
	As at July 01, 2004	Additions / (Deletions)	As at June-30, 2005	Rate %	As at July 01, 2004	Adjustment during the year	Charge for the Period	
Land	10,420	703	11,123	-	-	-	-	11,123
Building	63,989	111,475	175,464	5	3,199	-	8,614	11,813
Computers	27,528	24,251 (1,602)	50,177	33	20,381	461	8,832	29,674
Air conditioners	4,408	1,626 (578)	5,456	10	1,672	(58)	358	1,971
Furniture & fixtures	6,876	3,864	10,740	10	2,788	45	747	3,580
Office equipment	1,854	1,676	3,530	10	686	14	278	978
Electric fittings	725	3,431	4,156	10	315	-	384	699
Vehicles	2,980	995 (1,768)	2,207	20	1,564	(204)	169	1,529
Software	7,110	2,223	9,333	33	2,920	-	2,116	5,036
Generator	79	413	492	10	32	-	46	78
Leased hold improvements	-	6,703	6,703	20	-	-	670	670
2005	125,969	157,360 (3,948)	279,381		33,557	258	22,214	56,028
2004	47,386	80,500 (1,919)	125,967		21,230	2,251	10,076	33,557

4.2 Depreciation is allocated in the following manner

Cost of sales
Administrative expenses
Development Cost
CWP

JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
14,589	6,730
6,195	3,018
1,430	327
-	1
22,214	10,076

NOTES TO THE CONSOLIDATED ACCOUNTS

4.3 DISPOSAL OF OPERATING FIXED ASSETS

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

Particulars	Cost	Accumulated Depreciation	Rupees in '000' Book Value	Sale proceed	Profit / (Loss)	Mode of Disposal	Particular of Purchaser
Motor Vehicle	575	373	202	115	(87)	Offered to employee	Vice president Administration of NetSol Technologies Limited
Total - 2005	575	373	202	115	(87)		
Total - 2004	5,309	3,261	2,048	2,155	107		

4.4 ASSETS SUBJECT TO FINANCE LEASE

The following is the statement of leased assets:

Particulars	COST			DEPRECIATION					Note book value as at June 30-2005
	As at July 01, 2004	Additions / (Deletions)	As at June 30, 2005	Rate %	As at July 01, 2004	Adjustment during the year	Charge for the Period	As at June 30, 2005	
Vehicles	5,451	1,767 (575)	6,643	20	2,987	(373)	806	3,420	3,223
Generator	3,534	2,500 (3,299)	2,735	10	1,374	(1,351)	270	294	2,441
Computers	2,169	1,485	3,654	33	716		971	1,686	1,968
Air Conditioners	—	1,118	1,118	10	—		112	112	1,007
Office equipment	—	1,659	1,659	10	—		166	166	1,493
Electric fittings	—	578	578	10	—		58	58	520
2005	11,154	9,108 (3,874)	16,388		5,077	(1,724)	2,383	5,736	10,652
2004	17,640	2,404 (8,890)	11,153		9,018	(5,512)	1,571	5,077	6,076

4.5 Amortization is allocated in the following manner

Cost of sales
Administrative expenses
Development Cost
CWIP

	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
	1,462	924
	715	448
	206	187
	—	12
	2,383	1,571

NOTES TO THE CONSOLIDATED ACCOUNTS

	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
5 CAPITAL WORK IN PROGRESS		
Opening Balance	95,661	35,600
Addition During the year	29,703	124,050
	<u>125,363</u>	<u>159,650</u>
Transfers	(117,508)	(63,989)
Closing Balance	<u>7,855</u>	<u>95,661</u>
6 INTANGIBLE ASSETS		
Goodwill on Consolidation	11,123	-
Developed Software Cost	55,442	36,625
	<u>66,565</u>	<u>36,625</u>

6.1

Particulars	COST			Rate %	AMORTIZATION			Net book value as at Jun-30, 2005 Rupees in '000'
	As at July-01 2004	Additions / (Deletions)	As at Jun-30 2005		As at July 01, 2004	Charge for the period	As at Jun-30 2005	
Developed Software								
CMS Software	21,459	-	21,459	10	2,146	2,146	4,292	17,167
ePOS Software	3,521	-	3,521	10	352	352	704	2,817
WFS Software	12,846	4,154	17,000	10	-	1,009	1,009	15,991
Under Developed								
PTS Software	1,298	9,336	10,634	-	-	-	-	10,634
Knit Info System	3,681	590	4,271	-	-	-	-	4,271
NetSol's Pay Soft	-	4,562	4,562	-	-	-	-	4,562
2005	42,805	18,642	61,447		2,498	3,507	6,005	55,442
2004	31,212	7,911	39,123		-	2,498	2,498	36,625

No amortization is charged on PTS Software, Knit Info System and NetSol's Pay Soft as they are still in development stage.

7 LONG TERM LOANS

Due from Subsidiary - Unsecured		-	40,539
Loan to Employees - Unsecured	Note 7.1	40,428	--
		<u>40,428</u>	<u>40,539</u>

7.1 The Company has granted an unsecured long term loan amounting to Rs. 40.43 Million to its employees. It carries mark-up @ 7% p.a. (2004: Nil) during the current year and thereafter 1% above the weighted average borrowing cost of the company. The maximum amount outstanding during the year under this head at any point of time was Rs. 40.428 Million.

8 EXCESS OF REVENUE OVER BILLING

It represents Unbilled debtors arising due to recognition of revenue on the basis of percentage of completion as per IAS 18 "Revenue" and AICPA SOP 81-1

9 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Loan to employees		115	109
Advances - considered good	Note 9.1		
- To employees		74	189
- Against expenses		9,874	2,598
- For software & licenses		12,176	--
Security deposit		952	497
Prepayments	Note 9.2	12,830	1,537
Advance income tax		1,297	1,560
Other receivable		8,013	1,970
Tender Money		4,326	-
		<u>49,657</u>	<u>8,460</u>

9.1 Included in advances to employees are amounts due from Chief Executive, Directors and Executives of Rs. Nil, Rs. Nil and Rs. 38,660/- respectively. (2004: Chief Executive Rs. 113,007/-, Directors Rs. Nil and Executives Rs. 26,011/-).

NOTES TO THE CONSOLIDATED ACCOUNTS

JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
------------------------------	------------------------------

The present value of minimum lease payments have been discounted at an implicit interest rate of 12.5% to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.

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

	Minimum Lease Payment	Future Finance Charges	Present value of lease liability	
Not later than one year	3,526	424	3,101	1,750
Later than one year but not later than Five years	2,055	127	1,928	986
	<u>5,581</u>	<u>551</u>	<u>5,030</u>	<u>2,736</u>

16 DEFERRED INCOME

Un Amortized gain on sale and buy back transaction	Note 16.1	742	-
		<u>742</u>	<u>-</u>

16.1 This amount represents the gain on sale and lease back of fixed assets. According to IAS 17 "Lease" this gain is deferred and amortised over the lease term.

17 SHORT TERM FINANCING

Export refinance - Secured	Note 17.1	22,000	19,500
Term finance - Secured	Note 17.2	-	2,275
Running Finance - Secured	Note 17.3	-	5,000
		<u>22,000</u>	<u>26,775</u>

17.1 The facility for export refinance available from Askari Commercial Bank Ltd amount to Rs 22 million (2004: Rs 19.5 million) and carry mark-up ranging from 5% to 8% per annum (2004: 3.5% to 4% per annum). The due balance is payable in bi-annually instalments.

17.2 The facility of term finance availed from Askari Commercial Bank Ltd amount to Rs. Nil (2004: Rs. 2.275 million) and carry mark-up Nil percent per annum (2004:8% per annum). The due balance is payable in monthly equal instalments.

17.3 This represent running finance facility available from Askari Commercial Bank Ltd amount to Rs Nil (2004: Rs 4.999 million) and carry mark-up 12% per annum (2004: 10% per annum).

All these facilities are secured by way of first charge of hypothecation over the company's current & future current assets amounting to Rs. 50 Million. and remaining balance by way of hypothecation charge over the land of the Company

18 CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	18,681	9,697
Accrued liabilities	14,837	6,522
Advance from customers	274	-
Interest payable	621	401
Other payables	13,834	14,693
Security refundable	223	-
Withholding tax	666	4,374
	<u>49,136</u>	<u>35,687</u>

19 EXCESS OF BILLING OVER REVENUE

It represents maintenance fee received in advance and transferred to revenue from maintenance on time proportion basis.

20 CONTINGENCIES & COMMITMENTS

The company has no contingent liabilities and commitments outstanding as at June 30, 2005. (2004: Nil)

NOTES TO THE CONSOLIDATED ACCOUNTS

	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
21 REVENUE		
Revenue from license	235,533	84,137
Revenue from services	181,644	13,173
Revenue from maintenance	16,298	87,233
	433,475	184,543
22 COST OF SALES		
Staff salaries & benefits	62,558	32,923
Technical services	12,967	-
Staff training	3,009	201
Rent, rates & taxes	701	1,820
Travelling & conveyance	31,009	5,284
Communication	4,274	2,402
Utilities	5,246	2,047
Printing & stationery	815	336
Entertainment	1,987	884
Insurance	505	190
Vehicle running & maintenance	479	333
Repair & maintenance	6,344	911
Certifications	3,426	1,491
Newspaper Books & Periodicals	-	93
Fee & Subscription	116	463
Amortization of development cost	3,507	2,498
Depreciation	14,589	6,730
Amortization of leased assets	1,462	924
	152,994	59,529
23 ADMINISTRATIVE & GENERAL EXPENSES		
Directors remuneration	4,450	2,644
Staff salaries and benefits	16,753	9,044
Staff training	78	4
Rent, rates and taxes	823	965
Travelling and conveyance	3,173	1,697
Communication & postage	887	696
Printing and stationery	255	122
Utilities	2,161	904
Entertainment	3,105	1,365
Insurance	472	287
Advertisement	502	99
Vehicle running expenses	2,054	734
Repairs and maintenance	6,889	4,021
Legal and professional charges	3,061	1,190
Auditors remuneration	1,345	840
News papers & periodicals	20	21
Security expenses	2,374	455
Office supplies	352	72
Charity & Donation	165	15
Miscellaneous expenses	236	48
Fee & subscription	515	67
Depreciation	6,195	3,018
Amortization of leased assets	715	448
Bad Debts	713	2,051
	57,293	30,806
23.1 AUDITOR REMUNERATION		
Audit fee	390	235
Miscellaneous certification charges	450	300
Corporate consultancy services	400	250
Out-of-pocket expenses	105	55
	1,345	840
23.2 DONATION		
Chief Executive and none of the director have any interest in the donee.		

NOTES TO THE CONSOLIDATED ACCOUNTS

	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
24 SELLING & PROMOTION EXPENSES		
Staff salaries & benefits	6,968	591
Staff training	175	-
Rent, rates & taxes	55	299
Travelling and conveyance	4,706	1,553
Communication	424	81
Printing & stationery	135	35
Utilities	491	364
Entertainment	245	68
Insurance	52	41
Vehicle running & maintenance	147	-
Newspapers, books & periodicals	2	-
Advertisement	4,953	806
Sales Promotion	2,307	-
Tender money	9	-
	<u>20,669</u>	<u>3,838</u>
25 OTHER INCOME / (EXPENSES)		
Foreign exchange gain / (loss)	530	1,204
Profit on bank deposit	308	37
Amortization of deferred revenue	371	-
Rental income	396	-
Rounding off difference	5	-
Gain / (Loss) on disposal of assets	(124)	107
Mark-up on loan	1,324	--
	<u>2,811</u>	<u>1,348</u>
26 FINANCIAL CHARGES		
Interest on lease assets	914	720
Interest on short term loans	2,591	1,755
Front End Fee & Doc. Charges	45	16
Bank charges	427	286
	<u>3,977</u>	<u>2,776</u>
27 TAXATION		
- Current Period	776	-
- Prior Period	7	-
	<u>783</u>	<u>-</u>
28 EARNING PER SHARE - BASIC & DILUTED		
Profit after taxation for the year	180,659	88,842
Average number of ordinary shares in issue during the year	15,194	3,166
Earning per share - Basic & Diluted	11.89	28.07

29 REMUNERATION OF DIRECTORS & CHIEF EXECUTIVE

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:

Number of Persons	Chief Executive				Directors				Executives			
	2005		2004		2005		2004		2005		2004	
	R	U	P	E	E	S	i	n	'0	0	0'	
Managerial remuneration	2,000		800		619		908		10,441		3,385	
Retirement benefits	-		-		72		82		482		139	
Rent and house maintenance	800		320		234		363		4,637		1,523	
Utilities	200		80		62		91		582		169	
Medical expenses	-		-		-		-		192		53	
Leave passage	-		-		-		-		-		-	
	<u>3,000</u>		<u>1,200</u>		<u>987</u>		<u>1,444</u>		<u>16,334</u>		<u>5,269</u>	

No fees are paid to directors for attending board meetings.

NOTES TO THE CONSOLIDATED ACCOUNTS

JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
------------------------------	------------------------------

30 TRANSACTION WITH RELATED PARTIES

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

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

Share Deposit Money

NetSol Technologies Inc. - Parent company	24,615	69,424
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31 FAIR VALUE OF FINANCIAL ASSETS & LIABILITIES

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

32 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, the 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:

	2005			2004		
	Interest/ Mark-up Bearing	Non-interest/ mark-up bearing	TOTAL	Interest/ mark-up bearing	Non-interest/ mark-up bearing	TOTAL
	R	U	P E E	S	i n '0	0 0'
Financial Assets						
Maturity upto one year:						
Accounts receivable	-	161,504	161,504	-	34,830	34,830
Excess of revenue over billing	-	117,302	117,302	-	46,563	46,563
Security deposits	-	952	952	-	497	497
Other receivables	-	8,013	8,013	-	1,970	1,970
Cash & bank balances	35,254	14,061	49,315	23,877	509	24,386
Maturity after one year:						
Long Term loan	40,428	-	40,428	-	40,539	40,539
Total Financial Assets	75,682	301,833	377,515	23,877	84,369	108,246
Financial Liabilities						
Maturity upto one year:						
Lease liabilities	3,101	-	3,101	1,750	-	1,750
Short term financing	22,000	-	22,000	26,775	-	26,775
Trade creditors	-	18,681	18,681	-	9,697	9,697
Other payables	-	13,834	13,834	-	14,693	14,693
Maturity after one year:						
Lease liabilities	1,928	-	1,928	986	-	986
Total Financial Liabilities	27,030	32,516	59,545	29,510	24,389	53,900
Net financial assets / (Liabilities)	48,652	269,317	317,969	(5,634)	59,980	54,346

32.1 INTEREST RATE RISK EXPOSURE

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

NOTES TO THE CONSOLIDATED ACCOUNTS

33 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 the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery.

34 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.

35 SEGMENT REPORTING

	Asia Pacific		Australia & USA		Others		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	R U P E E S i n ' 0 0 0'							
Revenue								
Sales	328,719	93,968	72,817	58,584	31,939	31,991	433,475	184,543
Cost of sales	116,021	30,311	25,701	18,898	11,273	10,320	152,994	59,529
Gross profit	212,698	63,656	47,116	39,686	20,666	21,672	280,481	125,014
Admin & general expenses	43,447	15,686	9,624	9,779	4,221	5,340	57,293	30,808
Selling & promotions expenses	15,674	1,954	3,472	1,218	1,523	665	20,669	3,838
Operating profit	153,577	46,016	34,020	28,688	14,922	15,666	202,519	90,370
Other income	2,132	686	472	428	207	234	2,811	1,348
Financial charges	3,016	1,413	668	881	293	481	3,977	2,776
Segment result	152,693	45,767	33,824	28,533	14,836	15,419	201,354	88,942
Other Information								
Segment assets	295,769	194,147	-	-	-	-	295,769	194,147
Depreciation	24,597	13,618	-	-	-	-	24,597	13,618
Non cash expenses other than depreciation	3,507	2,498	-	-	-	-	3,507	2,498

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

36 ANNUAL SOFTWARE DEVELOPMENT CAPACITY

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

37 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue on September - 20, 2005 by the Board of Directors.

38 CORRESPONDING FIGURES

Previous year's figures have been rearranged and reclassified wherever necessary for the purposes of comparison. Major changes made during the year were reclassifications resulting from the application of Fourth Schedule to the Companies Ordinance, 1984 on the company after listing on Karachi Stock Exchange.

39 FIGURES

Figures have been rounded off to the nearest thousand rupee.

PATTERN OF SHAREHOLDING

AS AT JUNE 30, 2005

No. of Shareholders	Shareholding		Total Shares Held
	From	To	
2	1	500	1,000
1	501	5,000	5,000
1	5,001	10,000	10,000
1	10,001	15,000	15,000
2	15,001	20,000	40,000
3	20,001	25,000	70,500
4	25,001	50,000	200,000
5	50,001	100,000	450,500
3	100,001	200,000	101,500
1	200,001	500,000	410,500
1	500,001	2,500,000	2,500,000
1	2,500,001	21,496,000	21,496,000
25			25,500,000

CATEGORIES OF SHARES

AS AT JUNE 30, 2005

S.No.	Categories of Shareholders	Number of Shareholders	Shares Held	% of Total Capital
1.	Directors, CEO & their spouses & Minor Children:			
	Mr. Najeeb Ullah Ghauri	01	410,500	1.609
	Mr. Naeem Ullah Ghauri	01	100,500	0.394
	Mr. Salim Ullah Ghauri	01	100,500	0.394
	Mr. Irfan Mustafa	01	100,500	0.394
	Mr. Shahid Javed Burki	01	50,500	0.198
	Mr. Edward Allen Holmes	01	20,500	0.080
	Mr. Abdul Rashid	01	500	0.002
	Mr. Eugen Beckert	01	500	0.002
2.	Holding Company:			
	NetSol Technologies Inc.	01	21,496,000	84.298
3.	Banks & Financial Institutions:			
	United Bank Limited	01	100,000	0.392
4.	Joint Stock Companies:			
	Aqeel Karim Dhedhi Securities (Pvt.) Limited	01	2,500,000	9.804
5.	General Public:			
	a) Friends & relatives	14	620,000	2.434
	Total	25	25,500,000	100.000

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 its registered office, NetSol Technologies Limited, NetSol IT Village (Software Technology Park) NetSol Avenue, Main Ghazi Road, Lahore Cantt. on **October 27, 2005 at 02.00 p.m.** and at any adjournment thereof.

Signed at _____ this _____ Day of _____ 2005.

Witness:

Signature : _____

Name : _____

Address : _____

NIC or

Passport No. _____



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.