



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, 2006 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 of 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, 2006 and the results of their operations for the year then ended.

September 22, 2006
Lahore

Saeed Kamran Patel & Co.
Chartered Accountants



CONSOLIDATED BALANCE SHEET

As at June - 30, 2006

	NOTES	2006 Rupees '000'	2005 Rupees '000'
ASSETS			
FIXED CAPITAL EXPENDITURE			
Operating Fixed Assets	4	328,749	234,005
Capital Work In Progress		-	7,855
Intangible Assets	5	68,202	55,441
		396,951	297,301
LONG TERM LOANS	6	31,628	40,428
CURRENT ASSETS			
Current maturity of long term loans	6	3,800	-
Account receivables - Unsecured		197,082	161,505
Excess of revenue over billing	7	251,072	117,302
Advances, deposits, prepayments and other receivables	8	95,405	49,458
Due From related parties	9	5,028	3,069
Cash & bank balances	10	160,832	49,315
		713,219	380,649
		1,141,798	718,378
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized Capital			
50,000,000 ordinary shares of Rs.10/- each		500,000	500,000
Issued, subscribed and paid up capital	11	354,820	255,000
35,482,000 ordinary shares of Rs.10/- each			



Capital reserve	13	189,470	60,000
Share deposit money	14	313	-
Un - appropriated profit		396,516	281,686
Total shareholders' equity		941,119	596,686
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	15	7,918	1,929
Deferred Income	16	2,495	742
CURRENT LIABILITIES			
Current portion of lease liability		5,462	3,101
Short term financing	17	40,000	22,000
Creditors, accrued and other liabilities	18	47,071	54,138
Excess of billing over revenue	19	12,506	8,886
Provision for taxation		2,742	1,150
		107,781	89,275
CONTINGENCIES & COMMITMENTS	20	-	
		1,141,798	718,378

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR



CONSOLIDATED PROFIT & LOSS ACCOUNT

For the year ended June - 30, 2006

	NOTES	2006 Rupees '000'	2005 Rupees '000'
Revenue	20	600,152	462,281
Cost of Sales	21	291,734	163,312
Gross profit		<u>308,418</u>	<u>298,969</u>
Operating expenses			
Administrative and General Expenses	22	92,995	57,823
Selling & Promotion Expenses	23	64,146	26,978
		157,141	84,801
Operating profit		<u>151,277</u>	<u>214,168</u>
Other income / (expenses)	24	23,708	2,838
Financial charges	25	(5,767)	(4,002)
Net Profit for the period before taxation		<u>169,218</u>	<u>213,004</u>
Taxation			
Current		1,592	917
Prior		57	(1,252)
Net Profit for the period after taxation before minority interest		<u>167,569</u>	<u>213,339</u>
Minority interest		26,095	7,358
Net Profit for the period after taxation and minority interest		<u>141,474</u>	<u>205,981</u>
Un - appropriated profit brought Forward		289,199	125,788
Translation loss on share deposit money		-	(12,915)
Profit available for appropriation		<u>430,673</u>	<u>318,854</u>
Appropriation:			
Bonus Shares		-	(29,655)
Un - appropriated profit carried Forward		<u>430,673</u>	<u>289,199</u>
Earning Per Share - Basic & Diluted	26	<u>4.82</u>	<u>13.19</u>

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR



CONSOLIDATED CASH FLOW STATEMENT

For the year ended June - 30, 2006

	2006 Rupees in '000'	2005 Rupees in '000'
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Profit for the period before tax	169,218	213,004
Add: Non cash charges to income		
Depreciation - own assets	37,814	20,867
Amortization of lease assets	5,502	2,177
Amortization of intangible assets	4,198	3,507
(Gain)/Loss on disposal of fixed assets	2,275	124
Amortization of Deferred revenue	(1,054)	(371)
Exchange (gain) / loss on debtors	(5,244)	(530)
Interest	919	931
Bad debts	1,593	873
	<u>46,003</u>	<u>27,578</u>
<i>Cash flows from operating activities before working capital</i>	215,221	240,582
<i>Decrease / (increase) in current assets & liabilities</i>		
Accounts receivables	(162,076)	(178,581)
Due from related parties	(1,959)	181
Advances, prepayments and other receivables	(41,888)	(40,118)
Creditors, accrued and other liabilities	(7,067)	15,740
<i>Cash generated from operations</i>	(212,990)	(202,778)
Interest paid	(919)	(931)
Taxes paid	(4,059)	(3,617)
<i>Net cash flow from operating activities</i>	(2,747)	33,256
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Property and equipments purchased	(130,806)	(45,878)
Sales proceeds of fixed asset	1,244	2,685
Capital Work in Progress	-	(28,064)
Intangible assets	(16,959)	(18,642)
Long term employee loan	5,000	(40,428)
<i>Net cash flow from investing activities</i>	(141,521)	(130,327)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issuance of share capital	99,820	223,345
Share deposit money	313	(162,168)
Share premium	129,470	60,000
Paid against obligation under capital lease	(7,578)	(3,696)
Received against obligation under capital lease	15,760	5,990
Short term finance	18,000	(4,775)
<i>Net cash flow from financing activities</i>	255,785	118,696
<i>Net (decrease) / increase in cash and cash equivalents</i>	111,517	21,625
<i>Cash and cash equivalents at the beginning of the year</i>	49,315	27,690
<i>Cash and cash equivalents at the end of the period</i>	160,832	49,315

The annexed notes form an integral part of these accounts.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended June - 30, 2006

	Share Capital	Share Premium	Share Deposit Money	Foreign Currency Translation	Retained Earning	Bonus Shares	Total Equity
	Rupees In '000'						
Balance as at June 30, 2004	2,000	-	174,081	(9,468)	150,902	-	317,515
Effect of scheme of arrangement for merger with NetSol (Pvt) Ltd as approved by honourable High Court Lahore	-	-	-	-	(23,326)	-	(23,326)
Net profit for the year ended June 30, 2005	-	-	-	-	205,981	-	205,981
Share deposit money received	-	-	15,255	-	-	-	15,255
Shares issued against share deposit money	183,315	-	(183,315)	-	-	-	0
Right shares issued	30	-	-	-	-	-	30
Bonus shares issued	-	-	-	-	(29,655)	29,655	0
Pre IPO Shares issued	40,000	-	-	-	-	-	40,000
Share premium on Pre IPO	-	60,000	-	-	-	-	60,000
Adjustment of foreign currency translation	-	-	(6,021)	9,468	(14,703)	-	(11,256)
Balance as at June 30, 2005 - Restated	225,345	60,000	-	-	289,199	29,655	604,199
Net profit for the year ended June 30, 2006	-	-	-	-	141,474	-	141,474
Share deposit money received	-	-	313	-	-	-	313
Shares issued against IPO	99,820	-	-	-	-	-	99,820
Share premium on IPO	-	129,470	-	-	-	-	129,470
Balance at June 30, 2006	325,165	189,470	313	-	430,673	29,655	975,276

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR



CONSOLIDATED NOTES TO THE ACCOUNTS

1 Status & Nature of Business

NetSol Group consists of:

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

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

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

The Company is engaged in the business of sale of computer software and its related services developed in Pakistan. The subsidiary company is engaged in business of providing online software development services.

2 Basis of preparation

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

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

3.2 Accounting Convention

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

3.3 Property and equipments

Property and equipment are stated at cost less accumulated depreciation.

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

Depreciation on additions to property and equipments is charged from the year in which an asset is acquired or capitalised 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

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

3.4 Assets subject to finance lease

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

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

Amortization on additions to property and equipment is charged for the year in which an asset is acquired under the finance



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.

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 Accounts receivables

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



3.9 Investments

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

3.10 Revenue recognition

Revenue from 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

Revenue from 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 E P IT/ Operations.

Revenue from Maintenance

Revenue from maintenance is recognized on time proportion basis.

Revenue from 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 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 cash 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 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.



CONSOLIDATED NOTES TO THE ACCOUNTS

		2006	2005
		Rupees in '000'	Rupees in '000'
4	OPERATING FIXED ASSETS		
	Net book value of owned assets	Note: 4.1 306,002	223,353
	Net book value of leased assets	Note: 4.4 22,747	10,652
	Total	328,749	234,005

4.1

Particulars	COST			Rate %	DEPRECIATION			As at Jun-30 2006	Net book value as at Jun 30-2006 Rupees in '000'
	As at July-01 2005	Additions / (Deletions)	As at Jun-30 2006		As at July 01, 2005	Adjustment during the year	Charge for the period		
<i>Tangible Assets</i>									
Land	11,123	25,476	36,599		-	-	-	-	36,599
Building	175,464	22,112	197,576	5	11,813		9,288	21,101	176,475
Computers	50,266	26,064 (6,000)	70,330	33	29,681	(1,980)	14,068	41,769	28,561
Air conditioners	5,456	3,466 (221)	8,701	10	1,971	(37)	677	2,611	6,090
Furniture & fixtures	10,740	5,500 (200)	16,040	10	3,581	(33)	1,249	4,797	11,243
Office equipment	3,530	3,436	6,966	10	978	-	599	1,577	5,389
Electric fittings	4,067	872	4,939	10	692		425	1,117	3,822
ehicles	2,207	28,470 (8,943)	21,734	20	1,530	(1,744)	4,390	4,176	17,558
Generator	494	4,052 (3,650)	896	10	78	(274)	383	187	709
Leasehold improvements	6,703	2,700	9,403	20	670	-	1,747	2,417	6,986
<i>Intangible Assets</i>									
Softwares	9,333	16,804 (7,110)	19,027	33	5,036	(4,770)	6,191	6,457	12,570
2006	279,383	138,952 (26,124)	392,211		56,030	(8,838)	39,017	86,209	306,002
2005	127,463	155,869 (3,948)	279,384		34,429	(695)	22,297	56,031	223,353

4.2 Depreciation is allocated in the following manner

	2006	2005
	Rupees in '000'	Rupees in '000'
Cost of sales	29,882	14,638
Administrative expenses	7,932	6,229
Development Cost	1,203	1,430
	39,017	22,297

CONSOLIDATED NOTES TO THE ACCOUNTS

4.3 Disposal of Operating fixed assets

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

Particulars	Cost	Accumulated Depreciation	Book value	Sale proceed	Profit / (Loss)	Mode of Disposal	Particular of purchaser
Motor ehicle. Toyota Corolla	764	524	240	260	20	Through advertisement	Open Market
Motor ehicle. Toyota Corolla	750	180	570	613	43	Through advertisement	Open Market
Motor Bike. Honda CG 125	67	49	18	20	2	In house demand	Mr. Salim Khan
Air Conditioners	221	37	184	184	-	Negotiation	TIG-NetSol (Private) Limited
Furniture & Fixture	200	33	167	167	-	Negotiation	TIG-NetSol (Private) Limited
Computers	6,000	1,980	4,020	6,000	1,980	Sale and leased back	Saudi Pak Leasing Company
Motor ehicle. Honda Civic	1,120	161	959	1,038	79	Sale and leased back	Bank Alfalah Limited
Motor ehicle. Toyota Altis	1,317	197	1,120	1,283	163	Sale and leased back	Bank Alfalah Limited
Motor ehicle. Mercedes E200	5,743	862	4,881	5,318	437	Sale and leased back	Bank Alfalah Limited
Generator 450 K A	3,650	274	3,376	3,525	149	Sale and leased back	Bank Alfalah Limited
Total - 2006	19,832	4,297	15,535	18,408	2,873		
Total - 2005	575	373	202	115	(87)		



CONSOLIDATED NOTES TO THE ACCOUNTS

4.4 ASSETS SUBJECT TO FINANCE LEASE

Following is the statement of leased assets:

Particulars	COST			AMORTIZATION					Net book value as at Jun 30-2006 Rupees in '000'
	As at July-01 2005	Additions / (Deletions)	As at Jun-30 2006	Rate %	As at July 01, 2005	Adjustment during the year	Charge for the period	As at Jun-30 2006	
ehicles	6,643	7,638	13,464	20	3,420	(229)	2,055	5,246	8,218
Generator	2,735	4,751	7,486	10	294		719	1,013	6,473
Computers	3,654	6,000	9,654	33	1,686		2,629	4,315	5,339
Electric fittings	1,118	-	1,118	10	112		101	213	905
Office equipment	1,659	-	1,659	10	166		149	315	1,344
Air Conditioners	578	-	578	10	58		52	110	468
2006	16,387	18,389	33,959		5,736	(229)	5,705	11,212	22,747
2005	11,154	9,108	16,388		5,077	(1,724)	2,383	5,736	10,652

4.5 Amortization is allocated in the following manner

	2006 Rupees in '000'	2005 Rupees in '000'
Cost of sales	4,084	1,462
Administrative expenses	1,418	715
Development Cost	203	206
	5,705	2,383

5 INTANGIBLE ASSETS

Particulars	COST			AMORTIZATION					Net book value as at Jun 30-2006 Rupees in '000'
	As at July-01 2005	Additions / (Deletions)	As at Jun-30 2006	Rate %	As at July 01, 2005	Adjustment during the year	Charge for the period	As at Jun-30 2006	
In-house developed softwares:									
CMS Software	21,458	-	21,458	10	4,292	-	2,146	6,438	15,020
ePOS Software	3,521	-	3,521	10	704	-	352	1,056	2,465
WFS Software	17,000	-	17,000	10	1,009	-	1,700	2,709	14,291
Under Development									
Inbanking (PTS) Software	10,634	15,854	26,488		-	-	-	-	26,488
Knit Info System	4,271	71	4,342		-	-	-	-	4,342
NetSol's Pay Soft	4,562	1,034	5,596		-	-	-	-	5,596
2006	61,447	16,959	78,405		6,005	-	4,198	10,203	68,202
2005	42,804	18,642	61,446		2,498	-	3,507	6,005	55,441

5.1 Amortization is allocated in the following manner

	2006 Rupees in '000'	2005 Rupees in '000'
Cost of sales	4,198	3,507
	4,198	3,507



CONSOLIDATED NOTES TO THE ACCOUNTS

		2006	2005
		Rupees '000'	Rupees '000'
6	LONG TERM LOANS - Unsecured		
	Opening balance		
	Loan to employees	30,928	-
	Loan to directors	9,500	-
		<u>40,428</u>	<u>-</u>
	Sanctioned during the year		
	To employees	-	30,928
	To directors	-	9,500
		<u>40,428</u>	<u>40,428</u>
	Repayment during the year	<u>(5,000)</u>	<u>-</u>
		6.1 35,428	40,428
	Less: current maturity	<u>(3,800)</u>	<u>-</u>
		<u>31,628</u>	<u>40,428</u>

6.1 The Company has granted an unsecured long term loan amounting to Rs 35.428 Million to its employees and directors (June-2005: Rs. 40.428 Million). It carries mark-up 9.04 p.a. (Jun-2005: 7 %) which is 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.

These loans are provided under staff loan scheme to employees to facilitate purchase/construction of residential houses and are repayable over a period of 10 years.

7 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

8 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Loan to employees	681	115
Advances - considered goods		
- To employees	185	74
- Against expenses	10,943	9,874
- Against assets	15,011	-
- For software & licenses	28,851	12,176
Security deposit	2,295	952
Prepayments	3,114	12,829
Advance income tax	5,357	1,298
Tender money receivable	6,955	4,321
Mark up receivable	7,850	1,327
Other receivable	14,163	6,492
	<u>95,405</u>	<u>49,458</u>

9 DUE FROM RELATED PARTIES

NetSol Connect (Pvt.) Ltd.	2,814	2,735
NetSol Technologies Inc	-	198
NetSol Consulting Services (Private) Limited	-	64
NetSol Technologies Limited UK	2,214	72
	<u>5,028</u>	<u>3,069</u>

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

10 CASH AND BANK BALANCES

At banks		
Saving accounts	10.1	23,174
Current accounts		1,411
Term deposit	10.2	135,000
		<u>159,585</u>
In hand		1,247
		<u>160,832</u>
		49,315



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

10.2 The balances placed in fixed deposit accounts are less than 90 days and bear mark up which ranges from 9.5 to 10 per annum

11 ISSUED, SUBSCRIBED & PAID-UP CAPITAL

JUN-2006 (Numbers of shares)	JUN-2005			
32,516,482	22,534,482	Ordinary Shares of Rs. 10 each (Jun-2005: 10 each) fully paid in cash	325,165	225,345
2,965,518	2,965,518	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	29,655	29,655
35,482,000	25,500,000		354,820	255,000

The Parent Company NetSol Technologies Inc. 24011 Ventura Blvd, Suit No. 101, Calabasas CA 91302, holds 21,496,000 (Jun-2005:21,496,000) ordinary shares of Rs. 10/- each, representing 60.58 (Jun-2005: 84) of the issued capital of the company.

		2006 Rupees '000'	2005 Rupees '000'
12 CAPITAL RESERVES			
Share Premium	12.1	189,470	60,000
12.1	total premium of Rs. 209.73/- Million was charged on issuance of 13,982,000 ordinary shares of Rs. 10/- each premium of Rs. 15/- per share. This account has been adjusted for expenses directly attributable to the IPO of the company.		

13 SHARE DEPOSIT MONEY

From general public	13.1	313	-
13.1	This represents amount received from general public for issuance of shares which is confiscated by the company due to duplication of applications. The case has been referred to SECP for further decision.		

14 Liabilities against assets subject to Finance Lease

Present value of minimum lease payments		13,380	5,030
Less: Current portion of obligations shown under current liabilities		5,462	3,101
		7,918	1,929

Present value of minimum lease payments have been discounted at an implicit interest rate from 9 to 11 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	Future Finance	Present value of lease liability	
Not later than one year	6,922	1,460	5,462	3,101
Later than one year but not later than five years	8,895	977	7,918	1,929
	15,817	2,437	13,380	5,030

15 DEFERRED INCOME

Un amortized gain on sale and lease back transaction		2,495	742
15.1	This amount represents gain on sale and lease back of fixed assets. According to IAS 17 Lease this gain is deferred and amortized over the lease term.		

16 SHORT TERM FINANCING

Export refinance - Secured	16.1	40,000	22,000
Running Finance - Secured	16.2	-	-
		40,000	22,000



- 16.1 The facility for export refinance available from Askari Commercial Bank Ltd amount to Rs 40 million (Jun-2005: Rs 22 million) and carry mark-up ranging from 7 to 9 per annum (Jun-2005: 5 to 8 per annum). The due balance is payable in bi-annually installments.

The company has also running finance facility from Askari Commercial Bank Ltd up to Rs. 7 Million

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

17 CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors		18,151	18,682
Accrued liabilities		25,395	14,837
Advance from customers		-	274
Interest payable		1,117	621
Other payables		150	18,834
Security refundable		223	223
Due to related parties	17.1	507	-
Withholding tax		1,528	667
		<u>47,071</u>	<u>54,138</u>

17.1 Due to related parties

NetSol Consulting Services (Private) Limited		269	-
NetSol Technologies Inc.		238	-
		<u>507</u>	<u>-</u>

18 EXCESS OF BILLING OVER REVENUE

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

19 CONTINGENCIES & COMMITMENTS

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

	2006 Rupees '000'	2005 Rupees '000'
20 REVENUE		
Export Revenue		
License	149,223	223,825
Services	312,279	175,968
Maintenance	28,681	16,298
Local Revenue		
License	2,880	30,327
Services	96,943	15,863
Maintenance	234	-
Equipment	9,912	-
	<u>600,152</u>	<u>462,281</u>



21 COST OF SALES

Staff salaries & benefits	151,366	80,794
Technical services	3,067	3,763
Third Party software & hardware	11,743	-
Staff training	5,842	3,456
Rent, rates & taxes	3,463	701
Traveling & conveyance	38,815	31,335
Communication	7,230	4,417
Utilities	8,724	5,416
Printing & stationery	2,129	896
Entertainment	5,158	1,987
Insurance	976	505
Vehicle running & maintenance	1,698	479
Repair & maintenance	12,817	6,344
Certifications	542	3,496
Fee & Subscription	-	116
Depreciation	29,882	14,638
Amortization of leased assets	4,084	1,462
Amortization of intangible assets	4,198	3,507
	<u>291,734</u>	<u>163,312</u>

22 ADMINISTRATIVE & GENERAL EXPENSES

Directors remuneration	4,827	4,609
Staff salaries and benefits	29,750	16,753
Staff training	98	78
Rent, rates and taxes	1,259	759
Traveling and conveyance	6,545	3,256
Communication & postage	1,441	901
Printing and stationery	614	289
Utilities	3,955	1,914
Entertainment	2,596	3,372
Insurance	579	300
Advertisement	1,658	502
Public Relation	13	-
Vehicle running expenses	2,962	1,712
Repairs and maintenance	7,845	7,401
Legal and professional charges	4,803	3,128
Auditors remuneration	22.1	1,350
News papers & periodicals	257	24
Security expenses	1,415	2,374
Office supplies	651	352
Charity & Donation	8,505	165
Miscellaneous expenses	111	284
Fee & subscription	718	483
Depreciation	7,932	6,229
Amortization of leased assets	1,418	715
Bad Debts	1,593	873
	<u>92,995</u>	<u>57,823</u>

22.1 AUDITOR REMUNERATION

Audit fee	400	400
Certifications including half yearly review and group reporting	650	450
Professional services	300	400
Out-of-pocket expenses	100	100
	<u>1,450</u>	<u>1,350</u>



	2006 Rupees '000'	2005 Rupees '000'
23 SELLING & PROMOTION EXPENSES		
Staff salaries & benefits	17,642	10,945
Staff training	924	175
Rent, rates & taxes	2,879	105
Traveling and conveyance	10,838	5,088
Communication	1,561	472
Utilities	647	491
Printing & stationery	314	150
Entertainment	951	279
Insurance	65	52
Vehicle running expenses	853	194
Repairs and maintenance	2,314	0
Commission on sales	1,378	0
Advertisement	2,019	5,343
Tender money	31	41
Sale promotional expenses	21,730	3,643
	64,146	26,978
24 OTHER INCOME / (EXPENSES)		
Gain / (Loss) on foreign currency translation	5,244	530
Profit on bank deposit	2,711	341
Amortization of deferred revenue	1,054	371
Rental income	4,573	396
Gain / (Loss) on disposal of assets	(2,275)	(124)
Mark up on loans	3,725	1,324
Profit on short term investment	8,676	-
	23,708	2,838
25 FINANCIAL CHARGES		
Lease finance charges	935	914
Interest on short term loans	3,772	2,591
Lease documentation charges	46	45
Bank charges	1,014	452
	5,767	4,002
26 EARNING PER SHARE - BASIC & DILUTED		
Profit after taxation for the year	167,569	200,424
Average number of ordinary shares in issue during the period	34,744	15,194
Earning per share basic & diluted	4.82	13.19



27 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	
	2006	2005	2006	2005	2006	2005
	Rupees i n '0 0 0'					
Managerial remuneration	2,900	2,000	301	619	23,679	9,857
Retirement benefits	-	-	33	72	1,259	522
Group insurance	3	-	1	-	49	-
Rent and house maintenance	1,160	800	120	234	9,472	4,404
Utilities	290	200	30	62	2,368	525
Medical expenses	5	-	21	-	731	164
Total	4,357	3,000	506	987	37,558	15,473
No. of Persons	1	1	1	1	33	20

28 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.

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

	2006 Rupees '000'	2005 Rupees '000'
NetSol CQ UK		
Services rendered to	8,351	-
Expenses incurred by	11,278	-
TIG-NetSol (Private) Limited		
Sale of Assets	3,050	-
Employees & directors		
Interest on loan to employees and director	3,725	1,324

29 FAIR VALUE OF FINANCIAL ASSETS & LIABILITIES

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



30 INTEREST / MARK-UP RISK MANAGEMENT

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

	2 0 0 6			2 0 0 5		
	Interest / mark-up bearing	Non-Interest /mark-up bearing	TOTAL	Interest / mark-up bearing	Non-Interest /mark-up bearing	TOTAL
	Rupees in '000'			Rupees in '000'		
Financial Assets						
Maturity up to one year:						
Accounts receivable	-	197,082	197,082	-	161,505	161,505
Excess of revenue over billing	-	251,072	251,072	-	117,302	117,302
Security deposits	-	2,295	2,295	-	952	952
Tender money receivable	-	6,955	6,955	-	4,321	4,321
Mark up receivable	-	7,850	7,850	-	1,327	1,327
Other receivables	-	14,163	14,163	-	7,816	7,816
Cash & bank balances	158,174	2,658	160,832	35,254	13,931	49,185
Maturity after one year:						
Long term loans and advances	31,628	-	31,628	40,428	-	40,428
Total Financial Assets	189,802.00	482,075	671,877	75,682	307,154	382,836
Financial Liabilities						
Maturity up to one year:						
Short term financing	40,000	-	40,000	22,000	-	22,000
Trade creditors	-	18,151	18,151	-	18,682	18,682
Security refundable	-	223	223	-	223	223
Interest payable	-	1,117	1,117	-	621	621
Other payables	-	150	150	-	18,834	18,834
Lease liabilities	5,462	-	5,462	3,101	-	3,101
Maturity after one year:						
Lease liabilities	7,918	-	7,918	1,929	-	1,929
Total Financial Liabilities	53,380	19,641	73,021	27,030	38,360	65,390
Net financial assets / (liabilities)	136,422	462,434	598,856	48,652	268,794	317,446



30.1 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.

31 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.

32 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.

33 SEGMENT REPORTING

	Asia Pacific		Australia & USA		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	Rupees in '000'		Rupees in '000'		Rupees in '000'		Rupees in '000'	
Revenue								
Sales	418,306	358,731	64,156	72,817	117,690	30,733	600,152	462,281
Cost of sales	203,339	126,730	31,186	25,724	57,209	10,858	291,734	163,312
Gross profit	214,967	232,001	32,970	47,093	60,481	19,875	308,418	298,969
Administrative expenses	64,818	44,871	9,941	9,108	18,236	3,844	92,995	57,823
Selling expenses	44,710	20,935	6,857	4,249	12,579	1,794	64,146	26,978
Operating profit	105,440	166,195	16,172	33,735	29,665	14,238	151,277	214,168
Other Income	16,524	2,202	2,534	447	4,649	189	23,707	2,838
Other / Financial charges	4,020	3,106	616	630	1,130	266	5,766	4,002
Segment result	117,944	165,291	18,090	33,552	33,184	14,161	169,218	213,004
Other Information								
Segment assets	379,398	289,192	-	-	-	-	379,398	289,192
Depreciation	43,316	22,969	-	-	-	-	43,316	22,969
Non cash expenses other than depreciation	5,791	4,380	-	-	-	-	5,791	4,380
Segment liabilities	100,451	81,168	-	-	-	-	100,451	81,168



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

34 ANNUAL SOFTWARE DEVELOPMENT CAPACITY

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

35 TAXATION

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

36 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September -22, 2006 by the Board of Directors.

37 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