



## COMPANY PROFILE

### Board of Directors

Mr. Salim Ullah Ghauri  
Mr. Najeeb Ullah Ghauri  
Mr. Naeem Ullah Ghauri  
Mr. Irfan Mustafa  
Mr. Shahid Javed Burki  
Mr. Abdul Rashid  
Mr. Eugen Beckert  
Mr. Sajjad Hussain Kirmani  
Mr. Rehmat Ullah Ghauri  
Mr. Zahid Bashir Mirza  
Mr. Ayub Ghauri  
Mr. Shakeel Kazmi

Chief Executive  
Chairman

Alternate Director  
Alternate Director  
Alternate Director  
Alternate Director

### Chief Financial Officer

Mr. Boo-Ali

### Company Secretary

Mr. Boo-Ali

### Audit Committee

Mr. Rehmat Ullah Ghauri  
Mr. Irfan Mustafa  
Mr. Abdul Rashid  
Mr. Sajjad Hussain Kirmani

Chairman

### Auditors

Saeed Kamran Patel & Co.  
Chartered Accountants

### Legal Advisor

Cornelius Lane & Mufti  
Advocates & Solicitors  
Nawa-e-Waqt Bldg, Fatima Jinnah Road  
Lahore

### Bankers

Askari Commercial Bank Limited  
United Bank Limited  
Crescent Standard Investment Bank Ltd  
Bank Alfalah Limited

### Registered Office

NetSol Technologies Limited, Software  
Technology Park, NetSol Avenue  
Main Ghazi Road  
Lahore Cantt

### Share Registrar

THK Associates (Pvt) Limited  
Ground Floor, Modern Motors House  
Beaumont Road  
Karachi

### Web Presence

[www.netsoltek.com/pakistan](http://www.netsoltek.com/pakistan)

## DIRECTORS' REVIEW FOR THE NINE MONTHS ENDED MARCH 31, 2006



**LADIES AND GENTLEMEN,**

Directors of NetSol Technologies Limited take pleasure in presenting to its shareholders, nine months report together with the un-audited accounts of the company for the period ended March 31, 2006.

### GENERAL REVIEW

The highlight of the quarter under review is the signing of a big contract in China with a Fortune 100 Automotive company for our flagship product LeaseSoft. This contract was won purely on the quality of our product and the history of our service to our existing customers. This is a significant milestone achieved by your company as its results are long lasting. This project will also generate incremental revenues over the next four-five years through additional license fees and annual support agreements.

The Technology outsourcing business from our UK customers is also showing steady growth. In the local business, your company has signed two new contracts with Pakistan's Ministry of Religious Affairs (MoRA) for Hajj automation and with Electronic Govt Directorate for the computerization of Karachi Patent Office (KPO).

Comparison of un-audited results of the third quarter of the financial year 2006 with the same period of 2005 as well as the cumulative results for nine months ended March 31, 2006 are as follows:

	<u>NETSOL TECHNOLOGIES LIMITED</u>		<u>NETSOL GROUP</u>			
	For the 3rd Quarter		Year to-date		Consolidated	
	<i>January – March</i>		<i>July - March</i>		<i>January - March</i>	
-----RUPEES IN THOUSAND-----						
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenue	100,788	96,556	281,193	271,320	152,778	110,717
Gross Profit	49,094	58,041	148,688	186,894	77,398	61,262
Net Profit	21,645	35,702	75,882	137,781	29,072	32,954
Average No. of outstanding shares	35,482	21,900	34,498	21,900	34,498	21,900
EPS - basic & diluted	0.61	1.63	2.20	6.29	1.02	1.57

Revenue for the third quarter has increased as compared to the corresponding quarter of the previous year. This reflects that the company is aggressively marketing its products. However gross and net profits have decreased due to the reason that the company has heavily invested in highly skilled and experienced resources. If we compare the results of this quarter with the immediate previous quarter, we will observe a very healthy sign of improvement not only in revenues but also in the net profits of the company resulting in an EPS of 0.61 rupee.

As a group, NetSol Technologies Limited includes its 90% owned subsidiary NetSol (Pvt) Limited and another subsidiary named TIG-NetSol (Pvt) Limited. Revenues from the consolidated operations of the group have

increased if compared with the corresponding quarter of previous year. Due to increase in operating expenses of the company during the current quarter, net profit of the group appears to be less than that for the preceding year. However management of the company is of the view that in the following quarters, it will increase profitability of the company through incremental revenues and reduction in operating cost.

### **FUTURE OUTLOOK**

The future outlook for your company seems promising. We have a healthy sales pipeline for our product LeaseSoft in Asia Pacific as well as in Europe. In the Defence sector, NetSol has tapped certain areas which are expected to be materialized within next couple of quarters. Similarly we expect to close some lucrative contracts in the local market both in the Public and Corporate sectors. The management of your company expects to get steady and healthy revenue from all these areas in the coming quarters.

### **INVESTMENT**

Recently in the Extra Ordinary General Meeting of the shareholders held on April 25, 2006 your company has acquired the remaining 10% shareholding of NetSol (Pvt) Limited, the subsidiary company. The management of NetSol is planning to merge the affairs of NetSol (Pvt) Limited with and into NetSol Technologies Limited. Scheme of arrangement for the said merger is under finalization and application for approval of the merger will be filed with the Honourable Lahore High Court in due course. The management is of the opinion that it will not only reduce the cost of sales but will cut down the administrative and other costs as well.

### **CUSTOMERS' SUPPORT AND STAFF RELATIONS**

Your company's success is due to continuous patronage of its valued customers and incessant hard work of its employees.

### **ACKNOWLEDGEMENT**

We would like to place on the record, our deep appreciation for the support and dedication of all the staff members of the company, shareholders, government agencies, financial institutions, customers and suppliers whose worthy support helped us to improve.

**Lahore**  
**April 28, 2006**

on the behalf of the board of directors  
**Chief Executive**

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

NOTES	MAR-2006 Rupees in '000'	JUNE-2005 Rupees in '000'
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**ASSETS**

**FIXED CAPITAL EXPENDITURE**

Operating Fixed Assets	4	291,592	222,151
Capital Work In Progress		8,262	7,855
Intangible Assets	5	55,529	46,608
		<u>355,383</u>	<u>276,614</u>

**LONG TERM INVESTMENTS**

45,000 45,000

**LONG TERM LOANS**

89,372 73,354

**CURRENT ASSETS**

Account receivables - Unsecured		136,789	130,835
Excess of revenue over billing		173,916	110,775
Short term investment	6	90,000	-
Advances, deposits, prepayments and other receivables		67,021	42,743
Due from related parties		2,814	2,806
Cash & bank balances		55,689	18,889
		<u>526,229</u>	<u>306,048</u>
		<u>1,015,984</u>	<u>701,015</u>

**EQUITY & LIABILITIES**

**SHARE CAPITAL & RESERVES**

<b>Authorized Capital</b> 50,000,000 ordinary shares of Rs.10/- each		<u>500,000</u>	<u>500,000</u>
<b>Issued, subscribed and paid up capital</b> 35,482,000 ordinary shares of Rs.10/- each	7	354,820	255,000
<b>Capital reserve</b>	8	189,470	60,000
<b>Share deposit money</b>	9	350	-
<b>Un - appropriated profit</b>		380,934	305,012
<b>Total shareholders' equity</b>		<u>925,574</u>	<u>620,012</u>

**NON CURRENT LIABILITIES**

Liabilities against assets subject to finance lease		2,605	1,928
Deferred Income		1,949	742

**CURRENT LIABILITIES**

Current portion of lease liability		3,273	3,101
Short term financing		40,000	22,000
Creditors, accrued and other liabilities		24,613	44,439
Excess of billing over revenue		17,970	8,792

**CONTINGENCIES & COMMITMENTS**

	10	-	-
		<u>1,015,984</u>	<u>701,015</u>

*The annexed notes form an integral part of these accounts.*

**CHIEF EXECUTIVE**

**DIRECTOR**

**NETSOL TECHNOLOGIES LIMITED**  
**PROFIT & LOSS ACCOUNT (UN-AUDITED)**  
**FOR NINE MONTHS ENDED MARCH-31, 2006**

NOTES	For the 3rd Quarter		Cumulative	
	Jan-Mar	Jan-Mar	Jul-Mar	Jul-Mar
	2006	2005	2006	2005
	Rupees in '000'	Rupees in '000'	Rupees in '000'	Rupees in '000'
<b>Revenue</b>	<b>100,788</b>	96,556	<b>281,193</b>	271,320
<b>Cost of Sales</b>	<b>51,694</b>	38,516	<b>132,505</b>	84,426
Gross profit	<b>49,094</b>	58,041	<b>148,688</b>	186,894
<b>Operating expenses</b>				
Administrative and General Expenses	<b>19,809</b>	17,499	<b>57,595</b>	39,355
Selling & Promotion Expenses	<b>10,344</b>	3,220	<b>24,193</b>	8,039
	<b>30,153</b>	20,719	<b>81,788</b>	47,394
<b>Operating profit</b>	<b>18,941</b>	37,321	<b>66,900</b>	139,500
Other income / (expenses)	<b>3,874</b>	(177)	<b>12,619</b>	1,487
Financial charges	<b>1,130</b>	1,443	<b>3,597</b>	3,206
<b>Net Profit for the period</b>	<b>21,685</b>	35,702	<b>75,922</b>	137,781
Un - appropriated profit brought forward	<b>359,249</b>	210,428	<b>305,012</b>	150,902
<b>Translation loss on Share deposit money</b>	-	-	-	(12,898)
<b>Profit available for appropriation</b>	<b>380,934</b>	246,130	<b>380,934</b>	275,785
<b>Bonus Shares</b>	-	-	-	(29,655)
<b>Un - appropriated profit carried forward</b>	<b>380,934</b>	246,130	<b>380,934</b>	246,130
<b>Earning Per Share - Basic &amp; Diluted</b>	<b>0.61</b>	1.63	<b>2.20</b>	6.29

*The annexed notes form an integral part of these accounts.*

CHIEF EXECUTIVE

DIRECTOR

**NETSOL TECHNOLOGIES LIMITED**  
**CASH FLOW STATEMENT (UN-AUDITED)**  
**FOR NINE MONTHS ENDED MARCH-31, 2006**

	MAR-2006 Rupees in '000'	MAR-2005 Rupees in '000'
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Profit for the period	75,922	137,781
Add: Non cash charges to income		
Depreciation - own assets	19,857	8,930
Amortization of lease assets	2,688	1,654
(Gain )/Loss on disposal of fixed assets	2,256	36
Amortization of development cost	3,387	2,378
Amortization of Deferred revenue	(773)	(340)
Exchange (gain) / loss on debtors	39	(1,122)
Interest	769	798
Bad debts	478	-
	<b>28,701</b>	<b>12,334</b>
<i>Cash flows from operating activities before working capital</i>	<b>104,623</b>	<b>150,115</b>
<i>Decrease / (increase) in current assets &amp; liabilities</i>		
Accounts receivables	(69,613)	(136,678)
Due from related parties	(8)	(1,055)
Advances, prepayments and other receivables	(24,278)	(27,318)
Excess of billing over revenue	9,178	7,057
Creditors, accrued and other liabilities	(19,826)	(6,627)
	<b>(104,547)</b>	<b>(164,621)</b>
<i>Cash generated from operations</i>	<b>(104,547)</b>	<b>(164,621)</b>
Interest paid	(769)	(798)
	<b>(693)</b>	<b>(15,304)</b>
<i>Net cash flow from operating activities</i>	<b>(693)</b>	<b>(15,304)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Property and equipments purchased	(94,211)	(66,362)
Sales proceeds of fixed asset	873	5,165
Capital Work in Progress	(407)	36,405
Intangible assets	(11,231)	(10,262)
Long Term Investment	-	(45,000)
Long Term Loan	(16,018)	(25,920)
Short term investment	(90,000)	-
	<b>(210,994)</b>	<b>(105,974)</b>
<i>Net cash flow from investing activities</i>	<b>(210,994)</b>	<b>(105,974)</b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Issuance of share capital	99,820	223,345
Share deposit money	350	(174,081)
Share premium	129,470	60,000
Long term loan	-	4,005
Paid against obligation under capital lease	(3,749)	(2,744)
Received against obligation under capital lease	4,597	5,990
Short term finance	18,000	788
	<b>248,488</b>	<b>117,303</b>
<i>Net cash flow from financing activities</i>	<b>248,488</b>	<b>117,303</b>
<i>Net (decrease) / increase in cash and cash equivalents</i>	<b>36,800</b>	<b>(3,975)</b>
<i>Cash and cash equivalents at the beginning of the year</i>	<b>18,889</b>	<b>24,386</b>
<i>Cash and cash equivalents at the end of the period</i>	<b>55,689</b>	<b>20,411</b>

The annexed notes form an integral part of these accounts.

CHIEF EXECUTIVE

DIRECTOR

**NETSOL TECHNOLOGIES LIMITED**  
**STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)**  
**FOR NINE MONTHS ENDED MARCH-31, 2006**

	Share Capital	Share Premium	Share Deposit Money	Foreign Currency Translation Rupees In '000'	Retained Earning	Bonus Shares	Total Equity
<b>Balance at June 30, 2004</b>	2,000	-	174,081	(9,468)	150,902	-	317,515
Net profit for nine months ended Mar 31, 2005	-	-	-	-	137,781	-	137,781
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
Transferred to inter company loan	-	-	(9,451)	-	-	-	(9,451)
Adjustment of foreign currency translation	-	-	3,430	9,468	(12,898)	-	-
<b>Balance at March 31, 2005</b>	225,345	60,000	-	-	246,130	29,655	561,130
Net profit for three months ended June 30, 2005	-	-	-	-	58,882	-	58,882
<b>Balance at June 30, 2005</b>	225,345	60,000	-	-	305,012	29,655	620,012
Net profit for nine months ended March 31, 2005	-	-	-	-	75,922	-	75,922
Share deposit money received	-	-	350	-	-	-	350
Share deposit money returned	-	-	-	-	-	-	-
Shares issued against IPO	99,820	-	-	-	-	-	99,820
Share premium on IPO	-	129,470	-	-	-	-	129,470
<b>Balance at September 30, 2005</b>	325,165	189,470	350	-	380,934	29,655	925,574

*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, 2005

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

MAR-2006	JUNE-2005
Rupees in '000'	Rupees in '000'

**4 Operating Fixed Assets**

Opening Balance (NBV)		222,151	98,486
Additions:	4.1	<u>94,233</u>	<u>144,213</u>
		316,384	242,699
Less:			
Disposals		-3,149	-202
Depreciation		<u>-21,643</u>	<u>-20,346</u>
		<u>291,592</u>	<u>222,151</u>

**4.1 Following is the detail of addition:**

Land	33,395	703
Building	7,365	111,475
Computers	11,916	18,010
Air Conditioners	1,891	1,629
Furniture & Fixture	2,268	2,928
Office equipment	1,894	3,200
Electric fittings	311	4,009
Vehicles	18,424	419
Software	13,096	2,223
Generator	3,673	-383
	<u>94,233</u>	<u>144,213</u>

**5 Intangible Assets:**

Opening Balance (NBV)	46,608	36,625
Additions:	<u>12,308</u>	<u>13,490</u>
	58,916	50,115
Less:		
Amortization	<u>-3,387</u>	<u>-3,507</u>
	<u>55,529</u>	<u>46,608</u>

**6 SHORT TERM INVESTMENT**

This amount represents the placement of funds in term deposits with different banks.

**7 ISSUED, SUBSCRIBED & PAID-UP CAPITAL**

DEC-2005	JUN-2005			
(Numbers of shares)				
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
<u>35,482,000</u>	<u>25,500,000</u>		<u>354,820</u>	<u>255,000</u>

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.

**8 CAPITAL RESERVES**

Share Premium	8.1	<u>189,470</u>	60,000
8.1	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.		

**9 SHARE DEPOSIT MONEY**

From general public	9.1	<u>350</u>	-
9.1	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. Originally this amount was Rs. 450,000/- out of which Rs. 100,000/- has been refunded as per directions of SECP.		

**10 CONTINGENCIES & COMMITMENTS**

The company has no contingent liabilities and commitments outstanding as at March 31, 2006. (Jun-2005: Nil)

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

For the 3rd Quarter		Cumulative	
Jan-Mar 2006	Jan-Mar 2005	Jul-Mar 2006	Jul-Mar 2005
Rupees in '000'	Rupees in '000'	Rupees in '000'	Rupees in '000'

**11 EARNING PER SHARE - BASIC & DILUTED**

Profit after taxation for the year	<b>21,685</b>	35,702	<b>75,922</b>	137,781
Average number of ordinary shares in issue during the period	<b>35,482</b>	21,900	<b>34,498</b>	21,900
Earning per share basic & diluted	<b>0.61</b>	1.63	<b>2.20</b>	6.29

**12 SEGMENT REPORTING**

	Asia Pacific		Australia & USA		Others		Total	
	Mar-06	Mar-05	Mar-06	Mar-05	Mar-06	Mar-05	Mar-06	Mar-05
	RUPEES IN THOUSAND							
<b>QUARTERLY RESULTS</b>								
Revenue	<b>95,514</b>	56,568	<b>2,457</b>	39,988	<b>2,817</b>	-	<b>100,788</b>	96,556
Segment result	<b>20,550</b>	20,916	<b>529</b>	14,786	<b>606</b>	-	<b>21,685</b>	35,702
<b>NINE MONTHS RESULTS</b>								
Revenue	<b>235,125</b>	170,775	<b>30,287</b>	62,185	<b>15,781</b>	38,360	<b>281,193</b>	271,320
Segment result	<b>63,484</b>	86,723	<b>8,177</b>	31,579	<b>4,261</b>	19,480	<b>75,922</b>	137,781

**13 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on April -28, 2006 by the Board of Directors.

**14 FIGURES**

Comparative figures relating to balance sheet are of previous year and that of profit & loss and cash flow are of corresponding quarter of previous year.

Figure have been rearranged and reclassified wherever necessary for the purpose of comparison. However, no material rearrangement is made in those accounts.

Figures have been rounded off to the nearest thousand rupee

**CHIEF EXECUTIVE**

**DIRECTOR**