



ANNUAL REPORT

'05



NetSol Technologies Limited.

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COMPANY PROFILE

Board of Directors

Mr. Salim Ullah Ghauri	Chief Executive
Mr. Najeeb Ullah Ghauri	Chairman
Mr. Naeem Ullah Ghauri	
Mr. Irfan Mustafa	
Mr. Shahid Javed Burki	
Mr. Abdul Rashid	
Mr. Eugen Beckert	
Mr. Edward Allen Holmes	
Mr. Rehmat Ullah Ghauri	Alternate Director
Mr. Sajjad Hussain Kirmani	Alternate Director
Mr. Zahid Bashir Mirza	Alternate Director
Mr. Ayub Ghauri	Alternate Director
Mr. Shakeel Kazmi	Alternate Director

Chief Financial Officer

Mr. Boo-Ali

Company Secretary

Mr. Boo-Ali

Audit Committee

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

Auditors

Saeed Kamran Patel & Co.
Chartered Accountants

Legal Advisor

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

Bankers

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

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

NOTICE OF 9th ANNUAL GENERAL MEETING

Notice is hereby given that the 9th Annual General Meeting of NetSol Technologies Limited will be held on **Thursday, October 27, 2005 at 02.00 p.m.** at the registered office of the Company Situated at NetSol Technologies Limited, NetSol IT Village (Software Technology Park) NetSol Avenue, Main Ghazi Road, Lahore Cantt. to transact the following business:

ORDINARY BUSINESS

- i) To Receive, consider and adopt the financial statements for the year ended June 30th, 2005 together with Director's and Auditor's Report thereon.
- ii) To appoint Auditors for the year 2005-2006 and fix their remuneration. The present Auditors M/s Saeed Kamran Patel & Co., Chartered Accountants, retire and being eligible offer themselves for re-appointment.

SPECIAL BUSINESS

- iii) To seek the consent of shareholders to place quarterly/half yearly accounts of the company on its website instead of circulating the same by post to the shareholders pursuant to the requirements of SECP circular no. 19 of 2004 dated April 14, 2004 and, if thought fit, to pass the following resolution:

"RESOLVED THAT the Company be and is hereby authorized to place its quarterly/half yearly accounts on its website www.netsoltek.com/pakistan instead of sending the same through post, subject to compliance and approval of the Securities & Exchange Commission of Pakistan."

- iv) To establish a new subsidiary company and to investment Rs. 5.10 million in its equity pursuant to the requirements of section 208 of the Companies Ordinance, 1984, and if thought fit, to pass the following resolution:

"RESOLVED THAT the consent of shareholders be and is hereby accorded to invest a sum upto Rs. 5.10 million by purchasing 510,000 ordinary shares of Rs. 10/- each of the new subsidiary company to be established in the name & style "NetSol-ITM (Pvt) Limited."

"FURTHER RESOLVED that the Chief Executive Officer & the Company Secretary be and are hereby jointly and severally authorized to complete all the legal formalities to form new company."

- v) To transact any other business with the permission of the Chair.

A Statement Under section 160 (1) (b) of the Companies Ordinance, 1984 in the above matter with respect to special business item Nos. (iii) & (iv) is being sent to the member's alongwith the notice.

By Order of the Board

Lahore
October 05, 2005

BOO-ALI
(Company Secretary/CFO)

NOTES:

- 1) The share transfer books of the Company will remain closed from October 21, 2005 to October 27, 2005. (both days inclusive).
- 2) A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote in his/her place. Proxies, complete in every respect, in order to be effective, must be received at the registered office of the company not less than 48 hours before the time of the meeting.
- 3) Shareholders are requested to notify the change of addresses, if any, immediately to our share registrars, **M/s THK Associates (Pvt.) Ltd.**, ground floor, Modern Motors House, Beaumont Road, Karachi. Tel # (21) 5689021, 5686658, 5685681 fax # 92(21) 5655595.

4) CDC Account holders will further have to follow the under mentioned guidelines as laid down by the Securities & Exchange Commission of Pakistan:

A) **For Attending the Meeting:**

- a) In case of individuals, the account holder and/or sub-account holder whose registration details are uploaded as per the CDC regulations, shall authenticate his/her identity by showing his/her original NIC or original passport at the time of attending the meeting.
- b) In case of corporate entity, the board of director's resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

B) **For Appointing Proxies:**

- a) In case of individuals, the account holder and/or sub-account holder whose registration details are uploaded as per the CDC regulations, shall submit the proxy form as per the above requirements.
- b) The proxy form shall be witnessed whose name, address and NIC numbers shall be mentioned on the form.
- c) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- d) The proxy shall produce his/her original NIC or original passport at the time of the meeting.
- e) In case of corporate entity, the Board of Director's resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the company.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

1) Placement of quarterly/ half yearly accounts on website:

Securities & Exchange Commission of Pakistan vide its circular no. 19 of 2004 dated April 14, 2004 has allowed listed companies to place their quarterly/ half yearly accounts on their website instead of transmitting the same to the shareholders by post subject to its approval which will be treated compliance of the provision of section 245 of the Companies Ordinance, 1984 subject to fulfillment of certain conditions including seeking prior consent of the shareholders in general meeting.

In order to avoid cumbersome exercise and save cost of printing and dispatching the quarterly/ half yearly accounts, the board of directors of the company in their meeting held on September 20, 2005 have recommended to the shareholders of the company to allow placement of quarterly/ half yearly accounts on its website www.netsoltek.com/pakistan instead of circulating the same by post to the shareholders subject to the approval from SECP. The company after obtaining requisite permission from SECP will inform shareholders through advertisement in the newspaper. The company shall also supply copies of the quarterly/ half yearly accounts to the shareholders, on demand, at their registered address free of cost within one week of such demand.

2) Formation of New Subsidiary Company:

As resolved in the board of directors' Meeting held on August 26, 2005, the directors have recommended to form a new subsidiary company providing services in the field of information security and to make equity investment of Rs. 5.10 million by purchasing its 510,000 ordinary shares of Rs. 10/- each pursuant to the requirements of section 208 of the Companies Ordinance, 1984.

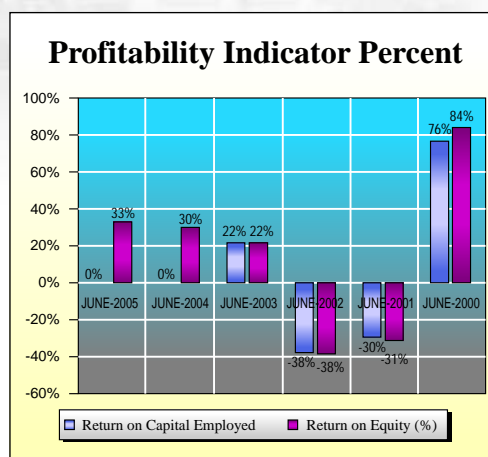
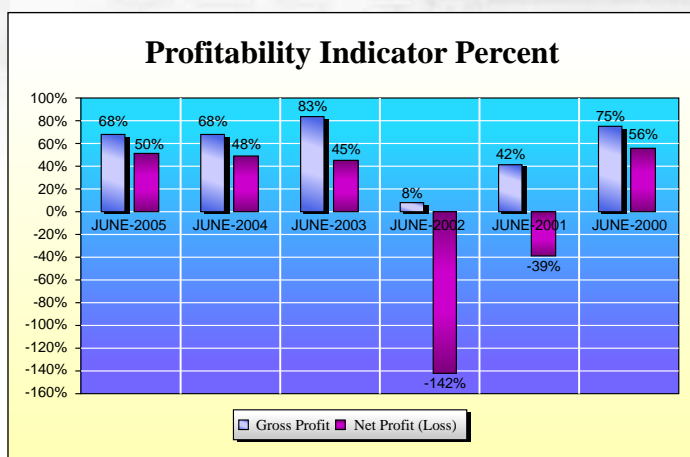
Encouraged by the feasibility studies which state that at present there is no professional company providing such services in Pakistan. The new subsidiary company will be established with the collaboration of IT Matrix, a Saudi based company already providing services in the field of information security.

As required by SRO No. 865(1)/2000 dated 06-12-2000, requisite information is given below for investment in the equity.

Sr. No.	DESCRIPTION	Information Required under SRO
i)	Name of the Investee Company (to be incorporated)	NetSol-ITM (Pvt.) Ltd.
ii)	Nature, amount and extent of investment	Equity investment of Rs. 5.10 million into 510,000 ordinary shares of Rs. 10/- each
iii)	Average market price of the shares intended to be purchased during preceding six months in case of listed Companies	N/A
iv)	Break-up value of shares intended to be purchased on the basis of last published financial statements	N/A
v)	Price at which shares will be purchased.	Face value of Rs.10/- each
vi)	Earning per share of investee company in last 3 years	N/A
vii)	Source of funds from where shares will be purchased	Investment will be made out of company's funds
viii)	Period of which investment will be made	Permanent capital of NetSol-ITM (Pvt.) Ltd.
ix)	Purpose of investment	To establish a new business in the field of Information security
X)	Benefits likely to accrue to the company and the shareholders from the proposed investment.	The new investment will diversify the Business of the company, increase its revenues as well as profits
xi)	Interest of directors and their relatives in the investee company.	The directors and their relatives have no interest in the above investment.

FINANCIAL HIGHLIGHTS

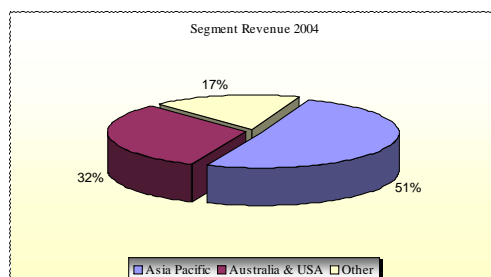
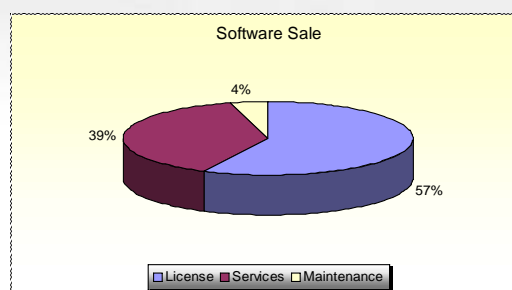
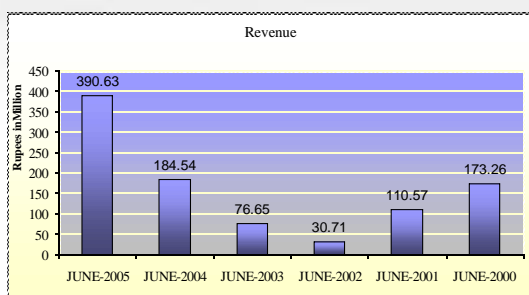
	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
Software licensing income	223,825	84,137
Software development income	150,511	13,173
Software maintenance income	16,298	87,233
Cost of sale	125,119	59,529
Net Profit	196,663	88,942
Stock dividend	29,655	-
Total Assets	701,015	388,601
Net asset employed	622,683	318,501
Earning per share	12.09	28.09
Return on Capital Employed	33%	30%
Return on shareholders' Equity	33%	30%
Return on Fixed Assets	76%	70%
Return on Total Assets	28%	23%
Current Ratio	4.41	1.67





SIX YEAR SUMMARY (Rupees in thousand)

	JUNE-2005	JUNE-2004	JUNE-2003	JUNE-2002	JUNE-2001	JUNE-2000
ASSETS EMPLOYED:						
Fixed Assets - Tangible	281,335	137,121	65,026	67,700	67,642	48,797
Fixed Assets - In Tangible	46,608	36,625	31,212	3,175	-	16,673
Accumulated Depreciation / Amortization	(59,185)	(38,635)	(30,248)	(25,994)	(18,300)	(7,041)
Net Fixed Assets	268,758	135,112	65,990	44,882	49,343	58,428
Capital Work in Progress	7,855	95,661	35,600	34,832	29,153	17,708
Non Current Assets	78,567	40,539	39,194	35,751	17	203
Working Capital	267,501	47,190	18,956	(1,163)	65,639	50,465
Net Assets Employed	622,682	318,501	159,739	114,302	114,152	126,804
FINANCED BY:						
Paid up Capital	255,000	2,000	2,000	100	100	100
Share Deposit Money	-	164,613	95,498	84,593	63,806	-
Reserves	365,012	150,902	62,060	28,532	72,811	115,460
Shareholders' Equity	620,012	317,516	159,558	113,226	136,717	115,560
Long Term & Deferred Liabilities	2,671	986	181	1,077	7,434	11,244
Total Fund Invested	622,682	318,502	159,739	114,302	144,152	126,804
Revenue	390,634	184,543	76,654	30,708	110,572	173,257
Cost of Sales	125,119	59,529	13,218	28,262	64,440	42,724
Gross Profit	265,515	125,014	63,436	2,447	46,132	130,534
Administrative & Selling Expenses	68,701	34,644	23,551	36,428	107,507	32,458
Financial & Other Charges	(7,592)	(4,124)	5,355	9,561	(18,508)	1,246
Net Profit (Loss)	204,406	94,495	34,530	(43,543)	(42,866)	96,829
Earning Per Share - Rupees	12.09	28.09	10.90	(14.63)	(14.40)	32.54



DIRECTORS' REPORT TO THE MEMBERS

The Board of Directors of NetSol Technologies Ltd is pleased to present the 9th Annual Report alongwith audited financial statements for the year ended June 30, 2005 of the company alongwith consolidated financial statements of the group.

GENERAL OVERVIEW

With the blessings of the Almighty Allah, the Board of Directors feels immense pleasure to report that your company has closed another successful year of its operations. The year 2005 has shown significant improvement in the economic environment of the country, government policies are business friendly, relations with neighboring countries are improving and funds were available at low rates. These positive changes have resulted in brisk economic activity in the country and as a result the investments in IT by the public and private sectors are gaining momentum. Company's revenue drastically increased during the year by 135%. Net operating profit of the company has also increased by 118% as compared to last year.

FINANCIAL RESULTS

	30-06-2005	30-06-2004
	Rupees in '000'	Rupees in '000'
Revenue	433,475	184,543
Gross Profit	280,481	125,014
Net Profit	193,558	88,942
EPS - basic & diluted	11.89	28.07

LISTING ON KARACHI STOCK EXCHANGE

This year your company achieved another milestone by listing its securities on Karachi Stock Exchange. We are proud to be the first Software Company in Pakistan to be listed on any stock exchange here. We believe that this is a remarkable achievement for the IT industry in Pakistan and for NetSol as well. During the year the Company had received Rs. 100 Million on account of Pre IPO private placement of its shares by issuing 4 million ordinary shares @ Rs. 25 each including a premium of Rs. 15 per share. Subsequent to the year end, the company has raised further Rs. 250 million through initial public offering of its 10 million ordinary shares of Rs. 10 at a premium of Rs. 15 each. By the grace of Almighty Allah, your company received over-whelming response from the public and the IPO was over subscribed by 1.1 times and was the most successful IPO of this year.

CORPORATE GOVERNANCE AND FINANCIAL REPORTING FRAMEWORK

- The financial statements, prepared by the management of the company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- The Board is satisfied that the company is doing well and there are no significant doubts upon the listed company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations of the Karachi Stock Exchange.
- Key operating and financial data of last six years are annexed herewith.
- There are no statutory payments on account of taxes, duties, levies and charges are outstanding as on June 30, 2005 except those as disclosed in the financial statements.
- The value of Provident Fund investments as on June 30, 2005 was Rs. 12.38 million (June 30, 2004: Rs. 8.28 million)
- No material changes and commitments affecting the financial position of your company have occurred between the end of the financial year to which this balance sheet relates and the date of the directors' report.

DIVIDEND

Your company is in the process of expansion and is investing heavily in infrastructure, human capital and marketing. Therefore, the Board of Directors has not recommended any dividend for the financial year ended June 30, 2005.

PLACEMENT OF QUARTERLY AND HALF YEARLY FINANCIAL STATEMENTS ON COMPANY'S WEBSITE

In pursuance of Circular No. 19 dated 14-04-2004 of the Securities & Exchange Commission of Pakistan (SECP), the directors have proposed, subject to the approval of SECP, placement of quarterly and half yearly financial statements on company's website www.netsoltek.com/pakistan instead of transmitting the same to the shareholders by post.

AUDIT COMMITTEE

The Board of Directors in compliance with the Code of Corporate Governance has established an Audit Committee comprising of four members. Three members of the audit committee including the chairman are non-executive directors. Name of the members of audit committee are given in the company's information.

AUDITORS

The present auditors M/s Saeed Kamran Patel and Company, Chartered Accountants retire and have presented themselves for reappointment.

BOARD OF DIRECTORS

Till December 2004 the company had four directors on its board. After converting into public company Mr. Sajjad Kirmani and Mr. Shahab-ud-din Ghauri had resigned from the board of directors. At present the board consists of the following directors:

Mr. Salim Ullah Ghauri
Mr. Najeeb Ullah Ghauri
Mr. Naeem Ullah Ghauri
Mr. Shahid Javed Burki
Mr. Abdul Rashid
Mr. Irfan Mustafa
Mr. Eugen Beckert
Mr. Edward Allen Holmes

The board places on record its appreciation for the services rendered by the outgoing directors towards the growth of the company.

FUTURE OUTLOOK

Your company has benefited a lot from expansion in business activity globally as well as domestically and has acquired some key contracts in the areas of E-Government and defence sector automation. The IT outsourcing in the international market is also beginning to grow rapidly after the Dotcom bubble burst in 2001 and the company has also made some strategic breakthroughs in Asia Pacific and European markets. Demand for the company's flagship product LeaseSoft in Asia-Pacific is growing and the company has recently entered into the business market of China to tap such a lucrative market. The outlook for the next fiscal year looks promising and we hope to further consolidate our business in Pakistan as well as in the International market with particular focus in Asia Pacific.

PATTERN OF SHAREHOLDING

The pattern of shareholding as at June 30, 2005 including the information under the code of corporate governance is annexed.

ACKNOWLEDGMENT

The Board of Directors places on record its appreciation of the support of the shareholders, government agencies, financial institutions and the customers which enabled the company to achieve good results. The board would also like to express their appreciation for the services, loyalty and efforts being continuously rendered by the executives and the staff members of the company and hope that they will continue with these efforts.

On behalf of the Board of Directors

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

The Statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interest on its Board of Directors. At present the Board includes five independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFIs or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year under consideration.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been sent to all the directors and employees of the Company for signatures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board will be presided over by the Chairman, and in his absence, by a director elected by the Board for this purpose. After listing the Board will meet at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, will be circulated at least seven days before the meetings. The minutes of the meetings will appropriately be recorded and circulated.
9. The Board is planning to arrange an orientation course for its directors to remind them of their duties and responsibilities.
10. The Board has approved the appointment along with their remuneration and terms & conditions of employment of CFO, Company Secretary & Head of Internal Audit.
11. The director's report for the year ended 30-06-2005 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee which comprises of four members of whom three are independent non-executive directors including the Chairman of the committee.
16. The meetings of the Audit Committee will be held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function managed by suitably qualified and experienced personnel who is well conversant with the policies and procedures of the company and is involved in the internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the institute of chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the code have been complied with

For and on behalf of the Board

Lahore
September 20, 2005

(Mr. Salim Ullah Ghauri)
Chief Executive

**REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH
BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the statement of compliance with the best practices contained in the code of Corporate Governance prepared by the Board of Directors of **NetSol Technologies Limited** to comply with the Listing regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited where the company is listed.

The responsibility for the compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to that extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company's personal and review of various documents prepared by the company to comply with the code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express and opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which caused us to believe that the Statement of Compliance does not appropriately reflect the company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to company for the year ended June 30, 2005

Lahore:
October 03, 2005

Saeed Kamran Patel & Co.,
Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **NetSol Technologies Limited** as at June 30, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is responsibility of the Company's Management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted and the expenditure incurred during the year were in accordance with the objects of the Company.
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and the statement of changes in equity together with the notes forming part thereof conform with approved Accounting Standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2005 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Lahore:
October 03, 2005

Saeed Kamran Patel & Co.,
Chartered Accountants

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	222,151	98,486
CAPITAL WORK IN PROGRESS	5	7,855	95,661
INTANGIBLE ASSETS	6	46,608	36,625
		<u>276,614</u>	<u>230,772</u>
LONG TERM INVESTMENTS	7	45,000	-
LONG TERM LOANS	8	73,995	40,539
CURRENT ASSETS			
Account receivables - Unsecured		130,835	34,830
Excess of revenue over billing	9	110,775	46,563
Advances, deposits, prepayments and other receivables	10	42,101	8,460
Due from related parties	11	2,806	3,051
Cash & bank balances	12	18,889	24,386
		<u>305,406</u>	<u>117,290</u>
		<u>701,015</u>	<u>388,601</u>
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorised 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)	13	255,000	2,000
Capital reserve	14	60,000	-
Share deposit money	15	-	164,613
Un - appropriated profit		305,012	150,902
Total shareholders' equity		<u>620,012</u>	<u>317,515</u>
NON CURRENT LIABILITIES			
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
	16	1,928	986
DEFERRED INCOME	17	742	-
CURRENT LIABILITIES			
Current portion of lease liability		3,101	1,750
Short term financing	18	22,000	26,775
Creditors, accrued and other liabilities	19	44,439	35,687
Excess of billing over revenue	20	8,793	5,888
		<u>78,333</u>	<u>70,100</u>
CONTINGENCIES & COMMITMENTS	21	-	-
		<u>701,015</u>	<u>388,601</u>

The annexed notes from 1 to 40 form an integral part of these accounts.

PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED JUNE-30, 2005

	NOTES	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
Revenue	22	390,634	184,543
Cost of Sales	23	125,119	59,529
Gross profit		265,515	125,014
Operating expenses			
Administrative and General Expenses	24	55,127	30,806
Selling & Promotion Expenses	25	13,574	3,838
		68,701	34,644
Operating profit		196,814	90,370
Other income / (expenses)	26	3,721	1,348
Financial charges	27	(3,872)	(2,776)
Net Profit for the period		196,663	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		334,667	150,902
Appropriation:			
Bonus Shares		(29,655)	-
Un - appropriated profit carried forward		305,012	150,902
Earning Per Share - Basic & Diluted	28	12.09	28.09

The annexed notes from 1 to 40 form an integral part of these accounts.

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 / (loss) for the period	196,663	88,842
Add: Non cash charges to income		
Depreciation - own assets	19,156	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	(1,001)	(1,338)
Bad debts	713	2,050
	23,909	14,750
Cash flows from operating activities before working capital	220,572	103,592
Decrease / (increase) in current assets & liabilities		
Accounts receivables	(159,929)	(27,046)
Due from related parties	245	(1,469)
Advances, prepayments and other receivables	(33,641)	(964)
Excess of billing over revenue	2,905	-
Creditors, accrued and other liabilities	9,149	15,696
Cash generated from operations	(181,272)	(13,783)
Net cash inflow / (outflow) from operating activities	39,301	89,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(30,822)	(77,404)
Sales proceeds of fixed asset	2,685	1,941
Capital Work in Progress	(28,064)	(60,061)
Intangible assets	(13,490)	(7,911)
Long Term Investment	(45,000)	-
Long Term Loan	(33,457)	(1,345)
Net cash inflow / (outflow) from investing activities	(148,148)	(144,780)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	223,345	-
Share deposit money	(177,514)	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	103,350	77,265
Net (decrease) / increase in cash and cash equivalents	(5,497)	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	18,889	24,386

The annexed notes from 1 to 40 form an integral part of these accounts.

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	-	-	-	-	196,663	-	196,663
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	-	-	(6,021)	9,468	(12,898)	-	(9,452)
Balance at June 30, 2005	225,345	60,000	-	-	305,012	29,655	620,012

The annexed notes from 1 to 40 form an integral part of these accounts.

NOTES TO THE ACCOUNTS

1. The Company and Nature of Business

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

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 (which are comparable with U.S. Generally Accepted Accounting Principles, where applicable in all material respect) 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. Summary of Significant Accounting Policies

3.1 Accounting Convention

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

3.2 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 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 capitalized.

Gain or loss on disposal of assets, if any, is charged to for the year.

3.3 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.

Amortization on additions to property, plant and equipment is charged from the year in which an asset is acquired under the finance lease while no depreciation is charged for the month in which the asset is disposed off.

3.4 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 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. The annual amortisation 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. Amortisation shall start when the product is available for general release to customers.

NOTES TO THE ACCOUNTS

3.5 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 prevailing at the balance sheet date. All exchange differences are charged to profit and loss account.

3.6 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, amortised cost or cost, as the case may be.

3.7 Accounts receivables

Accounts receivables are stated at cost.

3.8 Investments

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

3.9 Revenue recognition

License Revenue:

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, the 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

Service Revenue:

Service 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 EVP IT/Operations.

Maintenance Revenue:

Revenue from maintenance is recognized on time proportion basis.

The Company's revenue recognition policies are in compliance with all applicable accounting regulations including IAS 18 "Revenue" & USAICPA SOP 81-1 and SOP 97-2, "Software Revenue Recognition "as amended by SOP 98-4 and 98-9.

3.10 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.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and current and or deposit accounts held with banks.

3.12 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.

NOTES TO THE ACCOUNTS

4. OPERATING FIXED ASSETS

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

Total

Note: 4.1
Note: 4.4

JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
211,499	92,410
10,652	6,076
222,151	98,486

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	
Land	10,420	703	11,123	5	-	-	-	-	11,123
Building	63,989	111,475	175,464	33	3,199	-	8,613	11,812	163,652
Computers	27,528	18,127	44,053		20,381	(433)	7,955	27,903	16,150
		(1,602)							
Air conditioners	4,408	1,089	4,919	10	1,672	(58)	330	1,945	2,974
		(578)							
Furniture & fixtures	6,876	2,928	9,804	10	2,788	-	702	3,490	6,314
Office equipment	1,854	1,541	3,395	10	686	-	271	957	2,438
Electric fittings	725	3,431	4,156	10	315	-	384	699	3,457
Vehicles	2,980	995	2,207	20	1,564	(204)	169	1,529	678
		(1,768)							
Software	7,110	2,223	9,333	33	2,920	-	2,116	5,036	4,297
Generator	79	416	494	10	32	-	46	78	416
2005	125,969	142,928 (3,948)	264,949		33,557	(695)	20,586	53,449	211,499
2004	47,386	80,500 (1,919)	125,967		21,230	2,251	10,076	33,557	92,410

4.2 Depreciation is allocated in the following manner

Cost of sales
Administrative expenses
Development Cost
CWIP

JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
12,980	6,730
6,176	3,018
1,430	327
--	1
20,586	10,076

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	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 - 2005 US \$	10	6	3	2	(1)		
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)	271	294	2,441
Computers	2,169	1,485	3,654	33	716		970	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
	<u>2,383</u>	<u>1,571</u>

NOTES TO THE 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	29,702	124,050
	125,363	159,650
Transfers	(117,508)	(63,989)
Closing Balance	7,855	95,661

6 INTANGIBLE ASSETS

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	21,458	-	21,458	10	2,146	2,146	4,292	17,166
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
2005	39,124	13,490	52,613		2,498	3,507	6,005	46,608
2004	31,212	7,911	39,123	-	-	2,498	2,498	36,625

No amortization is charged on PTS Software as it is still in development stage,

7 LONG TERM INVESTMENT

NetSol (Private) Limited (Subsidiary Co)	45,000	-
--	---------------	---

The Company holds 4,500,000 (2004: Nil) fully paid ordinary shares of Rs. 10/- each. 90% of Equity held (2004: Nil). Based on audited accounts for the year ended June-30, 2005, breakup value per share is Rs. 5.33. Since this impairment is of temporary nature, therefore no provision is made. Mr. Salim Ullah Ghauri is the Chief Executive Officer of the company.

8 LONG TERM LOANS

Due from Subsidiary - Unsecured	Note 8.1	33,567	40,539
Loan to Employees - Unsecured	Note 8.2	40,428	--
		73,995	40,539

8.1 During the year, the Company has granted an unsecured long term loan amounting to Rs 32.9 Million to NetSol (Pvt.) Ltd. 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.33.56 Million.

8.2 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.

9 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

10 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Loan to employees		115	109
Advances - considered goods	Note 10.1		
- To employees		74	189
- Against expenses		8,469	2,598
- For software & licenses		12,176	--
Security deposit		560	497
Prepayments	Note 10.2	12,649	1,537
Advance income tax		242	1,560
Other receivable		7,816	1,970
		42,101	8,460

NOTES TO THE ACCOUNTS

	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
10.1	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/-).	
10.2	This includes Rs. 12.163 million expenses incurred till June 30, 2005 on account of the initial public offering of shares of the company.	
11 DUE FROM RELATED PARTIES		
NetSol Connect (Pvt.) Ltd.	2,680	3,051
TIG NetSol (Pvt) Ltd	126	-
	<u>2,806</u>	<u>3,051</u>
These relate to normal business of the company and are interest free.		
12 CASH AND BANK BALANCES		
At banks		
Saving accounts 12.1	4,908	23,865
Current accounts [Including USD 225,983.69 (2004: USD 198)]	13,578	12
	<u>18,486</u>	<u>23,877</u>
In hand	403	509
	<u>18,889</u>	<u>24,386</u>
12.1	The balances in savings accounts bear mark up which ranges from 0.75 % to 2 % per annum.	
13 ISSUED, SUBSCRIBED & PAID-UP CAPITAL		
2005	2004	
(Number of shares)		
22,534,482	20,000	Ordinary Shares of Rs. 10 each (2004: 100 each) fully paid in cash
		225,345
2,965,518	-	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares
		29,655
<u>25,500,000</u>	<u>20,000</u>	<u>255,000</u>
		<u>2,000</u>
The Parent Company NetSol Technologies Inc. 24011 Ventura Blvd, Suit No. 101, Calabasas CA 91302, holds 21,496,000 (2004:19,920) ordinary shares of Rs. 10/- each (2004: Rs. 100/- each), representing 84% (2004: 99.6%) of the issued capital of the company.		
14 CAPITAL RESERVES		
Share Premium	60,000	-
This represents premium @ Rs. 15 per share charged on issuance of 4 million Pre IPO shares.		
15 SHARE DEPOSIT MONEY		
NetSol Technologies Inc.	-	168,794
Directors	-	5,287
Effect of foreign currency translation	-	(9,468)
	<u>-</u>	<u>164,613</u>
16 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Present value of minimum lease payments	5,030	2,736
Less: Current portion of obligations shown under current liabilities	3,101	1,750
	<u>1,928</u>	<u>986</u>

NOTES TO THE 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>

17 DEFERRED INCOME

Un amortized gain on sale and buy back transaction		742	-
		<u>742</u>	<u>-</u>

17.1 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.

18 SHORT TERM FINANCING

Export refinance - Secured	Note 18.1	22,000	19,500
Term finance - Secured	Note 18.2	-	2,275
Running Finance - Secured	Note 18.3	-	5,000
		<u>22,000</u>	<u>26,775</u>

18.1 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.

18.2 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.

18.3 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

19 CREDITORS, ACCRUED AND OTHER LIABILITIES

Creditors	18,260	9,697
Accrued liabilities	11,238	6,522
Advance from customers	274	-
Interest payable	621	401
Other payables	13,339	14,693
Security refundable	223	-
Withholding tax	484	4,374
	<u>44,439</u>	<u>35,687</u>

20 EXCESS OF BILLING OVER REVENUE

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

21 CONTINGENCIES & COMMITMENTS

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

NOTES TO THE ACCOUNTS

	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
22 REVENUE		
License	223,825	84,137
Services	150,511	13,173
Maintenance	16,298	87,233
	390,634	184,543
23 COST OF SALES		
Staff salaries & benefits	52,860	32,923
Technical services	2,341	-
Staff training	2,001	201
Rent, rates & taxes	701	1,820
Travelling & conveyance	28,693	5,284
Communication	3,332	2,402
Utilities	4,072	2,047
Printing & stationery	619	336
Entertainment	1,872	884
Insurance	505	190
Vehicle running & maintenance	390	333
Repair & maintenance	6,242	911
Certifications	3,426	1,491
Newspaper Books & Periodicals	-	93
Fee & Subscription	116	463
Depreciation	12,980	6,729
Amortization of leased assets	1,462	924
Amortization of development cost	3,507	2,498
	125,119	59,529
24 ADMINISTRATIVE & GENERAL EXPENSES		
Directors remuneration	3,988	2,644
Staff salaries and benefits	16,745	9,044
Staff training	78	4
Rent, rates and taxes	759	965
Travelling and conveyance	3,147	1,697
Communication & postage	875	696
Printing and stationery	250	122
Utilities	1,914	904
Entertainment	3,105	1,365
Insurance	300	287
Advertisement	502	99
Vehicle running expenses	1,540	734
Repairs and maintenance	6,804	4,021
Legal and professional charges	2,828	1,230
Auditors remuneration	1,200	800
News papers & periodicals	20	21
Security expenses	2,374	455
Office supplies	346	72
Charity & Donation	165	15
Miscellaneous expenses	235	48
Fee & subscription	348	67
Depreciation	6,176	3,018
Amortization of leased assets	715	448
Bad Debts	713	2,051
	55,127	30,806
24.1 AUDITOR REMUNERATION		
Audit fee	250	200
Miscellaneous certification charges	450	300
Corporate consultancy services	400	250
Out-of-pocket expenses	100	50
	1,200	800
24.2 DONATION		

Chief Executive and none of the director have any interest in the donee.

NOTES TO THE ACCOUNTS

	JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
25 SELLING & PROMOTION EXPENSES		
Staff salaries & benefits	2,202	591
Staff training	175	-
Rent, rates & taxes	-	299
Travelling and conveyance	4,158	1,553
Communication	264	81
Utilities	491	364
Printing & stationery	126	35
Entertainment	216	68
Insurance	52	41
Advertisement	4,701	806
Sale Promotional Exp.	1,189	-
	<u>13,574</u>	<u>3,838</u>
26 OTHER INCOME / (EXPENSES)		
Gain on foreign currency translation	1,001	1,204
Profit on bank deposit	111	37
Amortization of deferred revenue	371	-
Rental income	396	-
Gain / (Loss) on disposal of assets	(124)	107
Mark up on loans	1,966	-
	<u>3,721</u>	<u>1,348</u>
27 FINANCIAL CHARGES		
Lease finance charges	914	720
Interest on short term loans	2,507	1,755
Lease documentation charges	45	15
Bank charges	406	286
	<u>3,872</u>	<u>2,776</u>
28 EARNING PER SHARE - BASIC & DILUTED		
Profit after taxation for the year	183,765	88,942
Average number of ordinary shares in issue during the year	15,194	3,166
Earning per share basic & diluted	12.09	28.09

29 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						
	2005	2004	2005	2004	2005	2004					
	R	U	P	E	E	S	i	n	'0	0	0'
Managerial remuneration	2,000	800	619	908	9,231	3,385					
Retirement benefits	-	-	72	82	459	139					
Rent and house maintenance	800	320	234	363	4,154	1,523					
Utilities	200	80	62	91	462	169					
Medical expenses	-	-	-	-	110	53					
Leave passage	-	-	-	-	-	-					
Total	<u>3,000</u>	<u>1,200</u>	<u>987</u>	<u>1,444</u>	<u>14,417</u>	<u>5,269</u>					

No fees are paid to directors for attending board meetings.

NOTES TO THE ACCOUNTS

JUNE-2005 Rupees in '000'	JUNE-2004 Rupees in '000'
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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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Interest on Loan

NetSol (Pvt) Limited - Subsidiary company	642	-
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Allocation of Expenses

Total Receivable	33,567	40,539
NetSol (Pvt) Limited - Subsidiary company	3,679	1,345

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
Financial Assets	R	U	P E E	S i n	'0 0 0'	
Maturity upto one year:						
Accounts receivable	-	130,835	130,835	-	34,830	34,830
Excess of revenue over billing	-	110,775	110,775	-	46,563	46,563
Security deposits	-	560	560	-	497	497
Other receivables	-	7,816	7,816	-	1,970	1,970
Cash & bank balances	4,908	13,982	18,889	23,865	521	24,386
Maturity after one year:						
Lon term investment	-	45,000	45,000	-	-	-
Long term loans and advances	73,995	-	73,995	-	40,539	40,539
Total Financial Assets	78,903	308,967	387,870	23,865	124,920	148,784
Financial Liabilities						
Maturity upto one year:						
Short term financing	22,000	-	22,000	26,775	-	26,775
Trade creditors	-	18,260	18,260	-	9,697	9,697
Other payables	-	13,339	13,339	-	14,693	14,693
Maturity after one year:						
Lease liabilities	5,030	-	5,030	2,736	-	2,736
Total Financial Liabilities	27,030	31,599	58,629	29,510	24,389	53,900
Net financial assets / (Liabilities)	51,873	277,367	329,241	(5,646)	100,530	94,885

NOTES TO THE ACCOUNTS

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

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	312,541	93,968	72,817	58,584	5,276	31,991	390,634	184,543			
Cost of sales	100,106	30,311	23,323	18,898	1,690	10,320	125,119	59,529			
Gross profit	212,435	63,656	49,494	39,686	3,586	21,672	265,515	125,014			
Administrative expenses	44,107	15,686	10,276	9,779	745	5,340	55,127	30,806			
Selling expenses	10,861	1,954	2,530	1,218	184	665	13,575	3,838			
Operating profit	157,467	46,016	36,688	28,688	2,658	15,666	196,813	90,370			
Other Income	2,977	686	694	428	50	234	3,721	1,348			
Other / Financial charges	3,098	1,413	722	881	52	481	3,872	2,776			
Segment result	157,346	45,767	36,659	28,533	2,656	15,419	196,662	88,942			
Other Information											
Segment assets	289,192	137,120	-	-	-	-	289,192	137,120			
Depreciation	22,969	11,647	-	-	-	-	22,969	11,647			
Non cash expenses other than depreciation	3,507	2,498	-	-	-	-	3,507	2,498			

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

36 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.

37 TAXATION

The 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.

38 DATE OF AUTHORIZATION FOR ISSUE

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

39 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.

40 FIGURES

Figures have been rounded off to the nearest Thousand Rupee.