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NetSol Technologies Limited

ANNUAL REPORT 2009

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COMPANY PROFILE

BOARD OF DIRECTORS

Salim Ullah Ghauri
Chairman & Chief Executive

Najeeb Ullah Ghauri
Non-Executive Director

Naeem Ullah Ghauri
Non-Executive Director

Irfan Mustafa
Non-Executive Director

Shahid Javed Burki
Non-Executive Director

Sajjad Hussain Kirmani
Executive Director

Zahid Bashir Mirza
Executive Director

Rehmat Ullah Ghauri
Alternate Director

Ayub Ghauri
Alternate Director

AUDIT COMMITTEE

Najeeb Ullah Ghauri
Chairman

Irfan Mustafa
Member

Sajjad Hussain Kirmani
Member

COMPANY SECRETARY

Boo-Ali Siddiqui

HEAD - INTERNAL AUDIT

Imran Ahmad

AUDITORS

Kabani Saeed Kamran Patel & Co.
Chartered Accountants
"321 - Upper Mall, Lahore"

LEGAL ADVISOR

Corporate Law Associates
1st Floor Queen's Centre
Shahra-e-Fatima Jinnah
Lahore

BANKERS

Askari Bank Limited
United Bank Limited
Bank Al Falah Limited
JS Bank Limited
IGI Investment Bank Ltd
First National Bank Modaraba

SHARE REGISTRAR

Vision Consulting Limited
3-C, LDA Flats, Lawrence Rd, Lahore

CONTACT DETAILS

Registered Office
Software Technology Park, NetSol Avenue
Main Ghazi Road, Lahore Cantt, Pakistan
Tel: +92-42-111-44-88-00, 5727096-7
Fax: +92-42-5701046, 5726740

RAWALPINDI OFFICE

House No. 26, Street No. 5, Safari Villas
Rawalpindi-46000.
Tel: +92-51-5595377, 5595480
Fax: +92-51-5595376

ISLAMABAD OFFICE

3rd Floor, Software Technology Park,
5-A, Constitution Avenue, Sector F-5/1
Tel: +92-51-2829972
Fax: +92-51-2828964

KARACHI OFFICE

Office-203, The Forum, Khayaban-e-Jami
Block-9 Clifton, Karachi 75600.
Tel: +92-21-5301486-8
Fax: +92-21-5301489

WEB PRESENCE

www.netsolpk.com
info@netsolpk.com

MISSION STATEMENT

OUR MISSION

Deliver high quality, innovative and best-in-class IT solutions and services to help our customers achieve their business objectives and operational efficiencies.

OUR VALUES

- We care for our employees who are our most valuable asset. We offer our employees a challenging and harmonious work environment where we encourage everyone to work to their utmost potential.
- We will always aim to develop long lasting relationship with our customers by delivering value for their investments.
- Our workplace will be an environment of great learning, extraordinary customer service, consideration for our colleagues and self-development. A place where we are happy to spend our working days.
- We will be diligent expending company resources. We'll use them to serve our clients better and perform our roles more effectively.
- While we grow in size and scale, we will continue to improve our quality of service delivery.
- We will work tirelessly to grow in efficiency and productivity using best practices, innovation and imagination.
- As we are a global Company, we'll respect every other culture, religious and embrace the change & the challenges that come with such diversity.

OUR BEHAVIOUR

- While we grow in size and scale, we will continue to improve our quality of service delivery.
- We will continue to invest in training in Quality.
- We'll grow quality initiatives with better "Best Practices" and more quality accreditations
- We'll implement better tools for measuring quality both in production and Customer Services.
- Quality is not a domain with the few chosen ones but is a responsibility of all.
- We'll not pass the buck to the "Quality People" when we can see and address deficiencies ourselves.

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QUALITY FOCUS

Our commitment is to continually improve the effectiveness of our quality management system through;

- monitoring and enhancing customer satisfaction
- reviewing and enhancing quality objectives
- regular assessments against international standards
- developing and maintaining a skilled & motivated resource base
- effective implementation of Software Measurement Program

Our focus in quality engineering and processes improvement has been definitive in ensuring the excellence of operations and customer satisfaction.

NetSol is continuously investing in software processes improvement and ISO/SEI authorized trainings for its teams.

Our vigor, experience and experimentation in the quality domain since our inception puts us in an ideal position to assist other IT companies in areas like Software Process Improvement, ISO Certification, SW - CMMi appraisals and other quality-related matters.

STATEMENT OF ETHICAL PRACTICES

- All directors and employees and other personnel must observe the laws and regulations.
- NetSol does not permit bribery in any form of any person involved in the company's business.
- NetSol requires competition in the marketplace and compliance with anti-trust and competition rules.
- All employees and personnel must maintain the confidentiality of price sensitive information.
- Employees and other personnel should not use price sensitive/inside information for their personal advantage.
- Employees and other personnel should avoid situations where personal interests could conflict, or appear to conflict, with the interests of their employer.

BOARD OF DIRECTORS

Salim Ullah Ghauri
Chairman & Chief Executive

Najeeb Ullah Ghauri
Non-Executive Director

Naeem Ullah Ghauri
Non-Executive Director

Irfan Mustafa
Non-Executive Director

Shahid Javed Burki
Non-Executive Director

Zahid Bashir Mirza
Executive Director

Sajjad Hussain Kirmani
Executive Director

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CHAIRMAN'S MESSAGE

Another year of challenges and opportunities has gone by, and it is a pleasure for me to share with you some of the key developments at NetSol. As we all know, this was a tough year for global business, affecting global economies and key industries, including finance and automotive. The credit crunch that businesses faced across the World resulted in aggressive cost cutting initiatives, including drastic cut downs in IT spending. NetSol as a leading supplier of IT solutions and services to its global markets felt a significant adverse impact on its ability to sell its offerings in a recession hit World. However, we took a number of key initiatives during the year to ensure that we were ready to deal with a reduced demand, but at the same time resilient enough to pick up at the earliest signs of recovery.

I am glad to report that our timely initiatives have paid off and we have been able to generate exciting new business even during these testing times. China has continued to emerge as one of our key markets and we have made major breakthroughs through making strong inroad into the Chinese banking industry. In addition to the continued focus on the Chinese market, this success has also been possible due to our renewed product marketing focus, involving rebranding and repositioning our flagship product, LeaseSoft®, as NetSol Financial Suite® (NFS). NFS product strategy will allow us to greatly expand our target markets to extend our reach to clients in other financial areas besides leasing and auto finance that have been our key focus, historically.

Given the potential for expanding the market for NFS in Asia Pacific, we have strengthened our focus in the region by investing in our presence in Beijing and Bangkok.

We feel that our long term success depends on our ability to adapt to a rapidly and constantly changing world. This has led to a renewed strategic planning focus within the organization and one of the key initiatives that we have undertaken is to leverage the key strengths that we have built over the years. This includes leveraging our CMMi level 5 capability, which gives us an edge over most of our global competitors and, even today, places us in a select group of companies worldwide with this distinction. We are exploring ways of achieving further growth on the basis of this differentiator.

I am confident that we have emerged successfully from the tough business conditions this year, and we can positively look forward to continued growth ahead. Our collective courage to act quickly and with insight gives me immense satisfaction and hope for a bright future.

Lahore
September 11, 2009

Salim Ghauri
Chairman & CEO

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NETSOL EVENTS

Mr. Rehman Malik
Interior Minister

&

Mr. Salim Ghauri
Chairman & CEO
NetSol Technologies Ltd

during the seminar on Secure Pakistan

Mr. Sajjad Kirmani
Director
NetSol Technologies Limited

receiving the FPCCI Highest Exporter Award for IT Industry from

Mr. Yousuf Raza Gillani
Prime Minister of Pakistan

Mr. Robert W. Gibson
Director
UK Trade & Investments &
British Deputy High Commissioner
Karachi

with
NetSol Senior Management.

HRH Prince
Abdulaziz bin Ahmed

&

Mr. Najeeb Ghauri
Chairman
NetSol Technologies Inc.

at the time of signing ceremony of Atheeb NetSol Limited

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With

Katsumi Ishii
CEO

Nissan Finance China

With

Yoshihiro Mori EVP
Rene Laz & Tatsuya Ishii

At

Toyota Financial
Services, China

With

Mr. George Leondis
Executive Director

At

NISSAN Financial Services
Australia

Mr. Salim Ghauri
CEO, NetSol Technologies Limited

and

Ms. Wong
EVP, Minsheng
Financial Leasing Company
Signing The Contract of NFS
implementation

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SERVICES PORTFOLIO

INDUSTRIES WE SERVE

- Lease & Finance
- Manufacturing
- Health
- Banking
- Education
- Information Technology
- Insurance
- E-Government
- Defense

SERVICES WE OFFER

- Application Development & Maintenance
- Technology Outsourcing
- IT Consulting & BPR
- System Integration
- Software Process Consulting
- Business Intelligence Consulting
- Information Security Consulting
- Enterprise Solutions
- Education

MAJOR CUSTOMERS

GLOBAL

- Mercedes Benz Leasing Thailand
- Mercedes Benz Auto Finance China
- Mercedes Benz Financial Services Australia
- Mercedes Benz Financial Services Taiwan
- Mercedes Benz Services Korea
- Mercedes Benz Services New Zealand
- Mercedes Benz Finance Company Japan
- BMW Financial Services China
- BMW Hong Kong
- BMW Financial Services Japan
- Yamaha Motors Finance Australia
- Toyota Leasing Thailand
- Toyota Motor Finance Company China
- UMF Singapore
- Australian Motor Finance
- CNH Capital Australia
- Finlease Company Limited Mauritius
- Al-Amthal Leasing Saudi Arabia
- Volvo China
- FIAT Motors China
- Nissan Motor Company Limited China
- Nissan Australia
- Minshing Bank China
- Innovation Group UK

LOCAL

- State Bank of Pakistan
- Allied Bank of Pakistan
- Information Technology Department, Punjab
- General Head Quarter, Rawalpindi
- Electronic Government Directorate, Ministry of IT
- Excise & Taxation Department, Islamabad
- Excise & Taxation Department, Government of Sind
- Command & Staff College, Quetta
- Ministry of Health, Government of Pakistan
- MCB Bank Limited
- Highnoon Laboratories Limited
- Mobilink Pakistan
- Pakistan Military Academy, Kakul
- USAID
- Pakistan Software Export Board
- Punjab Rural Support Program
- Punjab Assembly
- NWFP Assembly
- National Institute of Heart Diseases
- Maharoof Hospital

SHAREHOLDERS' INFORMATION

REGISTERED OFFICE

NetSol IT Village (Software Technologies Park)
Main Ghazi Road, Lahore Cantt. 54792, Pakistan
Tel: +92-42-111-44-88-00, 5727096-7
Fax: +92-42-5726740, 5701046

LISTING ON STOCK EXCHANGE

Equity shares of NetSol Technologies Ltd are listed & traded on Karachi Stock Exhange since Aug, 2005.

LISTING FEES

The annual listing fees for the financial year 2008-09 has been paid to the Karachi Stock Exchange within specified time period.

STOCK CODE

The stock code for dealing in equity shares of the company at KSE is NETSOL.

SHARES REGISTRAR

Vision Consulting Limited
3-C, LDA Flats, Lawrence Road, Lahore
Tel: +92-42-6375531, 6375339
Fax: +92-42-6374839

The Share Registrar has online connectivity with Central Depository Company of Pakistan Limited (CDC). It under-takes all activities related to share transfers, transmission, issue of duplicate/re-validated dividend warrants, issue of duplicate/replaced share certificates, change of address and other related matters.

For assistance, shareholders may contact the following person of Shares Registrar;

CONTACT PERSON

Mr. Abdul Ghaffar Ghaffari
Manager Shares

SERVICE STANDARDS

NetSol Technologies Ltd has always endeavored to provide our valued investors with prompt services. Listed below are various investor services with their maximum time limit set out against each for their execution.

S. No.	ACTIVITIES	For Request Received through post	Over the Counter
1	Transfer of Shares	30 days after receipt	30 days after receipt
2	Transmission of Shares	30 days after receipt	30 days after receipt
3	Issue of duplicate share certificates	30 days after receipt	30 days after receipt
4	Issue of duplicate dividend warrants	5 days after receipt	5 days after receipt
5	Issue of re-validated dividend warrants	5 days after receipt	5 days after receipt
6	Change of Address	2 days after receipt	15 minutes

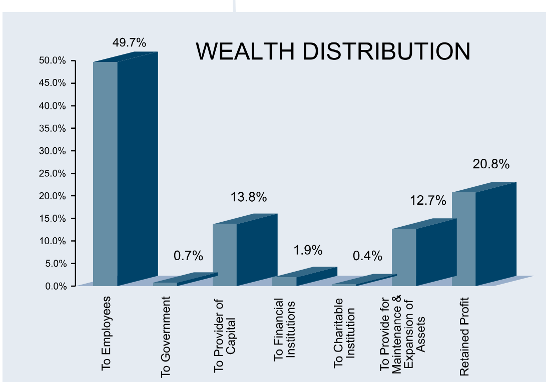
SHARE PRICE AND VOLUME

The monthly high and low prices and the Monthly Turnover of shares traded on the Karachi Stock Exchange (KSE) during the financial year 2009 are as under:

Month	Share price on the KSE (Rs.)		Monthly Turnover
	Highest	Lowest	
Jul-08	96.31	75.39	7,087,400
Aug-08	69.35	56.82	5,787,900
Sep-08	57.00	57.00	934,300
Oct-08	57.00	46.67	6,000
Nov-08	46.67	46.67	200
Dec-08	44.34	25.27	590,800
Jan-09	27.81	16.93	7,115,500
Feb-09	24.69	20.8	30,784,400
Mar-09	20.19	16.93	23,822,600
Apr-09	20.59	13.85	36,307,200
May-09	16.85	14.96	13,725,900
Jun-09	18.08	13.61	28,773,800

STATEMENT OF VALUE ADDITION

	2009	% age	2008	% age
		RUPEES IN THOUSAND		
WEALTH GENERATED				
Revenue	**1,323,890**		1,556,158	
Other Income	**195,949**		135,573	
	1,519,839		1,691,731	
Less: Operations & General Expenses	**531,856**		376,491	
Value Added	**987,983**	100%	1,315,240	100%
WEALTH DISTRIBUTION				
To Employees				
Salaries & Other employee benefits	**491,061**	50%	432,174	33%
To Government				
Income Taxes & Other Taxes	**7,172**	1%	6,208	0%
To Provider of Capital				
Bonus Shares & Dividends	**95,666**	10%	189,332	14%
Minority Shareholders	**40,244**	4%	56,837	4%
To Financial Institutions				
As mark-up on borrowings	**19,263**	2%	14,260	1%
To Charitable Institution	**3,950**	0.4%	1,936	0%
To Provide for Maintenance & Expansion of Assets				
Depreciation / Amortization	**125,367**	13%	90,382	7%
Retained Profit	**205,260**	21%	524,111	40%
	987,983		1,315,240	



NETSOL GROUP - SIX YEAR SUMMARY

	2009	2008	2007	2006	2005	2004
FIXED CAPITAL EXPENDITURE						
Tangible	**547,662**	556,474	392,688	327,848	241,860	194,770
Intangible	**871,832**	435,688	197,839	68,202	55,441	40,306
	1,419,494	992,162	590,527	396,050	297,301	235,076
CAPITAL WORK IN PROGRESS	**61,571**	14,988	-	-	-	-
NON CURRENT ASSETS						
LONG TERM LOANS & ADVANCES	**-**	7,390	27,088	31,628	40,428	-
WORKING CAPITAL	**1,216,503**	1,214,214	884,565	606,339	291,374	58,891
NET ASSETS EMPLOYED	**2,697,568**	2,228,754	1,502,180	1,034,017	629,102	293,967
EQUITY & LIABILITIES						
SHAREHOLDERS' EQUITY	**2,464,043**	2,077,356	1,363,912	975,276	604,199	292,981
MINORITY INTEREST	**98,481**	91,610	84,254	48,328	22,233	-
NON CURRENT LIABILITIES	**135,044**	59,788	54,014	10,413	2,671	986
TOTAL FUND INVESTED	**2,697,568**	2,228,754	1,502,180	1,034,017	629,102	293,967
REVENUE	**1,323,890**	1,556,158	1,082,420	600,152	462,281	212,454
COST OF REVENUE	**780,788**	613,493	465,783	291,734	163,312	71,245
GROSS PROFIT	**543,102**	942,665	616,637	308,418	298,969	141,209
OPERATING EXPENSES	**201,932**	172,385	192,078	140,849	98,545	46,229
NET PROFIT FOR THE PERIOD	**341,170**	770,280	424,559	167,569	200,424	94,980
EARNING PER SHARE	**4.12**	11.94	9.52	3.53	10.04	11.20
RESERVES & SHARE CAPITAL						
Reserves	**1,684,928**	1,479,668	955,557	189,470	60,000	-
Share Capital	**779,102**	597,375	408,043	354,820	255,000	2,000

NETSOL GROUP - KEY FINANCIAL RATIOS

		2009	2008	2007	2006	2005	2004
Working Capital	Rupees in thousand	**1,216,503**	1,214,214	884,565	606,339	291,374	58,891
Current Ratio	Times	**3.96**	3.84	4.57	6.62	4.26	1.74
Return on Assets Employed	%	**10%**	27%	22%	12%	29%	25%
Return on Equity	%	**12%**	34%	28%	15%	34%	32%
Gross Profit Ratio	%	**41%**	61%	57%	51%	65%	66%
Net Profit Margin	%	**26%**	50%	40%	28%	46%	47%
Debtor's Turnover	Times	**1.94**	3.27	3.77	3.35	4.56	6.01
Outstanding No of Shares	Shares	**77,910,203**	59,737,495	40,804,300	40,066,300	20,516,266	8,487,818
Book Value Per Share	Rupees	**31.63**	34.78	33.43	28.07	39.77	9.81

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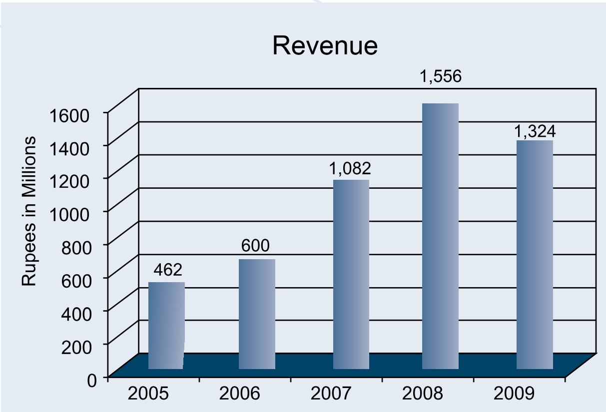
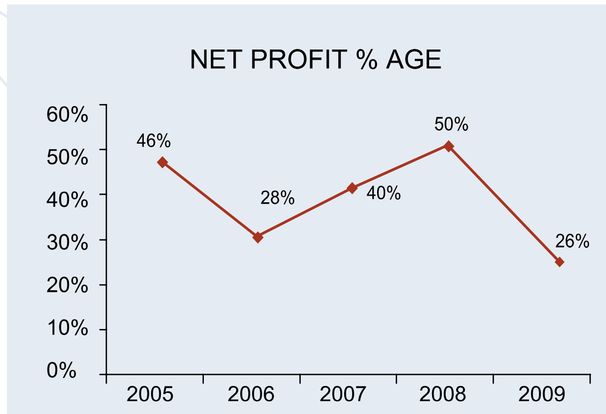
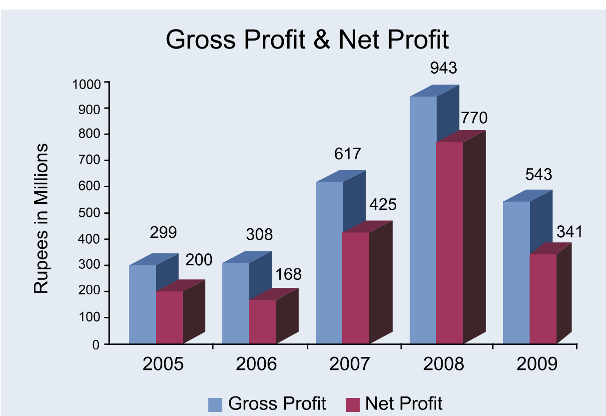
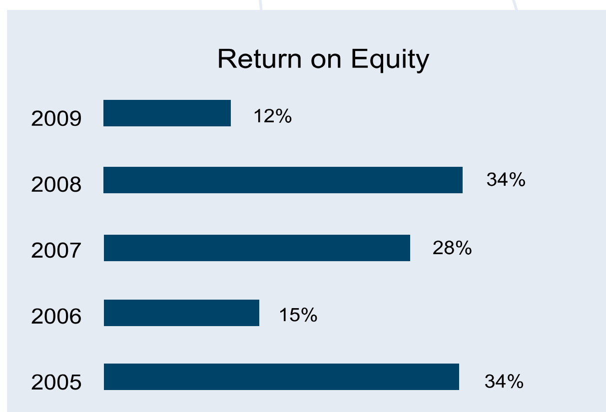
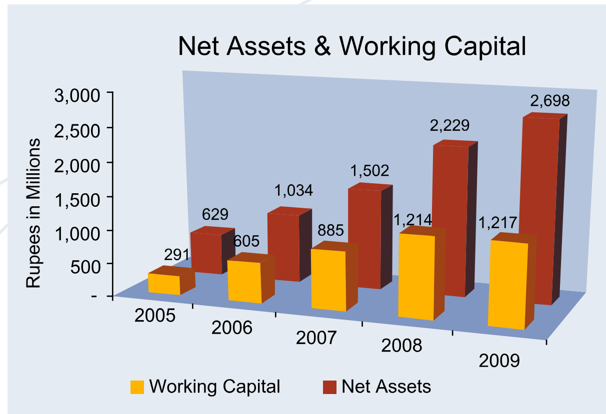
NETSOL GROUP - FINANCIAL SUMMARY

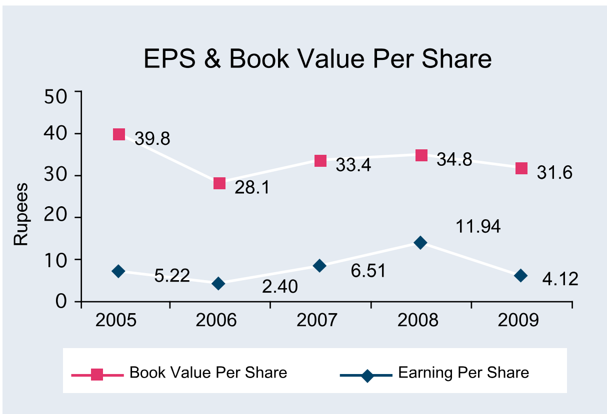


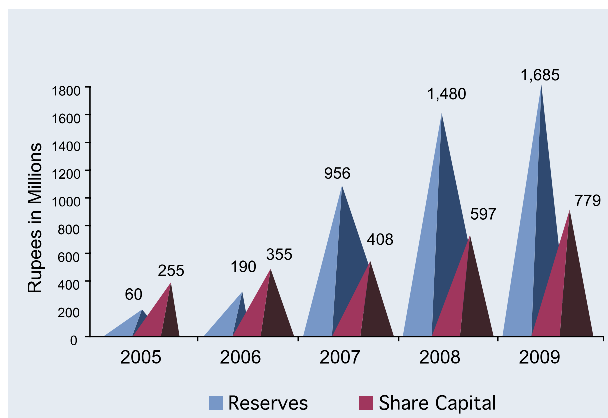


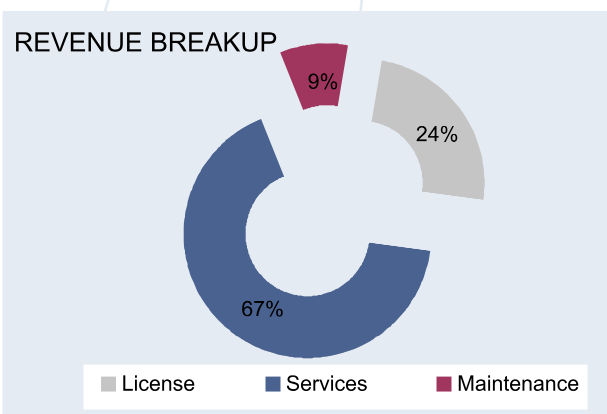





Net Assets & Working Capital
Rupees in Millions
3,000
2,500
2,000
1,500
1,000
500
-
2005
2006
2007
2008
2009
291
629
605
1,034
885
1,502
1,214
2,229
1,217
2,698
Working Capital
Net Assets


EPS & Book Value Per Share
Rupees
50
40
30
20
10
0
2005
2006
2007
2008
2009
39.8
28.1
33.4
34.8
31.6
5.22
2.40
6.51
11.94
4.12
Book Value Per Share
Earning Per Share


Rupees in Millions
1800
1600
1400
1200
1000
800
600
400
200
0
2005
2006
2007
2008
2009
60
255
190
355
956
408
1,480
597
1,685
779
Reserves
Share Capital


REVENUE BREAKUP
9%
24%
67%
License
Services
Maintenance

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 13th Annual General Meeting of the shareholders of NetSol Technologies Limited will be held on Friday October 23, 2009 at 11:00 am at the Registered Office of the Company situated at NetSol IT Village (Software Technology Park) NetSol Avenue, Main Ghazi Road, Lahore Cantt., to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the last Extra-Ordinary General Meeting held on February 18, 2009.
2. To receive, consider and adopt financial statements of the company for the year ended June 30, 2009 together with the Directors' and Auditors' Reports thereon.
3. To appoint Auditors for the year 2009-2010 and fix their remuneration.

SPECIAL BUSINESS

4. To Consider and if thought fit, pass the following Special Resolution with or without modification under Section 208 of the Companies Ordinance, 1984:

   RESOLVED THAT:

   "The company be and is hereby authorized to make advance to NetSol Innovation (Pvt) Limited upto the limit of Rs. 50 million for meeting its cashflow requirements. Disbursement of funds will be made as and when required and the period for such advance will be three years from the date of passing of this resolution. The company is also authorized to charge interest @ KIBOR +1% on the daily product basis on the outstanding amount of advance."

   RESOLVED FURTHER THAT:

   The Chief Executive Officer and the Company Secretary be are hereby jointly and/or severally authorized to complete all necessary corporate and legal formalities and to do all necessary deeds, acts and things as may be deemed necessary to give effect to the above mentioned resolutions. They are also authorized to sign and file all relevant documents with the Securities & Exchange Commission of Pakistan.

5. To transact any other business with the permission of the Chair.

A statement under section 160(1)(b) of the Companies Ordinance, 1984, read with S.R.O 865(1)/2000 issued by the Securities and Exchange Commission of Pakistan on December 06, 2000 with respect to special business item No. 4 is being sent to the member's alongwith the notice.

By Order of the Board

Lahore
October 02, 2009

Boo-Ali Siddiqui
Company Secretary

NOTE:

1. The share transfer books of the Company will remain closed from October 17, 2009 to October 23, 2009 (both days inclusive).
2. Shareholders are requested to notify the change of addresses, if any, to our Shares Registrar, M/s Vision Consulting Ltd., 3-C, LDA Flats, Lawrence Road, Lahore Tel # +92(42) 6375531, 6375339 and Fax # +92(42) 6374839 by the close of business hours on October 16, 2009.
3. A member entitled to attend and vote at this Meeting may appoint another member as his/her proxy to attend and vote instead of his/her place. 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.

CDC account holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan:

A) For Attending the Meeting:

a) In case of individuals, the account holder or sub-account holder's registration details are uploaded as per the CDC regulations shall authenticate his identity by showing his 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 or sub-account holder's 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 by two persons whose names, addresses 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 original NIC or original passport at the time of the meeting.

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.

EXPLANATORY STATEMENT ACCOMPANYING NOTICE TO THE MEMBERS UNDER SECTION 160(1) (b) OF THE COMPANIES ORDINANCE, 1984

This statement is annexed to the Notice of Annual General Meeting of NetSol Technologies Limited to be held on October 23, 2009 (Friday) at which a resolution U/S 208 is to be transacted, and the purpose of this statement is to set out all material facts concerning such special business in accordance with Section 160(1)(b) of the Companies Ordinance, 1984 and S.R O. 865(1)/2000 dated December 6, 2000 issued by the Securities and Exchange Commission of Pakistan.

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

Sr. No.	Description	Information Required under the SRO
i)	Name of the Investee Company or associated undertaking:	NetSol-Innovation (Pvt) Limited
ii)	Brief about the Financial position of the investee company on the basis of Last published Financial Statement:	NetSol-Innovation (Pvt.) Limited was incorporated in Pakistan on January 12, 2005 under the Companies Ordinance, 1984 as a private company limited by shares. The Company is engaged in the business of export of computer software and its related services developed in Pakistan. The registered office of the Company is situated at NetSol IT Village, NetSol Avenue (Software Technology Park) Main Ghazi Road, Lahore Cantt.54792, Pakistan. As per the audited financial statements of the Company for the year ended June 30, 2009, the Net Revenue of the company was Rs.243,844,039/- with Gross Profit of Rs.80,191,668/- yielding Gross Profit ratio of 32.89%. The Company earned a Net Profit of Rs.81,134,196/- Total assets of the Company as at June 30, 2009 were Rs.220,258,042/-against total Liabilities Rs.21,376,755/.
iii)	Amount of advance, loan or guarantee:	Up to Rs. 50 Million by way of advance for meeting the cash flow requirements. Disbursement of funds will be made as and when required.
iv)	Rate of mark-up to be charged:	@ KIBOR + 1% on the daily product basis of outstanding amount.
v)	Purpose of the loan, advance or guarantee:	Meeting the cash flow requirements of the company
vi)	Collateral Security:	Not Considered necessary as both companies are under common management control.
vii)	Source of funds from where investment will be made:	Out of company funds
viii)	Term of advance, loan or guarantee:	Three Years
ix)	Benefits likely to accrue to the Company and the shareholders from the proposed investment:	Growth of the investee company will automatically increase the shareholders' wealth
x)	Interest of Directors and their relatives in the investee company.	The directors and their relatives have no interest in the above investment

PAID UP CAPITAL OF INVESTEE COMPANY, NUMBER OF PRESENT SHAREHOLDERS AND CAPITAL HELD (% AGE WISE), (AS ON JUNE 30, 2009)

Paid up Capital: 3,006,305 ordinary shares or Rs.10/- each
No. of shareholders: 06

Categories of members	Number	Share held	Percentage
Directors	04	40	0.001
Joint Stock Companies	02	3,006,265	99.999

Company's shareholding in the investee Company (%age wise): 50.52%

DIRECTORS' REPORT TO THE MEMBERS FOR THE FISCAL YEAR ENDED JUNE 30, 2009

بسم الله الرحمن الرحيم

On behalf of the Board of Directors, I am pleased to present the 13th Annual Report of the Company alongwith audited financial statements for the year ended June 30, 2009 and auditors' report thereon.

GENERAL OVERVIEW

The Global financial crisis and recessionary trends witnessed across the world since the second half of 2008 have impacted economies and dented consumer and business spending. It has shaken consumer confidence in most developed countries, and resulted in severe cost cutting and job losses in companies. Pakistan too has suffered to some extent, especially due to tightening of credit and spending in its export markets, but many of its economic problems have been rooted in domestic issues, including security concerns and volatility of capital markets.

Pakistan's economy grew by only 2 percent in 2008-09 as against 4.1 percent last year and against the target of 4.5 percent, due to poor performance of almost all sectors, coupled with both internal and external economic and political pressures. Domestic economy continued to receive sever shocks through the intensification of war on terror in settled areas, and other domestic factors like unstable law and order situation and acute energy shortage. IT businesses remained under pressure to revise their human resource policies to reduce costs. The global situation further compounded domestic problems with the collapse of financial markets, difficult geopolitical situation, high discount rates and decline in exports to western countries. However, we believe that these conditions have also created an opportunity for Pakistani companies in terms of cost advantage over regional competitors.

The international commitment to putting the Global financial markets and leading economies back on track are expected to help the world struggle out of the current crisis. As this happens, countries like Pakistan stand a good chance to create new inroads on the basis of greater cost advantage and ability to leverage a skilled and sizeable workforce. IT can be a key driver of export driven growth for the country as local companies strategize to win a share of the growing global off-shoring market.

At the same time, government's drive for expanding automation and delivery of e-services to citizens is likely to provide further boost to the local IT industry.

NETSOL FINANCIAL SUITE (LEASESOFT DIVISION)

For over thirteen years we have worked with the most demanding companies in the world in a wide variety of industries and functional areas, delivering tangible return on investment through our services and our flagship software platform, NetSol Financial Suite (NFS). Our strategy for growth consists of signing an increasing number of contracts which deliver long-term revenue streams for the company. As a marketing strategy NetSol is developing lighter solutions with NFS to target companies with simpler business models. Since NFS is highly modular, various sets of functionalities can be used against the specific requirements of

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the client. NetSol has also provided the option of using NFS on subscription and pay per use basis to those organizations that are small in size or have small turnover. An important component of the growth strategy for NFS is to extend its customer base to include newer geographic markets.

In its existing markets, NFS is already establishing itself as a leading product catering to the business needs of major blue-chip companies. Its current client base includes Mercedes Benz Financial Services in eight different countries, Yamaha Motors Finance Australia, Toyota Motors Finance China, Toyota Leasing Thailand, Finlease Commercial Bank of Mauritius, CNH Capital Australia, FIAT Automotive Finance China, Dongfeng Nissan Auto Finance China, Nissan Financial Services, Australia, BMW Financial Services in China, Volvo Automotive Finance China, Minshing Bank, China, EFG Eurobank Greece, Al-Amthal Leasing Saudi Arabia etc.

BEST SHORING™ MODEL

In today's highly competitive marketplace, business executives with labor or services-centric budgetary responsibilities are not just encouraged but are, in fact, obliged to engage in "Make or Buy" decision process when contemplating how to support and staff new development, testing, services support and delivery activities. The Company has initiated the strategic evolution of its business offerings that is a BestShoring™ solutions strategy. BestShoring™ is simply defined as NetSol Technologies' ability to draw upon its global resource base and construct the best possible solution and price for each and every customer. Unlike traditional outsourcing offshore vendors, NetSol draws upon an international workforce and delivery capability to ensure a "BestShoring™ delivers BestSolution™" approach.

IT CONSULTING & SERVICES

We offer a broad array of professional services to clients in the global commercial markets and specialize in the application of advanced and complex IT enterprise solutions to achieve our customers' strategic objectives. Our service offerings include application development, IT consulting & services, NetSol Defense Division, Business Intelligence, Information Security, Outsourcing Services and Software Process Improvement Consulting, maintenance and support of existing systems and project management etc.

An ever growing awareness of highly publicized IT Security problems, coupled with greater demands by international business partners, has led the movement of companies world-wide towards compliance with internationally recognized Information Security Systems standards. Information Systems Security or Information Assurance applies to all systems in all departments of an organization whether on a computer disk, paper or in the heads of employees. Information Security services is provided by our InfoSec Unit. This unit provides services to secure all corporate information and its supporting processes, systems and networks. Our Information Security Services is a group of vendor-neutral, dedicated security consultants with real-life field experience. The InfoSec group utilizes industry standard best security practices coupled with best-of-breed products to deliver proven and robust Information Security Management Systems (ISMS). InfoSec services include: managed security services; BS-7799/ISO 27001 Consultancy, Information Security Assessment, Penetration Testing and Vulnerability Assessment, Disaster Recovery Planning and Secure Network Design. The InfoSec group has also launched a new project named Secure Pakistan™. The project aims to secure critical information, while in storage or in transfer, from theft. Secure Pakistan™ is developing IT service labs for forensic investigation, CERT (Computer Emergency Response Team), 24/7 security surveillance and cyber crime awareness training. InfoSec is partnered with global giants including IBM Internet Security Systems and Kaspersky Labs.

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During the fiscal year ended June 30, 2009 we have provided Information Network Security solution to one of the largest cellular phone company of Pakistan. We were also awarded with an Information Security and Security Consultancy Contract by one of the large commercial banks of Dubai. NetSol has hit a major breakthrough by winning a contract with Allied Bank Limited (ABL) in the area of Information Security. NetSol's consultants will support ABL to implement Information Security Management System (ISO 27001). Winning this contract is of strategic importance to NetSol as it has opened doors for Information Security consulting within the banking sector. Following this contract, NetSol has also been selected by IBM Pakistan for the implementation of information security hardware appliances at Habib Bank Limited and Samba Bank Limited.

Software Process Improvement Consulting is also provided by NetSol to companies in Pakistan through an independent division. The division provides quality engineering and related consulting services to technology companies. The services include consultancy, facilitation services, training and implementation support for CMMi appraisal. All of these activities are broadly developed under the guidelines of SEI based CMMi processes as well as the information security consulting practices. Currently, NetSol is amongst the few companies authorized by Pakistan Software Export Board (PSEB) for CMMi and BS7799/ISO 27001 consulting practices in Pakistan.

PUBLIC SECTOR PROJECTS

NetSol has formed a strategic collaboration with Shaukat Khanum Memorial Cancer Hospital (SKMCH), under which Hospital Management Information System (HMIS), a hospital management solution is now being jointly marketed to the healthcare industry. With over 1,200 forms and 1,500+ reports, HIMS covers all operations of a modern hospital. We are implementing this system in the Armed Forces Institute of Cardiology-National Institute of Heart Diseases (AFIC-NIHD) hospital, Rawalpindi and at Maroof Hospital, a modern hospital being built in Islamabad that will offer advanced healthcare services. We hope to expand our opportunities in the healthcare sector worldwide as we have already started to demonstrate this system to US based medical centres, with encouraging response.

We were also awarded a major turnkey contract for setting up the IT infrastructure, as well as the development of application software to automate and enhance the tax collection systems, for the Government of Sindh. We were already a key solution provider to the Federal Government, as well as the Province of Punjab, executing projects in different areas of E-Government and playing a flagship role in automating the public sector in Pakistan. However, this award of this major E-Government contract is a major breakthrough for NetSol in the province of Sindh. The contract will provide for automating the processes of excise and taxation, hence controlling as well as increasing the overall provincial revenue, providing facilities to the tax payers, making historical data available, establishing real-time reporting and above all ensuring transparency at various levels and processes. Successful completion of the project will include the establishment of a Primary Data Center along with an offsite Disaster Recovery Facility, and secure online access to all major cities of the Province of Sindh. Enhancement to the existing tax base is expected through integration with the Federal Board of Revenue for online data exchange.

OUTSOURCING

Outsourcing is an emerging area in IT industry. Our outsourcing joint venture with Innovation Group plc (previously referred to as "TiG") and known as NetSol Innovation (Pvt) Ltd is also quite stable. Starting from a head count of fifteen in 2005, the number of resources has grown to more than hundred and twenty. This shows the growth and confidence of the customer in the services provided by us. Though the massive downturn in the UK economy has also adversely affected the business of our partner, yet we believe that this short term decline will eventually be overcome and this outsourcing business will grow in future.

NETSOL DEFENCE DIVISION

The NetSol Defense Division (NDD) was founded in 2005 to take advantage of its coordination with the Pakistani Defense Sector. NDD specializes in providing solutions for improvement and optimization of operations of the defense and military forces. With a unique blend of experienced and highly skilled IT specialists and managers, and most importantly the domain experts from the Defense Sector itself, NDD has the critical task of ensuring that the solutions provided are focused and need-specific to the requirements as well as the technological advancements in the sector around the globe. Operating through the NDD R&D Lab, which is strategically located in Rawalpindi, for closer coordination with various defense organizations & stakeholders and to establish an operations center and simulation lab, NDD is involved in R&D activities, as well as project management for various on-going and potential projects including Command & Control Applications, Capacity Building projects, Infrastructure development for multiple offices within the Ministry of Defense as well as GIS based applications integration with different solutions. Projects currently undertaken by NDD are - Unit Management System, an initiative for the automation of administrative functions for the Pakistani Army, helping to realize the Army's key objective of improving productivity and efficacy of the units of the Pakistani Army; Academy Information Management System for the Pakistan Military Academy, one of the top rated military institutes in the world; and, Network Centric Warfare (NCW) working to provide an information grid which provides a seamless integration of sensors, weapons, and decision makers through a common operating environment and mission applications built in compliance with laid down inter-operability standards.

GLOBAL BUSINESS SERVICES

To market the various consulting services of NetSol, a new division named "Global Business Services" was established around two years back. Since then the division has successfully completed various projects, which involved the provision of quality assurance and testing services to leading companies of the world. GBS has now been invited to bid for more testing and QA services projects for the implementation of the leasing applications in other parts of the world. Besides, it is also going to bid for provision of maintenance services of the said application for a period of next five years.

As part of GBS, Independent System Review (ISR) is an exciting new revenue area that has emerged recently for NetSol. It involves Independent Software Testing, Quality Assurance and Business Gap Analysis of applications for clients who wants to benefit from expert evaluation of their systems. Based on our expertise in offering mature and complete solutions for the Global finance and lending domain, we recently carried out a significant ISR assignment for a leading Global auto manufacturer's financial operations in Japan. Based on the successful completion of this activity, we were awarded further projects from the same customer in APAC region and expecting more opportunities in other parts of the World.

NETSOL TECHNOLOGY INSTITUTE

NetSol Technology Institute campus has been relocated to a nearby place to the headquarters in Lahore to enable NTI to take advantage of the facilities at the IT Village. With ready access to well-equipped, professionally designed conference rooms and lecture halls that have advanced audio-visual aids in place, both trainers and trainees enjoy learning in an interactive environment. In collaboration with rozee.pk, NetSol Technology Institute has also launched a career placement portal, which links the alumni with leading IT industry jobs in the most effective way. The launch of the website was held at NetSol IT Village. The campus career portal initiative is supported by the Government's ICT R&D Fund and is crucial at this time when IT expertise is evolving to new heights and employers are demanding specialists that are trained at industry standard.

INNOVATION – NEXT GENERATION PRODUCT (R2)

NetSol Financial Suite® (NFS) Release One (R1) previously known as LeaseSoft® has evolved over a period of 13 years. While enriching the system and providing great value to our customers and good revenue to NetSol this evolutionary product development has also resulted in certain constraints, such as reduced scalability, limited flexibility and highly resource intensive maintenance.

To address these concerns, NetSol Financial Suite® (NFS) Release Two (R2) (Blue Star) has been initiated. It is a completely new initiative, designed from the scratch and based on state-of-the-art software design and technology paradigms. R2 does benefit from the rich business domain NetSol possesses but is completely free of any R1 technology and architectural limitations. R2 has a road map through which its progress will be guided to ensure that no limitations are introduced over time. R2 is a next generation enterprise grade solution for all financial institutions involved in lending, including, but not limited to, Banks (all types), Finance Companies, Leasing Companies, Islamic Finance Houses and Credit Unions. It is designed to meet the needs of small companies employing handful of personnel to the largest of global organizations which can host R2 at a central location and manage their multiple companies around the globe from this single instance.

In terms of functionality the suite will support corporate lending, wholesale (inventory) financing, corporate lease (operating and finance), real estate financing/loans, consumer/retail lending, consumer lease (operating and finance), consumer financing / loans, Islamic modes of financing. These areas will be covered in their entirety with respect to their respective lifecycles. In addition new functionality areas will be added regularly. All of these areas are independent and can be deployed in part or together as per customer requirements and ability to pay. The management has demonstrated its commitment to the new product development efforts through our sustained and high level of investment. We believe this investment is vital for taking NetSol to higher levels of growth and success.

ATHEEB NETSOL LIMITED

NetSol Technologies Inc., the holding company has signed a definitive joint venture agreement with Atheeb Group "Atheeb" to form Atheeb NetSol Limited, a new software development and IT services company focused on serving Saudi Arabia, GCC, and Middle East. The Atheeb NetSol Limited Joint venture will focus on market development opportunities around penetrating the software engineering arena in key business sectors such as telecommunications, defense and finance, among others, Atheeb NetSol Limited will leverage the strength of Atheeb's local presence in key geographies where Atheeb is operating as well as supporting private, public and government customer business activities. NetSol will provide best practices project management and the comprehensive delivery capabilities of its CMMi Level 5 certified Center of Excellence for software engineering, research and development, as well as customer support and training. Major tasks undertaken by this joint venture will further be outsourced to NetSol Pakistan thereby resulting in a new revenue stream for the company. This new joint venture partnership with Atheeb Group represents the unlimited opportunities we see for software engineering in Saudi Arabia and the broader Middle East.

AWARDS & RECOGNITION

During the fiscal year 2008-2009, NetSol was honoured with the following awards & laurels:

- We had the honour to be awarded with the FPCCI'S best IT Exports Performance Trophy for the year 2007-2008.
- The WFS team won Merit Awards from Dong Fong Nissan Auto Finance, China on the successful deployment of the NFS-WFS application.
- Mr. Salim Ghauri, the Chairman & CEO of NetSol has been appointed as Chairman Task Force on Information and Communication Technologies (ICT), Government of Pakistan.
- Mr. Salim Ghauri, the Chairman & CEO of NetSol was also appointed as member of the Federal Government's Task Force on Private Sector Development.

NETSOL EXTENTION IN BUILDING

Human resource is the main contributor in IT sector. As we grow larger, we would need to hire and house more resources. Our current building is almost out of space. Therefore, the management decided to build another NetSol tower adjacent to the current building. This will be a state-of-the-art multi storey building having capacity to house more than 1,000 people. Construction work has already been started and is expected to be completed in around twenty-four months.

EMPLOYEE STOCK OPTIONS SCHEME

Retention of key employees is the success of any company operating in the IT industry. Given the current economic conditions, it is not viable for the companies to give huge salary increases to the staff annually. Therefore, we took the initiative and get the stock option scheme approved from the shareholders. The scheme has finally been approved by the Securities and Exchange Commission of Pakistan. However, no options were granted to any employee of the company during the financial year ended June 30, 2009.

LAUNCH OF NEW CORPORATE WEBSITE

NetSol Technologies Inc., our holding company has launched its new corporate website at www.netsoltech.com with an emphasis on direct functional design, the website contains a comprehensive overview of NetSol's solution-based products and services. It features information on NetSol's BestShoring™ based global business services and SAP practices. Industry-specific segments, information on training programs, industry news, events etc., are also included in it.

CORPORATE SOCIAL RESPONSIBILITY

Literacy Program - NetSol has launched a "Literacy Program" to educate low paid illiterate employees of the organization. The main objective of this program is to enable these resources to acquire basic reading, writing and arithmetic skills. The first phase of the plan is nearing completion with astounding accomplishments; the people who could not even write a single word are now able to write complete letters within a span of 6 months. Based on the initial success, the company plans to expand this program.

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Noble Cause Fund - A noble cause fund has been established to meet medical and education expenses of the children of the low paid employees. NetSol employees voluntarily contribute a fixed amount every month to the fund and the Company matches the employee subscriptions with an equivalent amount of contribution. A portion of this fund is also utilized to support social needs of certain institutions and individuals, outside NetSol.

Day Care Facility - Our human resources are our key assets and thus the company takes numerous steps to ensure provision of maximum comforts to them. That's why a Child Day Care facility has been created in close proximity to work premises with all essential staff and equipment. Married female employees are offered opportunity to entrust complete care of their young ones to trained and experienced staff. Child day care allows female employees to pay unhindered and focused attention to work requirements while their children remain safe and comfortable. Premises and environment are neat and clean with all basic needs fulfilled to ensure complete care of the children.

Preventative Health Care Program - In addition to the comprehensive out-patient and in-patient medical benefits, preventive health care has also been introduced by the company. This phased program focuses on vaccination of our employees against Hepatitis – A/B, Tetanus, Typhoid and Flu, etc. This is a regular annual immunization program to keep employees healthy.

NetSol Corporate University - NetSol has also undertaken a new initiative by establishing NetSol Corporate University ("NCU") for developing human resources at NetSol. A need was felt to further develop and retain the talent at hand through strategic learning interventions to respond to growing competition and challenges. The mission of NCU is:

- To discover, develop, and deploy the talent at Netsol
- To nurture leadership in people and processes
- To explore and develop capable backups for positions critical to organizational continuity

FUTURE OUTLOOK

Based on the company's recent performance and positive trends in the business environment, we remain optimistic about future prospects. NFS on the basis of its recent re-branding and repositioning as a complete solution for a much wider range of financial and lending domains, remains the key source of new growth. We are also optimistic to make major breakthrough in the new markets like Europe, North America through both our product focus and our growing services delivery capability. In local business, there seems to be a good potential to win lucrative projects in the areas of Electronic Government and Land Revenue Management System. We look forward to carrying the momentum of growth, built through our recent performance, into the future.

FINANCIAL PERFORMANCE

	The Group		The Company	
	For the Year ended June 30, 2009	**For the Year ended June 30, 2008**	**For the Year ended June 30, 2009**	**For the Year ended June 30, 2008**
		- - - - - - - - - - Rupees in '000' - - - - - - - - - -		
Revenue	1,323,890	1,556,158	1,081,395	1,298,120
Gross Profit	543,102	942,665	452,569	819,633
Net Profit	341,170	770,280	294,111	705,885
Outstanding shares	77,910	59,737	77,910	59,737
EPS - basic & diluted	4.12	9.95	4.03	9.85

The company closed the FY with 1.3 billion rupee revenue, showing a YoY decline of 15%. The decline is due to cut in IT spending by majority of the companies due to the global recession. Resultantly the gross profit declined from 943 million to 543 million rupees. Net margins of the group remained at 26% as compared with 49% for the corresponding year due to depressed revenue. Diluted earnings per share remained at Rs. 4.12 in comparison with last year's diluted EPS of Rs. 9.95.

DIVIDEND AND BONUS ISSUE

In the current financial crisis, the board of directors is of the opinion of maintaining a reasonable cash reserve for the company. Therefore, no cash or stock dividend is approved by the board for the fiscal year ended June 30, 2009.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

We are committed to maintain high standards of good corporate governance without any exception. The directors are pleased to inform that your company is compliant with the provisions of the Code of Corporate Governance as introduced by the Securities & Exchange Commission of Pakistan and adopted by the Karachi Stock Exchange. Statement of compliance with the Code of Corporate Governance is also annexed.

CORPORATE & 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 Financial Reporting Standards (IFRS), as applicable in Pakistan, have been followed in preparation of the 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 practice of corporate governance, as detailed in the listing regulation of Karachi Stock Exchange.

- Key operating and financial data of last six years is annexed herewith.

- There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2009 except those as disclosed in the financial statements.

- Value of the Provident Fund Investments as on June 30, 2009 was Rs. 52.23 million (June 30, 2008: Rs.56.06 million).

- No material changes and commitments affecting the financial position of the company have occurred between the end of the financial year to which this balance sheet relates and the date of the directors' report.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Board has adopted the statement of Ethics and Business Practices as documented by the management. All employees have signed this statement and are required to observe these rules of conduct in relation to customers, suppliers and regulators.

SOX 404 COMPLIANCE

Sarbanes-Oxley is a US law passed in 2002 to strengthen Corporate Governance and restore investor confidence. SOX 404 section of Sarbanes-Oxley requires from management to certify the suitability of design & effectiveness of internal control system whereas external auditors are required to give their opinion on management's assertions of internal control. Compliance of SOX 404 is mandatory for all the US based listed companies and their subsidiaries. NetSol Technologies Inc., the ultimate holding company of NetSol Group, being listed on NASDAQ is required to comply with the requirements of SOX 404. We had also taken the initiative of implementing these requirements in our company and hired the services of one of the big four auditing firms to assist the management comply with the requirements of SOX 404. Based on the recommendations of the consultants, remediation measures have already been taken by the company to mitigate the gaps.

ATTENDANCE AT BOARD MEETING

During the year ended June 30, 2009, four (04) board meetings were held and attended as follows

Name of Director	Alternate Director	No. of Meetings attended
Salim Ullah Ghauri		04
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	04
Naeem Ullah Ghauri	Ayub Ghauri	03
Shahid Javed Burki		01
Irfan Mustafa		01
Sajjad Hussain Kirmani		04
Zahid Bashir Mirza		04

Leave of absence was granted to the members not able to attend the board meetings.

Detail of transactions made in company shares by the CEO, Directors, CFO, Company Secretary and their spouses is given in the pattern of shareholding.

AUDIT COMMITTEE

The Board of Directors in compliance with the Code of Corporate Governance has established an Audit Committee comprising of the following Three (03) members:

Name of Director	Alternate Director	Designation	Executive/Non Executive
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	Chairman	Non-Executive Director
Irfan Mustafa	---	Member	Non-Executive Director
Sajjad Hussain Kirmani	---	Member	Non-Executive Director

During the year ended June 30, 2009, Audit Committee duly reviewed and approved all quarterly, half yearly and annual financial statements before submission to the board of directors and their publication.

HOLDING COMPANY

NetSol Technologies Inc., USA, a Nevada Corporation, 23901 Calabasas Road, Suite 2072, Calabasas, CA 91302 holds majority of shareholding of the company.

AUDITORS

The present external auditors, Messrs Kabani Saeed Kamran Patel and Co. Chartered Accountants retire and being eligible, offer themselves for reappointment.

The external auditors have confirmed that they have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP). They have further confirmed that their firm is in compliance with International Federation of Accountants' (IFAC) guidelines on Code of Ethics as adopted by the ICAP. The external auditors have not been appointed to provide other services except in accordance with the listing regulations and they have confirmed that they have observed IFAC guidelines in this respect.

As suggested by the Audit Committee, The Board recommends their re-appointment for the year ending June 30, 2010.

PATTERN OF SHAREHOLDING

The Pattern of shareholding as at June 30, 2009 as required by section 236 of the Companies Ordinance 1984 including the information under the code of corporate governance is annexed.

KEY OPERATING AND FINANCIAL DATA

The key operating and financial data for the last six years is also annexed in the annual report.

ACKNOWLEDGEMENT

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

On behalf of the Board

Lahore
September 11, 2009

Salim Ullah Ghauri
Chairman & 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 the 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 personnel 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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company’s corporate governance procedures and risks.

Further, Sub Regulations (xiii) of listing regulations 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated January 19, 2009 requires the company to place before the board of directors for their consideration and approval related party transactions distinguishing between transaction carried out on terms equivalent to those that prevail in arms’s length transactions and transactions which are not executed at arm’s length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm’s length price or not.

Based on our review, nothing has come to our attention, which causes 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.

Lahore
September 11, 2009

Kabani Saeed Kamran Patel & Co.
Chartered Accountants

Muhammad Yousaf

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

FOR THE YEAR ENDED JUNE 30, 2009

The Statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulation No. 37 of Karachi Stock Exchange (Guarantee) Limited 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 four 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 NBFI 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 signed by all the directors and employees of the Company.

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. Meetings of the Board were presided over by the Chairman, and in his absence, by a director elected by the Board for this purpose. Board met at least once in every quarter. Notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board had approved the appointment, remuneration and terms & conditions of employment of Chief Financial Officer, Company Secretary & Head of Internal Audit.

10. Director's report for the year ended 30-06-2009 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

11. Financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

12. Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

13. Company has complied with all the corporate and financial reporting requirements of the Code.

14. The Board has formed an Audit Committee which comprises of three members of whom two are independent non-executive directors including the Chairman of the committee.

15. Meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Company as required by the Code. Terms of reference of the committee have been formed and advised to the committee for compliance.

16. 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 on full time basis.

17. 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.

18. 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.

19. We confirm that all other material principles contained in the code have been complied with.

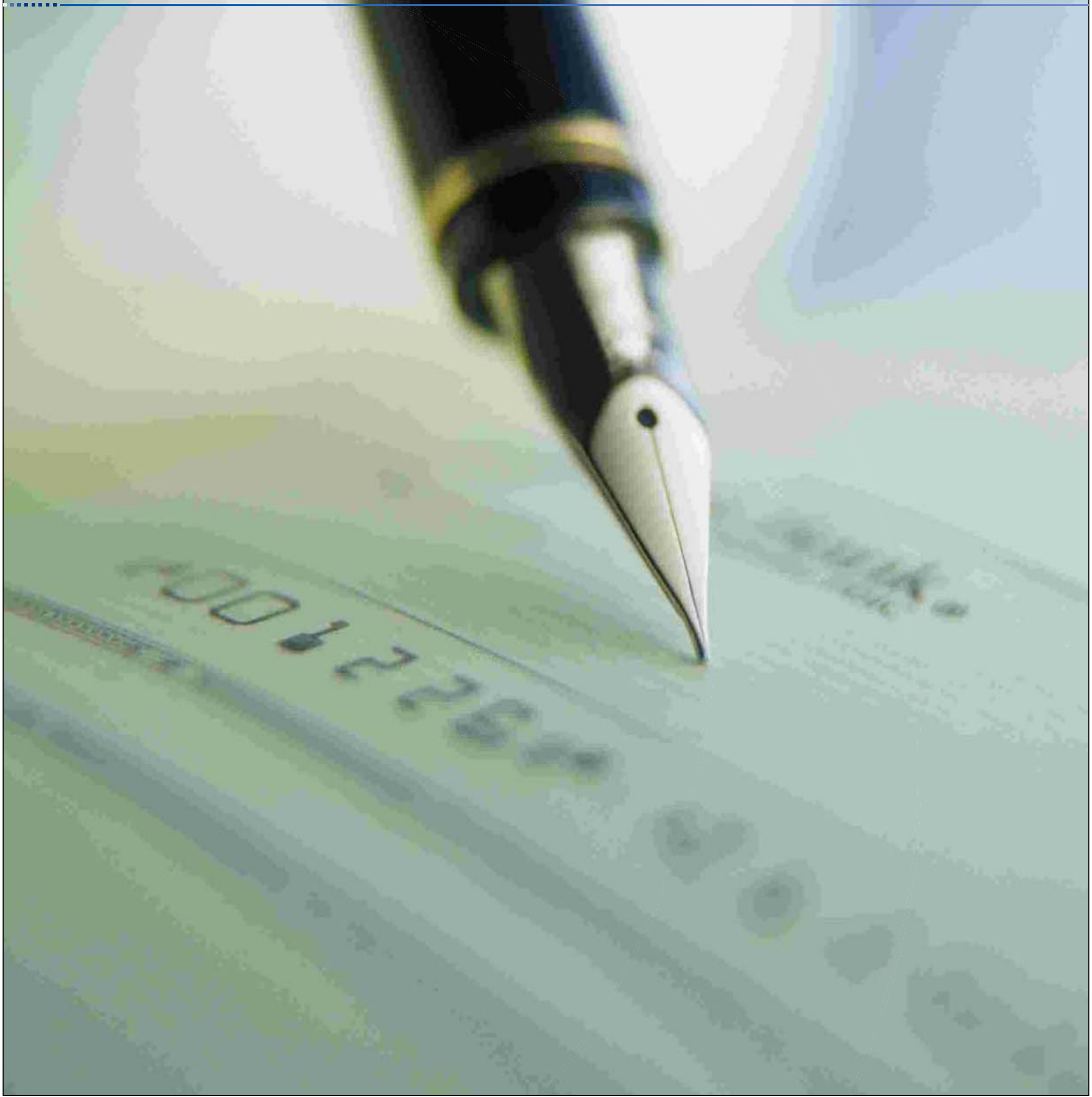
For and on behalf of the Board of Directors

Lahore
September 11, 2009

(Salim Ullah Ghauri)
Chief Executive/Chairman

Financial Statements

For the year ended June 30, 2009



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **NetSol Technologies Limited** as at **June 30, 2009** 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 the 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, investments made 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, 2009 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under Zakat and Ushr Ordinance, 1980(XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under Section 7 of that ordinance.

September 11, 2009
Lahore.

Kabani Saeed Kamran Patel & Co.
Chartered Accountants

Muhammad Yousaf

BALANCE SHEET
As at June 30, 2009

	Notes	Jun-09	Jun-08
		Rupees in '000'	
ASSETS			
NON-CURRENT ASSETS			
Property & equipment	6	**519,424**	522,553
Intangible assets	7	**871,832**	435,688
Capital work in progress	8	**61,571**	14,988
Long term investments	9	**15,188**	15,188
Long term loans & advances	10	-	7,390
		1,468,015	995,807
CURRENT ASSETS			
Trade debts	11	**623,499**	432,861
Current maturity of long term loans & advances	10	**3,570**	14,997
Excess of revenue over billing	12	**444,901**	741,634
Loans and advances	13	**22,870**	75,803
Trade deposits & short term prepayments	14	**16,177**	15,480
Other receivables	15	**61,547**	35,683
Income tax-net		**28,220**	19,263
Due from related parties	16	**19,875**	18,037
Cash & bank balances	17	**227,992**	127,933
		1,448,651	1,481,691
TOTAL ASSETS		**2,916,666**	2,477,498

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

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BALANCE SHEET
As at June 30, 2009

	Notes	Jun-09	Jun-08
		Rupees in '000'	
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized share capital			
150,000,000 ordinary shares of Rs.10/- each	18	**1,500,000**	800,000
Issued, subscribed and paid-up capital	18	**779,102**	597,375
Share deposit money		**13**	313
Reserves	19	**1,599,803**	1,401,358
		2,378,918	1,999,046
NON-CURRENT LIABILITIES			
Liabilities against assets subject to finance lease	20	**11,691**	18,092
Long term loan	21	**122,020**	39,214
Deferred income	22	**1,333**	2,482
		135,044	59,788
CURRENT LIABILITIES			
Trade and other payables	23	**139,311**	172,076
Excess of billing over revenue	24	**22,121**	23,331
Short term borrowings	25	**200,000**	200,000
Current portion of long term liabilities	26	**26,118**	14,759
Provision for taxation		**15,154**	8,498
		402,704	418,664
CONTINGENCIES & COMMITMENTS	27	**-**	-
TOTAL EQUITY AND LIABILITIES		**2,916,666**	2,477,498

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

PROFIT AND LOSS ACCOUNT
For the year ended June 30, 2009

	Notes	Jun-09	Jun-08
		Rupees in '000'	
Revenue	28	**1,081,395**	1,298,120
Cost of revenue	29	**(628,826)**	(478,487)
Gross profit		**452,569**	819,633
Selling and promotion expenses	30	**(85,054)**	(96,733)
Administrative expenses	31	**(251,839)**	(184,453)
Other operating expenses	33	**(29,714)**	(2,333)
Other income	34	**200,257**	139,663
Dividend income		**34,074**	50,520
Operating profit		**320,293**	726,297
Finance cost	35	**(19,526)**	(14,149)
Profit before taxation		**300,767**	712,148
Taxation	37	**(6,656)**	(6,263)
Profit after taxation		**294,111**	705,885
Earning per share Basic & Diluted - In Rupees	36	**4.03**	9.85

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

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CASH FLOW STATEMENT
For the year ended June 30, 2009

	Jun-09	Jun-08
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period before tax	**300,767**	712,148
Adjustments for non cash charges and other items:		
Depreciation - own assets	**76,976**	56,295
Amortization of leased assets	**10,540**	8,348
Amortization of intangible assets	**16,374**	6,123
Loss on disposal of fixed assets	**29,714**	2,333
Amortization of deferred revenue	**(1,149)**	(1,342)
Exchange (gain) on debtors	**(180,562)**	(121,893)
Interest expense	**18,373**	13,107
Interest income	**(3,650)**	(1,299)
Dividend income	**(34,074)**	(50,520)
Provision for doubtful debts	**80,610**	-
	13,152	(88,848)
Cash flows from operating activities before working capital	**313,919**	623,300
Decrease / (increase) in current assets & liabilities		
Trade debts	**204,838**	(223,881)
Due from related parties	**(1,838)**	(12,834)
Advances, prepayments and other receivables	**26,344**	(50,422)
Creditors, accrued and other liabilities	**(36,389)**	76,657
Cash generated from / (used in) operations	**192,955**	(210,480)
Interest paid	**(15,636)**	(12,323)
Taxes paid	**(8,957)**	(6,340)
Dividend paid	**(58,850)**	-
Net cash flow from operating activities	**423,431**	394,157
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	**(127,502)**	(209,232)
Sales proceeds of fixed asset	**1,752**	138
Intangible assets	**(440,870)**	(233,774)
Capital work in progress	**(46,583)**	(14,988)
Long term loan	**18,817**	6,297
Long term payable	**(4,694)**	(56)
Interest received	**3,678**	2,055
Dividend received	**34,074**	50,520
Net cash (used in) investing activities	**(561,328)**	(399,040)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	**62,232**	-
Share deposit money	**(250)**	-
Share premium	**83,516**	-
Paid against obligation under capital lease	**(18,124)**	(15,522)
Received against obligation under capital lease	**10,582**	8,309
Long term finance	**100,000**	-
Short term finance	**-**	72,500
Net cash inflow/(outflow) from financing activities	**237,956**	65,287
Net (decrease) / increase in cash and cash equivalents	**100,059**	60,404
Cash and cash equivalents at the beginning of the year	**127,933**	67,529
Cash and cash equivalents at the end of the period	**227,992**	127,933

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

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STATEMENT OF CHANGES IN EQUITY
For the year ended June 30, 2009

	Issued, subscribed and paid-up capital	Share deposit money	Capital Reserve	Revenue Reserve	Total
			Share premium	Unapprop-riated profit	
	Rupees In '000'				
Balance at June 30, 2007	408,043	313	189,470	695,335	1,293,161
Net profit for the year ended June 30, 2008	-	-	-	705,885	705,885
Bonus shares issued (22%) Interim	89,769	-	-	(89,769)	-
Bonus shares issued (20%) final	99,563	-	-	(99,563)	-
Balance at June 30, 2008	597,375	313	189,470	1,211,888	1,999,046
Net profit for the year ended June 30, 2009	-	-	-	294,111	294,111
Shares issued	62,252	(50)	83,546	-	145,748
Share deposit money paid back	-	(250)	-	-	(250)
Cash dividend (10%) final	-	-	-	(59,737)	(59,737)
Bonus shares issued (20%) final	119,475	-	-	(119,475)	-
Balance at June 30, 2009	**779,102**	**13**	**273,016**	**1,326,787**	**2,378,918**

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

NOTES TO THE ACCOUNTS
For the year ended June 30, 2009

1. LEGAL STATUS AND NATURE OF BUSINESS

NetSol Technologies Limited ("the Company") incorporated in Pakistan on August-22, 1996 under the Companies Ordinance, 1984 as a private company limited by shares was later on converted into public limited company on November-05, 2004 .The Company was listed on Karachi Stock Exchange on August 26, 2005. The business of the Company is development and sale of computer software and its related services in Pakistan as well as abroad. The registered office of the Company is situated NetSol Avenue, Software Technology Park, Main Ghazi Road, Lahore Cantt. Pakistan.

2. BASIS OF PREPARATION

2.1 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 Financial Reporting Standards issued by the International Accounting Standards Board 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, requirements of the Ordinance or the requirements of the said directives take precedence.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments at fair value as disclosed in respective accounting notes.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupee, which is the Company's functional currency. All financial information presented in Pak Rupee has been rounded to the nearest thousand.

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation.

		Effective for period beginning on or after
IFRS 1	First time adoption of IFRS (Revised)	Jul 01, 09
IFRS 2	Share based payment (Amendments)	Jan 01, 09
IFRS 3	Business combinations (Revised)	Jul 01, 09
IFRS 4	Insurance contracts (Amendments)	Jan 01, 09
IFRS 5	Non-current assets held for sale and discontinued operations (Amendments)	Jan 01, 09
IFRS 7	Financial instruments: Disclosure (Amendments)	Jan 01, 09

NOTES TO THE ACCOUNTS

		Effective for period beginning on or after
IFRS 8	Operating segments	Jan 01, 09
IAS 1	Presentation of financial statements (Revised)	Jan 01, 09
IAS 7	Statement of cash flows (Amendments)	Jan 01, 09
IAS12	Income taxes (Amendments)	Jan 01, 09
IAS 16	Property, plant and equipment (Amendments)	Jan 01, 09
IAS 18	Revenue (Amendments)	Jan 01, 09
IAS 19	Employee benefits (Amendments)	Jan 01, 09
IAS 20	Government grants and disclosure of government assistance (Amendments)	Jan 01, 09
IAS 21	The effects of changes in foreign exchange rates (Amendments)	Jan 01, 09
IAS 23	Borrowing costs (Revised)	Jan 01, 09
IAS 27	Consolidated and separate financial statements (Amendments)	Jul 01, 09
IAS 28	Investment in associates (Amendments)	Jan 01, 09
IAS 31	Interests in joint ventures (Amendments)	Jan 01, 09
IAS 32	Financial Instruments: Presentation (Amendments)	Jan 01, 09
IAS 33	Earnings per share (Amendments)	Jan 01, 09
IAS 34	Interim financial reporting (Amendments)	Jan 01, 09
IAS 36	Impairment of assets (Amendments)	Jan 01, 09
IAS 38	Intangible assets (Amendments)	Jan 01, 09
IAS 39	Financial instruments: Recognition and measurement (Amendments)	Jan 01, 09
IAS 40	Investment property (Amendments)	Jan 01, 09
IAS 41	Agriculture (Amendments)	Jan 01, 09
IFRIC 1	Changes in existing decommissioning, restoration and similar liabilities (Amendments)	Jan 01, 09
IFRIC 2	Member's share in corporate entities and similar liabilities (Amendments)	Jan 01, 09
IFRIC 4	Determining whether an arrangement contains a Lease	Jul 01, 09
IFRIC 12	Service concession arrangements	Jul 01, 09
IFRIC 14	The limit on a defined benefit asset, minimum funding requirements and their interaction (Amendments)	Jan 01, 09
IFRIC 15	Agreements for the construction of real estate	Jan 01, 09
IFRIC 16	Hedges of a net investment in a foreign operation	Oct 01, 08
IFRIC 17	Distributions of non-cash assets to owners	Jul 01, 09

In management's opinion, above standards, amendments and interpretations are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements except for increased disclosures in certain cases.

NOTES TO THE ACCOUNTS

4. USE OF ESTIMATES AND JUDGMENT

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The areas involving higher degree of judgement or complexity are as follows:

i. Provision of doubtful debts
ii. Provision for taxation

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Property and equipment

Owned assets
Property and equipment are stated at cost less accumulated depreciation except free-hold land and capital work-in-progress which is stated at cost.

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 6.

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

Subsequent costs are included in the asset's carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Maintenance and normal repairs are charged to income as and when incurred. Major repairs and improvements are capitalized.

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

NOTES TO THE ACCOUNTS

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 using reducing balance method at the rates given in note 6.

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

Capital work in progress
All expenditures connected to the specific assets incurred during installation and construction period are carried under capital work in-progress. These are transferred to specific assets as and when assets are available for use.

Impairment
The Company assesses at each balance sheet date whether there is any indication that the operating fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceeds the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment charge is charged to income.

5.2 Intangible assets

Research and software products development
Research costs are expensed as incurred. Software product development costs are expensed as incurred unless technical and commercial feasibility of the project is demonstrated, it is probable that future economic benefits will flow to the Company, the Company has an intention and ability to complete and use or sell the software and cost can be measured reliably.

There are two components of intangible assets:

i. In-house developed intangible assets

ii. Intangible assets acquired from market

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.

NOTES TO THE ACCOUNTS

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. Capitalized software costs are amortized on a product-by-product basis. Annual amortization is charged by using straight-line method over the remaining estimated economic life of the product including the period being reported on. Amortization starts when the product is available for general release to customers.

Intangible assets acquired from market

Intangible assets acquired from market are stated at cost less accumulated amortization and impairment losses, if any.

Subsequent costs are included in the asset's carrying amounts or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other expenses are charged to income when they occur.

Amortization is charged by applying reducing balance method to write off the cost over the remaining useful life of the intangible assets unless such lives are indefinite. All intangible assets with an indefinite useful life are tested for impairment at each balance sheet date. Amortization on additions to acquired intangible assets is charged for the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed off. Rates of amortization are stated in note 7.

5.3 Foreign currency translation

Transactions denominated in foreign currencies are translated in Pak Rupees at the foreign exchange rate prevailing 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.

5.4 Staff retirement benefits

The Company operates contributory provident fund for all its permanent staff. Equal contribution is made by the Company in the provident fund on monthly basis.

5.5 Taxation

Provision for current tax is based on taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for tax on income is calculated at the current rates of taxation as applicable after taking into account tax credit and tax rebates available, if any.

NOTES TO THE ACCOUNTS

5.6 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for the goods and / or services received, whether or not billed to the Company.

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

5.7 Trade debts

Trade debts from local customers are stated at cost while foreign debtors are stated at re-valued amount by applying exchange rate applicable on balance sheet date. An estimate is made for doubtful receivables when collection of amount is not probable and the amount of trade debts is reduced by such provision. Debts considered irrecoverable are written off.

5.8 Cash and cash equivalents

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

5.9 Revenue recognition

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.

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 EVP IT/ Operations.

Maintenance
Revenue from maintenance is recognized on time proportion basis.

Sale of hardware and third party software
Revenue from sale of hardware and third party software is recognized when delivery has occurred and invoices are raised to customers.

NOTES TO THE ACCOUNTS

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.

Interest on bank deposits is recognized on a time proportion basis on the principal amount outstanding and at the rate applicable.

Gains or losses resulting from re-measurement of investment at fair value through profit or loss are recognised in the profit and loss account.

Rental income is recognized on time proportion basis.

Miscellaneous income is recognized on receipt basis

5.10 Borrowing costs

Borrowing costs incurred on long term finances directly attributable for the construction / acquisition of qualifying assets are capitalized up to the date, the respective assets are available for the intended use. All other mark-up, interest and other related charges are taken to the profit and loss account currently.

5.11 Off-setting

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is legally enforceable right to set-off the recognized amount and the Company intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

5.12 Segment reporting

A segment is a distinguishable component within a company that is engaged either in providing products or services (business segment) or in providing products or services with in a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Company's primary format for segment reporting is based on geographical segment.

5.13 FINANCIAL INSTRUMENTS

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 recognized 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 assets are derecognized when the Company loses control of the contractual rights that comprises the financial asset.

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NOTES TO THE ACCOUNTS

The Company classifies its financial assets in the following categories: held to maturity investments, loans and receivables, available for sale investments and investments at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the trade date the date on which the Company commits to purchase or sell the asset.

Held to maturity investments
Investments with fixed payments and maturity that the Company has the intent and ability to hold to maturity are classified as held to maturity investments and are carried at amortised cost less impairment losses.

Loans and receivables
Investments with fixed payments and maturity that the Company has the intent and ability to hold to maturity are classified as held to maturity investments and are carried at amortised cost less impairment losses.

Available for sale investments
Available for sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available for sale investments are initially recognised at cost and carried at fair value at the balance sheet date. Fair value of a quoted investment is determined in relation to its market value (current bid prices) at the balance sheet date. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. Adjustment arising from re-measurement of investment to fair value is recorded in equity and taken to income on disposal of investment or when the investment is determined to be impaired.

Investment at fair value through profit or loss
Investments classified as investments at fair value through profit or loss are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value with any resulting gains or losses recognised directly in the profit and loss account. The fair value of such investments is determined on the basis of prevailing market prices.

Financial liabilities
All financial liabilities are initially recognized 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, amortized cost or cost as the case may be. Financial liabilities are removed from the balance sheet when the obligation is extinguished, discharged, cancelled or expired. Any gain or loss on subsequent re-measurement or derecognizing is included in the profit and loss account for the period in which it arises.

5.14 Investments

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

5.15 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized in the financial statements in the period in which these are approved.

NOTES TO THE ACCOUNTS

		Jun-09	Jun-08
		Rupees in '000'	
6. PROPERTY & EQUIPMENTS			
Net book value of owned assets	6.1	**478,943**	474,850
Net book value of leased assets	6.4	**40,481**	47,703
		519,424	522,553

6.1 Following is statement of owned assets

Particulars	2009								
	COST			DEPRECIATION					Net book value as at June 30 2009
	As at July-01 2008	Additions / (Deletions)	As at June-30 2009	Rate %	As at July 01, 2008	Adjustment during the year	Charge for the period	As at June-30 2009	
	Rupees In '000'								
Tangible Assets									
Land - freehold	63,099	56,197	**119,296**		-	-		-	**119,296**
Building on freehold land	197,926	1,082	**199,008**	5	38,329	-	7,992	**46,321**	**152,687**
Computers	208,568	26,994 (70,569)	**164,993**	33	69,686	(49,610)	47,717	**67,793**	**97,200**
Air conditioners	8,033	2,359 (6,435)	**3,956**	10	3,512	(3,025)	349	**836**	**3,120**
Furniture & fixture	18,664	970 (12,332)	**7,303**	10	6,544	(5,900)	841	**1,485**	**5,818**
Office equipment	14,331	1,106 (2,123)	**13,314**	10	1,693	(665)	1,283	**2,311**	**11,003**
Electric fittings	5,116	1,118 (5,116)	**1,118**	10	1,857	(1,511)	111	**457**	**661**
Vehicles	9,163	19,328 (9,368)	**19,122**	20	3,305	-	2,334	**5,639**	**13,483**
Generator	3,457	4,751	**8,208**	10	1,191	1,253	285	**2,729**	**5,479**
Intangible Assets									
Computer software	107,085	25,302 (2,223)	**130,164**	33	34,475	(1,666)	27,159	**59,968**	**70,196**
	635,442	139,207 (108,166)	**666,482**		160,592	1,253 (62,377)	88,071	**187,539**	**478,943**

NOTES TO THE ACCOUNTS

6.2 The detail of operating assets disposed off during the year are as follows

Particulars	Cost	Book value	Sale proceed	Mode of Disposal	Particular of purchaser
	Rupees In '000'				
Computers	70,569	15,899	1,029	Negotiation	Open market scrap merchant
Air conditioners	6,435	3,183	-	Scrapped	Open market scrap merchant
Furniture & fixture	12,332	6,432	-	Scrapped	Open market scrap merchant
Office equipment	2,123	1,458	35	Negotiation	Open market scrap merchant
Electric fittings	5,116	3,165	-	Scrapped	Open market scrap merchant
Vehicles	6,109	654	570	Scrapped	Open market scrap merchant
Software	2,223	557	-	Scrapped	Open market scrap merchant
June 2009	**104,907**	**31,348**	**1,634**		
June 2008	4,236	2,006	137		

Particulars	2008 COST As at July-01 2007	Additions / (Deletions)	As at June-30 2008	AMORTIZATION Rate %	As at July 01, 2007	Adjustment during the year	Charge for the period	As at June-30 2008	Net book value as at June 30 2008
	Rupees In '000'								
Tangible Assets									
Land - freehold	36,599	26,500	63,099		-	-	-	-	63,099
Building on freehold land	197,926	-	197,926	5	29,929	-	8,400	38,329	159,597
Computers	109,586	124,225 (25,243)	208,568	33	47,250	(9,828)	32,264	69,686	138,882
Air conditioners	7,856	177	8,033	10	3,021	(50)	541	3,512	4,521
Furniture & fixture	15,692	3,091 (119)	18,664	10	5,368	(9)	1,185	6,544	12,120
Office equipment	8,709	8,683 (3,061)	14,331	10	2,187	(1,238)	744	1,693	12,638
Electric fittings	4,939	177	5,116	10	1,499	-	358	1,857	3,259
Vehicles	7,225	4,312 (2,374)	9,163	20	1,559	472	1,274	3,305	5,858
Generator	957	2,500	3,457	10	262	667	262	1,191	2,266
Intangible Assets									
Computer software	45,775	61,362 (52)	107,085	33	13,648	(1)	20,828	34,475	72,610
	435,264	231,027 (30,849)	635,442		104,723	1,139 (11,126)	65,856	160,592	474,850

6.3 DEPRECIATION IS ALLOCATED IN THE FOLLOWING MANNER

	Jun-09	Jun-08
	Rupees in '000'	
Cost of revenue	**54,958**	39,831
Administrative expenses	**22,018**	16,464
Development cost	**11,095**	9,561
	88,071	65,856

NOTES TO THE ACCOUNTS

6.4 Following is statement of leased assets

Particulars	2009 COST As at July-01 2008	Additions / (Deletions)	As at June-30 2009	DEPRECIATION Rate %	As at July 01, 2008	Adjustment during the year	Charge for the period	As at June-30 2009	Net book value as at June 30 2009
	Rupees In '000'								
Computers	33,594	- (6,472)	**27,122**	33	9,470	(5,060) -	7,725	**12,135**	**14,987**
Air conditioners	2,616	(578)	**2,038**	10	233	(227) -	228	**234**	**1,804**
Office equipment	836	-	**836**	10	14	-	82	**96**	**740**
Electric fittings	1,118	- (1,118)	**-**	10	386	(440) -	54	**-**	**-**
Vehicles	24,170	4,542 (6,109)	**22,604**	20	10,464	(5,336) -	2,741	**7,869**	**14,735**
Generator	7,266	6,040 (4,751)	**8,555**	10	1,330	(1,253) -	263	**340**	**8,215**
	69,600	10,582 (19,028)	**61,155**		21,897	- (12,316)	11,093	**20,674**	**40,481**

Particulars	2008 COST As at July-01 2007	Additions / (Deletions)	As at June-30 2008	AMORTIZATION Rate %	As at July 01, 2007	Adjustment during the year	Charge for the period	As at June-30 2008	Net book value as at June 30 2008
	Rupees In '000'								
Computers	16,472	17,122	33,594	33	4,127	-	5,343	9,470	24,124
Air conditioners	578	2,038	2,616	10	157	-	76	233	2,383
Office equipment	-	836	836	10	-	-	14	14	822
Electric fittings	1,118	-	1,118	10	304	-	82	386	732
Vehicles	22,114	3,056 (1,000)	24,170	20	7,909	(488)	3,043	10,464	13,706
Generator	7,486	2,515 (2,735)	7,266	10	1,661	(758)	427	1,330	5,936
	47,768	25,567 (3,735)	69,600		14,158	- (1,246)	8,985	21,897	47,703

6.5 Amortization is allocated in the following manner

	Jun-09	Jun-08
	Rupees in '000'	
Cost of sales	**7,767**	6,102
Administrative expenses	**2,773**	2,246
Development cost	**553**	637
	11,093	8,985

NOTES TO THE ACCOUNTS

7. INTANGIBLE ASSETS

Particulars	2009							
	COST			AMORTISATION				Net book value as at June 30 2009
	As at July-01 2008	Additions / (Deletions)	As at June-30 2009	Rate %	As at July 01, 2008	Charge for the period	As at June-30 2009	
	Rupees In '000'							
In-house Developed Software								
NetSol Financial Suite	81,982	-	81,982	10	18,931	8,200	27,131	54,851
Knit Info System	4,342	-	4,342	10	868	435	1,303	3,039
NetSol's Pay Soft	5,596	-	5,596	10	1,119	557	1,676	3,920
LRMIS	71,826	-	71,826	10	599	7,182	7,781	64,045
Under Development								
SMART	131,057	6,092	137,149	-	-	-	-	137,149
Fleet Management System (FMS)	44,643	168,459	213,102	-	-	-	-	213,102
Blue Star	88,626	263,949	352,575	-	-	-	-	352,575
HMIS	8,483	5,773	14,256	-	-	-	-	14,256
Loan Origination System	14,000	4,711	18,711	-	-	-	-	18,711
Business Intelligence Scoring Model & Risk Management	6,650	3,534	10,184	-	-	-	-	10,184
	457,205	452,518	909,723		21,517	16,374	37,891	871,832

Particulars	2008							
	COST			AMORTISATION				Net book value as at June 30 2008
	As at July-01 2007	Additions / (Deletions)	As at June-30 2008	Rate %	As at July 01, 2007	Charge for the period	As at June-30 2008	
	Rupees In '000'							
In-house Developed software								
NetSol Financial Suite	81,982	-	81,982	10	14,400	4,531	18,931	63,051
Knit Info System	4,342	-	4,342	10	434	434	868	3,474
NetSol's Pay Soft	5,596	-	5,596	10	560	559	1,119	4,477
LRMIS	54,169	17,657	71,826	10	-	599	599	71,227
Under Development								
SMART	67,144	63,913	131,057	-	-	-	-	131,057
Fleet Management System (FMS)	-	44,643	44,643	-	-	-	-	44,643
Blue Star	-	88,626	88,626	-	-	-	-	88,626
HMIS	-	8,483	8,483	-	-	-	-	8,483
Loan Origination System	-	14,000	14,000	-	-	-	-	14,000
Business Intelligence Scoring Model & Risk Management	-	6,650	6,650	-	-	-	-	6,650
	213,233	243,972	457,205		15,394	6,123	21,517	435,688

NOTES TO THE ACCOUNTS

	Note	Jun-09	Jun-08
		Rupees in '000'	
7.1 Amortization is allocated in the following manner			
Cost of sales		**16,374**	6,123
		16,374	6,123
8. CAPITAL WORK IN PROGRESS			
Civil work	8.1	**61,571**	14,988

8.1 The company is in process of building extension to present facilities on its free hold land. This extension will substantially enhance its capacity to host resources. All the approvals from relevant authorities have been obtained and the initial work of excavation has undergone.

8.2 During the year borrowing cost amounting to Rs. 2.569 million (2008: Nil) have been capitalized in the capital work in progress pertaining to construction of building.

	Note	Jun-09	Jun-08
9. LONG TERM INVESTMENT - AT COST			
NetSol Innovation (Pvt) Limited (Unquoted subsidiary Company)	9.1	**15,188**	15,188

9.1 The Company holds 1,518,785 (Jun-2008: 1,518,785) fully paid ordinary shares of Rs. 10/- each i.e. 50.52% of Equity held (Jun-2008: 50.52%). Based on audited accounts for the year ended June-30, 2009, break-up value per share is Rs. 66.15 (June : 2008 Rs. 61.60).

Mr. Salim Ullah Ghauri is the Chief Executive Officer of the subsidiary company.

	Note	Jun-09	Jun-08
10. LONG TERM LOANS & ADVANCES- UNSECURED			
Long term loan: considered good			
Opening balance		**4,370**	10,667
Loan to employees		**-**	-
Repayment during the period		**(4,370)**	(6,297)
		-	4,370
Less: current maturity	10.1	**-**	(550)
		-	3,820

NOTES TO THE ACCOUNTS

10.1 The Company has granted an unsecured long term loan amounting to Rs Nil to its employees (June-2008: Rs. 4.37 Million). The maximum amount outstanding during the period under this head at any point of time was Rs. 4.370 Million

These loans were provided under staff loan scheme to facilitate purchase/construction of residential houses and are repayable over a period of 10 years. However the loan can be settled earlier at any time with mutual consent.

		Jun-09	Jun-08
		Rupees in '000'	
Long term advance: considered good			
Amount of advance		**3,570**	18,017
Less: current maturity	10.3	**(3,570)**	(14,447)
		-	3,570

10.2 It represents the advance rent of two years for the space acquired on rent. This amount will be expensed out over a period of two years starting from the date of possession of rented space.

10.3	Long term portion of loans & advances	**-**	7,390
	Current portion of loans & advances	**3,570**	14,997

11. TRADE DEBTS

Considered good - unsecured	**623,499**	432,861
Considered doubtful - unsecured	**80,610**	-
	704,109	432,861
Less: provision for doubtful debts	**(80,610)**	-
	623,499	432,861

11.1 It represents amount receivable from customers. It is unsecured but considered good by the management.

11.2 The Company has created a general provision for future doubtful debts, if any. However, there is no history of doubtful from any of existing customers.

12. 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. It is unsecured but considered good by the management.

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NOTES TO THE ACCOUNTS

		Jun-09	Jun-08
		Rupees in '000'	
13. LOANS AND ADVANCES - UNSECURED			
Loan to employees - considered good		**2,692**	1,736
Advances - considered good			
- to employees		**578**	1,286
- against expenses		**18,100**	16,584
- against capital expenditure		**1,500**	56,197
		22,870	75,803
14. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Security deposit		**12,823**	13,086
Prepayments		**3,354**	2,394
		16,177	15,480
15. OTHER RECEIVABLES			
Guarantee margin		**23,932**	20,047
Mark up receivable		**-**	28
Other receivable - considered good		**37,615**	15,608
		61,547	35,683
16. DUE FROM RELATED PARTIES			
NetSol Connect (Pvt) Ltd.		**1,314**	2,814
NetSol Innovation (Pvt) Ltd.		**-**	12,737
NetSol Abraxas Pty. Ltd.		**18,511**	2,389
NetSol Consulting Services (Pvt) Ltd		**50**	97
		19,875	18,037

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

17. CASH AND BANK BALANCES			
At banks			
Saving accounts	17.1	**201,760**	104,363
Current accounts		**2,416**	56
Foreign currency current account		**21**	853
Term deposit	17.2	**22,120**	22,120
		226,317	127,392
In hand		**1,675**	541
		227,992	127,933

NOTES TO THE ACCOUNTS

17.1 The balances in savings accounts bear mark up which ranges from 3 % to 9 % per annum.

17.2 The balances placed in fixed deposit accounts bear mark up which ranges from 4 % to 10 % per annum.

18. SHARE CAPITAL

18.1 Authorised share capital

Jun-09	Jun-08		**Jun-09**	Jun-08
(Number of shares)			**Rupees in '000'**	
150,000,000	80,000,000	Ordinary Shares of Rs. 10 each.	**1,500,000**	800,000

18.2 Issued, subscribed & paid-up capital

38,741,691	32,516,482	Ordinary Shares of Rs. 10 each fully paid in cash	**387,417**	325,165
39,168,512	27,221,013	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	**391,685**	272,210
77,910,203	59,737,495		**779,102**	597,375

18.3 During the current year 6,225,209 (2008: Nil) ordinary shares of Rs. 10 each were issued out of which 2,000 share were issued at a premium of Rs. 15 and balance 6,223,209 were issued at a premium of Rs. 13.42 per share.

18.4 During the current year, 11,947,499 (2008: 18,933,195) ordinary shares of Rs. 10 each were issued as 20% bonus shares.

18.5 During the year, the Company has increased its authorised share capital by increasing its number of ordinary shares from 80,000,000 to 150,000,000 at the rate of Rs 10 each.

18.6 NetSol Technologies Inc. 23901, Suite 2072 Calabasas Road, Calabasas CA 91302, is the parent company holding majority of issued capital of the Company.

NOTES TO THE ACCOUNTS

		Jun-09	Jun-08
		Rupees in '000'	
19. RESERVES			
Capital reserve			
Premium on issue of ordinary shares		**273,016**	189,470
Revenue reserve			
Un - appropriated profit		**1,326,787**	1,211,888
		1,599,803	1,401,358
20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments		**25,309**	32,851
Less: Current portion of obligations shown under current liabilities		**(13,618)**	(14,759)
		11,691	18,092

Present value of minimum lease payments have been discounted at an implicit interest rate ranging between 13 % to 16.50 % 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 Financial	Present value of lease liability	
Not later than one year	**16,686**	**3,068**	**13,618**	14,759
Later than one year but not later than five years	**13,138**	**1,447**	**11,691**	18,092
	29,824	**4,515**	**25,309**	32,851

21. LONG TERM LOAN

Term finance - secured	21.1	**100,000**	-
Loan from related party - unsecured	21.2	**34,520**	39,214
		134,520	39,214
Current portion		**(12,500)**	-
		122,020	39,214

NOTES TO THE ACCOUNTS

21.1 The facility of term finance is available from Askari Bank Ltd up to Rs. 200 Million (June-2008: Nil) to finance the construction of new building. It carries mark up at the rate of 6 months Kibor + 3%, payable in semi-annual instalments within a period of 5 years with one year grace period. The first trench of loan was disbursed in December 2008. It is secured by first exclusive charge of Rs. 580M by way of hypothecation charge over the land, building and equipment of the Company.

21.2 This represent interest free loan obtained from an associated undertaking.

		Jun-09	Jun-08
		Rupees in '000'	
22. DEFERRED INCOME			
Opening balance		**2,482**	1,713
Addition during the year		**-**	2,111
		2,482	3,824
Amortized during the year		**(1,149)**	(1,342)
Un amortized gain on sale and lease back transaction		**1,333**	2,482

22.1 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.

23. TRADE AND OTHER PAYABLES			
Trade creditors		**39,867**	39,622
Accrued liabilities		**45,348**	55,865
Advance from customers		**385**	1,500
Interest payable		**7,128**	4,391
Security refundable		**-**	223
Due to related parties	23.1	**36,871**	56,394
Withholding tax		**2,267**	11,306
Provident fund payable		**6,089**	2,533
Unclaimed dividend		**887**	-
Other payables		**469**	242
		139,311	172,076
23.1 DUE TO RELATED PARTIES			
NetSol Technologies Inc.	23.1.1	**25,690**	56,394
NetSol Innovation (Pvt) Ltd.	23.1.2	**11,181**	-
		36,871	56,394

NOTES TO THE ACCOUNTS

23.1.1 This relates to normal course of business of the Company and is interest free.

23.1.2 A base rate of interest (three months KIBOR+1%) is chargeable on this balance. The maximum aggregate amount outstanding due to related party at the end of any month during the period was Rs.14,751,440 (2008: Rs.Nil)

24. EXCESS OF BILLING OVER REVENUE

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

		Jun-09	Jun-08
		Rupees in '000'	
25. SHORT TERM BORROWINGS			
Export refinance - secured	25.1	**200,000**	200,000

25.1 The facility for export refinance is availed from Askari Bank Ltd amounting to Rs 200 million (June 2008: Rs 200 million) and carry mark-up of 7.5% per annum (Jun-2008: 7.5% per annum). The due balance is payable in bi-annually instalments.

25.2 The facility of running finance is available from Askari Bank Limited upto Rs. 7.5 million availed nil (June-2008: Nil). It carries mark-up at the rate three months' KIBOR+2.4% with a floor of 11% p.a.

25.3 All these facilities are secured by way of first charge over the Company's current assets including stocks/receivable/book debts upto rupees 285.71 million.

26. CURRENT PORTION OF LONG TERM LIABILITIES

Current portion of lease liability	**13,618**	14,759
Current portion of long term financing	**12,500**	-
	26,118	14,759

27. CONTINGENCIES & COMMITMENTS

The Company has no contingent liabilities & commitments outstanding as at June 30, 2009 except to the tune of Rs. 24.37 million (June 30, 2008 Rs. 32.38 million) guarantees issued to various customers against sale of software and allied services.

Term deposit amounting Rs.22.12 million was placed with a financial institution. The financial institution delayed the payment on due date and there is a possibility that the amount may or may not be recovered as a whole or in part. However no provision has been made in the financial statements since the financial institute has confirmed the payment to be made to the Company and management is of strong opinion that the amount will be recovered in full and commitments will be honoured.

NOTES TO THE ACCOUNTS

		Domestic Jun-09	Foreign Jun-09	Total Jun-09	Total Jun-08
28. REVENUE					
Export Revenue					
License		-	321,800	**321,800**	607,398
Services		-	490,950	**490,950**	467,315
Maintenance		-	114,196	**114,196**	61,917
Local Revenue					
License		1,350	-	**1,350**	-
Services		148,247	-	**148,247**	156,727
Maintenance		4,852	-	**4,852**	4,763
		154,449	926,946	**1,081,395**	1,298,120

		Domestic Jun-09	Foreign Jun-09	Total Jun-09	Total Jun-08
29. COST OF REVENUE					
Salaries & benefits		34,696	253,999	**288,695**	271,787
Consultancy charges		2,074	4,657	**6,731**	4,930
Technical services		7,874	462	**8,336**	15,937
Hardware and other material cost		80,659	-	**80,659**	10,892
Software licences		36,562	-	**36,562**	-
Staff training		244	2,200	**2,444**	2,796
Rent, rates & taxes		5,943	9,764	**15,707**	12,210
Travelling & conveyance		3,237	57,811	**61,048**	62,702
Communication		1,427	5,375	**6,802**	4,269
Utilities		1,651	8,434	**10,085**	10,162
Printing & stationery		295	666	**961**	2,708
Entertainment		842	3,499	**4,341**	5,427
Insurance		250	1,122	**1,372**	1,393
Vehicle running & maintenance		858	2,039	**2,897**	2,567
Repair & maintenance		3,420	14,790	**18,210**	16,487
Certifications		-	3,921	**3,921**	293
Fee & subscription		545	411	**956**	1,871
Depreciation	6.3	7,849	47,109	**54,958**	39,831
Amortization of leased assets	6.5	1,126	6,641	**7,767**	6,102
Amortization of intangible assets	7.1	8,174	8,200	**16,374**	6,123
		197,726	431,100	**628,826**	478,487

NOTES TO THE ACCOUNTS

		Domestic Jun-09	Foreign Jun-09	Total Jun-09	Total Jun-08
30. SELLING AND PROMOTION EXPENSES					
Salaries & benefits		5,900	18,321	**24,221**	25,310
Staff training		-	-	**-**	58
Rent, rates & taxes		4,385	3,622	**8,007**	5,307
Travelling and conveyance		783	10,396	**11,179**	21,832
Communication		935	1,379	**2,314**	2,512
Utilities		708	360	**1,068**	1,303
Printing & stationery		153	129	**282**	405
Entertainment		292	199	**491**	562
Insurance		101	107	**208**	176
Vehicle running expenses		811	380	**1,191**	1,112
Repairs and maintenance		879	201	**1,080**	3,454
Commission on sales		418	12,848	**13,266**	12,396
Advertisement		81	2,686	**2,767**	4,848
Tender money		38	478	**516**	52
Sale promotional expenses		77	18,387	**18,464**	17,406
		15,561	69,493	**85,054**	96,733

		Domestic Jun-09	Foreign Jun-09	Total Jun-09	Total Jun-08
31. ADMINISTRATIVE EXPENSES					
Directors remuneration		1,575	9,454	**11,029**	10,586
Salaries and benefits		9,927	59,591	**69,518**	57,565
Staff training		70	422	**492**	305
Management fee		548	3,290	**3,838**	37,584
Rent, rates and taxes		586	3,519	**4,105**	1,987
Travelling and conveyance		1,792	10,761	**12,553**	7,679
Communication & postage		388	2,219	**2,607**	2,507
Printing and stationery		26	153	**179**	422
Utilities		658	3,951	**4,609**	4,618
Entertainment		363	2,176	**2,539**	4,520
Insurance		147	880	**1,027**	1,169
Advertisement		381	2,286	**2,667**	3,194
Vehicle running expenses		1,002	6,018	**7,020**	5,211
Repairs and maintenance		713	4,281	**4,994**	13,545
Legal and professional charges		1,507	9,047	**10,554**	9,551
Auditors remuneration	31.1	171	1,029	**1,200**	1,200
News papers & periodicals		33	203	**236**	162
Security expenses		60	357	**417**	313
Office supplies		151	908	**1,059**	874
Charity & donation	31.2	413	2,480	**2,893**	1,015
Fee & subscription		389	2,338	**2,727**	1,311
Miscellaneous expenses		25	150	**175**	425
Provision for doubtful debts		-	80,610	**80,610**	-
Depreciation	6.3	3,144	18,874	**22,018**	16,464
Amortization of leased assets	6.5	378	2,395	**2,773**	2,246
		24,447	227,392	**251,839**	184,453

NOTES TO THE ACCOUNTS

	Jun-09	Jun-08
	Rupees in '000'	
31.1 Auditors remuneration		
Audit fee	**200**	300
Certifications of group reporting	**450**	600
Professional services	**350**	140
Out-of-pocket expenses	**200**	160
	1,200	1,200

31.2 Charity & donation

No donations were made to any donee in which a director or his spouse had any interest at any time during the year.

32. RETIREMENT BENEFIT

Salaries and benefits includes the amount of provident fund contributed by the Company

	Domestic Jun-09	Foreign Jun-09	Total Jun-09	Total Jun-08
33. OTHER OPERATING EXPENSES				
Loss on disposal of assets	4,243	25,471	**29,714**	2,333
	4,243	25,471	**29,714**	2,333
34. OTHER INCOME				
Gain / (loss) on foreign currency translation	-	180,562	**180,562**	121,893
Profit on bank deposits	3,136	-	**3,136**	1,299
Amortization of deferred revenue	1,149	-	**1,149**	1,342
Rental income	14,806	-	**14,806**	15,129
Miscellaneous income	90	-	**90**	-
Mark up on loan	-	514	**514**	-
	19,181	181,076	**200,257**	139,663
35. FINANCE COST				
Lease finance charges	650	3,933	**4,583**	3,074
Interest on short term loans	116	13,674	**13,790**	10,033
Lease documentation charges	2	14	**16**	34
Bank charges	114	1,023	**1,137**	1,008
	882	18,644	**19,526**	14,149

NOTES TO THE ACCOUNTS

36. EARNING PER SHARE

	Jun-09	Jun-08
	Rupees in '000'	
Profit/(loss) after taxation for the year	**294,111**	705,885
Average number of ordinary shares in issue during the period	**72,965**	71,685
Earning per share basic & diluted - Amount in Rupees	**4.03**	9.85

Weighted average number of shares for the year ended June-30, 2008 have been adjusted for the effect of bonus shares issued during the year.

A diluted earnings per share has not been presented as the Company does not have convertible instrument in issue as at June 30, 2008 and 2009 which would have any effect on the earnings per share if the options to convert is exercised.

37. TAXATION

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

Reconciliation of income tax expense for the year

	Jun-09	Jun-08
Accounting profit	**300,767**	712,148
Enacted tax rate	**35%**	35%
Tax on accounting profit at enacted rate	**105,268**	249,252
Tax effect of income exempt from tax	**(87,062)**	(225,820)
Tax effect of income taxed at different rates	**(11,550)**	(17,169)
	6,656	6,263

The Company has made the provision for taxation based on its understanding of the tax laws and regulations and on the basis of advice from its tax consultant. These provisions may require change in case these laws and regulations are interpreted differently by tax authorities and Company's appeals are not accepted at various forms.

NOTES TO THE ACCOUNTS

38. 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	
	2009	2008	**2009**	2008	**2009**	2008
			Rupees in '000'			
Managerial remuneration	**3,200**	3,200	**3,976**	3,616	**64,908**	91,603
Retirement benefits	**-**	-	**265**	362	**2,573**	5,095
Rent and house maintenance	**1,280**	1,280	**1,590**	1,446	**25,963**	36,641
Utilities	**320**	320	**398**	362	**6,491**	9,160
Medical expenses	**144**	69	**66**	110	**1,933**	3,476
Total	**4,944**	4,869	**6,295**	5,896	**101,868**	145,975
No. of Persons	**1**	1	**2**	2	**89**	160

The Chief Executive, Directors and some Executives have been provided with company maintained cars.

39. FAIR VALUE OF FINANCIAL ASSETS & LIABILITIES

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

40. CAPITAL MANAGEMENT

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios while continue as going concern in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholder, issue new shares or sell assets to reduce debts or raise debts, if required.

As of the balance sheet date, the management considers that the capital of the Company is sufficient to meet the requirements of the business.

NOTES TO THE ACCOUNTS

41. TRANSACTION WITH RELATED PARTIES

Related parties comprise of holding company, 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. Parent, subsidiary and associated undertakings also have some common directorship.

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

	Relationship with the Company	Nature of transactions	Jun-09	Jun-08
			Rupees in '000'	
(i)	Parent	Management fee	**3,838**	37,584
(ii)	Subsidiary	Rental income	**11,184**	13,606
		Provision of services	**4,874**	4,838
		Dividend received	**34,074**	50,520
		Mark-up income	**431**	0
		Mark-up expense	**514**	88
(iii)	Associated undertaking	Provision of services	**90,196**	47,556
		Purchase of services	**1,800**	6,275
(iv)	Post employment benefit	Contribution to defined contribution plan	**8,480**	9,029

(v) There are no transactions with any key management personnel other than under the terms of employment.

42. INTEREST / MARK-UP RATE 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 indicates their effective interest / mark-up rates at the balance sheet date and the periods in which they will re-price or mature:

NOTES TO THE ACCOUNTS

	2009 Interest / mark-up bearing	2009 Non-Interest /mark-up bearing	2009 TOTAL	2008 Interest / mark-up bearing	2008 Non-Interest /mark-up bearing	2008 TOTAL
	Rupees in '000'					
Financial Assets						
Maturity up to one year:						
Trade debts	-	623,499	623,499	-	432,861	432,861
Excess of revenue over billing	-	444,901	444,901	-	741,634	741,634
Security deposits	-	12,823	12,823	-	13,086	13,086
Guarantee margin	-	23,932	23,932	-	20,047	20,047
Mark up receivable	-	-	-	-	28	28
Other receivables	-	37,615	37,615	-	15,608	15,608
Cash & bank balances	223,880	4,112	227,992	126,483	1,450	127,933
Due from related party	-	19,875	19,875	-	15,648	15,648
Current maturity of long term loan	-	3,570	3,570	-	550	550
Maturity after one year:						
Long term investment	-	15,188	15,188	-	15,188	15,188
Long term loan	-	-	-	-	3,820	3,820
Total Financial Assets	223,880	1,185,515	1,409,395	126,483	1,259,920	1,386,403

	2009 Interest / mark-up bearing	2009 Non-Interest /mark-up bearing	2009 TOTAL	2008 Interest / mark-up bearing	2008 Non-Interest /mark-up bearing	2008 TOTAL
	Rupees in '000'					
Financial Liabilities						
Maturity up to one year:						
Short term borrowings	200,000	-	200,000	200,000	-	200,000
Trade and other payables	17,270	122,041	139,311	-	172,076	172,076
Current portion of long term liabilities	26,118	-	26,118	14,759	-	14,759
Maturity after one year:						
Lease liabilities	11,691	-	11,691	18,092	-	18,092
Long term payable	87,500	34,520	122,020	-	39,214	39,214
Total Financial Liabilities	342,579	156,561	499,140	232,851	211,290	444,141
Net financial assets / (liabilities)	(118,699)	1,028,954	910,255	(106,368)	1,048,630	942,262
Off balance sheet						
Guarantees issued to customers	-	24,367	24,367	-	32,382	32,382

NOTES TO THE ACCOUNTS

42.1 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.

43. 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.

44. 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.

45. LIQUIDITY RISK

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate actions for new requirements.

46. ANNUAL SOFTWARE DEVELOPMENT CAPACITY

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

NOTES TO THE ACCOUNTS

47. SEGMENT REPORTING

	Pakistan		Asia Pacific		Australia & USA		Others		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RUPEES in '000'									
Revenue	**154,449**	161,490	**597,787**	545,582	**205,319**	372,474	**123,840**	218,574	**1,081,395**	1,298,120
Cost of revenue	**(197,726)**	(114,144)	**(278,016)**	(174,885)	**(95,489)**	(119,395)	**(57,595)**	(70,063)	**(628,826)**	(478,487)
Gross profit	**(43,277)**	47,346	**319,771**	370,697	**109,830**	253,079	**66,245**	148,511	**452,569**	819,633
Selling and promotion expenses	**(15,561)**	(28,367)	**(44,816)**	(32,816)	**(15,393)**	(22,404)	**(9,284)**	(13,147)	**(85,054)**	(96,734)
Administrative expenses	**(24,447)**	(22,943)	**(146,645)**	(77,525)	**(50,367)**	(52,927)	**(30,380)**	(31,058)	**(251,839)**	(184,453)
Other operating expenses	**(4,243)**	(2,333)	**(16,426)**	-	**(5,642)**	-	**(3,403)**	-	**(29,714)**	(2,333)
Other Income	**53,255**	65,957	**116,776**	58,509	**40,108**	39,944	**24,192**	23,440	**234,331**	187,850
Operating profit	**(34,273)**	59,660	**228,660**	318,865	**78,536**	217,692	**47,370**	127,746	**320,293**	723,963
Finance charges	**(882)**	(673)	**(12,023)**	(6,468)	**(4,130)**	(4,416)	**(2,491)**	(2,592)	**(19,526)**	(14,149)
Segment result	**(35,155)**	58,987	**216,636**	312,397	**74,407**	213,276	**44,879**	125,154	**300,767**	709,814
Other Information										
Segment assets	**727,637**	705,042	**-**	-	**-**	-	**-**	-	**727,637**	705,042
Depreciation	**87,516**	64,643	**-**	-	**-**	-	**-**	-	**87,516**	64,643
Non cash expenses other than depreciation	**16,374**	6,123	**-**	-	**-**	-	**-**	-	**16,374**	6,123
Segment liabilities	**499,140**	444,141	**-**	-	**-**	-	**-**	-	**499,140**	444,141

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

48. CORRESPONDING FIGURES

Corresponding figures have been re-classified, for better presentation, in respect of following:

Note	From	Note	To	(Rupees in '000')
13	Advances, deposits, prepayment and other receivables	16	Due from related parties	2,389
34	Other Income	33	Other operating expenses	2,333

49. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 11, 2009 by the Board of Directors.

50. FIGURES

Figures have been rounded off to the nearest thousand rupee.

CHIEF EXECUTIVE **DIRECTOR**