NETSOL TECHNOLOGIES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE-30, 2011

KABANI & COMPANY

CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO MEMBERS

We have audited the annexed consolidated financial statement of **NetSol Technologies Limited ("the holding company")** and its subsidiary company NetSol Innovation (Private) Limited comprising consolidated Balance Sheet as at **June 30th, 2011** and the related consolidated Profit and Loss Account, consolidated statement of comprehensive income, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of NetSol Technologies Limited and its subsidiary company NetSol Innovation (Private) Limited.

These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Auditing standards 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 polices 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.

KC&Co.

In our opinion, the consolidated financial statements present fairly the consolidated financial position of **NetSol Technologies Limited** and its subsidiary company, NetSol Innovation (Private) Limited, as at **June 30, 2011** and the consolidated results of its operations, its consolidated statement of comprehensive income, its consolidated cash flows statement and consolidated statement of changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

September 09, 2011
Lahore

Kabani & Company
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NETSOL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2011

	NOTE	2011	2010
		Rupees in '000	
ASSETS			
NON-CURRENT ASSETS			
Property & equipment	5	**1,264,935**	687,982
Intangible assets	6	**2,073,091**	1,493,810
		3,338,026	2,181,792
Deferred employee compensation expense	7	**750**	2,089
		3,338,776	2,183,881
CURRENT ASSETS			
Trade debts	8	**1,021,762**	974,046
Current portion of deferred employee compensation expense	7	**1,339**	1,981
Excess of revenue over billing	9	**384,029**	637,329
Loans and advances	10	**18,474**	18,144
Trade deposits & short term prepayments	11	**12,563**	5,433
Other receivables	12	**52,742**	88,314
Due from related parties	13	**35,257**	27,224
Short term investment	14	**-**	22,120
Taxation - net		**51,340**	27,181
Cash & bank balances	15	**222,681**	197,059
		1,800,187	1,998,831
TOTAL ASSETS		**5,138,963**	4,182,712

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

NETSOL TECHNOLOGIES LIMITED
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2011

	NOTE	2011	2010
		Rupees in '000	
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized share capital			
150,000,000 ordinary shares of Rs.10/- each	16	**1,500,000**	1,500,000
Issued, subscribed and paid up capital	16	**779,102**	779,102
Share deposit money		**13**	13
Reserves	17	**3,324,581**	2,656,033
Minority interest		**83,849**	111,034
		4,187,545	3,546,182
NON-CURRENT LIABILITIES			
Long term financing	18	**122,832**	62,500
Liabilities against assets subject to finance lease	19	**24,151**	8,066
Deferred income	20	**-**	553
		146,983	71,119
CURRENT LIABILITIES			
Trade and other payables	21	**516,781**	284,590
Excess of billing over revenue	22	**20,897**	21,429
Short term borrowings	23	**200,000**	200,000
Current portion of long term liabilities	24	**54,468**	49,288
Provision for taxation		**12,289**	10,104
		804,435	565,411
CONTINGENCIES & COMMITMENTS	25	**-**	-
TOTAL EQUITY AND LIABILITIES		**5,138,963**	4,182,712

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

NETSOL TECHNOLOGIES LIMITED
CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2011

	NOTE	2011	2010
		Rupees in '000	
Revenue	26	**2,058,465**	2,031,256
Cost of revenue	27	**(825,741)**	(665,346)
Gross profit		**1,232,724**	1,365,910
Selling and promotion expenses	28	**(143,439)**	(96,780)
Administrative expenses	29	**(343,958)**	(235,261)
Other operating expenses	30	**(17,322)**	(39,193)
Other income	31	**107,260**	9,840
Operating profit		**835,265**	1,004,516
Finance cost	32	**(23,603)**	(24,641)
Profit before taxation		**811,662**	979,875
Taxation			
Current	34	**(2,524)**	(3,448)
Prior		**-**	805
		(2,524)	(2,643)
Profit after taxation for the period year		**809,138**	977,232
Attributable to:			
Equity holders of parent		**765,936**	964,679
Non - controlling interest		**43,202**	12,553
		809,138	977,232

CHIEF EXECUTIVE OFFICER **DIRECTOR**

NETSOL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2011

	NOTE	2011	2010
		Rupees in '000	
Profit after taxation for the year		**809,138**	977,232
Other comprehensive income		**-**	-
Total comprehensive income for the year		**809,138**	977,232
Attributable to:			
Equity holders of NetSol Technologies Limited		**765,936**	964,679
Non - controlling interest		**43,202**	12,553
		809,138	977,232
Earnings per share			
Basic - In Rupees	33	**9.83**	12.38
Diluted - In Rupees	33	**9.79**	12.38

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

NETSOL TECHNOLOGIES LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation for the year	811,662	979,875
Adjustments for non cash charges and other items:		
Depreciation - own assets	**122,869**	76,716
Amortization of leased assets	**8,358**	8,709
Amortization of intangible assets	**71,314**	34,066
Loss on disposal of fixed assets	**1,353**	18,126
Amortization of deferred revenue	**(553)**	(780)
Exchange gain on debtors	**(101,499)**	1,066
Interest expense	**21,597**	22,854
Interest income	**(5,208)**	(7,179)
Deferred employee compensation expense	**1,981**	2,355
Provision for doubtful debts	**42,494**	-
	162,706	155,933
Cash generated from operations before working capital changes	**974,368**	1,135,808
Decrease / (increase) in current assets & liabilities		
Trade debts	**306,549**	(375,491)
Loans and advances	**(330)**	4,888
Trade deposits & short term prepayments	**(7,130)**	11,768
Other receivables	**16,830**	(25,928)
Due from related parties	**(8,033)**	(1,710)
Trade and other payables	**231,073**	99,164
Cash generated from / (used in) operations	**538,959**	(287,309)
Interest paid	**(21,258)**	(29,658)
Income taxes paid	**(24,498)**	(6,949)
Dividend paid	**(166,996)**	(2)
Net cash generated from operations	**1,300,575**	811,890
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	**(517,427)**	(137,151)
Sales proceeds of fixed asset	**4,439**	54,511
Intangible assets	**(645,183)**	(651,840)
Capital work in progress	**(201,956)**	(93,095)
Long term loan	**-**	3,570
Interest received	**3,577**	7,179
Net cash (used in) investing activities	**(1,356,550)**	(816,826)
CASH FLOWS FROM FINANCING ACTIVITIES		
Paid against obligation under finance lease	**(21,209)**	(13,951)
Received against obligation under finance lease	**42,474**	8,496
Long term payable	**60,332**	-
Net cash generated from / (used in) financing activities	**81,597**	(5,455)
Net decrease in cash and cash equivalents	**25,622**	(10,391)
Cash and cash equivalents at the beginning of the period	**197,059**	207,450
Cash and cash equivalents at the end of the period	**222,681**	197,059

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

NETSOL TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2011

	Attributable to equity holders of the Parent						Non Controlling Interest	Total Equity
	Issued, subscribed and paid-up capital	Share deposit money	Employee share option compensation reserve	Capital Reserve: Share premium	Revenue Reserve: Unappropriated profit	Total		
	Rupees In '000'							
Balance as at June 30, 2009	779,102	13	-	273,016	1,411,912	2,464,043	98,481	2,562,524
Total comprehensive income for the year								
Net profit for the year ended June 30, 2010	-	-	-	-	964,679	964,679	12,553	977,232
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	964,679	964,679	12,553	977,232
Effect of share options granted	-	-	6,426	-	-	6,426	-	6,426
Balance as at June 30, 2010	779,102	13	6,426	273,016	2,376,591	3,435,148	111,034	3,546,182
Balance as at June 30, 2010	779,102	13	6,426	273,016	2,376,591	3,435,148	111,034	3,546,182
Total comprehensive income for the year								
Net profit for the year ended June 30, 2011	-	-	-	-	765,936	765,936	43,202	809,138
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	765,936	765,936	43,202	809,138
Distributions to owners								
- by holding company								
Final cash dividend Rs. 1.25 per share (12.5% per share)	-	-	-	-	(97,388)	(97,388)	-	(97,388)
- by subsidiary to non-controlling interest								
cash dividend	-	-	-	-	-	-	(70,387)	(70,387)
Effect of share options granted	-	-	-	-	-	-	-	-
Balance as at June-30, 2011	779,102	13	6,426	273,016	3,045,139	4,103,696	83,849	4,257,932

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

CHIEF EXECUTIVE OFFICER **DIRECTOR**

1. LEGAL STATUS AND NATURE OF BUSINESS

NetSol Group ("the Group") consists of:

- NetSol Technologies Limited
- NetSol Innovation (Private) Limited

NetSol Technologies Limited ("the holding Company" or "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 and Lahore Stock Exchange on August 26, 2005 and March 08, 2010 respectively. 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.

NetSol Innovation (Private) Limited ("the subsidiary Company" or "Subsidiary") is incorporated in Pakistan as a private limited company in which NetSol Technologies Limited has share holding of 50.52%, The subsidiary company is engaged in business of providing online software development services. The registered office of the is situated at NetSol IT Village, NetSol Avenue (Software Technology Park) Main Ghazi Road, Lahore Cantt. 54792, 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 consolidated 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 consolidated financial statements are presented in Pak Rupee, which is the Group's functional currency. All financial information presented in Pak Rupee has been rounded to the nearest thousand unless stated otherwise.

2.4 Changes in accounting policies

During the current year, the Group has adopted the following new and amended IFRSs as of July 01, 2010 which has resulted in extended disclosures as described below.

(i) IAS 7 Statement of Cash flows - Amendments [effective January 1, 2010]

The amendment provides clarification that only expenditure that results in a recognized asset in the balance sheet can be classified as a cash flow from investing activity. The clarification results in an improvement in the alignment of the classification of cash flows from investing activities in the cash flow statement and the presentation of recognized assets in the balance sheet. The application of the amendment will not affect the results or net assets of the Group as it is only concerned with presentation and disclosures.

2.5 Standards and interpretations that became effective but not relevant to the Group

The following standards (revised or amended) and interpretations became effective for the current financial year but either not relevant or do not have any material effect on the consolidated financial statements of the Group:

IFRS 1	First-time Adoption of Financial Reporting Standards
IFRS 2	Share-based Payment (Amendments)
IFRS 3	Business combination (Amendments)
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (Amendments)
IFRS 8	Operating Segments
IAS 1	Presentation of Financial Statements (Amendments)
IAS 17	Leases (Amendments)
IAS 27	Consolidated and Separate Financial Statements (Amendments)
IAS 32	Financial Instruments: Presentation - Classification of Rights Issues (Amendments)
IAS 36	Impairment of Assets (Amendments)
IAS 39	Financial Instruments: Recognition and Measurement (Amendments)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

2.6 Standards and interpretations issued but not yet effective for the current financial year

		beginning on or after
IFRS 1	First-time Adoption of Financial Reporting Standards (Amendments)	Jan-01 2011
IFRS 7	Financial Instruments: Disclosures (Amended)	Jan-01 2011
IFRS 9	Financial Instruments	Jan-01 2013
IFRS 10	Consolidated Financial Statements	Jan-01 2013
IFRS 11	Joint Arrangements	Jan-01 2013
IFRS 12	Disclosure of Interests in Other Entities	Jan-01 2013
IFRS 13	Fair Value Measurement	Jan-01 2013
IAS 1	Presentation of Financial Statements (Amendments)	Jan-01 2011
IAS 19	Employee Benefits (Amendments)	Jan-01 2013
IAS 24	Related Party Disclosures (Revised)	Jan-01 2011
IAS 34	Interim Financial Reporting (Amentments)	Jan-01 2011
IAS 39	Financial Instruments: Recognition and Measurement (Amended)	Jan-01 2013
IFRIC 13	Customer Loyalty Programmes	Jan-01 2011
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amended)	Jan-01 2011

The Group expects that the adoption of the above revisions, amendments and interpretations of the Standards will not affect the Group's consolidated financial statements except enhanced disclosures.

2.7 Basis of Consolidation

The consolidated financial statements include the financial statement of the holding Company and its subsidiary. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies.

The assets and liabilities of the subsidiary, have been consolidated on line-by-line basis and the carrying values of the investment held by the holding Company is eliminated against the subsidiary's share capital and pre-acquisition reserves, if any in the consolidated financial statements. Material intra-group balances and transactions are eliminated.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiary companies are consolidated from the date on which more than 50% voting rights are transferred to the holding Company or power to govern the financial and operating policies of the subsidiary is established and is excluded from consolidation from the date of disposal or cessation of control.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the holding Company.

3. 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 for doubtful debts
- ii. Provision for taxation
- iii. Useful life of depreciable assets
- iv. Useful life of intangible assets
- v. Contingencies

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Property and equipment

(i) Owned assets

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

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 5.

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 Group and the cost of the item can be measured reliably.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major repairs and improvements are capitalized.

The carrying amount of property and equipment is removed from the balance sheet upon scrapping or disposal or when no future economic benefit is expected from its use, scrapping or disposal.

Gain or loss on scrapping or disposal of assets, if any, is charged to profit and loss account.

(ii) Assets subject to finance lease

Assets acquired under finance leases are capitalized and are stated at 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 current and non-current liabilities. Leasing payments are recognised as interest and repayment of liability.

Assets acquired under finance lease are amortized over the useful life of the assets using reducing balance method at the rates given in note 5.

Amortization on additions 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.

(iii) Capital work in progress

Capital work in progress is stated at cost less any impairment losses. It represents expenditure incurred on property and equipment during construction and installation. Cost also includes applicable borrowing costs. These expenditures are transferred to relevant assets' category as and when assets are available for use.

4.2 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 Group, the Group 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:

a. In-house developed intangible assets
b. Intangible assets acquired from market

(a) In-house developed intangible assets

The Group capitalizes certain computer software development costs in accordance with IAS 38 Intangible Assets and USA SFAS No. 86, Accounting for the Costs of Computer Software to be sold, leased, or otherwise marketed . Costs incurred internally to create a computer software product or to develop an enhancement to an existing product are charged to expense when incurred as research and development expense until technological feasibility for the respective product is established. Thereafter, all software development costs are capitalized and reported at the lower of unamortized cost or net realizable value. Capitalization ceases when the product or enhancement is available for general release to customers.

The Group 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 Group 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.

(b) 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 Group and the cost of the item can be measured reliably. All other expenses are charged to profit and loss account 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 amortisation is charged for the month in which the asset is disposed off. Rates of amortization are stated in note 6.

4.3 Impairment

The Group 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 expense is charged to profit and loss account.

4.4 Foreign currency translation

Transactions denominated in foreign currencies are translated in Pak Rupees at the foreign exchange rate prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the foreign exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the exchange rate prevailing at the date when fair values were determined. All exchange differences are charged to profit and loss account.

4.5 Staff benefits

(i) Retirement benefits

The Group operates contributory provident fund for all its permanent staff. Equal contribution is made by the Group companies in the provident fund on monthly basis. Group's contribution is recognised as a cost in the profit and loss account. The fund is administrated by the Trustees.

(ii) Short-term benefits

Short-term benefits to employees are calculated without discounting and are recognised as cost when related services are received.

(iii) Employees' share option scheme

The holding Company operates an equity settled share based Employee' Share Option Scheme ("Scheme"). At the grant date of share options ("Options") to the employees, the holding Company initially recognises "Deferred Employee Compensation Expense" with corresponding credit to equity as "Deferred Employee Compensation Reserve" at the fair value of option at the grant date. The fair value of options determined at the grant date is recognized as an employee compensation expense on a straight line basis over the vesting period. Fair value of options is arrived at using Black Scholes pricing model.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss will be reversed equal to the amortized portion with a corresponding effect to deferred employee compensation reserve in the balance sheet. When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to deferred employee compensation reserve in the balance sheet. When the options are exercised, deferred employee compensation reserve relating to these options is transferred to share capital and share premium account. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium account.

4.6 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. Income tax expense is recognised in profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

4.7 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 Group.

Provisions are recognized when the Group 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.

4.8 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.

4.9 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and at current or saving accounts held with banks, fixed deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These also include facilities of running finance that form an integral part of the Group's cash management.

4.10 Revenue recognition

(i) License sale
The Group 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 collectability is probable.

Revenue from sale of license with major customization, modification, and development is recognized on percentage of completion basis.

(ii) Rendering of services
Revenue from software services 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 CFO and EVP IT/ Operations.

(iii) Maintenance
Revenue from maintenance is recognized on time proportion basis.

(iv) 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.

The Group'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.

(v) Miscellaneous
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.

Dividend income is recognised as income when the right of receipt is established.

Miscellaneous income is recognized on receipt basis.

4.11 Borrowing costs

Borrowing costs directly attributable for the construction /acquisition of qualifying assets are capitalized up to the date, including the period when technical and administrative work is carried on, 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. Qualifying assets are assets that necessarily take substantial period of time to get ready for their intended use.

4.12 Off-setting of financial asset and liability

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 Group intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

4.13 Financial instruments

(i) Financial assets

All financial assets have been stated in accordance with the requirements of IAS–39 (Financial Instruments: Recognition and Measurement). Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. 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.

The Group 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 Group commits to purchase or sell the asset.

(a) Held to maturity investments

Investments with fixed payments and maturity that the Group 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. These are classified as current and non-current assets in accordance with criteria set out by IFRSs.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus directly attributable transaction costs. After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any impairment. These are classified as current and non-current assets in accordance with criteria set out by IFRSs.

(c) 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 twelve 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 Group establishes fair value by using valuation techniques. Adjustment arising from re-measurement of investment to fair value is recorded in other comprehensive income and taken to profit and loss account on disposal of investment or when the investment is determined to be impaired.

(d) Financial assets at fair value through profit or loss

This category consists of two subcategories: (i) financial assets held for trading and (ii) financial assets that the Group initially chooses to put in this category. A financial asset is classified as held for trading if it is acquired with the aim of being sold in the short term. Assets in this category are measured continually at fair value, and the changes in value are recognised directly in the profit and loss account.

(ii) Financial liabilities

All financial liabilities have been stated in accordance with the requirements of IAS–39 (Financial Instruments: Recognition and Measurement). Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.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.

4.14 Dividend and appropriation to reserves

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

4.15 Leasing

(i) Operating Leases

Leases where a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating lease. Expenses for operating leases are recognised in the profit and loss account over the leasing period on a straight-line basis. Variable expenses are recognised in the periods when they arise.

(ii) Finance Leases

Finance leases transfers to the Group substantially all the risks and rewards incidental to ownership of the leased assets. The minimum lease payments are divided between interest costs and repayment of the outstanding liability. Interest costs are distributed over the period of the lease so that each accounting period includes an amount corresponding to a fixed interest rate for the liability recognised in each period. Variable payments are recognised in the periods when they arise.

4.16 Related party transactions

The Group enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods, except in extremely rare circumstances where, subject to approval of the Board of Directors, it is in the interest of the group to do so.

4.17 Fair value

The fair value of financial instruments that are actively traded in organised financial markets is determined but reference to quoted market bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transaction; reference to the current market value of another instrument, which has substantially similar characteristics, discounted cash flow analysis or other valuation models.

4.18 Segment reporting

The chief operating decision-maker (CODM), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Management Team that makes strategic decisions. The management has determined the operating segments based on the reports reviewed by CODM of the Group. For management purposes, the Group is organised into operating segments based on their products and services. Each operating segment has a manager responsible for the operations who periodically reports to the CODM the outcome of the operating segment's efforts and its resource requirements. Additional disclosures on each of these segments are shown in Notes, including the factors used to identify the reportable segments and the measurement basis of segment information.

	Note	**2011**	2010
		Rupees in '000	
5. PROPERTY & EQUIPMENT			
Net book value of owned assets	5.1	**990,897**	491,015
Net book value of leased assets	5.4	**54,241**	31,534
Capital work in progress	5.6	**219,797**	165,433
		1,264,935	687,982

5.1 Following is statement of owned assets

Particulars	**2011**								
	COST			DEPRECIATION					Net book
	As at Jul 01, 2010	Additions / (Deletions)	As at Jun 30, 2011	Rate %	As at Jul 01, 2010	Adjustment during the year	Charge for the year	As at Jun 30, 2011	value as at Jun 30, 2011
	Rupees in '000								
Tangible Assets									
Land - freehold	48,302	144,856	193,158		-	-	-	-	193,158
		-							
Building on free hold land	198,849	2,736	201,585	5	53,900	-	7,259	61,159	140,426
		-							
Furniture & fixtures	13,543	7,103	20,645	10	2,790	-	1,620	4,411	16,234
		-							
Vehicles	53,933	23,901	57,859	20	18,903	1,514	8,252	23,786	34,073
		(19,975)				(4,883)			
Computers	292,827	302,503	589,386	20~33	127,619	11,832	63,174	198,359	391,027
		(5,945)				(4,266)			
Air conditioners	5,310	2,992	8,302	10	1,663	550	405	2,618	5,684
		-							
Office equipment	15,481	1,532	17,013	10	3,988	226	1,175	5,388	11,625
		-							
Electric fittings	1,118	-	1,118	10	523	-	59	582	536
		-							
Generator	9,388	2,514	11,902	10	3,599	691	601	4,891	7,011
		-							
Leasehold improvements	11,589	-	11,589	20	7,683	-	781	8,464	3,125
		-							
Intangible Assets									
Software	154,712	171,938	322,446	33	93,369	(3,510)	44,589	134,448	187,998
		(4,204)							
	805,052	660,075	1,435,003		314,037	14,813	127,915	444,106	990,897
		(30,124)				(12,659)			

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

Particulars	Cost	Acc. Depreciation	Net Book Value	Sales Proceeds	Mode of Disposal	Particulars of Purchaser
Computers	5,945	4,266	1,679	397	Negotiation	Open market
Software	4,204	3,510	694	-	Asset written off	
						Employees
Vehicle	763	510	253	300	Company policy	Ahsan Mustafa
Vehicle	998	650	348	475	-do-	Shakil Akhtar Kazmi
Vehicle	1,038	689	349	463	-do-	Ayub Ghauri
Vehicle	835	508	327	475	-do-	Mujeeb Qayyum
Vehicle	950	557	393	400	-do-	Boo Ali
Vehicle	810	510	300	413	-do-	Furqan Khan
Vehicle	800	476	324	875	-do-	Sajid mughal
Vehicles	6,917	-	-	-	Sale and lease back	Bank Al Habib Limited
Vehicles	5,313	-	-	-	Sale and lease back	First Habib Modaraba
Vehicle Accessories	1,552	983	569	-	Asset written off	
2011	**30,124**	**12,659**	**5,235**	**3,798**		
2010	75,662	1,153	74,509	56,382		

	2010								
	COST			DEPRECIATION					Net book
Particulars	As at Jul 01, 2009	Additions / (Deletions)	As at Jun 30, 2010	Rate %	As at July 01, 2009	Adjustment during the year	Charge for the year	As at Jun 30, 2010	value as at June-30 2010
	Rupees in '000								
Tangible Assets									
Land - freehold	119,296	- (70,994)	48,302		-	-	-	-	48,302
Building on free hold land	199,008	816 (975)	198,849	5	46,321	(44)	7,623	53,900	144,949
Furniture & fixtures	9,242	4,301 -	13,543	10	2,034	-	756	2,790	10,753
Vehicles	23,312	40,938 (10,317)	53,933	20	8,019	6,654	4,231	18,903	35,030
Computers	190,350	102,477 -	292,827	33	83,418	6,955	37,246	127,619	165,208
Air conditioners	5,310	- -	5,310	10	1,258	-	405	1,663	3,647
Office equipment	15,101	380 -	15,481	10	2,733	-	1,255	3,988	11,493
Electric fittings	1,118	- -	1,118	10	457	-	66	523	595
Generator	9,138	250 -	9,388	10	2,975	-	624	3,599	5,789
Leasehold improvements	11,589	-	11,589	20	6,707	-	977	7,683	3,906
Intangible Assets									
Software	143,736	10,976	154,712	33	66,097	-	27,272	93,369	61,343
	727,200	160,138 (82,286)	805,052		220,019	13,609 (44)	80,455	314,037	491,015

	Note	2011	2010
		Rupees in '000	
5.3 Depreciation is allocated in the following manner			
Cost of revenue	27	**92,731**	58,583
Administrative expenses	28	**30,138**	18,133
Intangible assets		**5,046**	3,739
		127,915	80,455

5.4 Following is statement of leased assets

Particulars	2011								
	COST			DEPRECIATION					Net book
	As at Jul 01, 2010	Additions / (Deletions)	As at Jun 30, 2011	Rate %	As at Jul 01, 2010	Adjustment during the year	Charge for the year	As at Jun 30, 2011	value as at Jun 30, 2011
	Rupees in '000								
Vehicles	18,113	20,960	35,728	20	3,378	(1,514)	3,726	5,590	30,138
		(3,345)							
Computers	17,122	21,420	21,419	33	10,006	(11,832)	4,085	2,259	19,160
		(17,123)							
Air conditioners	2,038	-	-	10	415	(550)	135	-	-
		(2,038)							
Office equipment	836	96	96	10	170	(226)	61	5	91
Generator	8,555	-	6,040	10	1,161	(691)	717	1,188	4,852
		(2,515)							
		(836)							
	46,664	42,476	63,283		15,130	(14,813)	8,724	9,042	54,241
		(25,857)							

	2010								
Particulars	COST			DEPRECIATION					Net book value as at Jun 30 2010
	As at Jul 01, 2009	Additions / (Deletions)	As at Jun 30, 2010	Rate %	As at July 01, 2009	Adjustment during the year	Charge for the year	As at Jun 30, 2010	
	Rupees In '000'								
Vehicles	22,604	10,515 (15,006)	18,113	20	7,869	(7,763)	3,272	3,378	14,735
Computers	27,122	- (10,000)	17,122	33	12,135	(6,955)	4,826	10,006	7,116
Air conditioners	2,038	- -	2,038	10	234	-	181	415	1,623
Office equipment	836	-	836	10	96	-	74	170	666
Generator	8,555	-	8,555	10	340	-	821	1,161	7,394
	61,155	10,515 (25,006)	46,664		20,674	(14,718)	9,174	15,130	31,534

		2011	2010
		Rupees in '000	
5.5 Amortization is allocated in the following manner			
Cost of revenue	27	**6,177**	6,416
Administrative expenses	29	**2,181**	2,293
Intangible assets		**366**	465
		8,724	9,174
5.6 Capital work-in-progress			
Building and civil work	5.6.1 & 5.6.2	**204,642**	86,959
Advances	5.6.3	**15,155**	78,474
		219,797	165,433

5.6.1 Extension of existing building is being constructed at a fast pace. The holding Company has decided to finish this project into two phases. The first one is expected to complete by the end of financial year 2012.

5.6.2 During the year borrowing cost amounting to Rs. 17.15 million using capitalisation rate of 15.85% pa (2010: Rs. 10.776 million using capitalisation rate 15.23% p.a) have been capitalized in the capital work in progress pertaining to construction of building.

5.6.3 This is against the purchase of land under agreement to sell.

6. INTANGIBLE ASSETS

2011

Particulars	COST			AMORTISATION				Net book value as at Jun 30, 2011
	As at Jul 01, 2010	Additions / (Deletions)	As at Jun 30, 2011	Rate %	As at Jul 01, 2010	Charge for the year	As at Jun 30, 2011	
	Rupees In '000'							
In-house Developed Software								
NetSol Financial Suite	81,982	-	81,982	10	35,329	8,198	43,527	38,455
NFS - AMS Module	131,243	-	131,243	18	3,977	23,862	27,839	103,404
Knit Info System	4,342	-	4,342	10	1,737	2,605	4,342	-
NetSol's Pay Soft	5,596	-	5,596	10	2,235	3,361	5,596	-
LRMIS	71,826	-	71,826	10	14,964	7,182	22,146	49,680
SMART	137,149	-	137,149		13,715	13,715	27,430	109,719
Blue Star - CAP	-	212,410	212,410		-	12,391	12,391	200,019
Under Development								
Fleet Management System	384,873	175,686	560,559		-	-	-	560,559
Blue Star	691,144	360,602	839,336		-	-	-	839,336
		(212,410)						
LSS	-	100,251	100,251		-	-	-	100,251
HMIS	19,684	4,783	24,467		-	-	-	24,467
Loan Origination System	21,969	2,952	24,921		-	-	-	24,921
Business Intelligence	15,959	6,321	22,280		-	-	-	22,280
Scoring Model & Risk Management	1,565,767	650,595	2,216,362		71,957	71,314	143,271	2,073,091

2010

Particulars	COST			AMORTISATION				Net book value as at Jun 30, 2010
	As at Jul 01, 2009	Additions / (Deletions)	As at Jun 30, 2010	Rate %	As at Jul 01, 2009	Charge for the year	As at Jun 30, 2010	
	Rupees In '000'							
In-house Developed Software								
NetSol Financial Suite	81,982	-	81,982	10	27,131	8,198	35,329	46,653
NFS - AMS Module	-	131,243	131,243	18	-	3,977	3,977	127,266
Knit Info System	4,342	-	4,342	10	1,303	434	1,737	2,605
NetSol's Pay Soft	5,596	-	5,596	10	1,676	559	2,235	3,361
LRMIS	71,826	-	71,826	10	7,781	7,183	14,964	56,862
SMART	137,149	-	137,149	10	-	13,715	13,715	123,434
Under Development								
Fleet Management System	213,102	171,771	384,873	-	-	-	-	384,873
Blue Star	352,575	338,569	691,144	-	-	-	-	691,144
HMIS	14,256	5,428	19,684	-	-	-	-	19,684
Loan Origination System	18,711	3,258	21,969	-	-	-	-	21,969
Business Intelligence	10,184	5,775	15,959	-	-	-	-	15,959
Scoring Model & Risk Management								
	909,723	656,044	1,565,767		37,891	34,066	71,957	1,493,810

		2011	2010
		Rupees in '000	

6.1 Amortization is allocated in following manner

	Note	2011	2010
Cost of revenue	27	**71,314**	34,066

7. DEFERRED EMPLOYEE COMPENSATION EXPENSE

	2011	2010
Balance as at the beginning of the year	**4,070**	**-**
Fair value of options issued during the year	**-**	**6,425**
Options lapsed due to employee resignation	**-**	**-**
Amortisation for the year	**(1,981)**	**(2,355)**
Balance as at the end of the year	**2,089**	**4,070**
Current portion shown under current assets	**(1,339)**	**(1,981)**
Long term portion of deferred employee compensation expense	**750**	**2,089**

The holding Company uses Black Scholes pricing model to determine the fair value of options at the grant date. The fair value of the options as per model used and underlying assumptions are as follows.

Total number of options granted	**4,350,000**
Per option fair value at the grant date	**Rs. 1.48**
Average 30 days per share price preceding the date of grant	**Rs. 26.80**
Exercise price per option	**Rs. 16.42**
Annual Volatility	**64.82%**

7.1 Employee Stock Option Scheme

After getting approval of the Employee Stock Option Scheme from the Securities and Exchange Commission of Pakistan, the board and the compensation committee granted 4.35 million stock options to its core team of employees on August 01, 2009 (grant date) at a grant price of Rs. 16.42 per option. No Amount is paid or payable by employee on receipt of the option. No option carry the right to vote or dividend. According to the scheme, 40% of the options granted became exercisable after completion of twelve months from the date of grant but none of the options granted was exercised. 30% of the granted option will become exercisable after completion of twenty four months from the grant date, 20% of the granted option will become exercisable after completion of thirty six months from the grant date and the balance of 10% of the granted option will become exercisable after completion of eighty four months from the grant date. The options will lapse after 10 years of grant date if not exercised. Main purpose of granting these options is to incentivize core team of employees from retention point of view because in IT industry, it is the quality human resources which is bread and butter earner for any company.

8. TRADE DEBTS

	Note	2011	2010
Considered good - unsecured	8.2	**1,021,762**	974,046
Considered doubtful - unsecured	8.3	**80,610**	80,610
		1,102,372	1,054,656
Less: provision for doubtful debts		**(80,610)**	(80,610)
		1,021,762	974,046

8.1 The related parties included in trade debts are as under:

	2011	2010
Atheeb Intergraph Saudi Co.	**2,800**	7,158
Atheeb NetSol Co. Ltd	**5,229**	-
	8,029	**7,158**

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

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

8.4 The aging of trade debts at June 30 is as follows:

	2011 Rupees in '000		2010 Rupees in '000	
	Gross	Impaired	Gross	Impaired
Not past due	**122,135**	**-**	**615,900**	-
Past due 1-180 days	**782,152**	**-**	**285,773**	-
Past due 181 days -1 year	**197,817**	**-**	**120,259**	-
More than one year	**268**	**-**	**32,724**	-
Total	**1,102,372**	-	**1,054,656**	-

Based on the past experience, consideration of financial position, past track records and recoveries, the Group believes that trade debtors past due up to one year do not require any impairment. Hence no allowance in respect of remaining portion of past due over one year has been provided.

9. EXCESS OF REVENUE OVER BILLING

It represents unbilled debtors arising due to recognition of revenue on the basis of percentage of completion as per IAS 18 "Revenue" and US AICPA SOP 81-1. It is unsecured but considered good by the management.

	2011	2010
	Rupees in '000	
10. LOANS AND ADVANCES - Unsecured		
Considered good		
Loan to employees	**1,878**	2,568
Advances		
- to employees	**113**	374
- against expenses	**13,317**	15,202
- against assets	**3,166**	-
	18,474	18,144

10.1 The advances to employees are given to meet business expenses and are settled as and when the expenses are incurred.

11. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS		
Security deposit	**7,340**	4,900
Prepayments	**5,223**	533
	12,563	5,433
12. OTHER RECEIVABLES		
Guarantee margin	**11,483**	21,726
Other receivable - considered good	**39,628**	66,588
Other receivable - considered doubtful	**20,374**	-
Provision against doubtful recovery	**(20,374)**	-
	52,742	88,314

		2011	2010
		Rupees in '000	
13. DUE FROM RELATED PARTIES			
NetSol Connect (Pvt) Ltd.		**-**	114
NetSol Abraxas Pty. Ltd.		**18,134**	27,110
NetSol Technologies Europe Limited		**17,123**	-
		35,257	27,224

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

13.2 The maximum aggregate amount outstanding due to related party at the end of any month during the period was Rs.35.25 million (2010 : Rs.27.22 million).

		2011	2010
14. SHORT TERM INVESTMENT			
Investment at cost		**22,120**	22,120
Provision against doubtful recovery		**(22,120)**	-
		-	22,120
15. CASH AND BANK BALANCES			
With banks			
Saving accounts	15.1	**95,387**	153,487
Current accounts		**57**	57
Foreign currency current account		**16,974**	41,173
Term deposit		**108,270**	-
		220,688	194,717
In hand		**1,993**	2,342
		222,681	197,059

15.1 The balances in savings accounts bear mark up which ranges from 5 % to 9 % per annum.

16. SHARE CAPITAL

16.1 Authorised share capital

2011	2010		2011	2010
Number of shares			Rupees in '000	
150,000,000	150,000,000	Ordinary Shares of Rs. 10 each.	**1,500,000**	1,500,000

16.2 Issued, subscribed & paid-up capital

2011	2010		2011	2010
38,741,691	38,741,691	Ordinary Shares of Rs. 10 each fully paid in cash	**387,417**	387,417
39,168,512	39,168,512	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	**391,685**	391,685
77,910,203	77,910,203		**779,102**	779,102

16.3 Owners of ordinary shares of the holding company are entitled to distributions approved by the holding Company, and the shareholding entitles the owners to vote at the general meetings, with one vote per share. All shares have the same right to holding Company's remaining net assets.

16.4 There are outstanding options granted to subscribe for ordinary shares of the holding Company granted under the employee share option plan as disclosed in Note 7.

16.5 NetSol Technologies Inc. 23901, Suite 2072 Calabasas Road, Calabasas CA 91302, is the parent company holding majority of issued capital of the Company. No shares are held by any other related party.

16.6 The holding Company is not subject to any externally imposed capital requirements for the financial years 2011 and 2010.

17. RESERVES

	Note	2011	2010
		Rupees in '000	
Capital reserve			
Premium on issue of ordinary shares		**273,016**	273,016
Revenue reserve			
Un - appropriated profit		**3,045,139**	2,376,591
Employee share option compensation reserve	17.1	**6,426**	6,426
		3,324,581	2,656,033

17.1 EMPLOYEE SHARE OPTION COMPENSATION RESERVE

	2011	2010
Balance at the beginning of the year	**6,426**	**-**
Options issued during the year	**-**	**6,426**
Balance at the end of the year	**6,426**	**6,426**

18. LONG TERM FINANCING

	Note	2011	2010
Term finance - secured	18.1	**75,000**	100,000
Loan from related party - unsecured	18.4	**85,332**	-
		160,332	100,000
Current portion		**(37,500)**	(37,500)
		122,832	62,500

18.1 The facility of term finance is available from Askari Bank Ltd up to Rs. 75 Million (2010: Rs. 200 Million) to finance the construction of new building. It carries mark up at the rate of 6 months Kibor + 2.75%, payable in semi-annual instalments within a period of 5 years including one year grace period. The first trench of loan was disbursed in December 2008.

18.2 Another facility of term finance is also available from Askari Bank Ltd up to Rs. 100 Million (availed Nil) (2010: Available Nil) to finance the construction of new building. It carries mark up at the rate of 6 months Kibor + 2.75%, payable in semi-annual instalments within a period of 5 years.

18.3 These facilities are secured by first exclusive charge of Rs. 580.8M over the land, building and equipment of the holding Company.

18.4 This represent interest free loan of USD 989,589 from the parent Company.

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011	2010
Present value of minimum lease payments	**41,119**	19,854
Current portion of obligations shown under current liabilities	**(16,968)**	(11,788)
	24,151	8,066

Present value of minimum lease payments have been discounted at an implicit interest rate ranging between 14.88 % to 17.07% (2010: 14.74% to 15.91%) 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:

	2011		
	Minimum Lease Payment	**Future Finance Charges**	**Present Value of Lease Liability**
Not later than one year	22,343	5,375	**16,968**
Later than one year but not later than five years	27,471	3,320	**24,151**
	49,814	8,695	**41,119**

	2010		
	Minimum Lease Payment	Future Finance Charges	Present Value of Lease Liability
Not later than one year	13,728	1,940	11,788
Later than one year but not later than five years	8,836	770	8,066
	22,564	2,710	19,854

		2011	2010
		Rupees in '000	
20. DEFERRED INCOME			
Opening balance		**553**	1,333
Addition during the year		**-**	-
		553	1,333
Amortized during the year		**(553)**	(780)
Un amortized gain on sale and lease back transaction		**-**	553

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.

21. TRADE AND OTHER PAYABLES			
Creditors		**39,465**	22,464
Accrued liabilities		**62,200**	50,450
Advance from customers		**3,354**	3,272
Interest accrued - secured		**11,430**	11,091
Due to related party	21.1	**330,873**	156,953
Withholding tax		**11,574**	4,626
Provident fund payable		**15,855**	14,953
Unclaimed dividend		**1,664**	885
Other payables		**40,366**	19,896
		516,781	284,590

		2011	2010
		Rupees in '000	
21.1 Due to related party			
Parent			
NetSol Technologies Inc.		**127,934**	113,560
Associated			
NetSol Consulting Services (Pvt) Ltd		**1,712**	1,373
NetSol Technologies Europe Ltd		**166,358**	32,291
NTPK (Thailand) Co. Ltd.		**34,869**	9,729
		330,873	156,953

21.2 This relates to normal course of business of the Group and is interest free.

21.3 The maximum aggregate amount outstanding due to related party at the end of any month during the period was Rs. 330.87 million (2010: Rs. 156.95 million).

22. EXCESS OF BILLING OVER REVENUE

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

23. SHORT TERM BORROWINGS

		2011	2010
Export refinance - secured	23.1	**200,000**	200,000

23.1 The facility for export refinance is availed from Askari Bank Ltd amounting to Rs 200 million (2010: Rs 200 million) and carry mark-up of 11% per annum (2010: 9% per annum). The due balance is payable in bi-annual instalments.

23.2 The facility is secured by way of first charge over the holding Company's current assets including stocks/receivable/book debts up to rupees 285.71 million.

24. CURRENT PORTION OF LONG TERM LIABILITIES

		2011	2010
Current portion of long term financing	18	**37,500**	37,500
Current portion of lease liability	19	**16,968**	11,788
		54,468	49,288

25. CONTINGENCIES & COMMITMENTS

25.1 Contingencies

There are no contingencies as at June 30, 2011 to which the Group is a party.

25.2 Commitments

25.2.1 The holding Company has issued worth Rs. 30.684 million (2010: Rs. 86.046 million) bank guarantees and bid bonds to various customers against sale of software and allied services.

25.2.2 The holding Company has Rs.21.69 million (2010: Rs. 100 million) commitment against the final payment of land acquired by it.

25.2.3 The subsidiary shall indemnify Innovation Group (EMEA) Limited up to £2,000,000 in case of physical damage or loss to its tangible property. However at present the subsidiary is not using / in possession of any tangible property of Innovation Group (EMEA) Limited.

			2011	2010
26.	**REVENUE**		**Rupees in '000**	
	Export Revenue			
	License		**599,720**	929,835
	Services		**1,137,257**	805,546
	Maintenance		**253,115**	173,015
	Local Revenue			
	License		**1,350**	-
	Services		**61,054**	120,206
	Maintenance		**5,969**	2,654
			2,058,465	2,031,256
27.	**COST OF REVENUE**			
	Salaries & benefits		**382,968**	293,666
	Consultancy charges		**93,856**	51,247
	Technical services		**-**	4,467
	Hardware and other material cost		**8,630**	42,467
	Software licences		**16,824**	30,656
	Staff training		**1,590**	1,611
	Rent, rates & taxes		**318**	15,153
	Travelling & conveyance		**80,021**	70,255
	Communication		**12,220**	11,059
	Utilities		**15,403**	10,668
	Printing & stationery		**2,119**	2,144
	Entertainment		**14,896**	6,884
	Insurance		**860**	1,929
	Vehicle running & maintenance		**8,214**	6,032
	Repair & maintenance		**11,012**	11,142
	Certifications		**4,760**	5,892
	Fee & subscription		**1,828**	1,009
	Depreciation	5.3	**92,731**	58,583
	Amortization of leased assets	5.5	**6,177**	6,416
	Amortization of intangible assets	6.1	**71,314**	34,066
			825,741	665,346

		2011	2010
		Rupees in '000	
28. SELLING AND PROMOTION EXPENSES			
Salaries & benefits		**66,111**	40,530
Staff training		**131**	29
Rent, rates & taxes		**10,736**	10,633
Travelling and conveyance		**16,986**	12,870
Communication		**4,087**	3,380
Utilities		**1,986**	1,305
Printing & stationery		**390**	791
Entertainment		**2,718**	1,746
Insurance		**218**	192
Vehicle running expenses		**1,837**	1,575
Repairs and maintenance		**3,013**	2,360
Commission on sales		**10,438**	3,963
Advertisement			6,536
Tender money		**22**	7
Sale promotional expenses		**24,766**	10,863
		143,439	96,780
29. ADMINISTRATIVE EXPENSES			
Directors remuneration		**12,141**	13,154
Salaries and benefits		**107,390**	87,274
Staff training		**362**	584
Management fee		**51,696**	51,558
Rent, rates and taxes		**3,936**	2,857
Travelling and conveyance		**17,309**	14,032
Communication & postage		**3,643**	2,956
Printing and stationery		**1,001**	579
Utilities		**6,591**	6,877
Entertainment		**4,191**	3,164
Insurance		**4,499**	1,559
Advertisement		**754**	1,306
Vehicle running expenses		**10,541**	8,218
Repairs and maintenance		**5,381**	4,603
Legal and professional charges		**9,797**	5,210
Auditors remuneration	29.1	**1,650**	2,350
News papers & periodicals		**136**	155
Security expenses		**285**	1,032
Office supplies		**1,571**	1,194
Charity & donation	29.2	**20,424**	3,349
Fee & subscription		**5,639**	2,674
Miscellaneous expenses		**208**	150
Provision for doubtful debts		**42,494**	-
Depreciation	5.3	**30,138**	18,133
Amortization of leased assets	5.5	**2,181**	2,293
		343,958	235,261
29.1 Auditors remuneration			
Audit fee		**900**	**800**
Certifications of group reporting		**700**	**850**
Professional services		**450**	**450**
Out-of-pocket expenses		**350**	**250**
		2,400	**2,350**

29.2 Charity & donation

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

30. RETIREMENT BENEFIT

Staff salaries and benefits includes the amount of provident fund contributed by the Group.

	2011	2010
	Rupees in '000	
31. OTHER OPERATING EXPENSES		
Loss on disposal of assets	**1,353**	18,126
Loss on foreign currency translation	**-**	1,066
Others	**15,969**	20,001
	17,322	39,193
32. OTHER INCOME		
Income from financial assets		
Profit on bank deposits	**3,926**	6,259
Profit on short term investment	**1,248**	920
Mark up on loans	**34**	-
	5,208	7,179
Income from non-financial assets		
Gain on foreign currency translation	**101,499**	-
Amortization of deferred revenue	**553**	780
Rental income	**-**	1,778
Miscellaneous income	**-**	103
	102,052	2,661
	107,260	9,840
33. FINANCE COST		
Lease finance charges	**3,830**	3,655
Interest on loans	**17,767**	19,199
Lease documentation charges	**32**	8
Bank charges	**1,974**	1,779
	23,603	24,641
34. EARNINGS PER SHARE		
Profit after taxation for the year	**765,936**	964,679
Average number of ordinary shares in issue during the year	**77,910**	77,910
Basic - In Rupees	**9.83**	12.38
Diluted		
Profit after taxation for the year	**765,936**	964,679
Average number of ordinary shares in issue during the year	**78,241**	77,910
Earning per share - Rupee	**9.79**	12.38

35. TAXATION

Income of the Group 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 Group generated from other than core business activities.

	2011	2010
	Rupees in '000	
Reconciliation of income tax expense for the year		
Accounting profit	**811,662**	979,875
Enacted tax rate	**35%**	35%
Tax on accounting profit at enacted rate	**284,082**	342,905
Tax effect of income exempt from tax	**(280,408)**	(336,192)
Tax effect of income taxed at different rates	**(1,150)**	(3,265)
	2,524	3,448

The Group 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 the Group's appeals are not accepted at various forums.

36. 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 Group were as follows:

	Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
			Rupees in '000			
Managerial remuneration	**4,000**	4,000	**4,770**	4,770	**142,599**	98,565
Retirement benefits	**-**	-	**219**	219	**9,929**	2,782
Rent and house maintenance	**1,600**	1,600	**1,908**	1,908	**57,040**	39,426
Utilities	**400**	400	**477**	477	**14,260**	9,857
Medical expenses	**42**	108	**123**	111	**5,336**	2,579
Share options	**114**	135	**137**	108	**1,731**	68
Total	**6,156**	6,243	**7,634**	7,593	**230,895**	153,277
No. of Persons	**1**	1	**3**	3	**190**	130

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

37. CAPITAL MANAGEMENT

The primary objective of the Group'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 Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group 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 Group is sufficient to meet the requirements of the business.

38. TRANSACTION WITH RELATED PARTIES

Related parties comprise of holding company, associated undertakings, directors of the Company, key employees and staff retirement fund. The Group 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 Group	Nature of transactions	2011	2010
			Rupees in '000	
(i)	Parent	Management fee	**51,696**	51,558
(ii)	Associated undertaking	Provision of services	**454,082**	227,657
		Expenses Incurred	**32,185**	36,173
		Purchase of services	**9,209**	1,200
(iii)	Post employment benefit	Contribution to defined contribution plan	**19,663**	7,012

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

39. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial Risk Management

The Group's activities are exposed to a variety of financial risks. The Board of Directors of the holding company has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance. The holding Company sets policies, strategies and mechanisms, which aim at effective management of these risks within its unique operating environment. The key financial risks include credit risk, liquidity risk, interest rate risk, and foreign currency risk .

Risk management is carried out in accordance with established policies and guidelines approved by the Board of Directors of the holding Company. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management objectives and policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

(a) 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. To reduce exposure to credit risk the Group 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. Credit risk of the Group arises principally from the trade debts, loans and advances, trade deposits and other receivables. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows:

		2011	2010
		Rupees in '000	
Financial Assets			
Trade debts	39.1	**1,102,372**	1,054,656
Loans and advances		**1,991**	18,144
Security deposits		**7,340**	4,900
Other receivables		**52,742**	66,588
Due from related parties		**35,257**	27,224
Short term investment		**-**	22,120
Bank balances	39.2	**220,688**	216,837
		1,420,390	1,410,469

39.1 The Group does not have significant exposure to any individual customer. The Group has made allowances, where necessary, for potential losses on credits extended.

39.2 Bank balances are held only with reputable banks with high quality credit ratings.

(b) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group follows an effective cash management and planning policy to ensure availability of funds and to take appropriate actions for new requirements. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	2011				
	Carrying amount	Contractual cash flows	One year or less	Two to five years	More than five years
	Rupees in '000				
Non-derivative financial liabilities					
Finance lease liability	41,119	49,814	22,343	27,471	-
Long term loan	160,332	179,823	52,735	127,088	-
Trade and other payables	516,781	612,707	612,707	-	-
Short-term borrowings	200,000	222,000	222,000	-	-
	918,232	**1,064,344**	**909,785**	**154,559**	**-**

	2010				
	Carrying amount	Contractual cash flows	One year or less	Two to five years	More than five years
	Rupees in '000				
Non-derivative financial liabilities					
Finance lease liability	19,854	22,564	13,728	8,836	-
Long term financing	100,000	126,652	49,874	76,778	-
Trade and other payables	284,590	284,590	284,590	-	-
Short-term borrowings	200,000	218,000	218,000	-	-
	604,444	**651,806**	**566,192**	**85,614**	**-**

The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rate effective as at 30 June. Rates of interest / mark - up and their maturities are given in the respective notes.

(c) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from bank, term deposits and deposits in profit and loss/saving accounts with banks and investments in mutual funds. At the balance sheet date profile of the Group’s interest-bearing financial instrument is:

	2011	2010
	Rupees in '000	
Financial assets		
Bank balances	**95,387**	175,607
Financial Liabilities		
Finance lease liability	**41,119**	19,854
Long term loan	**160,332**	100,000
Short-term borrowings	**200,000**	200,000
	401,451	319,854

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the GHroup’s profit net of tax.

	2011	2010
	Rupees in '000	
Impact on Profit and loss account (net of tax)		
As at 30 June		
100 bps increase will result in decrease in profit by	**2,455**	2,938
100 bps decrease will result in increase in profit by	**2,455**	2,938

(d) Foreign Currency Risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The Group is exposed to foreign currency risk on trade debts, payables and revenues which are entered in a currency other than Pak Rupees. Majority of the revenue of the Group is currencies other than Pak Rupees. The Group also hold cash and cash equivalents denominated in foreign currencies for working capital purposes.

Sensitivity analysis

The following analysis demonstrates the impact of a 5% strengthening/weakening of the Pak Rupee against other currencies at 30 June on equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	2011	2010
	Rupees in '000	
Impact on Profit and loss account (net of tax)		
As at 30 June		
Strengthening	**92,205**	86,280
Weakening	**(92,205)**	(86,280)

(e) Fair Value of Financial Assets and Liabilities

The carrying values of financial assets and financial liabilities reported in balance sheet approximate their fair values.

40. SEGMENT REPORTING

For Management purposes, the Group’s operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different to industries.

The Group measures the performance of its operating segments through a measure of segment's gross profit or loss referred to as segment results. Segment results are determined by deducting directly attributable segment expenses from segment revenues. The accounting policies of the reportable segments are the same as that of the Group's accounting policies. This measure is reported to the CODM for the purposes of resource allocation and assessment of performance. All other expenses are reported separately to CODM.

Intersegment revenue is recorded at fair market price.

Segment assets and liabilities are not regularly provided to the CODM. The Group has elected as provided under IFRS 8 ‘Operating Segments’ (amended) not to disclose a measure of segment assets or liabilities where these amounts are not regularly provided to the CODM.

With respect to geographical regions, revenue is generally allocated to regions based on the location where the products and services are provided.

Fixed assets used in the business or liabilities contracted have not been identified to any of the reportable segments, as the fixed assets and services are used interchangeably between segments. Accordingly, no disclosure relating to total segment assets and liabilities are made.

Reportable Segments

The CODM has identified the segments which may earn revenues and incur expenses and whose operating results are subject to regular. Following are identified segments.

(i) Global Leasing and Financial Solutions (NFS)

The Group is primarily engaged in the selling of licences of its state-of-the-art NetSol Financial Suit (NFS), its customisation and maintenance. This segment mainly operates in Asia Pacific region.

(ii) Information Security (IS)

The Group globally offers a full range of Information Security services to help companies safeguard the confidentiality, veracity, and accessibility of information regarding their valuable assets.

(iii) Software Services and Solutions (SSS)

The Group is globally engaged in providing customised solutions as well as other IT Products.

(iv) Business Process Outsourcing (BPO)

The Group provides IT Related Outsourcing services mainly in the USA and European regions.

Except as indicated above, no operating segments have been aggregated to form the above reportable.

NOTES TO THE CONSOLIDATED ACCOUNTS

40.1 Segment revenues and results

Following is an analysis of the Group's revenue and results by reportable segment.

	2011				
	NFS	IS	SSS	BPO	Total
	Rupees in '000				
Revenue					
External sales					-
Licence	599,720	750	600	-	**601,070**
Services	849,382	29,887	33,885	285,157	**1,198,311**
Maintenance	253,115	-	5,969	-	**259,084**
Inter-segment sales		-	-	-	**-**
Total revenue	1,702,217	30,637	40,454	285,157	**2,058,465**
Cost of revenue	(401,141)	(55,912)	(174,836)	(193,852)	**(825,741)**
Segment results	1,301,076	(25,275)	(134,382)	91,305	**1,232,724**
Unallocated corporate expenses:					
Selling and promotion expenses					**(143,439)**
Administrative expenses					**(343,958)**
Other operating expenses					**(17,322)**
Other income					**107,260**
Finance cost					**(23,603)**
Taxation					**(2,524)**
Profit after taxation					**809,138**
Depreciation & amortisation	102,159	8,039	14,383	45,640	170,221

	2010				
	NFS	IS	SSS	BPO	Total
	Rupees in '000				
Revenue					
External sales					
Licence	929,835	-	-	-	**929,835**
Services	562,352	76,987	60,639	225,774	**925,752**
Maintenance	173,015	-	2,654	-	**175,669**
Inter-segment sales					**-**
Total revenue	1,665,202	76,987	63,293	225,774	**2,031,256**
Cost of revenue	(249,618)	(75,943)	(180,130)	(159,657)	**(665,348)**
Segment results	1,415,584	1,044	(116,837)	66,117	**1,365,908**
Unallocated corporate expenses:					
Selling and promotion expenses					**(96,780)**
Administrative expenses					**(235,261)**
Other operating expenses					**(39,193)**
Other income					**9,840**
Finance cost					**(24,641)**
Taxation					**(2,643)**
Profit after taxation					**977,230**

Depreciation & amortisation	40,310	7,499	40,057	11,199	99,065

*Key

NFS = NetSol Financial Solutions
SSS = Software Services and Solutions
IS = Information Security
BPO = Business Process Outsourcing

40.2 Revenue by geographic regions

	Pakistan	Asia Pacific	Australia & USA	Others	Total
	Rupees in '000				
Year ended 2011	68,373	1,454,796	382,605	152,691	2,058,465
Year ended 2010	122,860	1,454,368	171,684	282,344	2,031,256

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

40.3 Revenue from major customers

The revenue from major customers during the year was Rs.644 million (2010: 274 million).

40.4 Non current assets

Net book value of non-current assets held in foreign countries were Rs. 17.82 million (2010: Rs. 15.40)

41. ANNUAL SOFTWARE DEVELOPMENT CAPACITY

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

42. CORRESPONDING FIGURES

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

Note	From	Note	To	2011	2010
				Rupees in '000	
16	Cash and bank balances	15	Short term investment	**22,120**	22,120

43. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 09, 2011 by the Board of Directors.

44. FIGURES

Figures have been rounded off to the nearest thousand rupee

CHIEF EXECUTIVE OFFICER **DIRECTOR**