



NetSol
Technologies
Limited

ANNUAL
REPORT
2013





This Year's report

We hope you find it useful and informative.

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Company Profile

BOARD OF DIRECTORS

Naeem Ullah Ghauri
Chairman/Non-Executive Director

Salim Ullah Ghauri
Chief Executive Officer

Vaseem Anvar
Independent Director

Shahid Javed Burki
Non-Executive Director

Fida Hussain
Independent Director

Najeeb Ullah Ghauri
Non-Executive Director

Omer Shahab Ghauri
Executive Director

AUDIT COMMITTEE

Vaseem Anvar
Chairman

Fida Hussain
Member

Najeeb Ullah Ghauri
Member

COMPANY SECRETARY

Boo-Ali Siddiqui

CHIEF INTERNAL AUDITOR

Muhammad Abdul Wahab Hafeez

AUDITORS

Kabani & Company
Chartered Accountants
SKP House
321-Upper Mall, Lahore.

LEGAL ADVISOR

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

BANKERS

Askari Bank Limited
Bank Al Habib Limited
First National Bank Modaraba
First Habib Modaraba
MCB Bank Limited
Bank Al falah Limited

SHARE REGISTRAR

Vision Consulting Limited
3-C, LDA Flats, Lawrence Road, Lahore.
Tel: +92-42-36375531,36375339
Fax: +92-42-36312550

CONTACT DETAILS

Registered Office

NetSol IT Village
(Software Technology Park),
Lahore Ring Road, Ghazi Road Interchange,
Lahore Cantt. 54792, Pakistan.
Tel: +92-42-111-44-88-00, 35727096-7
Fax: +92-42-35701046, 35726740

Rawalpindi Office

House No. 04, Safari Villas, Bahria Town
Rawalpindi.
Tel: +92-51-5707011
Fax: +92-51-5595376

Karachi Office

43/1/Q, Amna Villa # 1
Block # 06, P.E.C.H.S, Karachi.
Tel: +92-21-111-638-765
111-672-672
Fax: +92-21-431-3464

WEB

www.netsolpk.com
info@netsolpk.com

Vision & Mission Statement



Vision Statement

To become a leading and world class provider of IT solutions and services in each market of operations, by leveraging our global positioning and creating strong potential, resulting in exceptional value for shareholders and great environment for our employees.

Vision Phrase	Explanation
A leading and world class provider	We will continue to invest in highest quality certifications, processes, infrastructure and product development.
In each market	We will focus individually on each market, while growing globally.
By leveraging our global positioning	We will fully use our global solutions, customer base, presence and knowledge.
Creating strong growth potential	We will invest in capacity, R&D and emerging technology markets.
Exceptional value for shareholders	We will provide above average and superior returns to our shareholders.
Great environment for our employees	A caring environment that fosters growth and development, learning, openness, opportunities, Creativity.

Mission Statement

- To be the premium solutions vendor to the global leasing and finance businesses.
- We will leverage our market leading position in APAC, and our European and US presence, to continue to drive strong revenues from our current generation of leasing and financing solutions, and successfully grow our next generation platform.
- We will leverage our world class software development capabilities to develop new IP in business segments where we can add value.
- We will excite, motivate, train and reward our employees to be the best in their domain.
- We will tirelessly explore ways to improve the breadth and depth of our offerings, both organically and through M&A.
- We ultimately aim to enhance shareholder value, incrementally and exponentially, by growing existing streams as well as building new streams through R&D, partnerships, acquisitions and spin-offs.

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.



Services Portfolio

Industries we serve

Lease & Finance

Information Technology

Banking

Insurance

E-Government

Health

Manufacturing

Services we offer

Application Development & Maintenance

IT Consulting & BPR

System Integration

Technology Outsourcing

Information Security Consulting

Software Process Consulting

Enterprise Solutions

Business Intelligence Consulting



Major Customers



Global

Mercedes Benz Finance Company Limited Japan
Mercedes Benz Financial Services Korea
Daimler Financial Services India
Mercedes Benz Auto Finance China
Toyota Motor Finance Company China
Volvo Automotive Finance (China) Company Limited
Mercedes-Benz Leasing Thailand
Toyota Leasing Company Thailand
Mercedes Benz Financial Services Malaysia
Mercedes Benz Financial Services Singapore
BMW Finance Hong Kong
Mercedes Benz Hong Kong
Mercedes Benz Financial Services Australia
Mercedes Benz Financial Services Taiwan
Mercedes Benz Financial Services New Zealand
BMW Automotive Finance China Company Limited
CNH Capital Australia
Finlease Company Limited Mauritius
Al- Amthal Leasing Saudi Arabia
Nissan Motor Company Limited Australia
Minsheng Financial Leasing Company Limited
GAC-Sofinaco
The Innovation Group (EMEA) Limited UK
The Innovation Group USA
The Innovation Group Australia
Atheeb Intergraph Saudi Company Limited
Atheeb NetSol Saudi Company
Banco Santander China
Hyundai Capital Services
P.T. Summit OTO Finance Indonesia
Pepper Group Australia

Local

State Bank of Pakistan
Information Technology Department, Punjab
Excise & Taxation Department, Islamabad
Excise & Taxation Department, Government of Sind
Mobilink Pakistan
Provincial Assembly of Khyber Pakhtunkhwa
Pakistan Information Technology Board
Pak Telecom Mobile Limited - Ufone

Testimonials



Mercedes-Benz

"Mercedes-Benz Financial Services Australia Pty Ltd have been utilizing the products & development services of NetSol since 1998. We have been involved in the co-design & development of Proposal Management & Settlements Management Systems created especially for use in the Australian Market. Both these products have been in production at DaimlerChrysler Financial Services for the past three years.

Our relationship with NetSol will be consolidated with the completion of this project & we look forward to our continuing association with Mr. Salim Ghauri & his team."

Wilfried Plath

Mercedes-Benz Financial Services - Australia



东风汽车有限公司
DONGFENG MOTOR COMPANY LIMITED



"NetSol is a key business partner, important for our success as our core business runs on the NetSol Financial Suite. Their customer service, response times and thorough knowledge have helped us grow our business at a higher rate than any of our competitors."

Zhou Yong

Dong Feng - Nissan



中国民生银行
CHINA MINSHENG BANKING CORP. LTD.

"The rollout of the system is a milestone for both Minsheng Financial Leasing and NetSol as we jointly developed a core system - the most advanced system - in the real sense for China's financial leasing industry."

Mr. Kong Linshan

President - Minsheng Financial Leasing

Chairman's Message



"It gives me great pleasure to highlight that this has been a great year for NetSol, with the company reaching several important milestones.."

“I wish all our stakeholders and customers a strong and rewarding association with the company.”

It gives me great pleasure to highlight that this has been a great year for NetSol, with the company reaching several important milestones. We now truly stand in the league of successful global IT businesses. Our global customer base has grown to over 30 blue chip clients. As a result of continued investment in human resource to support our expanding business, our employee base has grown to over 900 strong. Above all, the growth in this year has helped us pick up a momentum that should see us reaching much higher levels of revenue and profitability. We are now very upbeat about our growth prospects, and our human resource challenges would require us to further invest not only in the strength, but also the quality and development, of our human resource.

NetSol has come a long way since its first major software development contract. Today, we are a mature company, with an established and globally recognized

brand and a robust service delivery model. We continue to transform leasing businesses of all sizes with our innovative platforms. It is, therefore, no surprise that our financial performance remains strong, and our KPIs continue to improve. Looking forward, the company is well placed to consolidate its gains in its current markets and benefit from the expected turnaround in Europe and US.

I wish all our stakeholders and customers a strong and rewarding association with the company.



Naeem Ghauri
Chairman

Lahore
September 6, 2013

CEO's Message

“One of the best years for NetSol in terms of touching new levels of success, Alhamdulillah.”

This has been one of the best years for NetSol in terms of touching new levels of success, Alhamdulillah. Our revenues grew by an amazing 20% on the back of a strong sales performance, which saw us add exciting new customers in the Asia Pacific region. I expect this sales momentum to continue into the next year, as we prepare to extend our global offerings to new markets. Our management team is very excited to see us maintain our reputation as a leading global enterprise software supplier to the world's financing businesses.

NetSol takes great pride in achieving a highly dynamic and mature business model, driven by highly qualified and experienced resources, and world class software development processes. Our global delivery centre at Lahore continues to develop with rapid investments in infrastructure and human resource to accommodate our growing business.

In pursuit of our dream to develop NetSol into a world class organization, we are now investing in further improving our work environment and quality processes. Our Lahore office now houses a highly modern and conducive work environment to allow our growing human resource to collaborate effectively and develop professionally. It is our belief that a mature and developed business organization, such as NetSol, owes a lot to the society and environment. We take our corporate social responsibility, seriously. It is in line with our values and culture that we continue to invest in social and environmental causes. This year, we made significant investment in improving our energy efficiency by improving practices and using more energy efficient equipment. We also contributed to several welfare and educational causes.

By the Grace of Allah, NetSol should continue to emerge as a most respected and dynamic business.

Salim Ghauri
Chief Executive Officer

Lahore
September 6, 2013



"NetSol takes great pride in achieving a highly dynamic and mature business model, driven by highly qualified and experienced resources, and world class software development processes."

NetSol Events



- 1 NetSol Innovation annual dinner
- 2 NetSol wins Terradata ICT Highest Export Award
- 3 NetSol Rings closing bell at NASDAQ
- 4 Management Meeting in Bangkok
- 5 Peter Heyward Australian High Commissioner Visits NetSol
- 6 Mian Nawaz Sharif Visits NetSol
- 7 The CHAMPIONS.. NetSol Won Corporate Permeir League Cricket Trophy



8

- 8 Stuttgart Mercedes Benz City
- 9 NetSol inaugrate state of art Gym for its resources
- 10 UK-Pakistan Investment Conference Lancaster House
- 11 NetSol all staff Annual Dinner
- 12 14 August Celebrations
- 13 ISUZU team Visits NetSol
- 14 NetSol Team Thailand
- 15 Project kick Off Meeting Summit OTO Indonesia signing ceremony



9



12



10



13



14



11



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Shareholders' Information

Registered Office

NetSol IT Village (Software Technologies Park),
Lahore Ring Road, Ghazi Road Interchange,
Lahore Cantt. 54792, Pakistan.
Tel: +92-42-111-44-88-00, 35727096-7
Fax: +92-42-35726740, 35701046

Listing on Stock Exchange

Equity shares of NetSol Technologies Ltd are listed & traded on Karachi Stock Exchange since August 2005, on Islamabad Stock Exchange since March, 2009 and Lahore Stock Exchange since March, 2010.

Listing Fees

Annual listing fees for the financial year 2012-2013 has been paid to all the Stock Exchanges.

Stock Symbol

The stock Symbol for dealing in equity shares of the company is "NETSOL"

Shares Registrar

Vision Consulting Ltd.,
3-C, LDA Flats, Lawrence Road, Lahore.
Tel: +92-42-36375531, 36375339
Fax: +92-42-36312550

The Share Registrar has online connectivity with Central Depository Company of Pakistan Limited (CDC). It undertakes 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 & Volume

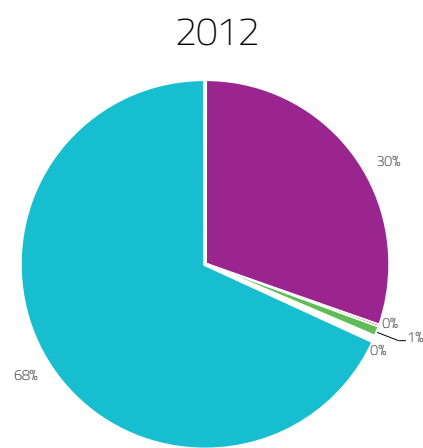
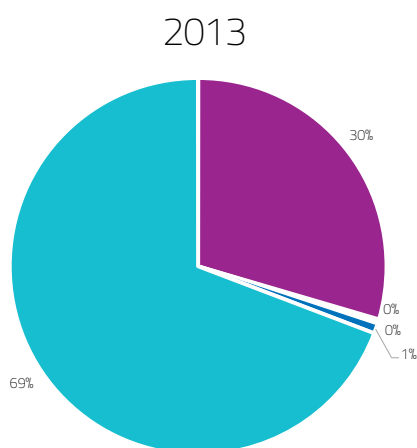
The monthly high, low prices and the Monthly Turnover of shares traded on the Karachi Stock Exchange (KSE) during the financial year 2013 are as under:

Month	Share Price on KSE (Rs.)		Monthly Turnover
	Highest	Lowest	
Jul-12	15.95	13.76	4,935,672
Aug-12	17.08	15.00	6,162,000
Sep-12	22.38	16.30	35,048,000
Oct-12	21.85	18.37	8,789,000
Nov-12	19.19	16.50	18,774,000
Dec-12	20.89	18.57	13,971,500
Jan-13	20.99	16.60	9,440,000
Feb-13	24.75	19.05	29,914,500
Mar-13	24.48	20.52	7,042,000
Apr-13	25.88	20.72	16,775,500
May-13	27.9	24.80	18,063,500
Jun-13	37.44	28.35	24,123,000



Statement of Value Addition

	2013	% age	2012	% age
RUPEES IN THOUSAND				
VALUE ADDITION				
Revenue	2,632,779		2,189,855	
Other Income	185,137		81,413	
	2,817,916		2,271,268	
Less Operation & General Expenses	626,402		499,809	
Value Added	2,191,514	100%	1,771,459	100%
VALUE DISTRIBUTION				
To Employee				
Salaries & other employee benefits	647,623	30%	538,039	30%
To Government				
Income tax & other taxes	2,706	0%	3,638	0%
To Financial Institutions				
As mark-up on borrowings	8,847	0%	14,677	1%
To Charitable Institution				
	15,457	1%	7,715	0%
To Provider for Maintenance & Expansion of Assets				
Depreciation / Amortization	357,273	16%	285,966	16%
Retained Profit	1,159,608	53%	921,424	52%
	2,191,514		1,771,459	



■ To Employee
 ■ To Government
 ■ To Financial Institutions
 ■ To Charitable Institution
 ■ To Provider for Maintenance & Expansion of Assets

Six Years' Summary

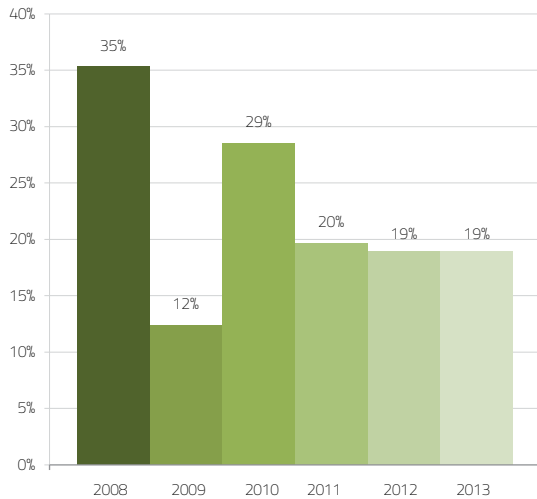
	2013	2012	2011	2010	2009	2008
FIXED CAPITAL EXPENDITURE						
Tangible	1,894,191	1,361,923	1,240,533	662,257	580,995	537,541
Intangibles	2,873,958	2,501,052	2,073,091	1,493,810	871,832	435,688
	4,768,149	3,862,975	3,313,624	2,156,067	1,452,827	973,229
DEFERRED EMPLOYEE CONTRIBUTION EXPENSE	-	54	750	2089	-	-
NON CURRENT ASSETS						
LONG TERM INVESTMENT	15,188	15,188	15,188	15,188	15,188	15,188
LONG TERM LOANS & ADVANCES	-	-	-	-	-	7,390
WORKING CAPITAL	1,534,796	1,277,790	850,929	1,234,983	1,045,947	1,063,027
NET ASSETS EMPLOYED	6,318,133	5,156,007	4,180,491	3,408,327	2,513,962	2,058,834
EQUITY & LIABILITIES						
SHAREHOLDERS' EQUITY	6,125,402	4,954,932	4,033,508	3,337,208	2,378,918	1,999,046
NON CURRENT LIABILITIES	192,731	201,075	146,983	71,119	135,044	59,788
TOTAL FUNDS INVESTED	6,318,133	5,156,007	4,180,491	3,408,327	2,513,962	2,058,834
REVENUE	2,632,779	2,189,855	1,811,375	1,845,022	1,081,395	1,298,120
COST OF REVENUE	1,087,478	833,842	674,188	529,631	628,826	478,487
GROSS PROFIT	1,545,301	1,356,013	1,137,187	1,315,391	452,569	819,633
OPERATING EXPENSES	385,693	434,589	343,499	363,527	192,532	164,268
NET PROFIT FOR THE PERIOD	1,159,608	921,424	793,688	951,864	260,037	655,365
EARNING PER SHARE	14.86	11.83	10.19	12.22	4.03	11.82
RESERVES & SHARE CAPITAL						
Reserves	5,339,672	4,175,817	3,254,393	2,558,093	1,599,803	1,401,358
Share Capital	785,717	779,102	779,102	779,102	779,102	597,375

Key Financial Ratios

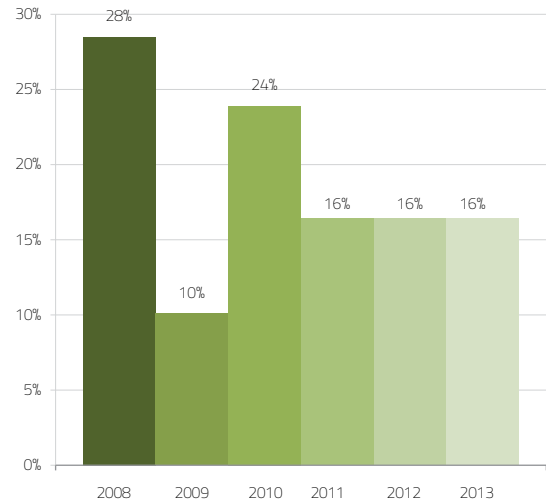
		2013	2012	2011	2010	2009	2008
Working Capital	Rupees in thousand	1,534,796	1,277,790	850,929	1,234,983	1,045,947	1,063,027
Gross Profit	%	59%	62%	63%	71%	42%	63%
Net Profit Margin	%	44%	42%	44%	52%	27%	54%
Return on Equity	%	19%	19%	20%	29%	12%	35%
Return on Assets	%	16%	16%	16%	24%	10%	28%
Earning Power	%	3%	3%	3%	7%	1%	10%
Earning Per Share	Rupees	14.86	11.83	10.19	12.22	4.03	11.82
Book Value Per Share	Rupees	77.96	63.60	51.77	42.83	30.53	33.46
Outstanding No. of Shares	Shares	78,571,703	77,910,203	77,910,203	77,910,203	77,910,203	59,737,495
Debtor Turnover	Times	2.73	2.67	2.00	2.15	1.73	3.00
Current Ratio	Times	3.05	2.66	2.08	3.16	3.60	3.54

Financial Summary

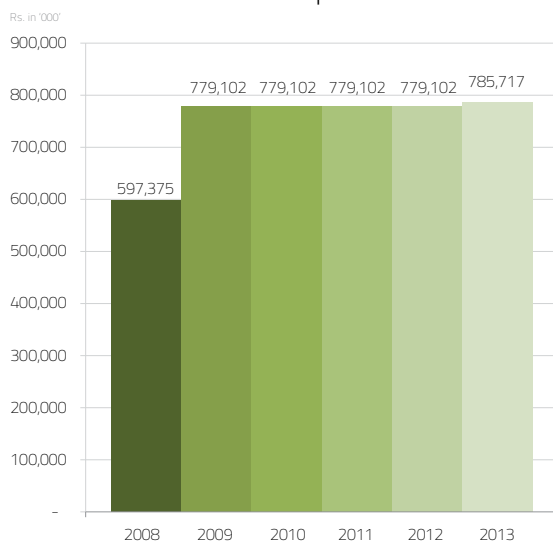
Return on Equity



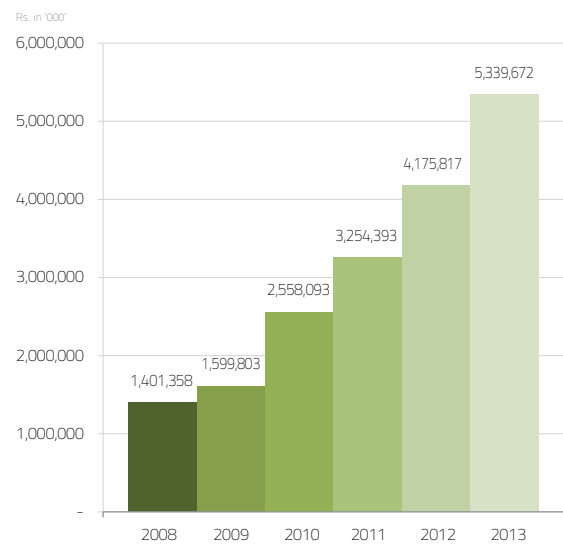
Return on Assets



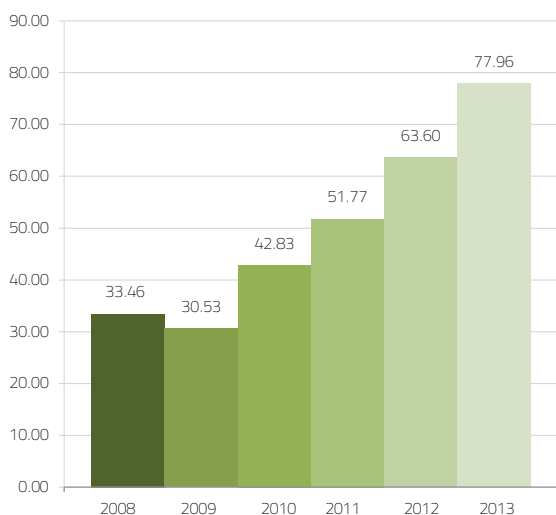
Share Capital



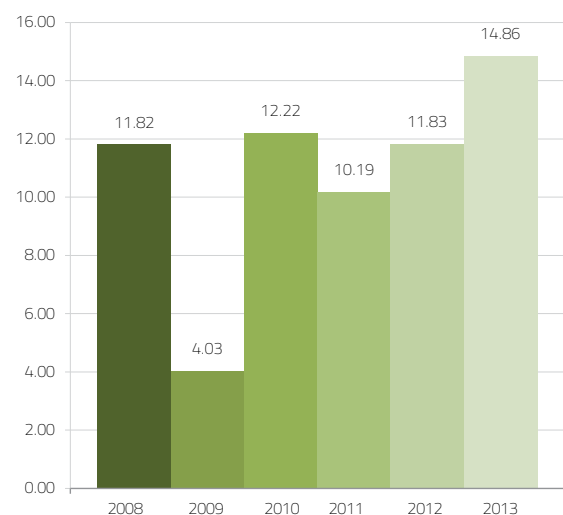
Reserves



Book Value Per Share



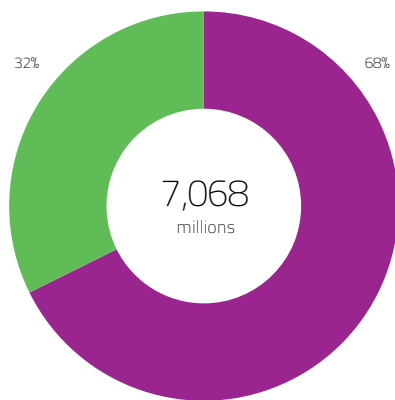
Earning Per Share



Financial Summary

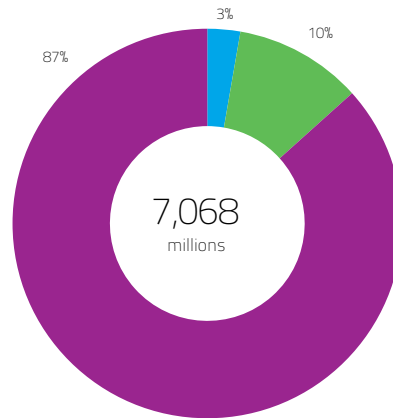


Assets



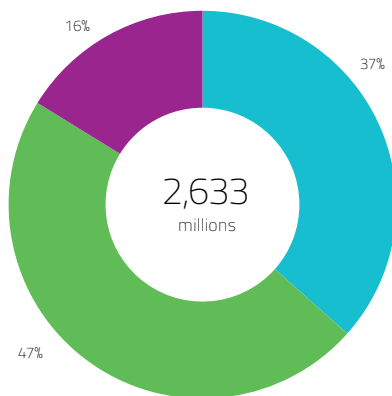
■ Non-Current Assets ■ Current Assets

Equity & Liabilities



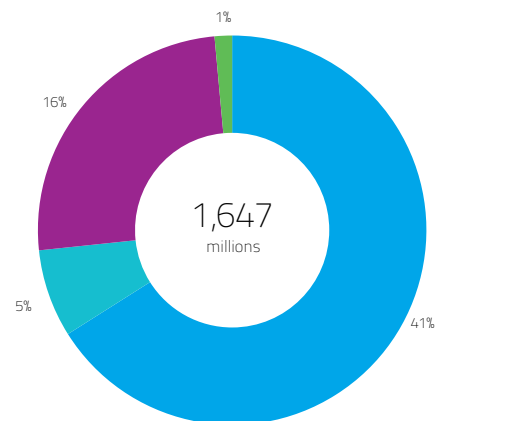
■ Share Capital & Reserves ■ Non-Current Liabilities ■ Current Liabilities

Revenue



■ Services ■ Maintenance ■ License

Expenses



■ Administrative expenses ■ Operating expenses
■ Cost of revenue ■ Selling and promotion expenses

Note: Expenses are shown as % of sales.

Board of Directors



Left to right:

Omer Shahab Ghauri (Executive Director), **Najeeb Ullah Ghauri** (Non-Executive Director), **Shahid Javed Burki** (Non-Executive Director),



Naeem Ullah Ghauri (Non-Executive Director/Chairman), **Salim Ullah Ghauri** (Director/Chief Executive), **Fida Hussain** (Independent Director), **Vaseem Anvar** (Independent Director)

Directors' Report to the Members

for the Year Ended June 30, 2013

On behalf of the Board of Directors, I am pleased to present the 17th Annual Report of the Company along with audited financial statements for the year ended June 30, 2013 and auditors' report thereon.

GENERAL OVERVIEW

During the past year, Pakistan's economy continued to face rigorous challenges including growing power shortfall, rise of extremism, depreciation of rupee and bleeding public sector enterprises. Owing to these challenges, the country was not able to achieve the target of 4.3% GDP growth as the GDP growth rate was recorded at 3.6% for FY 2012-13. It means we had a drop in our growth rate as compared to last year. To meet the demands of the growing population and to create job opportunities for the youth that enter into the job market each year, the economy of the country needs to grow at around 8.0% per annum. The focus of the incoming new government formed due to recent elections in May-13 should, therefore, be on key issues including electricity generation, law & order and revival of economy. As the economic activity revives in the country owing to these steps, we should be able to increase our GDP rate gradually. The services sector, despite a lower growth figure this year, has been the main driver of the economy and its contribution to the GDP has yet again witnessed an increase. On the global front, industry is showing a strong demand for a wide-range of IT products and services, as businesses increasingly view technology as a vital competitive advantage. While uncertainty in the euro zone still persists and could derail the tentative economic recovery in developed economies like Europe, the risk of a financial and economic meltdown with unprecedented

consequences seems more remote than it did a year ago. Overall, developed economies are striving to return to higher levels of competitiveness while fighting the high levels of unemployment. At the same time, developing and emerging economies are focusing on innovation as a prerequisite to sustain the high economic growth rates they have experienced in the past decade.

The IT Industry in Pakistan continued to grow at a reasonable pace in the past fiscal year. Increasing global demand for technology products and services has brightened the outlook amongst IT industry. Although many threats to growth have been subsided, a number of factors like power shortfall, terrorism and natural disaster like flood, could still potentially derail or minimize the growth.

NETSOL FINANCIAL SUITETM (NFS)

Maintaining a strong foothold in Asia Pacific, NetSol Technologies has experienced the most activity in the region in fiscal year 2013. In April NetSol's second Australian office was established, this time in Sydney, following a contract sign off with a big finance company. This deal marks a new beginning for NetSol in Australia and the company looks forward to greater opportunities in the future.

We also got an opportunity in Indonesia by getting a new contract signed by a major Auto Captive player for the implementation of the NetSol Financial SuiteTM. This is a

totally new market for NetSol and there is lots of demand of our product. We also believe that we will be able to capture more customers in this region in future. NetSol Technologies was also able to further capitalize on the Chinese market's potential by signing contracts with two major companies. In addition to the initial license and services income, we anticipate to get incremental revenues from these new deals as well in the form of additional services and maintenance income.

OUTSOURCING

One of the emerging areas in the information technology industry is the outsourcing business. One of the stable businesses that currently we have, is the outsourcing joint venture with Innovation Group plc, UK, known as NetSol Innovation (Pvt) Ltd. The company was founded in 2005 and since then its number of resources are growing at a reasonable pace. The company has its client base in all three major regions of the world including Europe, Australia and the North America. Despite the current financial meltdown in Europe including the UK, the growing number of resources shows the confidence of the customers in our professionalism and the quality of our services our resources provide.

IT CONSULTING AND SERVICES

We also offer a broad range 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, 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 Security System services are being provided by our InfoSec division. This division provides services to secure all corporate information and its supporting processes including systems and networks. Our Information Security Services is a group of 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; ISO 27001 consultancy, information security assessment, penetration testing and vulnerability assessment, disaster recovery planning and secure network design etc. InfoSec is also partnered with global giants including IBM Internet Security Systems and Kaspersky Labs.

NEXT GENERATION PRODUCT (R2)

Keeping in view the worldwide changes in the leasing and finance sector and the ever changing IT industry, we took the initiative to develop the next generation product to cater for the upcoming requirements of the leasing and finance industry. Currently we are in the process of developing our new product, NetSol Financial Suite™ (R2). It is a completely new initiative, designed from the scratch and based on state-of-the-art software design and technology paradigms. 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, all types of banks, leasing and finance companies, Islamic finance houses and credit unions. In terms of functionality the suite will support corporate lending, wholesale financing, corporate and consumer leases both operating and finance, real estate financing, consumer lending, Islamic financing etc. These areas are being covered in their entirety with respect to their respective lifecycles. In addition new functionality areas are also 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 product is designed in a way to meet the requirements 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. 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

Financial Performance

	The Company		NetSol Group	
	For the Year ended June 30, 2013	For the Year ended June 30, 2012	For the Year ended June 30, 2013	For the Year ended June 30, 2012
----- All figures in '000' -----				
Revenue	2,632,779	2,189,855	2,997,140	2,499,656
Gross Profit	1,545,301	1,356,013	1,674,525	1,467,984
Net Profit	1,159,608	921,424	1,174,964	939,688
Outstanding shares	78,572	77,910	78,572	77,910
EPS - basic	14.86	11.83	-	-
EPS - diluted	14.73	11.83	-	-

Directors' Report to the Members

for the Year Ended June 30, 2013

for taking NetSol to higher levels of growth and success. Till date, two modules of the product have already been developed whereas other major modules are still in the phase of development and expected to be completed within this year.

Company's financial performance improved further during the year under review. We closed the financial year ended June 30, 2013 with a revenue of over rupees 2.6 billion, showing a YoY growth of 20%. The gross profit for the year was Rs. 1.55 billion which as a percentage of total revenues comes to 59%. Net profits of the company increased to Rs. 1.1 billion, indicating the net profit ratio of 44% in the current year. The increase in revenues is mainly attributable to increasing demand of our core product NetSol Financial Suite™ specifically in the Asia Pacific region. Basic and diluted earnings per share were Rs. 14.86 and Rs. 14.73 respectively, in comparison with last year's EPS of Rs. 11.83.

DIVIDEND AND BONUS ISSUE

The company is focused in investing for enhancing its resource base and infrastructure to cater for the increasing demand of its offerings worldwide. Keeping in view this growth strategy, we are continuously investing in our sales and marketing, enhancing our development capacity, infrastructure building and vigorous investment in next generation product. All these initiatives require huge amount of capital to be invested. However, your board feels pleasure in recommending a final cash dividend of 10% i.e., Rs. 1/- per share. In addition to it, the board has also recommended a 10%

bonus issue i.e., one new share against every 10 shares held by the members. Both these pay outs are subject to approval by the shareholders in the upcoming Annual General Meeting.

FUTURE OUTLOOK

Even in the context of tough economic and regulatory conditions, we remain very excited about the longer term prospects for the industry, NetSol Technologies is now set to maximize growth in sales pipeline and delivery capabilities to ultimately increase shareholders' value. The company is focused on identifying and capturing opportunities across the globe and is entering into partnerships that would help penetrate new markets. One such example is the strategic agreement with Abeam Consulting Japan, where NetSol is confident that the partnership would help the company establish itself in the Japanese market.

With the establishment of a structured Global Marketing division, NetSol has adopted an aggressive marketing strategy with increased focus on generating leads through multiple channels, particularly finance and leasing conferences/events worldwide. We have a strong pipeline of prospective contracts and now need to enhance the delivery capacity so that we can meet our track record of 100% delivery. We are in the process of hiring more IT professionals and training them in the leasing domain so that they can become productive as soon as possible. To house these resources, we are also completing our new building at a faster pace.

NetSol has continued to make solid progress since the year end, in line with management's

expectations. The strong backlog and sales pipeline in Asia Pacific, together with our experienced team, growing customer base and greater industry recognition, gives us confidence in the future success of NetSol, Insha Allah.

PROMOTIONAL AND AWARENESS ACTIVITIES

During the year, your Company once again proactively created awareness about the IT industry and the innovation it carries. NetSol once again had prominent presence at the various job fairs taking place around the country, the more notable of which were held at the Lahore University of Management Sciences (LUMS), Lahore School of Economics (LSE), FAST NU, GIKI and other institutions. At every place, NetSol delegation managed one of the most popular stalls of the entire gathering, attracting several hundred people to the stall.

AWARDS & RECOGNITION

During the fiscal year 2012-2013, NetSol was honoured with the following awards & laurels:

- NetSol Technologies' flagship software solution NetSol Financial Suite™ was awarded the "First Rate Best Selling Finance and Leasing Solution Award" at the China Leasing Summit 2013 by the China Leasing Business Association (CLBA).
- Mr. Salim Ghauri, CEO of the company, was elected as President of TiE Lahore for next two years.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is about capacity building for sustainable livelihoods. In

nutshell, CSR is about business "giving back to society". NetSol duly realizes its role in empowerment of underprivileged communities, employee welfare and alignment of Company policies and practices in line with globally recognized principles. Sustainable and responsible development has remained our primary concern since inception. Today, NetSol is running sizeable CSR program in Pakistan covering various sectors requiring foremost attention, including exemplary interventions in the areas of education, healthcare, poverty alleviation and environmental protection. As a responsible corporate citizen, NetSol undertook various projects for community welfare during the year, some of which are described here:

i) Corporate Philanthropy

As part of the company's enduring commitment towards continue improving the life of its stakeholders, we are running a fund called "Noble Cause Fund (NCF)". The purpose of this fund is to facilitate the support staff, and other low paid members of the Company as well as of the society, in meeting their incidental expenses that befall them and their families. Financial assistance in the areas of education, medical and marriage is offered to the deserving staff members. The Company contributed over Rs. 5.4 million under its NCF social commitment during the year ended June 30, 2013 as compared to Rs.4.1 million in the corresponding year.

Education holds special significance for the company, and is a major focus area for the company. We have started a NetSol Literacy Program through which we educate our illiterate support staff. We have also

established IT labs in some of the schools in the less privileged areas of Punjab to train the new generation. In addition, the company is also supporting a school in a very less privileged area of Southern Punjab and taking care of all its expenses.

NetSol has also played a pivotal role in the education of a world class business school, named the Lahore University of Management Sciences (LUMS). In this regard, we sponsor two student seats on regular basis.

ii) Energy Conservation

As a responsible corporate citizen and aligned with global imperatives, the Company is promoting the use of energy efficient products, awareness about reducing energy use in operations and producing electricity from cheaper sources. Benefits include mitigating rapidly rising costs of fuel, shortage of electricity and the organizational resilience.

Our operations are less energy-intensive than those in the manufacturing sector. However, we have taken significant measures to reduce IT infrastructure's energy consumption by adopting a multi-pronged strategy. Our Green IT strategy covers equipment from end-point fabric to those in data centers and server rooms. It also employs a full life-cycle approach by covering the entire gamut from procurement to e-waste disposal of IT equipment. Energy efficiency is one of our key architecting parameters, along with performance, scalability, security and availability. This, coupled with the advantage of performance improvements and energy efficiency of the latest equipment deployed as per our technology refresh cycle, directly

contributes to optimized energy consumption.

We have also initiated an internal programme to reduce energy consumption by encouraging employees to switch off lights, computer systems, air conditioners and other electronic equipment when not required or in break in order to save energy. Additionally, a number of initiatives have been taken in IT village to conserve energy. Some of these are:

- Green office Programme, involving promotion of green IT use practices, such as judicious use of equipment and virtualization of services.
- Shifting of all energy savers and other lights currently used in the office with LED lights
- Balancing air conditioning load and use of eco-efficient lighting at the offices.
- Optimizing electrical load by installing variable frequency drives.
- Department wise energy measurement.
- The awareness to switch-off their desktop computer and room lights after duly working hours off.
- Replaced old desktop computers with new power-efficient ones this year.
- Data centers and server rooms, being large consumers of energy in an IT landscape, have been standardized using an eco-friendly room design which incorporates power and cooling best practices.
- Video and Audio Conferencing (VC and AC) usage has increased steadily this year too, indirectly cutting down the travel requirements and hence, the carbon footprint.

Directors' Report to the Members

for the Year Ended June 30, 2013

iii) Environmental Protection Measure

We view the economy, environmental protection and social responsibility as three key factors carrying equal weight in a liberal world market. We support the dissemination of knowledge needed for sustainable

development through the transfer of knowledge in the fields of management and technology, wherever we operate as a company.

Your Company an integral part in the development and progress of the national economy with a strong sense of responsibility to society and the environment. As a Corporate Citizen and conscious of our Social and Environmental responsibilities, we function in a manner that protects and preserves the environment for our future generations, ensures the health & safety of our stakeholders and exerts a positive influence in the community.

Our employees, partners, customers and suppliers are committed to participate in the efforts to protect the world's ecosystem for future generations. Together, we are working to reduce environment impacts by engaging all stakeholders and providing products and solutions that help to reduce environmental impacts. These efforts help us to meet the expectations of stakeholders and it also makes good business sense, often reducing operating costs and business risks.

Our commitment to reduce environmental impact extends across our value chain and we aim to continually improve our management systems to deliver consistent and measurable progress. Being conscious to

this social responsibility, your company has tree plantation at NetSol IT village land to improve the surrounding environment.

iv) Consumer Protection Measures

We produce good quality end-to-end software solution with qualified and professional staff and maintain high quality software standards like CMMI Level 5, ISO/IEC 20000, ISO 9001 and ISO 27001 standards. Quality Engineering Management is always very keen in implementing and executing rules and regulation for quality maintenance.

v) Employment of Special Persons

The Company believes in equal opportunity hiring. We facilitate and accommodate the special people who have relevant knowledge and skill but ignored by the society. In addition to it, we have some quota fixed for people living in the rural and less privileged areas who do not get much opportunities likes others.

vi) Relationship with the employees

Our most valued resource is our competent and committed work force, powering Company's growth and contributing towards its corporate image. We invest in our corporate image. We invest in our human capital to maintain a healthy working relationship by providing an employee-friendly environment, nurturing their skills and talents. Apart from compensation, NetSol organizes various functions and activities to feed social appetite of our employees and enhance the level of comfort among their superiors and co-workers. By maintaining

an amicable relationship with our employees, we ensure their welfare while reducing risk of employee turnover.

We are maintaining very cordial and harmonious relationship between the management and the employees of the all categories. Some of the noncash benefits available to the employees are described below;

- Two employee alongwith one family member are sent to perform Umrah through computerized draw every year on Company's expenses.
- Cafeteria is being maintained where complementary lunch is also provided to all staff members of the company. There is only one menu both for the management and other employees including support staff.
- Day Care facility provided to females employee at very subsidized rates.
- Pick and drop facility to the female staff members from their doorstep is provided by the company at subsidized rates.
- Any team of resources putting in extraordinary efforts during a month is declared as team of the month and provided with certificates and dined out at the company's expense.
- Company also sponsors recreational trips of the employees to give them opportunity to relax away from the work place.
- The health and welfare of our employees has always been a matter of utmost importance and significance at NetSol. We provide comprehensive medical coverage to our employees and their families in our medical facilities and the Company has also

invested in a sports complex for indoor games such as Table Tennis, Snooker and Football Game etc and a Gymnasium with state of the art fitness equipment for its employees. NetSol also invested in outdoor games such as well-maintained badminton courts and football and cricket grounds have been arranged for the employees of the company.

vii) Occupational Safety and Health

Your company is to provide safe and healthy workplace to its employees and other stakeholders. The provision of a safe working environment is paramount at NetSol. The effective management of health and safety hazards protects employees from harm and ensures that business complies with regulatory and legal standards. In line with NetSol's mission to add vitality to life, we place safety, health and environment at the heart of our business agenda. NetSol's management has been continually improving its management system standards not only at workplace but it has also taken initiative through "off the-job safety" programme to inculcate safety consciousness round the clock amongst its employees. NetSol continued its focus on health and safety parameters in 2013 with no accidents at any site. This is a true reflection of our determination to ensure that our people operate in a safe environment.

We also operate Disaster, Prevention and Recovery Plan and periodically conduct various safety drills for complete evacuation, fire fighting, cardiopulmonary resuscitation and first aid methods and various awareness

campaigns including dengue precautions.

viii) Business Ethics and Anti-Corruption Measures

Netsol holds frequent activities to ensure that the employees are working within the Statement of Ethical Practices (SEP). The SEP is rigorously followed throughout the organization. Employees are also required to sign off on the SEP. There is zero tolerance towards corruption in the company and we have developed a very comprehensive system of check and balance within the organization. Employees are also encouraged to contact the Audit Committee directly whether anonymously or otherwise in case they come to know about any fraud taking place in the company. For this purpose, drop boxes have been placed at prominent places in each department.

ix) Contribution to National Exchequer

We have always showed our responsibility by paying all government taxes in time without any delay. For the year ended June 30, 2013 we made our humble contribution to the National Exchequer by way of import duties, general sale tax, income tax and other government levies.

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, Lahore & Islamabad Stock Exchanges. Statement of compliance with the Code of Corporate Governance is also annexed with the annual report.

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, 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.
- There are no significant

Contribution of National Exchequer	
Description	Rupees (000)
Income Tax	10,177
Sales Tax	4,036
With Holding Tax	69,280

Directors' Report to the Members

for the Year Ended June 30, 2013

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, Lahore and Islamabad Stock Exchanges.
- Key operating and financial data of last six years, in summarized form, is annexed herewith.
- There are no statutory payments on account of taxes, duties, levies and charges outstanding as on June 30, 2013 except those as disclosed in the financial statements.
- Value of the Provident Fund Investments as on June 30, 2013 was Rs.156.93 million (June 30, 2012: Rs. 102.53 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.

CODE OF CONDUCT

The management has prepared code of conduct which is also duly adopted by the Board. All directors, senior management and employees have signed this code and are required to observe these rules of conduct in relation to customers, suppliers and regulators.

ELECTION OF DIRECTORS

Election of Board of Directors of your company was held on December 21, 2012 in the Extra-Ordinary General Meeting. In accordance with the provisions

of section 178 & 180 of the Companies Ordinance, 1984 and Article 70 of the Company's Articles of Associations, the board had unanimously fixed the number of directors to be seven (7) and the following directors were elected for the term of next three years commencing from January 01, 2013.

Mr. Salim Ullah Ghauri
Mr. Najeeb Ullah Ghauri
Mr. Naeem Ullah Ghauri
Mr. Shahid Javed Burki
Mr. Omar Shahab Ghauri
Mr. Vaseem Anvar
Mr. Fida Hussain

Subsequent to the election of directors, the newly formed board then elected Mr. Naeem Ullah Ghauri (non-executive director) as Chairman of the board and Mr. Salim Ullah Ghauri was re-appointed as Chief Executive of the Company for the term of three years in accordance with the provisions of new Code of Corporate Governance 2012 and section 199 of the Companies Ordinance, 1984. The newly constituted board comprises persons from various spheres of life including sponsors, businessmen, economist and marketing personnel. The Board also placed on record its gratitude for highly valuable services rendered by Mr. Zahid Bashir Mirza and Mr. Asad Ullah Ghauri, the retired directors, during their tenure of directorship.

AUDIT COMMITTEE

The Board of Directors in

Members of Audit Committee		
Name of Director	Name of Alternate Director	Designation
Vaseem Anvar		Chairman
Fida Hussain		Member
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	Member

compliance with the Code of Corporate Governance has established an Audit Committee comprising of the following three (03) members:

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

HUMAN RESOURCE AND REMUNERATION COMMITTEE

The Board of Directors in compliance with the Code of Corporate Governance has established Human Resource and Remuneration Committee comprising of the following three (03) members:

The committee gives recommendations to the board regarding selection, evaluation and compensation of key management positions.

Members of HR & Remuneration Committee

Name of Director	Designation
Shahid Javed Burki	Chairman
Vaseem Anvar	Member
Salim Ullah Ghauri	Member

ATTENDANCE AT BOARD MEETING

During the year ended June 30, 2013, Five (05) board meetings were held and attended as follows:

Attendance of Board of Directors' Meeting

Name of Director	Name of Alternate Director	No. of Meetings
Salim Ullah Ghauri		05
Vaseem Anvar		05
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	04
Naeem Ullah Ghauri	Ayub Ghauri	04
Shahid Javed Burki		02
Zahid Bashir Mirza*		-
Asad Ullah Ghauri*	Omar Shahab Ghauri**	01
Omar Shahab Ghauri		05
Fida Hussain***		-

*Retired during the year

**Retired as Alternate Director

***Elected during the year

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

ATTENDANCE AT AUDIT COMMITTEE MEETING

During the year ended June 30, 2013, four (04) meetings of the Audit Committee meetings were held. The Attendance of each Member is given hereunder:

Attendance of Audit Committee Meeting		
Name of Director	Name of Alternate Director	No. of Meetings
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	04
Vaseem Anvar		04
Omar Shahab Ghauri*		02
Fida Hussain**		-

*Retired during the year

**Elected during the year

Leave of absence was duly granted to the members who could not attend the meetings.

ATTENDANCE AT HUMAN RESOURCE AND REMUNERATION COMMITTEE MEETING

During the year ended June 30, 2013, one (01) meeting

of the Human Recourse and Remuneration Committee was held. The Attendance of each Member is given hereunder:

Attendance of HR & Remuneration Committee Meeting	
Name of Director	No. of Meetings
Shahid Javed Burki	01
Vaseem Anvar	01
Salim Ullah Ghauri	01

DIRECTOR'S TRAINING PROGRAM

During the fiscal year ended June

30, 2013, Mr. Omar Shahab Ghauri completed the certification for the Director's Training Program conducted by Pakistan Institute of Corporate Governance (PICG).

EMPLOYEE STOCK OPTION SCHEME

On August 01, 2009, the compensation committee of the Company had granted 4.35 million stock options to its core team of employees at a grant

price of Rs.16.42 per option. The options were granted under Employees Stock Option Scheme duly approved by the Securities and Exchange Commission of Pakistan. 90% of the granted option had become exercisable during the period.

According to the requirements of Section 12 of Employees Stock Option Rules 2001, following disclosure is made regarding options granted, vested or exercised during the financial year ended June 30, 2013:

- The company had granted 4,350,000 options to its employees.
- Exercise price of options is determined by taking one month's average share price of company's share at Karachi Stock Exchange on the date of grant of an option discounted by 20%.
- 90% of the options granted had vested by the end of financial year ended June 30, 2013.
- 661,500 options were exercised by 14 employees and Rs.10.861 million were received by the company on this account.
- On account of exercise of options by the employees, 661,500 fresh shares were issued during the fiscal year ended June 30, 2013.
- No options lapsed during the year under review
- There was no variation in the scheme as approved by the shareholders and the SECP
- Following options were granted to the senior managerial cadre employees of the company:

Except the figures disclosed below, no employee was granted

Directors' Report to the Members

for the Year Ended June 30, 2013



Designation	No. of options granted
Chief Executive Officer	250,000
Chief Operating Officer	100,000
Chief Financial Officer	100,000

option amounting to five percent or more of options granted during one year or one percent or more of the issued capital of the Company.

HOLDING COMPANY

NetSol Technologies Inc., 24025 Park Sorrento, Suite 410, Calabasas CA 91302, USA holds majority of shareholding of the company.

AUDITORS

The present external auditors' Messrs Kabani & Company, Chartered Accountants retire and

being eligible, offer themselves for reappointment.

The external auditors have confirmed that 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.

As suggested by the Audit Committee, The Board recommends their reappointment for the year ending June 30, 2014.

KEY OPERATING AND FINANCIAL DATA

Key operating and financial data for the last six years is also annexed in the Annual Report.

PATTERN OF SHAREHOLDING

Pattern of shareholding as at June 30, 2013 as required by section 236 of the Companies Ordinance 1984 including the information under the Code of Corporate Governance is annexed herewith.

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



Naeem Ullah Ghauri

Chairman

Lahore

September 06, 2013



Core Values

Our core values are the key principles that guide our conduct and our relationships. They define how we engage with

each other and our customers, how we deliver value and how we behave. They connect us to each other and make our

successes possible. Each of us is accountable to align our conduct with our core values.



Code of Conduct

Since the company began, uncompromising integrity and professionalism have been the cornerstones of NetSol's business. In all that we do, NetSol supports and upholds a set of core values and principles. Our future growth depends on each of us understanding these values and principles and continuously demonstrating the uncompromising integrity that is the foundation of our company.

The Code of Conduct sets the standard for how we work together to develop and deliver product, how we protect the value of NetSol and its subsidiaries, and how we work

with customers, suppliers and others. All of us at NetSol must abide by the Code when conducting NetSol-related business.

The Code affirms our six principles of conduct:

- 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.





KABANI & COMPANY

CHARTERED ACCOUNTANTS

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 for the year ended June 30, 2013 prepared by the Board of Directors of **Netsol Technologies Limited** ("the Company") to comply with the Listing Regulation No. 35 of the Karachi, Lahore and Islamabad Stock Exchanges, where the company is listed.

The responsibility for 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 systems 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 Regulation X of Listing Regulation 35 of Karachi, Lahore and Islamabad Stock Exchanges requires the Company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm'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 as applicable to the Company for the year ended June 30, 2013.

Kabani & Company
Chartered Accountants

Muhammad Yousaf

September 06, 2013
Lahore

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KABANI & COMPANY

CHARTERED ACCOUNTANTS

INDEPENDENT ASSURANCE REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH EMPLOYEES SHARE OPTION SCHEME

Scope of our work

We have performed an independent assurance engagement of Netsol Technologies Limited (the Company) to express an opinion on the annexed Statement of Compliance (the Statement) with the requirements of Employees Share Option Scheme (the Scheme), as approved by the shareholders of the Company, and the Public Companies (Employees Stock Option Scheme) Rules, 2001 (the Rules) as of June 30, 2013. Our engagement was carried out as required under Rule 14 of the Rules issued by the Securities and Exchange Commission of Pakistan vide SRO 300(I) 2001 dated May 11, 2001.

Responsibility of Company's Management

The responsibility for the preparation of the Statement (the Subject matter information) and for compliance with the requirements of the Scheme and the Rules is that of the Management of the company. This responsibility includes designing, implementing and maintaining internal control to ensure compliance with the requirements of the Scheme, as approved by the shareholders of the Company, and the Rules (Scheme and rules together being the Criteria).

Responsibility of Independent Assurance Provider

Our responsibility is to express our conclusion on the Statement based on our independent assurance engagement, performed in accordance with the International Standards on Assurance Engagements 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' (ISAE 3000). This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain reasonable assurance whether the annexed Statement reflects the status of Company's compliance with the Scheme and the Rules (the Criteria).

The procedures selected depend on our judgment, including an assessment of the risks of material non-compliances with the requirements of the Scheme and the Rules. In making those risk assessments; we have considered internal controls relevant to the company's compliance with the Scheme and the Rules in order to design procedures that are appropriate in the circumstances, for gathering sufficient appropriate evidence to determine that the Company was not materially non-compliant with the Scheme and the Rules. Our engagement was not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Our procedures applied to the selected data primarily comprised:

- Verifying that only permanent employees have participated in the Scheme in compliance with the Rules.
- Verifying that variation, if any, in the terms of Scheme has been approved by passing a special resolution in the general meeting.
- Verifying that the share options granted, vested, lapsed, surrendered or exercised under the Scheme have been recorded in the books of accounts in accordance with the requirements of the Rules.
- Ensuring that adequate disclosures have been made in respect of the Scheme in the Annual report as required under the Rules.

Conclusion

In our opinion, the annexed Statement, in all material respects, presents fairly the status of the Company's compliance with the Scheme and the Rules as of June 30, 2013.

September 06, 2013
Lahore.

Kabani & Company
Chartered Accountants

Muhammad Yousaf

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Statement of Compliance with the Code of Corporate Governance

For the Year Ended June 30, 2013

The Statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulation No. 35 and chapter XI of Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited respectively, 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 interests on its board of directors. At present the board includes:

Category	Names
Independent Directors	1. Mr. Vaseem Anvar 2. Mr. Fida Hussain
Non-Executive Directors	1. Mr. Naeem Ullah Ghauri 2. Mr. Najeeb Ullah Ghauri 3. Mr. Shahid Javed Burki
Executive Directors	1. Mr. Salim Ullah Ghauri 2. Mr. Omer Shahab Ghauri

Both the independent directors meet the criteria of independence under clause i(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFIs or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. No casual vacancy occurred on the Board of Directors of the Company during the year 2012-2013.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
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, other executive and non-executive directors, have been taken by the board/shareholders, as the case may be.
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. The Board met at least once in every quarter. Written 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. During the fiscal year ended June 30, 2013, one Board member attended CGLS - Director Education Program at Pakistan Institute of Corporate Governance (PICG). Three board members are exempted from the directors training program because of having more than 14 years of education and over 15 year of experience on the board of listed companies. The Company will ensure that the remaining directors acquire the certification under the directors training program within the timeframe specified in the Code.
10. There were no new appointments of CFO, Company Secretary or Head of Internal Audit, or any change in the terms and conditions of their employment during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code of Corporate Governance and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold

- any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of the Code of Corporate Governance.
 15. The Board has formed an Audit Committee. It comprises of three members, of whom two are independent and one non-executive director. The Chairman of the committee is an independent director.
 16. The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the company by the board, as required by the Code. The terms of reference of the committee are approved and also circulated to the committee for compliance.
 17. The board has formed an HR and Remuneration Committee. It comprises three members, including the chief executive. Two members are non-executive directors out of which one is an independent director. Chairman of the committee is also a non-executive director.
 18. The board has set up an effective internal audit function. The members of the internal audit department are suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company.
 19. 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 (ICAP) and 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 the ICAP.
 20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
 21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to the directors, relevant employees and stock exchanges.
 22. Material/price sensitive information has been disseminated among all market participants at once through stock exchanges.
 23. We confirm that all other material principles enshrined in the Code of Corporate Governance have been complied with.

For and on behalf of the Board of Directors

Salim Ullah Ghauri
Chief Executive

Lahore
September 06, 2013

Pattern of Shareholding

As at June 30, 2013

No. Of Shareholders	From	To	Total
469	1	100	18,459
681	101	500	233,323
527	501	1,000	451,071
1,033	1,001	5,000	2,488,510
227	5,001	10,000	1,763,489
80	10,001	15,000	996,639
44	15,001	20,000	808,280
40	20,001	25,000	930,440
21	25,001	30,000	588,337
16	30,001	35,000	529,719
6	35,001	40,000	229,100
10	40,001	45,000	427,680
16	45,001	50,000	787,373
7	50,001	55,000	361,963
4	55,001	60,000	234,000
8	60,001	65,000	495,181
5	65,001	70,000	343,381
3	70,001	75,000	225,000
5	75,001	80,000	387,557
3	80,001	85,000	250,768
2	85,001	90,000	176,000
5	95,001	100,000	500,000
3	100,001	105,000	302,182
3	105,001	110,000	322,500
2	110,001	115,000	220,701
3	115,001	120,000	355,025
3	120,001	125,000	370,075
2	125,001	130,000	260,000
1	130,001	135,000	130,977
1	135,001	140,000	138,000
3	145,001	150,000	448,000
1	150,001	155,000	150,160
1	155,001	160,000	159,000
1	165,001	170,000	167,000

No. Of Shareholders	From	To	Total
3	195,001	200,000	599,500
2	200,001	205,000	407,041
1	205,001	210,000	210,000
1	210,001	215,000	212,500
3	215,001	220,000	651,014
1	220,001	225,000	221,000
1	235,001	240,000	240,000
1	250,001	250,000	250,000
1	260,001	265,000	261,500
1	320,001	325,000	320,041
1	330,001	335,000	333,000
1	360,001	365,000	365,000
3	440,001	445,000	1,327,000
1	575,001	580,000	575,500
1	665,001	670,000	668,200
1	695,001	700,000	700,000
1	945,001	950,000	946,100
1	1,295,001	1,300,000	1,300,000
1	1,510,001	1,515,000	1,512,000
1	3,850,001	3,855,000	3,854,009
1	9,495,001	9,500,000	9,500,000
1	37,865,001	37,870,000	37,868,408
3,265			78,571,703

Information required as Per Code of Corporate Governance

As at June 30, 2013

S. No.	Categories of Share Holders	Number of Shareholders	Shares Held	% of Capital	Total
1	Directors, CEO & their Spouse and minor children:				
	Mr. Salim Ullah Ghauri	1	320,041	0.41	
	Mr. Naeem Ullah Ghauri	1	509	0.00	
	Mr. Najeeb Ullah Ghauri	1	1,009	0.00	
	Mr. Shahid Javed Burki	1	51,604	0.07	
	Mr. Vaseem Anvar	1	500	0.00	
	Mr. Omer Shahab Ghauri	1	509	0.00	
	Mr. Fida Hussain	1	500	0.00	374,672
2	Holding Company				
	NetSol Technologies Inc.	1	51,222,417	65.19	51,222,417
3	Banks, DFI & NBFI	3	874,000	1.11	874,000
4	Public Sector Cos. & Corporation	65	3,874,108	4.93	3,874,108
5	Mutual Funds and Trust				
	Funds	7	1,646,990	2.10	1,646,990
	Trust	3	236,601	0.30	236,601
6	Insurance Companies				
	Premier Insurance Limited.	1	30,000	0.04	
	Askari General Insurance Co. Ltd.	1	44,320	0.06	
	State Life Insurance Corp. of Pakistan	1	215,704	0.27	290,024
7	Investment Companies	1	2,884	0.00	2,884
8	General Public				
	Local	3,175	20,050,007	25.52	20,050,007
	Total	3,265		100	78,571,703

Detail of Purchase/ Sale of shares by CEO, Director, CFO, Company Secretary, their spouses and minor children during the FY 2013

No trade in the shares of the Company was carried out by the CEO, Directors, CFO, Company Secretary, their spouses and minor children except the following:

1. Mr. Salim Ullah Ghauri, CEO of the Company purchased 117,000 shares during the year
2. Mr. Naeem Ullah Ghauri, Director/Chairman of the Company gifted 500 shares to Mr. Fida Hussain during the year

Financial Statements

For the Year Ended June 30, 2013



KABANI & COMPANY

CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **NetSol Technologies Limited ("the Company")** as at **June 30, 2013** and the related profit and loss account, statement of comprehensive income, 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 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 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, statement of comprehensive income, cash flow statement and 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, 2013 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) In our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

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September 06, 2013
Lahore.

Kabani & Company

Kabani & Company
Chartered Accountants

Muhammad Yousaf

Balance Sheet

As at June 30, 2013

	NOTE	2013	2012
		Rupees in '000'	
ASSETS			
NON-CURRENT ASSETS			
Property & equipment	5	1,894,191	1,361,923
Intangible assets	6	2,873,958	2,501,052
		4,768,149	3,862,975
Deferred employee compensation expense	7	-	54
Long term investments	8	15,188	15,188
		4,783,337	3,878,217
CURRENT ASSETS			
Trade debts	9	965,741	821,213
Current portion of deferred employee compensation expense	7	54	696
Excess of revenue over billing	10	864,465	926,801
Loans and advances	11	22,211	43,920
Trade deposits & short term prepayments	12	14,940	9,589
Other receivables	13	25,870	31,304
Due from related parties	14	14,571	25,112
Short term investment	15	-	-
Taxation		71,702	57,954
Cash & bank balances	16	305,571	130,255
		2,285,125	2,046,844
TOTAL ASSETS		7,068,462	5,925,061

The annexed notes from 1 to 47 form an integral part of these financial statements.

	NOTE	2013 Rupees in '000'	2012
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized share capital 150,000,000 ordinary shares of Rs.10/- each	17	1,500,000	1,500,000
Issued, subscribed and paid-up capital	17	785,717	779,102
Share deposit money		13	13
Reserves	18	5,339,672	4,175,817
		6,125,402	4,954,932
NON-CURRENT LIABILITIES			
Long term financing	19	172,665	176,591
Liabilities against assets subject to finance lease	20	20,007	24,446
Deferred Income	21	59	38
		192,731	201,075
CURRENT LIABILITIES			
Trade and other payables	22	398,956	455,287
Excess of billing over revenue	23	57,723	27,028
Short term borrowings	24	200,000	200,000
Current portion of long term liabilities	25	76,889	72,684
Provision for taxation		16,761	14,055
		750,329	769,054
CONTINGENCIES & COMMITMENTS	26	-	-
TOTAL EQUITY AND LIABILITIES		7,068,462	5,925,061

The annexed notes from 1 to 47 form an integral part of these financial statements.

Profit and Loss Account

For the year ended June 30, 2013

	NOTE	2013 Rupees in '000'	2012
Revenue - Net	27	2,632,779	2,189,855
Cost of revenue	28	(1,087,478)	(833,842)
Gross profit		1,545,301	1,356,013
Selling and promotion expenses	29	(120,317)	(136,752)
Administrative expenses	30	(415,068)	(341,773)
Other operating expenses	32	(23,892)	(19,162)
Other income	33	185,137	81,413
Operating profit		1,171,161	939,739
Finance cost	34	(8,847)	(14,677)
Profit before taxation		1,162,314	925,062
Taxation			
Current year	36	(2,706)	(2,062)
Prior year		-	(1,576)
		(2,706)	(3,638)
Profit after taxation for the year		1,159,608	921,424

The annexed notes from 1 to 47 form an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended June 30, 2013

	NOTE	2013 Rupees in '000'	2012
Profit after taxation for the year		1,159,608	921,424
Other comprehensive income		-	-
Total comprehensive income for the year		1,159,608	921,424
Earnings per share			
Basic - In Rupees	35	14.86	11.83
Diluted - In Rupees	35	14.73	11.83

The annexed notes from 1 to 47 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended June 30, 2013

NOTE	2013	2012
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation for the year	1,162,314	925,062
Adjustments for non cash charges and other items:		
Depreciation - own assets	220,807	178,155
Amortization of leased assets	19,165	14,476
Amortization of intangible assets	107,936	85,446
Loss on disposal of fixed assets	172	635
Amortization of deferred revenue	(19)	(11)
Exchange (gain) on debtors	(115,455)	(17,898)
Interest expense	7,292	13,312
Interest income	(13,485)	(3,024)
Dividend income	(39,608)	(31,757)
Deferred employee compensation expense	696	1,339
	187,501	240,673
Cash generated from operations before working capital changes	1,349,815	1,165,735
Decrease / (Increase) in current assets & liabilities		
Trade debts	63,957	(433,790)
Loans and advances	21,709	(25,704)
Trade deposits & short term prepayments	(5,351)	2,084
Other receivables	5,434	19,436
Due from related parties	10,541	(6,978)
Trade and other payables	(48,659)	(44,009)
Cash generated from / (used in) operations	47,631	(488,961)
Interest paid	(43,409)	(39,078)
Income taxes paid	(13,748)	(11,215)
Dividend paid	-	(34)
Net cash generated from operations	1,340,289	626,447
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment purchased	(620,070)	(182,958)
Sales proceeds of fixed assets	14,248	23,705
Intangible assets	(471,477)	(505,520)
Capital work in progress	(146,412)	(131,950)
Interest received	12,428	2,646
Dividend received	39,608	31,757
Net cash (used in) investing activities	(1,171,675)	(762,320)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	6,615	-
Share premium	4,247	-
Paid against obligation under finance lease	(34,839)	(21,518)
Received against obligation under finance lease	34,605	27,529
Long term payable	(3,926)	66,259
Net cash generated from financing activities	6,702	72,270
Net increase / (decrease) in cash and cash equivalents	175,316	(63,603)
Cash and cash equivalents at the beginning of the year	130,255	193,858
Cash and cash equivalents at the end of the year	16	305,571
		130,255

The annexed notes from 1 to 47 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended June 30, 2013

	Issued, subscribed and paid-up capital	Share deposit money	Employee share option compensation reserve	Capital Reserve Share premium	Revenue Reserve Unappropri- ated profit	Total
Rupees In '000'						
Balance as at June 30, 2011	779,102	13	6,426	273,016	2,974,951	4,033,508
Total comprehensive income for the year						
Net profit for the year ended June 30, 2012	-	-	-	-	921,424	921,424
Other comprehensive income	-	-	-	-	-	-
	-	-	-	-	921,424	921,424
Balance as at June 30, 2012	779,102	13	6,426	273,016	3,896,375	4,954,932
Balance as at June 30, 2012	779,102	13	6,426	273,016	3,896,375	4,954,932
Total comprehensive income for the year						
Net profit for the year ended June 30, 2013	-	-	-	-	1,159,608	1,159,608
Other comprehensive income	-	-	-	-	-	-
	-	-	-	-	1,159,608	1,159,608
Shares issued against options exercised (661,500 shares at Rs. 10 each)	6,615	-	-	-	-	6,615
Transferred to Share premium on exercise of options (661,500 options at Rs. 1.48)	-	-	(977)	-	-	(977)
Share premium on shares issued against options exercised	-	-	-	5,224	-	5,224
Balance as at June 30, 2013	785,717	13	5,449	278,240	5,055,983	6,125,402

The annexed notes from 1 to 47 form an integral part of these financial statements.

Notes to the Accounts

For the year ended June 30, 2013

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 and subsequently also got listed on Lahore Stock Exchange and Islamabad Stock Exchange. 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 IT Village, Lahore Ring Road, Ghazi Road Interchange, Lahore Cantt. Pakistan.

The company is a subsidiary of NetSol Technologies Inc., USA.

2. BASIS OF PREPARATION

2.1 Separate financial statements

These financial statements are separate financial statements of the company. Consolidated financial statements of the company are prepared separately.

2.2 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.

2.3 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.

2.4 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 unless stated otherwise.

2.5 Changes in accounting policies

During the current year, the Group has adopted the following new and amended IFRSs as of July 01, 2012 which has resulted in extended disclosures as described below.

(i) IAS 1 Presentation of Financial Statements (Amendments) [effective July 1, 2012]

IAS 1 (Amendments), 'Presentation of Financial Statements', require an entity to group items presented in Other Comprehensive Income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified. The amendments also require tax associated with items presented before tax to be shown separately for each of the two groups of Other Comprehensive Income items (without changing the option to present items of Other Comprehensive Income either before tax or net of tax).

2.6 Standards and interpretations that became effective but not relevant to the Company

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 financial statements of the Company:

IAS 1	Presentation of Financial Statements (Amendments)
IAS 12	Income Taxes (Amendments)

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

		Effective for periods beginning on or after
IFRS 1	First-time Adoption of Financial Reporting Standards	
IFRS 7	Financial Instruments: Disclosures	Jan-01 2013
IFRS 9	Financial Instruments	Jan-01 2015
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 16	Property, Plant and Equipment	Jan-01 2013
IAS 19	Employee Benefits (Amendments)	Jan-01 2013
IAS 27	Separate Financial Statements (Amendments)	Jan-01 2013
IAS 28	Investments in Associates and Joint Ventures (Amendments)	Jan-01 2013
IAS 32	Financial Instruments: Presentation - Classification of Rights Issues (Amendments)	Jan-01 2013
IAS 36	Impairment of Assets (Amendments)	Jan-01 2013
IAS 39	Financial Instruments: Recognition and Measurement (Amendments)	Jan-01 2014
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Jan-01 2013
IFRIC 21	Levies	Jan-01 2013

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

Notes to the Accounts

For the year ended June 30, 2013

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 except for free hold land are stated at cost less accumulated depreciation and any impairment losses. Free hold land is stated at cost less any identified impairment loss.

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 Company 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 recognized 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 identified 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 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:

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

(a) In-house developed intangible assets

The Company capitalizes certain computer software development costs in accordance with IAS 38 Intangible Assets. 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.

Amortization is charged on straight line basis over the useful life of the intangible assets. All intangible assets with an indefinite useful life are tested for impairment at each balance sheet date.

Notes to the Accounts

For the year ended June 30, 2013

(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 Company 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 amortization is charged for the month in which the asset is disposed off. Rates of amortization are stated in note 5.

4.3 Impairment

The Company continually assesses at each balance sheet date whether there is any indication that an asset 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 amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in profit and loss account for the year. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful life.

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 Company operates a defined contributory provident fund for all its permanent employees. Contributions are made equally by the Company and the employee in the provident fund on monthly basis. Company's contribution is recognized 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 recognized as cost when related services are received.

(iii) Employees' share option scheme

The company operates an equity settled share based Employee' Share Option Scheme ("Scheme"). At the grant date of share options ("Options") to the employees, the company initially recognizes "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 recognized in profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 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.

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 Company's cash management.

Notes to the Accounts

For the year ended June 30, 2013

4.10 Revenue recognition

(i) 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 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 both the Chief Financial Officer and the Head of Software Engineering Research and Development.

(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 Company's revenue recognition policies are in compliance with all applicable accounting regulations including IAS 18 "Revenue".

(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 recognized in the profit and loss account.

Rental income is recognized on time proportion basis.

Dividend income is recognized 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 Company 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 Company 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 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.

(a) 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. 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 recognized 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 other comprehensive income and taken to profit and loss account on disposal of investment or when the investment is determined to be impaired.

Notes to the Accounts

For the year ended June 30, 2013

(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 company 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 recognized 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 recognized when the Company 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 derecognition is included in the profit and loss account for the period in which it arises.

4.14 Investment in subsidiary

Investment in subsidiary is stated at cost less any impairment losses.

4.15 Dividend and appropriation to reserves

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

4.16 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 recognized in the profit and loss account over the leasing period on a straight-line basis. Variable expenses are recognized in the periods when they arise.

(ii) Finance Leases

Finance leases transfers to the Company 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 recognized in each period. Variable payments are recognized in the periods when they arise.

4.17 Related party transactions

The Company 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 Company to do so.

4.18 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.

		2013	2012
Rupees in '000'			
5. PROPERTY & EQUIPMENT			
Net book value of owned assets	5.1	1,319,036	915,786
Net book value of leased assets	5.4	71,272	63,097
Capital work in progress	5.6	503,883	383,040
		1,894,191	1,361,923

5.1 Following is the statement of Owned assets

Particulars	2013								
	COST			DEPRECIATION					Net book value as at Jun 30, 2013
	As at Jul 01, 2012	Additions / (Deletions)	As at Jun 30, 2013	Rate %	As at Jul 01, 2012	Adjustment during the year	Charge for the year	As at Jun 30, 2013	
Rupees In '000'									
<i>Tangible Assets</i>									
Land - freehold	193,158	55,071	248,229		-	-	-	-	248,229
Building on freehold land	201,585	39,722	241,307	5	68,180	-	7,167	75,347	165,960
Furniture & fixture	18,762	5,801 (3,626)	20,937	10	4,956	-	1,536 (1,165)	5,327	15,610
Vehicles	42,769	19,519 (12,338)	49,950	20	22,588	5,331 (4,005)	4,458	28,372	21,578
Office equipment	16,609	5,685	22,294	10	5,825	-	1,318	7,143	15,151
Computers	571,315	247,641 (6,358)	812,598	20 - 33	255,362	-	106,318 (5,139)	356,541	456,057
Air conditioners	6,449	2,330	8,779	10	2,241	-	508	2,749	6,030
Electric fittings	1,118	-	1,118	10	636	-	48	684	434
Generator	17,012	9,705 (2,500)	24,217	10	6,829	-	1,374 (1,469)	6,734	17,483
<i>Intangible Assets</i>									
Computer software	417,173	265,577	682,750	33	203,547	-	106,699	310,246	372,504
	1,485,950	651,051 (24,822)	2,112,179		570,164	5,331 (11,778)	229,426	793,143	1,319,036

Notes to the Accounts

For the year ended June 30, 2013

Particulars	2012								
	COST			Rate %	DEPRECIATION				Net book value as at Jun 30, 2012
	As at Jul 01, 2011	Additions / (Deletions)	As at Jun 30, 2012		As at Jul 01, 2011	Adjustment during the period	Charge for the year	As at Jun 30, 2012	
Rupees In '000'									
Tangible Assets									
Land - freehold	193,158	-	193,158	-	-	-	-	-	193,158
Building on freehold land	201,585	-	201,585	5	61,159	-	7,021	68,180	133,405
Furniture & fixture	18,470	646 (354)	18,762	10	3,591	- (156)	1,521	4,956	13,806
Vehicles	51,052	10,380 (18,663)	42,769	20	20,781	2210 (4,911)	4,508	22,588	20,181
Office equipment	14,950	1,659	16,609	10	4,702	-	1,123	5,825	10,784
Computers	560,164	31,959 (20,808)	571,315	20 - 33	176,840	- (10,785)	89,307	255,362	315,953
Air conditioners	6,663	348 (562)	6,449	10	2,012	- (242)	471	2,241	4,208
Electric fittings	1,118	-	1,118	10	582	-	54	636	482
Generator	10,972	6,040	17,012	10	4,515	1,633	681	6,829	10,183
Intangible Assets									
Computer software	305,342	111,831	417,173	33	122,797	-	80,750	203,547	213,626
	1,363,474	162,863 (40,387)	1,485,950		396,979	3,843 (16,094)	185,436	570,164	915,786

		2013	2012
		Rupees in '000'	
5.2	Depreciation is allocated in the following manner		
	Cost of revenue	28	131,914
	Administrative expenses	30	46,241
	Intangible assets		7,281
		229,426	185,436

5.3 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
Furniture & fixture	423	220	203	110	Negotiation	Asad Khan
Furniture & fixture	3,203	945	2,258	352	Negotiation	Malik Nadeem
Vehicle	4,543	2,334	2,209	3,000	Negotiation	Faheem Khalid
Vehicle	1,700	85	1,615	1,700	Negotiation	Bank Alfalah
Vehicle	1,700	28	1,672	1,700	Negotiation	Bank Alfalah
Vehicle	707	464	243	388	Company Policy	Hamid Khan
Vehicle	1,250	1,053	197	1,450	Insurance company	EFU Insurance
Vehicle	2,438	41	2,397	2,438	Sale and lease back	First Habib Modaraba
Computers	6,358	5,139	1,219	505	Negotiation	Malik Nadeem
Generator	2,500	1,469	1,031	1,000	Negotiation	Power Solutions
Leased Vehicle	1,625	290	1,335	1,605	Insurance company	Askari General Insurance
2013	26,447	12,068	14,379	14,248		
2012	40,387	16,094	24,293	23,705		

5.4 Following is statement of leased assets

Particulars	2013								
	COST			DEPRECIATION					Net book value as at Jun 30, 2013
	As at Jul 01, 2012	Additions / (Deletions)	As at Jun 30, 2013	Rate %	As at Jul 01, 2012	Adjustment during the year	Charge for the year	As at Jun 30, 2013	
Rupees In '000'									
Vehicles	42,447	29,631 (12,139)	59,939	20	9,937	- (5,620)	9,407	13,724	46,215
Office equipment	96	-	96	10	14	-	8	22	74
Computers	40,835	4,974	45,809	20-33	10,330	-	10,496	20,826	24,983
	83,378	34,605 (12,139)	105,844		20,281	- (5,620)	19,911	34,572	71,272

Particulars	2012								
	COST			DEPRECIATION					Net book value as at Jun 30, 2012
	As at Jul 01, 2011	Additions / (Deletions)	As at Jun 30, 2012	Rate %	As at Jul 01, 2011	Adjustment during the period	Charge for the year	As at Jun 30, 2012	
Rupees In '000'									
Vehicles	35,728	11,262 (4,543)	42,447	20	5,590	(2,211)	6,558	9,937	32,510
Computers	21,419	19,416	40,835	20-33	2,259	-	8,071	10,330	30,505
Office equipment	96	-	96	10	5	-	9	14	82
Generator	6,040	- (6,040)	-	10	1,188	(1,633)	445	-	-
	63,283	30,678 (10,583)	83,378		9,042	- (3,844)	15,083	20,281	63,097

Notes to the Accounts

For the year ended June 30, 2013

		2013	2012
		Rupees in '000'	
5.5	Amortization is allocated in the following manner		
	Cost of revenue	28	14,186
	Administrative expenses	30	4,979
	Intangible assets		746
			19,911
			15,083
5.6	Capital work-in-progress		
	Building and civil work	5.6.2 & 5.6.3	503,883
	Advances	5.6.4	-
			503,883
			383,040
5.6.1	The movement in capital work-in-progress during the year is as under:		
	Opening Balance		383,040
	Additions during the year		175,914
	Transfer to owned assets		(55,071)
	Closing balance		503,883
			383,040

5.6.2 Extension of existing building is under construction. The Company has decided to finish this project into two phases. The first phase was completed by the end of fiscal year 2012 and the second is in progress.

5.6.3 During the year borrowing cost amounting to Rs. 29.502 million using capitalisation rate of 12.13% pa (June 2012 : Rs. 31.293 million using capitalisation rate 14.73% p.a) have been capitalized in the capital work in progress pertaining to construction of building.

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

6. INTANGIBLE ASSETS

Particulars	2013								
	COST			DEPRECIATION					Net book value as at Jun 30, 2013
	As at Jul 01, 2012	Additions / (Deletions)	As at Jun 30, 2013	Rate %	As at Jul 01, 2012	Adjustment during the year	Charge for the year	As at Jun 30, 2013	
Rupees In '000'									
In-house Developed Software									
NetSol Financial Suite	81,982	-	81,982	10	51,726	-	8,198	59,924	22,058
NFS - AMS Module	131,243	-	131,243	18	51,702	-	23,862	75,564	55,679
Knit Info System	4,342	-	4,342	10	4,342	-	-	4,342	-
NetSol's Pay Soft	5,596	-	5,596	10	5,596	-	-	5,596	-
LRMIS	71,826	-	71,826	10	29,329	-	7,182	36,511	35,315
SMART	137,149	-	137,149	10	41,145	-	13,715	54,860	82,289
Blue Star - CAP	212,410	-	212,410	10	33,632	-	21,241	54,873	157,537
Blue Star - WFS	337,383	-	337,383	10	11,245	-	33,738	44,983	292,399
Under Development									
Fleet Management System (FMS)	764,082	218,619	982,701	-	-	-	-	-	982,701
Blue Star	795,633	243,190	1,038,823	-	-	-	-	-	1,038,823
LSS	100,251	-	100,251	-	-	-	-	-	100,251
HMIS	28,683	4,078	32,761	-	-	-	-	-	32,761
Loan Origination System	28,596	5,185	33,781	-	-	-	-	-	33,781
Business Intelligence Scoring Model & Risk Management	30,593	9,771	40,364	-	-	-	-	-	40,364
	2,729,769	480,842	3,210,611		228,717	-	107,936	336,653	2,873,958

Particulars	2012								
	COST			AMORTISATION					Net book value as at Jun-30 2012
	As at Jul-01 2011	Additions / (Deletions)	As at Jun-30 2012	Rate %	As at Jul-01 2011	Adjustment during the period	Charge for the year	As at Jun-30 2012	
Rupees In '000'									
In-house Developed Software									
NetSol Financial Suite	81,982	-	81,982	10	43,527	-	8,199	51,726	30,256
NFS - AMS Module	131,243	-	131,243	18	27,839	-	23,863	51,702	79,541
Knit Info System	4,342	-	4,342	10	4,342	-	-	4,342	-
NetSol's Pay Soft	5,596	-	5,596	10	5,596	-	-	5,596	-
LRMIS	71,826	-	71,826	10	22,146	-	7,183	29,329	42,497
SMART	137,149	-	137,149	10	27,430	-	13,715	41,145	96,004
Blue Star - CAP	212,410	-	212,410	10	12,391	-	21,241	33,632	178,778
Blue Star - WFS	-	337,383	337,383	10	-	-	11,245	11,245	326,138
Under Development									
Fleet Management System (FMS)	560,559	203,523	764,082	-	-	-	-	-	764,082
Blue Star	839,336	293,680 (337,383)	795,633	-	-	-	-	-	795,633
LSS	100,251	-	100,251	-	-	-	-	-	100,251
HMIS	24,467	4,216	28,683	-	-	-	-	-	28,683
Loan Origination System	24,921	3,675	28,596	-	-	-	-	-	28,596
Business Intelligence Scoring Model & Risk Management	22,280	8,313	30,593	-	-	-	-	-	30,593
	2,216,362	513,407	2,729,769		143,271	-	85,446	228,717	2,501,052

Notes to the Accounts

For the year ended June 30, 2013

		2013	2012
		Rupees in '000'	
6.1	Amortization is allocated in the following manner		
	Cost of revenue	28	107,936
			85,446
7.	DEFERRED EMPLOYEE COMPENSATION EXPENSE		
	Balance as at the beginning of the year		750
	Fair value of options issued during the year		2,089
	Options lapsed due to employee resignation		-
	Amortisation for the year		-
			(696)
			(1,339)
	Balance as at the end of the year		54
	Current portion shown under current assets		750
			(54)
			(696)
	Long term portion of deferred employee compensation expense		-
			54

The 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%

	2013	2012
	No of options	
Options outstanding at the beginning of the year	4,350,000	4,350,000
Options issued during the year	-	-
Options lapsed during the year	-	-
Options exercised during the year	(661,500)	-
Options outstanding at the end of the year	3,688,500	4,350,000

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 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 became exercisable after completion of 12 months from date of grant, 30% of the granted option became exercisable after completion of 24 months from the grant date and 20% of the granted option will become exercisable after completion of 36 months from the grant date. 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 is to incentivize core team of employees from retention point of view because in IT industry, it is the human resources which is bread and butter earner for any company.

		2013	2012		
		Rupees in '000'			
8.	LONG TERM INVESTMENTS - at cost				
	NetSol Innovation (Private) Limited (Unquoted subsidiary company)	15,188	15,188		
8.1	The subsidiary is incorporated in Pakistan. The Company holds 1,518,785 (June 2012 : 1,518,785) fully paid ordinary shares of Rs. 10/- each i.e. 50.52% of Equity held (June 2012 : 50.52%). Based on audited accounts for the year ended June 30, 2013, break-up value per share is Rs. 78.45 (June 2012 : Rs. 68.34).				
8.2	Mr. Salim Ullah Ghauri is the Chief Executive Officer of the subsidiary company.				
9.	TRADE DEBTS				
	Considered good - unsecured	9.2	965,741		
	Considered doubtful - unsecured	9.3	80,610		
		1,046,351	901,823		
	Less: Provision against doubtful recovery	(80,610)	(80,610)		
		965,741	821,213		
9.1	The related parties included in trade debts are as under:				
	Atheeb NetSol Saudi Company Limited	15,544	-		
	Atheeb Intergraph Saudi Company Limited	-	10,671		
	NetSol Technologies (Beijing) Company Limited	82,521	-		
		98,065	10,671		
9.2	It represents amount receivable from customers. It is unsecured but considered good by the management.				
9.3	The Company has created a general provision for future doubtful debts, if any. However, there is no history of doubtful debts from any of existing customers.				
9.4	The aging of trade debts at June 30 is as follows:				
		2013		2012	
		Rupees in '000'		Rupees in '000'	
		Gross	Impaired	Gross	Impaired
	Not past due	201,710	-	324,588	-
	Past due 1-180 days	767,502	-	543,536	-
	Past due 181 days -1 year	74,743	-	24,496	-
	More than one year	2,396	-	9,203	-
	Total	1,046,351	-	901,823	-

Notes to the Accounts

For the year ended June 30, 2013

9.5 The aging of trade debts due from related parties at June 30 is as follows:

	2013		2012	
	Rupees in '000'		Rupees in '000'	
	Gross	Impaired	Gross	Impaired
Not past due	14,656	-	-	-
Past due 1-180 days	82,521	-	-	-
Past due 181 days -1 year	888	-	9,923	-
More than one year	-	-	748	-
Total	98,065	-	10,671	-

Based on the past experience, consideration of financial position, past track records and recoveries, the Company believes that trade debtors past due up to one year do not require any impairment. Hence no specific provision has been created.

10. 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". It is unsecured but considered good by the management.

	2013	2012
	Rupees in '000'	
11. LOANS AND ADVANCES - Unsecured		
Considered good		
Loan to employees	2,308	883
Advances		
- to executives	102	18
- against expenses	6,203	42,655
- against capital expenditure	13,598	364
	22,211	43,920
12. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS		
Security deposits	5,386	4,723
Prepayments	9,554	4,866
	14,940	9,589
13. OTHER RECEIVABLES		
Guarantee margin	10,736	10,531
Sales tax refundable	3,011	238
Other receivable - considered good	12,123	20,535
	25,870	31,304

		2013	2012
		Rupees in '000'	
14.	DUE FROM RELATED PARTIES		
	<i>Associated</i>		
	NetSol Connect (Private) Limited	2,818	-
	Vrooz Inc.	-	19,751
	Atheeb NetSol Saudi Company Limited	6,670	3,899
	<i>Subsidiary</i>		
	NetSol Innovation (Private) Limited	14.2	5,083
		14,571	25,112
14.1	These relate to normal course of business of the Company and are interest free.		
14.2	The interest at the rate of 6 months KIBOR+1.5% (June 2012 : 3 months KIBOR+1%) is chargeable on this balance.		
14.3	The maximum aggregate amount outstanding due from related party at the end of any month during the year was Rs. 51.55 million (June 2012 : Rs. 36.61 million).		
15.	SHORT TERM INVESTMENT		
	Investment at cost	-	22,120
	Provision against doubtful recovery	-	(22,120)
		-	-
16.	CASH AND BANK BALANCES		
	With banks		
	Saving accounts	16.1	92,614
	Current accounts		54
	Foreign currency current account		10,160
	Term deposit		199,244
			302,072
	In hand		128,909
			3,499
		305,571	130,255

16.1 The balances in savings accounts bear mark up which ranges from 5% to 9% per annum (June 2012 : 5% to 9% per annum).

Notes to the Accounts

For the year ended June 30, 2013

17. SHARE CAPITAL

17.1 Authorised share capital

	2013	2012		2013	2012
	Number of shares			Rupees in '000'	
	150,000,000	150,000,000	Ordinary Shares of Rs. 10 each.	1,500,000	1,500,000

17.2 Issued, subscribed & paid-up capital

	39,403,191	38,741,691	Ordinary Shares of Rs. 10 each fully paid in cash	394,032	387,417
	39,168,512	39,168,512	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	391,685	391,685
	78,571,703	77,910,203		785,717	779,102

17.3 Owners of ordinary shares are entitled to distributions approved by the 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 Company's remaining net assets.

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

17.5 NetSol Technologies Inc. 24025, Park Sorrento, Suite 410 Calabasas CA 91302, is the parent company holding 65.19% of issued share capital of the Company. No shares are held by any other related party.

17.6 The Company is not subject to any externally imposed capital requirements for the financial years 2012 and 2013.

		2013	2012
		Rupees in '000'	
18. RESERVES			
Capital reserve			
Premium on issue of ordinary shares		278,240	273,016
Revenue reserve			
Un - appropriated profit		5,055,983	3,896,375
Employee share option compensation reserve	18.1	5,449	6,426
		5,339,672	4,175,817
18.1 EMPLOYEE SHARE OPTION COMPENSATION RESERVE			
Balance as at the beginning of the year		6,426	6,426
Options issued during the year		-	-
Options lapsed due to employee resignation		-	-
Amount transferred to Capital reserve on exercise of options		(977)	-
Balance at the end of the year		5,449	6,426

		2013	2012
Rupees in '000'			
19. LONG TERM FINANCING			
Term finance - secured	19.1 & 19.2	87,500	100,000
Loan from related party - unsecured	19.4	135,165	126,591
		222,665	226,591
Current portion		(50,000)	(50,000)
		172,665	176,591

19.1 The term finance - I facility is availed from Askari Bank Ltd up to Rs. 25 million (June 2012 : Rs. 50 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. The current outstanding balance is payable within the fiscal year 2014 and is shown under current maturity.

19.2 Another facility of term finance - II is also available from Askari Bank Ltd up to Rs. 87.5 million (June 2012 : Rs. 100 million), availed Rs. 62.5 million (June 2012 : Rs. 50 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. The first trench of loan was disbursed in October 2011.

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

19.4 This represent interest free loan of USD 1,339,589 (June 2012 : USD 1,339,589) from the holding Company.

20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Present value of minimum lease payments	46,896	47,130
Less: Current portion of obligations shown under current liabilities	(26,889)	(22,684)
	20,007	24,446

Present value of minimum lease payments have been discounted at an implicit interest rate ranging between 11.09% to 14.98% (June 2012 : 14.01% to 14.98%) to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term. No financial restriction is imposed by these lease arrangements.

The amount of future payments of the lease and the year in which these payments will become due are as follows:

	2013		
	Minimum Lease Payment	Future Finance Charges	Present Value of Lease Liability
Not later than one year	30,884	3,995	26,889
Later than one year but not later than five years	21,578	1,571	20,007
	52,462	5,566	46,896

Notes to the Accounts

For the year ended June 30, 2013

	2012		
	Minimum Lease Payment	Future Finance Charges	Present Value of Lease Liability
Not later than one year	27,982	5,298	22,684
Later than one year but not later than five years	26,993	2,547	24,446
	54,975	7,845	47,130

	2013	2012
	Rupees in '000'	
21. DEFERRED INCOME		
Opening balance	38	-
Addition during the year	40	49
	78	49
Amortized during the year	(19)	(11)
Un amortized gain on sale and lease back transaction	59	38

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.

22. TRADE AND OTHER PAYABLES

Creditors		21,643	34,446
Accrued liabilities		65,303	54,236
Interest accrued - secured		7,252	13,867
Due to related parties	22.1	269,831	317,132
Withholding tax		3,113	6,039
Provident fund payable		5,303	8,248
Unclaimed dividend		1,630	1,630
Other payables		24,881	19,689
		398,956	455,287

22.1 DUE TO RELATED PARTIES

Parent

NetSol Technologies Inc.	22.1.1	156,401	137,647
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Associated

NetSol Consulting Services (Private) Limited	22.1.1	-	1,662
NetSol Technologies Europe Limited	22.1.1	105,249	161,400
NTPK (Thailand) Company Limited	22.1.1	8,181	14,813
NetSol Technologies (Beijing) Company Limited	22.1.1	-	1,610

		269,831	317,132
--	--	---------	---------

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

22.1.2 The maximum aggregate amount outstanding due to related party at the end of any month during the year was Rs. 643.23 million (June 2012 : Rs. 463.25 million).

23. EXCESS OF BILLING OVER REVENUE

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

		2013	2012
		Rupees in '000'	
24. SHORT TERM BORROWINGS			
Export refinance - secured	24.1	200,000	200,000
24.1	The facility for export refinance is availed from Askari Bank Ltd amounting to Rs 200 million (June 2012 : Rs 200 million) and carry mark-up of State Bank Refinance Rate+1% per annum (June 2012 : State Bank Refinance Rate+1% per annum). The interest rate ranged between 9.2% to 11% (June 2012 : 11%) during fiscal year 2013. The due balance is payable bi-annually.		
24.2	The facility is secured by way of first charge over the Company's current assets including stocks/ receivable/book debts up to Rs. 285.71 million.		
24.3	During the year a facility of running finance is also available from Askari Bank Ltd up to Rs. 30 million, availed nil, to meet the working capital requirements. It is a sublimit of limit of Rs. 100 million available from Askari Bank for issuance of guarantees. It carries mark up at the rate of 3 months Kibor + 2.5%, payable on quarterly basis.		
24.4	The facility is secured by way of first charge over the Company's all present and future current assets including stocks/receivable/book debts up to Rs. 142.857 million.		

25. CURRENT PORTION OF LONG TERM LIABILITIES

Current portion of long term financing	19	50,000	50,000
Current portion of lease liability	20	26,889	22,684
		76,889	72,684

26. CONTINGENCIES & COMMITMENTS

26.1 Contingencies

There are no contingencies as at June 30, 2013 (June 2012 : nil) to which the Company is a party.

26.2 Commitments

26.2.1 The Company has issued worth Rs. 18.636 million (June 2012 : Rs. 26.55 million) bank guarantees and bid bonds to various customers against sale of software and allied services.

Notes to the Accounts

For the year ended June 30, 2013

	2013		2013	2012
	Domestic	Foreign	Rupees in '000'	
27. REVENUE-NET				
Export Revenue				
License	-	962,980	962,980	1,072,384
Services	-	1,142,844	1,142,844	710,620
Maintenance	-	417,169	417,169	281,326
	-	2,522,993	2,522,993	2,064,330
Local Revenue				
Services	101,562	-	101,562	129,563
Maintenance	9,524	-	9,524	3,802
	111,086	-	111,086	133,365
Sales Tax	(1,300)	-	(1,300)	(7,840)
	109,786	2,522,993	2,632,779	2,189,855
28. COST OF REVENUE				
Salaries & benefits	44,438	410,370	454,808	357,656
Consultancy charges	-	81,637	81,637	39,957
Technical services	165	4,870	5,035	-
Hardware and other material cost	47	-	47	35,805
Software licences	108,096	9,047	117,143	61,805
Staff training	665	2,528	3,193	671
Travelling & conveyance	4,575	47,698	52,273	45,480
Communication	1,540	8,301	9,841	8,244
Utilities	4,582	18,266	22,848	17,219
Printing & stationery	370	1,030	1,400	2,082
Entertainment	4,306	17,517	21,823	16,011
Insurance	286	1,493	1,779	1,802
Vehicle running & maintenance	616	6,090	6,706	4,846
Repair & maintenance	2,474	13,408	15,882	9,580
Certifications	1,052	3,201	4,253	3,846
Fee & subscription	237	3,001	3,238	891
Depreciation	5.2	33,169	163,450	131,914
Amortization of leased assets	5.5	2,901	14,186	10,587
Amortization of intangible assets	6.1	20,896	107,936	85,446
	230,415	857,063	1,087,478	833,842

	2013		2013	2012
	Domestic	Foreign	Rupees in '000'	
29. SELLING AND PROMOTION EXPENSES				
Salaries & benefits	1,646	37,830	39,476	54,941
Staff training	46	1,048	1,094	211
Rent, rates & taxes	1,223	8,460	9,683	9,993
Travelling and conveyance	515	11,843	12,358	16,740
Communication	87	2,004	2,091	3,795
Utilities	114	2,617	2,731	2,300
Printing & stationery	4	84	88	346
Entertainment	110	2,520	2,630	2,588
Insurance	11	254	265	324
Vehicle running expenses	70	1,616	1,686	1,650
Repairs and maintenance	54	1,241	1,295	2,344
Commission on sales	-	41,023	41,023	21,764
Advertisement	20	451	471	967
Tender money	-	1	1	30
Sale promotional expenses	92	5,333	5,425	18,759
	3,992	116,325	120,317	136,752
30. ADMINISTRATIVE EXPENSES				
Salaries and benefits	6,394	146,945	153,339	125,442
Staff training	13	307	320	225
Management fee	2,449	56,290	58,739	54,020
Rent, rates and taxes	240	5,505	5,745	4,493
Travelling and conveyance	767	17,627	18,394	16,425
Communication & postage	223	5,116	5,339	4,128
Printing and stationery	26	590	616	555
Utilities	468	10,762	11,230	8,215
Entertainment	590	13,567	14,157	11,258
Insurance	392	9,019	9,411	8,775
Advertisement	36	839	875	933
Vehicle running expenses	582	13,383	13,965	13,769
Repairs and maintenance	1,034	23,759	24,793	13,273
Legal and professional charges	317	7,276	7,593	6,487
Auditors remuneration	75	1,725	1,800	1,500
News papers & periodicals	6	148	154	101
Security expenses	30.1	11	272	450
Office supplies		67	1,598	1,404
Charity & donation	30.2	645	15,457	7,715
Fee & subscription		355	8,510	12,225
Miscellaneous expenses		18	425	250
Depreciation	5.2	2,392	57,357	46,241
Amortization of leased assets	5.5	208	4,979	3,889
	17,308	397,760	415,068	341,773

Notes to the Accounts

For the year ended June 30, 2013

	2013	2012
	Rupees in '000'	
30.1 Auditors remuneration		
Audit fee	800	500
Certifications of group reporting	500	500
Professional services	250	300
Out-of-pocket expenses	250	200
	1,800	1,500

30.2 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.

31. RETIREMENT BENEFIT

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

	2013		2013	2012
	Domestic	Foreign	Rupees in '000'	
32. OTHER OPERATING EXPENSES				
Loss on disposal of assets	7	165	172	283
Others	989	22,731	23,720	18,879
	996	22,896	23,892	19,162
33. OTHER INCOME				
<i>Income from financial assets</i>				
Profit on bank deposits	12,428	-	12,428	2,646
Mark up on loan	1,057	-	1,057	378
Dividend Income	39,608	-	39,608	31,757
	53,093	-	53,093	34,781
<i>Income from non-financial assets</i>				
Gain on foreign currency translation	-	115,455	115,455	17,898
Amortization of deferred revenue	19	-	19	11
Rental income	16,557	-	16,557	14,198
Miscellaneous income	13	-	13	14,525
	16,589	115,455	132,044	46,632
	69,682	115,455	185,137	81,413

	2013		2013	2012
	Domestic	Foreign	Rupees in '000'	
34. FINANCE COST				
Lease finance charges	277	6,354	6,631	6,110
Interest on loans	-	661	661	7,202
Lease documentation charges	1	25	26	37
Bank charges	64	1,465	1,529	1,328
	342	8,505	8,847	14,677
35. EARNINGS PER SHARE				
Basic				
Profit after taxation for the year			1,159,608	921,424
Average number of ordinary shares in issue during the year			78,050	77,910
Basic - In Rupees			14.86	11.83
Diluted				
Profit after taxation for the year			1,159,608	921,424
Average number of ordinary shares in issue during the year			78,748	77,910
Diluted - In Rupee			14.73	11.83
36. 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				
Accounting profit			1,162,314	925,062
Enacted tax rate			35%	35%
Tax on accounting profit at enacted rate			406,810	323,772
Tax effect of income exempt from tax			(402,483)	(320,190)
Tax effect of income taxed at different rates			(1,621)	(1,520)
			2,706	2,062

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 forums.

Notes to the Accounts

For the year ended June 30, 2013

37. 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	
	2013	2012	2013	2012	2013	2012
	Rupees in '000'					
Managerial remuneration	4,000	4,000	2,200	2,400	252,536	141,644
Retirement benefits	-	-	220	240	17,978	9,251
Rent and house maintenance	1,600	1,600	880	960	101,014	56,658
Utilities	400	400	220	240	25,254	14,164
Medical expenses	96	136	109	63	12,309	7,886
Share Options	39	77	16	31	206	408
Total	6,135	6,213	3,645	3,934	409,297	230,011
No. of Persons	1	1	1	1	366	174

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

Nothing is paid to any non-executive director of the company in form of remuneration or other benefits except a fee approved by the board for attending the board meetings.

38. 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 these financial statements are as follows.

		2013	2012	
		Rupees in '000'		
	Relationship with the Company	Nature of transactions		
(i)	Parent	Management fee	58,739	54,020
(ii)	Subsidiary	Rental income	16,557	14,198
		Provision of services	5,889	5,501
		Dividend received	39,608	31,757
		Mark-up income	1,057	378
		Mark-up expense	-	1,061
(iii)	Associated undertaking	Provision of services	397,815	241,312

			2013	2012
			Rupees in '000'	
(iv)	Post employment benefit	Contribution to defined contribution plan	26,518	20,713
(v)	There are no transactions with any key management personnel other than under the terms of employment.			

39. 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.

40. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Financial Risk Management

The Company's activities are exposed to a variety of financial risks. The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Company's financial performance. The 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. The management continually monitors the Company'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 Company'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 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. Credit risk of the Company 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:

Notes to the Accounts

For the year ended June 30, 2013

		2013	2012
		Rupees in '000'	
Financial Assets			
Trade debts	40.1	965,741	821,213
Loans and advances		2,410	901
Security deposits		5,386	4,723
Other receivables		25,870	31,304
Due from related parties		14,571	25,112
Bank balances	40.2	302,072	128,909
		1,316,050	1,012,162

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

40.2 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 Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company 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:

	2013				
	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	46,896	52,462	30,884	21,578	-
Long term loan	222,665	233,633	58,687	174,946	-
Trade and other payables	398,956	398,956	398,956	-	-
Short-term borrowings	200,000	218,800	218,800	-	-
	868,517	903,851	707,327	196,524	-

	2012				
	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	47,130	54,975	27,982	26,993	-
Long term financing	226,591	243,788	64,203	179,585	-
Trade and other payables	455,287	455,287	455,287	-	-
Short-term borrowings	200,000	222,000	222,000	-	-
	929,008	976,050	769,472	206,578	-

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 Company's interest-bearing financial instrument is:

	2013	2012
	Rupees in '000'	
Financial assets		
Bank balances	291,858	130,255
Financial Liabilities		
Finance lease liability	46,896	47,130
Long term loan	222,665	226,591
Short-term borrowings	200,000	200,000
	469,561	473,721

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 Company's profit net of tax.

Notes to the Accounts

For the year ended June 30, 2013

	2013	2012
	Rupees in '000'	
<i>Impact on Profit and loss account (net of tax)</i>		
As at 30 June		
100 bps increase will result in decrease in profit by	636	2,221
100 bps decrease will result in increase in profit by	636	2,221

(d) Foreign Currency Risk

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 trade debts, payables and revenues which are entered in a currency other than Pak Rupees. Majority of the revenue of the company is in currencies other than Pak Rupees. The Company 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 2012.

<i>Impact on Profit and loss account (net of tax)</i>		
As at 30 June		
Strengthening	89,852	51,068
Weakening	(89,852)	(51,068)

(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.

41. PROVIDENT FUND RELATED DISCLOSURE

A joint provident fund is maintained by NetSol Group. The following information is based on the latest financial statements of the fund:

		2013	2012
		(Unaudited)	(Audited)
		Rupees in '000'	
Size of the fund - Total Assets		174,771	120,058
Cost of investment made		145,252	91,871
Percentage of investment as size of fund	41.1	89%	86%
Fair value of investments	41.1	156,933	102,532

41.1 The breakup of fair value of investments is:

	2013		2012	
	Investments Rupees in '000	Percentage of investment as size of fund	Investments Rupees in '000	Percentage of investment as size of fund
Bank Balances	110,819	63%	63,203	53%
Mutual Funds	46,114	26%	39,329	33%
	156,933	89%	102,532	86%

41.2 The investments out of provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

42. NUMBER OF EMPLOYEES

The total average number of employees during the year and as at June 30, 2013 and 2012 respectively as follows:

	2013	2012
	No of Employees	
Average number of employees during the year	740	693
Number of employees as at year end	783	669

43. 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.

				2013	2012
				Rupees in '000'	
44. CORRESPONDING FIGURES					
Corresponding figures have been re-classified for better presentation, in respect of following:					
Note	From	Note	To		
13.	Other receivable - considered good	13.	Sales tax refundable	3,011	238
30.	Directors' Remuneration	30.	Salaries and benefites	9,780	8,129

Notes to the Accounts

For the year ended June 30, 2013

45. NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors in their meeting held on September 06, 2013 have recommended a final cash dividend of 10% i.e., Rs. 1 per share and 10% bonus share issue i.e., 1 share for every 10 shares held by the members. The above recommendations of cash dividend and bonus issue are subject to the approval of the members at the Annual General Meeting to be held on October 21, 2013. These financial statements do not include the effect of the above recommendations and they will be accounted for in the period in which they are approved by the members.

46. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 06, 2013 by the Board of Directors.

47. FIGURES

Figures have been rounded off to the nearest thousand rupee.

Consolidated Financial Statements

For the Year Ended June 30, 2013



KABANI & COMPANY

CHARTERED ACCOUNTANTS

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of **NetSol Technologies Limited (the Holding Company)** and its subsidiary company NetSol Innovation (Private) Limited, (collectively referred to as 'the Group') as at **June 30, 2013** 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 Holding Company and its subsidiary. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the Holding Company and its subsidiary company as at **June 30, 2013** and the results of their operations for the year then ended.

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September 06, 2013
Lahore.

Kabani & Company
Chartered Accountants

Muhammad Yousaf

Consolidated Balance Sheet

As at June 30, 2013

	NOTE	2013	2012
Rupees in '000'			
ASSETS			
NON-CURRENT ASSETS			
Property & equipment	5	1,918,099	1,384,544
Intangible assets	6	2,873,958	2,501,052
		4,792,057	3,885,596
Deferred employee compensation expense	7	-	54
		4,792,057	3,885,650
CURRENT ASSETS			
Trade debts	8	1,159,755	993,465
Current portion of deferred employee compensation expense	7	54	696
Excess of revenue over billing	9	864,466	926,801
Loans and advances	10	22,366	45,491
Trade deposits & short term prepayments	11	16,341	11,244
Other receivables	12	26,447	31,845
Due from related parties	13	28,625	44,147
Short term investment	14	-	-
Taxation		71,855	58,072
Cash & bank balances	15	330,827	138,957
		2,520,736	2,250,718
TOTAL ASSETS		7,312,793	6,136,368

The annexed notes from 1 to 45 form an integral part of these financial statements.

	NOTE	2013	2012
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	785,717	779,102
Share deposit money		13	13
Reserves	17	5,443,480	4,264,269
		6,229,210	5,043,384
Non - controlling interest		116,777	101,736
		6,345,987	5,145,120
NON-CURRENT LIABILITIES			
Long term financing	18	172,665	176,591
Liabilities against assets subject to finance lease	19	20,007	24,446
Deferred income	20	59	38
		192,731	201,075
CURRENT LIABILITIES			
Trade and other payables	21	422,586	476,244
Excess of billing over revenue	22	57,723	27,028
Short term borrowings	23	200,000	200,000
Current portion of long term liabilities	24	76,889	72,684
Provision for taxation		16,877	14,217
		774,075	790,173
CONTINGENCIES & COMMITMENTS	25	-	-
TOTAL EQUITY AND LIABILITIES		7,312,793	6,136,368

The annexed notes from 1 to 45 form an integral part of these financial statements.

Consolidated Profit and Loss Account

For the year ended June 30, 2013

	NOTE	2013	2012
		Rupees in '000'	
Revenue - Net	26	2,997,140	2,499,656
Cost of revenue	27	(1,322,615)	(1,031,672)
Gross profit		1,674,525	1,467,984
Selling and promotion expenses	28	(120,317)	(136,752)
Administrative expenses	29	(421,807)	(347,806)
Other operating expenses	31	(26,001)	(21,891)
Other income	32	134,444	45,072
Operating profit		1,240,844	1,006,607
Finance cost	33	(9,194)	(13,873)
Profit before taxation		1,231,650	992,734
Taxation			
Current year	34	(2,822)	(2,358)
Prior year		(31)	(1,698)
		(2,853)	(4,056)
Profit after taxation for the year		1,228,797	988,678
Attributable to:			
Equity holders of NetSol Technologies Limited		1,174,964	939,688
Non - controlling interest		53,833	48,990
		1,228,797	988,678

The annexed notes from 1 to 45 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended June 30, 2013

	NOTE	2013	2012
		Rupees in '000'	
Profit after taxation for the year		1,228,797	988,678
Other comprehensive income		-	-
Total comprehensive income for the year		1,228,797	988,678
Attributable to:			
Equity holders of NetSol Technologies Limited		1,174,964	939,688
Non - controlling interest		53,833	48,990
		1,228,797	988,678

The annexed notes from 1 to 45 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended June 30, 2013

NOTE	2013	2012
	Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation for the year	1,231,650	992,734
Adjustments for non cash charges and other items:		
Depreciation - own assets	227,267	184,875
Amortization of leased assets	19,165	14,476
Amortization of intangible assets	107,936	85,446
Loss on disposal of fixed assets	58	1,691
Amortization of deferred revenue	(19)	(11)
Exchange (gain) on debtors	(121,494)	(27,087)
Interest expense	7,517	12,339
Interest income	(12,697)	(2,971)
Deferred employee compensation expense	696	1,339
(Gain) on short term investment	(221)	(478)
	228,208	269,619
Cash generated from operations before working capital changes	1,459,858	1,262,353
Decrease / (increase) in current assets & liabilities		
Trade debts	48,233	(481,257)
Loans and advances	23,125	(27,017)
Trade deposits & short term prepayments	(5,097)	1,319
Other receivables	5,398	22,528
Due from related parties	15,522	(8,890)
Trade and other payables	(47,043)	(42,940)
Cash generated from / (used in) operations	40,138	(536,257)
Interest paid	(43,634)	(39,077)
Income taxes paid	(13,976)	(11,292)
Dividend paid	(38,792)	(31,137)
Net cash generated from operations	1,403,594	644,590
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipments purchased	(628,769)	(189,090)
Sales proceeds of fixed asset	15,314	23,844
Intangible assets	(471,477)	(505,520)
Capital work in progress	(146,412)	(131,950)
Gain on investments	221	478
Interest received	12,697	1,654
Net cash (used in) investing activities	(1,218,426)	(800,584)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital	6,615	-
Share premium	4,247	-
Paid against obligation under finance lease	(34,839)	(21,518)
Received against obligation under finance lease	34,605	27,529
Long term payable	(3,926)	66,259
Net cash generated from financing activities	6,702	72,270
Net increase / (decrease) in cash and cash equivalents	191,870	(83,724)
Cash and cash equivalents at the beginning of the year	138,957	222,681
Cash and cash equivalents at the end of the year	15	330,827
		138,957

The annexed notes from 1 to 45 form an integral part of these financial statements.

Chief Executive Officer

Director

Consolidated Statement of Changes in Equity

For the year ended June 30, 2013

	Attributable to equity holders of NetSol Technologies Limited						Non Controlling Interest	Total Equity
	Issued, subscribed and paid-up capital	Share deposit money	Employee share option compensation reserve	Capital Reserve	Revenue Reserve	Total		
				Share premium	Unappropriated profit			
Rupees In '000'								
Balance as at June 30, 2011	779,102	13	6,426	273,016	3,045,139	4,103,696	83,849	4,187,545
Total comprehensive income for the year								
Net profit for the year ended June 30, 2012	-	-	-	-	939,688	939,688	48,990	988,678
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	939,688	939,688	48,990	988,678
Distributions to owners								
-by subsidiary to non-controlling interest								
Cash dividend	-	-	-	-	-	-	(31,103)	(31,103)
Balance as at June 30, 2012	779,102	13	6,426	273,016	3,984,827	5,043,384	101,736	5,145,120
Balance as at June 30, 2012	779,102	13	6,426	273,016	3,984,827	5,043,384	101,736	5,145,120
Total comprehensive income for the year								
Net profit for the year ended June 30, 2013	-	-	-	-	1,174,964	1,174,964	53,833	1,228,797
Other comprehensive income	-	-	-	-	-	-	-	-
	-	-	-	-	1,174,964	1,174,964	53,833	1,228,797
Distributions to owners								
-by subsidiary to non-controlling interest								
Cash dividend	-	-	-	-	-	-	(38,792)	(38,792)
Shares issued against options exercised (661,500 shares at Rs.10(each)	6,615	-	-	-	-	6,615	-	6,615
Transferred to Share premium on exercise of options (661,500 options at Rs. 1.48)	-	-	(977)	-	-	(977)	-	(977)
Share Premium on share issued against options exercised	-	-	-	5,224	-	5,224	-	5,224
Balance as at June 30, 2013	785,717	13	5,449	278,240	5,159,791	6,229,210	116,777	6,345,987

The annexed notes from 1 to 45 form an integral part of these financial statements.

Notes to the Consolidated Accounts

For the year ended June 30, 2013

1. LEGAL STATUS AND NATURE OF BUSINESS

NetSol Group ("the Group") consists of:

- NetSol Technologies Limited
- NetSol Innovation (Private) Limited

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 and subsequently also got listed on Lahore Stock Exchange and Islamabad Stock Exchange. 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 IT Village, Lahore Ring Road, Ghazi Road Interchange, 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 Company is situated NetSol IT Village, Lahore Ring Road, Ghazi Road Interchange, 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 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, 2012 which has resulted in extended disclosures as described below.

(i) IAS 1 Presentation of Financial Statements (Amendments) [effective July 1, 2012]

IAS 1 (Amendments), 'Presentation of Financial Statements', require an entity to group items presented in Other Comprehensive Income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified. The amendments also require tax associated with items presented before tax to be shown separately for each of the two groups of Other Comprehensive Income items (without changing the option to present items of Other Comprehensive Income either before tax or net of tax).

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:

IAS 1 Presentation of Financial Statements (Amendments)

IAS 12 Income Taxes (Amendments)

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

	Effective for periods beginning on or after
IFRS 1 First-time Adoption of Financial Reporting Standards	Jan-01 2013
IFRS 7 Financial Instruments: Disclosures	Jan-01 2013
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 16 Property, Plant and Equipment	Jan-01 2013
IAS 19 Employee Benefits (Amendments)	Jan-01 2013
IAS 27 Separate Financial Statements (Amendments)	Jan-01 2013
IAS 28 Investments in Associates and Joint Ventures (Amendments)	Jan-01 2013
IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendments)	Jan-01 2013
IAS 36 Impairment of Assets (Amendments)	Jan-01 2013
IAS 39 Financial Instruments: Recognition and Measurement (Amendments)	Jan-01 2014
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	Jan-01 2013
IFRIC 21 Levies	Jan-01 2013

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.

Notes to the Consolidated Accounts

For the year ended June 30, 2013

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. Free hold land is stated at cost less any identified impairment loss.

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

Notes to the Consolidated Accounts

For the year ended June 30, 2013

(a) In-house developed intangible assets

The Group capitalizes certain computer software development costs in accordance with IAS 38 Intangible Assets. 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.

Amortization is charged on straight line basis over the useful life of the intangible assets. All intangible assets with an indefinite useful life are tested for impairment at each balance sheet date. Rates of amortization are stated in note 6.

(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 5.

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.

Notes to the Consolidated Accounts

For the year ended June 30, 2013

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 both the Chief Financial Officer and the Head of Software Engineering Research and Development.

(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".

(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.

Notes to the Consolidated Accounts

For the year ended June 30, 2013

(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.

Notes to the Consolidated Accounts

For the year ended June 30, 2013

		2013	2012
		Rupees In '000'	
5. PROPERTY & EQUIPMENT			
Net book value of owned assets	5.1	1,342,944	938,407
Net book value of leased assets	5.4	71,272	63,097
Capital work in progress	5.6	503,883	383,040
		1,918,099	1,384,544

5.1 Following is statement of owned assets

Particulars	2013									
	COST			Rate %	DEPRECIATION				Net book value as at Jun 30, 2013	
	As at Jul 01, 2012	Additions / (Deletions)	As at Jun 30, 2013		As at Jul 01, 2012	Adjustment during the year	Charge for the year	As at Jun 30, 2013		
Rupees In '000'										
Tangible Assets										
Land - freehold	193,158	55,071	248,229	-	-	-	-	-	248,229	
Building on free hold land	201,585	39,722	241,307	5	68,180	-	7,167	75,347	165,960	
Furniture & fixtures	20,553	6,501 (4,254)	22,800	10	5,678	- (1,506)	1,660	5,832	16,968	
Vehicles	49,576	21,419 (13,138)	57,857	20	26,371	5,331 (4,565)	5,159	32,296	25,561	
Computers	599,956	253,701 (9,945)	843,712	20-33	274,695	- (8,387)	109,817	376,125	467,587	
Air conditioners	7,851	2,369 (167)	10,053	10	2,842	- (96)	591	3,337	6,716	
Office equipment	18,672	5,685 (34)	24,323	10	6,650	- (18)	1,441	8,073	16,250	
Electric fittings	1,118	-	1,118	10	636	-	48	684	434	
Generator	17,942	9,705 (2500)	25,147	10	7,260	- (1,469)	1,424	7,215	17,932	
Leasehold improvements	11,589	-	11,589	20	9,089	-	500	9,589	2,000	
Intangible Assets										
Software	434,821	265,577	700,398	33	217,012	-	108,079	325,091	375,307	
	1,556,821	659,750 (30,038)	2,186,533		618,413	5,331 (16,041)	235,886	843,589	1,342,944	

Particulars	2012								
	COST			DEPRECIATION					Net book value as at June 30 2012
	As at Jul 01, 2011	Additions / (Deletions)	As at Jun 30, 2012	Rate %	As at July 01, 2011	Adjustment during the year	Charge for the year	As at Jun 30, 2012	
Rupees In '000'									
Tangible Assets									
Land - freehold	193,158	-	193,158	-	-	-	-	-	193,158
Building on free hold land	201,585	-	201,585	5	61,159	-	7,021	68,180	133,405
Furniture & fixtures	20,645	793 (885)	20,553	10	4,411	- (401)	1,668	5,678	14,875
Vehicles	57,859	10,380 (18,663)	49,576	20	23,786	2,210 (4,911)	5,286	26,371	23,205
Computers	589,386	37,401 (26,831)	599,956	20-33	198,359	(16,031)	92,367	274,695	325,260
Air conditioners	8,302	348 (799)	7,851	10	2,618	(349)	573	2,842	5,009
Office equipment	17,013	1,659	18,672	10	5,388	-	1,262	6,650	12,022
Electric fittings	1,118	-	1,118	10	582	-	54	636	482
Generator	11,902	6,040	17,942	10	4,891	1,633	736	7,260	10,682
Leasehold improvements	11,589	-	11,589	20	8,464	-	625	9,089	2,500
Intangible Assets									
Software	322,446	112,375	434,821	33	134,448	-	82,564	217,012	217,809
	1,435,003	168,996 (47,178)	1,556,821		444,106	3,843 (21,692)	192,156	618,414	938,407

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
Furniture & fixture	423	220	203	110	Negotiation	Asad Khan
Furniture & fixture	3,203	945	2,258	352	Negotiation	Malik Nadeem
Furniture & fixture	628	341	287	40	Negotiation	Mubashir Haneef
Vehicle	4,543	2,334	2,209	3,000	Negotiation	Faheem Khalid
Vehicle	1,700	85	1,615	1,700	Negotiation	Bank Alfalah
Vehicle	1,700	28	1,672	1,700	Negotiation	Bank Alfalah
Vehicle	1,250	1,053	197	1,450	Insurance company	EFU Insurance
Vehicle	800	559	241	925	Insurance company	Adma Jee Insurance
Vehicle	707	464	243	388	Employee	Hamid Khan
Vehicle	2,438	41	2,397	2,438	Sale and lease back	First Habib Modaraba
Computers	6,358	5,139	1,219	505	Negotiation	Malik Nadeem
Computers	3,267	2,982	285	64	Negotiation	Mubashir Haneef
Computers	104	85	19	10	Employee	M. Atif
Computers	104	85	19	10	Employee	Farid Ahmed
Computers	112	96	16	11	Employee	Sohail Iqbal
Air Conditioners	167	97	70	3	Negotiation	Mubashir Haneef
Office Equipments	34	18	16	3	Negotiation	Mubashir Haneef
Generator	2,500	1,469	1,031	1,000	Negotiation	Power Solutions
Leased						
Vehicle	1,625	290	1,335	1,605	Insurance company	Askari General Insurance
2013	31,663	16,331	15,332	15,314		
2012	47,178	21,692	25,486	23,844		

Notes to the Consolidated Accounts

For the year ended June 30, 2013

		2013	2012
		Rupees in '000'	
5.3 Depreciation is allocated in the following manner			
Cost of revenue	27	169,910	138,634
Administrative expenses	29	57,357	46,241
Intangible assets		8,619	7,281
		235,886	192,156

5.4 Following is statement of leased assets

Particulars	2013								
	COST			Rate %	DEPRECIATION				Net book value as at Jun 30, 2013
	As at Jul 01, 2012	Additions / (Deletions)	As at Jun 30, 2013		As at Jul 01, 2012	Adjustment during the year	Charge for the year	As at Jun 30, 2013	
Rupees In '000'									
Vehicles	42,447	29,631 (12,139)	59,939	20	9,937	-	9,407	13,724	46,215
Computers	40,835	4,974	45,809	33	10,330	-	10,496	20,826	24,983
Office equipment	96	-	96	10	14	-	8	22	74
	83,378	34,605 (12,139)	105,844		20,281	(5,620)	19,911	34,572	71,272

Particulars	2012								
	COST			Rate %	DEPRECIATION				Net book value as at Jun 30, 2012
	As at Jul 01, 2011	Additions / (Deletions)	As at Jun 30, 2012		As at July 01, 2011	Adjustment during the year	Charge for the year	As at Jun 30, 2012	
Rupees In '000'									
Vehicles	35,728	11,262 (4,543)	42,447	20	5,590	(2,211)	6,558	9,937	32,510
Computers	21,419	19,416	40,835	33	2,259	-	8,071	10,330	30,505
Office equipment	96	-	96	10	5	-	9	14	82
Generator	6,040	6,040	-	10	1,188	(1,633)	445	-	-
	63,283	30,678 (10,583)	83,378		9,042	(3,844)	15,083	20,281	63,097

		2013	2012
		Rupees in '000'	
5.5	Amortization is allocated in the following manner		
	Cost of revenue	27	14,186
	Administrative expenses	29	4,979
	Intangible assets		746
			607
		19,911	15,083
5.6	Capital work-in-progress		
	Building and civil work	5.6.2 & 5.6.3	503,883
	Advances	5.6.4	-
			52,523
		503,883	383,040
5.6.1	The movement in capital work-in-progress during the year is as under:		
	Opening Balance		383,040
	Additions during the year		219,797
	Transfer to owned assets		175,914
			(55,071)
	Closing balance		383,040

5.6.2 Extension of existing building is under construction. The Company has decided to finish this project into two phases. The first phase was completed by the end of fiscal year 2012 and the second is in progress.

5.6.3 During the year borrowing cost amounting to Rs. 29.502 million using capitalisation rate of 12.13 % p.a (June 2012: Rs. 31.293 million using capitalisation rate 14.73% p.a) have been capitalized in the capital work in progress pertaining to construction of building.

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

Notes to the Consolidated Accounts

For the year ended June 30, 2013

6. INTANGIBLE ASSETS

Particulars	2013							
	COST			Rate %	A MORTISATION			Net book value as at Jun 30, 2013
	As at Jul 01, 2012	Additions / (Deletions)	As at Jun 30, 2013		As at Jul 01, 2012	Charge for the year	As at Jun 30, 2013	
Rupees In '000'								
In-house Developed Software								
NetSol Financial Suite	81,982	-	81,982	10	51,726	8,198	59,924	22,058
NFS - AMS Module	131,243	-	131,243	18	51,702	23,862	75,564	55,679
Knit Info System	4,342	-	4,342	10	4,342	-	4,342	-
NetSol's Pay Soft	5,596	-	5,596	10	5,596	-	5,596	-
LRMIS	71,826	-	71,826	10	29,329	7,182	36,511	35,315
SMART	137,149	-	137,149	10	41,145	13,715	54,860	82,289
Blue Star - CAP	212,410	-	212,410	10	33,632	21,241	54,873	157,537
Blue Star - WFS	337,382	-	337,382	10	11,245	33,738	44,983	292,399
Under Development								
Fleet Management System	764,083	218,618	982,701	-	-	-	-	982,701
Blue Star	795,633	243,190	1,038,823	-	-	-	-	1,038,823
LSS	100,251	-	100,251	-	-	-	-	100,251
HMIS	28,683	4,078	32,761	-	-	-	-	32,761
Loan Origination System	28,596	5,185	33,781	-	-	-	-	33,781
Business Intelligence Scoring Model & Risk Management	30,593	9,771	40,364	-	-	-	-	40,364
	2,729,769	480,842	3,210,611		228,717	107,936	336,653	2,873,958

Particulars	2012							
	COST			Rate %	A MORTISATION			Net book value as at Jun 30, 2012
	As at Jul 01, 2011	Additions / (Deletions)	As at Jun 30, 2012		As at Jul 01, 2011	Charge for the year	As at Jun 30, 2012	
Rupees In '000'								
In-house Developed Software								
NetSol Financial Suite	81,982	-	81,982	10	43,527	8,199	51,726	30,256
NFS - AMS Module	131,243	-	131,243	18	27,839	23,863	51,702	79,541
Knit Info System	4,342	-	4,342	10	4,342	-	4,342	-
NetSol's Pay Soft	5,596	-	5,596	10	5,596	-	5,596	-
LRMIS	71,826	-	71,826	10	22,146	7,183	29,329	42,497
SMART	137,149	-	137,149	10	27,430	13,715	41,145	96,004
Blue Star - CAP	212,410	-	212,410	10	12,391	21,241	33,632	178,778
Blue Star - WFS	-	337,382	337,382	10	-	11,245	11,245	32,6137
Under Development								
Fleet Management System	560,559	203,524	764,083	-	-	-	-	764,083
Blue Star	839,336	(43,703)	795,633	-	-	-	-	795,633
LSS	100,251	-	100,251	-	-	-	-	100,251
HMIS	24,467	4,216	28,683	-	-	-	-	28,683
Loan Origination System	24,921	3,675	28,596	-	-	-	-	28,596
Business Intelligence Scoring Model & Risk Management	22,280	8,313	30,593	-	-	-	-	30,593
	2,216,362	513,407	2,729,769		143,271	85,446	228,717	2,501,052

		2013	2012
		Rupees in '000'	
6.1	Amortization is allocated in following manner		
	Cost of revenue	27	107,936
7.	DEFERRED EMPLOYEE COMPENSATION EXPENSE		
	Balance as at the beginning of the year	750	2,089
	Fair value of options issued during the year	-	-
	Options lapsed due to employee resignation	-	-
	Amortisation for the year	(696)	(1,339)
	Balance as at the end of the year	54	750
	Current portion shown under current assets	(54)	(696)
	Long term portion of deferred employee compensation expense	-	54

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%

		2013	2012
		No of options	
	Options at the beginning of the year	4,350,000	4,350,000
	Options issued during the year	-	-
	Options lapsed during the year	-	-
	Options exercised during the year	(661,500)	-
		3,688,500	4,350,000

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 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 became exercisable after completion of 12 months from date of grant, 30% of the granted option became exercisable after completion of 24 months from the grant date and 20% of the granted option will become exercisable after completion of 36 months from the grant date. 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 is to incentivize core team of employees from retention point of view because in IT industry, it is the human resources which is bread and butter earner for any company.

Notes to the Consolidated Accounts

For the year ended June 30, 2013

		2013	2012	
		Rupees in '000'		
8.	TRADE DEBTS			
	Considered good - unsecured	8.2	1,159,755	993,465
	Considered doubtful - unsecured	8.3	80,610	80,610
			1,240,365	1,074,075
	Less: provision for doubtful debts		(80,610)	(80,610)
			1,159,755	993,465
8.1	The related parties included in trade debts are as under:			
	Atheeb Intergraph Saudi Company Limited		15,544	-
	Atheeb NetSol Saudi Company Limited		-	10,671
	NetSol Technologies (Beijing) Company Limited		82,521	-
	Innovation Group (EMEA) Limited - UK		62,068	31,087
	Innovation Group - USA		126,149	105,778
	Innovation Group - Australia		5,798	35,387
			292,080	182,923

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:

	2013		2012	
	Rupees in '000'		Rupees in '000'	
	Gross	Impaired	Gross	Impaired
Not past due	232,207	-	352,744	-
Past due 1-180 days	900,154	-	658,186	-
Past due 181 days -1 year	105,608	-	53,942	-
More than one year	2,396	-	9,203	-
Total	1,240,365	-	1,074,075	-

8.5 The aging of trade debts due from relate parties at June 30 is as follows:

Not past due	45,153	-	28,156	-
Past due 1-180 days	215,174	-	114,650	-
Past due 181 days -1 year	31,753	-	39,369	-
More than one year	-	-	748	-
Total	292,080	-	182,923	-

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 specific provision has been created.

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

	2013	2012
	Rupees in '000'	
10. LOANS AND ADVANCES - Unsecured		
Considered good		
Loan to employees	2,308	883
Advances		
- to employees	10.1	102
- against expenses	6,358	44,160
- against assets	13,598	364
	22,366	45,491
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	6,772	6,342
Prepayments	9,569	4,902
	16,341	11,244
12. OTHER RECEIVABLES		
Guarantee margin	10,736	10,531
Sales tax refundable	3,011	238
Other receivable - considered good	12,700	21,076
	26,447	31,845
13. DUE FROM RELATED PARTIES		
NetSol Connect (Private) Limited	2,818	-
Vrooz Inc.	-	19,751
Atheeb NetSol Saudi Company Limited	6,670	3,899
NetSol Technologies Europe Limited	19,137	20,497
	28,625	44,147

Notes to the Consolidated Accounts

For the year ended June 30, 2013

- 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 year was Rs. 52.21 million (June 2012: Rs. 44.71 million).

		2013	2012
		Rupees in '000'	
14.	SHORT TERM INVESTMENT		
	Investment at cost	-	22,120
	Provision against doubtful recovery	-	(22,120)
		-	-
15.	CASH AND BANK BALANCES		
	With banks		
	Saving accounts	15.1	93,483
	Current accounts		114
	Foreign currency current account		19,245
	Term deposit		214,257
			327,099
	In hand		3,728
			330,827
			137,420
			1,537
			138,957

- 15.1** The balances in savings accounts bear mark up which ranges from 5% to 9% per annum (June 2012 : 5% to 9% per annum).

16. SHARE CAPITAL

16.1 Authorised share capital

		2013	2012		
		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

		39,403,191	38,741,691	Ordinary Shares of Rs. 10 each fully paid in cash	394,032	387,417
		39,168,512	39,168,512	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	391,685	391,685
		78,571,703	77,910,203		785,717	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., 24025 Park Sorrento, Suite 410, Calabasas CA 91302, USA, is the parent company holding 65.19% of issued share 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 2013 and 2012.

		2013	2012
		Rupees in '000'	
17. RESERVES			
Capital reserve			
Premium on issue of ordinary shares		278,240	273,016
Revenue reserve			
Un - appropriated profit		5,159,791	3,984,827
Employee share option compensation reserve	17.1	5,449	6,426
		5,443,480	4,264,269
17.1 EMPLOYEE SHARE OPTION COMPENSATION RESERVE			
Balance at the beginning of the year		6,426	6,426
Options issued during the year		-	-
Options elapsed due to employee resignation		-	-
Amount transferred to Capital reserve on exercise of options		(977)	-
Balance at the end of the year		5,449	6,426
18. LONG TERM FINANCING			
Term finance - secured	18.1 & 18.2	87,500	100,000
Loan from related party - unsecured	18.4	135,165	126,591
		222,665	226,591
Current portion		(50,000)	(50,000)
		172,665	176,591

Notes to the Consolidated Accounts

For the year ended June 30, 2013

- 18.1** The term finance - I facility is availed from Askari Bank Ltd up to Rs. 25 million (June 2012 : Rs. 50 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. The current outstanding balance is payable within the fiscal year 2014 and is shown under current maturity.
- 18.2** Another facility of term finance - II is also available from Askari Bank Ltd up to Rs. 87.5 million (June 2012 : Rs. 100 million), availed Rs. 62.5 million (June 2012 : Rs. 50 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. The first trench of loan was disbursed in October 2011.
- 18.3** These facilities are secured by first exclusive charge of Rs. 580.8M over the land, building and equipment of the company.
- 18.4** This represent interest free loan of USD 1,339,589 (June 2012 : USD 1,339,589) from holding Company.

	2013	2012
	Rupees in '000'	
19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Present value of minimum lease payments	46,896	47,130
Current portion of obligations shown under current liabilities	(26,889)	(22,684)
	20,007	24,446

Present value of minimum lease payments have been discounted at an implicit interest rate ranging between 11.09% to 14.98% (June 2012 : 14.01% to 14.98%) to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term. No financial restriction is imposed by these lease arrangements.

The amount of future payments of the lease and the period in which these payments will become due are as follows:

	2013		
	Minimum Lease Payment	Future Finance Charges	Present Value of Lease Liability
Not later than one year	30,884	3,995	26,889
Later than one year but not later than five years	21,578	1,571	20,007
	52,462	5,566	46,896
	2012		
	Minimum Lease Payment	Future Finance Charges	Present Value of Lease Liability
Not later than one year	27,982	5,298	22,684
Later than one year but not later than five years	26,993	2,547	24,446
	54,975	7,845	47,130

	2013	2012
	Rupees in '000'	
20. DEFERRED INCOME		
Opening balance	38	-
Addition during the year	40	49
	78	49
Amortized during the year	(19)	(11)
Un amortized gain on sale and lease back transaction	59	38
<p>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.</p>		
21. TRADE AND OTHER PAYABLES		
Creditors	26,350	38,804
Accrued liabilities	74,729	61,673
Interest accrued - secured	7,252	13,867
Due to related party	278,369	325,220
Withholding tax	4,072	7,113
Provident fund payable	5,303	8,248
Unclaimed dividend	1,630	1,630
Other payables	24,881	19,689
	422,586	476,244
21.1 Due to related party		
<i>Parent</i>		
NetSol Technologies Inc.	163,658	145,630
<i>Associated</i>		
NetSol Consulting Services (Private) Limited	-	1,662
NetSol Technologies Europe Limited	105,249	161,505
NTPK (Thailand) Company Limited	8,181	14,813
NetSol Technologies (Beijing) Company Limited	-	1,610
NetSol Abraxas Astarila	1,281	-
	278,369	325,220

Notes to the Consolidated Accounts

For the year ended June 30, 2013

- 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 year was Rs. 649.26 million (June 2012 : Rs. 474.44 million).

22. EXCESS OF BILLING OVER REVENUE

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

		2013	2012
		Rupees in '000'	
23. SHORT TERM BORROWINGS			
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 (June 2012 : Rs 200 million) and carry mark-up of State Bank Refinance Rate+1% per annum (June 2012 : State Bank Refinance Rate+1% per annum per annum). The interest rate ranged between 9.2% to 11% (June 2012 : 11%) during fiscal year 2013. The due balance is payable bi-annually.

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 Rs. 285.71 million.

23.3 During the year a facility of running finance is also available from Askari Bank Ltd up to Rs. 30 million, availed nil, to meet the working capital requirements. It is a sublimit of limit of Rs. 100 million available from Askari Bank for issuance of guarantees. It carries mark up at the rate of 3 months Kibor + 2.5%, payable on quarterly basis.

23.4 The facility is secured by way of first charge over the Company's all present and future current assets including stocks/receivable/book debts up to Rs. 142.857 million.

24. CURRENT PORTION OF LONG TERM LIABILITIES

Current portion of long term financing	18	50,000	50,000
Current portion of lease liability	19	26,889	22,684
		76,889	72,684

25. CONTINGENCIES & COMMITMENTS

25.1 Contingencies

There are no contingencies as at June 30, 2013 (June 2012 : nil) to which the Company is a party.

25.2 Commitments

25.2.1 The Company has issued worth Rs. 18.636 million (June 2012 : Rs. 26.55 million) bank guarantees and bid bonds to various customers against sale of software and allied services.

25.2.2 The subsidiary shall indemnify Innovation Group (EMEA) Limited up to £2,000,000 (June 2012 : £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.

	2013	2012
	Rupees in '000'	
26. REVENUE - NET		
Export Revenue		
License	962,980	1,072,384
Services	1,507,205	1,020,421
Maintenance	417,169	281,326
	2,887,354	2,374,131
Local Revenue		
Services	101,562	129,563
Maintenance	9,524	3,802
	111,086	133,365
Sales Tax	(1,300)	(7,840)
	2,997,140	2,499,656
27. COST OF REVENUE		
Salaries & benefits	570,375	449,118
Consultancy charges	108,213	62,619
Technical servieses	5035	-
Hardware and other material cost	47	35,805
Software licences	117,143	61,805
Staff training	3,447	866
Travelling & conveyance	110,203	98,889
Communication	16,141	13,821
Utilities	30,474	22,905
Printing & stationery	1,801	2,458
Entertainment	26,251	20,133
Insurance	1,977	2,015
Vehicle running & maintenance	14,458	10,882
Repair & maintenance	17,427	10,947
Certifications	4,253	3,846
Fee & subscription	3,338	896
Depreciation	5.3 169,910	138,634
Amortization of leased assets	5.5 14,186	10,587
Amortization of intangible assets	6.1 107,936	85,446
	1,322,615	1,031,672

Notes to the Consolidated Accounts

For the year ended June 30, 2013

	2013	2012
	Rupees in '000'	
28. SELLING AND PROMOTION EXPENSES		
Salaries & benefits	39,476	54,941
Staff training	1,094	211
Rent, rates & taxes	9,683	9,993
Travelling and conveyance	12,358	16,740
Communication	2,091	3,795
Utilities	2,731	2,300
Printing & stationery	88	346
Entertainment	2,630	2,588
Insurance	265	324
Vehicle running expenses	1,686	1,650
Repairs and maintenance	1,295	2,344
Commission on sales	41,023	21,764
Tender money	1	30
Sale promotional expenses	5,896	19,726
	120,317	136,752
29. ADMINISTRATIVE EXPENSES		
Salaries and benefits	157,018	128,880
Staff training	320	225
Management fee	58,739	54,020
Rent, rates and taxes	5,745	4,493
Travelling and conveyance	18,590	16,486
Communication & postage	5,339	4,128
Printing and stationery	616	555
Utilities	11,230	8,215
Entertainment	14,157	11,258
Insurance	9,411	8,775
Advertisement	1,133	933
Vehicle running expenses	13,986	13,801
Repairs and maintenance	24,793	13,273
Legal and professional charges	8,233	7,127
Auditors remuneration	29.1	3,100
News papers & periodicals	173	101
Security expenses	272	450
Office supplies	2,115	1,889
Charity & donation	29.2	15,566
Fee & subscription	8,510	12,225
Miscellaneous expenses	425	250
Depreciation	5.3	57,357
Amortization of leased assets	5.5	4,979
	421,807	347,806

	2013	2012
	Rupees in '000'	
29.1 Auditors remuneration		
Audit fee	1,300	900
Certifications of group reporting	700	700
Professional services	550	450
Out-of-pocket expenses	550	350
	3,100	2,400
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.		
31. OTHER OPERATING EXPENSES		
Loss on disposal of assets	58	983
Others	25,943	20,908
	26,001	21,891
32. OTHER INCOME		
<i>Income from financial assets</i>		
Profit on bank deposits	12,697	2,971
Profit on short term investment	221	478
	12,918	3,449
<i>Income from non-financial assets</i>		
Gain on foreign currency translation	121,494	27,087
Amortization of deferred revenue	19	11
Miscellaneous income	13	14,525
	121,526	41,623
	134,444	45,072
33. FINANCE COST		
Lease finance charges	6,631	6,110
Interest on loans	886	6,229
Lease documentation charges	26	37
Bank charges	1,651	1,497
	9,194	13,873

Notes to the Consolidated Accounts

For the year ended June 30, 2013

34. 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.

	2013	2012
	Rupees in '000'	
Reconciliation of income tax expense for the year		
Accounting profit	1,231,650	992,734
Enacted tax rate	35%	35%
Tax on accounting profit at enacted rate	431,078	347,457
Tax effect of income exempt from tax	(427,149)	(343,397)
Tax effect of income taxed at different rates	(1,107)	(1,702)
	2,822	2,358

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.

35. 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	
	2013	2012	2013	2012	2013	2012
	Rupees in '000'					
Managerial remuneration	4,000	4,000	2,200	2,400	331,239	172,310
Retirement benefits	-	-	220	240	22,678	11,853
Rent and house maintenance	1,600	1,600	880	960	122,001	68,924
Utilities	400	400	220	240	30,501	17,231
Medical expenses	96	136	109	63	15,441	9,501
Share options	39	77	16	31	206	408
Total	6,135	6,213	3,645	3,934	522,066	280,227
No. of Persons	1	1	1	1	430	214

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

Nothing is paid to any non-executive director of the company in form of remuneration or other benefits except a fee approved by the board for attending the board meetings.

36. 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 these financial statements are as follows.

		2013	2012
		Rupees in '000'	
Relationship with the Group	Nature of transactions		
(i) Parent	Management fee	58,739	54,020
(ii) Associated undertaking	Provision of services	762,176	551,505
	Expenses Incurred	-	21,550
(iii) Post employment benefit	Contribution to defined contribution plan	31,851	24,650

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

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.

Notes to the Consolidated Accounts

For the year ended June 30, 2013

38. 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:

		2013	2012
Rupees in '000'			
Financial Assets			
Trade debts	38.1	1,240,365	1,074,075
Loans and advances		2,410	967
Security deposits		6,772	6,342
Other receivables		12,700	21,076
Due from related parties		28,625	44,147
Bank balances	38.2	327,099	137,420
		1,617,971	1,284,027

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

38.2 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 Groups 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:

	2013				
	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	46,896	52,462	30,884	21,578	-
Long term loan	222,665	233,633	58,687	174,946	-
Trade and other payables	422,586	422,586	422,586	-	-
Short-term borrowings	200,000	218,800	218,800	-	-
	892,147	927,481	730,957	196,524	-

	2012				
	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	47,130	54,975	27,982	26,993	-
Long term financing	226,591	243,788	64,203	179,585	-
Trade and other payables	476,244	476,244	476,244	-	-
Short-term borrowings	200,000	222,000	222,000	-	-
	949,965	997,007	790,429	206,578	-

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:

Notes to the Consolidated Accounts

For the year ended June 30, 2013

	2013	2012
	Rupees in '000'	
Financial assets		
Bank balances	307,740	130,705
Financial Liabilities		
Finance lease liability	46,896	47,130
Long term loan	222,665	226,591
Short-term borrowings	200,000	200,000
	469,561	473,721

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 Group's profit net of tax.

Impact on Profit and loss account (net of tax)

As at 30 June

100 bps increase will result in decrease in profit by	573	2,172
100 bps decrease will result in increase in profit by	573	2,172

(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 in 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 2012.

Impact on Profit and loss account (net of tax)

As at 30 June

Strengthening	98,688	56,974
Weakening	(98,688)	(56,974)

(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.

39. PROVIDENT FUND RELATED DISCLOSURE

A joint provident fund is maintained by NetSol Group. The following information is based on the latest financial statements of the fund:

		2013 (Unaudited)	2012 (Audited)
Rupees in '000'			
Size of the fund - Total Assets		174,771	120,058
Cost of investment made		145,252	91,871
Percentage of investment made	39.1	89%	86%
Fair value of investments	39.1	156,933	102,532

39.1 The breakup of fair value of investments is

	2013		2012	
	Investments Rupees in '000	Percentage of investment as size of fund	Investments Rupees in '000	Percentage of investment as size of fund
Bank Balances	110,819	63%	63,203	53%
Mutual Funds	46,114	26%	39,329	33%
	156,933	89%	102,532	86%

39.2 The investments out of provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

40. NUMBER OF EMPLOYEES

The total average number of employees during the year and as at June 30, 2013 and 2012 respectively as follows:

	2013	2012
No of Employees		
Average number of employees during the year	857	804
Number of employees as at year end	919	777

Notes to the Consolidated Accounts

For the year ended June 30, 2013

41. 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.

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.

41.1 Segment revenues and results

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

	2013				Total
	NFS	IS	SSS	BPO	
	Rupees in '000'				
Revenue - Net					
External sales					
Licence	962,980	-	-	-	962,980
Services	1,021,548	114,895	1,372	469,652	1,607,467
Maintenance	417,169	-	9,524	-	426,693
Inter-segment sales					-
Total revenue	2,401,697	114,895	10,896	469,652	2,997,140
Cost of revenue	(801,324)	(167,112)	(63,302)	(290,878)	(1,322,615)
Segment results	1,600,373	(52,216)	(52,406)	178,774	1,674,525
Unallocated corporate expenses:					
Selling and promotion expenses					(120,317)
Administrative expenses					(421,807)
Other operating expenses					(26,001)
Other income					134,444
Finance cost					(9,194)
Taxation					(2,853)
Profit after taxation					1,228,797
Depreciation & amortisation	219,450	25,736	31,231	15,615	292,032

Notes to the Consolidated Accounts

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	2012				Total
	NFS	IS	SSS	BPO	
	Rupees in '000'				
Revenue - Net					
External sales					
Licence	1,072,384	-	-	-	1,072,384
Services	620,900	115,450	19,534	386,260	1,142,144
Maintenance	276,658	-	3,802	4,668	285,128
Inter-segment sales					-
Total revenue	1,969,942	115,450	23,336	390,928	2,499,656
Cost of revenue	(524,665)	(165,290)	(96,805)	(244,912)	(1,031,672)
Segment results	1,445,277	(49,840)	(73,469)	146,016	1,467,984
Unallocated corporate expenses:					
Selling and promotion expenses					(136,752)
Administrative expenses					(347,806)
Other operating expenses					(21,891)
Other income					45,072
Finance cost					(13,873)
Taxation					(4,056)
Profit after taxation					988,678
Depreciation & amortisation	154,599	27,430	37,843	14,795	234,667

*Key

NFS = NetSol Financial Solutions SSS = Software Services and Solutions

IS = Information Security BPO = Business Process Outsourcing

41.2 Revenue by geographic regions

	Pakistan	Asia Pacific	Australia & USA	Others	Total
	Rupees in '000'				
Year ended 2013	109,786	1,825,290	766,267	295,797	2,997,140
Year ended 2012	125,526	1,620,612	387,538	365,980	2,499,656

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

41.3 Revenue from major customers

The revenue from major customers during the year was Rs. 261 million (June 2012: 468 million).

41.4 Non current assets

Net book value of non-current assets held in foreign countries is Rs. 11.06 million (June 2012: Rs. 15.56 million).

				2013	2012
				Rupees in '000'	
42.	CORRESPONDING FIGURES				
	Corresponding figures have been re-classified for better presentation, in respect of following:				
	Note	From	Note	To	
	12	Other receivable - considered good	12	Sales tax refundable	3,011 238
	29	Directors remuneration	29	Salaries and benefits	9,780 8,129

43. NON ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors in their meeting held on September 06, 2013 have recommended a final cash dividend of 10% i.e., Rs. 1 per share and 10% bonus share issue i.e., 1 share for every 10 shares held by the members. The above recommendations of cash dividend and bonus issue are subject to the approval of the members at the Annual General Meeting to be held on October 21, 2013. These financial statements do not include the effect of the above recommendations and they will be accounted for in the period in which they are approved by the members.

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 06, 2013 by the Board of Directors.

45. FIGURES

Figures have been rounded off to the nearest thousand rupee.

Notice of Annual General Meeting

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the 17th Annual General Meeting of NetSol Technologies Limited will be held on Monday October 21, 2013 at 11:00 a.m. at Royal Palm Golf & Country Club, 52-Canal Bank Road, Lahore., to transact the following business:

Ordinary Business

1. To receive, consider and adopt financial statements of the company for the year ended June 30, 2013 together with the directors' and auditors' reports thereon.
2. To approve the payment of cash dividend of Rs. 1.00 per share (i.e., @10%) as recommended by the board of directors.
3. To appoint company's auditors for the year ending June 30, 2014 and to fix their remuneration.

Special Business

4. To consider and approve, as recommended by the directors, the issue of 10% bonus shares in proportion of one (1) ordinary shares for every ten (10) ordinary shares held by the members (i.e., @10%) for the year ended June 30, 2013.

A statement under section 160(1)(b) of the Companies Ordinance, 1984 pertaining to the special business is being sent to the member's along with this notice.

By Order of the Board

Boo-Ali Siddiqui
Company Secretary

Lahore
September 27, 2013

NOTE:

1. Share transfer books of the Company will remain closed from October 15, 2013 to October 21, 2013 (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) 36375531, 36375339 and Fax # +92(42) 36312550 by the close of business hours on October 14, 2013. This will be treated in time for the entitlement of cash dividend and bonus shares and to attend the meeting.
3. 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.
4. In accordance with the notification of the Securities and Exchange Commission of Pakistan, SRO 831(I)2012 dated July 05, 2012, dividend warrants should bear CNIC number of the registered member or the authorized person, except in case of minor(s) and corporate members. Accordingly, Members who

Notice of Annual General Meeting

have not yet submitted copy of their valid CNIC are requested to submit the same to the Company's Independent Share Registrar, with Members' folio no. mentioned thereon without any further delay.

5. Mandate for E-dividends for Shareholders:

In order to make process of payment of cash dividend more efficient, e-dividend mechanism has been envisaged wherein shareholders can get amount of the dividend credited into their respective bank accounts electronically without any delay. In this way, dividends may be instantly credited to respective bank accounts and there are no chances of dividend warrants getting lost in the post, undelivered or delivered to a wrong address etc.,. The Securities and Exchange Commission of Pakistan (SECP) through Notice No.8(4) SM/CDC 2008 dated April 05, 2013 has advised all listed Companies to adopt e-dividend mechanism due to the benefits it entails for shareholders. In view of the above, you are hereby encourage to provide a dividend mandate in favour of e-dividend.

6. 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 and/or the persons whose shares are in group accounts and their registration details are uploaded as per CDC Regulations shall authenticate their identity by showing their original Computerized National Identity Cards (CNICs) 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 and/or persons whose shares are in group accounts and their registration details are uploaded as per 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 CNIC numbers shall be mentioned on the form.
- c) Attested copies of CNICs or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- d) The proxy shall produce his original CNIC or original passport at the time of the meeting.
- e) In case of corporate entity, the Board of Director's resolution/power of attorney with specimen signature of the person nominated to represent and vote on behalf of the corporate entity, shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

7. Audited accounts of the Company for the year ended June 30, 2013 have also been placed on the Company's website.

STATEMENT UNDER SECTION 160(1) (B) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the Special Business to be transacted at the 17th Annual General Meeting of the Company to be held on October 21, 2013.

Item No. 5 of the Agenda

The board of director in their meeting held on September 06, 2013 have recommended issue of bonus shares in proportion of one (1) Ordinary share for every ten (10) Ordinary shares held by the Members (i.e. @ 10%). The Directors are of the opinion that the free reserves of the Company are adequate for capitalization of 10% bonus shares.

The Directors are not directly or indirectly interested in this special business except to the extent of entitlements of bonus shares to be allotted to them as shareholders of the Company.

The following resolution is proposed to be passed as Ordinary Resolution with or without modification, addition or deletion:

Resolved That:

- (i) Free reserves of the Company be capitalized and applied towards the issue of 10% fully paid bonus shares i.e., in the proportion of one (1) ordinary shares for every ten (10) held by the members of the Company whose names appear on the Members' Register at the close of the business on October 14, 2013.
- (ii) The bonus shares shall rank pari passu in all respects with the existing shares but shall not be eligible for the final dividend declared for the year ended 30 June 2013.
- (iii) Members' entitlement to fractional shares as a result of their holding either being less than ten ordinary shares or in excess of an exact multiple of ten ordinary shares shall be consolidated into whole shares and sold on the Karachi Stock Exchange and the proceeds so realized shall be paid to shareholders according to their entitlements in the form of revenue stamps.
- (iv) The Chief Executive Officer and Company Secretary be and are hereby jointly and/or severally authorized to give effect to this resolution and to do and cause to be done all acts, deeds and things that may be necessary or required for issue, allotment and distribution of the said bonus shares and payment of the sale proceeds of the fractional shares.

Form of Proxy

I/We _____
(Name)

Of _____
(Place)

being a member(s) of **NETSOL TECHNOLOGIES LIMITED** hereby appoint

(Name and Folio No. / Participant Account No. & Sub-Account No.)

Of _____
(Place)

who is also a member of the Company, as my/our proxy to attend and vote on my/our behalf at the Annual General Meeting of the Company to be held at Royal Palm Golf & Country Club, 52-Canal Bank Road, Lahore. on Monday **October 21, 2013 at 11:00 a.m.** and at any adjournment thereof.

Signed at _____ this _____ Day of _____ 2013.

Witness 1:

Signature: _____

Name: _____

Address: _____

CNIC or
Passport No. _____

Five Rupees
Revenue Stamp

Witness 2 :

Signature: _____

Name: _____

Address: _____

CNIC or
Passport No. _____

Signature of Member(s)

Shareholder's Folio No. _____

and/or Participant I.D. No. _____

Note:

- 1) This form of proxy, in order to be effective, must be deposited duly completed, at the Company's registered Office at NetSol Technologies Limited, NetSol IT Village (Software Technology Park) Lahore Ring Road, Ghazi Road Interchange, Lahore Cantt. not less than 48 hours before the time of holding the meeting.
- 2) A Proxy must be a member of the Company. Signature should agree with the specimen registered with the Company.

Second Fold

Affix Revenue
Stamp

The Company Secretary

NetSol Technologies Limited

NetSol IT Village (Software Technology Park)
Lahore Ring Road, Ghazi Road Interchange
Lahore Cantt. 54792, Pakistan.

Third Fold and Tuck In

First Fold



NetSol Technologies Limited

NetSol IT Village (Software Technology Park)
Lahore Ring Road, Ghazi Road Interchange
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www.netsolpk.com
Email: info@netsolpk.com