netsol

ANNUAL REPORT 2014

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NETSOL
Annual Report 2014

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Company Profile

BOARD OF DIRECTORS

SHAHAB-UD-DIN GHAURI
Chairman

SALIM ULLAH GHAURI
Chief Executive Officer

VASEEM ANVAR
Independent Director

SHAHID JAVED BURKI
Independent Director

FIDA HUSSAIN
Independent Director

NAJEEB ULLAH GHAURI
Non-Executive Director

OMAR 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 & CO.
Chartered Accountants
SKP House
321-Upper Mall, Lahore

LEGAL ADVISOR

CORPORATE LAW ASSOCIATES
1st Floor Queen's Centre
Shahra-e-Fatima Jinnah
Lahore

BANKERS

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

SHARE REGISTRAR

VISION CONSULTING LIMITED
3-C, LDA Flats, Lawrence Road, Lahore
Tel: +92-42-36283096-97
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: +92-21-3431-3464

WEB PRESENCE

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 growth potential, resulting in increasing the shareholders' value and providing 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 building, research and development and emerging technology markets.
Increasing shareholders' value	We aim to 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 solution provider for 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 mergers and acquisitions.
- We ultimately aim to enhance shareholders' value, incrementally and exponentially, by growing existing streams as well as building new streams through research and development, 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 process improvement has been definitive in ensuring the excellence of operations and customer satisfaction.

We are 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 companies in areas like Software Process Improvement, ISO Certification, SW - CMMi appraisals and other quality related matters.

Services Portfolio

Application Development & Maintenance

Technology Outsourcing

Business Intelligence

Information Security

IT Consulting & BPR

System Integration

Enterprise Solutions

Software Process Consulting

Global Customers


Global Customers
China
Mercedes Benz Auto Finance
Mercedes Benz Leasing
Toyota Motor Finance
Volvo Automotive Finance
BMW Automotive Finance
Mercedes Benz Financial Services Taiwan
Minsheng Financial Leasing
GAC-Sofinaco
Hyundai Capital Services
Great Wall Motors
Dongfeng Nissan
Thailand
Mercedes Benz Leasing
Toyota Leasing Company
Nissan Leasing
Tri Petch Isuzu
Australia
Mercedes Benz Financial Services
CNH Capital
Nissan Motor Company
Innovation Group
Hong Kong
BMW Finance
Mercedes Benz Finance
Japan
Mercedes Benz Finance Company
Malaysia
Mercedes Benz Financial Services
Singapore
Mercedes Benz Financial Services
US
Innovation Group
UK
Innovation Group Plc.
Pakistan
State Bank of Pakistan
Information Technology Department, Punjab
Excise & Taxation Department, Government of Sind
Mobilink
Provincial Assembly of Khyber Pakhtunkhwa
Ufone

From the desk of Chairman

It pleases me greatly to share with you my satisfaction with the company's performance and prospects for long and sustained growth.

However, I can say with confidence that we have executed well, and after taking the expected hit in revenues and profitability during this very important transition phase, we are now poised to bounce back, ever stronger, Insha Allah.

It pleases me greatly to share with you my satisfaction with the company's performance and prospects for long and sustained growth. Even though we saw a decline in our revenues, but it has been one of the busiest years in the company's history. We have been working at a frenzied pace, with determination, to achieve the twin goals of bringing our next generation product online and transforming the organization along more modern lines. Alhamdolillah, we made great strides in both areas.

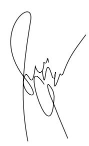
NFS Ascent™, our brand new offering, is aimed to become a real game changer in the industry. With richer functionality and an advanced architecture, it should propel us among the foremost solution providers in the global markets that we compete in. It brings us even closer to embarking on the latest worldwide trends in offering cloud computing and mobility solutions.

Organizationally, NetSol continues to set new standards of governance and operational management. We have enhanced our oversight of corporate budgets and spending, and strategic initiatives. For this purpose we have strengthened our senior management team to induct high class professionals with strong international experiences and qualifications to head our technical and managerial areas. The successful setting up of a new development facility at Karachi has enhanced our delivery capability to carry out product maintenance from multiple locations.

In addition to strengthening our organizational structure and capabilities, we have made important investments in building our human resource strength. Our corporate branding helped us attract great talent at all levels, during the year. We are now a significantly bigger team, made possible by our investments to expand our Lahore facility.

All of these initiatives and investments have not been without pain and challenges. However, I can say with confidence that we have executed well, and after taking the expected hit in revenues and profitability during this very important transition phase, we are now poised to bounce back, ever stronger, Insha Allah.

I wish all our shareholders, investors and customers a strong and rewarding association with the company.



Shahab-Ud-Din Ghauri
Chairman

Lahore
September 11, 2014

CEO's Message

This has been a year full of excitement and happenings for the economy, as well as our business.

I am confident that we are about to turn the corner and in the coming quarters we should be able to see our growth and profitability restored.

This has been a year full of excitement and happenings for the economy, as well as our business. In spite of a charged political climate that saw the government tackle economic and political challenges at home and abroad, there were strong signs of progress toward a stronger foundation for economic growth. Government's firm move in the war against terrorism addresses one of the biggest challenges our business faces in attracting our global customers.

Globally, we continued to see sluggishness in the financial markets, but also a stronger resolve among international decision makers to collectively address the weaknesses in global growth. Even as the world adjusts to a changing global business environment, we see significant opportunities for us to make inroads into new segments and niche markets.

We, in the meanwhile, have been vigorously busy in executing our plans to create a long awaited and eagerly anticipated move toward our next generation product launch. The challenges and uncertainties were immense, as one might expect from such an ambitious undertaking, but, Alhamdolillah, today NFS Ascent™ has become a reality. As a vastly improved product offering that builds on the enviable knowledge base of its predecessor, NFS Ascent™ has received excellent interest from our buyers. However, it is just the beginning, and we are still some distance from seeing the real benefits of a technologically superior product offering in terms of increased revenues and faster implementations. For the time being, we are prepared to deal with the short term impact on our sales, as customers postpone their buying decisions until they have weighed the benefits of investing in our next generation offering.

I am confident that we are about to turn the corner and in the coming quarters we should be able to see our growth and profitability restored.

I wish to thank all of you for your confidence and trust in the company and its long term prospects, and pray that we all start seeing further strengthening of our business, soon. Ameen !

Salim Ullah Ghauri
Chief Executive Officer

Lahore
September 11, 2014

NetSol Events

Salim Ullah Ghauri, CEO NetSol & Ichiro Yajirma, President Toyota Motors Finance China with their teams

NetSol team meeting with Minsheng Financial Services China

Celebrating Earth Hour 2014

APICTA Executive Committee Meeting

Cultural Association of Pakistan graduates meeting at NetSol

Enjoying work at newly renovated hall of NetSol Innovation

Salim Ullah Ghauri, CEO receiving Excellence Award from Mr. Muhammad Sarwar, Governor Punjab

Farooq Trust School, a CSR project of NetSol

FAST NU Islamabad team lead by Dr. Arshad visiting NetSol

GAC-Safinco China team visiting NetSol Lahore

NetSolians enjoying inter departmental cricket tournament

NetSol Karachi office staff

NetSol Events

Mango Bash 2013

NetSol presenting cheque to Forman Christian College for establishment of computer lab

NetSol cricket team - the Champion at FAST Sports Gala

Victorious team of NetSol Premier League

NetSol wins the Highest IT Export Award by Teradata

NetSol won the First Rated and Best Selling Finance & Leasing Solution Provider Awards in China for two running years

NetSol new building – ground floor in operation

New building in operation

JAC Santander project go live team

Peter Heyward Australian High Commissioner in Lahore

Students from University of Science and Technology Bannu visiting NetSol

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 2013-14 has been paid to all the Stock Exchanges.

Stock Code
The stock code for dealing in equity shares of the company at KSE, LSE and ISE are "NETSOL"

Shares Registrar
Vision Consulting Limited,
3-C, LDA Flats, Lawrence Road, Lahore.
Tel: +92-42-36283096,36283097
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, issuance of duplicate/ re-validated dividend warrants, issuance of duplicate/ replaced share certificates, change of address and other related matters.

For assistance, shareholders may contact the following designated person of the Registrar:

Contact Person
Mr. Abdul Ghaffar Ghaffari
Manager Shares

Service Standards
We have always endeavored to provide our valued investors with prompt services. Listed below are various 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

Month wise high/ low price of the share alongwith monthly turnover at Karachi Stock Exchange during the financial year 2013-2014 is as under:

Month	Share Price on KSE (Rs.)		Monthly Turnover
	Highest	Lowest	
Jul-13	42.98	32.20	17,174,500
Aug-13	59.51	42.40	35,894,000
Sep-13	54.03	38.67	20,923,000
Oct-13	45.99	35.50	10,623,500
Nov-13	46.14	35.00	16,292,000
Dec-13	48.48	43.30	16,231,500
Jan-14	51.15	43.00	22,376,000
Feb-14	47.60	31.85	9,205,500
Mar-14	38.35	32.80	3,823,000
Apr-14	42.75	33.61	14,542,500
May-14	34.20	28.00	9,754,000
Jun-14	32.50	27.80	9,633,000

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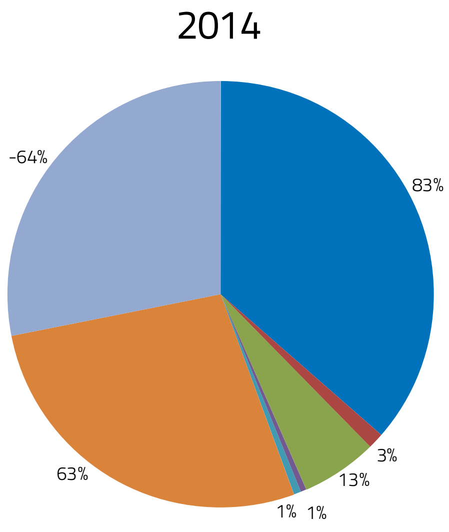
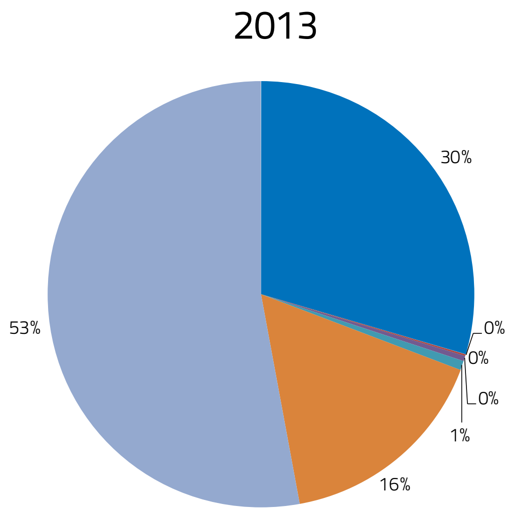
Financial Highlights

Statement of Value Addition

	2014	% age	2013	% age
	Rupees in '000			
VALUE ADDITION				
Revenue	1,831,525		2,632,779	
Other Income	163,749		185,137	
	1,995,274		2,817,916	
Less Operation & General Expenses	785,215		626,402	
Value Added	1,210,059	100%	2,191,514	100%
VALUE DISTRIBUTION				
To Employee				
Salaries & other employee benefits	1,008,323	83%	647,623	30%
To Government				
Income tax & other taxes	33,253	3%	2,706	0%
To Provider of Capital				
Bonus shares & Dividend	159,644	13%	-	0%
To Financial Institutions				
As mark-up on borrowings	12,076	1%	8,847	0%
To Charitable Institution	15,045	1%	15,457	1%
To Provider for Maintenance & Expansion of Assets				
Depreciation / Amortization	759,880	63%	357,273	16%
Retained (Loss) / Profit	(778,162)	-64%	1,159,608	53%
	1,210,059		2,191,514	





■ To Employee ■ To Government ■ To Provider of Capital ■ To Financial Institutions ■ To Charitable Institution
■ To Provider for Maintenance & Expansion of Assests ■ Retained (loss) / Profit

Six Years' Summary

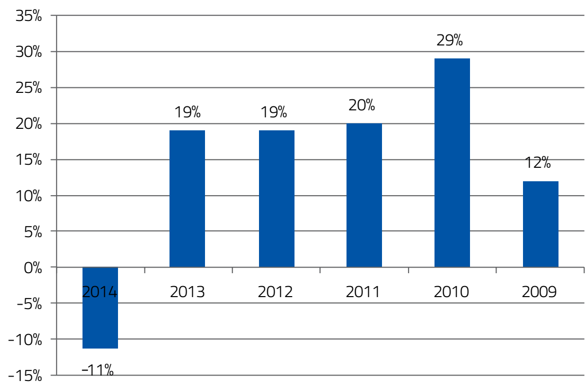
	2014	2013	2012	2011	2010	2009
			Rupees in '000			
FIXED CAPITAL EXPENDITURE						
Tangible	2,672,924	1,894,191	1,361,923	1,240,533	662,257	580,995
Intangibles	2,868,568	2,873,958	2,501,052	2,073,091	1,493,810	871,832
	5,541,492	4,768,149	3,862,975	3,313,624	2,156,067	1,452,827
DEFFERED EMPLOYEE CONTRIBUTION EXPENSE	-	-	54	750	2,089	-
NON CURRENT ASSETS						
LONG TERM INVESTMENT	15,188	15,188	15,188	15,188	15,188	15,188
WORKING CAPITAL	166,633	1,534,796	1,277,790	850,929	1,234,983	1,045,947
NET ASSETS EMPLOYED	5,723,313	6,318,133	5,156,007	4,180,491	3,408,327	2,513,962
EQUITY & LIABILITIES						
SHAREHOLDER'S EQUITY	5,466,733	6,125,402	4,954,932	4,033,508	3,337,208	2,378,918
NON CURRENT LIABILITIES	256,580	192,731	201,075	146,983	71,119	135,044
TOTAL FUNDS INVESTED	5,723,313	6,318,133	5,156,007	4,180,491	3,408,327	2,513,962
REVENUE - NET	1,831,525	2,632,779	2,189,855	1,811,375	1,845,022	1,081,395
COST OF REVENUE	1,840,372	1,087,478	833,842	674,188	529,631	628,826
GROSS (LOSS) / PROFIT	(8,847)	1,545,301	1,356,013	1,137,187	1,315,391	452,569
OPERATING EXPENSES	609,671	385,693	434,589	343,499	363,527	192,532
NET (LOSS) / PROFIT FOR THE YEAR	(618,519)	1,159,608	921,424	793,688	951,864	260,037
(LOSS) / EARNING PER SHARE	(7.02)	13.48	10.73	9.24	11.08	3.03
RESERVES & SHARE CAPITAL						
Reserves	4,577,021	5,339,672	4,175,817	3,254,393	2,558,093	1,599,803
Share Capital	889,699	785,717	779,102	779,102	779,102	779,102

Key Financial Ratios

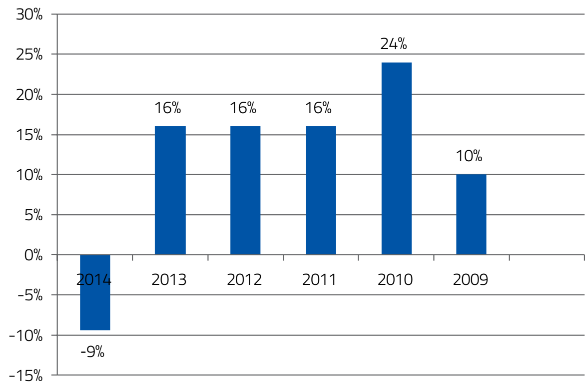
		2014	2013	2012	2011	2010	2009
Working Capital	Rupees in thousand	166,633	1,534,796	1,277,790	850,929	1,234,983	1,045,947
Gross Profit/ (Loss)	%	-0.48%	59%	62%	63%	71%	42%
Net Profit/ (Loss)	%	-34%	44%	42%	44%	52%	27%
Return on Equity	%	-11%	19%	19%	20%	29%	12%
Return on Assets	%	-9%	16%	16%	16%	24%	10%
Earnings/ (Loss) Per Share	Rupees	(7.02)	13.48	10.73	9.24	11.08	3.03
Book Value Per Share	Rupees	61.44	77.96	63.60	51.77	42.83	30.53
Outstanding No. of Shares	Shares	88,969,923	78,571,703	77,910,203	77,910,203	77,910,203	77,910,203
Debtor Turnover	Times	5.77	2.73	2.67	2.00	2.15	1.73
Current Ratio	Times	1.20	3.05	2.66	2.08	3.16	3.60

Financial Summary

Return on Equity

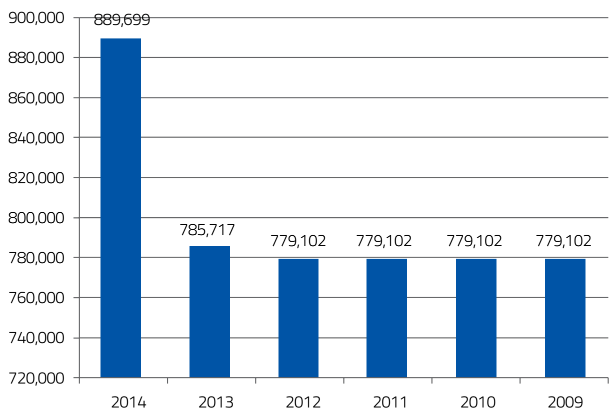


Return on Assets



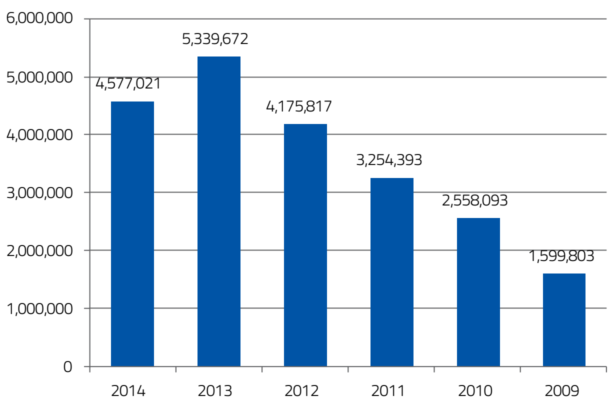
Share Capital

No. in '000



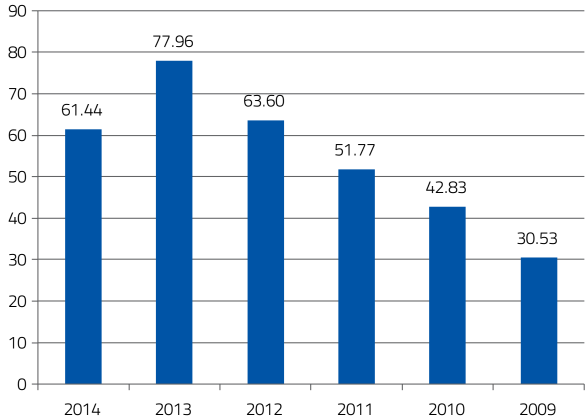
Reserves

Rs. in '000



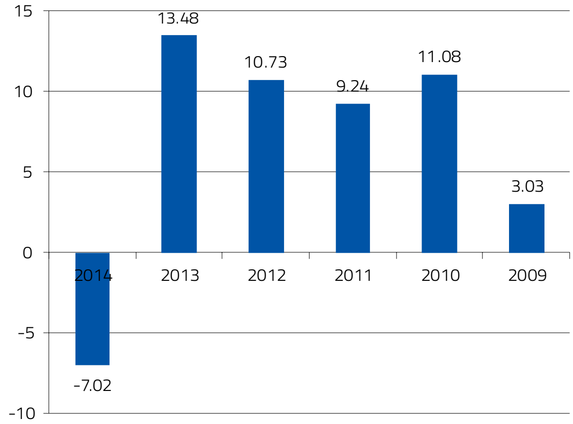
Book Value Per Share

Amount in Rs.



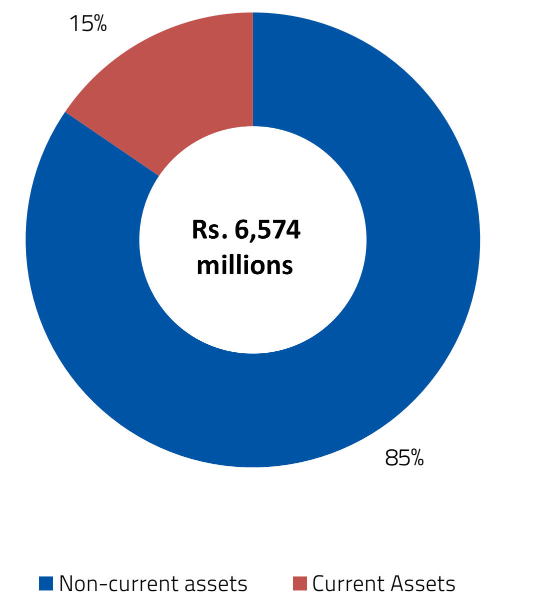
Earning Per Share

Amount in Rs.

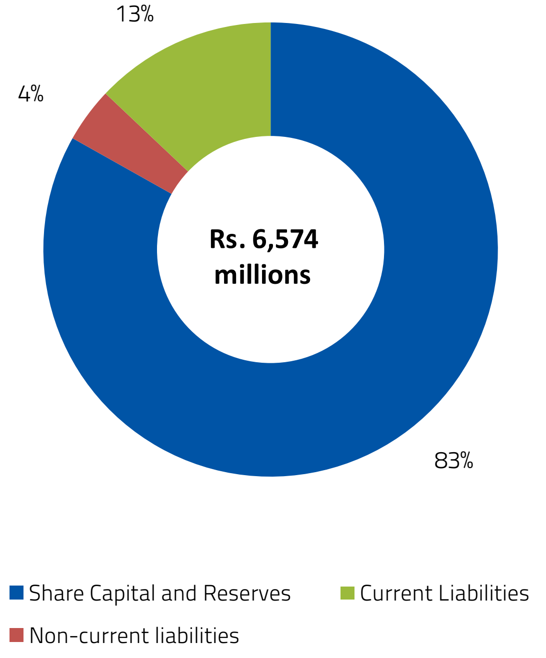


Financial Summary

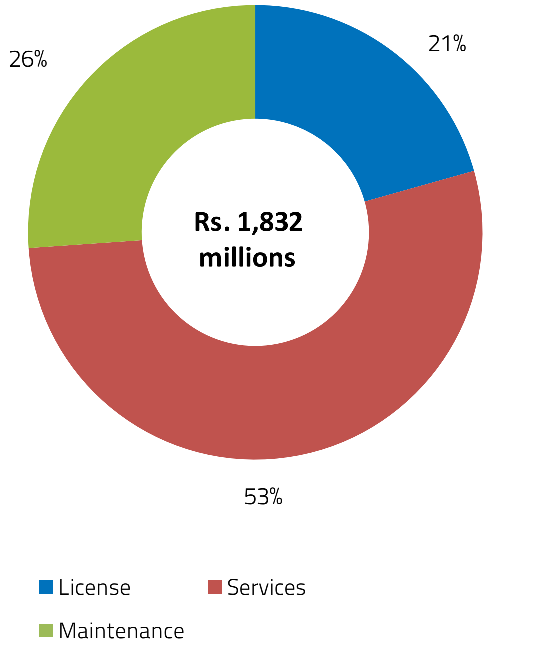
Assets



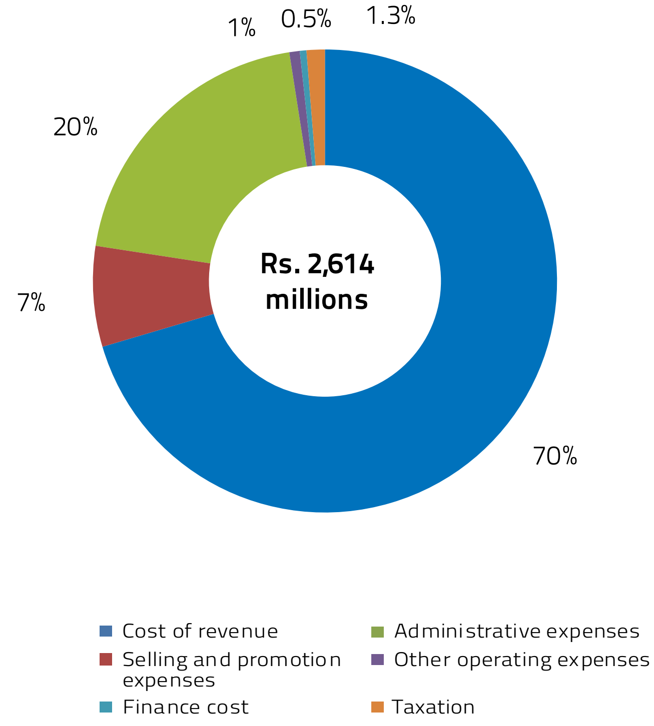
Equity and Liabilities



Revenue



Expenses



Governance

Board of Directors

Shahab-Ud-Din Ghauri

Chairman

Shahab-Ud-Din Ghauri joined the board of NetSol Technologies in February 2014. His association with NetSol goes back to its inception when he put in the seed capital in the venture in 1996 and later served NetSol UK, as Managing Director in 2000. Before investing into the vision of NetSol, he was a successful entrepreneur managing his own business of contacting heavy machinery from the USA and Romania for use in Pakistan. Dealing with large multinational oil drillers and construction companies for over a decade he brings invaluable experience to the Board.

Salim Ullah Ghauri

Chief Executive Officer

Salim Ullah Ghauri is the sponsor and founder member of NetSol Technologies Ltd. He has been a software developer since early 1980s, and between 1981 and 1995 he designed and developed financial applications for large size databases. Before establishing NetSol Technologies, He was a successful IT consultant in Australia. His last assignment was with BHP Steel in Sydney. As a system integrator he was responsible for software and hardware solutions. His main achievement was the introduction of a PC-based network in BHP Steel. From 1988-89, He consulted with the State Rail Authority of NSW Australia for its MIS reporting. Before moving to Australia, he was in Saudi Arabia, where he started his IT career at Citibank, Riyadh in 1979. After leaving Citibank, he started his first venture with the help of local funding. He is credited with setting up the first IT-based training institute and a software house in Dammam, Saudi Arabia. He is also the Honorary Consul of Australia for Punjab, Pakistan.

Vaseem Anvar

Independent Director

Vaseem Anvar has been actively and rigorously participating in the engineering and construction industry to witness its dynamic growth in Pakistan. Very well known for his leadership skills, his hard work attitude has proven him an exuberant Chief Executive within the organization. After spending early days of education, he migrated to the United States of America for the higher education. Vaseem attained his B.S. in Economics and Construction Management from the University of California at Berkeley. After obtaining the MBA degree from Stanford University, with the emphasis on Global Expansion and Cutting Edge Competitiveness, he joined Echo West International. Under the vision and eighteen years management experience of Vaseem Anvar in the areas of design, planning, construction, construction management, real estate development, the firm has experienced consolidated growth in Pakistan and International markets.

Shahid Javed Burki

Independent Director

Prior to joining as board member, Shahid Javed Burki had a distinguished career with the World Bank where he held a number of senior positions. In 1996-1997, He took a leave of absence from the World Bank to act as Finance Minister of Pakistan. Upon early retirement from the World Bank, He acted as CEO of the Washington-based investment firm EMP Financial Advisors from 1992-2002. He also spends some time each year as Senior Visiting Research Fellow at the Institute of South Asian Studies, National Singapore University. He also has a distinguished academic background. He was educated at Government College, Lahore where he received his M.Sc. in Physics, Oxford University as a Rhodes Scholar where he received his MA (Hons) in Economics, and Harvard University as a Mason Fellow where he received an MPA.

Fida Hussain

Independent Director

Fida Hussain was born in Karachi and after completing his Bachelors in business from Karachi University, he moved to Saudi Arabia where he worked for various multinational companies including CitiBank and LM Ericsson and held the senior management positions. He had the opportunity to attend various administration and operational management training programs from Sweden. After coming back to Pakistan, he established first bread plant in Karachi, the enterprise which made a humble beginning in 1981 has, within a decade, grown to capture 35% of the consolidated market share of all bread products in the country. Major driving force for this rapid growth was his ability to manage things independently and make teams who could accomplish their assigned tasks in line with overall strategic objectives of company.

Najeeb Ullah Ghauri

Non-Executive Director

Najeeb Ullah Ghauri is Pakistani born US national and a resident in California. His career spans over 25 years of academic, corporate and entrepreneurial accomplishments. His most dynamic, can do and versatile attributes led him to successfully manage senior divisional roles in fortune 500 companies such as Unilever and Atlantic Richfield Corporation, or Arco for short, prior to embarking on a most successful and challenging venture of his career to date. He received his bachelor's degree from Eastern Illinois University, and earned an MBA in marketing from the Drucker School of Management at The Claremont Graduate School. In 1982, He was a nominee for the Ernst & Young 'Entrepreneur of the Year' award in California. He is very active in various educational non-governmental organizations (NGOs) worldwide. He is a founding board member of the Pakistan Human Development Fund. He is a board member at the U.S. Pakistan Business Council in Washington, D.C. (a U.S. Chamber of Commerce Body), and is also on the board of M4 International, Inc., a California-based executive consulting firm.

Omar Shahab Ghauri

Executive Director

Omar Shahab Ghauri joined NetSol in 2005, as a Business Development Executive. He quickly moved up the ladder and assumed the position of Vice President in 2008, until finally becoming in charge of NFS - NetSol's flagship product in 2010. He envisioned NFS as an established global product, spearheaded its development and streamlined processes for its global delivery. He played a vital role in transforming the product portfolio philosophy to a well-managed product line. He completed his Bachelors in Computer Science from James Madison University, USA in 2002.

Directors' Report to the Members

On behalf of the Board of Directors, I am pleased to present the 18th Annual Report of the Company alongwith audited financial statements for the year ended June 30, 2014 and auditors' report thereon.

GENERAL OVERVIEW

Pakistan's economy faced various challenges at multiple fronts during the past year; political strife, deepening energy crisis, extremism, surmounting circular debt and hesitance from local investors. However the newly formed government displayed optimism through their FY 2014-15 budget, setting the projected GDP at 4.4% and targeting to restrict inflation at 9.5%. Even though the GDP hasn't reached the targeted 4.4% however it stands at a six year high of 4.1%. Another key indicator, the tax-to-GDP ratio has also not reached the intended mark and is at only 8.8%. In addition as highlighted recently by the Planning Ministry the three key targets the government is focusing on - tax revenues, investment and exports, have fallen short of expectations. In light of these key performance indicators falling short of their projected marks, the country needs to focus on the fundamentals to stabilize the economy. The energy crisis needs to be resolved at the earliest to recover the country's crippled industry and the law & order situation brought under control to encourage investors to invest in Pakistan. For the economy to grow progressively and realize its potential, government spending needs to be minimized, business culture promoted, jobs created and spending on education increased to get quality human capital. An area that shows a strong positive trend in the economy is the interest in the stock market which shows resilience. But the inflow of foreign portfolio investment is still very limited.

The global economic landscape has stabilized with the Euro-zone crisis abating a little and the developed economies investing more freely. As consumption in these developed sectors increases new enthusiasm is injected into the businesses and businesses look towards technological advancements to excel in today's competitive business environment, creating demand for innovative IT solutions.

From NetSol perspective, the fiscal 2014 turned to be a challenging year for the company. After the announcement of our next generation product "NFS Ascent™" in October 2013, we experienced pressure on sale of the legacy system "NetSol Financial Suite™" as a lot of traction was recorded from the customers for the next generation product. As a result, a decline is noticed in the license revenues of the company in fiscal year 2014. The overall decline in revenues is in line with our expectations as it was already anticipated while making the announcement of the next generation platform. That's why, we had very cautiously informed our investors as well as the shareholders about the overall reduction in revenues through quarterly director reports.

NFS ASCENT ™

Keeping in view the worldwide changes in the leasing and finance sector and the ever changing IT industry, NetSol initiated the development of the its next generation product to cater for the upcoming requirements of the leasing and finance industry. The product was completed during this fiscal year and was publically announced in October 2013. It is a completely new initiative, designed from the scratch and based on state-of-the-art software design and technology paradigms. NFS Ascent™ has a road map through which its progress will be guided to ensure that no limitations are introduced over time. It 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, NFS Ascent™ 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, phases 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 NFS Ascent™ at a central location and manage their multiple companies around the globe from this single instance. One customer using the wholesale finance system of NFS Ascent™ has already gone live in November last year. One more implementation of the same system is in progress at a finance company of Japanese automobile manufacturer in Thailand.

NETSOL FINANCIAL SUITE™ (NFS)

NetSol Financial Suite™ has been considered as a leading product for lease and finance industry in Asia Pacific region. With a number of implementations of NFS in APAC region particularly in China, NetSol has become a de facto leader in this domain. During the year two high profile automobile manufacturers in China signed agreements to streamline their business through NFS, with certain deals in the pipeline awaiting due regulatory approvals from the required authorities. The Company aims at strengthening relationship with these clients and opening up possibilities for future business with them in other regions where they operate. These new deals also depict the confidence of our customers in the legacy system and prove that still there is a lot of potential for NFS sale in the region.

NetSol Financial Suite™ also received an award at the China Leasing Summit 2014 making it the second year in a row that NFS was awarded as the "Best Selling Finance & Leasing Solution in China."

ENTERPRISE MOBILITY

The recent explosion of smart phones and exceptionally powered tablets are empowering organizations to harness the true potential of mobility. Smart devices are destined to be the future desktops of the corporate world. However, with these developments come unique challenges such as information security threats, standard protocols and cross platform communication. NetSol's new Enterprise Mobility platform offers a comprehensive solution that ensures that businesses get the most out of their investment. The platform covers mPOS (point of sale), collections, field investigator and mAccount, therefore enabling the field operators to carry out all lease related tasks on the go. Our all-inclusive mobility solution helps our clients maximize productivity, heighten their customers' experience and improve on their resource response times. The mobile point of sale application which went live early this year at one of our customers in China is now being used by 300 dealerships across China making mPOS the first and only finance & leasing POS solution used by a country wide dealer network. Several new contracts for the product are in the sales pipe and the traction for the product is immense on a global level.

IT CONSULTING AND SERVICES

NetSol also offers 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, Software Process Improvement Consulting, maintenance and support of existing systems 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.

OUTSOURCING

One of the prominent 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 i.e., Europe, Australia and the North America. Despite the 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.

FINANCIAL PERFORMANCE

The Company closed the fiscal year 2014 with a decline in both revenues and net profits. Main reason for this decline is the transition from the legacy system to the next generation platform. Whenever a new product is announced, companies always face this transition phase which we have experienced during this fiscal year.

Net consolidated revenues for the year ended June 30, 2014 were Rs. 2,347 million compared to Rs. 2,997 million in fiscal 2013. Overall services and maintenance revenue remained comparable with the previous year, however, sharp decline was noted in the license revenue of the company. Main reason for this decline is the delay in signing of new deals which were put on hold by prospective customers due to announcement of the next generation product. In addition to it, the company also kept on beefing up the delivery capacity in this fiscal year. Both this decline in revenues and the increase in cost of sales resulted in posting net loss for the year. The company posted consolidated net loss of Rs. 583 million compared with a net profit of Rs. 1,175 million in the comparative year. Resultantly, Company's net earnings were also negatively impacted. Basic and diluted loss per share based on consolidated results was Rs. 6.62 and Rs. 6.58 in comparison with last year's basic and diluted earnings per share of Rs. 13.66 and 13.55 respectively.

Financial Performance

	The Company		The Group	
	For the Year ended June 30, 2014	For the Year ended June 30, 2013	For the Year ended June 30, 2014	For the Year ended June 30, 2013
	All figures in '000'			
Revenue	**1,831,525**	2,632,779	**2,346,996**	2,997,140
Gross (loss)/profit	**(8,847)**	1,545,301	**246, 054**	1,674,525
Net (loss)/ profit	**(618,518)**	1,159,608	**(583,075)**	1,174,964
Weighted average no. of shares outstanding	**88,969**	78,572	**88,069**	86,032
(LPS)/ EPS - basic	**(7.02)**	13.48	**(6.62)**	13.66
(LPS)/ EPS - diluted	**(6.98)**	13.37	**(6.58)**	13.55

PAY-OUT

The Company is currently focused on the marketing of NFS Ascent™ along with enhancing the development capacity. The enhancement of development capacity is cost intensive as it requires finance to develop physical facility and infrastructure as well as hire, train and retain best human resources. These initiatives require huge investment to be made, therefore the Board of Directors has not recommended any pay-out for the fiscal year ended June 30, 2014.

FUTURE OUTLOOK

The Company plans to aggressively promote its new product, NFS Ascent™ along with its Enterprise Mobility solution. With several prospective contracts in the pipeline, the aim is to exponentially increase the sales of these new innovation in coming years. We also have plans to carry out numerous events and promotional campaigns, including finance and leasing conferences. The Enterprise Mobility product will also be targeted for new markets and market segments, diversifying NetSol's product portfolio and propelling growth.

Our flagship product, the NetSol Financial Suite™ continues to do well in APAC region particularly in China. We will continue to make every effort in the future to keep our pristine track record of 100% successful implementations, while dedicating resources to research and development to continually innovate our business through new and ground-breaking products. The Company also aims to continue to be one of the best employers for IT and business professionals. We provide the best learning environment and training programs for these young individuals, creating a pool of highly skilled human resource.

PROMOTIONAL AND AWARENESS ACTIVITIES

Last year, NetSol Technologies took its employer branding very seriously and several avenues were discovered for this purpose. The Company executed active social media strategy which focuses on development of the brand as a top IT employer of the country. The focus was to promote the top of the line benefits company offers, the grooming opportunities a valued human capital receives through foreign work assignments and working environment in a state of the art facility. Several promotional visits to top universities of the country included but not limited to LUMS, GIK, UET, FAST NU, PU, LSE were made where the message to attract the young talent was communicated in the most effective way. Also, talent from the top notch institutes from the country was invited to NetSol IT Village where they were given a chance to spend one complete day to observe life at NetSol. They were given a chance to meet the top people in the industry and were evaluated on soft and technical skills as well. Developing the top employer brand helped NetSol Technologies win the Most Preferred Employer in the IT industry award for 2013.

AWARDS & RECOGNITION

During the fiscal year 2013-2014, NetSol was honored with the following awards & laurels:

- NetSol Technologies won the First Rated and Best Selling Finance & Leasing Solution Provider awards in China for two running years.
- NetSol Technologies won the outstanding Customer Award from Rozee.pk.
- NetSol Technologies was awarded with the Top Employer in IT Industry Award, Top Employer in Lahore and Top Employer of Professionals and Higher Technical Workers in Pakistan by Rozee.pk.
- Mr. Salim Ullah Ghauri, Chief Executive of the Company, was appointed as Chairman of Pakistan Software Houses Association (P@SHA).
- Mr. Salim Ullah Ghauri, Chief Executive of the Company, received Lifetime achievement Award for IT Industry by The Governor Punjab.

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 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 hereunder:

i) Corporate Philanthropy

During the FY 2013-14 NetSol and its employees continued their efforts in making a difference in the communities in which we operate. We pride ourselves in helping our neighbors through supporting numerous charitable programs and humanitarian activities. As a result, we have focused our community relations efforts in those areas where we believe we can have a meaningful impact on the community and NetSol’s employees. These include supporting programs that encourage social services and health/ wellness of the people. In this regard, 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 both the Company and 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 fund is managed by a group of trustees in which employees make monthly contribution which is matched by the Company. 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 aims to advance, enhance and extend education at all levels. In this regard, the Company sponsors two student seats at Lahore University of

Management Sciences on regular basis.

ii) Energy Conservation

As a responsible corporate citizen and aligned with global imperatives, the Company continued 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. We took the following measures during official hours:

- Switch off all unnecessary devices
- Operate AC's at 26°C
- Switch off all AC's & lights during lunch break (01:00 PM – 02:00 PM)
- Switch off AC's & lights while stepping out
- Make sure to properly shut down computer systems at the end of the day
- 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
- Data centre 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 is promoted steadily

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.

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, we have tree plantation at NetSol IT village land to improve the surrounding environment.

Earth Hour is the world's largest public environmental action and a global testament of a commitment to protect the planet. During fiscal year 2013-14, NetSol observed Earth Hour from 8:30 pm to 9:30 pm by switching off all the unnecessary lights at its premises. NetSol dedicated this one hour to show its commitment to planet Earth and the environment we all live in. We aspire to go beyond Earth Hour to protest climate change both, at the work place and at home to support the global campaign for environmental change.

iv) 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 a quota fixed for people living in the rural and less privileged areas who do not get much opportunities like others.

v) 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 continue to 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 always try to maintain very cordial and harmonious relationship between the management

and the employees of all categories. Some of the noncash benefits available to the employees are described below;

- Two employee along with 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 provided to all staff members of the company. Same food is served both for the management and other employees including support staff.
- Day Care facility is provided to female 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.
- Recreational trips of the employees are also sponsored by the company to give them opportunity to relax away from the work place.
- Health and welfare of our employees has always been a matter of utmost importance and significance for us. 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. A Gymnasium with state of the art fitness equipment is also maintained for the employees.
- Every year, the Company arranges sport tournaments for recreation & entertainment of employees and to provide an environment where all employees can enjoy without any stress and job pressure. During the year, we arranged inter-departmental cricket and table tennis tournaments. The employees enthusiastically participated in the events in a healthy and competitive environment. The winners & runner up teams were presented with shields, along with man of the match awards.
- The Company also provides motor bikes to its employees at a subsidized rate. An eligibility criteria is agreed upon and every employee fulfilling that criteria is eligible for the motor bike.

vi) Occupational Safety and Health

We take it our responsibility to provide safe and healthy workplace to our 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. We continuously try to improve our management system standards not only at workplace but 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 with no accidents reported 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, firefighting, cardiopulmonary resuscitation and first aid methods and various awareness campaigns including dengue precautions.

vii) Business Ethics and Anti-Corruption Measures

NetSol holds frequent activities to ensure that the employees are working within the Code of Conduct (CoC). The CoC is rigorously followed through-out the organization. Employees are also required to sign off on the CoC. There is zero tolerance towards corruption in the company. Employees are 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 within the company.

viii) Contribution to National Exchequer

We have always showed our responsibility by paying all government taxes in time and without any delay. For the year ended June 30, 2014 we made our humble contribution to the National Exchequer by way of general sale tax, income tax and other government levies.

Description	Rupees (000)
Income Tax	16,958
Sales Tax	8,367
With Holding Tax	112,075

INSTITUTE FOR CORPORATE ADVANCEMENT AT NETSOL (ICAN)

We are proud to be the only IT company in Pakistan with dedicated facilities for training a high-quality workforce. ICAN (Institute for Corporate Advancement at NetSol) has been established with the vision of training our employees to be the best at what they do, so that our clients receive the highest quality of service and expertise. Almost three hundred employees have already attended different courses since ICAN started its training program. The courses offered have now been expanded to form a comprehensive curriculum for personal and professional development. All courses have been specially designed keeping in mind the various needs and requirements of the company and its employees.

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 doubts upon the 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 regulations of Karachi, Lahore and Islamabad Stock Exchanges.
- Key operating and financial data of the 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, 2014 except those as disclosed in the financial statements.
- Value of the provident fund investments as on June 30, 2014 was Rs223.46 million (June 30, 2013: Rs. 156.93 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 a code of conduct which is 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.

CHANGES IN THE BOARD OF DIRECTORS

During the year, Mr. Naeem Ullah Ghauri resigned from the post of Director/Chairman of the board effective January 01, 2014. The casual vacancy created by his resignation was filled in through the appointment of Mr. Shahab-ud-Din Ghauri on February 10, 2014.

AUDIT COMMITTEE

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

Name of Director	Name of Alternate Director	Designation
Vaseem Anvar	N/A	Chairman
Fida Hussain	N/A	Member
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	Member

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

HUMAN RESOURCE AND REMUNERATION COMMITTEE

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

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

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

ATTENDANCE AT BOARD MEETING

During the year ended June 30, 2014, Four (04) board meetings were held and attended as follows:

Name of Director	Name of Alternate Director	No. of Meetings
Shahab-ud-Din Ghauri**		02
Salim Ullah Ghauri		04
Vaseem Anvar		03
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	04
Shahid Javed Burki		03
Omar Shahab Ghauri		04
Fida Hussain		02
Naeem Ullah Ghauri*	Ayub Ghauri***	02

*Resigned during the year
**Co-opted as director
***Office automatically vacated due to the resignation of the director

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

ATTENDANCE AT AUDIT COMMITTEE MEETING

During the year ended June 30, 2014, five (05) meetings of the Audit Committee were held and attended as given hereunder:

Name of Member	Name of Alternate Director	No. of Meetings
Najeeb Ullah Ghauri	Rehmat Ullah Ghauri	05
Vaseem Anvar		04
Fida Hussain		02

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

DIRECTOR'S TRAINING PROGRAM

Our three board members are exempt from directors' training program as per clause (xi) of the code of corporate governance due to more than fourteen years of education and over fifteen year of experience on the board of listed companies. Besides this, one of our directors, namely Omar Shahab Ghauri has already completed the certification for the Director's Training Program conducted by Pakistan Institute of Corporate Governance (PICG) in 2013. The Company will ensure that the remaining directors acquire the certification under the directors training program within the timeframe specified in the Code.

EMPLOYEE STOCK OPTION SCHEME

On August 01, 2009, the compensation committee granted 4.35 million stock options to the employees at a grant price of Rs.16.42 per option. The options were granted under employee stock option scheme duly approved by the Securities and Exchange Commission of Pakistan. Since the grant of options till the end of fiscal year 2014, 90% of the granted option had become exercisable.
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, 2014:

1. The company had granted 4,350,000 options to its employees.

2. 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%.
3. 90% of the options granted had vested by the end of financial year ended June 30, 2014.
4. Till June 30, 2014, 3,077,500 options were exercised by the employees and Rs. 50.53 million were received by the company on this account.
5. 2,416,000 fresh shares were issued during the fiscal year ended June 30, 2014 due to exercise of options by the employees. Total shares issued against the employees' stock option scheme till June 30, 2014 are 3,077,500.
6. No options lapsed during the year.
7. There was no variation in the scheme as approved by the shareholders and the SECP.
8. Following options were granted to the senior managerial cadre employees of the company:

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

During the fiscal year 2014, both CEO and COO exercised 90% of the granted options whereas no option was exercised by the CFO of the company. Except the figures disclosed above, no employee was granted 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, 2015.

KEY OPERATING AND FINANCIAL DATA

Key operating and financial data for the last six years is also annexed with the annual report.

PATTERN OF SHAREHOLDING

Pattern of shareholding as at June 30, 2014 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. 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

Shahab-Ud-Din Ghauri
Chairman

Lahore
September 11, 2014

Core Values

Our core values are the key principles that guide our conduct and our relationships. They define how we engage with each other as well as with our customers, how we deliver value and how we behave. They connect us to each other and make our success possible. Each of us is accountable to align our conduct with our core values.

Code of Conduct

Uncompromising integrity and professionalism have been the cornerstones of NetSol business since its inception. In all that we do, we support and uphold 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 forth the standard for how we work together to develop and deliver product, how we protect the value of NetSol and its sister concerns, and how we work with customers, suppliers and others. All of us at NetSol must abide by the Code while conducting any official business.

The Code affirms our six principles of conduct:

- All directors, employees and other personnel must observe the laws and regulations in letter and spirit.
- NetSol does not permit bribery in any form while dealing with 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.
- Directors, management, other employees and personnel must not use price sensitive/ inside information for their personal advantage.
- All employees of the company 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

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, 2014. 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, 2014.

Kabani & Company

September 11, 2014
Lahore.

Kabani & Company
Chartered Accountants

Muhammad Yousuf

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KABANI & COMPANY
CHARTERED ACCOUNTANTS

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

We have reviewed the enclosed statement of compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Netsol Technologies Limited ("the Company") for the year ended June 30, 2014, to comply with the requirements of Listing Regulations No. 35 of the Karachi, Lahore and Islamabad Stock Exchanges where the company is listed.

The responsibility for compliance with the Code 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 and report if it does not and to highlight any non-compliance with the requirements of the Code. 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 a part of our audit of the 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 of Directors' 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.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, placed before the Board of Directors for their review and approval of its 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 and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of approval of related party transactions by the Board of Directors upon recommendation of 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 as applicable to the Company for the year ended June 30, 2014.

Kabani & Company

September 11, 2014
Lahore.

Kabani & Company
Chartered Accountants

Muhammad Yousuf

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Statement of Compliance with the Code of Corporate Governance

For the Year Ended June 30, 2014

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 Limited, Lahore Stock Exchange Limited and Islamabad Stock Exchange 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 3. Mr. Shahid Javed Burki
Non-Executive Directors	1. Mr. Najeeb Ullah Ghauri 2. Mr. Shahab-ud-Din Ghauri
Executive Directors	1. Mr. Salim Ullah Ghauri 2. Mr. Omar Shahab Ghauri

   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 NBFI or, being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. Casual vacancy on the board arising in the month of January 01, 2014 due to the resignation of Mr. Naeem Ullah Ghauri was filled up by the director within the time frame prescribed by law.
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 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, Mr. Omar Shahab Ghauri completed the certification for the Director's Training Program conducted by Pakistan Institute of Corporate Governance (PICG). Three board members are exempted from directors' training program as per clause (xi) of the Code due to 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 by 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. 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. 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. The remaining two members are independent directors. Chairman of the committee is also independent 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 Director:

Salim Ullah Ghauri
Chief Executive Officer

Lahore
September 11, 2014

Pattern of Shareholding

As at June 30, 2014

No. Of Shareholders	From	To	Total
524	1	100	17,147
700	101	500	232,857
654	501	1,000	545,198
1331	1,001	5,000	3,103,359
271	5,001	10,000	2,042,336
95	10,001	15,000	1,187,838
40	15,001	20,000	736,308
31	20,001	25,000	723,705
28	25,001	30,000	798,257
11	30,001	35,000	364,210
8	35,001	40,000	306,266
3	40,001	45,000	129,189
11	45,001	50,000	534,920
4	50,001	55,000	217,919
7	55,001	60,000	404,426
4	60,001	65,000	253,000
3	65,001	70,000	201,220
1	70,001	75,000	70,899
4	75,001	80,000	311,617
2	85,001	90,000	177,100
9	95,001	100,000	896,000
2	105,001	110,000	217,500
4	110,001	115,000	443,059
1	115,001	120,000	118,250
2	120,001	125,000	246,111
1	125,001	130,000	130,000
3	135,001	140,000	415,000
1	145,001	150,000	150,000
2	160,001	165,000	330,000
1	165,001	170,000	165,176
1	175,001	180,000	178,500
2	190,001	195,000	382,750
1	205,001	210,000	210,000
1	215,001	220,000	220,000

No. Of Shareholders	From	To	Total
2	220,001	225,000	447,745
1	225,001	230,000	229,500
1	235,001	240,000	240,000
1	295,001	300,000	300,000
1	315,001	320,000	319,500
1	390,001	395,000	395,000
1	485,001	490,000	485,109
1	520,001	525,000	521,840
1	545,001	550,000	550,000
1	745,001	750,000	750,000
1	905,001	910,000	908,695
1	1,040,001	1,045,000	1,040,710
1	1,660,001	1,665,000	1,663,200
1	2,035,001	2,040,000	2,037,650
1	2,510,001	2,515,000	2,512,700
1	3,680,001	3,685,000	3,682,909
1	3,720,001	3,725,000	3,721,000
1	10,445,001	10,450,000	10,450,000
1	42,250,001	42,255,000	42,254,248
3,783			88,969,923

Information required as Per Code of Corporate Governance

As at June 30, 2014

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	908,695	1.02	
	Mr. Shahab-ud-Din Ghauri	1	509	0.00	
	Mr. Najeeb Ullah Ghauri	1	485,109	0.55	
	Mr. Shahid Javed Burki	1	56,764	0.06	
	Mr. Vaseem Anvar	1	550	0.00	
	Mr. Omar Shahab Ghauri	1	99,559	0.11	
	Mr. Fida Hussain	1	550	0.00	1,551,736
2	Holding Company				
	NetSol Technologies Inc.	1	56,387,157	63.38	56,387,157
3	Banks, DFI & NBFI	4	4,207,700	4.73	4,207,700
4	Public Sector Cos. & Corporation	50	2,467,442	2.77	2,467,442
5	Mutual Funds and Trust				
	Funds	5	772,918	0.87	772,918
	Trust	2	258,611	0.29	258,611
	Modarabas	7	153,000	0.17	153,000
6	Insurance Companies				
	Premier Insurance Limited.	1	7,150	0.01	7,150
7	Investment Companies				
		4	5,769,022	6.48	5,769,022
8	General Public				
	Local	3,702	17,395,187	19.55	17,395,187
	Total	3,783		100	88,969,923

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 549,000 shares during the year.
2. Mr. Najeeb Ullah Ghauri, Director of the Company purchased 440,000 shares during the year.
3. Mr. Omar Shahab Ghauri, Director of the Company purchased 90,000 shares during the year through exercise of share options.

Financial Statements

For the Year Ended June 30, 2014

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KABANI & COMPANY

CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of NetSol Technologies Limited as at June 30, 2014 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 include 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, 2014 and of the loss, total comprehensive loss, its cash flows and changes in equity for the year then ended; and

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

Kabani & Company

September 11, 2014
Lahore.

Kabani & Company
Chartered Accountants

Muhammad Yousuf

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Balance Sheet

As at June 30, 2014

	NOTE	2014	2013
		Rupees in '000'	
ASSETS			
NON-CURRENT ASSETS			
Property & equipment	5	2,672,924	1,894,191
Intangible assets	6	2,868,568	2,873,958
		5,541,492	4,768,149
Deferred employee compensation expense	7	-	-
Long term investments	8	15,188	15,188
		5,556,680	4,783,337
CURRENT ASSETS			
Trade debts	9	317,226	965,741
Current portion of deferred employee compensation expense	7	-	54
Excess of revenue over billing	10	138,261	864,465
Loans and advances	11	38,096	22,211
Trade deposits & short term prepayments	12	24,921	14,940
Other receivables	13	23,824	25,870
Due from related parties	14	89,729	14,571
Taxation - net		45,803	54,941
Cash & bank balances	15	339,858	305,571
		1,017,718	2,268,364
TOTAL ASSETS		6,574,398	7,051,701

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

	NOTE	2014	2013
		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	889,699	785,717
Share deposit money		13	13
Reserves	17	4,577,021	5,339,672
		5,466,733	6,125,402
NON-CURRENT LIABILITIES			
Long term financing	18	212,862	172,665
Liabilities against assets subject to finance lease	19	43,689	20,007
Deferred Income	20	29	59
		256,580	192,731
CURRENT LIABILITIES			
Trade and other payables	21	523,694	398,956
Excess of billing over revenue	22	60,064	57,723
Short term borrowings	23	200,000	200,000
Current portion of long term liabilities	24	67,327	76,889
		851,085	733,568
CONTINGENCIES & COMMITMENTS	25	-	-
TOTAL EQUITY AND LIABILITIES		6,574,398	7,051,701

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Profit and Loss Account

For the year ended June 30, 2014

	NOTE	2014	2013
		Rupees in '000'	
Revenue - Net	26	1,831,525	2,632,779
Cost of revenue	27	(1,840,372)	(1,087,478)
Gross (loss) / profit		(8,847)	1,545,301
Selling and promotion expenses	28	(183,448)	(120,317)
Administrative expenses	29	(525,695)	(415,068)
Other operating expenses	30	(18,948)	(23,892)
Other income	31	163,749	185,137
Operating (loss) / profit		(573,189)	1,171,161
Finance cost	32	(12,076)	(8,847)
(Loss) / profit before taxation		(585,265)	1,162,314
Taxation	33	(33,253)	(2,706)
(Loss) / profit after taxation for the year		(618,518)	1,159,608
(Loss) / earnings per share			
Basic - In Rupees	36	(7.02)	13.48
Diluted - In Rupees	36	(6.98)	13.37

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Statement of Comprehensive Income

For the year ended June 30, 2014

	2014	2013
	Rupees in '000'	
(Loss) / profit after taxation for the year	(618,518)	1,159,608
Other comprehensive income	-	-
Total comprehensive (loss) / income for the year	(618,518)	1,159,608

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive Officer Director

Statement of Cash Flows

For the year ended June 30, 2014

	NOTE	2014	2013
		Rupees in '000'	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) / profit before taxation for the year		(585,265)	1,162,314
Adjustments for non cash charges and other items:			
Depreciation - own assets		378,654	220,807
Amortization of leased assets		26,483	19,165
Amortization of intangible assets		347,311	107,936
Loss on disposal of fixed assets		19,744	172
Amortization of deferred revenue		(30)	(19)
Exchange (gain) on debtors		(32,783)	(115,455)
Interest expense		10,795	7,292
Interest income		(19,257)	(13,485)
Dividend Income		(74,189)	(39,608)
Deferred employee compensation expense		54	696
Provision for doubtful debts		26,060	-
		682,842	187,501
Cash generated from operations before working capital changes		97,577	1,349,815
Decrease / (increase) in current assets & liabilities			
Trade debts		1,383,783	63,957
Loans and advances		(15,885)	21,709
Trade deposits & short term prepayments		(9,981)	(5,351)
Other receivables		2,046	5,434
Due from related parties		(75,158)	10,541
Trade and other payables		125,164	(48,659)
Cash generated from operations		1,409,969	47,631
Interest paid		(37,865)	(43,409)
Income taxes paid		(24,241)	(13,748)
Dividend paid		(78,821)	-
Net cash generated from operations		1,366,619	1,340,289
CASH FLOWS FROM INVESTING ACTIVITIES			
Property and equipments purchased		(1,093,109)	(620,070)
Sales proceeds of fixed asset		11,238	14,248
Intangible assets		(334,488)	(471,477)
Capital work in progress		(102,942)	(146,412)
Interest received		18,792	12,428
Dividend received		74,189	39,608
Net cash (used in) investing activities		(1,426,320)	(1,171,675)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital		24,160	6,615
Share premium		15,511	4,247
Paid against obligation under finance lease		(58,348)	(34,839)
Received against obligation under finance lease		97,468	34,605
Long term payable		15,197	(3,926)
Net cash generated from financing activities		93,988	6,702
Net increase in cash and cash equivalents		34,287	175,316
Cash and cash equivalents at the beginning of the year		305,571	130,255
Cash and cash equivalents at the end of the year	15	339,858	305,571

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Statement of Changes in Equity

For the year ended June 30, 2014

	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, 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
Amount transferred to share premium on issuance of shares against options exercised (661,500 shares at Rs. 1.48 each)	-	-	(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
Balance as at June 30, 2013	785,717	13	5,449	278,240	5,055,983	**6,125,402**
Total comprehensive income for the period						
Net (loss) for the year ended June 30, 2014	-	-	-	-	(618,518)	**(618,518)**
Other comprehensive income	-	-	-	-	-	**-**
	-	-	-	-	(618,518)	**(618,518)**
Shares issued against options exercised (2,416,000 shares at Rs. 10 each)	24,160	-	-	-	-	**24,160**
Amount transferred to share premium on issuance of shares against options exercised (2,416,000 shares at Rs. 1.48 each)	-	-	(3,569)	-	-	**(3,569)**
Share premium on shares issued against options exercised	-	-	-	19,080	-	**19,080**
Distribution to owners						
Final dividend for the year ended June 30, 2013						
- Cash dividend of 10% (Rs. 1 per share)	-	-	-	-	(79,822)	**(79,822)**
- Bonus shares issued (10%) one for every ten ordinary shares held	79,822	-	-	-	(79,822)	**-**
Balance as at June 30, 2014	**889,699**	**13**	**1,880**	**297,320**	**4,277,821**	**5,466,733**

The annexed notes from 1 to 44 form an integral part of these financial statements.

Chief Executive Officer | Director

Notes to the Accounts

For the year ended June 30, 2014

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 and Islamabad Stock Exchanges. 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, (Software Technology Park) 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 off to the nearest thousand unless stated otherwise.

2.5 Changes in accounting policies

During the current year, the company has adopted the following new and amended IFRSs as of July 01, 2013 which has resulted in extended disclosures as described below.

(i) IAS 1 Presentation of Financial Statements (Amendments)

The main change arising from these amendments is a requirement for the entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassified to profit and loss account subsequently (reclassification adjustment) The new amendment is not expected to materially effect the disclosures in the financial statements of the company.

2.6 Standards and interpretations that became effective

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:

IFRS 1	First-time Adoption of Financial Reporting Standards (Amendments)
IFRS 7	Financial Instruments: Disclosures (Amendments)
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities (Amendments)
IFRS 13	Fair Value Measurement
IAS 1	Presentation of Financial Statements (Amendments)
IAS 16	Property, Plant and Equipment (Amendments)

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

		Effective for periods beginning on or after
IFRS 2	Share based payment (Amendments)	Jul-01, 2014
IFRS 3	Business Combination (Amendments)	Jul-01, 2014
IFRS 7	Financial Instruments: Disclosures (Amendments)	Jan-01, 2015
IFRS 8	Operating Segments (Amendments)	Jul-01, 2014
IFRS 10	Consolidated Financial Statements (Amendments)	Jan-01, 2014
IFRS 11	Joint Arrangements (Amendments)	Jan-01, 2016
IFRS 12	Disclosure of Interests in Other Entities (Amendments)	Jan-01, 2014
IFRS 13	Fair Value Measurement (Amendments)	Jul-01, 2014
IFRS 14	Regulatory Deferral Accounts	Jan-01, 2016
IFRS 15	Revenue from Contracts with Customers	Jan-01, 2017
IAS 16	Property, Plant and Equipment (Amendments)	Jul-01, 2014
IAS 19	Employee Benefits (Amendments)	Jul-01, 2014
IAS 24	Related Party Disclosures (Amendments)	Jul-01, 2014
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendments)	Jan-01, 2014
IAS 36	Impairment of Assets (Amendments)	Jan-01, 2014
IAS 38	Intangible Assets (Amendments)	Jul-01, 2014
IAS 39	Financial Instruments: Recognition and Measurement (Amendments)	Jan-01, 2014
IAS 40	Investment Property (Amendments)	Jul-01, 2014
IAS 41	Agriculture	Jan-01, 2016
IFRIC 21	Levies	Jan-01, 2014

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, 2014

3. USE OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the management to make judgements, 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 judgements 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 5.1.

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 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 5.4.

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 recoverable amount. 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. Rates of amortization are stated in note 6.

Notes to the Accounts

For the year ended June 30, 2014

(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 amortisation is charged for the month in which the asset is disposed off. Rates of amortization are stated in note 5.1.

4.3 Impairment

(a) Financial Asset

The Company assesses at each balance date whether there is any objective evidence that a financial asset or a group of financial asset is impaired. A financial asset is deemed to be impaired if and only if there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Any impairment loss on financial assets, including the financial assets carried at amortized cost, is recognized in profit and loss account.

(b) Non Financial Asset

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 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 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 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 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.

Notes to the Accounts

For the year ended June 30, 2014

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.

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 Chief Financial Officer and Chief Operating Officer.

(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 recognised 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.

Notes to the Accounts

For the year ended June 30, 2014

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

		2014	2013
		Rupees in '000'	
5. PROPERTY & EQUIPMENT			
Net book value of owned assets	5.1	**2,288,637**	1,319,036
Net book value of leased assets	5.4	**122,739**	71,272
Capital work in progress	5.6	**261,548**	503,883
		2,672,924	1,894,191

5.1 Following is the statement of owned assets

Particulars	2014								
	COST			DEPRECIATION					Net book value as at Jun 30, 2014
	As at Jul 01, 2013	Additions / (Deletions)	As at Jun 30, 2014	Rate %	As at Jul 01, 2013	Adjustment during the year	Charge for the year	As at Jun 30, 2014	
	Rupees In '000'								
Tangible Assets									
Land - freehold	248,229	82,915	331,144		-	-	-	-	331,144
Building on freehold land	241,307	377,173	618,480	5	75,347	-	14,699	90,046	528,434
Furniture & fixture	20,937	21,659 (1,633)	40,963	10	5,327	- (650)	2,469	7,146	33,817
Vehicles	49,950	35,919 (13,366)	72,503	20	28,372	10,450 (6,105)	6,661	39,378	33,125
Office equipment	22,294	9,103	31,397	10	7,143	27	1,887	9,057	22,340
Computers	812,598	559,515 (127,658)	1,244,455	20 ~ 33	356,541	12,877 (113,607)	185,229	441,040	803,415
Air conditioners	8,779	3,988	12,767	10	2,749	-	729	3,478	9,289
Electric fittings	1,118	-	1,118	10	684	-	44	728	390
Generator	24,217	8,990	33,207	10	6,734	-	1,898	8,632	24,575
Intangible Assets									
Computer software	682,750	310,256 (100,883)	892,123	33	310,246	- (92,196)	171,965	390,015	502,108
	2,112,179	1,409,518 (243,540)	3,278,157		793,143	23,354 (212,558)	385,581	989,520	2,288,637

Notes to the Accounts

For the year ended June 30, 2014

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'								
Tangible Assets									
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	- (1,165)	1,536	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	- (5,139)	106,318	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	- (1,469)	1,374	6,734	17,483
Intangible Assets									
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

			2014	2013
			Rupees in '000'	
5.2	Depreciation is allocated in the following manner			
	Cost of revenue	27	**282,259**	163,450
	Administrative expenses	29	**96,395**	57,357
	Intangible assets		**6,927**	8,619
			385,581	229,426

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

Particulars	Cost	Accumulated Depreciation	Net Book Value	Sales Proceeds	Mode of Disposal	Particulars of Purchaser
	Rupees In '000'					
Furniture & fixture	436	249	187	60	Negotiation	Majeed Butt
Furniture & fixture	1,197	401	796	-	Donation	
Vehicle	2,383	-	2,383	2,383	Sale and lease back	First Habib Modarba
Vehicle	927	678	249	255	Company Policy	Employee
Vehicle	1,842	955	887	890	Company Policy	Employee
Vehicle	1,462	730	732	732	Company Policy	Employee
Vehicle	948	450	498	910	Company Policy	Employee
Vehicle	4,350	2,592	1,758	1,758	Negotiation	Masood Ali
Vehicle	1,454	700	754	1,400	Negotiation	Faisal Khawaja
Computers	50	36	14	6	Company Policy	Employee
Computers	50	35	15	6	Company Policy	Employee
Computers	14,663	13,131	1,532	260	Negotiation	Mehmood Raza
Computers	76	60	16	7	Company Policy	Employee
Computers	60	43	17	6	Company Policy	Employee
Computers	87	65	22	8	Company Policy	Employee
Computers	112,319	100,040	12,279	2,476	Negotiation	Dot Com
Computers	139	50	89	60	Negotiation	Computer Point
Computers	134	89	45	13	Company Policy	Employee
Computers	80	58	22	8	Company Policy	Employee
Software	100,883	92,196	8,687	-	Assets written off	
2014	243,540	212,558	30,982	11,238		
2013	26,447	12,068	14,379	14,248		

5.4 Following is statement of leased assets

2014

Particulars	COST As at Jul 01, 2013	COST Additions / (Deletions)	COST As at Jun 30, 2014	Rate %	DEPRECIATION As at Jul 01, 2013	DEPRECIATION Adjustment during the year	DEPRECIATION Charge for the year	DEPRECIATION As at Jun 30, 2014	Net book value as at Jun 30, 2014
	Rupees In '000'								
Vehicles	59,939	39,205 (22,432)	76,712	20	13,724	- (10,450)	11,630	14,904	61,808
Office equipment	96	- (96)	-	10	22	- (27)	5	-	-
Computers	45,809	32,157 (21,418)	56,548	20~33	20,826	- (12,877)	13,809	21,758	34,790
Air conditioners	-	19,140	19,140	10	-	-	1,117	1,117	18,023
Generator	-	8,545	8,545	10	-	-	427	427	8,118
	105,844	99,047 (43,946)	160,945		34,572	- (23,354)	26,988	38,206	122,739

2013

Particulars	COST As at Jul 01, 2012	COST Additions / (Deletions)	COST As at Jun 30, 2013	Rate %	DEPRECIATION As at Jul 01, 2012	DEPRECIATION Adjustment during the year	DEPRECIATION Charge for the year	DEPRECIATION As at Jun 30, 2013	Net book value 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

Notes to the Accounts

For the year ended June 30, 2014

			2014	2013
			Rupees in '000'	
5.5	**Amortization is allocated in the following manner**			
	Cost of revenue	27	19,736	14,186
	Administrative expenses	29	6,747	4,979
	Intangible assets		505	746
			26,988	19,911
5.6	**Capital work-in-progress**	5.6.1	261,548	503,883

5.6.1 The movement in capital work-in-progress during the year is as under:

	2014	2013
Opening Balance	503,883	383,040
Additions during the year	129,175	175,914
Transfer to owned assets	(371,510)	(55,071)
Closing balance	261,548	503,883

5.6.2 Extension of existing building is under construction. A portion of building has been completed during the financial year 2013-14 and is now in use by the Company.

5.6.3 During the year borrowing cost amounting to Rs. 26.33 million using capitalisation rate of 12.9% pa (2013 : Rs. 29.502 million using capitalisation rate 12.13% p.a) has been capitalized in the capital work in progress pertaining to construction of building.

6. INTANGIBLE ASSETS

Particulars	2014								
	COST			DEPRECIATION					Net book value as at Jun 30, 2014
	As at Jul 01, 2013	Additions / (Deletions)	As at Jun 30, 2014	Rate %	As at Jul 01, 2013	Adjustment during the year	Charge for the year	As at Jun 30, 2014	
	Rupees In '000'								
In-house Developed Software									
NetSol Financial Suite	213,225	-	213,225	10 ~ 20	135,488	-	35,766	171,254	41,971
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	20	36,511	-	35,315	71,826	-
SMART	137,149	-	137,149	10	54,860	-	13,715	68,575	68,574
NFS Ascent	549,792	2,385,246	2,935,038	10	99,856	-	153,262	253,118	2,681,920
HMIS	-	35,146	35,146	10	-	-	2,050	2,050	33,096
Business Intelligence Scoring Model & Risk Management	-	45,671	45,671	10	-	-	2,664	2,664	43,007
Under Development									
Fleet Management System (FMS)	982,701	205,778 (1,188,479)	-	-	-	-	-	-	-
Blue Star	1,038,823	120,687 (1,159,510)	-	-	-	-	-	-	-
LSS	100,251	4,288	104,539	-	-	-	104,539	104,539	-
HMIS	32,761	2,385 (35,146)	-	-	-	-	-	-	-
Loan Origination System	33,781	3,475 (37,256)	-	-	-	-	-	-	-
Business Intelligence Scoring Model & Risk Management	40,364	5,307 (45,671)	-	-	-	-	-	-	-
	3,210,611	341,921	3,552,532		336,653	-	347,311	683,964	2,868,568

Particulars	2013								
	COST			AMORTISATION					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	337,382	-	337,382	10	11,245	-	33,738	44,983	292,399
Under Development									
Fleet Management System (FMS)	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

Notes to the Accounts

For the year ended June 30, 2014

			2014	2013
			Rupees in '000'	
6.1	Amortization is allocated in the following manner			
	Cost of revenue	27	347,311	107,936

6.2 Change in Accounting Estimate

After the announcement of NFS Ascent, the company determined that the old version, NetSol Financial Suite, has a reduced life left. Therefore, it is decided to accelerate the amortization and fully amortize the balance amount in FY 2015.

The effect of change in estimate of remaining useful life of intangible assets has been accounted for prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimate and Errors.

	2014	2015	Later
		Rupees in '000	
Increase in amortization expense	34,336	13,417	-

The board of directors in their meeting held on April 30, 2014, decided to narrow the focus of the company and decided to abandon development of LSS. It was further decided not to market LRMIS any further. Keeping in view the intension of the management LSS and LRMIS have been expensed out during the year.

		2014	2013
		Rupees in '000'	
7.	DEFERRED EMPLOYEE COMPENSATION EXPENSE		
	Balance as at the beginning of the year	54	750
	Fair value of options issued during the year	-	-
	Options lapsed due to employee resignation	-	-
	Amortisation for the year	(54)	(696)
	Balance as at the end of the year	-	54
	Current portion shown under current assets	-	(54)
	Long term portion of deferred employee compensation expense	-	-

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%

	2014	2013
	Number of options	
Options outstanding at the beginning of the year	3,688,500	4,350,000
Options issued during the year	-	-
Options lapsed during the year	-	-
Options exercised during the year	(2,416,000)	(661,500)
Options outstanding at the end of the year	1,272,500	3,688,500

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 became 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.

		2014	2013
		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 (2013 : 1,518,785) fully paid ordinary shares of Rs. 10/- each i.e. 50.52% of equity held (2013 : 50.52%). Based on audited accounts for the year ended June 30, 2014, break-up value per share is Rs. 101.79. (2013 : Rs. 78.45).

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

		2014	2013
9. TRADE DEBTS			
Considered good - unsecured	9.2	317,226	965,741
Considered doubtful - unsecured		96,221	80,610
		413,447	1,046,351
Less: Provision against doubtful recovery	9.4	(96,221)	(80,610)
		317,226	965,741
9.1 The related parties included in trade debts are as under:			
Atheeb NetSol Saudi Company Limited		-	15,544
NetSol Technologies (Beijing) Company Limited		-	82,521
		-	98,065

Notes to the Accounts

For the year ended June 30, 2014

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

9.3 This is a general provision created by the Company for any further doubtful debts.

9.4 Provision against doubtful recovery

		2014	2013
		Rupees in '000'	
Balance as at July 1		80,610	80,610
Provision made during the year		26,060	-
Write off during the year	9.4.1	(10,449)	-
Balance as at June 30		96,221	80,610

9.4.1 The amount written off against provision relates to Atheeb Netsol Saudi Company Limited.

9.5 Aging of trade debts at June 30 is as follows:

	2014		2013	
	Rupees in '000'		Rupees in '000'	
	Gross	Impaired	Gross	Impaired
Not past due	-	-	201,710	-
Past due 1-180 days	332,320	-	767,502	-
Past due 181 days -1 year	80,321	-	74,743	-
More than one year	806	-	2,396	-
Total	413,447	-	1,046,351	-

9.6 Aging of trade debts due from related parties at June 30 is as follows:

	2014		2013	
	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	-
Total	-	-	98,065	-

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.

	Note	2014	2013
		Rupees in '000'	
11. LOANS AND ADVANCES - Unsecured			
Considered good			
Loan to employees		1,822	2,308
Advances			
- to employees	11.1	834	102
- against expenses		3,956	6,203
- against capital expenditure		31,484	13,598
		38,096	22,211

11.1 The advances to employees are given to meet business expenses and are settled as and when the expenses are incurred. Maximum balance outstanding against advances to employees at the end of any month during the year was Rs. 4.21 million (2013 : Rs. 0.352 million)

		2014	2013
12. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS			
Security deposits		5,931	5,386
Prepayments		18,990	9,554
		24,921	14,940
13. OTHER RECEIVABLES			
Guarantee margin		8,045	10,736
Sales tax refundable		6,315	3,011
Other receivable - considered good		9,464	12,123
		23,824	25,870
14. DUE FROM RELATED PARTIES			
Associated			
NetSol Connect (Private) Limited		2,155	2,818
NetSol Abraxas Pty. Limited		21,980	-
Atheeb NetSol Saudi Company Limited		9,404	6,670
NetSol Technologies North America		42,859	-
NetSol Technologies (Beijing) Company Limited		12,202	-
Subsidiary			
NetSol Innovation (Private) Limited	14.2	1,129	5,083
		89,729	14,571

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

14.2 Interest at the rate of 6 months KIBOR+1.5% (2013 : 6 months KIBOR+1.5%) is chargeable on this balance.

14.3 Maximum aggregate amount outstanding due from related party at the end of any month during the year was Rs. 123.42 million (2013 : Rs. 51.55 million).

Notes to the Accounts

For the year ended June 30, 2014

		2014	2013
		Rupees in '000'	
15. CASH AND BANK BALANCES			
With banks			
Saving accounts	15.1	288,360	92,614
Current accounts		47	54
Foreign currency current account		47,960	10,160
Term deposit		-	199,244
		336,367	302,072
In hand		3,491	3,499
		339,858	305,571

15.1 The balances in savings accounts bear mark up which ranges from 5 % to 9 % per annum. (2013 : 5% to 9% per annum)

16. SHARE CAPITAL

16.1 Authorised share capital

2014	2013		2014	2013
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

2014	2013		2014	2013
Number of shares			Rupees in '000'	
41,819,191	39,403,191	Ordinary Shares of Rs. 10 each fully paid in cash	418,192	394,032
47,150,732	39,168,512	Ordinary Shares of Rs. 10 each issued as fully paid bonus shares	471,507	391,685
88,969,923	78,571,703		889,699	785,717

	2014	2013
	Number of shares	
16.3 Reconciliation of number of shares issued, subscribed & paid-up		
Number of shares outstanding as at July 1	78,571,703	77,910,203
Ordinary Shares of Rs. 10 issued against options exercised	2,416,000	661,500
Ordinary Shares of Rs. 10 issued as fully paid bonus shares	7,982,220	-
Number of shares outstanding as at june 30	88,969,923	78,571,703

16.4 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.

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

16.6 NetSol Technologies Inc. 24025, Park Sorrento, Suite 410, Calabasas CA 91302, is the parent company holding 63.38 % (2013 : 65.19%) of issued share capital of the Company. No shares are held by any other related party.

16.7 The Company is not subject to any externally imposed capital requirements for the financial years 2013 and 2014.

			2014	2013
			Rupees in '000'	
17.	RESERVES			
	Capital reserve			
	Premium on issue of ordinary shares		297,320	278,240
	Revenue reserve			
	Un - appropriated profit		4,277,821	5,055,983
	Employee share option compensation reserve	17.1	1,880	5,449
			4,577,021	5,339,672

		2014	2013
17.1	EMPLOYEE SHARE OPTION COMPENSATION RESERVE		
	Balance as at the beginning of the year	5,449	6,426
	Options issued during the year	-	-
	Options lapsed due to employee resignation	-	-
	Amount transferred to Capital reserve on exercise of options	(3,569)	(977)
	Balance at the end of the year	1,880	5,449

			2014	2013
18.	LONG TERM FINANCING			
	Term finance - secured	18.1 & 18.2	62,500	87,500
	Loan from related party - unsecured	18.4	175,362	135,165
			237,862	222,665
	Current portion		(25,000)	(50,000)
			212,862	172,665

18.1 The term finance 1 facility is availed from Askari Bank Ltd up to Rs. 25 million (2013 : Rs. 25 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 installments within a period of 5 years including one year grace period. The first trench of loan was disbursed in December 2008. The outstanding amount against this facility has been fully paid during the financial year 2013-14.

18.2 Another facility of term finance 2 is available from Askari Bank Ltd up to Rs. 100 million (2013 : Rs. 87.5 million), availed Rs. 100 million (2013 : Rs. 62.5 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 installments 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. 680 million over the land, building and equipment of the Company.

18.4 This represent interest free loan of USD 1,774,743 (2013 : USD 1,339,589) from the holding Company.

Notes to the Accounts

For the year ended June 30, 2014

	2014	2013
	Rupees in '000'	
19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Present value of minimum lease payments	86,016	46,896
Less: Current portion of obligations shown under current liabilities	(42,327)	(26,889)
	43,689	20,007

Present value of minimum lease payments have been discounted at an implicit interest rate ranging between 10.87 % to 12.99% (2013 : 11.09 % to 14.98%) to arrive at their present value. The lessee has the option to purchase the assets after expiry of the lease term.

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

	2014		
	Minimum Lease Payment	Future Finance Charges	Present Value of Lease Liability
Not later than one year	50,540	8,213	42,327
Later than one year but not later than five years	47,699	4,010	43,689
	98,239	12,223	86,016

	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

	2014	2013
	Rupees in '000'	
20. DEFERRED INCOME		
Opening balance	59	38
Addition during the year	-	40
	59	78
Amortized during the year	(30)	(19)
Un amortized gain on sale and lease back transaction	29	59

This amount represents gain on sale and lease back of fixed assets. According to IAS 17 "Leases" this gain is deferred and amortized over the lease term.

			2014	2013
			Rupees in '000'	
21.	**TRADE AND OTHER PAYABLES**			
	Creditors		48,493	21,643
	Accrued liabilities		110,636	65,303
	Interest accrued - secured		6,082	7,252
	Due to related parties	21.1	339,704	269,831
	Withholding tax		4,883	3,113
	Provident fund payable		8,716	5,303
	Unclaimed dividend		2,631	1,630
	Other payables		2,549	24,881
			523,694	398,956

		2014	2013
21.1	**DUE TO RELATED PARTIES**		
	Parent		
	NetSol Technologies Inc.	199,193	156,401
	Associated		
	NetSol Technologies Europe Limited	137,746	105,249
	NTPK (Thailand) Company Limited	2,765	8,181
		339,704	269,831

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

21.1.2 Maximum aggregate amount outstanding due to related party at the end of any month during the year was Rs.608.93 million (2013 : Rs. 643.23 million).

22. EXCESS OF BILLING OVER REVENUE

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

23. SHORT TERM BORROWINGS

		2014	2013
Export refinance - secured	23.1	200,000	200,000

23.1 The facility for export refinance is available from Askari Bank Ltd amounting upto Rs 300 million (2013 : Rs 200 million), availed Rs. 200 million (2013 : 200 million) It carries mark-up of State Bank Refinance Rate+1% per annum (2013 : State Bank Refinance Rate+1% per annum per annum). The interest rate ranged between 9.2% to 9.4% (2013 : 9.2% to 11%) during fiscal year 2014. The due balance is payable bi-annually.

23.2 A facility for issuance of guarantees (LG) is available from Askari Bank Ltd upto Rs. 100 million (2013 : Rs. 100 million), availed Rs. 15.843 (2013 : Rs. 18.636)

Notes to the Accounts

For the year ended June 30, 2014

23.3 A sublimit of LG is available from Askari Bank Ltd for corporate credit cards upto Rs. 4 million (2013 : Rs. 4 million)

23.4 During the year, the company availed a running finance facility from Askari Bank Ltd as a sublimit to LG facility upto Rs. 75 million (2013 : nil) for working capital requirement. As at June 30, 2014 there is no balance outstanding against this facility. It carries markup at the rate of 3 month Kibor + 2.75%.

23.5 These facilities are secured by way of first charge over the Company's current assets including stocks / receivable / book debts up to rupees 536 million.

	Note	2014	2013
		Rupees in '000'	
24. CURRENT PORTION OF LONG TERM LIABILITIES			
Current portion of long term financing	18	**25,000**	50,000
Current portion of lease liability	19	**42,327**	26,889
		67,327	76,889

25. CONTINGENCIES & COMMITMENTS

25.1 Contingencies

There are no contingencies as at June 30, 2014 (2013 : nil) to which the Company is a party.

25.2 Commitments

25.2.1 The Company has issued worth Rs. 15.843 million (2013 : Rs. 18.636 million) bank guarantees and bid bonds to various customers against sale of software and allied services.

25.2.2 The Company has commitment under a capital purchase agreement of Rs. 40 million (2013 : nil)

	2014 Domestic	2014 Foreign	2014	2013
			Rupees in '000'	
26. REVENUE-NET				
Export Revenue				
License	-	377,996	**377,996**	962,980
Services	-	957,958	**957,958**	1,142,844
Maintenance	-	474,837	**474,837**	417,169
	-	1,810,791	**1,810,791**	2,522,993
Local Revenue				
Services	20,763	-	**20,763**	101,562
Maintenance	3,288	-	**3,288**	9,524
	24,051	-	**24,051**	111,086
Sales Tax	(3,317)	-	**(3,317)**	(1,300)
	20,734	1,810,791	**1,831,525**	2,632,779

		2014 Domestic	2014 Foreign	2014 Rupees in '000'	2013 Rupees in '000'
27. COST OF REVENUE					
Salaries & benefits	27.1	26,436	736,147	**762,583**	439,313
Consultancy charges		276	119,240	**119,516**	81,637
Technical services		31	616	**647**	5,035
Hardware and other material cost		464	-	**464**	47
Software licences		7,159	50,802	**57,961**	117,143
Staff training		202	1,147	**1,349**	3,193
Rent, rates & taxes		124	1,830	**1,954**	-
Travelling & conveyance		4,107	68,997	**73,104**	52,273
Communication		1,076	14,650	**15,726**	9,841
Utilities		2,754	24,307	**27,061**	22,848
Printing & stationery		288	1,859	**2,147**	1,400
Entertainment		2,354	23,945	**26,299**	21,823
Insurance		193	2,297	**2,490**	1,779
Vehicle running & maintenance		750	10,302	**11,052**	6,706
Repair & maintenance		5,055	42,839	**47,894**	15,882
Certifications		472	5,636	**6,108**	4,253
Fee & subscription		8,690	-	**8,690**	3,238
Research and development cost		-	26,021	**26,021**	15,495
Depreciation	5.2	28,944	253,315	**282,259**	163,450
Amortization of leased assets	5.5	2,034	17,702	**19,736**	14,186
Amortization of intangible assets	6	53,746	293,565	**347,311**	107,936
		145,155	1,695,217	**1,840,372**	1,087,478

27.1 Salaries and benefits include Rs. 31.396 million (2013 : Rs. 20.366 million) in respect of employer contribution for provident fund.

		2014 Domestic	2014 Foreign	2014 Rupees in '000'	2013 Rupees in '000'
28. SELLING AND PROMOTION EXPENSES					
Salaries & benefits	28.1	518	45,354	**45,872**	39,476
Staff training		-	4	**4**	1,094
Rent, rates & taxes		1,651	8,184	**9,835**	9,683
Travelling and conveyance		55	4,793	**4,848**	12,358
Communication		30	2,604	**2,634**	2,091
Utilities		31	2,709	**2,740**	2,731
Printing & stationery		1	126	**127**	88
Entertainment		28	2,411	**2,439**	2,630
Insurance		3	226	**229**	265
Vehicle running expenses		26	2,271	**2,297**	1,686
Repairs and maintenance		18	1,591	**1,609**	1,295
Commission on sales		-	80,926	**80,926**	41,023
Advertisement		-	10	**10**	471
Tender money		9	2	**11**	1
Sale promotional expenses		337	29,530	**29,867**	5,425
		2,707	180,741	**183,448**	120,317

28.1 Salaries and benefits include Rs. 1.126 million (2013 : Rs. 0.987 million) in respect of employer contribution for provident fund.

Notes to the Accounts

For the year ended June 30, 2014

		2014		2014	2013
		Domestic	Foreign	Rupees in '000'	
29. ADMINISTRATIVE EXPENSES					
Salaries and benefits	29.1	1,964	171,883	173,847	153,339
Staff training		4	311	315	320
Management fee		705	61,648	62,353	58,739
Rent, rates and taxes		85	7,407	7,492	5,745
Travelling and conveyance		232	20,298	20,530	18,394
Communication & postage		74	6,488	6,562	5,339
Printing and stationery		10	836	846	616
Utilities		118	10,327	10,445	11,230
Entertainment		229	20,065	20,294	14,157
Insurance		103	9,052	9,155	9,411
Advertisement		21	1,816	1,837	875
Vehicle running expenses		167	14,615	14,782	13,965
Repairs and maintenance		353	30,923	31,276	24,793
Legal and professional charges		134	11,749	11,883	7,593
Auditors remuneration	29.2	24	2,076	2,100	1,800
News papers & periodicals		4	357	361	154
Security expenses		7	654	661	272
Office supplies		28	2,427	2,455	1,598
Charity & donation	29.3	170	14,875	15,045	15,457
Fee & subscription		44	3,810	3,854	8,510
Miscellaneous expenses		5	395	400	425
Provision for doubtful debts	9.4	294	25,766	26,060	-
Depreciation	5.2	1,089	95,306	96,395	57,357
Amortization of leased assets	5.5	76	6,671	6,747	4,979
		5,940	519,755	525,695	415,068

29.1 Salaries and benefits include Rs. 6.699 million (2013 : Rs. 5.168 million) in respect of employer contribution for provident fund.

29.2 Auditors remuneration

	2014	2013
Audit fee	1,000	800
Certifications of group reporting	600	500
Professional services	300	250
Out-of-pocket expenses	200	250
	2,100	1,800

29.3 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.

		2014 Domestic	2014 Foreign	2014	2013
				Rupees in '000'	
30.	**OTHER OPERATING EXPENSES**				
	Loss on disposal of assets	214	18,734	**18,948**	172
	Others	-	-	**-**	23,720
		214	18,734	**18,948**	23,892
31.	**OTHER INCOME**				
	Income from financial assets				
	Profit on bank deposits	18,792	-	**18,792**	12,428
	Mark up on loan	465	-	**465**	1,057
	Dividend Income	74,189	-	**74,189**	39,608
		93,446	-	**93,446**	53,093
	Income from non-financial assets				
	Gain on foreign currency translation	-	32,783	**32,783**	115,455
	Amortization of deferred revenue	30	-	**30**	19
	Rental income	19,098	-	**19,098**	16,557
	Miscellaneous income	18,392	-	**18,392**	13
		37,520	32,783	**70,303**	132,044
		130,966	32,783	**163,749**	185,137
32.	**FINANCE COST**				
	Lease finance charges	98	8,538	**8,636**	6,631
	Interest on loans	1,010	1,149	**2,159**	661
	Lease documentation charges	-	41	**41**	26
	Bank charges	14	1,226	**1,240**	1,529
		1,122	10,954	**12,076**	8,847

33. 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.

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.

The Company is in loss so the reconciliation of accounting profit with tax expense is not given.

Notes to the Accounts

For the year ended June 30, 2014

34. 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	
	2014	2013	2014	2013	2014	2013
			Rupees in '000'			
Managerial remuneration	4,000	4,000	2,400	2,200	444,771	252,536
Retirement benefits	-	-	240	220	33,722	17,978
Rent and house maintenance	1,600	1,600	960	880	177,908	101,014
Utilities	400	400	240	220	44,477	25,254
Medical expenses	142	96	108	109	18,064	12,309
Share Options	3	39	1	16	16	206
Total	6,145	6,135	3,949	3,645	718,958	409,297
No. of Persons	1	1	1	1	636	366

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.

35. 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.

The Company monitors capital on the basis of the gearing ratio. The ratio is calculated as total debt divided by total equity. The gearing ratio for FY 2014 is 20% (2013 : 15%)

		2014	2013
		Rupees in '000'	
			Restated
36. (LOSS) / EARNINGS PER SHARE			
Basic			
(Loss) / profit after taxation for the year	36.1	(618,518)	1,159,608
Average number of ordinary shares in issue during the year		88,069	86,032
Basic - In Rupees		(7.02)	13.48
Diluted			
(Loss) / profit after taxation for the year		(618,518)	1,159,608
Average number of ordinary shares in issue during the year	36.2	88,559	86,729
Diluted - In Rupee		(6.98)	13.37

		2014	2013
		Number in '000'	
			Restated
36.1 Weighted average number of ordinary shares (basic)			
Issued ordinary shares as at July 1		78,572	77,910
Effect of bonus shares issued		7,982	7,982
Weighted average of shares issued during the year		1,515	140
Weighted average number of ordinary shares (basic) as at June 30		88,069	86,032
36.2 Weighted average number of ordinary shares (diluted)			
Weighted average number of ordinary shares (basic)	36.1	88,069	86,032
Effect of exercise of share options		490	697
Weighted average number of ordinary shares (diluted) as at June 30		88,559	86,729

36.3 The earning per share for FY 2013 has been restated to account for the impact of bonus shares issued.

37. TRANSACTIONS 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.

Notes to the Accounts

For the year ended June 30, 2014

	Relationship with the Group	Nature of transactions	2014	2013
			Rupees in '000'	
(i)	Parent	Management fee	62,353	58,739
		Dividend paid to parent	51,222	-
		Bonus shares issued to parent	51,222	-
(ii)	Subsidiary	Rental income	18,348	16,557
		Provision of services	6,524	5,889
		Dividend received	74,189	39,608
		Mark-up income	465	1,057
		Mark-up expense	339	-
(iii)	Associated undertaking	Rental income	750	-
		Provision of services	310,325	397,815
		Purchase of services	4,368	-
(iv)	Post employment benefit	Contribution to defined contribution plan	39,200	26,518

(v) During the financial year 2014, 2,416,000 shares (2013 : 661,500) were issued to key management personnels against the excercise of options. There are no transactions with any key management personnel other than the terms of employment.

38. 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:

		2014	2013
		Rupees in '000'	
Financial Assets			
Loans and receivables			
Trade debts	38.1	317,226	965,741
Loans and advances		2,656	2,410
Security deposits		5,931	5,386
Other receivables		23,824	25,870
Due from related parties		89,729	14,571
Bank balances	38.2	336,367	302,072
		775,733	1,316,050

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

38.2 Bank balances are held only with reputable banks with minimum credit rating of AA.

(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:

	2014				
	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	86,016	98,239	50,540	47,699	-
Long term loan	237,862	247,760	32,672	215,088	-
Trade and other payables	523,694	523,694	523,694	-	-
Short-term borrowings	200,000	218,800	218,800	-	-
	1,047,572	1,088,493	825,706	262,787	-

Notes to the Accounts

For the year ended June 30, 2014

	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 financing	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	-

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:

	2014	2013
	Rupees in '000'	
Financial assets		
Bank balances	288,360	291,858
Financial Liabilities		
Finance lease liability	86,015	46,896
Long term loan	237,862	222,665
Short-term borrowings	200,000	200,000
	523,877	469,561

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.

	2014	2013
	Rupees in '000'	
Impact on Profit and loss account (net of tax)		
As at 30 June		
100 bps increase will result in decrease in profit by	800	636
100 bps decrease will result in increase in profit by	800	636

(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 2013.

Impact on Profit and loss account (net of tax)		
As at 30 June		
Strengthening	203,717	89,852
Weakening	(203,717)	(89,852)

(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:

		2014	2013
		(Unaudited)	(Audited)
		Rupees in '000'	
Size of the fund - Total Assets		254,023	174,771
Cost of investment made		208,450	145,252
Percentage of investment as size of fund	39.1	88%	89%
Fair value of investments	39.1	223,460	156,933

Notes to the Accounts

For the year ended June 30, 2014

39.1 The breakup of fair value of investments is:

	2014		2013	
	Investments Rupees in '000	Percentage of investment as size of fund	Investments Rupees in '000	Percentage of investment as size of fund
Bank Balances	160,633	63%	110,819	63%
Mutual Funds	62,827	25%	46,114	26%
	223,460	88%	156,933	89%

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, 2014 and 2013 respectively are as follows:

	2014	2013
	No of Employees	
Average number of employees during the year	950	740
Number of employees as at year end	1,026	783

41. 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.

42. CORRESPONDING FIGURES

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

Note	From	Note	To	2014 Rupees in '000	2013 Rupees in '000
6	NFS - AMS Module	6	NetSol Financial Suite	131,243	131,243
6	Blue Star - CAP	6	NFS Ascent	212,410	212,410
6	Blue Star - WFS	6	NFS Ascent	337,383	337,382
6	Fleet Management System (FMS)	6	NFS Ascent	1,188,479	982,701
6	Blue Star	6	NFS Ascent	1,159,510	1,038,823
6	Loan Origination System	6	NFS Ascent	37,256	33,781
27	Salaries and benefits	27	Research and development cost	26,021	15,495
	Provision for taxation		Taxation - net	10,965	16,761

43. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 11, 2014 by the Board of Directors.

44. FIGURES

Figures have been rounded off to the nearest thousand rupee.

Chief Executive Officer

Director

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