

NetComm Limited

ACN 002 490 486

Annual Report

For the Year Ended 30 June 2011

NetComm Limited

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NetComm Limited

Directors' Report For the Year Ended 30 June 2011

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2011.

1. General information

a Directors

The names of the directors in office at any time during, or since the end of, the year are:

Name	Position held
T R Winters	Independent Non Executive Chairman
D P J Stewart	Managing Director
J A Brennan	Independent Non Executive Director
J M Burton	Independent Non Executive Director
K J P Sheridan *	Executive Director/Finance Director

* Mr Kenneth Sheridan was appointed as Non-executive Director on 20 December 2010 and then appointed as Executive Director on 7 February 2011.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

b Company Secretary

Mr Peter Beveridge, company secretary since 13 June 2008, resigned on 19 May 2011 to devote more time to his other responsibilities within the organisation.

Mr Kenneth Sheridan, the company's Finance Director, was appointed company secretary on 19 May 2011.

c Principal Activities

NetComm Limited is a leading developer of innovative broadband products for telecommunications carriers and ISPs worldwide. Specialising in fixed and wireless broadband technologies, NetComm designs and produces products that are customized for world-leading carrier networks to successfully deliver the performance requirements of home, business and industrial applications. NetComm has developed a solid portfolio of data communication products, including world first broadband HSPA+ and LTE routers and is today a respected global provider of HSPA+, LTE, machine-to-machine (M2M) wireless and fibre access devices.

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

2. Business review

a Operating Results

The consolidated loss of the Group after providing for income tax amounted to \$1,202,147 (2010: \$1,624,988, profit)

Results and Dividends	Consolidated	
	2011	2010
	\$	\$
Total Revenue from Continuing Operations	67,714,563	55,264,440
EBITDA from Continuing Business (excluding significant one off items)	5,142,005	4,444,677
Significant one off item: Write down of inventories relating to the Services Business	2,500,000	-
EBITDA	2,642,005	4,444,677
Operating (Loss)/Profit from Continuing Business before Taxation	(396,736)	2,294,204
Income Tax (Expense)	(805,441)	(669,216)
Net Loss/(Profit) for the year after tax	(1,202,147)	1,624,988
Dividend (cents per share)	0.5cps	1.0cps

b Review of operations

NetComm has continued to increase revenues and underlying profit (before significant one off items) in the year ended 30 June 2011.

Growth has been achieved in our international business as we continue to expand our portfolio of telecommunications carriers. New carriers include Cell C (South Africa), Mobily (Middle East) and Videotron (Canada).

Domestically, we have seen good sales growth in our sales to internet service providers, in particular, Foxtel.

The overall business was negatively impacted by the stronger Australian dollar and the \$2.5 million dollar write down in the carrying value of inventories relating to the Company's loss making services business in Australia.

In order to position the Company to take advantage of emerging opportunities, a substantial effort has been invested this year in cultivating strategic partnerships with global players so that we can effectively compete in the Machine to Machine sector as well as the Australian NBN project.

c Significant Changes in State of Affairs

No significant changes in the state of affairs occurred during the financial year.

NetComm Limited

Directors' Report
For the Year Ended 30 June 2011

2. Business review (continued)

d Subsequent Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

e Environmental Regulations

The Group is not subject to significant environmental regulation.

f Future Developments

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

3. Directors' Information

a Information on Directors

Mr Terry R Winters

FAICD, Independent Non Executive Chairman

The founder and former CEO of Link Telecommunications and visionary behind the formation of Optus Communications Pty Ltd, Mr Winters has more than 30 years experience in the telecommunications and technology industries in Australia and overseas. Mr Winters is currently chairman of Australian Home Care Services Pty Limited, Intelledox Pty Ltd and Converge International Limited.

Mr David P J Stewart

Managing Director

Mr Stewart founded Banksia Technology Pty Limited in 1988 and successfully managed the company as a fast growing and highly profitable business. In 1996, he instigated the successful takeovers of a number of his competitors including NetComm Limited, which was completed in November 1997. Mr Stewart assumed the role of Managing Director of the merged entity and remains the single largest shareholder of NetComm. He has a strong financial background, extensive experience in sales and marketing and has maintained an ongoing interest in new technologies. While being very active in the operational aspects of the business, Mr Stewart also focuses on the strategic direction of the company.

Mr John A Brennan

FAICD, FAIM, Independent Non Executive Director

Mr Brennan is Managing Director of John David Cooper and Associates Pty Limited, a management consulting company focused on the development and deployment of e-business strategies for mid to large sized organisations. His previous roles include National General Manager, Corporate and Government Sales for Telstra, General Manager Corporate Services for Advance Bank and Regional Manager (Computers and Telecommunications) with the PA Consulting Group.

Mr John M Burton

Independent Non Executive Director

With more than 30 years experience in the telecommunications industry, both in Australia and overseas, Mr Burton has an in depth understanding of the factors that drive commercial success in the telecommunications arena. His professional background includes senior management roles with Telecom (now Telstra), KPMG Management Consulting, DSC Communications and Nextgen Networks. Mr Burton is also the Chairman of Spatial Vision Innovations Pty Ltd, a company that uses digital technology to address business and environmental problems.

Mr Kenneth J P Sheridan

Executive Director / Finance Director

Mr Sheridan is a Chartered Accountant with over 30 years' experience in senior management in major corporations in Australia and Asia. He spent 11 years with KPMG before he moved into the commercial sector where he held several CFO roles with large multinational companies in Australia and Asia including three years as Finance Director of a top 10 Malaysian listed consumer goods company. Mr Sheridan was the Group CFO for Tenix, one of Australia's largest private companies. In the 6 years prior to joining NetComm, Mr Sheridan was Managing Director and major shareholder of Acelero Pty Ltd, a human resources software company.

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

3. Directors' Information (continued)

At the date of this report, the interest of the Directors in the ordinary shares and options of the Company are:

	Ordinary Shares	Options
T R Winters	-	780,000
D P J Stewart	22,944,008	4,000,000
J A Brennan	122,795	360,000
J M Burton	377,795	360,000
K J P Sheridan	174,000	-

b Meetings of Directors

During the financial year, 11 meetings of directors were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended
T R Winters	11	11	2	2	1	1
D P J Stewart	11	11	-	-	1	1
J A Brennan	11	11	2	2	-	-
J M Burton	11	11	2	2	1	1
K J P Sheridan	7	7	2	2	1	1

4. Share Options

At the date of this report, there are 7,027,500 options (2010: 9,831,880) issued to 18 employees and directors (2010: 25 employees) to acquire ordinary shares. These options progressively vest on an annual basis commencing 12 months from the date of issue, details as follows:

Date Options granted	Expiry date	Exercise price	Number of options
26/04/2007	26/04/2012	0.064	575,000
19/07/2007	19/07/2012	0.06	50,000
17/12/2007	17/12/2012	0.07	245,000
27/02/2008	27/02/2013	0.075	157,500
3/03/2008	03/03/2013	0.071	100,000
31/07/2008	31/07/2013	0.185	200,000
10/12/2008	10/12/2013	0.162	100,000
12/02/2009	12/02/2014	0.113	100,000
30/10/2008	30/10/2013	0.162	1,675,000
30/10/2008	30/10/2013	0.162	1,435,000
30/10/2008	30/10/2013	0.162	2,390,000
			7,027,500

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

4. Share Options (continued)

The holders of these options do not have any rights under the options to participate in any share issue of the company or of any other entity.

The following ordinary shares of NetComm Limited were issued during or since the end of the financial year as a result of exercise of options granted.

Date Options granted	Issue price of shares	Number of shares issued
26/04/2007	0.064	68,750
17/12/2007	0.07	45,000
19/08/2008	0.164	50,000
24/8/2006	0.09	430,000
		<hr/> <hr/> 593,750

No amounts are unpaid on these shares.

During or since the end of the financial year, no options were granted by NetComm Limited to Directors and Executives of the Group as part of their remuneration.

5. Remuneration Report

This remuneration report, which forms part of the directors' report, sets out the information about the remuneration of NetComm Limited's directors and its senior management for the financial year ended 30 June 2011.

The following persons were key management personnel of NetComm Limited during the financial year:

Name	Position held
T R Winters	Independent Non Executive Chairman
D P J Stewart	Managing Director
J A Brennan	Independent Non Executive Director
J M Burton	Independent Non Executive Director
K J P Sheridan *	Executive Director/Finance Director
D Morrison	General Manager - Sales
W Trattles	Chief Financial Officer (resigned 11 March 2011)
M Kinna	General Manager - International Sales (appointed 11 April 2011)
S Collins	Head of Product Development

* Mr Kenneth Sheridan was appointed as Non-executive Director on 20 December 2010 and then appointed as Executive Director on 7 February 2011. He was also appointed as Company Secretary on 19 May 2011.

In addition, the following persons must be disclosed as they are among the 5 highest remunerated Group and Company Executives:

Name	Position held
P Beveridge	Company Secretary (resigned as Company Secretary 19 May 2011)

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

5. Remuneration Report (continued)

Remuneration Policy

The board's policy for determining the nature and amount of remuneration of key management personnel for the Group is as follows:

- The remuneration committee, consisting of two non executive directors and one executive director, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non executive directors.
- The remuneration committee reviews the remuneration packages of all directors and other key management personnel on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries. The overall objective is to ensure maximum shareholder benefit from the retention of a quality Board and Executive Team. To assist in achieving this objective, the nature and amount of the Executives' and Directors' and other key management personnel's emoluments is linked to the Group's financial and operational performance, as determined by the Remuneration Committee.

Relationship between the remuneration policy and company performance

The following tables set out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to June 2011:

	30 June 2011 \$	30 June 2010 \$	30 June 2009 \$	30 June 2008 \$	30 June 2007 \$
Revenue	67,714,563	55,264,440	78,473,388	19,368,090	21,340,932
Net (Loss)/Profit before tax	(396,736)	2,294,204	5,296,429	512,850	(1,339,640)
Net (Loss)/Profit after tax	(1,202,147)**	1,624,988	5,891,378	2,146,404	(1,337,485)
	30 June 2011 \$	30 June 2010 \$	30 June 2009 \$	30 June 2008 \$	30 June 2007 \$
Share price at start of the year	0.20	0.17	0.18	0.06	0.09
Share price at end of the year	0.12	0.20	0.17	0.18	0.06
Interim dividend	0.5cps	1cps	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share (cents)	(1.17)	1.58	6.01	2.39	(1.70)
Diluted earnings per share (cents)	(1.17)	1.56	5.95	2.38	(1.70)

As stated above the overall objective of the Board's remuneration policy is to ensure maximum shareholder benefit from the retention of a quality Board and Executive team and to assist in achieving this objective by linking executive rewards to the group's financial and operational performance. The Board is of the opinion that the above table demonstrates that the remuneration policy and company performance are closely aligned.

** Includes significant one off item: Write down of inventories relating to the services business of \$2,230,000.

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

5. Remuneration Report (continued)

Details of remuneration for year ended 30 June 2011.

Details of each element of the remuneration of key management personnel and other executives of NetComm Limited are set out in the following tables:

Year ended 30 June 2011:

	Short Term Employee Benefits			Post Employment Benefits	Long Term benefits	Share Based Payments	Other Benefits	Total	% of Remuneration that is performance based	% of Remuneration that consists of options
	Salary & Fees	Bonus	Allowances	Super-annuation	Long Service Leave	Options	Termination Benefits			
Independent Non-Executive Directors										
T R Winters	86,750	-	-	-	-	13,733	-	100,483	14%	14%
J A Brennan	53,542	-	-	-	-	3,227	-	56,769	6%	6%
J M Burton	53,542	-	-	-	-	3,227	-	56,769	6%	6%
Executive Directors										
K J P Sheridan *	99,876	-	-	7,939	-	-	-	107,815	0%	0%
D P J Stewart	346,142	235,000	-	29,252	18,474	70,426	-	699,294	44%	10%
Executive Officers										
S Collins	136,494	15,000	15,000	11,972	-	-	-	178,466	8%	0%
M Kinna (appointed 11 April 2011)	37,159	-	-	3,046	-	-	-	40,205	0%	0%
D Morrison	186,552	42,000	15,000	15,199	3,080	1,780	-	263,611	17%	1%
W Trattles (resigned 11 March 2011)	124,094	30,000	-	14,176	-	(19,287)	30,000	178,983	17%	0%
Total key management personnel compensation	1,124,151	322,000	30,000	81,584	21,554	73,106	30,000	1,682,395		
Other Executives										
P Beveridge **	135,000	-	-	-	-	-	-	135,000	0%	0%
TOTAL	1,259,151	322,000	30,000	81,584	21,554	73,106	30,000	1,817,395		

* Mr K Sheridan was appointed as Non-executive Director on 20 December 2010 and then appointed as Executive Director on 7 February 2011. He was also appointed as Company Secretary on 19 May 2011.

** Mr P Beveridge resigned as Company Secretary on 19 May 2011. He is included as one of the 5 highest remunerated Group and Company Executives.

NetComm Limited

Directors' Report
For the Year Ended 30 June 2011

5. Remuneration Report (continued)

Year ended 30 June 2010:

	Short Term Employee Benefits			Post Employment Benefits	Long Term benefits	Share Based Payments	Other Benefits	Total	% of Remuneration that is performance based	% of Remuneration that consists of options
	Salary & Fees	Bonus	Allowances	Super-annuation	Long Service Leave	Options	Termination Benefits			
Independent Non-Executive Directors										
T R Winters	78,000	-	-	-	-	23,823	-	101,823	23%	23%
J A Brennan	48,000	-	-	-	-	15,645	-	63,645	25%	25%
J M Burton	48,000	-	-	-	-	15,645	-	63,645	25%	25%
Executive Directors										
D P J Stewart	366,972	-	20,000	33,028	6,468	122,167	-	548,635	22%	22%
Executive Officers										
S Collins	106,100	-	11,538	9,109	-	-	-	126,747	0%	0%
D Morrison	149,336	62,265	15,000	13,439	9,631	3,767	-	253,438	26%	1%
W Trattles	180,000	22,000	-	16,200	-	72,816	-	291,016	33%	25%
Total key management personnel compensation	976,408	84,265	46,538	71,776	16,099	253,863	-	1,448,949		
Other Executives										
P Beveridge *	138,229	-	-	-	-	11,306	-	149,535	8%	8%
TOTAL	1,114,637	84,265	46,538	71,776	16,099	265,169	-	1,598,484		

* Mr P Beveridge is included as one of the 5 highest remunerated Group and Company Executives.

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

5. Remuneration Report (continued)

Cash bonuses

Key management personnel and other executives are entitled to a short-term cash incentive based on individual performance criteria which is defined and granted at the discretion of the Remuneration Committee. Where performance criteria are not met in the current year the bonus is forfeited and may not be carried forward to a future year.

Share Options

An employee share option plan is in place for all employees, including directors and key management personnel. The board of directors may at its discretion offer options to employees in such numbers and at such times as it thinks fit. Each option entitles the holder to subscribe for and be allotted one share in the capital of the company at a pre-determined exercise price per share. Shares issued on the exercise of options will rank pari passu with all existing shares in the capital of the company from the date of issue. The option holder must remain employed with the company in order to meet the performance conditions attached to the options.

Except for the options issued to the key management personnel listed below, any option issued to an employee in a particular year will vest in the following time periods, and expire 5 years from the date of issue:

- i. At the end of year 1 from the date of the relevant option issue, 30% of the option issued will vest
- ii. At the end of year 2 from the date of the relevant option issue, 20% of the option issued will vest
- iii. At the end of year 3 from the date of the relevant option issue, 30% of the option issued will vest
- iv. At the end of year 4 from the date of the relevant option issue, 20% of the option issued will vest

The following options issued to key management personnel vest over the following time periods:

4,000,000 options issued in 2009 to D P J Stewart will vest in the following time periods:

- i. At the end of year 1 from the date of the relevant option issue, 25% of the option issued will vest
- ii. At the end of year 2 from the date of the relevant option issue, 25% of the option issued will vest
- iii. At the end of year 3 from the date of the relevant option issue, 50% of the option issued will vest

480,000 options issued in 2009 to each Director J A Brennan and J M Burton will vest in the following time periods:

- i. At the end of year 1 from the date of the relevant option issue, 50% of the option issued will vest
- ii. At the end of year 2 from the date of the relevant option issue, 50% of the option issued will vest

Note: As at 30 June 2011, 120,000 of these options had lapsed.

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

5. Remuneration Report (continued)

780,000 options in 2009 issued to Director T R Winters will vest in the following time periods:

- i. At the end of year 1 from the date of the relevant option issue, 25% of the option issued will vest
- ii. At the end of year 2 from the date of the relevant option issue, 25% of the option issued will vest
- iii. At the end of year 3 from the date of the relevant option issue, 50% of the option issued will vest

Vesting of 4,000,000 options issued to D P J Stewart and 1,740,000 options issued to non-executive directors is subject to the following preconditions:

- i. At the end of year 1, 50% of the options are available to vest if the market share price is on or above \$0.199 and 50% of the options are available to vest if EBIT is at or in excess of \$747,423
- ii. At the end of year 2, 50% of the options are available to vest if the market share price is on or above \$0.223 and 50% of the options are available to vest if EBIT is at or in excess of \$896,918
- iii. At the end of year 3, 50% of the options are available to vest if the market share price is on or above \$0.268 and 50% of the options are available to vest if EBIT is at or in excess of \$1,076,302

Where preconditions are not met as the vesting date, the non-vested options will be added to the next vesting date where the performance hurdle will be tested again.

Note: W Trattles had 870,630 share options as at 30 June 2011 which lapsed as at 11 September 2011.

NetComm Limited

Directors' Report

For the Year Ended 30 June 2011

5. Remuneration Report (continued)

Details of the terms and conditions of options which vested to key management personnel and executives of NetComm Limited during the reporting period are as follows:

	Issue Date	No. Options vested during the year	% of grant vested in current year	% of grant forfeited in current year	% of grant available for vesting in future years	Fair value per option at grant date \$	Exercise price \$	Expiry Date	Date Exercisable
Independent Non-Executive Directors									
T R Winters	30/10/2008	97,500	12.5%	0%	62.5%	0.0805	0.162	30/10/2015	30/10/2010
J A Brennan	30/10/2008	120,000	25%	25%	0%	0.0805	0.162	30/10/2015	30/10/2010
J M Burton	30/10/2008	120,000	25%	25%	0%	0.0805	0.162	30/10/2015	30/10/2010
Executive Directors									
D P J Stewart	30/10/2008	500,000	12.5%	0%	62.5%	0.0805	0.162	30/10/2015	30/10/2010
Executive Officers									
D Morrison	24/08/2006	50,000	20%	0%	0%	0.0434	0.09	24/08/2011	24/08/2010
D Morrison	17/12/2007	30,000	30%	0%	20%	0.0383	0.07	17/12/2012	17/12/2010
D Morrison	31/07/2008	20,000	20%	0%	50%	0.0838	0.185	31/07/2013	31/07/2010
W Trattles*	27/10/2008	400,000	21%	53%	0%	0.0643	0.143	27/10/2013 *	27/10/2010

* Wayne Trattles held 870,630 options. He left NetComm Limited on 11 March 2011 and the options lapsed on 11 Sept 2011.

No options were granted to key management personnel and executives during the year.

No options were exercised by key management personnel and executives during the year.

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

5. Remuneration Report (continued)

Service contracts

The following table provides employment details of persons who were, during the financial year, the directors and executive officers of the consolidated group receiving the highest remuneration.

	Position held during year ended 30 June 2011	Contract details (duration & termination)
T R Winters	Independent Non Executive Director	No fixed term.
J A Brennan	Independent Non Executive Director	No fixed term.
J M Burton	Independent Non Executive Director	No fixed term.
D P J Stewart	Managing Director	12 month contract automatically renewed. 12 months notice required to terminate. Entitled to 12 months gross salary upon termination.
K J P Sheridan	Executive Director/Finance Director	Standard employment agreement. 2 months notice required to terminate. Entitled to 2 months gross salary upon termination. In the event of a change of control in NetComm Ltd, this notice period is increased to 6 months.
S Collins	Head of Product Development	Standard employment agreement. 2 weeks notice required to terminate. Entitled to 2 weeks gross salary upon termination.
M Kinna	General Manager - International Sales	Standard employment agreement. 4 weeks notice required to terminate. Entitled to 4 weeks gross salary upon termination.
D Morrison	General Manager	Standard employment agreement. 2 months notice required to terminate. Entitled to 2 months gross salary upon termination.
W Trattles	Chief Financial Officer	Standard employment agreement. 2 months notice required to terminate. Entitled to 2 months gross salary upon termination.
P Beveridge	Company Secretary	No fixed term. 1 months notice required to terminate.

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

6. Other information

a Indemnification and Insurance of Directors

All Directors of the Group, its secretaries and executive officers are entitled to be indemnified under Clause 23 of the Company's Constitution to the maximum extent permitted by law unless the liability arises out of conduct involving a lack of good faith. Since the end of the previous financial year, the Group has paid insurance premiums in respect of a directors and officers liability insurance contract against certain liabilities (subject to exclusions), for all current and former officers of the Group, including all directors named in this report, the company secretaries and executive officers of the Group, and directors and officers who have retired or relinquished their positions.

The insurance policies prohibit disclosure of the premiums paid in respect of those policies and the nature of the liabilities insured by the policies.

b Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

c Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 16 of the financial report.

d Non Audit Services

The directors are satisfied that the provision of non audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, because the nature and scope of each type of non audit service provided means that auditor independence was not compromised.

The following fees for non audit services were paid/payable to the external auditors during the year ended 30 June 2011:

	2011	2010
	\$	\$
Tax compliance services	16,735	15,255

e Corporate Governance

The Directors of NetComm Limited have always recognised the need for appropriate standards of corporate behaviour and accountability to ensure the quality of the company's financial reporting. Recent commentary and directions from Australian regulatory authorities have further emphasised this issue in the minds of investors. The Directors of NetComm Limited reaffirm their support for the principles of corporate governance and transparency and have reviewed their policies with regard to current best practice.

f Dividends

An interim franked dividend of \$0.005 per share totalling \$515,228 was paid during the year-ended 30 June 2011 (2010: \$1,040,710, unfranked).

NetComm Limited

Directors' Report For the Year Ended 30 June 2011

6. Other information (continued)

The directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

Director:



T R Winters, Chairman, Sydney
30 September 2011

Director:



D P J Stewart, Managing Director, Sydney
30 September 2011

The Board of Directors
NetComm Limited
Level 2, 18 - 20 Orion Road
Lane Cove NSW 2066

Dear Board Members

NetComm Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of NetComm Limited.

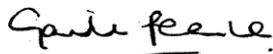
As lead audit partner for the audit of the financial statements of NetComm Limited for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



Deloitte Touche Tohmatsu



Gaile Pearce

Partner

Chartered Accountants

Sydney, 30 September 2011

NetComm Limited

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30 June 2011

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Consolidated statement of comprehensive income For the year ended 30 June 2011

	Note	2011 \$	2010 \$
Continuing Operations			
Revenue from the sale of goods	2	67,679,278	55,201,037
Other income	2	35,285	63,403
Change in inventories		(5,147,029)	2,250,046
Raw materials consumed		(41,707,878)	(39,587,701)
Employee benefits		(7,953,872)	(7,484,280)
Other expenses	3	(7,763,779)	(5,997,828)
Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding significant one off items		5,142,005	4,444,677
Significant one off item: Write down of inventories relating to Services Business		(2,500,000)	-
Earnings before interest, tax, depreciation and amortisation (EBITDA)		2,642,005	4,444,677
Depreciation and amortisation expense	3	(2,563,495)	(1,846,290)
Finance costs	3	(475,246)	(304,183)
(Loss)/Profit before income tax		(396,736)	2,294,204
Income tax expense	4	(805,411)	(669,216)
(Loss)/Profit for the year		(1,202,147)	1,624,988
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(51,209)	17,885
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income for the year (net of tax)		(51,209)	17,885
Total comprehensive income for the year		(1,253,356)	1,642,873
Total profit attributable to equity holders of the parent		(1,202,147)	1,624,988
Total comprehensive (loss)/income attributable to equity holders of the parent		(1,253,356)	1,642,873
Earnings per share:			
From continuing operations			
Basic (loss)/earnings per share (cents per share)	26	(1.17)	1.58
Diluted (loss)/earnings per share (cents per share)	26	(1.17)	1.56

NetComm Limited

Consolidated statement of financial position
30 June 2011

	Note	2011 \$	2010 \$
ASSETS			
Current assets			
Cash and cash equivalents	6	5,341,751	4,250,948
Trade and other receivables	7	10,466,266	8,258,968
Inventories	8	6,704,900	10,233,328
Other current assets	9	187,480	329,656
Total current assets		22,700,397	23,072,900
Non-current assets			
Property, plant and equipment	10	2,004,552	1,373,485
Deferred tax assets	4 (c)	1,958,678	2,180,308
Goodwill	11	895,999	895,999
Other intangible assets	12	3,191,076	3,846,240
Other non-current inventories	8	529,079	2,924,072
Total non-current assets		8,579,384	11,220,104
TOTAL ASSETS		31,279,781	34,293,004
LIABILITIES			
Current liabilities			
Trade and other payables	13	8,980,014	9,917,401
Borrowings	14	5,531,999	5,666,744
Short term provisions	15	1,178,058	1,713,007
Income tax liability		-	103,285
Other current liabilities	16	211,262	212,573
Total current liabilities		15,901,333	17,613,010
Non-current liabilities			
Long term borrowings	14	443,467	183,581
Long term provisions	15	94,334	99,525
Total non-current liabilities		537,801	283,105
TOTAL LIABILITIES		16,439,134	17,896,115
NET ASSETS		14,840,647	16,396,889
EQUITY			
Issued capital	17	9,796,773	9,649,395
Reserves	18	246,628	232,872
Retained earnings		4,797,246	6,514,621
TOTAL EQUITY		14,840,647	16,396,889

NetComm Limited

Condensed consolidated statement of changes in equity For the year ended 30 June 2011

2011		Ordinary Shares	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Total
	Note	\$	\$	\$	\$	\$
Balance at 1 July 2010		9,649,395	6,514,622	(54,639)	287,511	16,396,889
(Loss) for the year		-	(1,202,147)	-	-	(1,202,147)
Exchange difference on translation of foreign operations		-	-	(51,209)	-	(51,209)
Total comprehensive income for the year		-	(1,202,147)	(51,209)	-	(1,253,356)
Contributions of equity net of transaction costs	17 (a)	133,628	-	-	-	133,628
Share buy-backs		-	-	-	-	-
Recognition of share based payments	24	-	-	-	98,851	98,851
Exercise of options		13,750	-	-	(10,408)	3,342
Expiry of options	17 (a)	-	-	-	(23,478)	(23,478)
Payment of dividends	5	-	(515,228)	-	-	(515,228)
Balance at 30 June 2011		9,796,773	4,797,246	(105,848)	352,476	14,840,647
2010		Ordinary Shares	Retained Earnings	Foreign Currency Translation Reserve	Option Reserve	Total
	Note	\$	\$	\$	\$	\$
Balance at 1 July 2009		9,656,257	5,930,344	(72,524)	361,716	15,875,793
Profit for the year		-	1,624,988	-	-	1,624,988
Exchange difference on translation of foreign operations		-	-	17,885	-	17,885
Total comprehensive income for the year		-	1,624,988	17,885	-	1,642,873
Contributions of equity net of transaction costs	17 (a)	277,343	-	-	-	277,343
Share buy-backs		(654,700)	-	-	-	(654,700)
Recognition of share based payments	24	-	-	-	312,606	312,606
Transfer from options reserve		370,495	-	-	(370,495)	-
Expiry of options		-	-	-	(16,316)	(16,316)
Payment of dividends	5	-	(1,040,710)	-	-	(1,040,710)
Balance at 30 June 2010		9,649,395	6,514,622	(54,639)	287,511	16,396,889

The accompanying notes form part of and are to be read in conjunction with this financial statement

NetComm Limited

Condensed consolidated statement of cash flows For the year ended 30 June 2011

	Note	2011 \$	2010 \$
Cash flows from operating activities:			
Receipts from customers		71,896,759	56,367,608
Payments to suppliers and employees		(66,811,754)	(55,047,476)
Finance costs paid		(475,246)	(304,183)
Income taxes paid		(687,066)	(412,179)
Net cash provided by operating activities	21	3,922,693	603,770
Cash flows from investing activities:			
Proceeds from sale of plant and equipment		7,150	86,934
Interest received		31,588	14,465
Acquisition of property, plant and equipment		(1,009,301)	(768,051)
Acquisition of intangible assets		(1,443,617)	(2,047,674)
Acquisition of subsidiaries		(175,000)	(1,056,311)
Net cash used in investing activities		(2,589,180)	(3,770,637)
Cash flows from financing activities:			
Proceeds from issue of shares		147,378	277,343
Payment for share buy-back		-	(654,700)
Proceeds from borrowings		51,935,887	31,405,997
Repayment of borrowings		(51,810,747)	(27,332,250)
Dividends paid	5	(515,228)	(1,040,710)
Net cash (used in) / provided by financing activities		(242,710)	2,655,680
Net increase/(decrease) in cash and cash equivalents held		1,090,803	(511,187)
Cash and cash equivalents at beginning of financial year		4,250,948	4,762,135
Cash and cash equivalents at end of financial year	6	5,341,751	4,250,948

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies

General information

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements cover the consolidated Group of NetComm Limited (“the Group” or the “consolidated entity”). NetComm Limited is a listed public company, incorporated and domiciled in Australia.

Accounting Standards include Australian equivalents to International Financial Reporting Standards (“A-IFRS”). Compliance with AIFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards (“IFRS”).

The financial statements were authorised for issue by the directors on 30 September 2011.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Critical accounting judgements and key sources of uncertainty

In the application of the Group’s accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects current and future periods. Refer to note 1(w) for a discussion of critical judgements in applying the entity’s accounting policies, and key sources of estimation uncertainty.

Adoption of new and revised Accounting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

Adoption of new and revised Accounting Standards (continued)

Standards affecting presentation and disclosure

Amendments to AASB 107 'Statement of Cash Flows'

The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 Intangible Assets for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows.

Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011)

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Amendments to AASB 7 'Financial Instruments: Disclosure' (adopted in advance of effective date of 1 January 2011)

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

Adoption of new and revised Accounting Standards (continued)

Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'

Except for the amendment to AASB 107 described earlier in this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.

AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share based Payment transactions'

The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues'

The application of AASB 2009-10 makes amendments to AASB 132 'Financial Instruments: Presentation' to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments.

AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'

The application of AASB 2010-3 makes amendments to AASB 3(2008) 'Business Combinations' to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards.

In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 'Share-based Payment' at the acquisition date ('market-based measure').

AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'

Except for the amendments to AASB 7 and AASB 101 described earlier in this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

Adoption of new and revised Accounting Standards (continued)

Standards and Interpretations adopted with no effect on financial statements (continued)

Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'

This Interpretation provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular, the equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss. To date, the Group has not entered into transactions of this nature.

Amendments to AASB 5 'Noncurrent Assets Held for Sale and Discontinued Operations'

Disclosures in these financial statements have been modified to reflect the clarification in AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' that the disclosure requirements in Standards other than AASB 5 do not generally apply to noncurrent assets classified as held for sale and discontinued operations.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of NetComm Limited as at 30 June 2011 and the results of all subsidiaries for the year then ended.

A subsidiary is an entity over which NetComm Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of subsidiaries is contained in Note 30(d) to the financial statements. All subsidiaries have a 30 June financial year end.

All intercompany balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Subsidiaries are fully consolidated from the date which control is transferred to the Group. They are deconsolidated from the date control ceases.

Non-controlling interest in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(b) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in the profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(c) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(c) Foreign currency transactions and balances (continued)

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- all resulting exchange differences shall be recognised in other comprehensive income and as a separate component of equity.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed. Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

(d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority or it is recognised as part of the cost of acquisition of an asset or part of an item of expenses.

Receivables and payables in the statement of financial position are shown inclusive of GST and the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(e) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the balance date.

Deferred tax is accounted for in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(e) Income Tax (continued)

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(f) Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods, including communications and networking devices, are recognised at the time goods are dispatched to customers.

Revenue from a contract to provide services is recognised on a pro-rata basis over the term of the service agreement.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(g) Share-based Payments

Equity settled compensation benefits are provided to employees via the Employee Option Plan. Information relating to this scheme is set out in note 24.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Binomial Approximation option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(g) Share-based Payments (continued)

The fair value of the options granted excludes the impact of any non market vesting conditions. Non market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance date, the entity revises its estimate of the number of options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate. Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

Equity-settled share based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(h) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses. Cost includes all directly attributable expenditure incurred including costs to get the asset ready for its use as intended by management. Costs include an estimate of any expenditure expected to be incurred at the end of the asset's useful life, including restoration, rehabilitation and decommissioning costs.

The carrying amount of property, plant and equipment is reviewed annually by directors for indications of impairment. If any such indications exist, an impairment test is carried out, and any impairment losses on the assets recognised.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciable amount is the carrying value of the asset less estimated residual amounts. The residual amount is based on what a similar asset of the expected condition of the asset at the end of its useful life could be sold for.

The depreciation rates used for each class of depreciable assets are:

Class of Asset	Useful life
Plant and equipment	2-4 years
Leasehold improvements	6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(i) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised in profit or loss. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. Impairment of goodwill is not reversed.

(j) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. The interest expense is recognised in the profit or loss so as to achieve a constant periodic rate of interest on the remaining balance of the liability outstanding.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are recognised in profit or loss on a straight line basis over the lease term. Contingent rentals are recognised as an expense in the period in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(k) Derivative Financial Instruments

The fair value of all derivative financial instruments outstanding at reporting date are recognised in the statement of financial position as either financial assets or financial liabilities. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity, with any ineffective portion being recognised in profit or loss.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

Derivatives embedded in other financial instruments, or other non financial host contracts, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

(l) Financial Assets

Financial assets are classified into the following specified category: 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate.

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

(m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, deposits held at call with banks and financial institutions, investments in money market instruments with maturities of three months or less from the date of acquisition, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the statement of financial position.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(n) Inventories

Finished goods and raw materials are valued at the lower of cost and net realisable value. Cost is the direct cost of purchase, plus freight and duty and any other costs directly attributable to acquisition. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Inventory is recognised on a weighted average cost basis.

(o) Intangibles

Research and development costs

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will generate future benefits considering its commercial and technical feasibility and its cost can be measured reliably. The expenditure capitalised consists of all directly attributable costs. Capitalised development costs are amortised from the point at which the product is ready for use but no longer than 3 years.

Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortisation and impairment costs.

Computer software

Computer software is measured on the cost basis less amortisation and impairment losses. Computer software is amortised on a straight line basis over 3.3 years, commencing from the time the software is ready for use.

(p) Borrowing Costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date, including wages and salaries, annual leave and long service leave. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on costs. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Group to employee superannuation funds which are of the defined contribution type. Contributions to these defined contribution superannuation schemes are recognised as an expense in the period they are payable.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(r) Financial instruments issued by the group

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of:

- The amount of the obligation under the contract, as determined under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- The amount initially recognised less, where appropriate, cumulative amortisation in accordance with the Group's revenue recognition policies.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised in an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

(s) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(t) Earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(u) Dividends

A liability is recorded for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of financial year but not distributed at balance date.

(v) Standards and Interpretations issued not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 9 <i>Financial Instruments</i> , AASB 2009-11 and AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	1 January 2013	30 June 2014
• AASB 124 <i>Related Party Disclosures (2009)</i> , AASB 2009-12 <i>Amendments to Australian Accounting Standards</i>	1 January 2011	30 June 2012
• AASB 2010-5 <i>Amendments to Australian Accounting Standards</i>	1 January 2011	30 June 2012
• AASB 2010-6 <i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	1 July 2011	30 June 2012
• AASB 2010-8 <i>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets</i>	1 January 2012	30 June 2013
• AASB 1054 <i>Australian Additional Disclosures</i>	1 July 2011	30 June 2012
• AASB 2011-5 <i>Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation</i>	1 July 2011	30 June 2012
• AASB 10 <i>Consolidated Financial Statements</i>	1 January 2013	30 June 2014
• AASB 13 <i>Fair Value Measurement</i>	1 January 2013	30 June 2014
• AASB 119 <i>Employee Benefits</i>	1 January 2013	30 June 2014
• AASB 127 <i>Separate Financial Statements (2011)</i>	1 January 2013	30 June 2014
• AASB 128 <i>Investments in Associates and Joint Ventures</i>	1 January 2013	30 June 2014
• AASB 2011-7 <i>Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards</i>	1 January 2013	30 June 2014
• AASB 2011-8 <i>Amendments to Australian Accounting Standards arising from AASB 13</i>	1 January 2013	30 June 2014
• AASB 2011-9 <i>Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income</i>	1 July 2012	30 June 2013

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(w) Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and based on current trends and economic data, obtained both externally and within the Group.

The following are the critical judgements (apart from those involving estimations, which are dealt with below) that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Inventories

Note 8 sets out the categories of inventories carried. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less costs to sell. The key assumptions require the use of management judgement and are reviewed annually. These key assumptions are the variables affecting the estimated costs to sell and expected selling price. Any reassessment of cost to sell or selling price in a particular year will affect the cost of goods sold.

Management have written down NetAssure inventories to their estimated net realisable value based on their expectation of future sales. This involves significant judgement.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Fair value of goods acquired

In the prior year, the Group acquired goods in exchange for consideration paid in cash and in equity. Estimating the fair value of the goods acquired, and therefore the value of the component of consideration recognised in equity, required the use of management judgement. Refer to note 8 for further details.

Impairment of assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Deferred Tax Asset

In the prior year, the Group recognised tax losses which had not previously been brought to account. Tax losses have been booked to the extent that the Group considers it probable of recoupment with reference to taxable income forecasts. Taxable income forecasts incorporate a number of key judgements and estimates. Refer to note 4 for further details.

NetComm Limited

Notes to the financial statements For the Year Ended 30 June 2011

1 Statement of Significant Accounting Policies (continued)

(w) Critical accounting estimates and judgements (continued)

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(x) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition. Goodwill is subsequently measured at its cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to the other assets of the cash generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

2 Revenue and other income

	2011 \$	2010 \$
Revenue		
Sales revenue	67,679,278	55,201,037
	<u>67,679,278</u>	<u>55,201,037</u>
Other income		
Interest revenue	31,588	14,465
Other revenue	3,697	48,938
	<u>35,285</u>	<u>63,403</u>
Total revenue and other income	<u>67,714,563</u>	<u>55,264,440</u>

3 Expenses

Included in expenses are the following specific items

	2011 \$	2010 \$
Other expenses comprising:		
Advertising and marketing	1,038,133	858,872
Property expenses	998,515	614,252
Distribution and selling costs	892,944	899,137
Insurance expenses	257,261	221,697
Legal & professional fees	670,804	580,865
Travel expenses	786,624	728,435
Contractor costs	1,075,348	628,340
Other expenses	2,044,150	1,466,230
	<u>7,763,779</u>	<u>5,997,828</u>

Depreciation, amortisation and impairments:

Depreciation of property, plant and equipment (note 10(b))	462,907	332,213
Amortisation of intangible assets (note 12(b))	2,100,588	1,514,077
	<u>2,563,495</u>	<u>1,846,290</u>

Remuneration of parent company auditor:

Auditing or reviewing the financial statements	119,935	127,943
Taxation services	16,735	15,255
	<u>136,670</u>	<u>143,198</u>

The auditor of the Group is Deloitte Touche Tohmatsu.

	2011 \$	2010 \$
Other auditors		
Taxation services	2,700	5,400
Other assurance services	15,500	11,000
	<u>18,200</u>	<u>16,400</u>

Rental expenses on operating leases

Minimum lease payments	615,856	494,349
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Finance Costs

Trade finance and deferred acquisitions	428,366	279,093
Finance leases	46,880	25,090
	<u>475,246</u>	<u>304,183</u>

Cost of sales	46,854,907	37,337,655
Impairment/(reversal) of doubtful receivables	114,987	(70,770)
Defined contribution superannuation expenses	566,780	521,513
Loss on sale of property, plant and equipment	1,277	1,785
Research & development costs	923,673	68,213
Share-based payments - equity settled benefit	89,123	296,290

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

4 Income tax expense

(a) Income tax recognised in profit or loss

	2011 \$	2010 \$
Tax expense comprises		
Current tax expense	265,812	342,673
Deferred tax expense relating to the origination and reversal of temporary differences	221,630	313,128
Under provision for tax in prior year	317,970	13,415
Benefit arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce deferred tax expense	-	-
Total tax expense	<u>805,412</u>	<u>669,216</u>

The nature of the evidence supporting the recognition of tax losses incurred in prior periods includes forecast taxable income that is expected to arise in the next 2 years as a result of new supply and distribution agreements entered into by the Group in prior years.

Tax losses arising from the reversal of timing differences recognised in the year are also expected to be recouped against forecast taxable income.

(b) The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2011 \$	2010 \$
Net (loss)/profit before tax	(396,736)	2,294,204
Tax at the Australian tax rate of 30%	(119,021)	688,261
- Share based payments	19,490	88,887
- Entertainment	13,216	10,519
- Research and development	-	(131,866)
- Other	(51,862)	-
- Write down of inventories relating to services business	480,000	-
- Non-deductible amortisation of intangibles	244,202	-
- Benefit from previously unrecognised tax losses or temporary differences of a prior period applied in the current period	(98,582)	-
- Under provision for tax in prior year	317,970	13,415
Income tax expense	<u>805,412</u>	<u>669,216</u>

(c) Deferred tax assets arise from the following:

	Opening balance \$	Charged to expense \$	Closing balance \$
2011			
Unused tax losses	1,143,299	564,073	1,707,372
Temporary differences			
Accrued expenses	60,815	(16,615)	44,200
Provisions	430,611	(87,194)	343,417
Inventory	224,995	18,369	243,364
Other	320,588	(700,263)	(379,675)
	<u>2,180,308</u>	<u>(221,630)</u>	<u>1,958,678</u>
2010			
Unused tax losses	2,114,207	(970,908)	1,143,299
Temporary differences			
Accrued expenses	106,197	(45,382)	60,815
Provisions	217,205	213,406	430,611
Inventory	104,001	120,994	224,995
Other	(48,174)	368,762	320,588
	<u>2,493,436</u>	<u>(313,128)</u>	<u>2,180,308</u>

The directors believe the future income tax benefit should only be recognised if and when:

- (i) Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) The conditions for deductibility imposed by tax legislation are complied with; and
- (iii) No changes in tax legislation adversely affect the consolidated entity's ability to realise the benefits.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

4 Income tax expense (continued)

- (d) Future income tax benefits arising from tax losses not brought to account at balance date as realisation of the benefit is not regarded as probable.

	2011 \$	2010 \$
Capital losses at 30% (2010: 30%)	-	170,904
	<u>-</u>	<u>170,904</u>

5 Dividends

An interim franked dividend of \$0.005 per share was paid during the year-ended 30 June 2011 (2010: \$0.01, unfranked).

- (a) Balance of franking account

	2011 \$	2010 \$
Balance of franking account at period end adjusted for franking credits arising from dividends recognised as receivables, and franking debits arising from payment of proposed dividends, and franking credits that may be prevented from distribution in subsequent financial years	536,257	318,850
	<u>536,257</u>	<u>318,850</u>

6 Cash and cash equivalents

- (a) Cash on hand

	2011 \$	2010 \$
Cash on hand	1,228	1,583
Cash at bank (i)	5,340,523	4,249,365
	<u>5,341,751</u>	<u>4,250,948</u>

(i) \$693,820 (2010: \$327,666) of cash is used as security for bank guarantees given to customers and suppliers in the ordinary course of business

- (b) Effective interest rate

These funds are bearing floating interest rates of between 0.05% and 1% (2010: 0.03% to 1.0%).

	2011 \$	2010 \$
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	5,341,751	4,250,948
	<u>5,341,751</u>	<u>4,250,948</u>

7 Trade and other receivables

	2011 \$	2010 \$
Trade receivables (i)	10,611,810	8,368,033
Allowance for doubtful debts	(145,544)	(109,065)
	<u>10,466,266</u>	<u>8,258,968</u>

- (i) The average credit period on sales of goods and rendering of services is 30 days, although a few customers have 45 day terms. No interest is charged on overdue receivables. An allowance has been made for estimated unrecoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience. The Group will also consider any change in the quality of the trade receivable from the date credit was initially granted up to the reporting date.

Before accepting any new customers, the Group will obtain third party references to assess the potential customer's credit quality and define the credit limits by customer. Included in the Group's trade receivable balance are debtors with a carrying amount of \$3,262,259 (2010: \$1,620,185) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 53 days (2010: 47 days).

Aging of past due but not impaired

	2011 \$	2010 \$
30 - 60 days	2,876,167	1,559,102
60 - 90 days	68,152	43,966
90+ days	317,940	17,117
	<u>3,262,259</u>	<u>1,620,185</u>

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

7 Trade and other receivables (continued)

Movement in the allowance for doubtful debts

	2011 \$	2010 \$
Balance at the beginning of the year	109,065	181,453
Increase/(decrease) in allowance for impairment	114,987	(70,770)
Amounts written off as uncollectible	(78,508)	(1,618)
Balance at the end of the year	<u>145,544</u>	<u>109,065</u>

Aging of impaired receivables

	2011 \$	2010 \$
30 - 60 days	-	-
60 - 90 days	-	-
90+ days	145,544	109,065
	<u>145,544</u>	<u>109,065</u>

8 Inventories

Current

	2011 \$	2010 \$
Raw materials and stores	169,540	277,208
Finished goods	5,930,034	9,072,076
NetAssure inventories - components	263,700	371,168
Goods in transit	341,626	512,876
	<u>6,704,900</u>	<u>10,233,328</u>

Non - Current

NetAssure inventories - components	<u>529,079</u>	<u>2,924,072</u>
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Total Inventories

	<u>7,233,979</u>	<u>13,157,400</u>
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9 Other assets

	2011 \$	2010 \$
Prepayments	183,272	70,439
Deposits and bonds	4,208	259,217
	<u>187,480</u>	<u>329,656</u>

10 Property, Plant and Equipment

(a) Summary of Property, plant and equipment

	2011 \$	2010 \$
Plant and equipment		
At cost	3,619,695	3,243,890
Less accumulated depreciation	(2,384,013)	(2,171,531)
Total plant and equipment	<u>1,235,682</u>	<u>1,072,359</u>
Leased plant and equipment		
At cost	931,487	339,750
Less accumulated amortisation	(234,031)	(98,789)
Total leased plant and equipment	<u>697,456</u>	<u>240,961</u>
Leasehold improvements		
At cost	226,741	193,420
Less accumulated amortisation	(155,327)	(133,254)
Total leasehold improvements	<u>71,414</u>	<u>60,166</u>
Total property, plant and equipment	<u>2,004,552</u>	<u>1,373,485</u>

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

10 Property, Plant and Equipment (continued)

(b) Movements in carrying amounts

	Plant and equipment \$	Leased plant and equipment \$	Leasehold improvements \$	Total \$
2011				
Balance at the beginning of the year	1,072,358	240,961	60,166	1,373,485
Additions	480,149	592,407	33,871	1,106,427
Disposals	(10,263)	-	-	(10,263)
Net foreign currency translation differences	(1,421)	(302)	(467)	(2,189)
Depreciation expenses	(305,141)	(135,610)	(22,156)	(462,908)
Carrying amount at the end of the year	1,235,682	697,456	71,414	2,004,552
2010				
Balance at the beginning of the year	571,662	317,218	62,040	950,920
Additions	749,428	-	18,622	768,050
Disposals	(6,228)	(7,252)	-	(13,480)
Net foreign currency translation differences	169	42	(2)	209
Depreciation expenses	(242,673)	(69,047)	(20,493)	(332,213)
Carrying amount at the end of the year	1,072,358	240,961	60,166	1,373,485

11 Goodwill

	2011 \$	2010 \$
Gross carrying amount		
Balance at beginning of financial year	895,999	840,101
Reassessment of goodwill post acquisition	-	55,898
Balance at end of financial year	<u>895,999</u>	<u>895,999</u>

Net book value

At the beginning of the financial year	895,999	840,101
At the end of the financial year	<u>895,999</u>	<u>895,999</u>

Goodwill has been allocated as follows:

	2011 \$	2010 \$
Call Direct Cellular Solutions 2003 Pty Limited	766,023	766,023
C10 Communications Pty Limited	129,976	129,976
	<u>895,999</u>	<u>895,999</u>

All Goodwill has arisen from acquisitions made during prior financial years.

During the financial year, the Group assessed the recoverable amount of goodwill by applying a value in use model for each identified cash generating unit. It was determined that goodwill associated with the Group's activities was not impaired and there was no other circumstances in the performance of acquired entities indicating impairment. Both businesses have continued to operate and perform in accordance with the expectations of the Group. Goodwill has been allocated for impairment testing purposes to the following cash-generating units representing the goodwill that arose in the acquisition of each business: Call Direct Cellular Solutions 2003 Pty Limited; and C10 Communications Pty Limited.

Call Direct Cellular Solutions 2003 Pty Limited

The primary assumptions underlying the cash flow projections include revenue growth in excess of 100% in FY2012 due to increased focus on M2M wireless opportunities, followed by a modest revenue growth of 4-6% for the following two years.

C10 Communications Pty Limited

The primary assumptions underlying the cash flow projections include flat to modest revenue growth of 1% for FY2012 and 0% for the next two years.

The forecasted future cash flows for both cash-generating units are discounted by the pre-tax weighted average cost of capital of Netcomm Limited of 12% (2010: 12%).

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

12 Other intangible assets

(a) Summary of intangible assets

	2011 \$	2010 \$
Product Development costs		
Cost	4,529,029	3,111,010
Accumulated amortisation	(2,005,963)	(830,453)
Net carrying value	<u>2,523,065</u>	<u>2,280,557</u>
Computer software		
Cost	781,093	771,077
Accumulated amortisation	(656,331)	(547,727)
Net carrying amount	<u>124,762</u>	<u>223,350</u>
Other intangibles		
Cost	2,457,580	2,442,000
Accumulated amortisation	(1,914,333)	(1,099,667)
Net carrying amount	<u>543,247</u>	<u>1,342,333</u>
Total	<u><u>3,191,074</u></u>	<u><u>3,846,240</u></u>

(b) Movements in carrying amounts

	Product Development costs \$	Computer software \$	Other intangibles \$	Total \$
2011				
Balance at the beginning of the year	2,280,557	223,350	1,342,333	3,846,240
Additions	1,418,018	12,800	15,580	1,446,398
Disposals	-	-	-	-
Net foreign currency translation differences	-	(975)	-	(975)
Amortisation	(1,175,510)	(110,413)	(814,666)	(2,100,590)
Carrying amount at year end	<u>2,523,065</u>	<u>124,762</u>	<u>543,247</u>	<u>3,191,074</u>
2010				
Balance at the beginning of the year	970,876	297,471	2,175,374	3,443,721
Additions	1,866,166	125,720	-	1,991,886
Disposals	-	(75,240)	-	(75,240)
Net foreign currency translation differences	-	(50)	-	(50)
Amortisation	(556,485)	(124,551)	(833,041)	(1,514,077)
Carrying amount at year end	<u>2,280,557</u>	<u>223,350</u>	<u>1,342,333</u>	<u>3,846,240</u>

13 Trade and other payables

	2011 \$	2010 \$
Current unsecured liabilities		
Trade payables (i)	4,505,195	6,231,456
Sundry payables and accrued expenses	2,369,989	1,130,436
Letter of credit (ii)	2,104,830	2,555,509
Total current trade and other payables	<u><u>8,980,014</u></u>	<u><u>9,917,401</u></u>

- (i) The average credit period on purchases of certain goods from various Asian countries is 30 days, although some request payment in advance of shipment. No interest is charged on overdue payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.
- (ii) The letter of credit facility is secured by a mortgage debenture with a fixed and floating charge over all assets and liabilities of NetComm Limited.

14 Borrowings

	2011 \$	2010 \$
Current - Secured		
Finance lease	308,966	96,361
Trade receivable finance	-	539,843
Trade refinance	5,223,033	5,030,540
	<u>5,531,999</u>	<u>5,666,744</u>
Non-Current - Secured		
Finance lease	443,467	183,581
Total borrowings	<u><u>5,975,465</u></u>	<u><u>5,850,325</u></u>

The trade refinance facility is secured by a mortgage debenture with a fixed and floating charge over all assets and liabilities of NetComm Limited. The trade receivables finance facility is secured against the Group's trade receivables. The finance lease is secured against the underlying finance lease asset. Refer to Note 20 for further details of this borrowing.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

15 Provisions

	2011 \$	2010 \$
Current		
Employee entitlements	1,178,058	1,713,007
Non - current		
Employee entitlements	94,334	99,525
Total provisions	<u>1,272,392</u>	<u>1,812,532</u>

16 Other liabilities

	2011 \$	2010 \$
Current		
Deferred income - current	211,262	37,573
Deferred acquisition consideration (i)	-	175,000
	<u>211,262</u>	<u>212,573</u>

(i) Deferred acquisition consideration as at 30 June 2010 is in respect of the remaining future payments for the Call Direct Cellular Solutions 2003 Pty Limited.

17 Issued Capital

	2011 \$	2010 \$
103,757,614 (2010: 102,968,233) Ordinary shares - paid up no par value	9,796,773	9,649,395

(a) Movements in issued and paid up ordinary share capital of the company

	2011 No.	2010 No.	2011 \$	2010 \$
At the beginning of the reporting period	102,968,233	103,142,267	9,649,395	9,656,257
Shares issued during the year				
30 Oct 2009 (i)		271,224	-	100,110
15 Apr 2011 (i)	656,881		133,628	-
Shares purchased under share buy-back scheme	-	2,555,878	-	654,700
Exercise of Options	132,500	2,110,620	13,750	547,728
At reporting date	<u>103,757,614</u>	<u>102,968,233</u>	<u>9,796,773</u>	<u>9,649,395</u>

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value. Ordinary shares confer on their holders the right to participate in dividends and/or capital returns declared by the board and an entitlement to vote at any general meeting of the company.

(i) This represents shares issued under the dividend reinvestment plan.

18 Reserves

(a) Movements in share option reserve

	2011 \$	2010 \$
Balance at the beginning of the year	287,511	361,716
Recognition of share based payments	98,851	312,606
Exercise of options	(10,408)	(370,495)
Expiry of options	(23,478)	(16,316)
Balance at the end of the year	<u>352,476</u>	<u>287,511</u>

The option reserve is used to recognise the fair value of options issued but not exercised.

(b) Movements in foreign exchange reserve

	2011 \$	2010 \$
Balance at the beginning of the year	(54,639)	(72,524)
Exchange difference on translation of foreign operations	(51,209)	17,885
Balance at the end of the year	<u>(105,848)</u>	<u>(54,639)</u>

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve. The reserve is recognised in profit or loss when the net investment is disposed of.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

19 Contingent liabilities

There were no contingent liabilities as at 30 June 2011 (2010 : Nil)

20 Expenditure commitments

Non-cancellable operating lease commitments

	2011	2010
	\$	\$
Not longer than 1 year	629,870	465,630
Longer than 1 year and not longer than 5 years	1,813,698	199,165
	<u>2,443,568</u>	<u>664,795</u>

The group leases its offices in Australia and New Zealand under operating leases. Leases generally provide the right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount and in some cases an incremental contingent rental. Contingent rents are normally based on movements in the CPI or market reviews. In the current year, the Parent signed a new 5 year lease for its Head Office premises in Lane Cove and also renewed the lease on its Melbourne premises.

Finance lease liabilities

	2011	2010
	\$	\$
Not longer than 1 year	340,044	96,744
Longer than 1 year and not longer than 5 years	476,904	198,968
Minimum future lease payments	816,948	295,712
Less future finance charges	(64,515)	(15,770)
Present value of minimum lease payments	<u>752,433</u>	<u>279,942</u>
Included in the financial statements:		
Current borrowings (note 14)	308,966	96,361
Non - current borrowings (note 14)	443,467	183,581
	<u>752,433</u>	<u>279,942</u>

Finance leases relate to plant and equipment. The Group has the option to purchase the plant and equipment at the conclusion of the lease arrangements. The Group's obligation under finance leases are secured by the lessor's title to the leased assets.

Commitments for the acquisition of property, plant and equipment by the parent entity

There are no commitments for the acquisition of property, plant and equipment outstanding at the year end.

21 Cash flow information

Reconciliation of cash flow from operations with profit after income tax

	2011	2010
	\$	\$
(Loss)/Profit for the year	(1,202,147)	1,624,988
Non-cash flows in profit		
Depreciation and amortisation	2,563,495	1,846,290
Loss on sale of property, plant and equipment	1,277	1,785
Share based payments	64,965	296,290
Interest received	(31,588)	(14,465)
Changes in operating assets and liabilities:		
(Increase) in trade and other receivable	(2,207,298)	(4,077,598)
Decrease/(increase) in inventories	5,923,421	(2,250,046)
Decrease/(increase) in other assets	142,177	(206,450)
Decrease in deferred tax assets	221,630	313,128
(Decrease)/increase in trade and other payables	(937,386)	2,992,136
Increase/(decrease) in deferred income & other liabilities	27,574	(252,037)
(Decrease)/increase in provisions	(643,425)	329,749
Net cash from operating activities	<u>3,922,694</u>	<u>603,770</u>

Non-cash financing and investing activities

Property, plant and equipment was acquired by the group by way of finance lease \$592,407 (2010: NIL)

Deferred payments arising from acquisitions recorded in other liabilities are investing related activities and thus have been excluded from this reconciliation.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

22 Key management personnel compensation

(a) Directors and other key management personnel

The directors and other members of key management personnel of the Group during the year were:

T R Winters	Independent Non Executive Chairman
D P J Stewart	Managing Director
J A Brennan	Independent Non Executive Director
J M Burton	Independent Non Executive Director
D Morrison	General Manager - Sales
K J P Sheridan	Executive Director/Finance Director
M Kinna	General Manager - International Sales (appointed 11 April 2011)
S Collins	Head of Product Development
W Trattles	Chief Financial Officer (resigned 11 March 2011)

(b) Remuneration of key management personnel

The aggregate compensation made to key management personnel of the Group is set out below:

	2011	2010
	\$	\$
Short term benefits	1,476,151	1,107,211
Post employment benefits	81,584	71,776
Other long term benefits	21,554	16,099
Termination benefits	30,000	-
Share based payments	73,106	253,863
Total	1,682,395	1,448,949

Further information on remuneration of key management personnel can be found in the remuneration report within the directors' report.

23 Related party transactions

(a) Shares held by key management personnel

	Balance 1 July	Movement during the Year - on market transactions	Balance 30 June
	No.	No.	No.
2011			
T R Winters	193,068	(193,068)	-
D P J Stewart	22,958,313	304,565	23,262,878
J A Brennan	122,795	-	122,795
J M Burton	377,795	-	377,795
W Trattles	200,183	(85,000)	115,183
K J P Sheridan	-	174,000	174,000
	23,852,154	200,497	24,052,651
2010			
T R Winters	206,250	(13,182)	193,068
D P J Stewart	22,958,313	-	22,958,313
J A Brennan	222,795	(100,000)	122,795
J M Burton	377,795	-	377,795
D Morrison	200,000	(200,000)	-
W Trattles	-	200,183	200,183
	23,965,153	(112,999)	23,852,154

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

23 Related party transactions (continued)

(b) Options held by key management personnel

The following is a list of options issued, vested and exercisable as at the end of the reporting period for key management personnel

	Balance 1 July	Granted during the year	Exercised during the year	Lapsed/Forfeited during the year	Balance 30 June
2011					
T R Winters	780,000	-	-	-	780,000
D P J Stewart	4,000,000	-	-	-	4,000,000
J A Brennan	480,000	-	-	(120,000)	360,000
J M Burton	480,000	-	-	(120,000)	360,000
D Morrison	450,000	-	-	-	450,000
W Trattles	1,870,630	-	-	(1,000,000)	870,630
	8,060,630	-	-	(1,240,000)	6,820,630
2010					
T R Winters	780,000	-	-	-	780,000
D P J Stewart	4,000,000	-	-	-	4,000,000
J A Brennan	480,000	-	-	-	480,000
J M Burton	480,000	-	-	-	480,000
D Morrison	450,000	-	-	-	450,000
W Trattles	2,000,000	-	(129,370)	-	1,870,630
	8,190,000	-	(129,370)	-	8,060,630

	Balance 30 June	Total vested	Total exercisable	Total unexercisable
2011				
T R Winters	780,000	292,500	292,500	487,500
D P J Stewart	4,000,000	1,500,000	1,500,000	2,500,000
J A Brennan	360,000	360,000	360,000	-
J M Burton	360,000	360,000	360,000	-
D Morrison	450,000	380,000	380,000	70,000
W Trattles	870,630	870,630	870,630	-
	6,820,630	3,763,130	3,763,130	3,057,500
2010				
T R Winters	780,000	195,000	195,000	585,000
D P J Stewart	4,000,000	1,000,000	1,000,000	3,000,000
J A Brennan	480,000	240,000	240,000	240,000
J M Burton	480,000	240,000	240,000	240,000
D Morrison	450,000	280,000	280,000	170,000
W Trattles	1,870,630	470,630	470,630	1,400,000
	8,060,630	2,425,630	2,425,630	5,635,000

All share options issued to key management personnel were made in accordance with the provisions of the employee share option plan. During the financial year no options (2010: 129,370) were exercised by key management personnel. Further details on the employee share option plan and share options granted during the 2011 and 2010 financial years are contained at note 24.

(c) Other transactions with key management personnel

Details of key management personnel compensation are disclosed in note 22 to the financial statements.

During the year, the following transactions and the provision of services occurred between the entity and director related entities (these transactions took place on normal commercial terms and conditions as noted below):

(d) Brad Industries Pty Limited

An entity associated with Mr D Stewart has guaranteed the rental bond of \$64,700 (2010: \$64,700) for the office premises at Unit 1, 2-6 Orion Road, Land Cove. That entity receives a fee for the provision of this guarantee amounting to \$3,055 (2010: \$3,413) which is non-contractual and invoiced quarterly.

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Notes to the Financial Statements

For the Year Ended 30 June 2011

24 Share-based Payments

Employee Option Plan

An employee share scheme was established in 1993 and current details are noted below.

The board of directors may at its discretion offer options to employees in such numbers and at such times as it thinks fit, having regard to:

- a) each employee's length of service;
- b) the contribution to the group which has been made by the employee;
- c) the potential contribution of the employee to the group; and
- d) any other matters which the board considers relevant.

Entitlement

Each option entitles the holder to subscribe for and be allotted one share in the capital of the company at the exercise price per share.

Shares issued on the exercise of options will rank *pari passu* with all existing shares in the capital of the company from the date of issue.

Vesting

Any option, except for the ones mentioned in the following paragraphs, issued to an employee in a particular year will vest in the following time periods:

- i. At the end of year 1 from the date of the relevant option issue, 30% of the option issued will vest
- ii. At the end of year 2 from the date of the relevant option issue, 20% of the option issued will vest
- iii. At the end of year 3 from the date of the relevant option issue, 30% of the option issued will vest
- iv. At the end of year 4 from the date of the relevant option issue, 20% of the option issued will vest

4,000,000 options issued in 2009 to D P J Stewart will vest in the following time periods:

- i. At the end of year 1 from the date of the relevant option issue, 25% of the option issued will vest
- ii. At the end of year 2 from the date of the relevant option issue, 25% of the option issued will vest
- iii. At the end of year 3 from the date of the relevant option issue, 50% of the option issued will vest

480,000 options issued in 2009 to each Director J A Brennan and J M Burton will vest in the following time periods:

- i. At the end of year 1 from the date of the relevant option issue, 50% of the option issued will vest
- ii. At the end of year 2 from the date of the relevant option issue, 50% of the option issued will vest

780,000 options issued in 2009 to Director T R Winters will vest in the following time periods:

- i. At the end of year 1 from the date of the relevant option issue, 25% of the option issued will vest
- ii. At the end of year 2 from the date of the relevant option issue, 25% of the option issued will vest
- iii. At the end of year 3 from the date of the relevant option issue, 50% of the option issued will vest

Vesting of 4,000,000 options issued to D P J Stewart and 1,740,000 options issued in 2009 to non-executive directors is subject to the following preconditions:

- i. At the end of year 1, 50% of the options are available to vest if the market share price is on or above \$0.199 and 50% of the options are available to vest if EBIT is at or in excess of \$747,423
- ii. At the end of year 2, 50% of the options are available to vest if the market share price is on or above \$0.223 and 50% of the options are available to vest if EBIT is at or in excess of \$896,918
- iii. At the end of year 3, 50% of the options are available to vest if the market share price is on or above \$0.268 and 50% of the options are available to vest if EBIT is at or in excess of \$1,076,302

Where preconditions are not met as the vesting date, the non-vested options will be added to the next vesting date where the performance hurdle will be tested again.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

24 Share-based Payments (continued)

Exercise of Options

An option may be exercised:

- i. After an option has vested in accordance with the rules outlined above, but before expiry of the option, provided the participant is at the time of exercise an employee or director of the Group.
- ii. Within 180 days:
 - Of the death, disablement or retirement of the participant; or
 - After an option has vested in accordance with the rules outlined above and the participant resigns or is retrenched.
- iii. If the Board otherwise permits it.
- iv. If any person or that person's associate has acquired or become entitled to 40% or more of the company's voting shares.

At 30 June 2011, there are 8,359,380 options (2010: 9,831,880) issued to 20 employees (2010: 25 employees) to acquire ordinary shares. These options progressively vest on an annual basis commencing 12 months from the date of issue, details as follows:

2011	Number of Options	Exercise Price \$	Expiry Date	Number of Options Exercisable
				30 June 2011
	430,000	0.090	24-Aug-11	430,000
	606,250	0.064	26-Apr-12	606,250
	50,000	0.060	19-Jul-12	40,000
	245,000	0.070	17-Dec-12	196,000
	157,500	0.075	27-Feb-13	126,000
	100,000	0.071	03-Mar-13	100,000
	200,000	0.185	31-Jul-13	100,000
	470,630	0.143	27-Oct-13	470,630
	400,000	0.143	27-Oct-13	400,000
	100,000	0.162	10-Dec-13	50,000
	100,000	0.113	12-Feb-14	50,000
	1,675,000	0.162	30-Oct-13	1,675,000
	1,435,000	0.162	30-Oct-13	837,500
	2,390,000	0.162	30-Oct-13	-
	8,359,380			5,081,380
				30 June 2010
2010	430,000	0.09	24-Aug-11	300,000
	643,750	0.064	26-Apr-12	492,750
	50,000	0.06	19-Jul-12	25,000
	290,000	0.07	17-Dec-12	65,000
	157,500	0.075	27-Feb-13	45,000
	100,000	0.071	03-Mar-13	50,000
	200,000	0.185	31-Jul-13	60,000
	50,000	0.164	19-Aug-13	15,000
	470,630	0.143	27-Oct-13	470,630
	400,000	0.143	27-Oct-13	-
	600,000	0.143	27-Oct-13	-
	400,000	0.143	27-Oct-13	-
	100,000	0.162	10-Dec-13	30,000
	100,000	0.113	12-Feb-14	30,000
	100,000	0.15	15-Jul-14	-
	1,675,000	0.162	30-Oct-13	1,675,000
	1,675,000	0.162	30-Oct-13	-
	2,390,000	0.162	30-Oct-13	-
	9,831,880			3,258,380

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Notes to the Financial Statements

For the Year Ended 30 June 2011

24 Share-based Payments (continued)

Exercise of Options (continued)

1,340,000 (2010: 165,000) options issued to employees expired during the financial year in accordance with the rules of the Share Option Plan.

No new options were issued during the year. In 2010, 725,000 new options were issued in accordance with the rules of the Share Option Plan during the year. The weighted average fair value of options granted last year was \$0.011.

There were options of 132,500 (2010: 610,620) exercised during the year ended 30 June 2011.

The 8,359,380 (2010: 9,831,880) options outstanding at 30 June 2011 have a weighted average exercise price of \$0.143 (2010: \$0.141) and a weighted average remaining contractual life of 3.46 years (2010: 3.91 years). Exercise prices range from \$0.06 to \$0.19 in respect of options outstanding at 30 June 2011.

Subsequent to year end 461,250 (2010: 77,500) options were exercised by employees.

In December 2008 and February 2009 NetComm issued 1,000,000 share options on each date to the Logged On Group. The options vest in 12 months, expire in 5 years, have a pre-condition market share price of \$0.36 and \$0.48 respectively and an exercise price of \$0.162 and \$0.113 respectively. The options were part of a share based remuneration package, and Logged On Group was engaged to assist NetComm in business development. These options have lapsed as at 30 June 2011.

In May 2009 NetComm issued 425,000 share options to SME Business Growth Consulting Pty Limited. The options expire in 4 years and vest as follows: 30% at the end of year 1 from the date of issue; 20% at the end of year 2 from the date of issue; 30% at the end of year 3 from the date of issue and 20% at the end of year 4 from the date of issue. The exercise price for 225,000 of these share options is \$0.075, \$0.162 for 100,000 share options, and \$0.113 for the remaining 100,000 share options. The options were part of a remuneration package, and SME was engaged to assist NetComm in business development. No options have been exercised during the year ended 30 June 2011, whereas 67,500 options were exercised in 2010.

Valuations of Options

The fair value at grant date of all options is independently determined using the Binomial Approximation pricing model.

- (a) Options are granted in accordance with the terms of the Employee Option Plan (refer above for detail),
- (b) The expected price volatility is based on a daily closing share price for NetComm Limited over the 12 months immediately prior to date of grant: 43.67% (2010: 43.67%),
- (c) The risk free interest rate is based on the 5 year Commonwealth Bond rate on date of issue: N/A (2010: 5.16%),
- (d) The expected dividend yield is based on the dividends received by shareholders of NetComm Limited during the 12 months prior to date of grant: 0% (2010: 0%).

\$75,373 (2010: \$296,290) has been recognised as a share based payments expense for the year ended 30 June 2011.

25 Retirement Benefit Obligations

Superannuation Commitments

The Group provides employees with access to external superannuation plans that provide benefits on retirement, resignation, disability or death. This is a defined contribution plan.

26 Earnings per Share

	2011	2010
	\$	\$
(Loss)/Earnings reconciliation		
Net (loss)/profit for the year	(1,202,147)	1,624,988
Basic and diluted earnings	<u>(1,202,147)</u>	<u>1,624,988</u>
	2011	2010
	No.	No.
Number for basic earnings per share	103,182,089	102,968,233
Effect of share options issued under the employee option plan not yet vested	-	1,112,084
Number for diluted earnings per share	<u>103,182,089</u>	<u>104,080,317</u>
	2011	2010
	Cents	Cents
Earnings per share		
Basic earnings per share	(1.17)	1.58
Diluted earnings per share	(1.17)	1.56

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

27 Financial Instruments

(a) Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 14, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. Operating cash flows are used to maintain and expand the Group's assets as well as to pay for operating expenses, including tax liabilities.

(b) Financial Risk Management Objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial and exchange rate markets and seeks to minimise potential adverse effects on the Group's performance. Risk management is carried out by the Board of Directors.

(c) Market Risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. In the last two financial years the Group has not used any derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(d) Foreign Currency Risk Management

The Group undertakes certain transactions denominated in foreign currencies that are different from the functional currency of the respective entities undertaking the transactions, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising natural hedging.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date that are denominated in a currency that is different to the functional currency of the respective entities holding the monetary assets and liabilities are as follows:

	Liabilities		Assets	
	2011	2010	2011	2010
US Dollars	4,030,358	5,279,522	5,924,395	2,650,817
Canadian Dollars	-	-	2,399,981	2,886,502
Total	4,030,358	5,279,522	8,324,376	5,537,319

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

27 Financial Instruments (continued)

(d) Foreign Currency Risk Management (continued)

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars (USD) and Canadian dollars (CAD).

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies (arising from monetary assets and liabilities held at balance date in a currency different to the functional currency of the respective entities holding the assets or liabilities), which represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (including liabilities for goods in transit) and adjusts their translation at a period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit and other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Profit or loss	
	2011	2010
US Dollars	230,501	(239,367)
Canadian Dollars	262,032	306,024

The foreign exchange impact in the table is mainly attributable to the exposure outstanding on USD receivables and payables and CAD receivables at year end in the Group.

The Group includes a New Zealand subsidiary whose functional currency is different to the Group's presentation currency. As stated in the Group's Accounting Policies per Note 1(c), on consolidation the assets and liabilities of this entity is translated into Australian dollars at exchange rates prevailing on the reporting date. The income and expenses of this entity is translated at the average exchange rates for the period. Exchange differences arising are classified as equity and are transferred to a foreign exchange translation reserve. The Group's future reported profits could therefore be impacted by changes in rates of exchange between the Australian Dollar and the New Zealand Dollar.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies arising from translation of foreign operations. A positive number indicates an increase in other comprehensive income where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Other comprehensive income	
	2011	2010
New Zealand Dollars	102,149	42,521

(e) Interest rate risk management

The Group is exposed to interest rate risk as the parent entity borrows funds at floating interest rates. The Group does not hedge this risk through derivatives such as interest rate swaps.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

27 Financial Instruments (continued)

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on a 50 basis point change in interest rates taking place at the beginning of the financial year and held constant throughout the reporting period, which represents management's assessment of the possible change in interest rates. At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net profit would increase/(decrease) by \$10,782 (2010: increase/(decrease) by \$3,858). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group uses publicly available financial information and its own trading record to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and controlled by counterparty limits that are reviewed and approved by the Finance Director. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. Refer further detail in note 7.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group also uses a trade receivables and trade payables finance facility to manage its liquidity risk.

The table below details the company's and the Group's drawn and undrawn facilities.

	Consolidated	
	2011	2010
	\$	\$
Letter of Credit & Trade Refinance	15,000,000	15,000,000
Used at balance date (note 13)	2,104,830	2,555,509
Used at balance date (note 14)	5,223,033	5,030,540
Unused at balance date	<u>7,672,137</u>	<u>7,413,951</u>
Trade Receivables Finance	2,000,000	2,000,000
Used at balance date (note 14)	-	539,843
Unused at balance date	<u>2,000,000</u>	<u>1,460,157</u>
Floating Bill Facility	2,000,000	2,000,000
Used at balance date (note 14)	-	-
Unused at balance date	<u>2,000,000</u>	<u>2,000,000</u>

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

27 Financial Instruments (continued)

(g) Liquidity risk management (continued)

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted avg effective interest rate %	Less than 1 month \$	1-3 months \$	3 months-1 year \$	1-5 years \$	5+ years \$
2011						
Non-interest bearing	0.00%	3,333,186	311,937	-	-	-
Finance lease liability	8.77%	28,747	57,495	253,802	476,904	-
Variable interest rate instruments	4.02%	40,713	6,134,559	1,326,066	-	-
		3,402,646	6,503,991	1,579,868	476,904	-
2010						
Non-interest bearing	0.00%	6,503,951	857,941	-	-	-
Finance lease liability	8.77%	8,439	16,425	71,880	198,968	-
Variable interest rate instruments	4.70%	2,555,509	5,556,815	-	-	-
		9,067,899	6,431,182	71,880	198,968	-

The following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period based on the earliest date on which the Group can expect to receive. The table includes both interest and principal cash flows.

	Weighted avg effective interest rate %	Less than 1 month \$	1-3 months \$	3 months-1 year \$	1-5 years \$	5+ years \$
2011						
Non-interest bearing	0.00%	2,875,149	7,736,661	-	-	-
Variable interest rate instruments	0.19%	5,341,751	-	-	-	-
		8,216,900	7,736,661	-	-	-
2010						
Non-interest bearing	0.00%	1,450,037	6,808,931	-	-	-
Variable interest rate instruments	0.39%	4,250,948	-	-	-	-
		5,700,985	6,808,931	-	-	-

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

27 Financial Instruments (continued)

(h) Fair Value of Financial Instruments

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and trade on active liquid markets are determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

28 Events after the reporting date

There has not arisen during the interval between the end of the reporting period and the date of this report any item, transaction or event of a material and unusual nature that has, in the opinion of the Directors of the Company, significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

29 Segment reporting

Information reported to the chief decision maker for the purposes of resource allocation and assessment of segment performance focuses on products and services for Australia and overseas. The Group's reportable segments under AASB 8 are therefore as follows:

- Product - Australia
- Product - International
- Services – Australia

The product reportable segment supplies communication devices, including but not limited to Mobile Internet Gateways, designed and manufactured for use primarily by consumer and small medium enterprises (SME). The services reportable segment provides communications related services, including but not limited to Gateway managed services, consumed primarily by consumer and small medium enterprises (SME).

The following is an analysis of the Group's revenue and results by reportable operating segment.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

29 Segment reporting (continued)

	Revenue		Segment Profit	
	30 June 2011 \$	30 June 2010 \$	30 June 2011 \$	30 June 2010 \$
Continuing Operations				
Revenue generated from external customers				
Product - Australia	49,912,548	44,605,275	5,779,054	4,640,384
Product - International	17,654,652	10,517,177	225,909	831,419
Services - Australia	112,078	78,585	(3,398,243)	(1,090,529)
Intersegment Revenue				
Product - Australia	1,237,569	1,368,661	-	-
Product - International	79,909	66,562	-	-
Services - Australia	-	-	-	-
Intersegment Eliminations				
	(1,317,478)	(1,435,223)	-	-
	<u>67,679,278</u>	<u>55,201,037</u>	<u>2,606,720</u>	<u>4,381,274</u>
Other income			35,285	63,403
Depreciation and amortisation expense			(2,563,495)	(1,846,290)
Finance costs			(475,246)	(304,183)
Profit before tax			<u>(396,736)</u>	<u>2,294,204</u>
Income tax (expense)			(805,411)	(669,216)
Consolidated segment revenue and profit for the period	<u>67,679,278</u>	<u>55,201,037</u>	<u>(1,202,147)</u>	<u>1,624,988</u>

The revenue reported above represents revenue generated from external customers. Intersegment revenues represent transfers between segments, which are eliminated on consolidation.

Revenues from a single customer greater than 10% of total revenues reside in the Product-Australia segment. Segment profit represents the profit earned by each segment without allocation of other income, finance costs and depreciation and amortisation.

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

30 Parent entity disclosures

(a) Financial position

	2011	2010
Assets	\$	\$
Current assets	17,558,367	18,226,037
Non-current assets	11,598,014	13,677,586
Total assets	29,156,381	31,903,623
Liabilities		
Current liabilities	20,402,331	18,247,295
Non-current liabilities	508,390	237,437
Total liabilities	20,910,721	18,484,732
Equity		
Issued capital	9,796,773	9,649,395
Retained earnings	(1,903,588)	3,481,985
Reserves		
General reserves	352,476	287,511
Total equity	8,245,661	13,418,891

(b) Financial performance

	2011	2010
	\$	\$
(Loss)/profit for the year	(4,870,344)	(453,601)
Other comprehensive income	-	-
Total comprehensive income	(4,870,344)	(453,601)

(c) Commitments for the acquisition of property, plant and equipment by the parent entity

	2011	2010
Finance lease liabilities		
Not longer than 1 year	340,044	95,840
Longer than 1 year and not longer than 5 years	476,904	198,968
Longer than 5 years	-	-
	816,948	294,807

Finance leases relate to plant and equipment. The Company has the option to purchase the plant and equipment at the conclusion of the lease arrangements. The Company's obligations under finance leases are secured by the lessor's title to the leased assets

(d) Subsidiaries

Name of subsidiary	Country of incorporation	Percentage owned	Percentage owned
		2011	2010
Dynalink Modems Ltd	New Zealand	100	100
Banksia Technology Pty Ltd	Australia	100	100
Mike Boorne Electronics Pty Ltd	Australia	100	100
Spirit Technology (HK) Ltd	Hong Kong	100	100
Call Direct Cellular Solutions 2003 Pty Ltd	Australia	100	100
C10 Communications Pty Ltd	Australia	100	100
Canada NetComm Limited*	Canada	100	-

* Canada NetComm was incorporated on November 26, 2010

NetComm Limited

Notes to the Financial Statements

For the Year Ended 30 June 2011

31 Company details

The registered office and principal place of business of the company is:

NetComm Limited
Level 2
18-20 Orion Road
Lane Cove NSW 2066

NetComm Limited

Directors' Declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with the International Financial Reporting Standards, as stated in note 1 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



T R Winters
Director
30 September 2011



D P J Stewart
Director
30 September 2011

Independent Auditor's Report to the Members of NetComm Limited

Report on the Financial Report

We have audited the accompanying financial report of NetComm Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 18 to 58.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of NetComm Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of NetComm Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

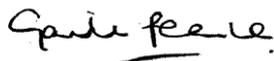
We have audited the Remuneration Report included in pages 6 to 13 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of NetComm Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Gaile Pearce
Partner
Chartered Accountants
Sydney, 30 September 2011

ASX Additional Information

The shareholder information set out below was applicable as at 19 September 2011.

1 Distribution of Shareholders

Analysis of number of shareholders by size of holding

Category of Holding	Number	Number of Shares
1 - 1,000	118	60,787
1,001 - 5,000	458	1,360,805
5,001 - 10,000	278	2,208,736
10,001 - 100,000	638	20,991,837
100,001 - share and over	128	79,596,699
Total	1,620	104,218,864

2 Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are:

Shareholder	Number of Shares	Percentage of total shares
Brad Industries Pty Limited	22,944,008	22.02%
NBT Pty Limited	5,534,274	5.31%
Dr Colin Rose	5,009,407	4.81%
Bond Street Custodians Limited	2,653,679	2.55%
Mr Michael John Cornelius	2,486,170	2.39%
Mr Robert Burnett Waldie & Mrs Mary Ellen Waldie	2,170,500	2.08%
Askey Computer Corp	2,053,528	1.97%
Yarradale Investments Pty Ltd	1,601,570	1.54%
Catch 88 Pty Ltd	1,238,244	1.19%
Mr Seuk Liong Cheah & Mrs Cher Suey Cheah	1,200,000	1.15%
Mr Gordon Coad & Miss Shirley Pratt	1,150,000	1.10%
Prism Nominees Limited	1,000,000	0.96%
Ms Dawn Gabriella Leong & Mr Richard Antony Press	900,261	0.86%
Mr William Charles Wheelahan	856,000	0.82%
Berne No 132 Nominees Pty Ltd	828,000	0.79%
Mr Suthara Francis Youhorn & Mrs Youhorn Chea	826,893	0.79%
Mr Thomas Chau Wa Zih & Mrs Virginia Man Chun Zih	755,255	0.72%
Mr John Eldred Williams & Mrs June Mabel Williams	712,119	0.68%
Randy River Health & Beauty Aid Co Pty Ltd	621,241	0.60%
Mr Ivan Ying Sin Sing	612,291	0.59%
Total	55,153,440	52.92%

3 Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction

4 Substantial Shareholders

As at 19 September 2011 the substantial shareholders were as follows:

Shareholder	Number of Shares
Brad Industries Pty Limited	22,944,008
NBT Pty Limited	5,534,274
Dr Colin Rose	5,009,407

Corporate Directory

30 June 2011

Directors

T R Winters (Non Executive Chairman)

D P J Stewart (Managing Director)

J A Brennan (Non Executive Director)

J M Burton (Non Executive Director)

K J P Sheridan (Finance Director)

Company Secretary

K J P Sheridan

Registered Office

Level 2, 18-20 Orion Rd

Lane Cove NSW 2066

Telephone: +61 (2) 9424-2000

Facsimile: +61 (2) 9427-9260

Auditor

Deloitte Touche Tohmatsu

Chartered Accountants

Grosvenor Place

225 George Street, Sydney NSW 2000

Solicitors

DLA Phillips Fox

201 Elizabeth Street, Sydney NSW 2000

Maddocks

Angel Place

123 Pitt St, Sydney NSW 2000

Bankers

National Australia Bank

Share Register

Computershare Investor Services Pty Limited

Level 3

60 Carrington Street

Sydney NSW 2000

Telephone: 1300 855 080

Web Address

www.netcomm.com.au