NetComm Limited

Annual Report 2005/6

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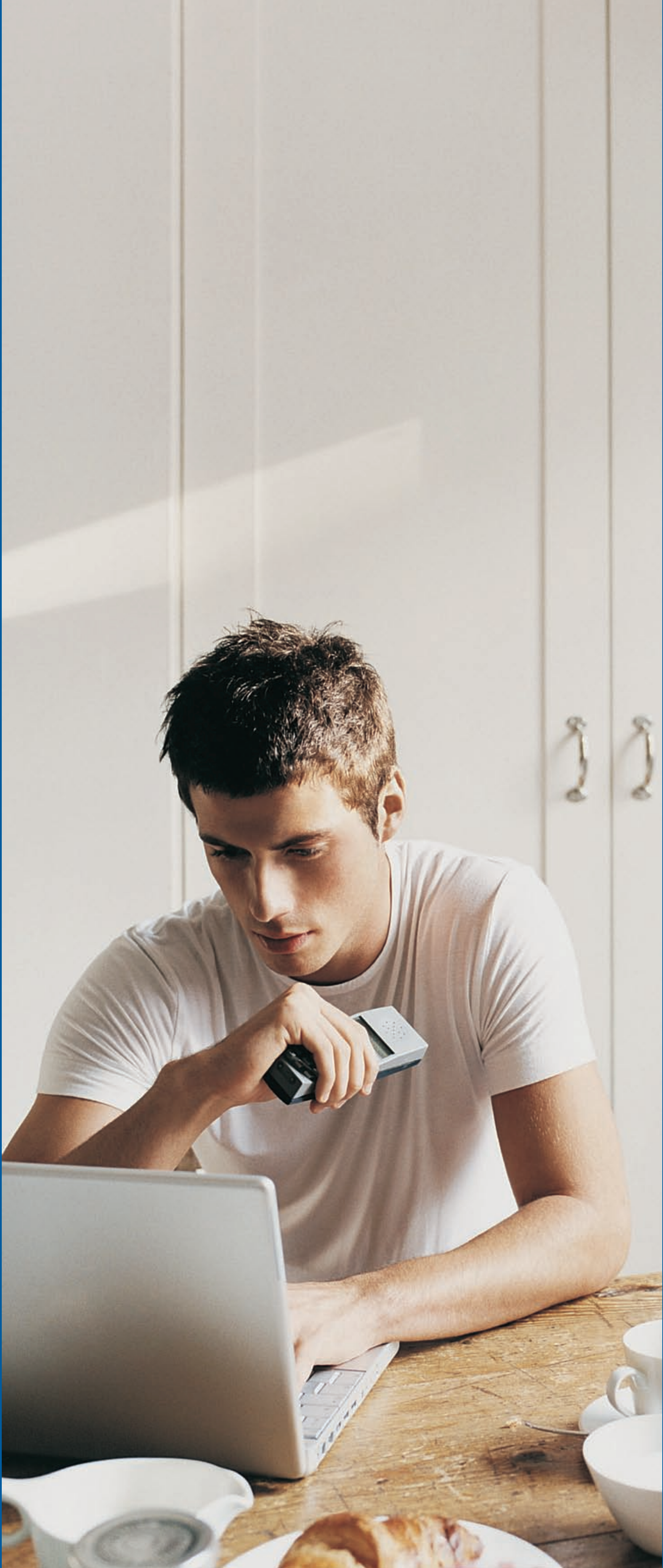
www.netcomm.com.au



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About NetComm

NetComm is a recognised name in the field of Broadband technology, with over 20 years of history in the field. Over this time, NetComm has secured the position of being the "First to Market" in Australia with proven technologies and solutions. These solutions provide new and innovative products that meet the specific needs of Australian small and medium businesses, home offices and consumers.

NetComm's history of firsts includes:

- First Australian dialup modem
- First ADSL modem to market, launched in 1999
- First VoIP Analog Telephone Adaptor (ATA)
- First combined ADSL and VOIP integrated device
- First commercial wireless hotspot product
- First to launch HomePlug Ethernet over power-line solutions

The company combines innovation with reliability in a broad range of solutions including multi-line Voice over Internet Protocol (VoIP), Digital Subscriber Line (DSL), high-speed networking, wireless, hotspot, and traditional dial up modem applications.

NetComm's products range from simple remote access devices, firewalls and virtual private network originators (VPNs) through to VoIP gateways, Internet Protocol Digital Subscriber Line Access Multiplexers (IP DSLAMs) and other industrial and commercial solutions.

The NetComm team of development engineers focuses on building solutions that are specific to the Australian and New Zealand markets and conditions. Through this focus the NetComm name and strength of brand is also now internationally recognised with export relationships in place with South Africa, Thailand, Vietnam, Japan and Canada.

NetComm is also heavily involved in custom engineering projects, individually designing solutions for many large corporates and government departments.

The company's technology offerings include:

- ADSL2+ (Asynchronous Digital Subscriber Line) modems, routers and switches delivering Internet services via conventional telephone lines

- SHDL (Symmetrical, High-bit-rate Digital Subscriber Line) modem routers and load-balancing routers that offer high-speed data links for commercial applications

- Wireless modem routers, access points and bridges offering extended network coverage.

- VoIP adapters, telephone handsets, and gateways that connect with analogue PBXs to deliver all the benefits of IP telephony

- Wireless hotspots that enable building owners and managers to offer secure wireless Internet services to customers and visitors

- Networking solutions including switches, routers, print servers and network interface cards

- Analogue (dial-up) modems for home, business and industrial applications

NetComm is based in Sydney, Australia and owns the New Zealand-based Dynalink Modems Limited, as well as Askey Australia Pty Ltd.

Chairman's Review

Terry Winters
Chairman

Dear Fellow Shareholders,

On behalf of the Board of Directors of NetComm, I am pleased to present the company's 2005-2006 annual report.

As foreshadowed at last year's AGM, this last 12 months has been a period of transition for the company as we continued the essential work of repositioning the business. This transformation has involved the creation of a new value added business which shifts the business's reliance on commodity broadband products, which sell at low margins and experience high levels of competition, into higher value-added solutions for the small and medium enterprise (SME), small/home office (SOHO) and advanced consumer markets. The objective of this move has been to grow future revenue, profits, and returns to shareholders by achieving higher-value sales with reduced price volatility and stronger, more sustainable margins.

While the core business of NetComm traded profitably in the 2006 fiscal year, investments in repositioning and strengthening its operations resulted in the company recording a shortfall of $1.227 million in the year under review.

The contributors to this result included:

- Costs related to the acquisitions of Dynalink and Askey Australia – including M&A, consultancy and legal fees;

- A reduction in cash through NetComm absorbing the overdrafts of these two firms, along with increases in current liabilities, receivables and inventory as the company consolidated the two acquisitions;

- Costs incurred in redesigning and relaunching product packaging;

- Enhancements to the corporate web site with e-commerce capabilities to enable more efficient marketing and sales to the export and SME markets;

- Costs of development, testing and certification of new VoIP products for the small and medium enterprise market;

- Costs of development of the NetComm Auto Provisioning System – a software solution that helps Internet Service Providers to remotely configure their customers' modems.

These expenses were one-off costs that are expected to yield returns within the next fiscal year. An additional factor influencing the results was a delay in approvals for the company's new range of multi-line VoIP products in Australia, and for NetComm products in the New Zealand market.

The new products were planned for release to market in the third quarter of 2005, but approvals were not received until the first quarter of 2006. The additional revenue contributed by sales of the new VoIP line will therefore be reflected in the results of the 2006-2007 year.

NetComm products did not gain final approval for the New Zealand market until June 2006, so this revenue will also be reflected in the results of the coming fiscal year.

Revenue for 2005-2006 increased by 9.3 percent to $22.817 million, with $10.300 million being generated in the first half and $12.517 million in the second half. However, while market share increased, gross profit margins on sales suffered due to intense competition for commodity products.

Highlights of 2005-2006 include:

- The successful acquisitions of Dynalink and Askey Australia. As these entities are now fully integrated we expect to be able to drive significant revenue and margin growth.

- Strengthening the company's portfolio of IP telephony offerings through the development of a new range of multi-line VoIP products for SME sector of the market. These devices compliment current market offerings and we see that this provides a strong market opportunity for growth.

- The establishment of innovative partnerships with VoIP service providers such as MyNetFone, GOTalk and GlobeChat Communications. These relationships provide the ability to service the growing market demand for bundled hardware and service offerings for small and medium business and residential users.

- Strengthening of the company's geographic coverage in Australia through the appointment of new, State-based distributors such as Multimedia Technology in Victoria and Edsys Computers in Western Australia.

- Expansion of the PerformaPlus Series, which is a range of high-end consumer Internet hardware products. This range includes NB9 and NB9W Integrated Access Devices and NB8W top-of-the-range broadband modem-router, of which both are now recognised as best of breed devices within the Australian market.

- Launch of a new range of Internet Protocol Digital Subscriber Line Access Multiplexers (IP DSLAMs) to cater to a new and emerging market in the hospitality sector with the demand for high-speed Internet broadband access in the rooms of hotels, motels, serviced apartments and hostels. This new product range utilises the property's existing telephone infrastructure.

- The strong uptake of NetComm Wireless Hotspots, including the appointment of the company as a preferred technology supplier to the nationwide Golden Chain Motel Group. Over 100 Wireless Hotspots were sold to the Australian hospitality over the second half of the year under review.

The Board and management of NetComm remain confident that the company's repositioning and growth strategies are sound – and above all necessary to strengthen competitiveness, open up new markets, and drive increases in shareholder returns and value. The core business of the company is trading profitably, and the one-off investments made in 2005-2006 are on track to generate positive returns in the coming fiscal year.

In closing, on behalf of the Board I would like to thank the Managing Director David Stewart, the executive team and all employees of NetComm who have embraced the changes and challenges of repositioning and developing the company during the past fiscal year. Their dedication and innovations are much appreciated.

Terry Winters
Chairman

The popular NetComm NB1 and NB5 Series will be getting a boost in the coming year with the release of the ***MAXX*** Series. The ***MAXX*** series feature improvements in performance over their predecessors and feature redesigned casings to reflect this with chrome side panels and rear panel ports are now colour coded to comply with international standards.

Managing Director's Report

David P J Stewart
Managing Director

The past 12 months, ending 30 June 2006, has been a period of repositioning for NetComm with significant investments in the long term growth and future profitability of the company. These investments are reflected in a shortfall of $1.227 million as mentioned in the Chairman's Review. This repositioning has been a critical action to ensure the future growth of the company and I am confident that the work done during 2005-2006 and these investments will be reflected in the results recorded over the next fiscal year.

The company is now positioned in a way that will allow us to leverage our key capabilities in the area of being the first to market with proven technologies, particularly in the small and medium enterprise sector. This new focus, as outlined by the Chairman, strengthens NetComm's position in the SME sector and focuses on delivering innovative solutions to markets that will yield higher value sales, more stable pricing and higher margins.

I commented in the previous annual report on the surge in broadband uptake in the Australian and New Zealand markets, and how this drive in new technology has lead to increased demand for new products and services, particularly in Voice over Internet Protocol (VoIP).

That trend has continued, further fuelled over the past year by the dramatic increased in the creation of multiple Voice over Internet Protocol Service Providers (VOIPSP's). This increase in providers had migrated from technology acceptance in the residential market into the business market. This business acceptance has illustrated that the uptake of VoIP is migrating from large enterprises through to small and medium businesses.

This new market of consumers are traditionally conservative and risk-averse when investing in new technology. We have recognised this characteristic, in addition to the fact that this sector generally lack of in-house technical resources, and have focused our efforts on releasing meaningful SMEs products that are easy to deploy and manage, require a minimum of support, and represent a low-risk investment with tangible returns for the business.

The new product sets that specifically address these market requirements, include:

- Multi-line VoIP products that deliver all the benefits of IP telephony without the risks, and preserve SMEs' existing investments in analogue PBX systems
- A range of keenly-priced VoIP handsets, adaptors and gateways
- Bundled packages of hardware and services, developed in partnership with Voice over IP Telephony Service Providers, and driven through the retail and business-to-business channels.

This last fiscal year saw the emergence of a new market of the NetComm range of equipment, as the Australian hospitality landscape identified a requirement to provide IP based services to their guests.

To provide a solution to this demand, NetComm released a range of commercial grade products, the first of which, an Internet Protocol Digital Subscriber Line Access Multiplexer (IP DSLAM) to compliment the existing Wireless HotSpot solution.

An IP DSLAM is utilised to deliver high-speed broadband services to multi-occupancy buildings

IP DSLAMs are a growing market for NetComm and one that is proving to have a lot of potential for the future of the company as proven by the response to our recent roadshow where we showcased these devices along with our Hotspot and VoIP ranges.

such as hotels and apartments through existing telephony wiring. This solution removes the requirement for the building owners or managers to invest in additional cabling or infrastructure. The IP DSLAM allows the hospitality market to provide high speed internet access both in room and within the property, without tying up their often-limited number of telephone lines. This last fiscal year has seen the hospitality markets desire to generate additional revenue by offering broadband services to guests become a driving force for product within our newly created commercial channel.

Another area of our business that is continuing to strengthen is our export team and the growth of our product supply into markets such as the Middle East, Asia, Africa and Canada. We started our export development drive in fiscal 2004 and have continued it throughout the year under review with the goal of boosting revenue from exports to about 10 percent of the total company revenue.

In particular, we have recorded sales of DSLAMs, Wireless HotSpots and broadband modems in the Middle East, Asia and Latin America. In Africa we have done well with ADSL2 modems, Wireless HotSpots, VoIP telephone handsets and wireless networking solutions.

To strengthen this part of the operation we have appointed a dedicated Export Development Manager. This new role has been tasked to participate in Austrade-sponsored trade missions to target markets as well as to identify international opportunities. This development will allow us to further increase sales by customising products to meet specific local requirements in other markets, which is expected to result in exports accounting for an increasing proportion of revenue over the next year.

Technical approvals of NetComm products for the New Zealand market and new VoIP products for Australia were completed in 2005-2006. These approvals took longer than anticipated, but will now enable your company to generate new streams of revenue from the products and NetComm's increased presence in the New Zealand market.

The majority of our repositioning work is now complete with NetComm strengthening its executive team, product portfolio, product development and sales and marketing processes. These changes have will lead to improved operating efficiency, sales into targeted new markets, and increases in both revenue and margins. The company is already viewed as being a leader in the delivery of highly competitive VoIP products, while maintaining its reputation for delivering value-for-money SME and residential broadband products.

I am confident that your company's business strategy is sound and sustainable, and will result in improved performance and increased returns to shareholders over the coming years.

David P J Stewart
Managing Director

Board of Directors

Terry Winters
Chairman

Mr Terry Winters, FAICD, Non-Executive Chairman

The founder and former CEO of Link Telecommunications and visionary behind the formation of Optus Communications, Mr Winters has more than 30 years experience in the telecommunications industry. Mr Winters is currently a director of Commander Communications Limited and is Chairman of Opportunity International Australia, the Multiple Sclerosis Society of Victoria (MVS), Future Fibre Technologies Pty Ltd and Protocom Developments Pty Ltd.

David P J Stewart
Managing Director

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 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.

Michael J Boorne
Executive Director

Mr Michael J Boorne, Executive Director

Mr Boorne was the founder and Managing Director of Mike Boorne Electronics Pty limited for 16 years prior to the acquisition of its business assets by NetComm Limited in November 2001. Mr Boorne combines his superior technical expertise in electronics with sound commercial judgement to ensure his company continually traded profitably from the design and distribution of the ‘Spirit’ brand of communication devices. He now brings those skills and experiences to NetComm Limited in his executive role and is the second largest shareholder of NetComm.

Mr Boorne holds a diploma in Electronics Engineering and is a director of numerous private companies and organisations.

Mr John A Brennan, FAICD, Non-Executive Chairman

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 Brennan is a director of Comindico Holdings Pty Ltd, Slainte Benchmarking Pty Ltd and is on the Executive Committee of Tyrrell's Vineyards Pty Limited.

John A Brennan
Non-Executive Director

Mr John M Burton, Non-Executive Chairman

With more than 25 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. He is currently the CEO of Manson Consulting, a company which provides consultancy services to a range of telecommunications organisations.

John M Burton
Non-Executive Director

Mr Ian Ferry, Non-Executive Chairman (former)

Mr Ferry graduated from Victoria University of Wellington with a Bachelor of Commerce and Administration diploma and spent 12 years in public practice as a CPA. He was also the Financial Controller of a major exporter for 6 years before managing and then owning Dynalink Modems New Zealand and it's Australian subsudiary for 11 years.

Mr Ferry served on the Board of Directors from 21 December 2005 until 6 September 2006.

NetComm Products

First to Market – Based on Proven Technologies

NetComm develops and delivers proven broadband solutions to market to meet the specific needs of Australian and New Zealand consumers and small and medium businesses. Its products allow users to benefit from the cost savings of Voice over Internet Protocol (VoIP) telephony, generate revenue from IP DSLAMs and Wireless HotSpots, and conveniently surf the Internet – uploading and downloading data at high speeds. NetComm's product range is outlined below, by categories and technologies.

Digital Subscriber Line (DSL)

DSL broadband technology allows users to deploy and share high-speed networks over standard telephone lines. NetComm provides a wide range of award-winning DSL products especially designed for Australian conditions and able to support either wireline or wireless communications. These products are easy to install and come equipped with advanced security technology to protect customers' data and networks. The company also offers a range of Super High-Speed or Symmetric DSL (SHDSL) products for use when equal, fast, two-way (upload and download) speeds are required.

Digital Subscriber Line Access Multiplexer (DSLAM)

A DSLAM is a network device, usually at a telephone company central office, that receives signals from multiple customer Digital Subscriber Line (DSL) connections and puts the signals on a high-speed backbone line using multiplexing techniques. Depending on the product, DSLAM multiplexers connect DSL lines with some combination of asynchronous transfer mode (ATM), frame relay, or Internet Protocol networks. DSLAM enables a phone company to offer business or homes users the fastest phone line technology (DSL) with the fastest backbone network technology (ATM).

An IP DSLAM is a device installed in the basement of a hotel, motel, serviced apartment building or student accommodation to allow simple, cheap distribution of high-speed Internet services to the entire building using the existing phone line infrastructure. It links to the property management system and enables simple control of guest access to broadband services from the front desk and provides automated Internet billing for each individual room

Wireless

Wireless broadband users can create fully functioning networks that share connections, data and devices at speeds between 11 and 108 Mbps. Users with a wireless adapter in their notebook computer can free themselves from the need for cables and access network and Internet services anywhere within range of a wireless hotspot. NetComm offers a range of wireless hardware including access points, cards, routers and all-in-one wireless products.

Wireless Hotspots

NetComm Wireless Hotspot solutions allow the managers of public spaces, companies, office complexes, hotels, restaurants and meeting venues to develop profitable, secure wireless Internet services for their customers and visitors. These solutions range from small up to large-scale wireless hotspot footprints and are easy to deploy.

IP Surveillance

Internet Protocol (IP) surveillance is now within the reach of even small businesses with NetComm's intelligent IP cameras that connect to any Ethernet network, sending streaming motion JPEG images over a Local Area Network (LAN) or the Internet. NetComm cameras are intelligent enough not to require the services of a PC.

Networking

NetComm's networking products include advanced Fast Ethernet and Gigabit Ethernet switches, USB, Ethernet and parallel port print servers, and a range of network interface cards that offer plug-and-play simplicity coupled with outstanding performance. The company also offers a range of router products that connect local networks to the Internet – including firewalls to protect PCs on the network, Virtual Private Networks (VPNs) to allow users to log onto their network from outside the home or office, and wireless devices that allow users to connect without cables.

Voice over Internet Protocol (VoIP)

Voice over Internet Protocol (VoIP) technology offers a powerful, low-cost alternative to traditional telephony. It allows fax and phone calls to be made over the Internet and permits voice and data traffic to share the same network. The faster speeds offered by broadband are creating demand for devices such as desktop and handheld VoIP phones and VoIP gateways for businesses and homes.

Analogue (Dial-up) Modems

NetComm is the Australian market leader in analogue modems. It provides serial, USB, rack and internal modems, as well as customised solutions for industrial applications – particularly in the manufacturing and processing sectors where analogue modems are critical for maintenance, remote monitoring and inventory management applications.

Banksia Digital

NetComm also operates a dedicated consumer electronics division branded Banksia Digital. It develops and markets a range of consumer products including multimedia players, cameras, TV cards and other peripherals.

The HomePlug range has been a great success and is evolving rapidly with speeds jumping from 14Mbps in the NP210 to 85Mbps in the NP285. The range is getting a further boost with the NP285W Wireless 85Mbps and NP200AV 200Mbps HomePlug to be released in the coming months.

Governance Policy Statement

NetComm has a sincere commitment to effective governance in order to:-
(i) Enhance organizational performance;
(ii) Understand and manage risks to minimize the negative aspects and maximize the opportunities;
(iii) Strengthen shareholder confidence;
(iv) Enhance its public reputation through enhanced transparency and accountability;
(v) Demonstrate how it is discharging its legal, shareholder and ethical obligations;
(vi) Provide a mechanism for benchmarking accountability;
(vii) Assist in the prevention and detection of fraudulent, dishonest and/or unethical behaviour.

Documents forming part of NetComm's Governance Policy are:-
(a) Board charter
(b) Audit Committee charter
(c) Nomination and Remuneration Committee charter
(d) Risk Management Policy
(e) Code of ethics and conduct

The Principles of Good Corporate Governance and Best Practice Recommendations as put forward by the ASX Corporate Governance Council have been integrated into NetComm's operations, as follows:-

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

"Recognise and publish the respective roles and responsibilities of board and management" – NetComm has adopted a formal Board Charter that sets out the functions reserved to the Board and those delegated to the Managing Director. The division of functions is reviewed periodically, as required.

Specifically the Board is responsible for:-
(a) The strategic direction of the company.
(b) Approving budgets and other performance indicators and reviewing performance against them and initiating corrective action when required.
(c) Ensuring compliance with applicable laws.
(d) Ensuring that risks facing the Company have been identified, assessed and that the risks are being properly managed.
(e) Ensuring that policies on key issues are in place and are appropriate and reviewing compliance with policies.
(f) Adopting the most effective structure that best assists the governance process.
(g) Approving and fostering an appropriate corporate culture matched to the company's values and strategies.
(h) Appointing the managing director and evaluating his or her ongoing performance against predetermined criteria.
(i) Approving remuneration for the managing director and remuneration policy and succession plans for the managing director and senior management.
(j) Taking into account the interests of all shareholders.

The Chairman is responsible for leading the Board in those duties, while the Managing Director is responsible for the efficient and effective operation of NetComm Limited, including bringing material matters to the attention of the Board. The Board has no operational involvement in the day-to-day management of the company. The roles of Chairman and Managing Director are separated and, under Board policy, the Managing Director may not become Chairman whilst he holds the position of Managing Director.

2. STRUCTURE THE BOARD TO ADD VALUE

"Have a board of an effective composition, size and commitment to adequately discharge its

responsibilities and duties" – NetComm's board is so structured and its directors have adequately discharged their responsibilities and duties to the benefit of shareholders.

Skills and Experience – A common thread among NetComm's present board of directors is their long term involvement in the IT&T industry at a senior managerial level. They also bring strong financial skills as well as sales and marketing skills. The NetComm Board consists of five directors (three non-executive and two executive). The experience and qualifications of each Board member are further discussed on page 8 and 9 of the annual report to shareholders.

Independence – The majority of NetComm's directors are independent of the management team, substantial shareholders and any commercial dealings with the company. The board chairman is independent of management.

Where a director becomes aware of a conflict of interest or a potential conflict of interest, that member formally declares the conflict and accepts the guidance of the board.

Board Committees

Nomination and Remuneration Committee (see charter):-

NetComm's Board has reviewed the duties of its Remuneration Committee and has added the function of "nominations" to its responsibilities. The newly formed Nomination and Remuneration Committee comprises two independent non-executive directors and one executive director. The Committee's responsibilities include setting Board competence standards, reviewing succession plans, evaluating the Board's performance and making recommendations for:-

(a) Executive remuneration and incentive policies;
(b) Remuneration packages of senior management;
(c) Netcomm's recruitment, retention and termination policies for senior management;
(d) Incentive schemes;
(e) Superannuation arrangements; and
(f) The remuneration framework for directors.

The members of the Nomination and Remuneration Committee during the year were:-

- Mr T R Winters (Committee Chairman);
- Mr J M Burton; and
- Mr D P J Stewart

Audit Committee (see charter):-

The Audit Committee primary functions and responsibilities are:-

(a) Review the integrity of NetComm's financial information and systems, internal and external reporting;
(b) Review and assess the external auditors' activities, scope and independence;
(c) Review the management process for the identification of significant business risks and exposures and review and assess the adequacy of management information and internal control structures; and
(d) Provide assurance to the full Board that NetComm is adequately managing risks relating to corporate governance and business operations and is maintaining appropriate controls against conflicts of interest and fraud..

The Audit Committee consists of three independent, Non Executive Directors. The members of the Audit Committee during the year were:-

- Mr J A Brennan (Committee Chairman);
- Mr T R Winters; and
- Mr J M Burton.

Independent Advice – NetComm directors may seek external professional advice at the expense of the

The coming months will also see the release of the NP380 USB Print, Scanner and Storage server which will allow people to network their USB printers and other devices with unparalleled ease.

company on matters relating to their role as directors of NetComm, however they must first request approval from the Chairman, which approval shall not be unreasonably withheld. If approval is withheld the matter may be referred to the whole Board.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

"Actively promote ethical and responsible decision-making" – NetComm has formally adopted a Code of Ethics and Conduct which promotes ethical and responsible decision making by directors, executives and employees. The Code requires high standards of honesty, integrity, fairness and equity in all aspects of employment with NetComm. The Code also sets the task for management of delivering shareholder value with the oversight of the Board, through the sustainable and efficient operation of the company.

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

"Have a structure to independently verify and safeguard the integrity of the company's financial reporting" – NetComm believes its practices in this regard are in accordance with this principle.

NetComm has a highly structured six-monthly reporting process, culminating in Board sign-off and release of financial results to the market. The Managing Director and Financial Controller provide letters of assurance to the Board for each half-year and full-year results.

NetComm's Audit Committee is constituted in accordance with the guidelines, and its responsibilities and composition requirements are set out in the Audit Committee Charter.

Amongst other things, the Audit Committee has specific responsibility for recommending the appointment or dismissal of external auditors and monitoring and reviewing any non-audit work carried out by the external audit firm. No director has any association, past or present, with NetComm's external auditors.

External Audits – NetComm is required to undergo several regulatory audits each year in order to provide assurances to the market regulator (ASIC) and NetComm's customers regarding the operational integrity of NetComm systems and processes. The external Auditor has full and free access to NetComm staff and NetComm records. The external Auditor, Horwath, under the scrutiny of the Audit committee, presently conducts these regulatory audits in return for reasonable fees.

5. MAKE TIMELY AND BALANCE DISCLOSURE

"Promote timely and balanced disclosure of all material matters concerning the company" NetComm fulfills its disclosure responsibilities ensuring compliance with ASX Listing Rule disclosure requirements. The Managing Director and Company Secretary work together to ensure that company announcements are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions. The Managing Director has ultimate authority and responsibility for approving market disclosure.

NetComm considers its disclosed discussion of financial results falls within the scope outlined in the guidelines. This disclosure includes availability of materials on the NetComm website.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

"Respect the rights of shareholders and facilitate the effective exercise of those rights". NetComm has documented a shareholder communication policy, as recommended in the guidelines, which represents a formalized summary of longstanding practices and aims.

The policy identified disclosure and transparency as important qualities for NetComm's investors and prospective investors. NetComm therefore aims to ensure the quality and clarity of communication with shareholders, using available methods and technologies.

Shareholder meetings represent an opportunity for shareholders to meet with and question the Board and management of NetComm. NetComm's external auditor attends all annual general meetings and is available to answer shareholder questions.

NetComm's website is a key source of information for NetComm's shareholders and prospective shareholders. NetComm places all company announcements on the site immediately following confirmation of their release to the market. NetComm also displays annual reports to shareholders, speeches and presentations given by the Chairman and Managing Director.

Further communication with shareholders occurs with periodic dividend payments and the distribution of annual reports (unless shareholders have chosen not to receive these). Email is also an important method of communication for investors. Key announcements can be received by email where shareholders provide their details to NetComm.

7. RECOGNISE AND MANAGE RISK

"Establish a sound system of risk and oversight management and internal control". NetComm takes this responsibility seriously and have put in place appropriate means of risk management.

The Audit Committee has responsibility for reviewing the risk management framework and policies within NetComm. The Board annually workshops a risk matrix for the whole of NetComm. Risk is broadly considered anything that may impede the achievement of effective company operation and NetComm's strategic goals.

NetComm also considers the safety and security of its people, buildings and technology systems as part of organizational risk management.

NetComm has adopted a policy requiring the Managing Director and Financial Officer to state to the Board in writing to the best of their knowledge that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects.

8. ENCOURAGE ENHANCED PERFORMANCE

"Fairly review and actively encourage enhanced board and management effectiveness". NetComm's Board has put in place measures to implement this principle.

Each year the Board undertakes the following activities:

(a) the chairman meets with each non-executive director separately to discuss individual performance and ideas for improvement; and

(b) the Board as a whole discusses and analyses its own performance during the year including suggestions for change or improvement.

Prior to the commencement of each financial year, the Board agrees to key responsibility areas (KRAs) and performance targets against each KRA. Following the end of a financial year, an analysis is presented to the Board for their discussion, setting out how the Board has performed against the KRAs.

9. REMUNERATE FAIRLY AND RESPONSIBLY

"Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined". NetComm's Board has put in place satisfactory measures to implement this principle.

NetComm discussion on board policy for determining the nature and amount of emoluments of board members and senior executives of the company and the relationship between such policy and the company's performance is provided in the Directors' Report section of the annual report on pages 19-21.

10. RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

"Recognise legal and other obligations to legitimate stakeholders". NetComm has a diverse range of stakeholders and has a number of measures in place that recognise their interests.

The NetComm Code of Ethics and Conduct guides compliance with legal requirements and ethical responsibilities. The Code also sets a standard for employees dealing with NetComm's obligations to other external stakeholders. The Code applies equally to staff, executives and directors.

The NP2500 PoE switch takes advantage of the growing adoption of IP Telephony in the SME market, customers are requiring that IP handsets be powered using power over ethernet (PoE) switches rather than individual power packs. This removes clutter from the desktop, minimizes potential failures and reduces wiring in new offices.

NetComm's Code formally addresses the privacy of information given to NetComm, conflict escalation, occupational health and safety and Trade Practices Act compliance training for relevant staff.

NetComm supports a number of community and charity organizations.

NetComm acknowledges that, beyond its accountability as a public corporation to its shareholders, it also carries the expectation of a wider set of stakeholders. NetComm endeavours to fulfill these marketplace expectations through, for example, the provision of product training to relevant sections of its customer base, ongoing customer support and online market information.

Financials

NETCOMM LIMITED
A.B.N. 85 002 490 486

GENERAL PURPOSE
FINANCIAL STATEMENTS 30 JUNE 2006

Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as "the Group") consisting of NetComm Limited and the entities it controlled at the end of, or during the year ended 30 June 2006.

1. DIRECTORS

The names of the Directors of the Company in office during the whole of the financial year and up to the date of this report are:

T R Winters	Non-Executive Chairman
D P J Stewart	Managing Director
M J Boorne	Executive Director
J A Brennan	Non Executive Director
J M Burton	Non Executive Director
I C Ferry	Non Executive Director*

* *I C Ferry was appointed on 21 December 2005 and resigned 6 September 2006.*

2. PRINCIPAL ACTIVITIES

The principal activities for the Group during the period were the design, importation, distribution and support of communications and networking devices (analogue modems, wired networking devices, wireless networking devices, routers and ADSL modems) via its established broad-base national and state distributors, leading retailers, telecommunications carriers and internet service providers.

NetComm Limited is a public company listed on the Australian Stock Exchange (ASX Code:NTC), incorporated and operating in Australia.

3. RESULTS AND DIVIDENDS

	2006	2005
	$	$
Total Revenue from Continuing Operations	22,352,875	20,773,550
EBITDA from Continuing Business	(728,715)	1,158,177
Operating (Loss)/Profit from Continuing Business	(1,258,181)	967,059
Income Tax Expense attributable to all activities	-	-
Loss Attributable to Minority Interest	46,976	-
Net (Loss)/Profit for the year after tax	(1,211,205)	967,059
Dividend (cents per share)	-	0.75

The directors had resolved not to pay a final dividend in respect of the financial year ended 30 June 2006. A dividend of 0.75 cents per share was paid on 3 October 2005 based on the results for the year ended 30 June 2005.

4. REVIEW OF OPERATIONS

NetComm Limited achieved a 7.4% increase in operating revenue to $22.4 million and a net loss of $1.2 million for the year ended 30 June 2006. One-off costs associated with the Group's longer term repositioning, including the recent acquisitions of Dynalink New Zealand and Askey Australia, underpinned the loss which the Group had foreshadowed to the market in May.

As indicated earlier this year, the Group invested significantly to strategically reposition itself to compete at the higher value, higher margin technologies targeted at the small to medium business sector.

While this investment and the associated acquisition costs have resulted in a loss this financial year, the Group has already started to see the benefits of this approach and remains confident that this strategy will deliver enhanced shareholder value over the longer term.

Significant losses were attributable to the recent acquisitions, however the Group is addressing these issues. In New Zealand, NetComm has implemented a series of major cost efficiency and rationalisation measures over the past month.

5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than discussed above, there were no significant changes in the state of affairs of the Group during the year.

6. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The company is in a period of transition as we continue the essential work of repositioning the business. This transformation has involved the creation of a new value added business which shifts the business's reliance on commodity broadband products, which sell at low margins and experience high levels of competition, into higher value-added solutions for the small and medium enterprise (SME), small/home office (SOHO) and advanced consumer markets. The objective of this move is to grow future revenue, profits, and returns to shareholders by achieving higher-value sales with reduced price volatility and stronger, more sustainable margins.

7. 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.

8. DIRECTORS' MEETINGS

	Directors Meetings		Audit Committee		Remuneration Committee Meetings	
	No. Attended	No. Eligible	No. Attended	No. Eligible	No. Attended	No. Eligible
T R Winters	5	5	2	2	1	1
D P J Stewart	5	5	-	-	1	1
J A Brennan	5	5	2	2	-	-
J M Burton	5	5	2	2	1	1
M Boorne	5	5	-	-	-	-
I C Ferry	3	3	-	-	-	-

9. INFORMATION ON DIRECTORS

Mr Terry Winters, FAICD, 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 industry. Mr Winters is currently a director of Commander Communications Limited and is Chairman of Opportunity International Australia, the Multiple Sclerosis Society of Victoria (MSV), Future Fibre Technologies Pty Ltd and Protocom Developments Pty Ltd.

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 Michael J Boorne, Executive Director

Mr Boorne was the founder and Managing Director of Mike Boorne Electronics Pty Limited for 16 years prior to the acquisition of its business assets by NetComm Limited in November 2001. Mr Boorne combined his superior technical expertise in electronics with sound commercial judgment to ensure his company continually traded profitably from the design and distribution of the 'Spirit' brand of communication devices. He brings those skills and experiences to NetComm Limited in his executive role and is the second largest shareholder of NetComm.

Mr Boorne holds a diploma in Electronics Engineering and is a director of numerous private companies and organisations.

Mr John A Brennan, FAICD, FAIM, 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 Brennan is a director of Slainte Benchmarking Pty Ltd, and is on the Executive Committee of Tyrrell's Vineyards Pty Limited

Mr John M Burton, Non-Executive Director

With more than 25 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. He is currently the CEO of Manson Consulting, a company which provides consultancy services to a range of telecommunications organisations.

Ms Lorraine Luchowski

Lorraine Luchowski joined NetComm Limited in July 1996 as Assistant to the company's then Legal Counsel. She comes from a legal background and has many years paralegal experience. Lorraine is P.A. to the Managing Director and heads up Netcomm's administration. M/s Luchowski was appointed Company Secretary in January 2003.

10. DIRECTORS' REMUNERATION REPORT

Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
T R Winters	Non –Executive Chairman
D P J Stewart	Managing Director
M J Boorne	Executive Director
I C Ferry	Executive Director
J A Brennan	Non –Executive Director
J M Burton	Non –Executive Director
L Luchowski	Company Secretary
S M Piry	Financial Controller of NetComm Limited

Principles of Compensation

The board's policy for determining the nature and amount of compensation of key management 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.

Details of each element of the emoluments of each director of NetComm Limited and each of the other key management personnel of the company are set out in the following tables:

Year-ended 30 June 2006* - Short-term Employee Benefits

	Salary & Fees	Other Benefits	Post Employment Superannuation Benefits	Share Based Payments	Total
	$	$	$	$	$
Key Management Personnel					
T R Winters	48,000	-	-	-	48,000
D P J Stewart	299,423	20,000	10,577	-	330,000
M J Boorne	250,000	-	-	-	250,000
J A Brennan	24,000	-	-	-	24,000
J M Burton	24,000	-	-	-	24,000
I C Ferry**	60,816	5,214	-	-	66,030
	706,239	**25,214**	**10,577**	**-**	**742,030**
Other Key Management Personnel					
S M Piry***	78,940	3,375	7,408	4,797	94,520
L Luchowski	54,207	-	5,580	-	59,787
	133,147	**3,375**	**12,988**	**4,797**	**154,307**
					896,337

* *Figures have been subject to audit.* ** *Mr Ferry's salary was converted from NZD to AUD for 6 months ending 30 June 2006. He resigned 6 September 2006.*

*** *S M Piry was granted options under the Employee Option Plan issued on 22 August 2003, 23 January 2004 and 17 November 2005.*

Year-ended 30 June 2005* - Short-term Employee Benefits

	Salary & Fees	Other Benefits	Post Employment Superannuation Benefits	Share Based Payments	Total
	$	$	$	$	$
Key Management Personnel					
T R Winters	48,000	-	-	-	48,000
D P J Stewart	299,423	20,000	10,577	-	330,000
M J Boorne	250,000	-	-	-	250,000
J A Brennan	24,000	-	-	-	24,000
J M Burton	24,000	-	-	-	24,000
	645,423	**20,000**	**10,577**	**-**	**676,000**
Other Key Management Personnel					
S M Piry	75,006	3,250	7,492	3,926	89,674
M C Jones**	70,075	1,538	846	368	72,827
L Luchowski	57,799	-	5,202	-	63,001
	202,880	**4,788**	**13,540**	**4,294**	**225,502**
					901,502

* *Figures have been subject to audit.* ** *M C Jones left the Company on 21 July 2004. Salaries and fees includes termination benefits of $70,662.*

Service Agreements and Bonus Schemes

The following directors have service agreements with NetComm Limited

D P J Stewart, Managing Director

- Term of agreement: Commenced 13 October 1999 for an initial 12 month period and automatically renewed for successive periods of 12 months.
- Salary package at commencement of contract $300,000 p.a. reviewed annually, and paid in equal fortnightly instalments
- A bonus is payable based on the achievement of pre-determined financial and operational criteria agreed upon by the remuneration committee. The bonus is payable every 6 months at the discretion of the remuneration committee.
- The agreement may be terminated by 12 months written notice by either party.

M J Boorne, Executive Director

- Term of agreement: Commenced 13 November 2001 for an initial 12 monthly period and automatically renewed until such further time as agreed by the parties
- Base Management fee at commencement of contract $200,000 p.a. reviewed annually, and paid in equal monthly instalments within 14 days of the receipt of an invoice.
- A bonus is payable based on the achievement of pre-determined financial and operational criteria agreed upon by the remuneration committee. The bonus is payable every 6 months at the discretion of the remuneration committee.
- The agreement may be terminated by 3 months written notice by either party.

I C Ferry, Executive Director

- Term of agreement: Commenced 21 December 2005 for an initial 12 month period and automatically renewed for successive periods of 12 months.
- Salary package at commencement of contract NZ$140,000 p.a. reviewed annually, and paid in equal fortnightly instalments
- A bonus is payable based on the achievement of pre-determined financial and operational criteria agreed upon by the remuneration committee. The bonus is payable every 6 months at the discretion of the remuneration committee.
- The agreement may be terminated by 3 months written notice by either party.

The other directors do not have service contracts.

Directors' Interests

As at the date of this report, the interests of the Directors in the ordinary shares of the Company were:

	Ordinary Shares	Options
T R Winters	206,250	-
D P J Stewart	20,271,407	-
M J Boorne	6,892,590	-
J M Burton	322,795	-
J A Brennan	222,795	-

Other than this none of the Directors have any direct or indirect interest in any material contracts with the Group.

Share Options

At the date of this report, there are 2,655,000 options (2005: 1,422,500) issued to 26 employees (2005: 24) to acquire ordinary shares. These options progressively vest on an annual basis commencing 12 months from the date of issue, details as follows:

Number of Options	Exercise Price	Expiry Date
340,000	$0.07	21 February 2007
105,000	$0.08	29 August 2007
35,000	$0.14	22 August 2008
150,000	$0.26	23 January 2009
325,000	$0.20	13 December 2009
250,000	$0.14	24 June 2010
150,000	$0.15	17 November 2010
1,300,000	$0.09	24 August 2010
2,655,000		

190,000 (2005: 460,000) options issued to employees expired during the financial year in accordance with the rules of the Shares Option Plan.

150,000 (2005: 650,000) new options were issued in accordance with the rules of the Share Option Plan during the year. None of these options have vested at 30 June 2006.

Number of Options (issued for $Nil consideration)	Exercise Price	Fair Value of Shares Issued	Expiry Date
150,000	$0.15	$0.057	17 November 2010

27,500 (2005: 237,500) options issued to employees were exercised during the financial year at an average exercise price of $0.075.

Subsequent to the year-end 1,300,000 options were issued with an exercise price of 9 cents and expiry date of 24 August 2010.

No person entitled to exercise these options had or has any right, by virtue of the options, to participate in any share issue of any other body corporate.

The names of all holders of options are entered in the Company's Register of Option Holders, inspection of which may be made free of charge.

11. 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.

12. SUBSEQUENT EVENTS

On 12 September 2006 NetComm Limited acquired the remaining 19% of Askey Australia Pty Limited. The consideration paid to the minority interest was $186,871 via the issue of 2,053,528 NetComm shares at 9.1 cents per share.

On 12 September 2006 1,300,000 options were issued under the Employee Option Plan. The expiry date is 24 August 2010 and the exercise price is 9 cents.

13. ENVIRONMENTAL REGULATION

The Group is not subject to significant environmental regulation.

14. INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found attached to the directors' report.

15. NON-AUDIT SERVICES

The following non-audit services were provided by the entity's Group auditor, Horwath Sydney Partnership. The directors are satisfied that the provision of non-audit services 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.

Horwath Sydney Partnership received or is due to receive the following amounts for the provision of non-audit services:

	$
Tax compliance services	5,170
Due diligence services	13,500
	18,670

16. ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS) the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

This report is made in accordance with a resolution of the directors.

Dated 29 September 2006.

T R Winters
Chairman

D P J Stewart
Managing Director

Horwath Sydney Partnership
ABN 30 856 062 171
Chartered Accountants
1 Market Street Sydney NSW 2000
GPO Box 1455 Sydney NSW 2001
DX 13004 Sydney Market Street
(02) 9372 0777 Main
(02) 9372 0606 Fax
sydney@horwath.com.au

29 September 2006

The Board of Directors
NetComm Limited
2-6 Orion Road
Lane Cove NSW 2066

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my audit of the financial report of NetComm Limited for the year-ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of any applicable code of professional conduct in relation to this audit.

HORWATH SYDNEY PARTNERSHIP

Horwath Sydney Partnership

Chartered Accountants

MICHAEL P STIBBARD
Partner

Horwath Sydney Partnership is an independent practice. Other Horwath offices operate in each of the nation's financial centres.
Liability is limited by the Accountants' Scheme, approved under the Professional Standards Act 1994(NSW).

Income Statements

for the year ended 30 June 2006
NetComm Limited

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Revenue from continuing operations	4	22,352,875	20,773,550	19,985,959	20,075,653
Other income	4	48,467	91,933	83,055	279,195
Expenses from continuing operations excluding finance costs	5	(23,610,053)	(19,898,424)	(21,158,283)	(19,394,030)
Finance costs	5	(49,470)	-	(34,902)	-
(Loss)/Profit before income tax expense		(1,258,181)	967,059	(1,124,171)	960,818
Income tax expense	6	-	-	-	-
(Loss)/Profit after income tax expense		(1,258,181)	967,059	(1,124,171)	960,818
Loss attributable to minority equity interest		46,976	-	-	-
(Loss)/Profit attributable to members		(1,211,205)	967,059	(1,124,171)	960,818
(Loss per share)/EPS - cents	28	(1.59)	1.31		
Diluted (Loss per share)/EPS - cents	28	(1.58)	1.30		
Dividends per share - cents	7	-	0.75		

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

These financial statements should be read in conjunction with the attached report by Horwath Sydney Partnership.

Balance Sheets

for the year ended 30 June 2006
NetComm Limited

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	8	1,833,001	2,157,585	1,315,811	2,157,585
Trade and other receivables	9	3,903,096	3,332,028	3,318,867	3,332,028
Inventories	10	3,538,369	3,320,716	2,893,594	3,320,716
Other financial assets		22,795	-	22,795	-
Other	12	469,335	282,814	232,973	282,815
TOTAL CURRENT ASSETS		9,766,596	9,093,143	7,784,040	9,093,144
NON-CURRENT ASSETS					
Property, plant and equipment	13	628,691	432,728	459,642	432,728
Intangibles	14	254,531	321,566	254,531	321,566
Other financial assets	11a	-	-	905,861	1,938
TOTAL NON-CURRENT ASSETS		883,222	754,294	1,620,034	756,232
TOTAL ASSETS		10,649,818	9,847,437	9,404,074	9,849,376
CURRENT LIABILITIES					
Trade and other payables	15	2,889,740	2,586,714	2,243,485	2,642,165
Provisions	17	213,994	156,536	191,888	156,536
Borrowings	16	1,249,287	-	1,249,287	-
Other liabilities – deferred income		431,989	-	-	-
TOTAL CURRENT LIABILITIES		4,785,010	2,743,250	3,684,660	2,798,701
NON-CURRENT LIABILITIES					
Provisions	18	27,254	15,719	21,176	15,719
TOTAL NON CURRENT LIABILITIES		27,254	15,719	21,176	15,719
TOTAL LIABILITIES		4,812,264	2,758,969	3,705,836	2,814,420
NET ASSETS		5,837,554	7,088,468	5,698,238	7,034,956
EQUITY					
Contributed equity	19	6,393,442	6,062,786	6,393,442	6,062,786
(Accumulated losses)/Retained earnings		(769,953)	1,003,704	(736,431)	950,192
Reserves	20	27,194	21,978	41,227	21,978
Total parent entity interest		5,650,683	7,088,468	5,698,238	7,034,956
Minority interest		186,871	-	-	-
TOTAL EQUITY		5,837,554	7,088,468	5,698,238	7,034,956

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

These financial statements should be read in conjunction with the attached report by Horwath Sydney Partnership.

Statements of changes in Equity

for the year ended 30 June 2006

NetComm Limited

Statement of Changes in Equity – Consolidated

	Ordinary shares	(Accumulated losses)/ Retained earnings	Option reserve	Foreign exchange translation reserve	Minority interest	Total
	$	$	$	$	$	$
Balance at 1 July 2004	29,533,575	(23,457,487)	10,626	-	-	6,086,714
Profit attributable to members of the parent entity	-	967,059	-	-	-	967,059
Total recognised gains and losses for the year	-	967,059	-	-	-	967,059
Transactions with equity holders in their capacity as equity holders						
Capital return	(1,188,057)	-	-	-	-	(1,188,057)
Employee/director share options	1,211,400	-	11,352	-	-	1,222,752
Capital reduction	(23,494,132)	23,494,132	-	-	-	-
Balance at 30 June 2005	6,062,786	1,003,704	21,978		-	7,088,468
Loss attributable to members of the parent entity	-	(1,258,181)	-	-	-	(1,258,181)
Exchange difference on retranslation of foreign operations	-	-	-	(14,033)	-	(14,033)
Total recognised gains and losses for the year attributable to equity holders of parent	-	(1,258,181)	-	(14,033)	-	(1,272,214)
Loss attributable to minority interest	-	46,976	-	-	(46,976)	-
Total recognised gains and losses for the year attributable to minority interest	-	46,976	-	-	(46,976)	-
Transactions with equity holders in their capacity as equity holders						
Dividends paid or provided for	-	(562,452)	-	-	-	(562,452)
Contributions of equity net of transaction costs	328,535	-	-	-	-	328,535
Employee share options	2,121	-	19,249	-	-	21,370
Minority interest on acquisition of subsidiary	-	-	-	-	233,847	233,847
Balance at 30 June 2006	6,393,442	(769,953)	41,227	(14,033)	186,871	5,837,554

Statements of changes in Equity

for the year ended 30 June 2006

NetComm Limited

Statement of Changes in Equity – Parent Entity

	Ordinary shares	(Accumulated losses)/ Retained earnings	Option reserve	Foreign exchange translation reserve	Minority interest	Total
	$	$	$	$	$	$
Balance at 1 July 2004	29,533,575	(23,504,758)	10,626	-	-	6,039,443
Profit attributable to members of the parent entity	-	960,818	-	-	-	960,818
Total recognised gains and losses for the year	-	960,818	-	-	-	960,818
Transactions with equity holders in their capacity as equity holders						
Capital return	(1,188,057)	-	-	-	-	(1,188,057)
Employee/director share options	1,211,400	-	11,352	-	-	1,222,752
Capital reduction	(23,494,132)	23,494,132	-	-	-	-
Balance at 30 June 2005	6,062,786	950,192	21,978	-	-	7,034,956
Loss attributable to members of the parent entity	-	(1,124,171)	-	-	-	(1,124,171)
Total recognised gains and losses for the year attributable to holders of parent	-	(1,124,171)	-	-	-	(1,124,171)
Transactions with equity holders in their capacity as equity holders						
Dividends paid or provided for	-	(562,452)	-	-	-	(562,452)
Contributions of equity net of transaction costs	328,535	-	-	-	-	328,535
Employee share options	2,121	-	19,249	-	-	21,370
Balance at 30 June 2006	6,393,442	(736,431)	41,227	-	-	5,698,238

Cash flow statements

for the year ended 30 June 2006

NetComm Limited

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		24,400,519	23,202,332	21,996,495	22,462,427
Payments to suppliers and employees (inclusive of GST)		(24,910,917)	(22,587,716)	(23,211,185)	(21,847,811)
Interest received		99,769	111,205	84,439	111,205
Interest and other costs of finance paid		(49,470)	-	(34,902)	-
Net cash (outflows)/inflows from operating activities	23(a)	(460,099)	725,821	(1,165,153)	725,821
Cash flows from investing activities					
Payments for purchase of subsidiary net of cash acquired	11(b)	(161,891)	-	(30,710)	-
Payments for property, plant & equipment		(243,225)	(263,546)	(186,542)	(263,546)
Payments for intangible assets		(148,325)	(128,766)	(148,325)	(128,766)
Net cash flow used in investing activities		(553,441)	(392,312)	(365,577)	(392,312)
Cash flows from financing activities					
Dividend paid to company shareholders		(562,452)	(544,254)	(562,452)	(544,254)
Proceeds from share issues		2,121	1,211,400	2,121	1,211,400
Return of capital		-	(1,188,057)	-	(1,188,057)
Proceeds from borrowings		1,249,287	-	1,249,287	-
Net cash flow from/(used in) financing activities		688,956	(520,911)	688,956	(520,911)
Net decrease in cash held		(324,584)	(187,402)	(841,774)	(187,402)
Cash and cash equivalents at beginning of the year		2,157,585	2,344,987	2,157,585	2,344,987
Cash and cash equivalents at end of the year	23(c)	1,833,001	2,157,585	1,315,811	2,157,585

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

These financial statements should be read in conjunction with the attached report by Horwath Sydney Partnership

Notes to the Financial Statements

for the year ended 30 June 2006

NetComm Limited

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General information

The financial report is a general purpose financial report that has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers NetComm Limited and controlled entities ("the Group"), and NetComm Limited as an individual parent entity. NetComm Limited is a listed public company, incorporated and domiciled in Australia.

The financial statements was authorised for issue by the Board of Directors on 29 September 2006.

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

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and the group accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures. These financial statements are the first financial statements of NetComm Limited to be prepared in accordance with AIFRS. With the exception of AASB 139 Financial Instruments: Recognition and Measurement and AASB 132 Financial Instruments: Presentation and Disclosure, both of which have been applied from 1 July 2005, the other exemptions allowed under AASB 1 from retrospective application are detailed in notes 1(b) and 1(m).

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Effect of new standards issued not yet effective can be found in Note 3.

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of NetComm Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS, except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 "Financial Instruments: Presentation and Disclosure".

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Specific Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by NetComm Limited as at 30 June 2006 and the results of all controlled entities for the year then ended. The effects of all transactions between entities in the Group are eliminated in full.

A list of controlled entities in contained in Note 11 to the financial statements. All controlled entities have a June financial year end. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the Group.

Where the control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Business Combinations

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is the weighted average of their closing market price for the total of the five business days either side of the acquisition date.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(k)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

In the event that settlement of all or part of the consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. However, where the deferred component is subject to certain criteria being met, the amount deferred is recognised based on an estimate where it is probable that the relevant criteria will be met. If the amount is not probable or cannot be reliably measured, no amount is recognised.

The Group has used the exemption in AASB 1 and has not applied AASB 3: Business Combinations to transactions which occurred before 1 January 2004.

(c) 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 substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred 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.

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 the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted 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 deferred tax asset has not been recognised in respect of timing differences or tax losses because it is not considered probable that future taxable amounts will be available to utilise those temporary differences and tax losses.

(d) 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 assets, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

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

Impairment testing is performed annually for goodwill.

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 as income in the income statement

(e) 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	2006	2005
Plant and equipment	27-50%	27-50%
Leasehold improvements	17%	17%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(f) 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 income statement so as to achieve a constant periodic rate of interest on the remaining balance of the liability outstanding

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged to the income statement on a straight line basis over the lease term.

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

(g) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

The fair value of all derivative financial instruments outstanding at the balance sheet date are recognised in the balance sheet 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 the income statement.

If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an non monetary asset, then, at the time the asset is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, for forecast transactions, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

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

(h) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist.

Subsequent to initial recognition these instruments are measured as set out below.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. 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

Investments

Investments in subsidiaries have been recognised at cost, less impairment losses, in the parent entity.

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose 'terms require delivery of the investment within 'the time frame' established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Other investments other than held to maturity debt securities are classified as either investments 'held for trading' or as available for sale, and are measured at subsequent reporting dates at fair value. Where investments are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available for sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest bearing trade finance loans and overdrafts are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised oven the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade payables

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

Equity instruments

Equity instruments issued by the Parent Entity are recorded at the proceeds received, net of transaction costs. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Impairment

At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. If there is an indication of impairment, an impairment test is carried out to determine the recoverable amount of the financial instrument. Impairment losses are recognised in the income statement.

Cash and cash equivalents

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

(i) Revenue Recognition

Revenue from the sale of goods are recognised at the time goods are dispatched to customers, which is when the risks and rewards of ownership have passed.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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).

(j) Inventory

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. Inventory are recognised on a weighted average cost basis.

(k) Intangibles

Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. The carrying amount of goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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. At balance date $75,200 costs had been capitalised on a project not yet ready for commercial use (2005: $ Nil). As the product is still being developed, amortisation policies have not been determined.

Computer Software

Computer software is measured on the cost basis less amortisation and impairment losses. Computer software is amortised on a straight line basis at 30% per annum, commencing from the time the software is ready for use.

(l) 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 the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

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 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 balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(m) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. 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 the 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.

Equity-settled compensation

Equity-settled compensation benefits are provided to employees via the Employee Option Plan. Information relating to this scheme is set out in note 26.

Options granted before and after 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received are allocated to share capital.

Options granted after 7 November 2002 and vested after 1 January 2005

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 Black-Scholes 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.

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 become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to be come exercisable. 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.

(n) Warranties

Product Warranties exist for products sold by the Group.

Costs incurred in respect of product warranties are recognised on an accruals basis.

(o) 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.

(p) 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

(q) Dividends

Provision is made 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.

(r) 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 Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(s) Comparative Amounts

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current year.

(t) Critical Accounting Estimates and Judgements

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

Key Estimates – Impairment

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.

Refer note 14 for details of impairment write offs during the period.

Critical Judgements

In calculating the cost of business combinations during the year, only amounts which can be reliably estimated have been recognised. Refer note 11(a) for details relating to the acquisition of Dynalink Modems Limited.

(u) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. The Group operates in one business segment (the communications industry) and predominantly in one geographical segment (Australia).

2. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

(a) Reconciliation of total equity as presented under AGAAP to that under AIFRS

Consolidated Entity		30 June 2005	1 July 2004
		$	$
Total equity under AGAAP		7,028,468	6,086,714
Write-back of goodwill amortisation	i	60,000	-
Total equity under AIFRS		7,088,468	6,086,714

Parent Entity		30 June 2005	1 July 2004
		$	$
Total equity under AGAAP		6,974,956	6,039,343
Write-back of goodwill amortisation		60,000	-
Total equity under AIFRS	i	7,034,956	6,039,343

(i) Goodwill is not amortised under AASB 3 "Business Combinations", but was amortised under AGAAP. This write back relates to goodwill amortised for the year ended 30 June 2005.

(b) Reconciliation of net profit under AGAAP to that under AIFRS

Consolidated Entity		Year ended 30 June 2005
Net Profit/(Loss) as reported under AGAAP		918,411
Amortisation of goodwill	I	60,000
Share based payments expense	ii	(11,352)
Net Profit/(Loss) under AIFRS		967,059

Parent Entity		Year ended 30 June 2005
Net Profit/(Loss) as reported under AGAAP		912,170
Amortisation of goodwill	i	60,000
Share based payments expense	ii	(11,352)
Net Profit/(Loss) under AIFRS		960,818

(i) Goodwill is not amortised under AASB 3 "Business Combinations", but was amortised under AGAAP. This write back relates to goodwill amortised for the year ended 30 June 2005.

(ii) Options issued to employees after 7 November 2002 but that had not vested by 1 January 2005 are charged to the income statement under AASB 2 "Share-based Payment" over their vesting period. No such expense was recognised under AGAAP. This resulted in

(c) Intangible Assets

Under AIFRS, software with a net book value of $93,485 at 1 July 2004 and $177,566 at 30 June 2005 (consolidated and parent entity) has been transferred to intangible assets from property, plant and equipment.

(d) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No adjustments have been made to the cash flow statement on adoption of AIFRS.

3. EFFECT OF NEW ACCOUNTING STANDARD NOT YET EFFECTIVE

Various new accounting standards and UIG Interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group has assessed the impact of these new standards or amendments and has concluded that they will not affect the accounting policies of the Group going forward.

AASB 7 "Financial Instruments: Disclosures" will require additional disclosures in the financial statements when that standard is adopted for the year ended 30 June 2007.

4. REVENUE

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Revenue					
Sales revenue		22,253,106	20,662,345	19,901,520	19,964,448
Interest revenue		99,769	111,205	84,439	111,205
Total revenue		22,352,875	20,773,550	19,985,959	20,075,653
Other income					
Foreign exchange gains (net)		19,784	4,380	23,817	4,380
Management fees		-	-	19,899	187,262
Other income		28,683	87,553	39,389	87,553
Total other Income		48,467	91,933	83,055	279,195

5. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

(a) Expenses

Loss/(Profit) before income tax includes the following expenses:

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Raw materials and consumables used		15,332,773	13,503,329	13,685,357	13,013,500
Employee benefits expense		4,007,107	3,111,411	3,412,327	3,11,411
Depreciation, amortisation and impairment losses		479,996	191,122	766,168	191,122
Advertising & promotion		827,989	806,887	797,893	806,887
Insurance		80,353	102,852	74,423	102,852
Legal & professional		231,896	279,980	233,324	279,980
Property expenses		418,435	413,582	344,286	413,582
Travel costs		181,382	147,623	152,478	147,623
Other expenses		2,050,122	1,341,638	1,692,027	1,327,073
		23,610,053	19,898,424	21,158,283	19,394,030

(b) Included in expenses are the following specific items

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Bad debts written off to the income statement:					
Trade debtors		5,808	-	-	-
Change in provisions for doubtful debts		52,839	53,500	47,839	53,500
		58,647	53,500	47,839	53,500
Remuneration of the auditor of the parent entity for:					
Auditing or reviewing the financial statements		81,355	59,500	81,355	59,500
Tax compliance services		5,170	6,750	5,170	6,750
Due diligence services			13,500	-	13,500
Total remuneration of auditor of parent entity		100,025	66,250	100,025	66,250
Other overseas Horwath practices:					
Auditing or reviewing the financial statements		20,107	2,000	2,257	2,000
Other assurance services		6,684	1,430	1,393	1,430
Total remuneration of overseas Horwath practices		26,791	3,430	3,650	3,430
Total remuneration of Horwath practices		126,816	69,680	103,675	69,680
Finance costs:					
Paid to external parties		49,470	-	34,902	-
Defined contribution superannuation expense		257,663	206,494	232,708	206,494
Depreciation, amortisation and impairments:					
Depreciation of plant and equipment		154,764	128,320	147,091	128,320
Amortisation of leasehold improvements		12,537	18,118	12,537	18,118
Amortisation of computer software		71,361	44,684	71,361	44,684
Impairment of goodwill		241,334	-	144,000	-
Impairment of other financial assets		-	-	391,179	-
		479,996	191,122	766,168	191,122
Research costs expensed		120,338	18,072	120,338	18,072
Rental expenses under operating leases		354,625	354,815	279,393	354,815

6. INCOME TAX

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Numerical reconciliation of income tax expense to prima facie tax payable.					
(Loss)/Profit before tax		(1,211,205)	967,059	(1,124,171)	960,818
Tax at the Australian tax rate of 30% (2005: 30%)		(363,362)	290,118	(337,251)	288,245
Impairment write down		72,400	-	160,554	-
Share based payments		5,775	3,406	5,775	3,406
Difference in overseas tax rates		(4,806)	-	-	-
Tax losses not recognised		289,993	-	170,922	-
Utilisation of prior year losses		-	(293,524)	-	(291,651)
Income tax expense		-	-	-	-
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.					
Tax losses at 30% (2005: 30%)		3,547,246	3,310,120	3,481,042	3,310,120
Capital losses at 30% (2005: 30%)		170,904	170,904	170,904	170,904
Overseas tax losses at 33%		52,867	-	-	-
		3,771,017	3,481,024	3,651,946	3,481,024

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

(a) Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) The conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) No changes in tax legislation adversely affect the consolidated entity's ability to realise the benefits.

Accordingly, no deferred tax assets have been recognised.

7. DIVIDENDS

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
The 2005 proposed final unfranked dividend of 0.75 cents per share was paid on 3 October 2005. This dividend was not provided at 30 June 2005.		-	-	562,452	-
		-	-	562,452	-
Balance of the franking account as at the end of the financial year adjusted for franking credits and debits that will arise from the receipt of dividends recognised as receivables at the end of the financial year, the payment of income tax payable and dividends proposed, and for franking credits that may be prevented from being distributed in the subsequent year.		-	-	-	-

8. CASH AND CASH EQUIVALENTS

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Cash at bank and on hand		1,833,001	2,157,585	1,315,811	2,157,585

These funds are bearing floating interest rates of between 1.85% to 5.5%.

9. TRADE AND OTHER RECEIVABLES

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Trade receivables		4,006,262	3,420,305	3,136,444	3,420,305
Provision for doubtful debts		(37,543)	(45,021)	(32,543)	(45,021)
Provision for sales returns		(65,623)	(43,256)	(65,622)	(43,256)
Trade receivables net of provisions		3,903,096	3,332,028	3,038,279	3,332,028
Receivable from Dynalink Modems Limited		-	-	280,588	-
		3,903,096	3,332,028	3,318,867	3,332,028

10. INVENTORIES

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Raw materials and stores		89,120	58,336	65,204	58,336
Finished goods		3,449,249	3,262,380	2,828,390	3,262,380
Total inventories		3,538,369	3,320,716	2,893,594	3,320,716

11. OTHER FINANCIAL ASSETS

a) Investments in Controlled Entities

	Country of Incorporation	$	$	Ownership %	Ownership %
Askey Australia Pty Ltd – at cost less impairment (refer 11(a))	Australia	735,590	-	81%	-
Dynalink Modems Ltd – at cost less impairment (refer 11(a))	New Zealand	168,333	-	100%	-
Banksia Technology Pty Ltd – at cost	Australia	2	2	100%	100%
Mike Boorne Electronics Pty Ltd – at cost	Australia	1	1	100%	100%
Spirit Technology (HK) Ltd – at cost	Hong Kong	1,935	1,935	100%	100%
		905,861	1,938		

All subsidiaries have been consolidated.

b) Acquisition of Controlled Entities

On 19 December 2005 NetComm Limited completed the acquisition of Dynalink Modems Limited, a New Zealand based company and 81% of its Australian subsidiary Askey Australia Pty Limited.

The consideration paid to the former owners of Dynalink Modems Limited was $328,535 via the issue of 1,899,047 NetComm shares at 17.3 cents per share.

In addition, NetComm Limited has agreed to pay the former owners of Dynalink Modems Limited an amount equivalent to the pre-tax profit of Dynalink Modems Limited for the 18 months to 30 June 2007. Such payment would be made via the issue of NetComm Limited shares at an issue price determined by the average NetComm Limited share price in the 5 trading days preceding 30 June 2007. This second payment will only occur if Dynalink Modems Limited pre-tax net profit achieves a minimum threshold of $300,000. Because this amount cannot be reliably estimated either at transaction date or 30 June 2006, it has not been recognised as part of the consideration for the acquisition. Once it can be reliably estimated that additional consideration will be payable, it will be brought to account and goodwill arising on the acquisition adjusted.

In addition, in consideration for the acquisition of Askey Australia Pty Limited, NetComm Limited assumed the loan of Dynalink Modems Limited payable to Askey Australia Pty Limited totalling $935,857.

The consideration paid and assets and liabilities obtained from the acquisition of these two subsidiaries are as follows:

Acquisition of Controlled Entities	
Fair value of assets and liabilities recognised on acquisition	**$**
Cash	(131,181)
Trade and other receivables	1,430,544
Inventory	667,262
Property, plant and equipment	120,039
Trade and other payables	(655,049)
Minority interest	(233,847)
Goodwill	97,334
Fair value of identifiable net assets	1,295,102
Purchase consideration:	
1,899,047 ordinary shares issued	328,535
Loan assumed by NetComm Limited	935,857
Direct costs associated with the acquisition	30,710
	1,295,102
Cash outflow:	
Bank overdraft acquired	131,181
Direct costs associated with the acquisition	30,710
	161,891

Since acquisition, Dynalink Modems Limited has contributed a loss of $160,202 and Askey Australia Pty Limited has contributed a loss of $200,217 to the Group. It is not practicable to disclose the revenue and profit/loss of these entities as if it had been combined for the whole reporting period, because these entities were privately owned and the financial information was unaudited.

12. OTHER ASSETS

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Prepayments		469,335	282,814	232,973	282,815

13. PROPERTY, PLANT AND EQUIPMENT

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
(a) Plant and Equipment					
At cost		1,685,150	1,301,916	1,476,640	1,301,916
Accumulated depreciation		(1,110,370)	(924,216)	(1,070,909)	(924,216)
Total Plant and Equipment		574,780	377,700	405,731	377,700
(b) Leasehold Improvements					
At cost		129,764	118,529	129,764	118,529
Accumulated amortisation		(75,853)	(63,501)	(75,853)	(63,501)
Total Leasehold Improvements		53,911	55,028	53,911	55,028
Total Property, Plant and Equipment		628,691	432,728	459,642	432,728

(c) Movement in carrying amounts 2006

	Leasehold Improvements	Plant & Equipment	Total
	$	$	$
Movement in carrying amounts 2006 – Consolidated			
Balance at the beginning of the year	55,028	377,700	432,728
Additions	11,420	231,805	243,225
Additions through acquisition	-	120,039	120,039
Amortisation/depreciation expense	(12,537)	(154,764)	(167,301)
Carrying amount at the end of the year	53,911	574,780	628,691
Movement in carrying amounts 2006 – Parent entity			
Balance at the beginning of the year	55,028	377,700	432,728
Additions	11,420	175,122	186,542
Amortisation/depreciation expense	(12,537)	(147,091)	(159,628)
Carrying amount at the end of the year	53,911	405,731	459,642
Movement in carrying amounts 2005 – Consolidated and Parent Entity			
Balance at the beginning of the year	14,455	301,165	315,620
Additions	58,691	204,855	263,546
Amortisation/depreciation expense	(18,118)	(128,320)	(146,438)
Carrying amount at the end of the year	55,028	377,700	432,728

14. INTANGIBLES

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Goodwill					
Cost		241,334	144,000	144,000	144,000
Accumulated impairment losses		(241,334)	-	(144,000)	-
		-	144,000	-	144,000
Computer Software					
Cost		300,485	226,776	300,485	226,776
Accumulated amortisation		(121,154)	(49,210)	(121,154)	(49,210)
		179,331	177,566	179,331	177,566
Development Costs					
Cost		75,200	-	75,200	-
Accumulated amortisation		-	-	-	-
		75,200	-	75,200	-
Total intangibles		254,531	321,566	254,531	321,566

	Computer Software	Development Costs	Goodwill	Total
	$	$	$	$
Movement in carrying amounts 2006 – Consolidated Entity				
Balance at the beginning of the year	177,566	-	144,000	321,566
Additions	73,126	75,200	-	148,325
Additions through acquisition	-	-	97,334	97,334
Amortisation/depreciation expense	(71,361)	-	-	(71,361)
Impairment write downs (Note 14a)	-	-	(241,334)	(241,334)
Carrying amount at the end of the year	179,331	75,200	-	254,531
Movement in carrying amounts 2006 – Parent Entity				
Balance at the beginning of the year	177,566	-	144,000	321,566
Additions	73,126	75,200	-	148,325
Amortisation/depreciation expense	(71,361)	-	-	(71,361)
Impairment write downs (Note 14a)	-	-	(144,000)	(144,000)
Carrying amount at the end of the year	179,331	75,200	-	254,531
Movement in carrying amounts 2005 – Consolidated and Parent Entity				
Balance at the beginning of the year	93,485	-	144,000	237,485
Additions	128,766	-	-	128,766
Amortisation/depreciation expense	(44,685)	-	-	(44,685)
Carrying amount at the end of the year	177,566	-	144,000	321,566

a. The goodwill of $144,000 represents the unamortised balance of the amount paid for the Spirit Technologies business acquired in November 2001.

During the second half of the financial year, the directors resolve to cease marketing products under the Spirit brand. Consequently, the unamortised amount of $144,000 has been written off.

b. The goodwill paid on acquisition of Dynalink Modems Limited and Askey Australia Pty Limited totalling $97,334 is substantially represented by acquisition costs including legal fees, due diligence fees, and stamp duty.

The acquisition price paid was the carrying value of net tangible assets of each entity acquired. The directors believe these net tangible assets are recoverable in full. However, the directors believe no value would be obtained for the acquisition costs incurred. Accordingly, these costs have been written off.

15. TRADE AND OTHER PAYABLES (CURRENT)

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Unsecured Liabilities					
Trade creditors		1,982,571	1,725,786	1,216,426	1,725,785
Employee entitlements		241,154	151,276	177,856	151,276
Other creditors		666,015	709,652	641,432	765,104
Payable to Askey Australia Pty Limited		-	-	207,771	-
		2,889,740	2,586,714	2,243,485	2,642,165
Amounts payable in foreign currencies					
USD		590,136	619,653	380,658	619,653

16. BORROWINGS

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Trade refinance (secured)		1,249,287	-	1,249,287	-

The trade refinance facility is secured by a mortgage debenture given by NetComm Limited. Refer Note 29 for further details of this borrowing.

Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Credit standby arrangements					
Trade refinance		1,500,000	-	1,500,000	-
Used at balance date		1,249,287	-	1,249,287	-
Unused at balance date		250,713	-	250,713	-

17. PROVISIONS (CURRENT)

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Long service leave		176,238	122,850	154,132	122,850
Dividends		37,756	33,686	37,756	33,686
		213,994	156,536	191,888	156,536

18. PROVISIONS (NON CURRENT)

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Long service leave		27,254	15,719	21,176	15,719

19. CONTRIBUTED EQUITY

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Share Capital		6,393,442	6,062,786	6,393,442	6,062,786
77,135,038 issued and paid up ordinary shares of no par value (2005: 75,208,491)					

Movements in issued and paid up ordinary share capital of the company for the past 2 years were as follows

Date	Details	Notes	No of Shares	Issue Price	Value
1-Jul-04	Opening Balance		70,220,991		4,851,382
14-Oct-04	Exercise of Options		4,750,000	0.25	1,187,500
27-Jul-04	Exercise of Options		10,000	0.07	700
30-Aug-04	Exercise of Options		75,000	0.14	10,500
23-Sep-04	Exercise of Options		10,000	0.08	800
25-Oct-04	Exercise of Options		15,000	0.14	2,100
25-Oct-04	Exercise of Options		50,000	0.08	4,000
25-Oct-04	Exercise of Options		25,000	0.07	1,750
25-Oct-04	Exercise of Options		37,500	0.08	3,000
11-Mar-05	Exercise of Options		15,000	0.07	1,054
30-Jun-05	Balance		75,208,491		6,062,786
15-Jul-05	Exercise of Options		7,500	0.07	521
4-Nov-05	Exercise of Options		20,000	0.08	1,600
30-Nov-05	Issue of Shares	11(b)	1,614,190	0.17	279,255
30-Nov-05	Issue of Shares	11(b)	284,857	0.17	49,280
30-Jun-06	Closing Balance		77,135,038		6,393,442

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.

20. RESERVES

Option reserve

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

Foreign exchange reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve. The reserve is recognised in profit and loss when the net investment is disposed of. Refer Statement of Changes in Equity for movements in reserves.

21. CONTINGENT LIABILITIES

There is a contingent liability in respect of the service contract of 2 executives of NetComm Limited totalling $398,750 (2005: $398,750). Details of the contracts can be found in the Directors' Remuneration Report.

There is a contingent liability in respect of the service contract of one executive of Dynalink Modems Limited of NZD35,000 (2005: nil). Details of this contract can be found in the Directors' Remuneration Report.

22. EXPENDITURE COMMITMENTS

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Lease expenditure commitments: Operating leases (non-cancellable)					
Not later than one year		357,942	260,696	278,074	260,696
Later than one year and not later than 5 years		269,577	475,946	213,213	475,946
Aggregate lease expenditure contracted for at balance sheet date but not provided for in the accounts		627,519	736,642	441,286	736,642

The Group leases certain assets under operating leases expiring from one to five years. 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 consumer price index, or market reviews.

23. CASH FLOW STATEMENT

(a) Reconciliation of the (Loss)/Profit after Tax to the Net Cash Flows from Operations

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Operating (loss)/profit after tax		(1,258,181)	967,059	(1,124,171)	960,818
Depreciation, amortisation and impairment losses:					
• Property, plant and equipment		167,302	146,437	159,628	146,437
• Intangible assets		71,361	44,685	71,361	44,685
• Impairment losses of goodwill		241,334	-	144,000	-
• Impairment losses of other financial Assets		-	-	391,179	-
Share based payments		19,170	11,352	19,170	11,352
Net exchange differences		(14,238)	-	(14,238)	-
Fair value adjustment to derivatives		(22,795)	-	(22,795)	-
Provision for doubtful debts		14,887	(954)	12,478	(954)
Changes in operating assets & liabilities:					
• Trade receivables		(90,708)	132,640	281,270	90,633
• Related party current accounts		-	-	(1,008,674)	-
• Inventory		449,249	(1,436,724)	427,122	(1,436,724)
• Other assets		(185,901)	(129,986)	49,840	(129,986)
• Trade and other payables		(349,026)	993,730	(592,132)	1,041,978
• Provisions		65,458	(2,418)	40,809	(2,418)
• Other liabilities		431,989	-	-	-
Net cash flow from operating activities		(460,099)	725,821	(1,165,153)	725,821

(b) Non-Cash Transactions

A subsidiary was acquired by issuing shares as consideration. Details of the transaction can be found in note 11(a).

(c) **Reconciliation of Cash**

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Cash on Hand		1,833,001	2,157,585	1,315,811	2,157,585

24. RELATED PARTY DISCLOSURES

Directors

The names of the persons who were directors of NetComm Limited at any time during the financial year are as follows:

D P J Stewart
T R Winters
J A Brennan
J M Burton
M J Boorne
I C Ferry

I C Ferry was appointed on 21 December 2005 and resigned on 6 September 2006.

Remuneration of Key Management Personnel

		Consolidated		Parent Entity	
	Notes	2006	2005	2006	2005
		$	$	$	$
Short term benefits		867,975	873,091	801,945	873,091
Post employment benefits		23,565	24,117	23,565	24,117
Share based payments		4,797	4,294	4,797	4,294
		896,337	901,502	830,307	901,502

The company has taken exemption under Corporations Amendment Regulation 2006 (No 4) and transferred certain disclosures related to remuneration of key management personnel, as required by AASB 124 Related Party Disclosures, to the Remuneration Report which is included within note 10 of the Directors' Report.

Further information on option and share holdings of key management personnel can be found in Note 25.

Transaction with Directors and Director Related Entities concerning shares or share options

The aggregate shares held by Directors or Director related entities at 30 June 2006 were 29,560,137 (2005: 26,804,294).

There were no shares issued to Directors during the year (2005: Nil). 1,614,190 shares were issued to Ian Ferry prior to him becoming a director of NetComm Limited.

Options held by Directors:

Options held by Directors at 30 June 2006 amount to Nil (2005: Nil).

Other Transactions with Directors and Director Related Entities

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):

(a) Cove Industries Pty Ltd

An entity associated with Mr D Stewart has guaranteed the rental bond of $64,000 for the office premises at Unit 1, 2-6 Orion Rd Lane Cove. That entity receives a fee for the provision of this guarantee amounting to $7,218 (2005: $8,857) which is non-contractual and invoiced quarterly.

(b) Boorne Management Pty Limited

An entity associated with Mr M Boorne charged Management Fees for his services of $250,000 (2005: $250,000). The amount has been included in Mr Boorne's remuneration disclosures for the year. The terms of the agreement between the company and Mr Boorne can be found in the Directors' Remuneration Report.

Transactions with subsidiaries

a) Loans to and from related parties

	Parent	
	2006	2005
	$	$
Loans to subsidiaries		
Loans Advanced – Dynalink Modems Ltd	280,588	-
	280,588	-
Loans from subsidiaries		
Loans received – Askey Australia Pty Ltd	207,771	-
Loans received - Spirit Technology (HK) Ltd	19,189	41,083
Loans received - Mike Boorne Electronics Pty Limited	29,068	29,068
	256,028	70,151

All loans are non-interest bearing and repayable at call.

b) Transactions with related parties

	Parent	
	2006	2005
	$	$
Sale of goods & services – Askey Australia Pty Ltd	178,396	-
Sale of goods & services- Dynalink Modems Ltd	160,094	-
	338,490	-

Sales to Askey Australia Pty Limited are at cost. Sales to Dynalink Modems Limited are inclusive of a mark-up.

c) Outstanding balances arising from sales & purchases of goods & services

	Parent	
	2006	2005
	$	$
Included in current receivables	31,598	
Included in current payables	53,799	

d) NetComm Limited charged a fee of $19,899 (2005: $187,262) to Spirit Technology (HK) Limited, in respect of administrative services including purchasing, sales & marketing, accounting, product design and research and development.

25. EQUITY AND OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL

Key Management Personnel Share Holdings

Directors Share Holdings	Bal at start of Year	Movt during Year	Bal at end of Year
T R Winters	206,250	-	206,250
D P J Stewart	20,029,754	241,653	20,271,407
M J Boorne	6,022,700	900,000	6,922,700
J A Brennan	222,795	-	222,795
J M Burton	322,795	-	322,795
I C Ferry	-	1,614,190*	1,614,190

* *I C Ferry was issued shares in NetComm Limited in consideration for his shares in Dynalink Modems Limited prior to appointment as a director.*

Other Key Management Personnel Share Holdings

Directors Share Holdings	Bal at start of Year	Movt during Year	Bal at end of Year
S M Piry	65,258	(35,000)	30,258

Key Management Personnel Option Holdings

Directors Share Holdings	Bal at start of Year	Movt during Year	Bal at end of Year
S M Piry	185,000	150,000	335,000
L Luchowski	62,500	-	62,500

As at 30 June 2006, 92,500 options issued to S M Piry have vested and are exercisable. 242,500 options are unexercisable at 30 June 2006.

At 30 June 2006, 55,000 options issued to L Luchowski have vested and are exercisable. 7,500 options are unexercisable at 30 June 2006.

26. SHARE BASED PAYMENTS

The following share-based payment arrangements existed at 30 June 2006:

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 company which has been made by the employee;
c) the potential contribution of the employee to the company; 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 an exercise price per share of the greater of the par value and the market value of a share on the date of grant of the option in respect of that 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 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 in the employee
ii. At the end of year 2 from the date of the relevant option issue, 20% of the option issued will vest in the employee
iii. At the end of year 3 from the date of the relevant option issue, 30% of the option issued will vest in the employee
iv. At the end of year 4 from the date of the relevant option issue, 20% of the option issued will vest in the employee

Exercise of Options

An option may be exercised:

i. After an option has vested in accordance with the rules outlined above, but before 5 years from the date of issue 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 2006, there are 1,355,000 options (2005: 1,415,000) issued to 20 employees (2005: 24) to acquire ordinary shares. These options progressively vest on an annual basis commencing 12 months from the date of issue, details as follows:

No of Options	Exercise Price	Expiry	No of Options Exercisable 30 June 2006	No. of Options Exercisable 30 June 2005
	$		$	$
340,000	0.07	21-Feb-07	340,000	272,000
105,000	0.08	29-Aug-07	84,000	52,500
35,000	0.14	22-Aug-08	17,500	10,500
150,000	0.26	23-Jan-09	75,000	45,000
325,000	0.20	13-Dec-09	97,500	-
250,000	0.14	24-Jun-09	125,000	75,000
150,000	0.15	17-Nov-09	45,000	-
1,355,000			784,000	455,000

190,000 (2005: 460,000) options issued to employees expired during the financial year in accordance with the rules of the Shares Option Plan. The weighted average price of these shares was $0.18.

150,000 (2005: 650,000) 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 during the year was $0.057. The options have an exercise price of $0.15 and expire on 17 November 2010.

There were 27,500 (2005: 237,500) options exercised during the year ended 30 June 2006. These options had a weighted average share price of $0.08 at exercise date.

The 1,355,000 (2005: 1,415,000) options outstanding at 30 June 2006 had a weighted average exercise price of $0.15 (2005: $0.15) and a weighted average remaining contractual life of 2.5 years. Exercise prices range from $0.07 to $0.26 in respect of options outstanding at 30 June 2006.

There were no options exercised subsequent to year end. 1,300,000 options were issued subsequent to the year-end at an exercise price of $0.09. The options expire on 24 August 2010.

At the date of this report, unissued shares under the above options totalled 2,655,000 ordinary shares. No person entitled to exercise these options had or has any right, by virtue of the options, to participate in any share issue of any other body corporate.

Valuations of Options

The fair value at grant date of all options is independently determined using the Black-Scholes/Merton pricing model. The model inputs for options granted during the year included:

(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 (67%, 2005: 60-88%).

(c) The risk free interest rate is based on the 5 year Commonwealth Bond rate on date of issue (5.29%, 2005: 5.08-5.51%).

(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 (4.69%, 2005: 0-4.25%).

$19,249 (2005: $11,352) has been recognised as a share based payments expense for the year-ended 30 June 2006.

27. RETIREMENT BENEFIT OBLIGATIONS

(a) Superannuation Commitments

The Group provides employees with access to external superannuation plans that provide benefits on retirement, resignation, disability or death.

28. (LOSS)/EARNINGS PER SHARE

(a) Reconciliation of earnings to profit or loss

	Consolidated	
	2006	2005
	$	$
Basic (Loss)/EPS		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings/(loss) per share 76,331,732 (2005: 73,754,324).		
Net (Loss)/Profit	(1,211,205)	967,059
Basic (Loss)/EPS (cents)	(1.59)	1.31
Diluted (Loss)/EPS		
Weighted average number of ordinary shares on issue used in the calculation of diluted earnings/(loss) per share 76,755,732 (2005: 74,127,824).		
Net (Loss)/Profit	(1,211,205)	967,059
Diluted (Loss)/EPS (cents)	(1.58)	1.30

The parent entity has issued options in terms of an Employee Share Plan. Details of outstanding options can be found in Note 26.

29. FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks, including currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management policy is to individually monitor each of these risks on a regular basis to minimise the effects of adverse circumstances. The board of directors meet regularly to discuss the management of these risks, however there are no written principles for overall risk management. At present, the Group has entered into a forward exchange contract to hedge the foreign exchange risk faced by the Group. Each of the identified risks is discussed more fully below:

(a) Interest Rate Risk Exposures

Interest rate risk arises on significant cash holdings of the Group, as well as borrowings. Both the cash holdings and borrowings are subject to fluctuations in market interest rates. The Group does not have any specific risk management policies in place to mitigate the risks of these fluctuations.

The Group's exposure to interest rate risk and the effective weighted average interest rates on classes of financial assets and liabilities, is as follows:

Consolidated 30 June 2006	Weighted Average Effective Interest Rate	Floating Interest Rate	Non-Interest Bearing	Total
	%	$	$	$
Financial Assets				
Cash on deposit	4.4	1,833,001	-	1,833,001
Trade & other receivables	-	-	3,903,096	3,903,096
		1,833,001	3,903,096	5,736,097
Financial Liabilities				
Trade & other payables	-	-	2,889,740	2,889,740
Borrowings – bank secured	8.3	1,249,287	-	1,249,287
		1,249,287	2,889,740	4,139,027
Net Financial Assets		583,714	1,013,356	1,597,070

Consolidated 30 June 2005	Weighted Average Effective Interest Rate	Floating Interest Rate	Non-Interest Bearing	Total
	%	$	$	$
Financial Assets				
Cash on deposit	3.8	2,157,585	-	2,157,585
Trade & other receivables	-	-	3,332,028	3,332,028
		2,157,585	3,332,028	5,489,613
Financial Liabilities				
Trade & other payables	-	-	2,586,714	2,586,714
		-	2,586,714	2,586,714
Net Financial Assets		2,157,585	745,314	2,902,899

(b) Credit Risk Exposures

The credit risk on financial assets of the Group which have been recognised on the balance sheet is generally the carrying amount, net of any provisions for doubtful debts. The Group has policies in place to ensure that sales are made to customers with appropriate credit history. There are no significant concentrations of credit risk.

(c) Liquidity Risks

Liquidity risk is the risk that the Group maintains sufficient funding to continue its operations. The Group has no specific risk management policy for this but does monitor funding requirements on a regular basis through regular board meetings. The directors manage this risk by ensuring that the Group has sufficient facilities to meet any shortages of funding. Further information on the facilities in place can be found in note 15 (a).

(d) Foreign Exchange Risks

Foreign exchange risk arises on purchases made from foreign suppliers. The Group uses forward exchange contracts to hedge this risk. The Group does not apply hedge accounting, such that the movement in the fair value of the forward exchange contract is recognised in the profit and loss for the year.

(e) Fair Value of Financial Assets and Liabilities

The fair value of financial assets and liabilities of the Group as disclosed on the balance sheet approximates their carrying values.

30. EVENTS OCCURRING AFTER REPORTING DATE

On 12 September 2006 NetComm Limited acquired the remaining 19% of Askey Australia Pty Limited. The consideration paid to the minority interest was $186,871 via the issue of 2,053,528 NetComm shares at 9.1 cents per share.

On 12 September 2006 1,300,000 options were issued under the Employee Option Plan. The expiry date is 24 August 2010 and the exercise price is 9 cents.

31. SEGMENT REPORTING

NetComm Limited and its controlled entities operate predominantly in Australia in the one industry, being Information Technology, Hardware & Equipment Distribution.

Director's Declaration

The directors declare that:

1. The financial statements and notes, as set out on pages 24 to 45, are in accordance with the Corporations Act 2001 and;
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and the group;

2. The Managing Director and Financial Controller have each declared that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   b. the financial statements and notes for the financial year comply with the Accounting Standards; and
   c. the financial statements and notes for the financial year give a true and fair view;

3. In the director's 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.

This declaration is made in accordance with a resolution of the directors.

T R Winters
Chairman

D P J Stewart
Managing Director

Dated the 29th day of September 2006.

Independent Audit Report

HORWATH SYDNEY PARTNERSHIP
Chartered Accountants
A member of Horwath International
Level 10, 1 Market Street, Sydney NSW 2000

Independent audit report on the financial report to members of NetComm Limited

We have audited the accompanying financial report of NetComm Limited (the company) and NetComm Limited and controlled entities (the group) for the year ended 30 June 2006. The financial report comprises the balance sheet at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, summary of significant accounting policies and other explanatory notes, and the directors' declaration for the year then ended.

We have also audited the information about the remuneration of directors and executives ("remuneration disclosures"), the company has disclosed in accordance with Accounting Standard AASB 124 Related Party Disclosures, under the heading "Directors' Remuneration Report" in note 10 of the directors' report, as permitted by the Corporations Regulations 2001.

Directors' Responsibility for the Financial Report and the AASB 124 Remuneration Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and the remuneration disclosure based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. 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. Our responsibility is also to express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors report 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 and the remuneration disclosures contained in the directors report.

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

Independence

We are independent of the company and the group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditors' Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial statements, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion on the Financial Report

In our opinion:
The financial reports of NetComm Limited and NetComm Limited and controlled entities are in accordance with the Corporations Act 2001, including:
(a) giving a true and fair view of the company's and the group's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
(b) complying with Accounting Standards in Australia including the Australian Accounting Interpretations and the Corporations Regulations 2001.

Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in note 10 of the directors' report comply with Accounting Standard AASB 124.

Dated the 29th day of September 2006.

HORWATH SYDNEY PARTNERSHIP

Horwath Sydney Partnership

Chartered Accountants

MICHAEL P STIBBARD
Partner

ASX Additional Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is compiled to 31 August 2006.

(a) Statement of Shareholdings

Shareholder Name (Beneficial Holder)	No. of Shares
Brad Industries Pty Ltd	20,271,407
Boorne Management Pty Ltd/Earglow Pty Ltd	6,922,700
A & J Anderson Management P/L	2,400,000
Portel Pty Limited	2,000,000
Rocklea Estate Pty Ltd & Farrow Superfund	1,870,477
Ian Charles Ferry	1,614,190
Boorne Gregg Investments P/L & Boorne Super Fund	1,410,000
Mrs Cher Suey Cheah	1,100,000
Andrew George Kettle	1,080,000
Mr Christopher John Ayres	1,000,000
John Boorne & Jeannene Boorne / Boorne Super Fund	1,000,000
C E Howells	858,209
Sydney Equities Pty Limited	850,000
Bryan D Huntley	400,000
Mylar Pty Limited	400,000
Bond Street Custodians Limited	380,000
Crillon Pty Ltd	368,700
Retriever Investments Pty Ltd	345,700
Dawn Leong & Richard Antony Press	338,000
Dr Colin Rose	338,000
TOTAL REPORTED	44,275,383

(b) Shareholding Range

Proportion held by 20 largest shareholders is 57.3%.

Number of shareholders with less than a marketable parcel is 368.

	No. of Holders	No. of Shares
1 – 1,000	109	64,980
1,001 – 5,000	526	1,636,889
5,001 – 10,000	298	2,514,877
10,001 – 100,000	557	17,970,590
100,001 and over	80	54,947,792
	1,570	77,135,128

(c) Voting Rights

All ordinary shares carry one vote per share without restriction.

(d) Substantial Shareholders

David P J Stewart	20,271,407
Michael J Boorne	6,922,700

Corporate Directory

Company

NetComm Limited

ABN 85 002 490 486

Directors
T R Winters (Non-Executive Chairman)
D P J Stewart (Managing Director)
M J Boorne (Executive Director)
J A Brennan (Non-Executive Director)
J M Burton (Non-Executive Director)

Company Secretary
L Luchowski

Registered Office
Unit 1, 2-6 Orion Road
Lane Cove NSW 2066
Telephone: (02) 9424 2000
Facsimile: (02) 9427 9260

Auditor
Horwath Sydney Partnership
1 Market Street Sydney NSW 2000

Solicitors
Middletons Lawyers
52 Martin Place Sydney NSW 2000

RBHM Lawyers
53 Berry Street North Sydney NSW 2060

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

NetComm Limited
ABN 85 002 490 486

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