

ASX Announcement

Annual General Meeting – 30th October 2007

CHAIRMAN'S ADDRESS

This is the fourth Annual General Meeting of UnderCoverWear Limited as a listed public company and is in respect of the year ended 30 June 2007, being the 26th anniversary since UnderCoverWear commenced business.

Our Chief Executive Officer, Mrs Elaine Vincent, will shortly present an Operational Review of the performance of the Company.

The year ended 30 June 2007 was a challenging year with the performance compared with the year ended 30 June 2006, including –

- Revenue decreasing by 5.6%
- Consolidated profit increasing by 1.6%
- Dividends paid being maintained at 6.5 cents per share, fully franked.

The important aspects of the performance for the year are –

- The sales decrease is largely attributable to the historically low level of unemployment and the strong economy that makes the recruiting of independent sales consultants very difficult. During the year ended 30 June 2007, the number of active sales consultants declined by less than 10% however a positive indicator is that the level remained steady for the last five months of the year and has done so since 1 July 2007. Traditionally the direct selling industry performs best during higher unemployment levels and a less strong economy.

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However, the active sales consultants during the year accepted the challenge by increasing both the 'Average Spend per Customer' and the 'Average Sales per Party' performance indicators.

- The improved consolidated profit was achieved as a result of management's successful implementation of initiatives to improve efficiencies, working capital utilisation and, as already mentioned, greater productivity by the sales consultants.
- The continuing strong cash flow and balance sheet management resulted in the net tangible asset backing per ordinary security increasing by 30% to 8.91 cents per share whilst the Company continues to have no borrowings.
- The revenue and consolidated profit for the six months ended 30 June 2007 exceeded the same period in 2006, whilst the first six months of each chronological year is historically the Company's, and the Australian direct selling industry's, quietest half of each year.

Whilst your board and management have continued to review opportunities in the direct selling industry the only appropriate opportunity has been to pursue the organic growth of the existing UnderCoverWear business including further expansion of its operations overseas by supplying product from our head office warehouse in Sydney direct to customers in Singapore.

Nearly all members of the direct selling industry in Australia contract their independent sales consultants on a buy/sell basis, ie, that the consultant buys the product from the company and then sells it to their customer with the general rule of thumb being that the consultant makes a gross profit of approximately 20% of the recommended selling price. Effective from 1 August 2007, UnderCoverWear successfully adopted this arrangement rather than continuing with the model that the Company sell the product directly to the customer for the gross recommended selling price and therefore reward the consultant with a commission payment approximately 20% of the sale price.

If the economic trend and low unemployment continues, it is difficult to forecast future growth and the results achievable for the year ending

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30 June 2008, although the results since 1 July 2007 indicate that the net profit attributable to members of the parent entity should be maintained for the six months ending 31 December 2007, generally being the strongest six months of each chronological year.

The main focus for the year is to grow sales consultant numbers with the consequent result to increase net sales revenue. One of the initiatives management is currently investigating is opportunities to reach new customers in Australia and other geographic locations.

In respect of the Remuneration Report, as set out on pages 24–26 of the 2007 Annual Report, I confirm that the cash bonus paid to Mrs Elaine Vincent has been computed in accordance with her Service Agreement that was executed prior to the listing of the Company and was covered in the Prospectus. The Service Agreement is for a period ending on 30 June 2008 which will then be renegotiated, as I am pleased that our Chief Executive Officer has indicated her commitment to continue in that role.

I thank my co-directors for their contribution and support during the year, the Chief Executive Officer Mrs Elaine Vincent, her management team and staff and not least those sales consultants who increased their activity and revenues during the year, in a difficult prevailing market.

I also thank our shareholders for their continuing support during a challenging year.



David Hall
Chairman

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UnderCoverWear

UNDERCOVERWEAR LIMITED
ANNUAL GENERAL MEETING
SYDNEY – 30 October 2007

OPERATIONAL REVIEW
Presented by the Chief Executive Officer

As Chief Executive Officer I present to our shareholders the Operational Review for the year ended 30 June 2007 and for the period to date.

Our results over the past year reported in our Annual Report, and summarised by our Chairman in his address today, have been impacted by the less than normal recruitment of new sales consultants to our sales force; a challenge experienced by most other member companies in the direct selling industry in Australia.

Whilst still focusing on recruiting, implementing strong training programs and added incentives for recruitment during the past year, to counteract the lower intake of sales consultants occurring, management concentrated on improving productivity both of the sales force and within the head office operations.

As a result productivity within our sales force improved by 11% over the 12 month period to June 2007 and has continued to improve a further 1.3% in the first quarter of the current year.

Margins were improved and the number of full time employees at head office decreased, resulting in an overall wages reduction of 3.7%. Total fixed costs were reduced by 5% despite a 10.5% increase in rental expenses. These steps resulted in an increase of 1.6% in NPAT for the company despite a 5.6% reduction in sales.

Since the close of the financial year consultant numbers have remained steady with no further reduction over the June 2007 number. Whilst the traditional method of recruiting new people by the existing sales force will continue, management proposes to implement a strategy to open

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new areas in recruiting consultants in the coming year. We are commencing a pilot project in January 2008 in Sydney and based on the results we will undertake the same strategy later in the year in all major metropolitan areas around Australia.

Our consultant numbers remain unchanged at present, and with no immediate change to the low unemployment environment, results since July 1 indicate that the net profit should be maintained for the six months to December 2007 similar to the same period last year. Further results are difficult to forecast for the year ending 30 June 2008. I am excited and optimistic about our plans for the new year as growth in sales and profit are dependant on growth in our field force.

I must acknowledge and thank the dedicated members of our Management Team, employees and Sales Consultants and Managers for their outstanding loyalty and hard work.

ELAINE VINCENT
CEO



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