



UnderCoverWear

UNDERCOVERWEAR LIMITED

**B|W**

Manager Blackwood Capital Pty Limited  
UnderCoverWear Limited - ACN: 108 962 152





## Important Notice

This Prospectus is dated 13 May 2004 and was lodged with the ASIC on 13 May 2004. The ASIC or its officers take no responsibility for the contents of this Prospectus. This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Law may restrict the distribution of this Prospectus in jurisdictions outside Australia and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

Before deciding to invest in UnderCoverWear, potential investors should read the entire Prospectus and in particular consider the assumptions underlying the financial forecasts and the risk factors that could affect the financial performance of UnderCoverWear. The price of shares may rise or fall according to a number of factors. You should carefully consider these

risks in light of your personal circumstances (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

No securities will be issued or allotted on the basis of this Prospectus after its expiry date, being the date 13 months after the date of this Prospectus. A number of terms and abbreviations used in this Prospectus have defined meanings that appear in the Glossary of Terms. All financial amounts shown in this Prospectus are expressed in Australian dollars unless otherwise stated.





# Contents

Section 1	Investment Overview	6
Section 2	Details of Offers and How to Apply	14
Section 3	Industry Overview and UnderCoverWear's Business Philosophy	18
Section 4	Business Operations	22
Section 5	Directors and Senior Management	38
Section 6	Financial Information	42
Section 7	Risk Factors	60
Section 8	Independent Accountant's Report	64
Section 9	Independent Report on Forecasts	68
Section 10	Additional Information	72
Section 11	Glossary	84
Section 12	Application Section	88



# Key Dates & General Information

## KEY DATES

Offer opens	Friday	28 May 2004
Offer closes	Thursday	10 June 2004
Expected date of dispatch of holding statements	Monday	21 June 2004
Expected date of quotation of Shares on the ASX	Thursday	24 June 2004

## OFFER STATISTICS

Offer Price		\$0.50
Number of Shares on issue following the Offer		48,000,000
Number of Shares being offered by this Prospectus		24,000,000
Market Capitalisation at the Offer Price		\$24 million

Forecast profit after tax for 2004 (pre goodwill amortisation)	\$1.799 million (notes 1 and 2)
Forecast earnings per share for 2004 (pre goodwill amortisation)	3.75 cents (notes 1 and 2)
Forecast price earnings multiple for 2004 (pre goodwill amortisation)	13.3 times (notes 1 and 2)

Forecast profit after tax for 2005 (pre goodwill amortisation)	\$2.254 million (notes 1 and 2)
Forecast earnings per share for 2005 (pre goodwill amortisation)	4.70 cents (notes 1 and 2)
Forecast price earnings multiple for 2005 (pre goodwill amortisation)	10.6 times (notes 1 and 2)

Forecast dividend in respect of 2005 3.25 cents per share (notes 1 and 2)

Forecast dividend yield for 2005 6.5% (notes 1 and 2)

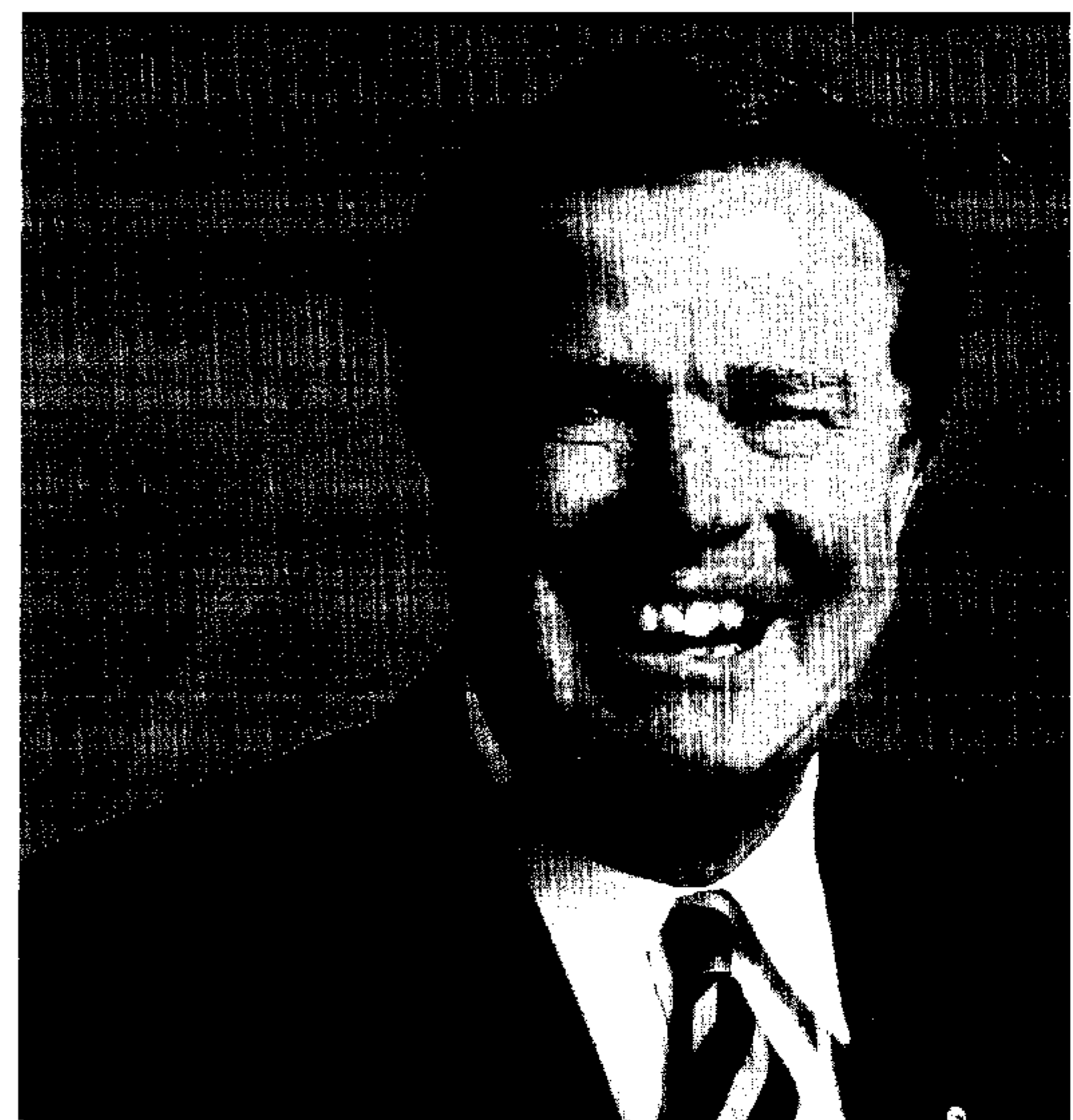
### Notes:

1. The directors of UnderCoverWear have made a number of important assumptions in forecasting the earnings of the Company for the years ending 30 June 2004 and 30 June 2005. Investors are referred to Section 6 for an outline of these assumptions.
2. Based on forecast net profit after tax pre goodwill amortisation.





# Chairman's Letter



Dear Investor,

On behalf of the Directors of UnderCoverWear Limited, I have pleasure in presenting to you the opportunity to invest in the growth of one of the leading Direct Selling Companies in Australia and New Zealand.

UnderCoverWear has been established for some 23 years, during which time the Company has shown a constant increase in sales and profits. The Company has a very strong local manufacturing base, located at a purpose built factory at Baulkham Hills, Sydney, together with a very strong relationship with overseas manufacturers who make and supply garments to supplement local manufacturing.

We are fortunate to have a very experienced and stable Management Team, experienced in all facets of Management, Design, Manufacture, Finance and Distribution. We are proud of the cutting edge technology developed by our dedicated IT group, which we believe is at the forefront in this area.

The Directors and Staff are also very proud of our commitment to the Community, particularly our support of the Cancer Councils in all States of Australia, where to date we have contributed in excess of half a million dollars in an effort to reduce the incidence of this disease. More recently we have contributed to the Make-a-Wish foundation to enable that group to satisfy the dreams of many seriously ill children.

Shares in UnderCoverWear are now being offered to investors and I encourage you to read the offer carefully. The Company generates strong operating cashflow and has relatively small capital expenditure requirements. The Company is forecasting a 6.5% fully franked dividend attributable to the 2005 year.

I am very proud of our Board of Directors, all of whom are very experienced in the Industry of Direct Selling and this will also support UnderCoverWear's future growth. I look forward to welcoming you as a shareholder in the Company.

Yours sincerely

A handwritten signature in black ink, which appears to read "John Everett". The signature is written in a cursive, flowing style.

John Everett AM  
Chairman



# Information Summary

## DESCRIPTION OF THE OFFER

This Prospectus offers a total of 24 million Shares at an issue price of \$0.50 per Share, payable in full on application. The Shares being offered under this Prospectus are comprised by the sale of existing shares held by a private equity financial investor and a foundation shareholder ("Shares"). The Shares will rank equally in all respects with each other and the existing issued Shares of UnderCoverWear after completion of the Offer. See Section 10.3 for further details of the rights attaching to the Shares.

After the close of the Offer the issued capital of UnderCoverWear will be 48 million fully paid Shares, of which interests associated with the Directors, will hold 24 million Shares, or 50% of the total issued capital. Interests associated with the Directors and Management, holding a total of 24 million Shares or 50% of the total issued capital, have entered into voluntary 12 month escrow arrangements relating to the Shares, details of which are set out in Section 10.6.

The Company will apply to the ASX for admission to the Official List and to have all of its issued Shares listed for quotation on the ASX (other than the Shares classified as restricted securities by the ASX).

The Directors believe that, on completion of the Offer, UnderCoverWear will have sufficient working capital to carry out its objectives as stated in this Prospectus.

## PURPOSES OF THE OFFER

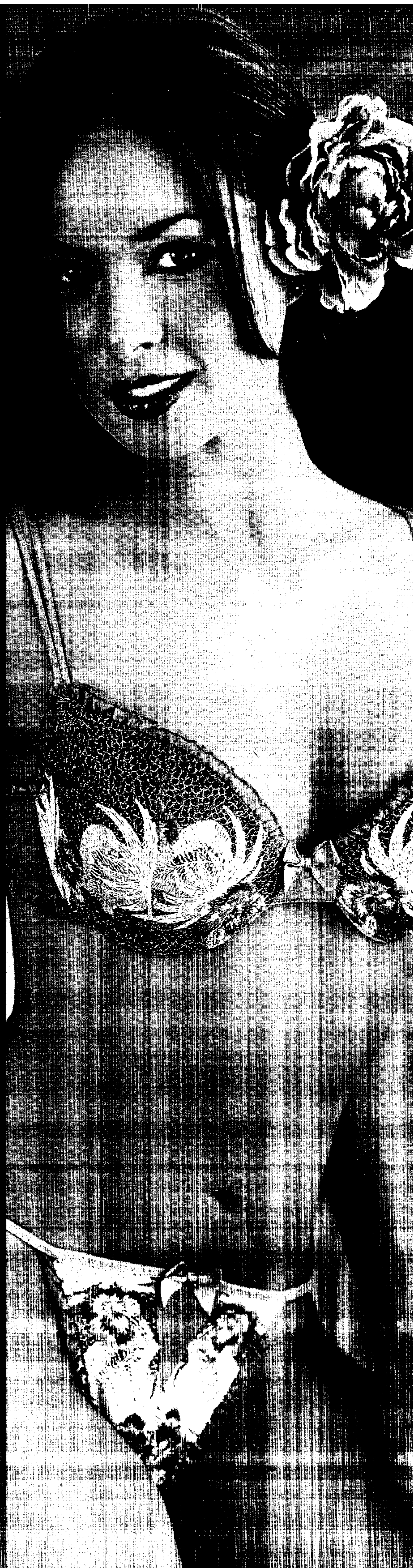
The purposes of the Offer are to:

- enable a private equity financial investor and foundation shareholder of UnderCoverWear to realise part or all of their investment in UnderCoverWear, some of which have been held for over 14 years, and
- to increase the public profile of UnderCoverWear.

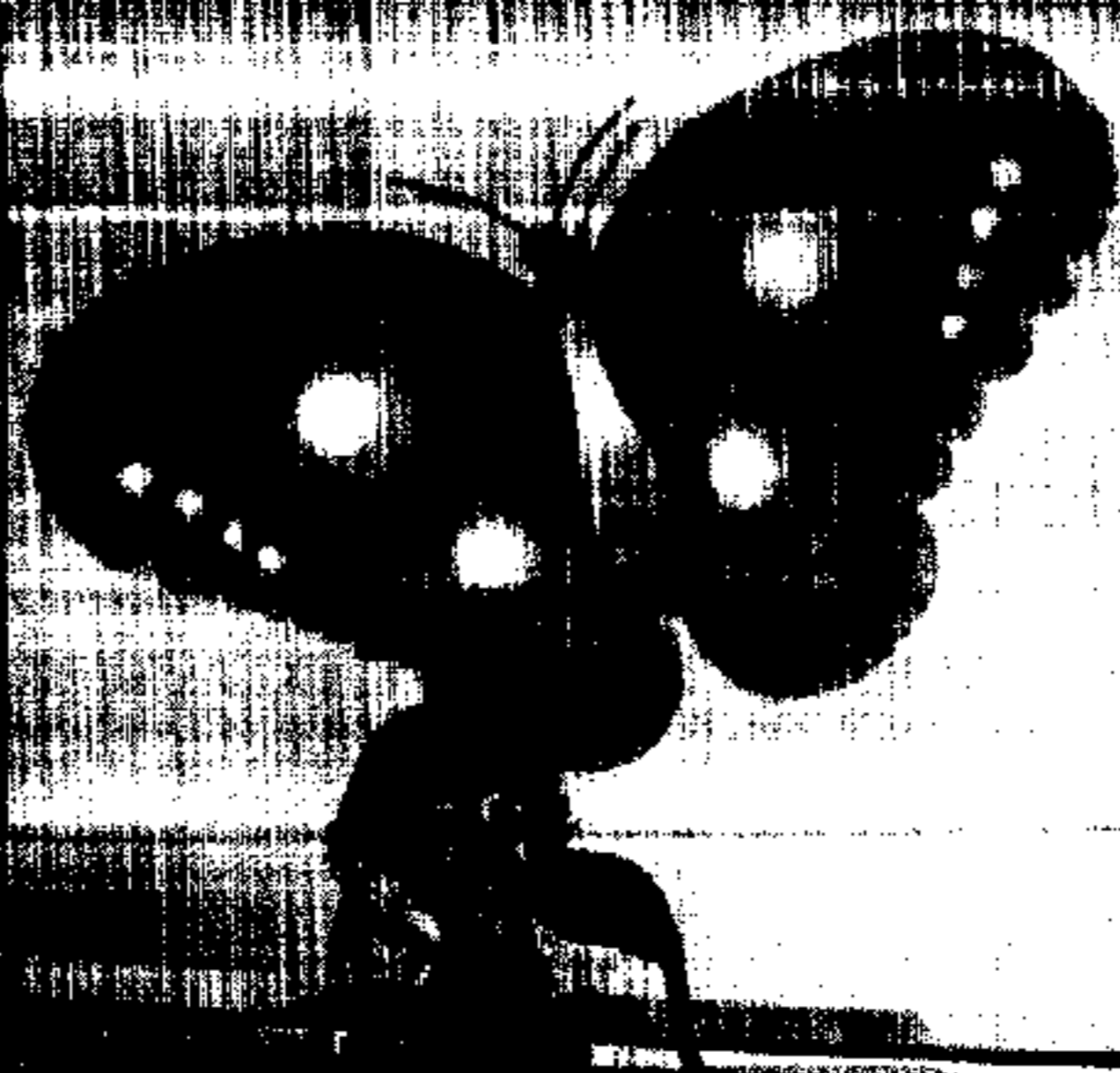




# Investment Overview







# 1. Investment Overview

## 1.1 BUSINESS SUMMARY

UnderCoverWear Limited (“UnderCoverWear” or the “Company”) was established in 1981 and is the largest party plan direct seller of intimate apparel, lingerie, underwear and sleepwear in the Australian and New Zealand marketplace.

The products are sold through over 2000 contracted sales consultants who sell direct to consumers at home shopping parties in hostesses’ homes. These consultants are based in all states of Australia and New Zealand. UnderCoverWear is successfully changing its sales structure through the introduction of Regional Executive Managers to replace State Managers. In April 2003, following the retirement of the Queensland State Manager, UnderCoverWear began this program in Queensland with the emphasis on developing new Regional Executive Managers. Following the release of an unlimited number of independent top positions in Queensland, sales in Queensland have grown by approximately 42%. This model is being progressively introduced throughout the remaining UnderCoverWear network.

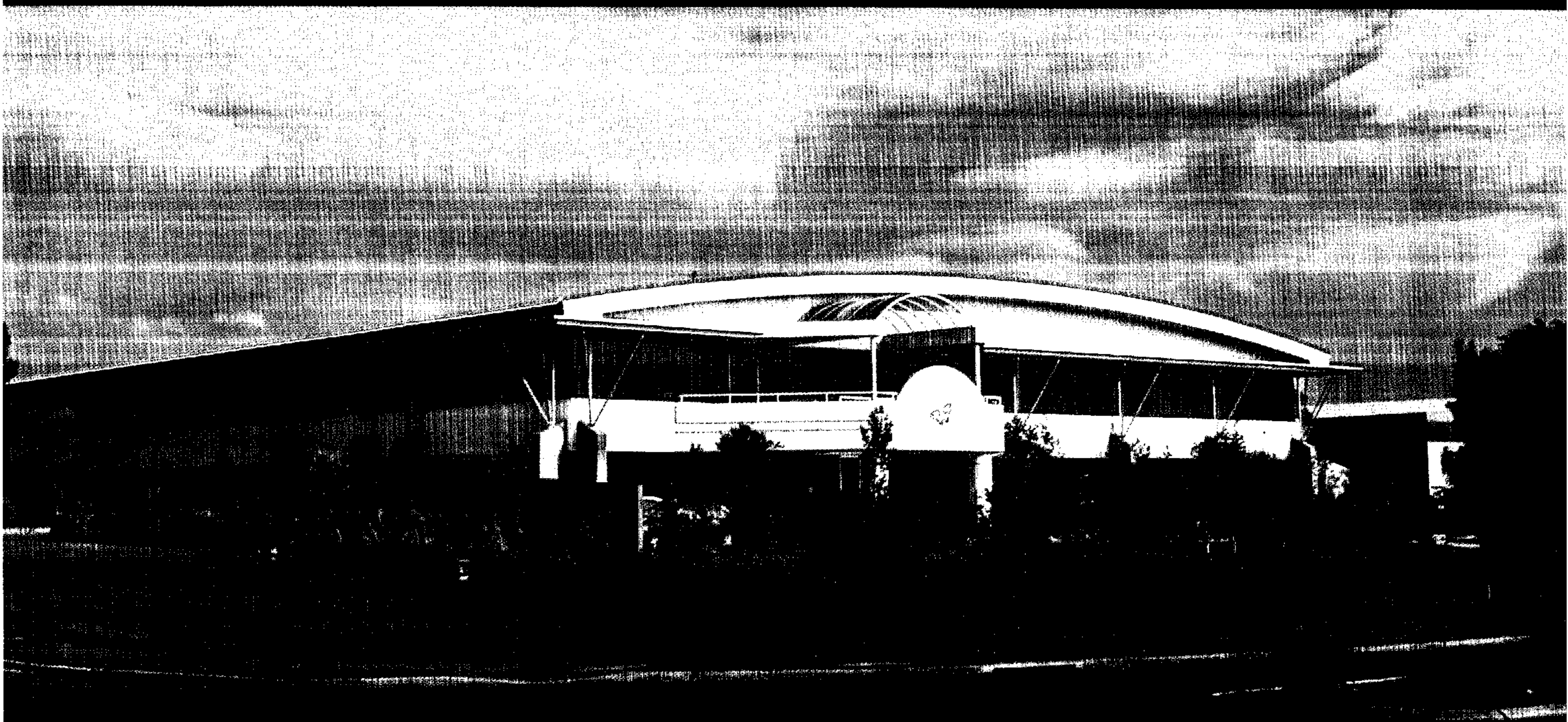
Headquartered in Baulkham Hills, Sydney, UnderCoverWear operates from a large modern complex that incorporates product design, administration, production, warehousing and distribution facilities.

Information technology is now integral to all aspects of the business from stock control, production costing and scheduling, order processing to accounting and forecasting. The IT systems, fully developed and owned by UnderCoverWear, ensure the group achieves optimal service to its customers and sales consultants and delivers state of the art management information systems.

UnderCoverWear has grown into a significant business since 1981. The Company has annual turnover exceeding \$31 million, more than 2,000 sales consultants around Australia and New Zealand, and offers over 200 designs in each of its catalogues. UnderCoverWear launched a new television advertising campaign on 3 May 2004, which should assist sales growth and act as a strong branding exercise for UnderCoverWear’s target markets.







Baulkham Hills, Sydney, Australia

UnderCoverWear operates from a large modern complex that incorporates product design, administration, production, warehousing and distribution facilities.



# 1. Investment Overview

## 1.2 INVESTMENT HIGHLIGHTS AND THE GROWTH OPPORTUNITY

- Sales are anticipated to grow at a compound 16.4% between 2002 and 2004, and are expected to grow by 14.0% from 2004 to 2005. Profit after tax (before amortisation of goodwill) is anticipated to grow at a compound 53.4% between 2002 and 2004, and are expected to grow by 25.3% from 2004 to 2005.
- In April 2003 UnderCoverWear began to focus on increasing the number of Regional Executive Managers in Queensland to replace the position of State Manager. Following the release of an unlimited number of independent top positions in Queensland, sales in Queensland have grown by approximately 42%. Queensland now accounts for 26% of UnderCoverWear's annual revenue, just behind NSW at 29% of UnderCoverWear's annual revenue.
- UnderCoverWear believes that there is excellent potential for the level of sales penetration already achieved in Queensland to be reached in other States.
- UnderCoverWear produces three catalogues a year featuring an extensive range of garments: a spring range released in August; an autumn range released in December; and a winter range released in April. Each catalogue presents the work of the Company's top designers who have put together the latest colours, fabrics and styles in a range of sizes to suit UnderCoverWear's customers.
- UnderCoverWear offers good quality products at reasonable prices. The direct marketing structure reduces overhead and fixed costs and allows UnderCoverWear to produce and sell quality products at competitive prices.
- UnderCoverWear offers over 200 items in sizes up to 26. This is a broader range of sizes than traditional retailers offer and is particularly attractive to larger customers who are often unable to find a suitable choice of intimate apparel at traditional retailers.
- UnderCoverWear's product appeals to a broad range of tastes and ages. UnderCoverWear's image is defined by the Company's consultants and hostesses, who may be of any age and from a broad range of communities.
- UnderCoverWear has over 2,000 sales consultants throughout Australia and New Zealand. The quality of the sales consultants is vital as they are the public face of the Company. All consultants are provided with detailed training and quality promotional material. Consultants are offered carefully structured incentives to not only sell products, but to also recruit new sales consultants to expand the sales network.
- The party plan method of direct selling is a highly successful and proven method of marketing, and is particularly effective in selling lingerie and other intimate apparel as it creates a social environment in which women are more comfortable buying these products.
- UnderCoverWear launched a television advertising campaign in May 2004, the first of its type in the Company's history. The Company anticipates that the advertising campaign will build sales and brand awareness and a greater acceptance for the Company's sales consultants in the marketplace.
- UnderCoverWear has invested significant capital in unique information technology systems. The complexity of party plan fulfilment has been made simple and efficient with custom programming. The system is highly scalable and would allow for a significant expansion in the existing business and the introduction of additional products and growth in the sales network without additional capital expenditure.



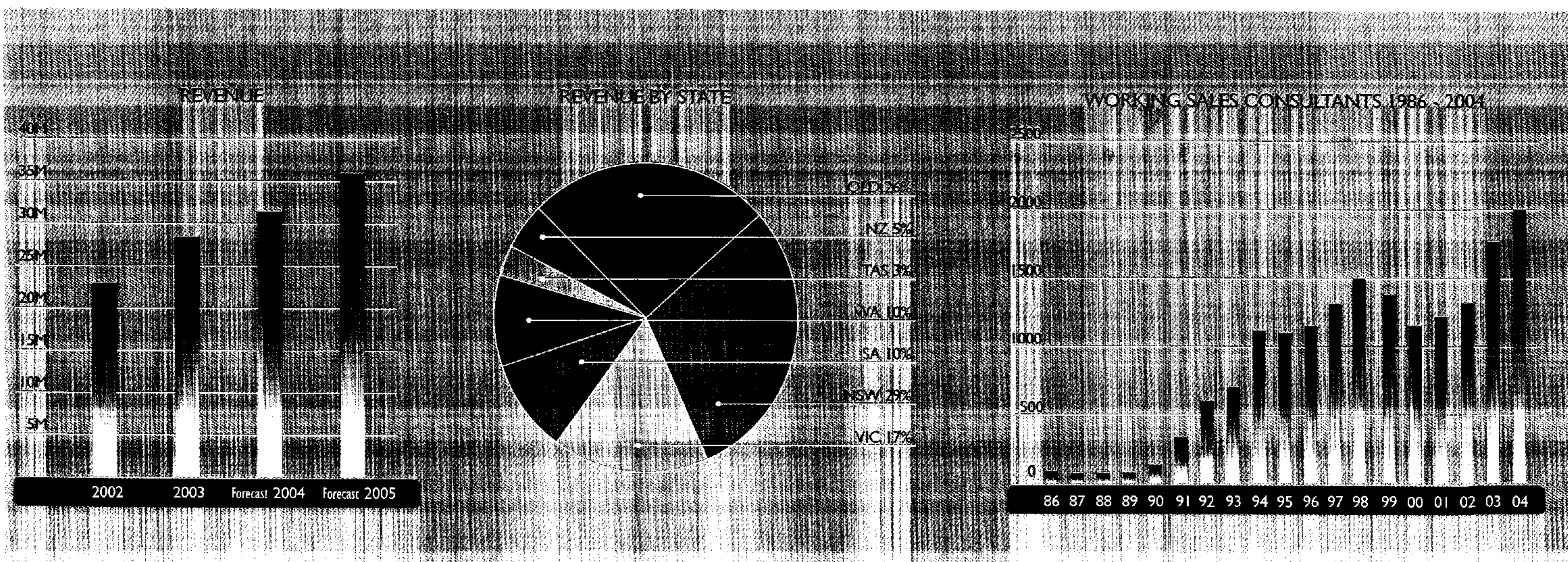


- UnderCoverWear sells to in excess of 415,000 customers per annum throughout Australia and New Zealand. This requires efficient distribution systems supported by leading edge technology.
- A large direct selling business requires a solid management team. UnderCoverWear's management has been successful in growing the Company over many years, and has the appropriate management, marketing and design skills to ensure that UnderCoverWear's products represent excellent value to our customers and consultants.

### 1.3 GROWTH RECORD & PROSPECTS

Historically, UnderCoverWear has recorded significant increases in revenue and EBIT, through organic growth. In June 2003, UnderCoverWear began to decentralise state based control and placed its emphasis on developing regions.

- In April 2003 UnderCoverWear encouraged the development of a number of Regional Executive Managers to replace the position of the State Manager in Queensland. This facilitated a greater focus on smaller teams and has led to a very large increase in sales, improvement in motivation, and the development of sales skills and marketing efforts.
- Following the emphasis on developing independent regions in Queensland, sales in Queensland have grown by approximately 42% YOY.
- Queensland now accounts for 26% of UnderCoverWear's annual revenue, just behind NSW at 29% of UnderCoverWear's annual revenue.
- UnderCoverWear removed its Victorian and South Australian State Managers in October 2003, and substantial improvements in sales have already occurred in South Australia and are beginning to improve in Victoria.
- NSW adopted the Regional Executive Manager model early in 2004 with WA scheduled to follow later in the year.







## 1. Investment Overview

- UnderCoverWear believes that there is excellent potential for the level of sales penetration already achieved in Queensland to be reached in other States.

The key drivers for UnderCoverWear's internal growth are as follows:

- The recruitment plan: The intake of new consultants has steadily increased over the past 3 years and is set to continue as a result of a revitalised recruitment plan and sales team structure. Generous incentives are offered to consultants by the Company to recruit new consultants. The number of working consultants has increased 18% compounded over the past three years. This rate of growth is accelerating, and consultant numbers are forecast to reach 3,000 by 2006.
- Supporting the growth and development of the sales structure, a television advertising campaign commenced in May 2004, backed up by personal appearances at shopping centres by sales consultants and managers around Australia and New Zealand, with the use of company sponsored displays and promotional materials. This advertising campaign is scheduled to continue throughout 2005 as well as a professionally conducted promotional campaign in other media.

### 1.4 FINANCIAL AND OFFER HIGHLIGHTS

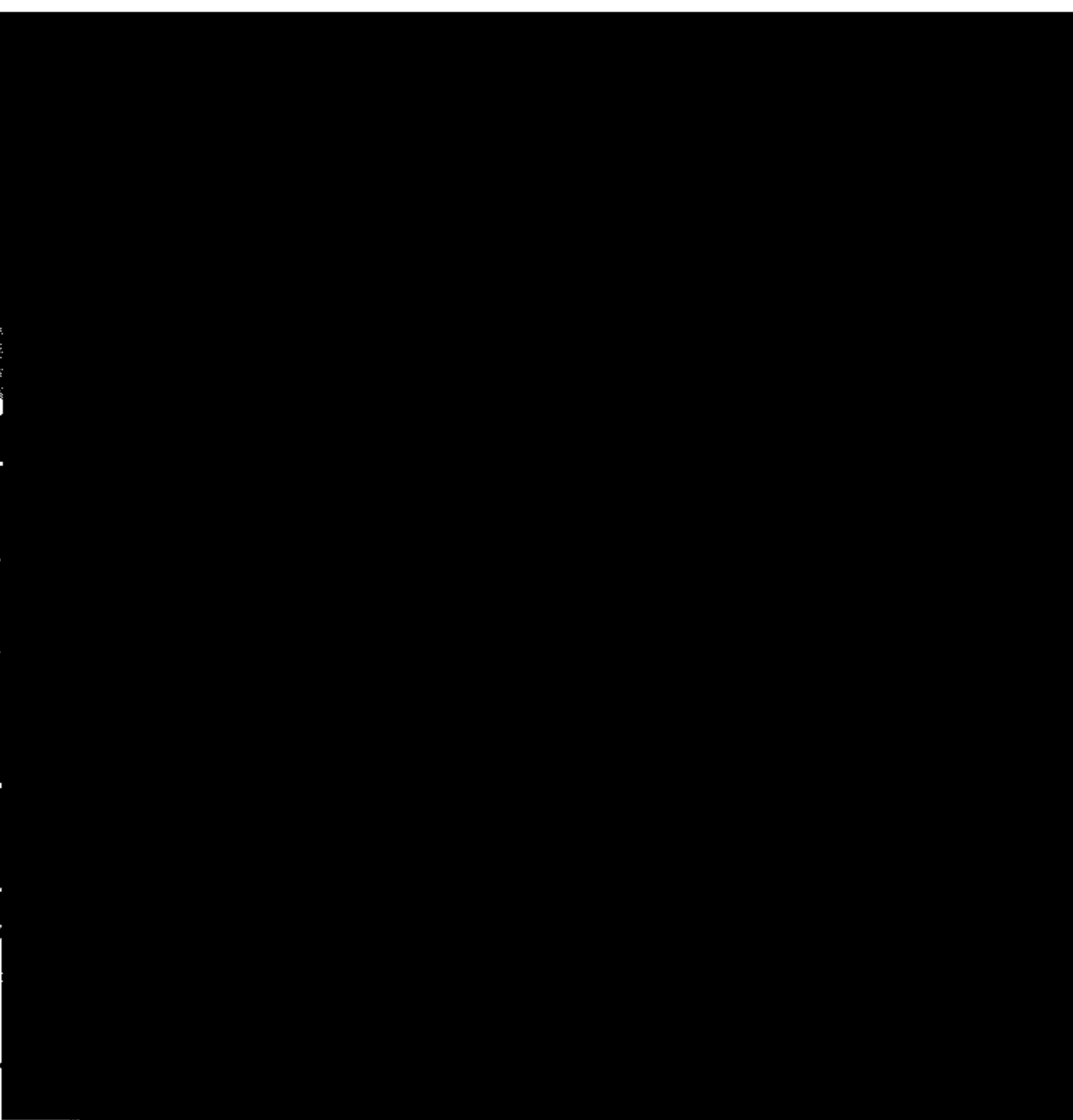
Over the four years to 30 June 2005, UnderCoverWear is forecast to experience a compound annual growth rate of 15.6% in revenue.

The following table summarises the adjusted financial performance of UnderCoverWear for the two years ended 30 June 2003 together with forecast performance for the years ending 30 June 2004 and 30 June 2005.

The assumptions underlying the forecast are set out in Section 6 and reviewed by Grant Thornton Corporate (NSW) Pty Limited in Section 9. The table set out below is intended to be read in conjunction with those Sections and the risk factors set out in Section 7.







## Summary of Financial Information

The following table of adjusted historical and forecast financial performance should be read in conjunction with the more detailed discussion of financial information in section 6. The Independent Accountant's Reports on the historical and forecast financial information is set out in Sections 8 and 9.

	Adjusted historical Year ended 30 Jun		Forecast Year ending 30 Jun	
	2002 \$'000s	2003 \$'000s	2004 \$'000s	2005 \$'000s
Sales revenue	23,316	28,467	31,611	36,039
EBITDA	1,642	2,432	2,884	3,740
EBITA	1,452	2,261	2,655	3,500
EBIT	1,392	2,201	2,555	2,240
Net profit after tax (before goodwill amortisation)			1,799	2,254
EPS (before goodwill amortisation) (cents per Share)			3.75	4.70

RATIOS	
Market Capitalisation	\$24,000,000
Enterprise Value <sup>(1)</sup>	\$27,000,000
EBITA multiple 2005	7.71x
Price earning ratio 2005 <sup>(2)</sup>	10.6x
Dividend per share 2005F (fully franked)	3.25 cents
Dividend yield 2005F	6.5%

1. Net debt on listing is estimated to be \$3 million as disclosed in Section 6.
2. Price earnings ratio is calculated using Net Profit after tax before Goodwill amortisation.



# 1. Investment Overview

## Asset Backing

Based on the Proforma Statement of Financial Position included in Section 6.6, UnderCoverWear's proforma net asset backing per Share will be 49.9 cents at the time of its ASX listing.

## Financial Gearing

Following listing, UnderCoverWear will have net debt of approximately \$3 million and unused credit facilities of \$1.89 million. The Company's gearing level (net financial debt to shareholders' equity) will be approximately 12.5%.

## 1.5 DIVIDEND POLICY

The Directors expect to declare a dividend of 3.25 cents per share for the year ending 30 June 2005 payable in two equal installments in April 2005 and October 2005. The expected dividend represents an annualised yield of 6.5% p.a. based on the Offer Price.

The Directors currently expect that a minimum payout ratio of 70% of after tax profits will be set. Dividends are expected to be paid in April and October of each year in respect of 2005 and in subsequent years.

The Directors, however, cannot give any assurance as to the extent, timing, or payment of any future dividends as future dividend payments are dependent upon a number of factors. These include the level of future earnings, the financial position of the Company and the market conditions in which it operates.

## 1.6 RISK FACTORS

The forecasts set out in Section 6 are based on various assumptions made by the Directors. Actual performance may be affected by a number of factors and may consequently differ materially from the forecasts set out in this Prospectus.

Some of the risks are general in nature and others are specific to UnderCoverWear. Section 7 outlines the principal risk factors known to the Directors.



SECTION 17

# Details of Offers & How to Apply







## 2. Details of Offer & How to Apply

An application for Shares in the Offer can be made only by completing an original Application Form as attached to this Prospectus. Detailed instructions on the correct method of completing an Application Form are included at the end of this Prospectus.

The Application Form must be accompanied by a cheque, in Australian Dollars, for the application monies. The minimum Application under this Offer is for 4000 Shares (being application monies of \$2,000) and thereafter in multiples of 100 Shares. All cheques must be made payable to "UnderCoverWear Limited Float Account" and crossed "Not Negotiable".

The completed Application Form should be received by:

**Blackwood Capital Pty Limited**  
Level 16  
60 Castlereagh Street  
Sydney NSW 2000

no later than 5.00pm EST on the Closing Date. The Closing Date is expected to be Thursday 10 June 2004. Payments by cheque will be deemed to be made when the cheque is honoured by the bank on which it is drawn. Applicants are advised to lodge their Applications as early as possible after the Offer opens.

UnderCoverWear reserves the right, in consultation with the Manager, to close the Offer at any time after expiry of the Prospectus exposure period without prior notice. The Manager reserves the right to extend the Offer period in consultation with the Company.

### Acceptance of Applications

The Company may accept or reject any Application, or accept an Application in respect of a number of Shares less than the number for which the Applicant applies. Acceptance of an Application by the Company creates a legally binding contract between the Applicant and the Company for the number of







Shares for which the Application is accepted. Acceptance takes place only on allotment and issue of Shares.

Where an Application is rejected, the Application monies will be returned in full. If the number of Shares allotted to the Applicant is fewer than the number for which the Applicant applied, the surplus Application monies will be returned. Interest will not be paid on the returned Application monies.

The Company will issue the Shares that are the subject of successful Applications as soon as possible after the Closing Date and the grant of ASX permission for the Company to be admitted to the Official List and have its shares listed on the ASX unconditionally or on conditions acceptable to the Directors.

Pending the issue by the Company of the Shares offered by this Prospectus, the Company will deposit Application monies in a separate bank account and keep them there for so long as those Applications, or any part of them, are liable to be repaid in accordance with the Corporations Act and this Prospectus.

### **ASX Listing**

The Company will make an application to the ASX within 7 days after the date of this Prospectus for the Company to be admitted to the Official List of the ASX and for the official quotation of all Shares (other than the Shares classified as restricted securities by the ASX).

The fact that ASX may admit UnderCoverWear to the Official List is not to be taken as an indication



## 2. Details of Offer & How to Apply

of the merits of the Company or the Shares. The ASX, its officers and employees take no responsibility for the contents of this Prospectus.

If granted, quotation of the Shares will commence as soon as is practicable after the issue of statements of holdings to shareholders.

If permission for official quotation of the Shares is not granted or deemed granted within 3 months, none of the Shares offered by this Prospectus will be issued unless an exemption is granted by the ASIC permitting such issue. If no issue is made, all Application monies will be returned within the time prescribed by the Corporations Act. Interest will not be paid on any Application monies refunded.

### Clearing House Electronic Sub-register System (CHES)

The Company will apply to the ASX to participate in the Securities Clearing House Electronic Sub-register System, known as CHES, pursuant to the Listing Rules. The Company will not issue share certificates to successful Applicants. Following allotment, the Company will provide each shareholder with a holding statement (similar to a bank account statement), which sets out the number of Shares allotted to the shareholder under this Prospectus. If applicable, the holding statement will also advise shareholders of their Holder Identification Number and Sponsoring Issuer Number. Shareholders will receive an explanation of sale and purchase procedures under the CHES system with the holding statement. If a shareholding changes during a month, the shareholder will receive a statement at the end of that month. Shareholders may also request statements at any other time (although the Company may charge an administration fee).

It is the responsibility of Applicants to determine their allocation prior to trading of the Shares. Applicants who sell Shares before they receive notice of their allocation do so at their own risk.

### Overseas Investors

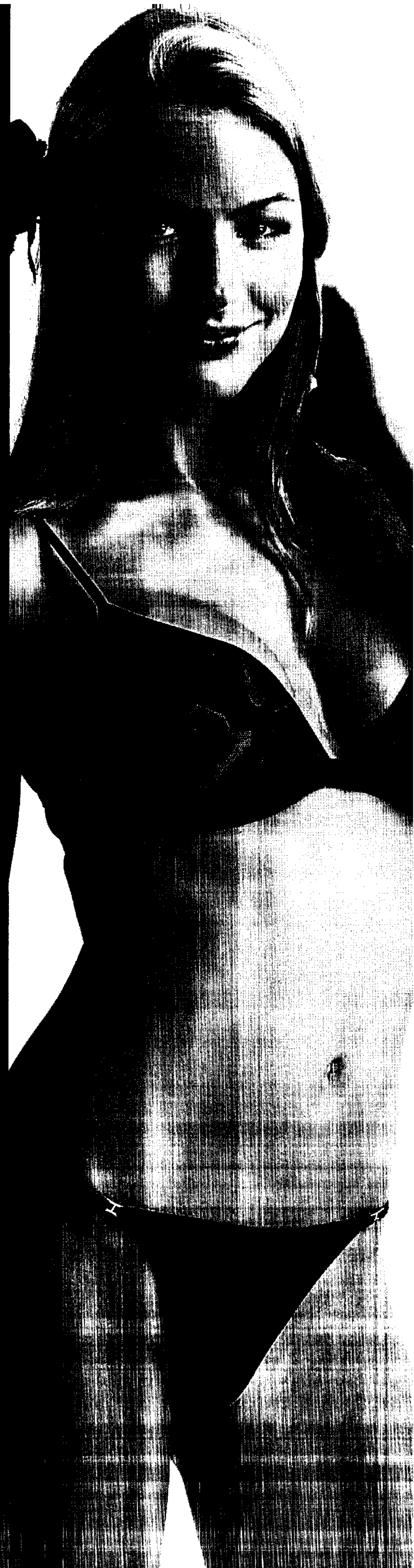
It is the responsibility of investors to obtain all necessary approvals in the jurisdiction in which they reside for the subscription for Shares under this Prospectus. This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make an offer.





SECTION 3

# Overview & UnderCoverWear Business Philosophy









# 3. Overview & UnderCoverWear Business Philosophy

## 3.1 Industry Overview

### What is Direct Selling

Direct selling is the sale of a consumer product or service, person-to-person, away from a fixed retail location by independent sales people. Products are sold primarily through in-home product demonstrations, parties and one-on-one selling.

### Direct Selling Industry Worldwide

The direct selling industry worldwide is estimated to have had 2002 sales of in excess of US\$85 billion. Sales consultants are estimated to have exceeded 45 million, with the USA representing the largest concentration of direct selling agents worldwide. Direct selling is a vibrant and dynamic industry in the United States with US sales in 2002 estimated at US\$29 billion and 13 million sales consultants employed.

In 2000 a survey conducted by the US Direct Selling Association reported that 55% of American adults had at some time purchased goods and services from a direct selling representative and 20% of American adults reported they are or have been a direct selling representative.

### Direct Selling Industry - Australia and New Zealand

The Direct Selling Industry in Australia and New Zealand has been operating for many years. Both countries have a vibrant and growing industry represented by established Associations for members that have developed a charter to protect, serve and promote the effectiveness of member companies and the individual business people they represent.

The Direct Selling Association of Australia (DSAA) and the Direct Selling Association of New Zealand (DSANZ) are the national trade bodies of the leading firms that manufacture and distribute goods and services sold directly to consumers. The DSAA was formed in 1967, has 102 members and its members have annual sales of in excess of A\$1.2 billion. There are in excess of 600,000 sales consultants employed by member organisations. The DSANZ was formed in 1974 and has annual sales exceeding NZ\$200million and in excess of 110,000 sales consultants. Annual sales have grown 11% per annum since 1987 and sales consultants have grown by 29% annually since 1987.

The cornerstone of the Association is the commitment to ethical business practices and consumer service. Every member company pledges to abide by a Code of Practice as a condition of admission and continuing membership in the Association.



# 3. Overview & UnderCoverWear Business Philosophy

## 3.2 UNDERCOVERWEAR'S BUSINESS PHILOSOPHY

By using party plan selling and independent sales consultants, UnderCoverWear offers the customer "fun" clothes in a fun and relaxed environment.

A closer look reveals that UnderCoverWear does not only sell fashion lingerie and clothing: UnderCoverWear offers life style change and financial independence for many women not in a position to join the "9 to 5" workforce. UnderCoverWear offers consultants the opportunity to earn extra dollars or to develop a multi million dollar business with growth tailored to the individual.

Consultants work their own hours and determine their own level of income. UnderCoverWear recognises and rewards them financially to recruit others to expand their business, whilst at the same time creating growth for the company.

Direct Selling offers benefits of low overheads and low fixed costs enabling UnderCoverWear to compete favourably in the lingerie and fashion marketplace, offering quality products at affordable prices.

Catalogue ranges mean customers have the benefit of co-ordinated garment collections available in a complete size range for the entire season, providing for add-on sales and repeat business from existing customers. Traditional retailers disappoint would-be purchasers by not restocking during a season, resulting in broken co-ordination and lack of a full size range as the season progresses.

### Focus on Profitability and Return on Capital

Historically, a strict financial discipline underlies each aspect of UnderCoverWear's operations. Other evidence of UnderCoverWear's financial discipline is in its low corporate overhead, extensive monthly internal financial reporting, and a sharp focus on the key profitability drivers of the business.

### Generation of Free Cashflow

Payment by customers for orders prior to delivery generates a consistent positive cash flow and minimises trade debtors. Strong alliances have been established with overseas suppliers as a result of prompt and reliable account management by UnderCoverWear ensuring priority service in return. UnderCoverWear wishes to maximise free cashflow generation, and has negligible recurring capital expenditure requirements.

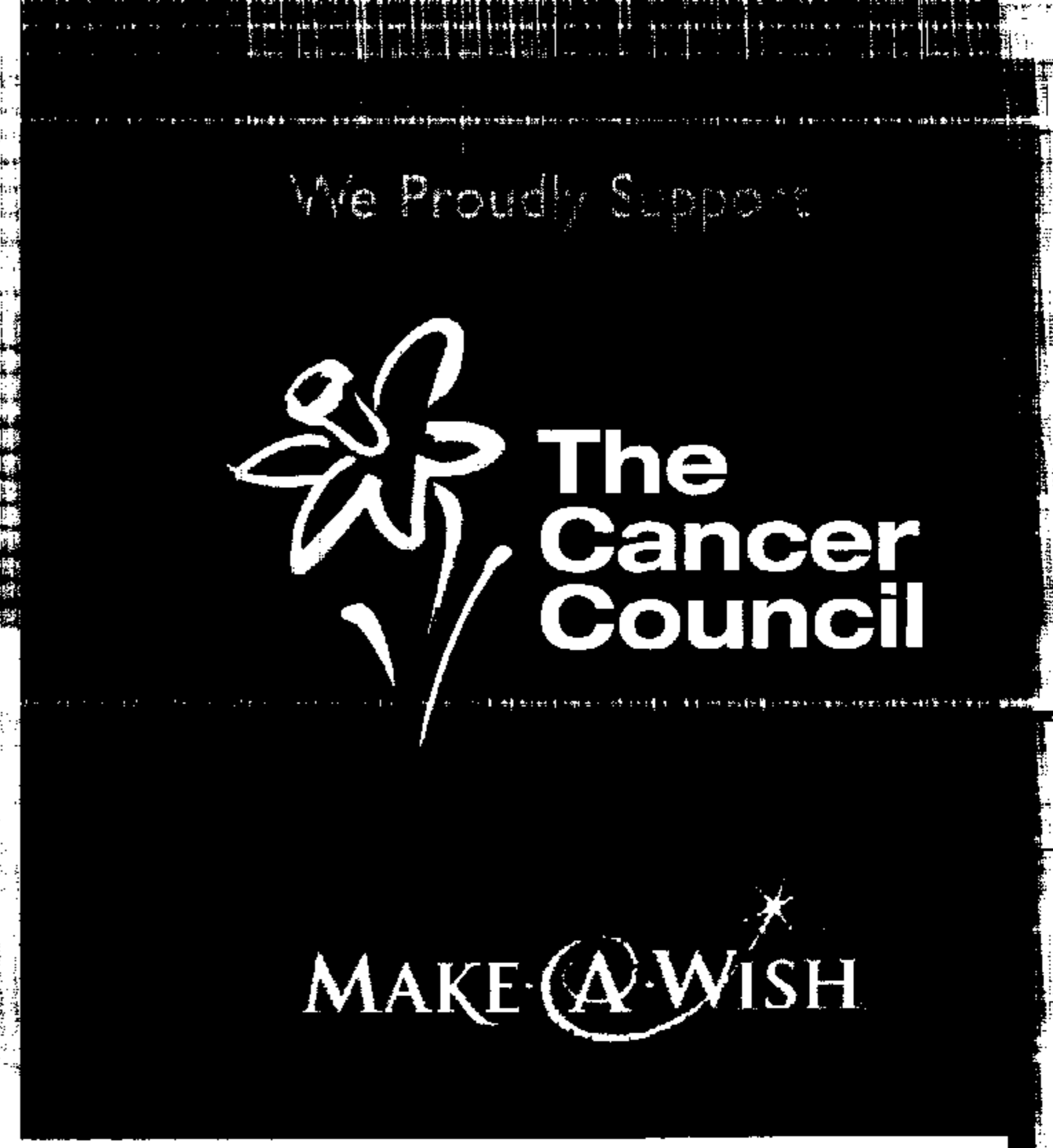




# Business Operations







## 4. Business Operations

### 4.1 BACKGROUND

UnderCoverWear was founded in 1981 on the belief that women should have the opportunity to purchase good quality lingerie at affordable prices in a comfortable, fun atmosphere. The UnderCoverWear collection today covers leisurewear, swimwear, sleepwear, eveningwear, childrenswear and lingerie.

The products are sold through over 2,000 contracted sales consultants who sell direct to consumers at UnderCoverWear home shopping parties in hostesses' homes. These consultants are based in all states of Australia and New Zealand with approximately 57% in regional areas.

Headquartered in Baulkham Hills, Sydney, UnderCoverWear operates from a large modern complex that incorporates garment design, administration, production, warehousing and distribution facilities.

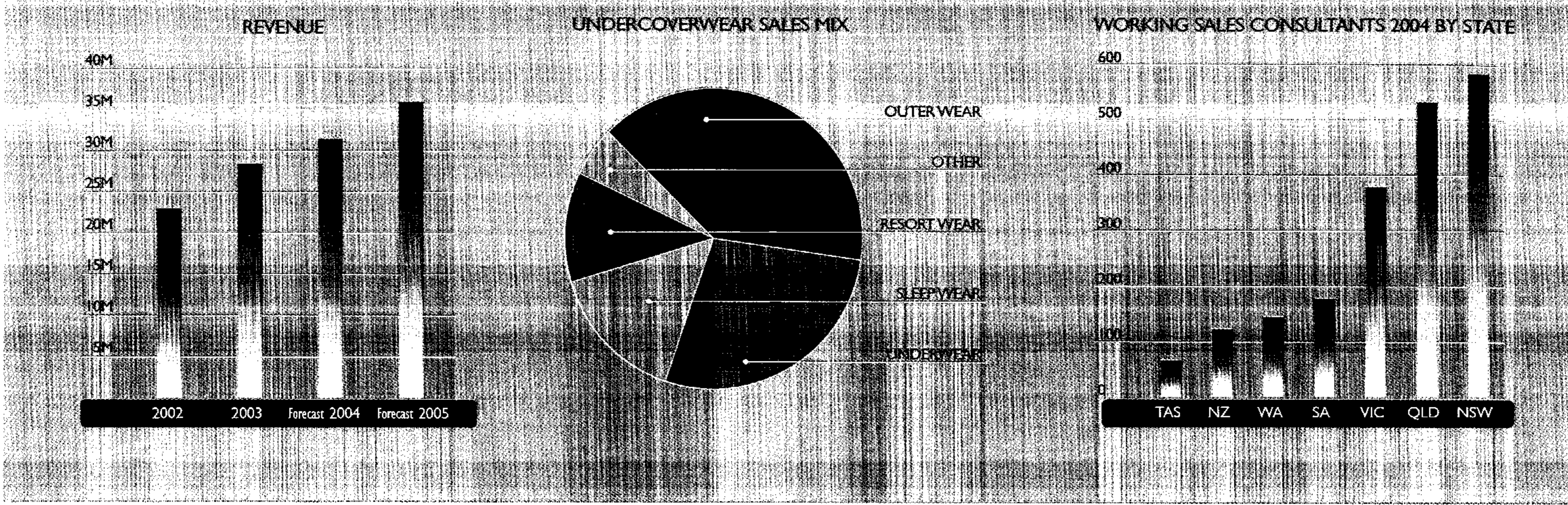
Information technology is now integral to all aspects of the business from stock control, production costing and scheduling, order processing to accounting and forecasting. The IT systems fully developed and owned by UnderCoverWear ensure the group achieves optimal service to its customers and sales consultants and delivers state of the art management information systems.

UnderCoverWear proudly supports the Cancer Councils in all states of Australia and New Zealand and to date has donated over half a million dollars for Breast Cancer Support Services. UnderCoverWear also donates each month to the Make A Wish Foundation to assist seriously ill children.

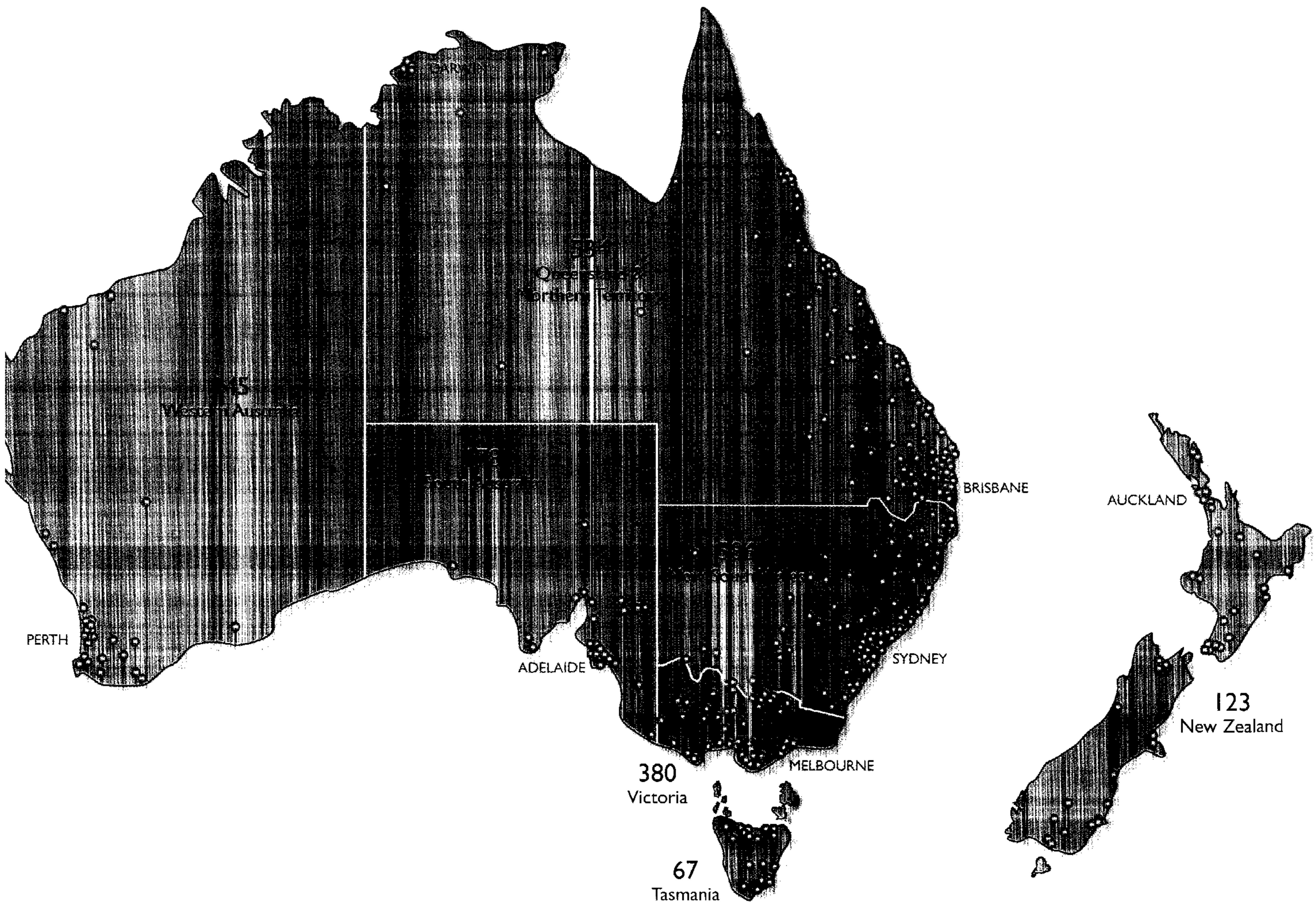
The following graph shows the historical growth in UnderCoverWear's revenues from 2002 to 2003, and forecast revenues for 2004 and 2005. The historical compound annual growth rate of revenues for the four year period ending 30 June 2005 is anticipated to be 15.6%.







Consultants are based in all states of Australia and New Zealand with approximately 57% in regional areas.





# 4. Business Operations

## Product History

UnderCoverWear release a range of new garments 3 times a year. The following pictures show catalogue covers, the changing "shop fronts" of UnderCoverWear, over the past 2 decades. The product range is centred around lingerie and sleepwear and has expanded over the years to include outerwear, eveningwear and swimwear.

1985



*Catalogue  
Cover 1985*

1986



*Top Seller 1986  
- Ladies lingerie  
and sleepwear*

1988



*Top Seller 1988 -  
Ladies short and  
long PJ sets*

2000



*Catalogue  
Cover 2000*

2000



*Top Seller 2000 -  
Ladies sleepwear*

1998



*Catalogue  
Cover 1998*

2002



*Top Seller 2002 -  
Ladies lingerie*

2002



*Catalogue  
Cover 2002*

2003



*Catalogue  
Cover 2003*





1990



*Top Seller 1990 -  
Ladies lingerie*

1992



*Catalogue  
Cover 1992*

1992



*Top Seller 1992 -  
Ladies sleepwear*

1997



*Top Seller 1997 -  
Ladies sleepwear*

1996



*Catalogue  
Cover 1996*

1994



*Catalogue  
Cover 1994*

Today



*Today's Top Seller  
Celeste PJ Set*

Today



*Our current catalogue is Issue 2 2004 and was  
launched on 16 April 2004. It contains 44 pages  
of beautiful Lingerie, Sleepwear, Evening Wear and  
Leisure Wear.*

*To see our current catalogue please visit our website  
- [www.ucw.com.au](http://www.ucw.com.au)*





## 4. Business Operations

### 4.2 PARTY PLAN SYSTEM

UnderCoverWear's party plan method of selling involves in excess of 2,000 consultants located throughout suburban and rural Australia and New Zealand. Each operates their own small business that markets and sells UnderCoverWear products. Working solely on a commission basis, the more UnderCoverWear sales consultants sell the more they earn. The products are presented in each new UnderCoverWear catalogue launched at the beginning of January, April and August each year.

As each sales consultant is the public face of the Company, each consultant is provided with:

- Small business advice
- Assistance with GST reporting, and
- Training and ongoing support as an UnderCoverWear sales consultant.

UnderCoverWear additionally provides the consultants with:

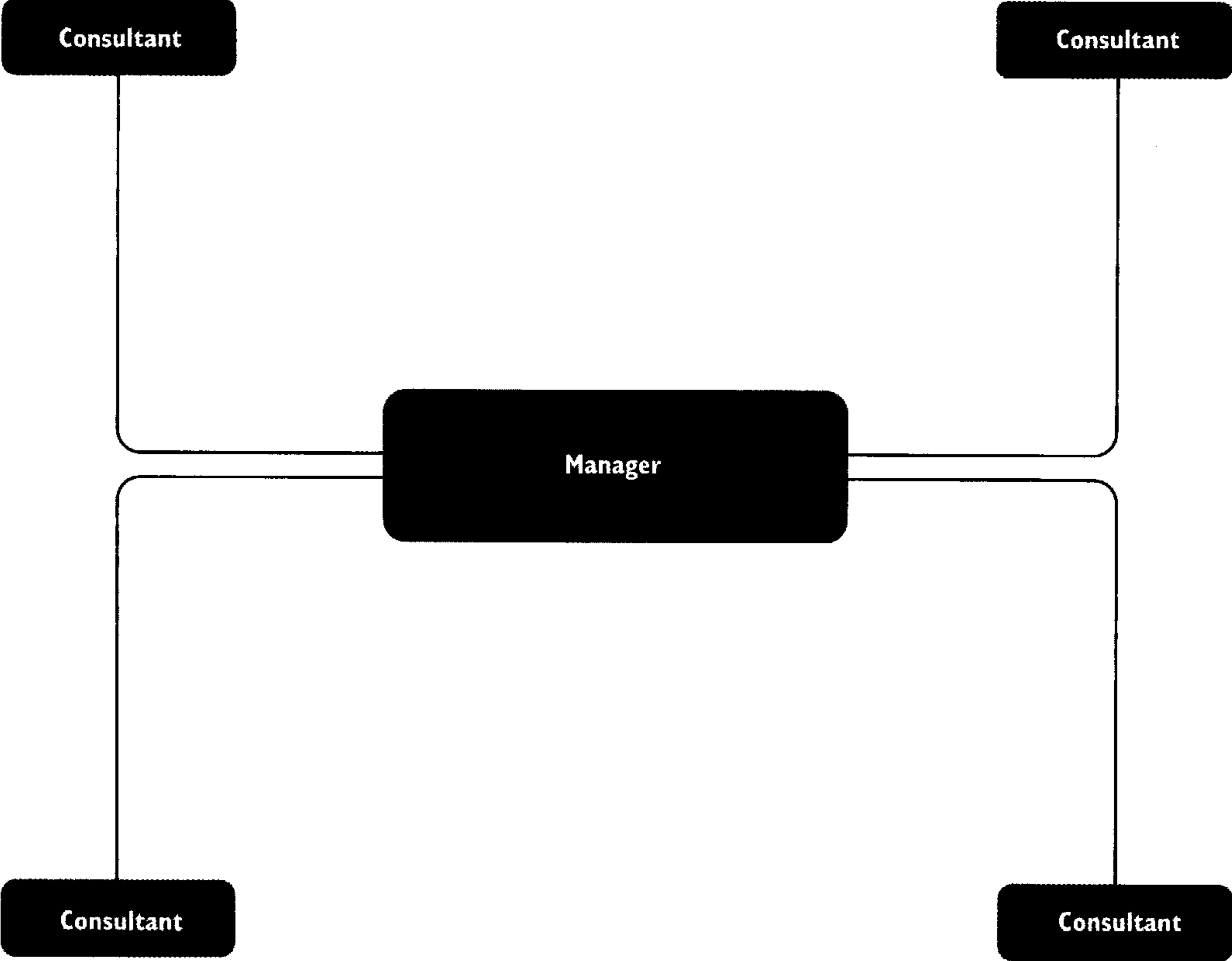
- Incentives including bonuses for achieving specific sales targets and recruiting new sales consultants
- Recognition and motivation through the monthly UnderCoverWear newsletter
- A demonstration kit comprising sample garments and literature, and
- Professionally filmed training videos.

Party plan selling of lingerie and fashion garments has provided affordable, quality lingerie and other fashion garments to a virtually exclusive market of female middle to low income earners. The "shopfront" is each of the 1,100 to 1,700 UnderCoverWear home shopping parties per week. These shopfronts can be anywhere in Australia and New Zealand and no matter where involve the same





UNDERCOVERWEAR SALES TEAM STRUCTURE

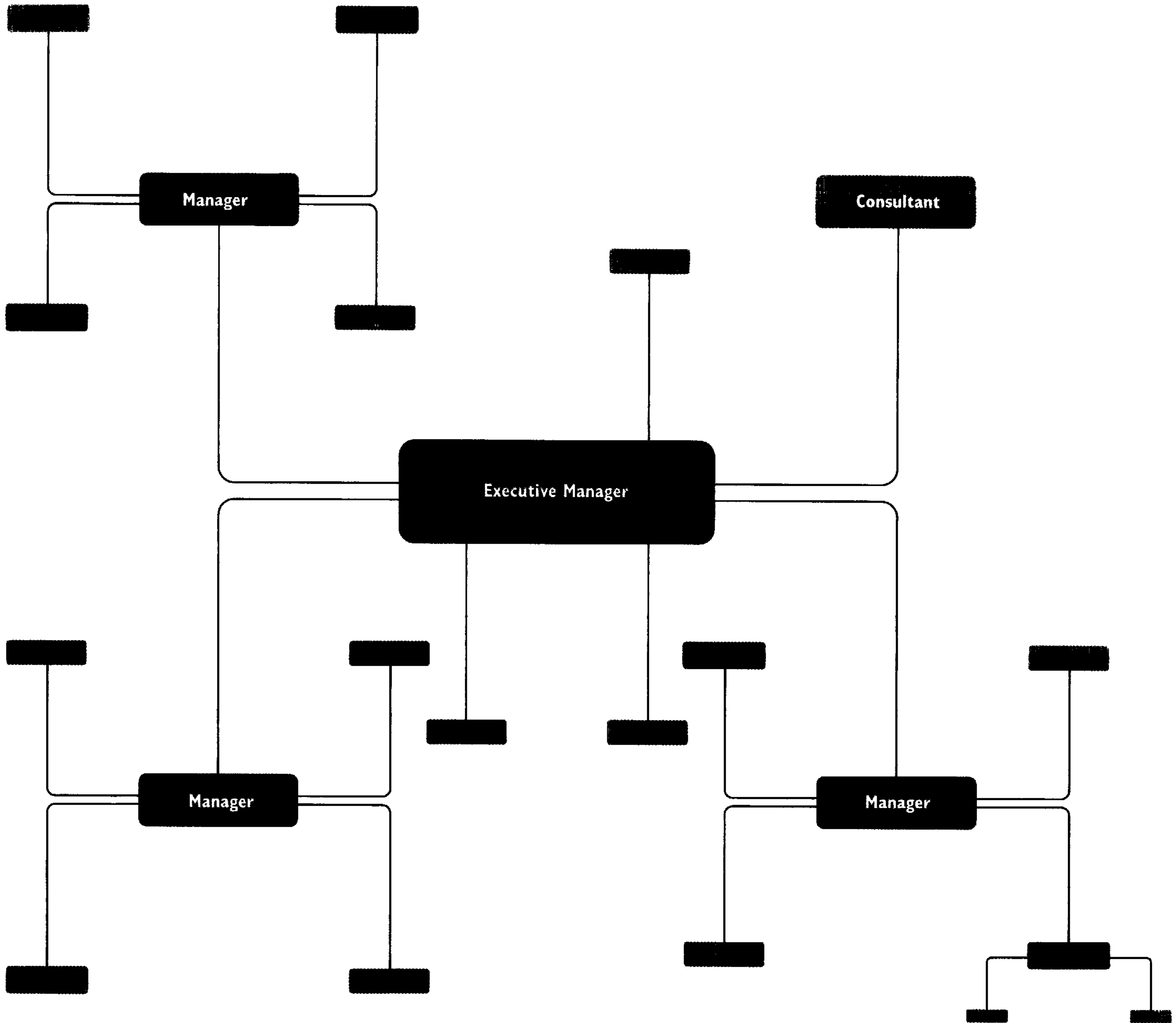


A consultant qualifies as a Manager and a 'team' is formed with 5 in the sales team

- Regional Executive Manager
- Executive Manager
- Senior Manager
- Manager
- Recruiting Consultant
- Consultant



# UNDERCOVERWEAR SALES TEAM STRUCTURE

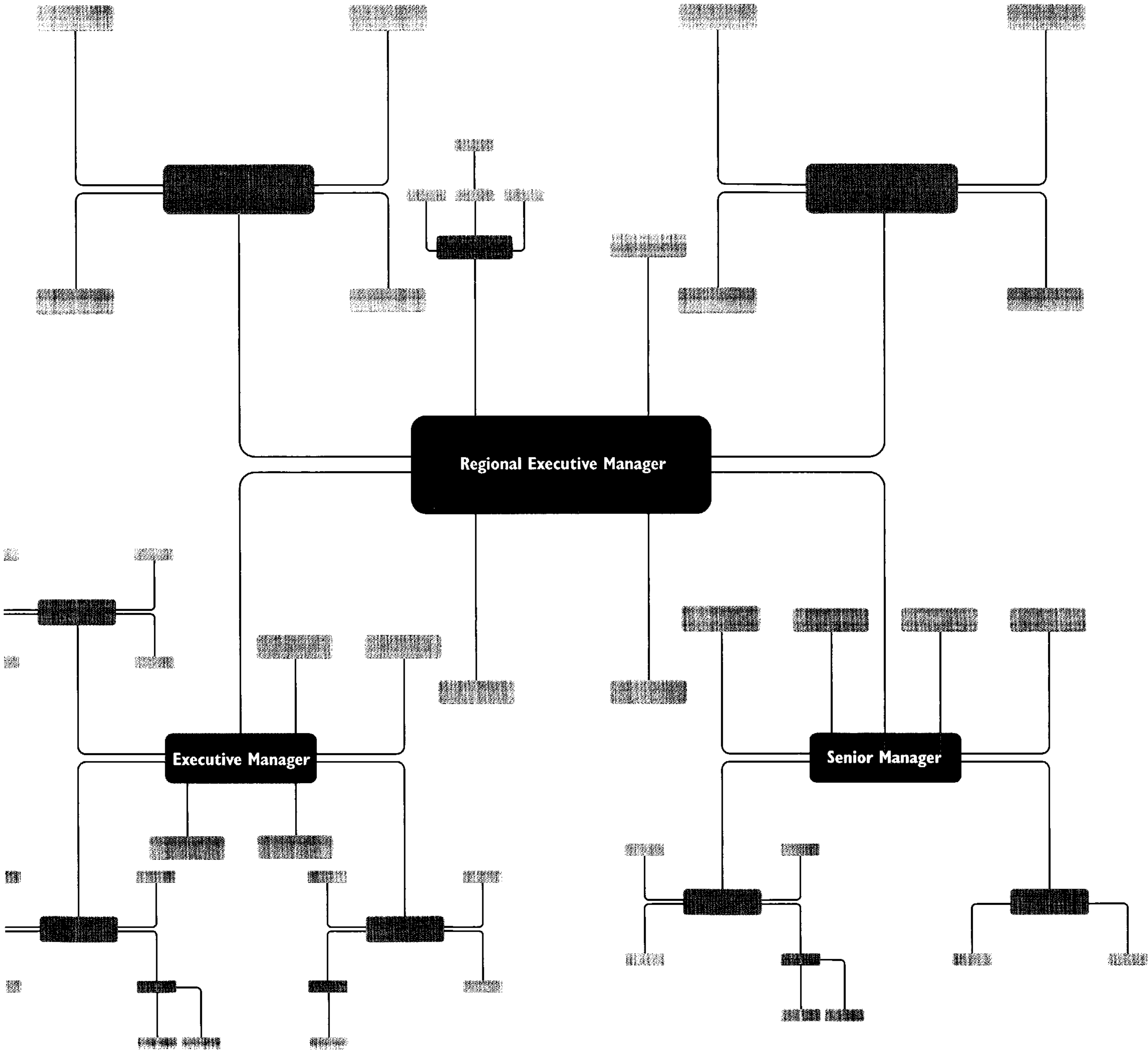


Our Manager has progressed to the level of Executive Manager with 3 of her consultants becoming Managers with “teams” of their own. Now there are a total of 22 sales people in this nucleus.

- Regional Executive Manager
  - Executive Manager
  - Senior Manager
- Manager
  - Recruiting Consultant
  - Consultant



# UNDERCOVERWEAR SALES TEAM STRUCTURE



Our Executive Manager is promoted to the level of Regional Executive Manager with a total of 8 “teams” (minimum of 6 teams required). There are a total of 57 sales people in this nucleus.

- Regional Executive Manager
- Executive Manager
- Senior Manager
- Manager
- Recruiting Consultant
- Consultant



## 4. Business Operations

personal service from qualified, fully trained UnderCoverWear sales consultants. Approximately 57% of the UnderCoverWear market is in non-metropolitan areas.

UnderCoverWear has continually developed and refined the party plan system. In 1982 the Company sold on average 50 garments a day. Today the Company sells up to 5,600 garments per day. This growth is a result of the continual innovation in the operation of the business and the support provided to the sales consultants.

UnderCoverWear has:

- Successfully expanded the product range
- Developed, supported and trained the sales network, and
- Constantly improved the internal manufacturing, ordering, payment and financial accounting processes to both enable and keep pace with the company's growth.

Growing and retaining the number of self-employed consultants selling UnderCoverWear product remains the key to UnderCoverWear's growth. Recognition and rewards are an important ingredient in creating enthusiasm within the sales network. New and exciting promotions keep each consultant motivated and UnderCoverWear sales consultants feel and are an integral part of the UnderCoverWear success.

### 4.3 CUSTOMERS

Due to the way UnderCoverWear sells garments, the business has two groups of customers:

- the sales consultants themselves, and
- the customers who purchase the UnderCoverWear garments.

#### Sales Consultants

Greater than 90% of people who become UnderCoverWear sales consultants have purchased UnderCoverWear garments and attended a home shopping party. UnderCoverWear meets the needs of the sales consultants through the provision of continuous training and incentives.

For the majority of the people who purchase UnderCoverWear products, UnderCoverWear's sales consultants are the public face of the firm. A happy, motivated, effectively trained independent UnderCoverWear sales consultant is the Company's greatest resource, leading to improved turnover and increasing returns to shareholders.





## Customers

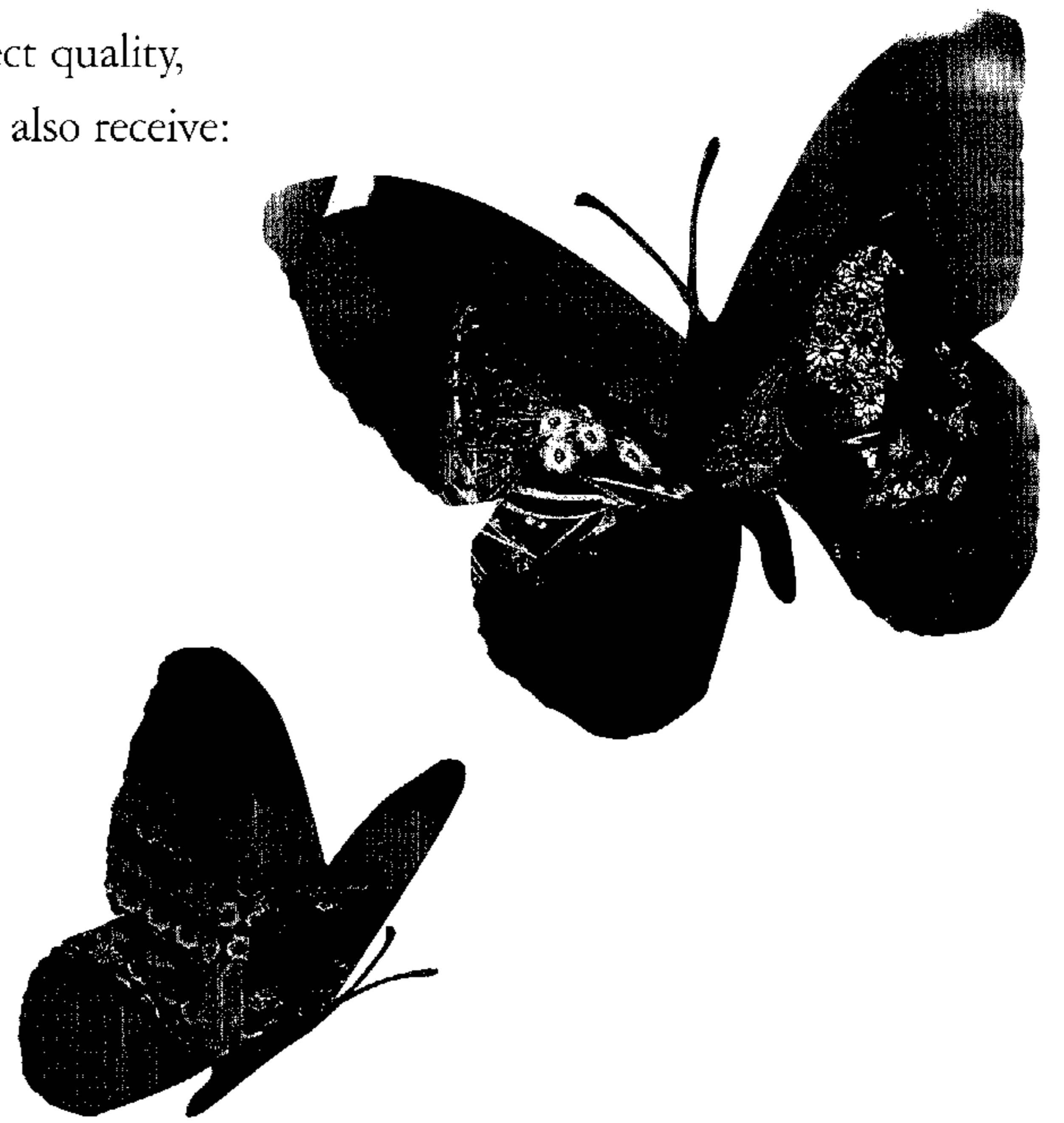
The customer who purchases garments primarily through an UnderCoverWear sales consultant is almost exclusively a woman in the middle to low-income earnings bracket.

- 53% are under the age of 35
- 23% wear garments sized 18-26 (the normal size range found in retail stores is 8-16), and
- 57% live in non-metropolitan Australia and New Zealand

Customers buy from UnderCoverWear because UnderCoverWear offers attractive affordable garments in a range of sizes not always available in the retail shops. Customers who would otherwise have to travel to purchase lingerie and other garments have the convenience of the “shopfront” coming to them with samples of garments and a fun atmosphere in a friend’s home at an UnderCoverWear home shopping party.

As with all customers, purchasers of UnderCoverWear products expect quality, competitive prices and value for money. UnderCoverWear customers also receive:

- Personal advice on size and fit of garments
- Their money back unless completely satisfied
- Membership of the Collection Club customer loyalty program
- Great incentives for holding a party
- A clear exchange policy
- Reliable, swift delivery, and
- An efficient customer enquiry department.



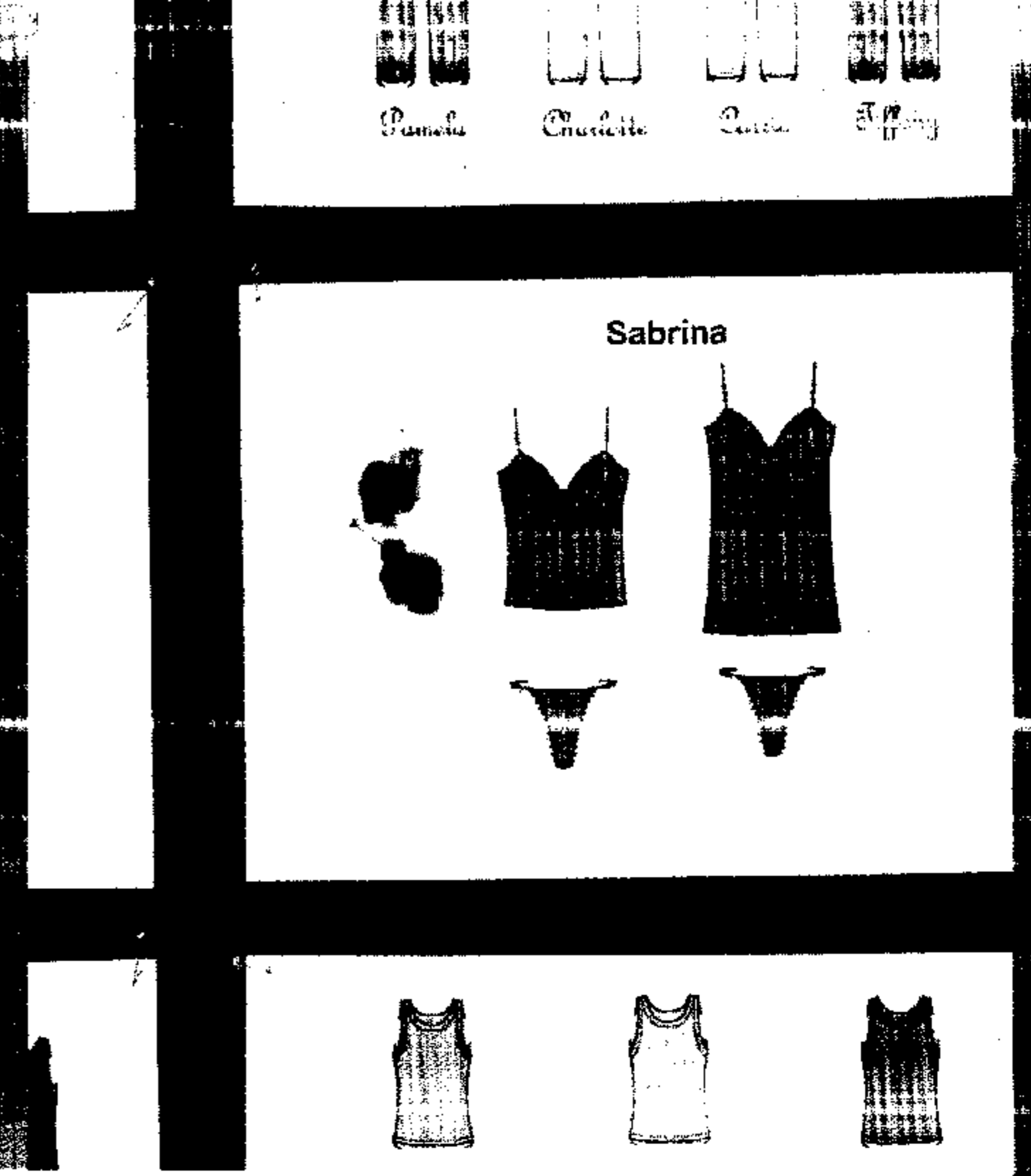
## Website

In 1999 UnderCoverWear added direct catalogue and Internet sales, adding choice for the customer. The website also allows customers the ability to update personal contact details, review their individual points status under the Collection Club loyalty program, and request the latest catalogue. UnderCoverWear orders can be received via the Internet as well as by mail, telephone and fax; directly from either the sales consultants or the customers. Payments for products can be made with credit card, Bpay, at the Post Office or directly at the home shopping parties.

By accessing the UnderCoverWear website each of the sales consultants can:

- Access information on the progress of orders
- Track and trace the whereabouts of parcels
- Access up to date information on stock





## 4. Business Operations

- Enquire as to the balance and movements on their commission accounts, and
- Check on their qualifications for sales incentive bonuses.

### Customer Sales Service Support

The UnderCoverWear customer service team comprises 20 specially trained staff who handle orders, enquiries and complaints. These staff man a call centre operating Monday to Friday, 8.00am to 6.00pm.

UnderCoverWear views complaints as an essential component of total commitment to a quality customer service. UnderCoverWear's exchange and refund policy offers a "no hassles" approach with each customer receiving a pre-printed exchange or refund form with the purchase. Goods are either replaced for an alternate garment or, if the customer is not completely satisfied, a refund is offered.

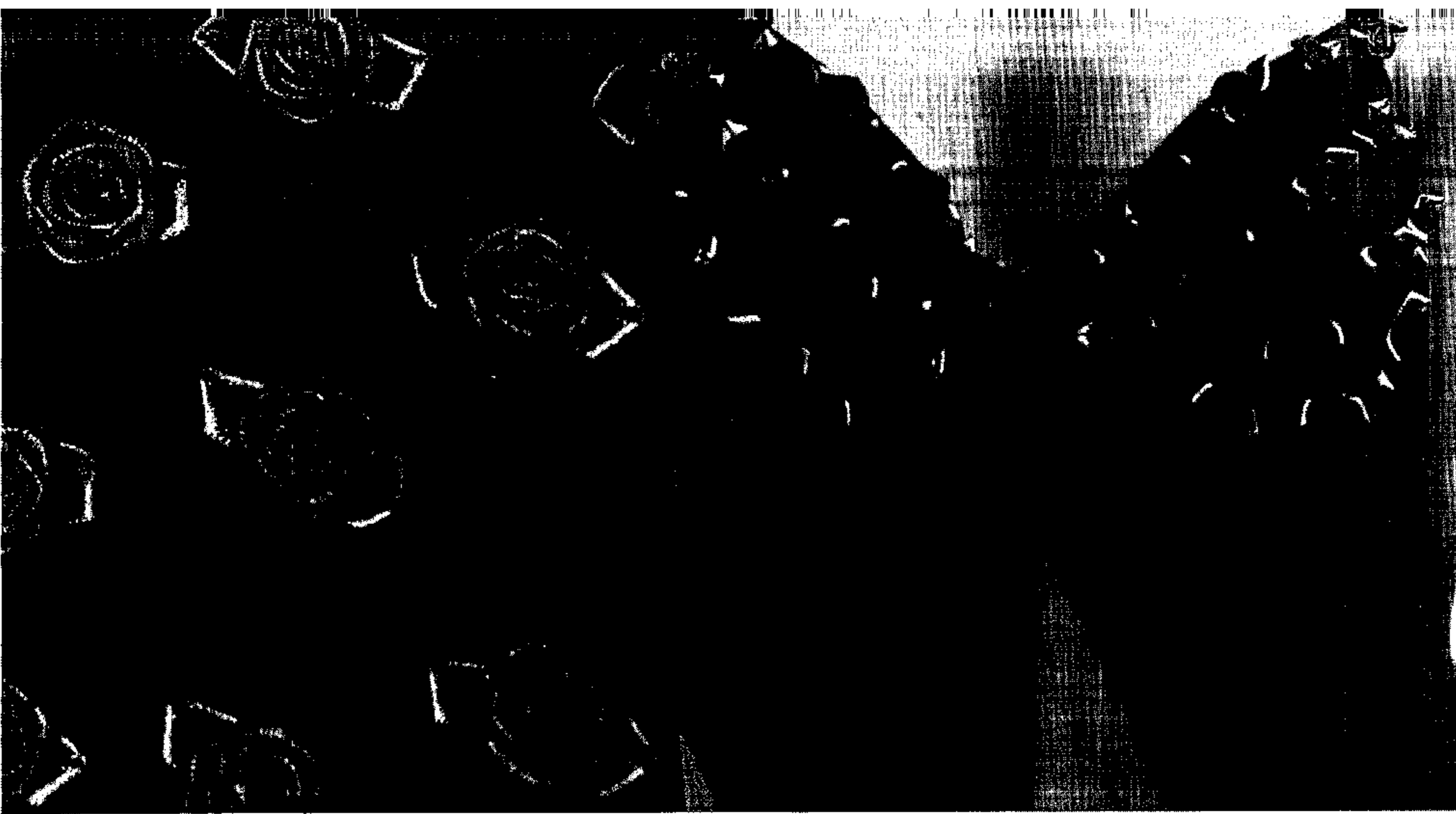
### Measuring Customer Satisfaction

Repeat business from customers is UnderCoverWear's best measure of customer satisfaction. The customer loyalty program has given UnderCoverWear the ability to track repeat business more effectively.

Another direct measure of customer satisfaction is UnderCoverWear's comparatively low rate of returns and refunds. UnderCoverWear's analysis of certain companies with direct mail order sales show returns or refunds can run as high as 30%. Only 6% of UnderCoverWear sales are returned for exchange and 3% returned for refund.

Over 90% of people who become UnderCoverWear sales consultants have bought UnderCoverWear garments and attended a home shopping party, which is a strong indication of a satisfied customer.





#### 4.4 DESIGN, MANUFACTURING, ORDERING AND DISTRIBUTION – UNDERPINNED BY TECHNOLOGY AND PEOPLE

##### The Product – design & manufacture

The UnderCoverWear Collection consists of an extensive range of garments. UnderCoverWear's highly experienced designers, who travel throughout the country and abroad to keep abreast of the latest fashion trends, design the garments in-house. Fabrics are purchased from a range of quality local and overseas suppliers.

Each year UnderCoverWear produces three major Collection catalogues which highlight the latest trends in fashion. Each catalogue presents the work of UnderCoverWear's top design team and highlights a range of products in a range of sizes to suit everyone. UnderCoverWear offers over 200 items in sizes up to 26. UnderCoverWear sells to over 415,000 customers per year.

UnderCoverWear manufactures 55% of its products in-house, whilst 45% is contracted to specialist manufacturers in China. The high level of local manufacturing ensures quick turnaround and greater flexibility to produce large production runs and the ability to quickly add a production run if demand exceeds supply.

Chinese contract manufacturers are monitored by UnderCoverWear to ensure quality control in the early stage of production. Qualified quality control officers visit each of the contracted manufacturers during the sewing process. This in turn has reduced the risk of a customer receiving faulty garments and saved UnderCoverWear in excess of \$100,000 a year in faulty production. UnderCoverWear uses a number of contract manufacturers to diversify its supplier base and to reduce supply risk.

Design to manufacture has deployed the latest in technology and machinery. Design staff utilise the StyleCAD system that in turn directs the recently purchased Pathfinder cutting machine. The combination of this equipment has delivered vast improvements in errors and assisted with the efficiency to program larger production runs. Production capacity is scalable, with the Pathfinder machine working at 31% of its capacity.







## 4. Business Operations

### The Product – ordering & distribution

UnderCoverWear orders can be received by mail, telephone and fax or via the Internet; directly from either the sales consultants or the customers directly. Payments for products can be made with credit card, Bpay, at the Post Office or directly at the home shopping parties.

With the recent introduction of electronic data transmission from consultants' homes to computers at Headquarters, payments and orders are received and if fully paid are queued for picking instantaneously.

By accessing the UnderCoverWear website each of the sales consultants can:

- Access information on the progress of orders, and
- Track and trace the whereabouts of parcels.

The distribution process is documented and “engaged” at the pick stage via the trolley system. At completion of picking, the picking bin is scanned to produce an individual delivery form for each order. This order is then weighed and paperwork scanned to confirm the unique bar code. The courier satchel is sealed and the computer automatically calculates delivery costs for each address and assigns the delivery to the most economical courier. The appropriate courier sticker is computer generated and the parcel is placed in a large courier bin ready for daily pickup.

The warehouse and distribution system is responsible for the efficient servicing of over 415,000 customers per annum. All products are delivered directly to the hostesses' homes.







#### 4.5 INFORMATION TECHNOLOGY

Information technology contributes to the success of all key facets of the UnderCoverWear business.

Technology is used for:

- Stock control, tracking and management
- Production costing
- Order processing, picking and despatch
- Production scheduling and tracking each stage of production
- Automated payments to each UnderCoverWear sales consultant
- Financial accounting, and
- UnderCoverWear website for information, ordering and payments.

Information technology has transformed UnderCoverWear into a genuine e-business. It allows any member of staff, with the required access clearance, to answer practically any question about the work flow of the company, the availability of a particular fabric, the volume sales of a particular garment, the expected delivery date of an individual order or the current performance of a particular sales consultant.

The IT systems fully developed and owned by UnderCoverWear ensure the group achieves optimal service to its customers, and sales consultants and delivers state of the art management information systems.

#### 4.6 RESEARCH AND DEVELOPMENT

UnderCoverWear is continually researching ways to improve the business. UnderCoverWear's custom built IT systems demonstrate that through research and development the business processes have changed and improved UnderCoverWear's ability to manufacture, order, pick and distribute the garments. It has also enhanced UnderCoverWear's ability to interface with the customer (website) support and communicate with our sales consultants (website, ordering and accurate data on performance).







## 4. Business Operations

Recent examples of technology change as a result of careful research undertaken by UnderCoverWear are:

- Website
- Radio frequency trolley system, and
- Direct order and payment downloads by consultants.

### Website – [ucw.com.au](http://ucw.com.au)

By accessing the UnderCoverWear website each of the sales consultants can:

- Access the progress of orders and track payments
- Track and trace the whereabouts of parcels, and
- Track how their sales teams are performing.

Customers and potential customers can access the website to research UnderCoverWear, view products, track loyalty programs, order and pay for garments, read the club newsletter, view special promotions such as Mothers' Day, Valentine's Day and Christmas promotions and if a Collection Club member, update personal information.

The website accounts for a relatively small number of sales; however it has developed an important public presence on the web for the Company.

### Radio Frequency Trolley System

For UnderCoverWear efficient ordering, picking and despatch of orders is a critical business function. To speed up and eliminate mistakes in the picking, despatch and delivery of garment orders UnderCoverWear introduced a tailored radio frequency trolley system in the warehouse in 1997.







Fabric is rolled in layers of up to 1000mm high, ready for Pathfinder to automatically cut the programmed pattern.

UnderCoverWear manufactures 55% of its products in-house, whilst 45% is contracted to specialist manufacturers in China.

The high level of local manufacturing ensures quick turnaround, greater flexibility to produce large production runs and the ability to quickly add a production run if demand exceeds supply.



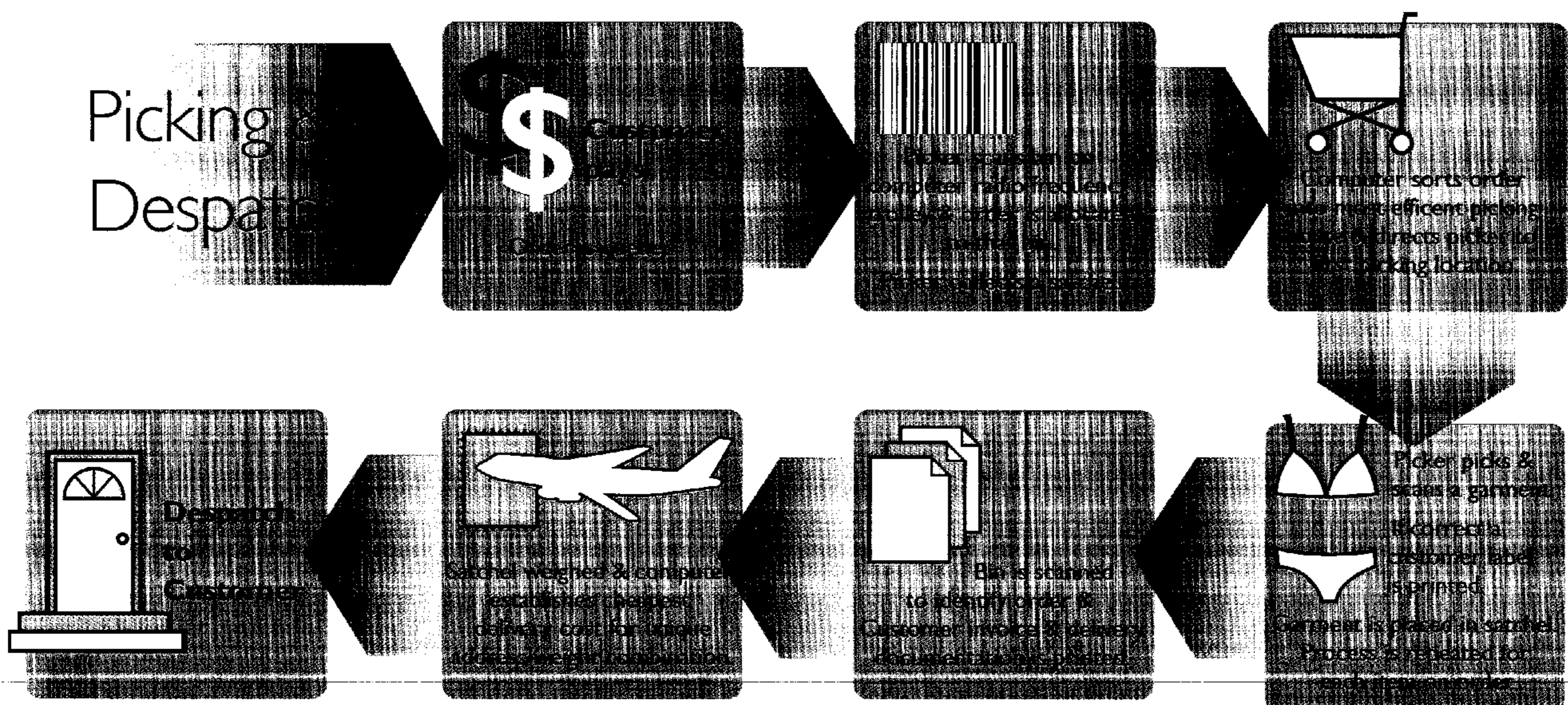
## 4. Business Overview

The system is explained in the diagram below.

The new trolley system has addressed previous deficiencies such as; a slow and inefficient system, comparatively inaccurate, comparatively labour intensive and the inability to monitor individual orders.

The new trolley system:

- Takes only 3 minutes per order to pick (previous manual system took approximately 15 minutes)
- Throughput is greatly increased enhancing UnderCoverWear's capacity to cope with busy periods
- The system is very accurate with unique bar codes used for each garment, order, picker, trolley and despatch
- Training time is greatly reduced, and
- An individual sheet is now printed per order acting as a combined delivery and, if required, exchange form.





Directors &  
Senior Management





# 5. Directors & Senior Management



John Everett AM, Chairman

Ian Everingham,  
Non-Executive Director

David Hall,  
Non-Executive Director

Elaine Vincent,  
Chief Executive Officer

## 5.1 BOARD OF DIRECTORS

### John H Everett A.M. B. Econ A.A.S.A. Chairman

John Everett has been Chairman of Directors of UnderCoverWear since January 2000 during which time he has been very active in the growth of the company. Prior to that appointment he had been a Director since 1991 at which time he became a significant shareholder. John graduated from Sydney University with a Bachelor Degree in Economics, majoring in Accounting from which he obtained his A.A.S.A degree. He was awarded an A.M. in 2002 for his services to charity, particularly the Prince of Wales Medical Research Institute where he was one of the inaugural Directors. John was instrumental in raising some millions of dollars to provide the necessary research into neurological disorders. He has previously held the position of Chairman of Whites Wires Aust Pty Limited, Carbolite Industries Pty Limited and Nield Transport Pty Limited.

### Ian Everingham, Non-Executive Director

Ian Everingham has held the position of Director and has been a consultant to UnderCoverWear since July 1990 and has held a one third share holding up until the IPO. Ian was previously Managing Director and owner of Epping Rubber Co. Pty. Ltd., a manufacturer of molded and extruded products, for 23 years. Ian was the inaugural president of the Australian Rubber Products Manufacturers Association. Ian is currently also a Director of several private companies in the finance and property industries.

### David Hall FCA, Non-Executive Director

David Hall became a Non-Executive Director of UnderCoverWear in May 2004. Mr Hall has extensive experience in the Direct Selling Industry and was formally Group Managing Director of Nutri-Metics International from 1990, and remains Managing Director of the Roche Group. Prior to Nutri-Metics, Mr Hall was Executive Deputy Chairman of the Griffin Holdings Group, where his Directorships included Griffin Coal Mining Company, WR Carpenter Holdings Limited and East West Airlines Limited. Mr Hall was formerly a partner of a large chartered accounting firm. Mr Hall is a Director





Francois Hoffmann,  
Financial Controller  
& Company Secretary

Patti Handford,  
International Sales Manager

Ana Tokic,  
Designer

of Brickworks Investment Company Limited, Beston Pacific Vineyard Management Limited and Pacific Strategic Investments Limited. He is a Committee Member of the Bond University Foundation, and is a Fellow of the Institute of Chartered Accountants.

#### **Elaine Vincent, Chief Executive Officer**

Elaine Vincent has held the position of Chief Executive Officer of UnderCoverWear for the past 4 years after joining the company in 1995 as Financial Controller. During her 5 years as Financial Controller, her area of focus, in addition to implementing sound financial systems, was the integration of IT solutions designed around the specific requirements of the Direct Selling Industry. Elaine has had over 20 years experience in franchising and retailing in the clothing and textile industry having previously held the position of Financial Controller with Knitwit. During the growth of that company she worked extensively on its business development both in Australia, UK and South Africa. Prior to 1983 Elaine operated her own public accounting practice following on from her 10 years experience with a firm of Chartered Accountants, Kent Brierley and Barraclough. Elaine holds a Bachelor of Commerce degree from the University of New South Wales majoring in Accounting.

## **5.2 SENIOR MANAGEMENT**

#### **Francois Hoffmann, Financial Controller and Company Secretary**

Francois Hoffmann has been with UnderCoverWear since October 2003. Francois has 7 years experience as an external auditor at Ernst & Young, 10 years experience as a management consultant implementing ERP systems for large organisations and 5 years experience as a financial controller. Francois is a CPA Australia and a member of the South African Institute of Chartered Accountants.

#### **Patti Handford, International Sales Manager**

Patti was appointed to the position of International Sales Manager in April 2000, having held the position of NSW State Manager for a period of 16 years. Patti built the number of consultants in New South Wales from 2 to over 500 and achieved record annual sales for that state of \$11m. Patti



## 5. Directors & Senior Management

is responsible for all company training, promotions and sales and has over thirty years experience in the direct selling industry.

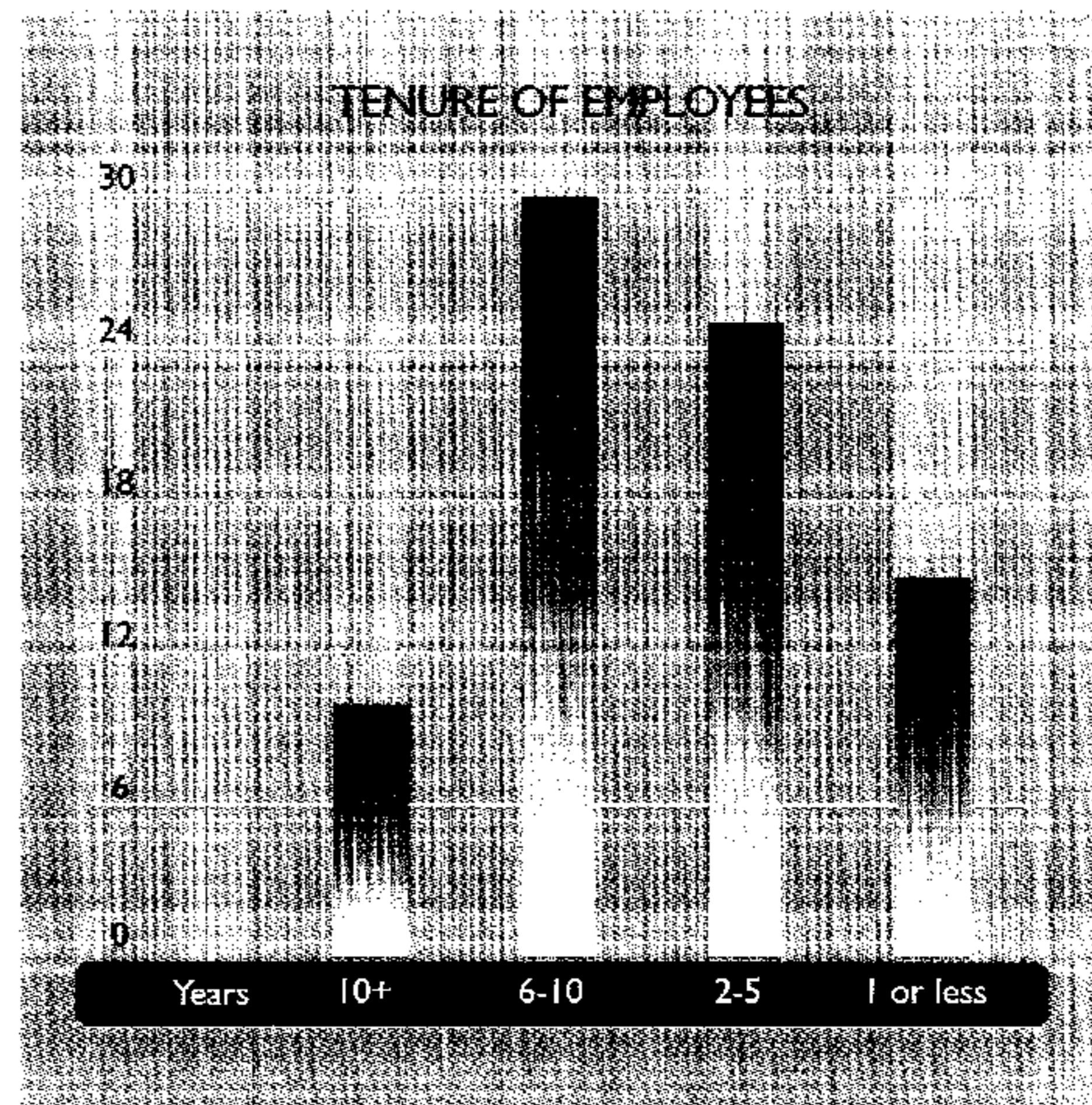
### Ana Tokic, Lingerie and Fashion Designer

Ana joined UnderCoverWear in 1999 as a freelance designer and was appointed to her current position as Lingerie and Fashion Designer shortly thereafter. Ana has been part of the fashion industry since 1985 having worked in all aspects of garment design, manufacture and production management with companies such as Berlei and Depict Knits. Ana's proficiency in design extends from lingerie and clothing to swimwear, and she is responsible for designing and pattern making for all garments sold by UnderCoverWear, whether made locally or overseas. Ana holds a B.Com from the University of New South Wales specialising in Marketing and Finance as well as her Diploma in Pattern Making and Grading from T.A.F.E.

### Our People

UnderCoverWear directly employs 81 people at its headquarter in Baulkham Hills, Sydney.

- Professional staff total 49 covering operations (includes design, manufacture, distribution, ordering, customer service), accounting and finance and information technology, and
- Warehouse staff total 32 including, cutters, pickers, production and despatch staff.



### Staff

In January 1999 UnderCoverWear moved to new premises at Norwest Business Park, Sydney. This facilitated our employees from 3 separate locations to work together in a modern purpose built complex.

Staff are strongly encouraged to continually develop their skills with UnderCoverWear providing training in new company processes and information technology. Staff are also encouraged to attend outside courses at TAFE and other specific industry seminars.

UnderCoverWear is a member of the Direct Selling Association of Australia. UnderCoverWear representatives take part in conferences hosted by the Association each year.

Since 1997 the business has worked with the Textile, Clothing and Footwear Union of Australia (TCFUA) to ensure that each homemaker has good working conditions. UnderCoverWear is a signatory to the Homeworkers Code of Practice between Australian retailers and the TCFUA, which aims to eliminate the exploitation of home workers. UnderCoverWear believes the promotion of good working conditions results in a higher quality product.

The above statistics show the low staff turnover.







SECTION 6

# Financial Information



# 6. Financial Information

## 6.1 OVERVIEW OF FINANCIAL PERFORMANCE

Set out below is a summary of UnderCoverWear's adjusted historical results for each of the years ended 30 June 2002 and 30 June 2003 as well as Directors' Forecasts for the years ending 30 June 2004 and 30 June 2005. The financial information should be read in conjunction with the Directors' assumptions in Section 6.4.1, the risk factors in Section 7 and other information contained in this Prospectus. The adjustments to historical results are set out in Section 6.9.

The Independent Accountant's Reports on the historical and forecast financial information is set out in Sections 8 and 9.

	Adjusted historical Year ended 30 Jun		Forecast Year ending 30 Jun	
	2002 <sup>(1)</sup> S'000s	2003 <sup>(1)</sup> S'000s	2004 <sup>(2)</sup> S'000s	2005 S'000s
Sales revenue	23,316	28,467	31,611	36,039
EBITDA <sup>(3)</sup>	1,642	2,432	2,884	3,740
Depreciation <sup>(4)</sup>	(190)	(171)	(229)	(240)
Amortisation of goodwill <sup>(5)</sup>	(60)	(60)	(100)	(1,260)
EBIT	1,392	2,201	2,555	2,240
Net interest expense	(359)	(211)	(86)	(280)
Profit before tax <sup>(3)</sup>	1,033	1,991	2,469	1,960
Proforma Income tax	(328)	(615)	(771)	(966)
Net profit after tax <sup>(3)</sup>	705	1,375	1,699	994
<b>Other financial information</b>				
Net profit after tax (before goodwill amortisation)	765	1,435	1,799	2,254
EPS (after goodwill amortisation) (cents per Share) <sup>(6)</sup>	1.47	2.87	3.53	2.07
EPS (before goodwill amortisation) (cents per Share) <sup>(6)</sup>	1.59	2.99	3.75	4.70

### Notes:

- The adjusted historical results for the year ended 30 June 2002 and 30 June 2003 reflect the adjustments set out in Section 6.10.
- The proforma Forecast for the year ending 30 June 2004 comprises the reviewed results for the six months ended 31 December 2003 (which have been reviewed by Grant Thornton NSW), adjusted for the proforma adjustments set out in Section 6.4.1, the Company's actual results taken from the management accounts for the three months ended 31 March 2004 and the Directors' Forecast for the three months ending 30 June 2004. A reconciliation to the Forecast for the year ending 30 June 2004 is included in Section 6.7.
- Includes \$100,000 per annum of ongoing forecast public company costs for 2005.
- Depreciation includes depreciation of both owned and leased property, plant and equipment.
- Proforma amortisation of goodwill includes \$60,000 per annum for goodwill which was acquired in 1991, and had previously not been amortised. The 30 June 2004 and 2005 amortisation of goodwill also includes goodwill amortisation arising on UnderCoverWear Limited's acquisition of UnderCoverWear Collection. (refer to Section 6.4.1). From 1 July 2005 onwards goodwill amortisation will no longer be required under Australian Equivocal International Financial Reporting Pronouncements (AIFRIP).
- The market price utilised in calculating the weighted average number of Shares is \$0.50 being the Retail Application Price. The number of ordinary shares utilised in the calculation of EPS is 48 million being the Shares on issue following listing.
- Proforma tax expense has been calculated at 30% of EBITDA.





## 6.2 RESTRUCTURE AND FINANCIAL INFORMATION

Historical results are those of UnderCoverWear Collection, which will be acquired by UnderCoverWear Limited on or about 18 June 2004.

Forecast results are based on UnderCoverWear Limited and its controlled entities (the “Consolidated Group”), which comprises of the following entities as at 10 May 2004:

- UnderCoverWear Limited (“UnderCoverWear”); and
- UnderCoverWear Unit Trust and Hybrid Investments No 2 Pty Ltd.

UnderCoverWear Collection operates the UnderCoverWear business and commenced trading in 1991. UnderCoverWear Limited was incorporated on 5 May 2004 and acquired the UnderCoverWear Collection business with effect on or about 18 June 2004.

UnderCoverWear Limited was formed as the holding company to acquire the UnderCoverWear business and associated Unit Trust interests with effect on or before 18 June 2004. As part of the acquisition of the UnderCoverWear business, it was agreed UnderCoverWear would not acquire pre-acquisition retained earnings or other pre-acquisition equity interests. In accordance with the Restructuring Agreement set out in Section 10.4, the Company will owe approximately \$2.6 million relating to the pre-acquisition retained earnings and equity interests as at 30 June 2004. These loan amounts are reflected as proforma adjustments to the 31 December 2003 Statement of Financial Position and the terms of which are disclosed in Section 10.4.

Historical financial information has been extracted from the audited financial statements of UnderCoverWear Collection partnership for the two years ended 30 June 2003 and the reviewed financial statements for the six months ended 31 December 2003. The historical financial information has been adjusted for the consistent application of the current accounting policies adopted by UnderCoverWear from 1 January 2004 and the proforma adjustments to reflect the restructure as described above. Section 6.10 sets out a reconciliation of the historical Earnings Before Interest, Taxation, Depreciation and Amortisation (“EBITDA”) to adjusted historical EBITDA and the Net Profit after tax.

Amortisation of Goodwill arising on the acquisition of UnderCoverWear Collection is included in the Directors’ Forecasts for the year ending 30 June 2004 and 30 June 2005. For reporting periods beginning on or after 1 January 2005, UnderCoverWear must comply with Australian Equivalents to International Financial Reporting Pronouncements (“AEIFRP”) as issued by the Australian Accounting Standards Board. The most significant anticipated change to accounting treatment under AEIFRP as it applies to UnderCoverWear is related to the amortisation of Goodwill. Under current Australian Accounting Standards, goodwill must be amortised over a period no longer than 20 years. Under AEIFRP goodwill will not be amortised but will be subject to an impairment test, consequently from 1 July 2005 onwards there will be no goodwill amortisation charge to the statement of financial performance and UnderCoverWear will have the option to reverse the amortisation of goodwill expensed in 2005 restating goodwill at the cost of acquisition. Amortisation of goodwill amounting to \$40,000 has been included in the proforma forecasts for the year ending 30 June 2004, as the effective acquisition date of the UnderCoverWear Collection business is on or about 18 June 2004, as described in the restructure above.

Costs expected to be incurred by UnderCoverWear as a publicly listed company have been included in the historical results and prospective financial information (including the years 30 June 2004 and 30 June 2005) amounting to \$100,000 per annum.

The actual results of UnderCoverWear Limited (before consolidation) for the year ending 30 June 2004 will only include the results from the date of incorporation on 5 May 2004.





## 6. Financial Information

### Review of Historical Results

#### 6.2.1 YEAR ENDED 30 JUNE 2002

Sales revenue in 2002 increased by 17.4% to \$23.3 million as a result of a \$3.4 million increase in lingerie sales. This growth in sales was driven by increasing demand for high quality imported garments and the recovery from the introduction of the GST which had forced many of UnderCoverWear's consultants out of the business in the prior year.

Gross profit in 2002 increased by 31.7% to \$13.5 million. Gross margin increased by 6% to 58% of sales for the year. The gross margin increase is attributed to the appreciation in the Australian Dollar and an increase in sales of garments with higher margins.

"EBITDA" amounted to \$1.6 million.

#### 6.2.2 YEAR ENDED 30 JUNE 2003

Sales revenue in 2003 increased by 22.1% to \$28.4 million, as a result of a \$4.5 million increase in lingerie sales. The continued sales growth has been fuelled by increases in the number of consultants and the effectiveness of UnderCoverWear's marketing strategy. This has contributed to the growth in new customers, increased sales from existing customers and UnderCoverWear's continued increase of market share in the sector.

Gross profit in 2003 increased by 9% to \$14.6 million. Gross profit margin increased from 58% to 60%. The \$5.1 million increase in revenue contributed to a \$0.865 million (55%) increase in EBITDA to \$2.4 million.

#### 6.3 REVIEW OF FORECASTS

The Directors' Forecasts for the years ending 30 June 2004 and 30 June 2005 reflect their judgement, based on present circumstances, of the most likely set of operating and economic conditions and the







Company's most likely course of action. The Forecasts have been prepared on the basis of a number of assumptions formed on reasonable grounds (determined objectively in light of all circumstances at the time of the assumption). The Directors have resolved these are best estimate assumptions and are subject to significant demographic, business, technological, economic, political, regulatory and competitive uncertainties, many of which are outside the control of the Directors and UnderCoverWear. These assumptions are described in Section 6.4.

Furthermore, anticipated events and circumstances often do not occur as expected. Therefore, actual results may differ from the Forecasts and the differences may be material. Accordingly, the Directors cannot and do not guarantee that the Directors' Forecasts will be achieved.

Key risk factors, which may influence the business and may therefore impact on the achievement of Forecasts, are discussed in Section 7. In addition, the analysis in Section 6.5 indicates the sensitivity of the Forecasts to changes in a number of key assumptions.

An overview of the Forecasts is set out below.

### 6.3.1 YEAR ENDING 30 JUNE 2004

The proforma Forecast for the year ending 30 June 2004 comprises actual results for the six months ended 31 December 2003 (which have been reviewed by Grant Thornton NSW) adjusted for the proforma adjustments set out in Section 6.7, the Company's actual results for the three months ended 31 March 2004 extracted from the Company's management accounts and the Directors' Forecast for the three months ending 30 June 2004.

Sales revenue and EBITDA for the six months ended 31 December 2003 were \$17.8 million and \$2 million, respectively. Compared to the first six months of the previous year, sales revenue was higher by 14 % primarily due to increased sales penetration of existing clients. Operating costs were within forecast and UnderCoverWear continued to benefit from the absorption of fixed costs over a higher volume of production. EBITDA was also higher than the first six months of the previous year by 27%.

For the full year ending 30 June 2004, sales revenue and EBITDA are forecast to be \$31.6 million and \$2.9 million, respectively. Total sales revenue for the year is forecast to increase by \$3.1 million or 11% from \$28.4 million in 2003, reflecting a sustained growth in lingerie sales.

EBITDA for the full year ending 30 June 2004 is forecast to be higher than 2003 by \$0.5 million or 19%.

The effective tax rate for the 2004 year is 31.8%.



# 6. Financial Information

## 6.3.2 YEAR ENDING 30 JUNE 2005

Sales revenue for the year ending 30 June 2005 is forecast to increase by 14% to \$36.0 million. The sales revenue forecast is based on UnderCoverWear increasing its market share as a result of the increased sales through continued growth of 10% in the number of sales consultants in the field. Modest price increases are also forecast to be implemented in 2005.

EBITDA is forecast to increase by 30% to \$3.7 million, reflecting higher revenues and the improvement of operating margins.

The effective tax rate for the 2005 year is 45.5% which is primarily due to the increase in goodwill amortisation from \$0.1 million to \$1.26 million.

## 6.4 FORECAST ASSUMPTIONS UNDERLYING THE DIRECTORS' FORECASTS

The Directors' Forecasts are based on general and best estimate assumptions ("Forecast Assumptions"), including those set out below, which should be read in conjunction with the business and investment risks set out in Section 7, and the Independent Accountant's Report set out in Section 9.

### 6.4.1 PROFORMA ADJUSTMENTS

In order to provide a consistent basis for the forecast financial performance, the Forecasts for the years ending 30 June 2004 and 30 June 2005 have been adjusted to reflect the following:

- Goodwill arising in 1991 with an original cost of \$1.2 million, has been amortised over a period of 20 years resulting in an adjustment of \$60,000 for the 3 years ending 30 June 2004;
- Goodwill arising on the acquisition of UnderCoverWear Collection on or about 18 June 2004 amounted to \$24 million, this goodwill is being amortised over a period of 20 years, which leads to a proforma adjustment \$1.2 million for the forecast period ended 30 June 2005; and
- Public company costs of \$100,000 per annum with effect from 1 July 2002.

### 6.4.2 GENERAL ASSUMPTIONS

- There is no substantial change in the competitive or regulatory environment which will have an impact on the Company's ability to conduct its existing business or on its operations.
- There are no material changes in general demographic, industrial, political or economic conditions in Australia.
- There are no material adverse impacts due to changes to Australian taxation laws.
- There are no changes in Australian Accounting Standards, Statements of Accounting Concepts or other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views, and the Corporations Act which would have a material effect on the Company's financial results for the Forecast Period (refer to the summary of significant accounting policies in Section 6.9 for commentary on the implications of the application of Australian Equivalent International Financial Reporting Requirements by Australian Accounting Standards Board (ASB) from 1 January 2005).





- The Company accounting policies remain consistent with those disclosed in Section 6.9.
- No specific assumption has been made in the Forecasts for any acquisitions.

### 6.4.3 BEST ESTIMATE ASSUMPTIONS

#### Revenues

- 30 June 2005 forecast sales revenues of lingerie amounting to \$29.3 million is based on prior year historical actual sales multiplied by a 10% growth factor. Non lingerie sales are forecast to increase to \$6.7 million. Total sales revenue of \$36 million is a 14% increase from \$31.6 million in 2004.
- Party sales which generated approximately 82% of UnderCoverWear's operating revenues is driven by the number of working consultants multiplied by the number of parties held per year and the average party sales revenue.
- The directors have assumed that the number of working consultants will increase by 10% over the prior year's corresponding months actual historical number.
- Average party sales and the number of parties per month are based on prior year historicals with no growth factor applied.
- Other revenue streams for example 'hostess half-price' garments have been forecast based on a percentage of party sales which is in line with prior year historical results.

#### Cost of Goods Sold

- Cost of goods sold for each revenue stream is forecast as a percentage of the respective revenue stream and based on historical levels.
- Other expenses have been apportioned between labour costs and other fixed and variable costs based on historical levels adjusted for known price increases.

#### Overheads

- Overheads have been forecast in accordance with prior year historical levels allowing for inflation.
- Overheads such as commissions have been forecast based on a set percentage of forecast revenues.
- Salaries and wages costs are forecast based on expected production requirements which is driven by the forecast revenues over the period together with forecast overhead and administration salary and wages which have been adjusted to account for specific known salary increases as disclosed in the Additional Information in Section 10.
- Forecast depreciation and amortisation charges are based on existing depreciation and amortisation policies.
- Advertising and promotional costs have been forecast to allow for television commercial expenses in respect of the television advertising campaign which commenced in May 2004.
- Additional public company costs including share registry costs and ASX fees are forecast to be \$100,000 per annum.





## 6. Financial Information

- Interest expense on borrowings is forecast using existing and forecast market rates on forecast facility levels.
- Forecast taxation expense for 2004 and 2005 is at a rate of 31.8% and 45.5% respectively. The forecast taxation expense is forecast at 13.7% higher than 2004 primarily due to non deductible Goodwill amortisation.

### Cash Flow

- The Company's level of working capital is forecast to be marginally lower in 2004 and then increase to 2005 due to increased activity.
- Capital expenditure of \$0.39 million and \$0.15 million (excluding GST) is forecast for the years ending 30 June 2004 and 30 June 2005, respectively. This expenditure is for routine replacement or enhancement of the existing asset base in 2004 and 2005.
- For the forecast period ended 30 June 2004, proforma cash inflows from shareholder loans will be injected into the business to the value of \$2.6 million these funds will be used to repay pre-acquisition amounts of \$3.9 million.
- For the forecast period 30 June 2005 restructuring amount of \$0.7 million will be repaid.

### 6.5 SENSITIVITY ANALYSIS

The following table summarises the sensitivity of the forecast EBITDA for the year ending 30 June 2005 to variations in a number of key assumptions. The range presented for each sensitivity is not intended to be indicative or predictive of the low and high points likely to be experienced with respect to each sensitivity. Care should be taken in interpreting these sensitivities. The sensitivity analysis treats each movement in the variables in isolation from others, whereas in many cases any movement will be interdependent. In practice, management would respond to any adverse change by taking appropriate action, where possible, to minimise the effect on the Company's earnings.

#### Changes in key assumptions for year ending 30 June 2005

Variable	Effect on EBITDA \$'000s
± 1% change in sales	120
± 5% change in sales	583
± 1% change in number of consultants	91
± 1% change in gross profit %	288
± 1% change in fixed overheads	71





## 6.6 PROFORMA STATEMENT OF FINANCIAL POSITION

The proforma statement of financial position shown below has been extracted from the financial statements for the six months ended 31 December 2003 (which have been reviewed by Grant Thornton NSW).

	Note	Proforma UnderCoverWear Limited <sup>(1)</sup> S'000s	Proforma Consolidated Post Listing <sup>(2)</sup> S'000s
<b>Current Assets</b>			
Cash assets	6.6.1	-	(419)
Receivables		-	451
Inventories		-	4,066
Other		-	196
		-	4,294
<b>Non Current Assets</b>			
Property, plant and equipment		-	773
Other financial assets		24,000	-
Intangible assets	6.6.2	-	25,200
		24,000	25,973
<b>TOTAL ASSETS</b>		<b>24,000</b>	<b>30,267</b>
<b>Current Liabilities</b>			
Payables		-	2,049
Interest bearing liabilities	6.6.3	-	866
Provisions		-	630
Other		-	913
		-	4,458
<b>Non Current Liabilities</b>			
Interest bearing liabilities	6.6.3	-	1,734
Provisions		-	136
		-	1,870
<b>TOTAL LIABILITIES</b>		<b>-</b>	<b>6,328</b>
<b>NET ASSETS</b>		<b>24,000</b>	<b>23,940</b>
<b>Share Capital &amp; Reserves</b>			
Contributed equity	6.6.3	24,000	23,940
Retained earnings		-	-
<b>Total Equity</b>		<b>24,000</b>	<b>23,940</b>

### Notes

1 UnderCoverWear Limited is the parent entity

2 Consolidated statement of financial position represents UnderCoverWear Limited and its controlled entities





## 6. Financial Information

### Notes to Proforma Statement of Financial Position

The proforma transactions included in the proforma statement of financial position at 31 December 2003 are set out below:

- i) Pre-acquisition liabilities in accordance with Restructuring Agreement in Section 10.4 of approximately \$2.6 million and \$0.70 million respectively;
- ii) Forecast profits for the period 1 January 2004 up to acquisition date of 18 June 2004 of \$0.5 million;
- iii) Repayment of interest bearing liabilities amounting to \$0.59 million;
- iv) Goodwill arising on the acquisition of UnderCoverWear Collection amounting to \$25.2 million being the excess purchase price over the fair value of the UnderCoverWear Collection net tangible assets at acquisition date of 18 June 2004.
- v) Proceeds from the issue of 16 million new ordinary shares amounting to \$8.0 million;
- vi) The Share Buy Back of 16 million existing ordinary shares amounting to \$8.0 million; and
- vii) Costs in relation to the issue amounting to \$60,000

#### 6.6.1 CASH ASSETS

	Proforma UnderCoverWear Limited \$'000s	Proforma Consolidated Post Listing \$'000s
Cash balance at 31 December 2003	-	513
Forecast profits for the 6 months to 18 June 2004	-	537
Payment of restructuring agreement loan amounts	-	(1,350)
Repayment of interest bearing liabilities	-	(590)
Movement in working capital	-	531
Proceeds from issue of new ordinary shares	-	8,000
Share buy back	-	(8,000)
Cost of issue	-	(60)
<b>Proforma cash balance</b>	-	<b>(419)</b>

#### 6.6.2 INTANGIBLE ASSETS

##### Acquisition of UnderCoverWear Collection

	Proforma UnderCoverWear Limited \$'000s	Proforma Consolidated Post Listing \$'000s
Cost of acquisition - issue of 48,000,000 shares at an issue price of \$0.50	-	24,000
Fair value of UnderCoverWear Collection Net Tangible Assets at acquisition date	-	1,200
Goodwill on acquisition	-	25,200





### 6.6.3 INTEREST BEARING LIABILITIES

	Proforma UnderCoverWear Limited S'000s	Proforma Consolidated Post Listing S'000s
Proforma interest bearing liabilities at 31 December 2003	-	590
Repayment of interest bearing liabilities	-	(590)
Restructuring loan amounts	-	2,600
<b>Proforma interest bearing liabilities</b>	-	<b>2,600</b>

### 6.6.4 CONTRIBUTED EQUITY

	Proforma UnderCoverWear Limited S'000s	Proforma Consolidated Post Listing S'000s
Proforma Reviewed Contributed Equity balance	-	-
Issue of 48,000,000 ordinary shares at 50 cents per share	24,000	24,000
Cost of issue	-	(60)
<b>Proforma Contributed Equity balance as at 31 December 2003</b>	<b>24,000</b>	<b>23,940</b>

### 6.6.5 FORECAST MOVEMENTS IN NET ASSETS FOR THE SIX MONTHS ENDING 30 JUNE 2004

The forecast movement in net assets for the six months to 30 June 2004 is set out below:

	S'000s
<b>Proforma net assets as at 31 December 2003</b>	<b>4,113</b>
Forecast profits to 18 June 2004	537
Payment of restructuring amounts	(4,650)
Goodwill on acquisition of UnderCoverWear Collection	24,000
Initial public offering costs	(60)
<b>Proforma net assets</b>	<b>23,940</b>

### 6.7 STATUTORY FORECAST STATEMENT OF FINANCIAL PERFORMANCE TO 30 JUNE 2004

The Directors' Forecast for 2004 assumes that the restructure described in 6.2 had been completed with effect for the full 2004 together with the normalised financing adjustments described in 6.4.1. The Director forecast for 2004 does not include any Goodwill amortisation. The Forecast is reconciled below to the Forecast on a statutory basis.

	S'000s
<b>Forecast net profit after tax</b>	<b>1,699</b>
Exclude after-tax amounts included in proforma Forecast:	
Amortisation on goodwill	100
Full year public company cost	100
Include after-tax amounts included in proforma Forecast:	
Tax effect of proforma adjustments	(30)
<b>Proforma net profit after tax</b>	<b>1,869</b>



## 6. Financial Information

### Cash Flow Statement

The table below summarises the Company adjusted historical cash flows for the years ended 30 June 2002 and 2003 and the Directors' forecast cash flows for the years ending 30 June 2004 and 30 June 2005.

	Adjusted historical Year ended 30 Jun <sup>(1)</sup>		Forecast Year ending 30 Jun <sup>(2)</sup>	
	2002 S'000s	2003 S'000s	2004 S'000s	2005 S'000s
EBITDA	1,642	2,432	2,884	3,740
Changes in working capital and employee provisions	547	946	39	(250)
Interest paid	(359)	(211)	(86)	(280)
Income taxes paid	-	-	-	(966)
<b>Net cash inflow from operating activities</b>	<b>1,830</b>	<b>3,167</b>	<b>2,837</b>	<b>2,244</b>
Capital expenditure	(317)	(405)	(460)	(150)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(317)</b>	<b>(405)</b>	<b>(460)</b>	<b>(150)</b>
Repayment of borrowings	(260)	(2,473)	(1,301)	(866)
Repayment of partners capital <sup>(3)</sup>	(1,034)	-	(3,950)	(700)
Proceeds from borrowings <sup>(3)</sup>	-	-	2,600	-
<b>Net cash (outflow) from financing activities</b>	<b>(1,294)</b>	<b>(2,473)</b>	<b>(2,651)</b>	<b>(1,566)</b>
<b>Net cash inflow/(outflow)</b>	<b>219</b>	<b>289</b>	<b>(274)</b>	<b>528</b>
Cash brought forward	(653)	(435)	(145)	(419)
<b>Cash carried forward</b>	<b>(435)</b>	<b>(145)</b>	<b>(419)</b>	<b>109</b>

#### Notes:

- Adjusted EBITDA and other cash flows are extracted from UnderCoverWear Collection's financial statements for the two years ended 30 June 2003. Adjustments have been made in the year ended 30 June 2002 and 30 June 2003 to reflect the adjustments set out in 6.4.
- The forecast EBITDA and other cash flows for the year ending 30 June 2004 comprise cash flows extracted from the accounts of UnderCoverWear Collection for the six months ended 31 December 2003 (which have been audited by Grant Thornton NSW) adjusted for the proforma adjustments set out in Section 6.4 and Directors' forecast cash flows for the six months ending 30 June 2004.
- As a result of the restructure, \$3.9 million will be repaid in accordance with the Restructure Agreement and \$2.6 million of this payment will be lent to UnderCoverWear by the remaining shareholders.

### 6.8 DIVIDEND POLICY

It is the current intention of the Directors subject to available profits, working capital and the level of borrowings to make regular, half-yearly dividend payments the first being in relation to the 31 December 2004 half year result payable in April 2005 and a final dividend is expected to be paid annually in October of the same year. The total dividend paid, or payable in respect of the year ending





30 June 2005 is forecast to be 3.25 cents per Share and is expected that this dividend will be fully franked. There will be no dividend payable to either the Vendors or new Shareholders in respect of the year ending 30 June 2004.

The Directors forecast retained earnings at 30 June 2005 under AEIFRS (as disclosed in Section 6.2) will be sufficient to declare a dividend as noted above.

Investors should note that dividends paid or payable can not be greater than total distributable earnings under the Corporations Act.

The payment of dividends by UnderCoverWear in the future including any dividends for the year ending 30 June 2005 will be at the complete discretion of the Directors and will depend upon the availability of distributable earnings and the Company franking credit position, operating results, available cash flow, financial condition, outlook, terms of the senior debt facility, taxation position and future capital requirements as well as general business and financial conditions and any other factors the Directors may consider relevant. Therefore, the Directors can give no assurance regarding the payment of dividends, the level of franking of such dividends or the extent of payout ratios for the year ending 30 June 2005 or for any future period. It is intended that dividends will be franked to the extent possible given available franking credits.

## **6.9 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted by UnderCoverWear are discussed below to assist in a general understanding of the financial information set out in this Section. These policies have been consistently applied unless otherwise indicated.

### **6.9.1 BASIS OF ACCOUNTING**

The financial information in this Section has been prepared in accordance with the measurement and recognition principles of Accounting Standards and other mandatory professional reporting requirements in Australia but does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001. The financial information has been presented in a format in accordance with best practice for disclosure of financial information in a Prospectus.

### **6.9.2 REPORTING CHANGES**

Prior to UnderCoverWear Limited listing on the ASX, UnderCoverWear Collection prepared “special purpose financial reports” which only complied with certain Australian accounting standards. The historical financial information and statement of financial position have been adjusted to comply with all Australian accounting standards.

For reporting periods beginning on or after 1 January 2005, UnderCoverWear must comply with Australian Equivalent International Financial Reporting Pronouncements (“AEIFRP”) as issued by the Australian Accounting Standards Board. The most significant anticipated change to accounting treatment under AEIFRP as it applies to UnderCoverWear is related to the amortisation of Goodwill.





## 6. Financial Information

Under current Australian Accounting Standards, goodwill must be amortised over a period no longer than 20 years. Under International Accounting Standard 22 - Business Combinations ("IAS 22") goodwill will not be amortised but will be subject to an annual impairment test.

Other AEIFRP which may impact UnderCoverWear are those based on International Accounting Standard 12 ("IAS 12") - Income Taxes, International Accounting Standard 16 - Property, Plant and Equipment ("IAS 16"), and International Accounting Standard 39 - Financial Instruments: Recognition and Measurement ("IAS 39") have not been considered in the Forecasts. When implemented, the major impact of IAS 12 would be to treat certain accounting depreciation and amortisation expenses as temporary rather than permanent differences thus reducing tax expense. The major impact of IAS 16 would be that certain maintenance expenditure which may be capitalised would be expensed. IAS 39 impacts have not been assessed, as UnderCoverWear currently has not entered any material hedging arrangements.

### 6.9.3 PRINCIPLES OF CONSOLIDATION

The consolidated financial information comprises the financial results of UnderCoverWear and its controlled entities.

All intercompany balances and transactions between entities in the consolidated entity, have been eliminated or consolidated. Where an entity began or ceased to be controlled during the period, the results have been included from the date control was obtained, or until the date control ceased.

### 6.9.4 ACQUISITION OF ASSETS

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the net assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Whether equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

### 6.9.5 INCOME TAX

The company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.





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

#### **6.9.6 REVENUE RECOGNITION**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest and dividend revenue is recognised upon receipt.

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

#### **6.9.7 INVENTORIES**

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a standard cost basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses.

#### **6.9.8 RECOVERABLE AMOUNT OF NON-CURRENT ASSETS**

Non-current assets are valued at cost except where this exceeds the recoverable amount. The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted.

#### **6.9.9 DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT**

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held and ready for use.

The useful lives of each class of depreciable assets are:

Plant and equipment	2 - 20 years
Leased plant and equipment	2 - 20 years



## 6. Financial Information

### 6.9.10 GOODWILL

Goodwill is recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at the date of the acquisition. Historically UnderCoverWear Collection did not amortise goodwill, however the historical statement of financial performance for the years ended 30 June 2002 and 30 June 2003 has been adjusted to reflect the current and prior period amortisation over a period of 20 years. The forecast statement of financial performance for 30 June 2004 and 30 June 2005 has also been adjusted to account for the goodwill amortisation including the goodwill arising on the acquisition of UnderCoverWear Collection. We refer to Section 6.2 in relation to the proposed treatment of the amortisation of Goodwill.

### 6.9.11 LEASES

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to UnderCoverWear, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

### 6.9.12 TRADE AND OTHER PAYABLES

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the consolidated entity.

### 6.9.13 INTEREST BEARING LIABILITIES

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

### 6.9.14 PROVISIONS

Dividends payable are recognised when a legal obligation to pay the dividend arises.



### **6.9.15 FOREIGN CURRENCY TRANSACTIONS AND BALANCES**

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

### **6.9.16 EMPLOYEE ENTITLEMENTS**

#### **Wages and salaries, annual leave and sick leave**

Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured as the amount unpaid at the reporting date at the rates expected to be paid in respect of employees' services up to that date, plus appropriate on-costs.

#### **Long Service Leave**

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including appropriate on-costs.

### **6.9.17 BORROWING COSTS**

Borrowing costs are recognised as expenses in the period in which they are incurred.

### **6.9.18 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 Tax 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 statement of financial position are shown inclusive of GST.



## 6. Financial Information

### 6.10 ADJUSTMENTS TO HISTORICAL FINANCIAL INFORMATION

The table below sets out the adjustments made to EBITDA and Net Profit after Tax.

	Adjusted historical Year ended 30 Jun <sup>(1)</sup>		Forecast Year ending 30 Jun	
	2002 <sup>(1)</sup> S'000s	2003 <sup>(2)</sup> S'000s	2004 <sup>(3)</sup> S'000s	2005 S'000s
EBITDA per financial statements	1,742	2,532	2,984	3,840
Public Company Costs	(100)	(100)	(100)	(100)
<b>Adjusted EBITDA</b>	<b>1,642</b>	<b>2,432</b>	<b>2,884</b>	<b>3,740</b>

	Adjusted historical Year ended 30 Jun <sup>(1)</sup>		Forecast Year ending 30 Jun	
	2002 <sup>(1)</sup> S'000s	2003 <sup>(2)</sup> S'000s	2004 <sup>(3)</sup> S'000s	2005 S'000s
Net profit after tax per financial statements	865	1,535	1,899	2,354
Public Company Costs	(100)	(100)	(100)	(100)
Impact of accounting policy change of amortisation	(60)	(60)	(100)	(1,260)
<b>Adjusted net profit after tax</b>	<b>705</b>	<b>1,375</b>	<b>1,699</b>	<b>994<sup>(4)</sup></b>

Notes:

- Sourced from the audited financial statements of UnderCoverWear Collection reflecting the adjustments set out in Section 6.4.1.
- The proforma Forecast for the year ending 30 June 2004 comprises the reviewed results for the six months ended 31 December 2003 (which have been reviewed by Grant Thornton NSW), adjusted for the proforma adjustments set out in Section 6.4.1, the Company's actual results taken from the management accounts for the three months ended 31 March 2004 and the Directors' Forecast for the three months ending 30 June 2004. A reconciliation to the Forecast for the year ending 30 June 2004 is included in Section 6.7.
- Includes \$100,000 per annum of ongoing forecast public company costs.
- The 30 June 2005 forecast net profit after tax has been adjusted for goodwill amortisation on the acquisition of the UnderCoverWear Collection's net asset by UnderCoverWear. Details of this adjustment have been discussed in Section 6.4.1.

### 6.11 OTHER FINANCIAL INFORMATION

#### Financing facilities

As at 31 December 2003, UnderCoverWear had external finance facilities with the Westpac Banking Corporation totalling \$2.29 million.

UnderCoverWear had un-drawn or unused facilities of \$2.04 million as at 31 December 2003.

At 31 December 2003 shareholders' loans to UnderCoverWear amounting to \$340,005 were outstanding. A commercial rate of interest is charged on these loans.

Following the restructure shareholder loans will be advanced to the Company totalling \$2.6 million as disclosed in the Additional Information in Section 10. Interest is payable monthly at a rate of 8% per annum.

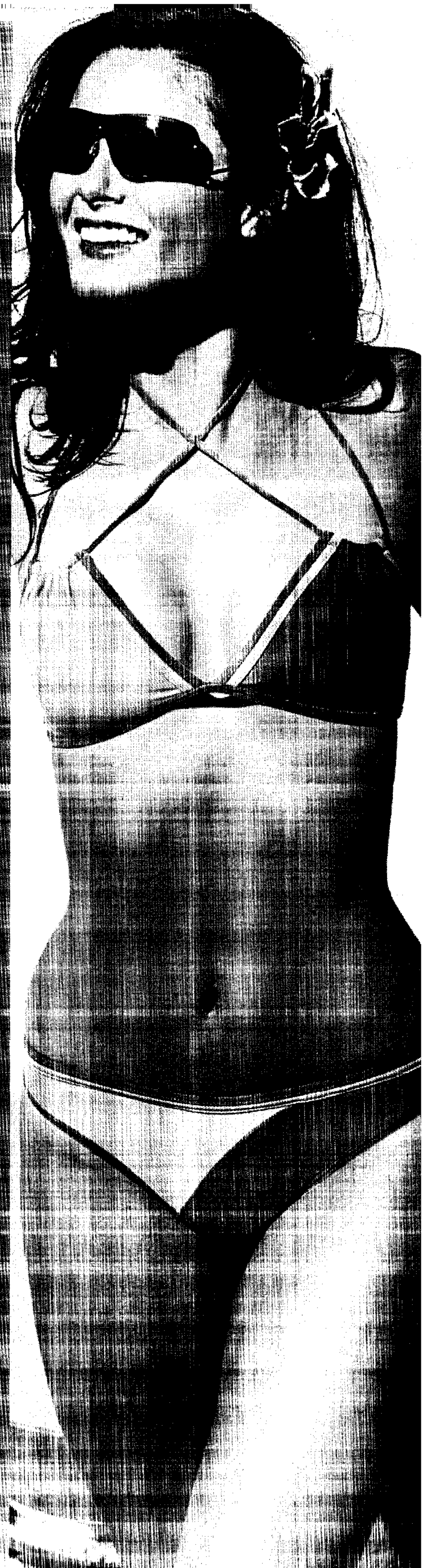
Total proforma interest bearing liabilities are forecast at approximately \$3 million.





SECTION  
Risk Factors

UNDERCOVERWEAR LIMITED







## 7. Risk Factors

### 7.1 RISK FACTORS

UnderCoverWear's business is subject to risk and many diverse factors can have an influence on its future performance and on its ability to achieve its forecasts. Whilst some risks can be mitigated through appropriate management safeguards and actions, many are outside the control of the Company. In addition, investment in shares carries its own inherent risks regardless of the business and operating environment of the Company.

Investors should consider a wide range of factors before making a decision to apply for any Offer of Shares. The following list of factors should not be taken by investors as being exhaustive. The main factors which may materially affect the performance and financial position of UnderCoverWear in the future and the value of its Shares include, but are not limited to, the following:

#### **Reliance on Senior Managers**

UnderCoverWear relies on the experience and knowledge of its senior managers, many of whom are listed in Section 5.2 above. Many of such managers do not have employment contracts with the Company. There is always the possibility of the loss of key senior managers and there is no guarantee that any such loss would not have a material adverse effect on the Company. The Company is substantially dependent on their ability to recruit personnel, negotiate contractual arrangements and monitor the health of the business.

#### **Competition**

UnderCoverWear competes with traditional retailers of womens' wear as well as direct marketers of similar products. The company's financial performance or operating margins could be adversely affected if the actions of competitors become more effective or if new competitors enter the direct sales market.







### Reliance on Key Suppliers

UnderCoverWear relies on a number of Chinese manufacturing suppliers. There is a risk that UnderCoverWear's sales might be interrupted if one or more suppliers were to be unable to fulfil their supply commitments to UnderCoverWear. UnderCoverWear has purposefully diversified its Chinese supply sources to mitigate this risk.

### Consultant Attrition and Dependence upon Distribution Network

UnderCoverWear's sales are dependent upon maintaining its consultant network. There is a risk that UnderCoverWear could suffer a reduction in revenue or rate of growth in revenue if the Company experiences a reduction in the number of consultants or the rate of growth in number of consultants. UnderCoverWear's commission structure, training methods and advertising should mitigate this risk.

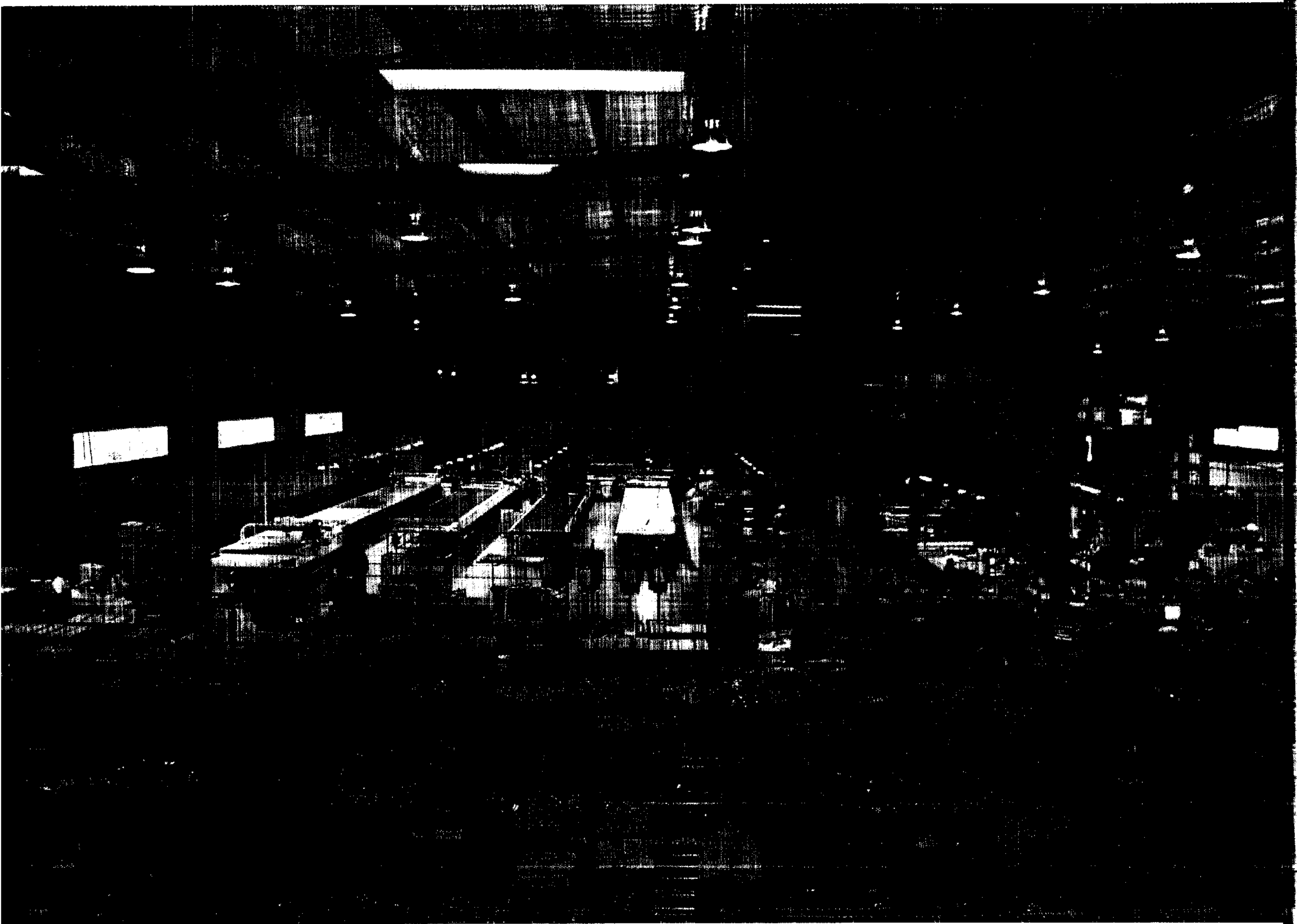
### Bad Debt Exposure

UnderCoverWear requires customers to pay for goods in advance of delivery. This long term operational strategy has substantially reduced credit risk exposure to UnderCoverWear.

### Uncertainty Regarding Forecasts

Any forecast of the Company provided to investors are based upon assumptions the Company believes to be reasonable but which are inherently uncertain and unpredictable. Such assumptions may be incomplete or inaccurate and unanticipated events and circumstances are likely to occur. For these reasons, actual results achieved during the periods covered are likely to vary from the forecasts and such variations may be material and adverse. No person involved with this transaction makes any guarantee or assurance to investors that any particular operating results will be achieved.





UnderCoverWear's custom built IT systems demonstrate that through research & development the business processes have changed & improved UnderCoverWear's ability to manufacture, order, pick & distribute garments.





SECTION 8

# Independent Accountant's Report





# 8. Independent Accountant's Report

The Directors  
UnderCoverWear Limited  
PO Box 1000  
Castle Hill NSW 1765  
13 May 2004

Grant Thornton Corporate Finance  
Level 17, 383 Kent Street  
Sydney NSW 2000.  
PO Locked Bag Q800  
QVB Post Office  
Sydney NSW 1230.  
T +61 8297 7400  
F +61 2 9299 1133  
E info@gtns.com.au  
www.grantthornton.com.au

Grant Thornton Corporate (NSW) Pty Ltd  
ABN 59 003 265 987  
Holder of Australian Financial Services  
Licence number 747140

Member of Grant Thornton Association for  
Member of Grant Thornton International

Dear Directors,

## INDEPENDENT ACCOUNTANT'S REPORT ON REVIEWED HISTORICAL FINANCIAL INFORMATION

### Introduction

We have prepared this Independent Accountant's Report ("report") on historical financial information of UnderCoverWear Limited ("UnderCoverWear" or "the Company"), for inclusion in a prospectus to be dated on or about 13 May 2004 ("the Prospectus") relating to the issue of 24 million ordinary shares at an issue price of \$0.50 per share, amounting to \$12 million ("the Offer") and for the proposed admission of the Company to the Official List of the Australian Stock Exchange Limited ("ASX").

Expressions defined in the Prospectus have the same meaning in this report.

### Background Information

Prior to listing on the ASX UnderCoverWear Limited acquired the UnderCoverWear Collection business ("UnderCoverWear Collection" or "the Business").

The Business commenced trading in 1981 and is the largest direct seller of intimate apparel, lingerie, underwear and sleepwear in Australia and New Zealand. The products are sold direct to consumers through approximately 2,000 contracted sales consultants by way of home shopping parties.

The purpose of this report is to set out information relevant to the historical financial performance of the Business for the years ended 30 June 2002 and 2003 and the six months ended 31 December 2003 and the proforma financial position of the Company as at 31 December 2003 included in Section 6 of the Prospectus.

### Scope

You have requested Grant Thornton Corporate (NSW) Pty Limited ("Grant Thornton Corporate Finance") to prepare a report covering the following information:

- (a) the proforma historical financial performance of the Business for the years ended 30 June 2002 and 30 June 2003 and the six months ended 31 December 2003 consistent with the format of the historical financial information included in Section 6 of the Prospectus and all related proforma adjustments;
- (b) the historical statement of financial position as at 31 December 2003 and the proforma statement of financial position as at the same date of the Business, which assumes completion of the contemplated transactions described in this Prospectus ("the proforma transactions"); and



(c) the statement of cash flows for the years ended 30 June 2002 and 30 June 2003 and six months ended 31 December 2003

(collectively referred to as the “historical financial information”).

#### *Historical Financial Information*

The Directors have presented the Business’s historical financial information for the years ended 30 June 2002 and 30 June 2003 and the six months ended 31 December 2003 in a format consistent and in accordance with the recognition and measurement principles (but not all disclosure requirements) prescribed in Accounting Standards and other mandatory professional reporting requirements and the accounting policies adopted by the Business disclosed in Section 6.9 of the Prospectus.

Grant Thornton NSW has audited the annual financial report of UnderCoverWear Collection for the years ended 30 June 2002 and 2003 and the audit opinion was unqualified. Grant Thornton NSW has issued a “review” report in respect of UnderCoverWear Collection for the six months ended 31 December 2003 and the review statement was unqualified.

#### *Review of Proforma Historical Financial Information*

The historical financial information set out in Section 6 of the Prospectus has been extracted from the audited financial statements of the Business. The Directors are responsible for the preparation of the historical financial information, including determination of the adjustments.

We have conducted our review of the historical financial information in accordance with the Australian Auditing and Assurance Standard AUS 902 “Review of Financial Reports”. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- analytical procedures on the audited financial performance of the Business for the relevant historical period;
- a review of work papers, accounting records and other documents;
- a review of the assumptions used to compile the proforma statement of financial position and the statement of financial performance;
- a review of the adjustments made to the proforma historical financial information;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Business disclosed in Section 6.9 of the Prospectus; and
- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.



## 8. Independent Accountant's Report

### Conclusion

#### *Review Statement on Historical Financial Information*

Based on our review, which is not an audit, nothing has come to our attention, which causes us to believe that the proforma historical financial information, as set out in Section 6 of the Prospectus does not present fairly the proforma historical financial performance of the Company for the year ended 30 June 2002 and 30 June 2003 and the six months ended 31 December 2003 and the historical statement of financial position of the Company as at 31 December 2003 in accordance with the recognition and measurement principles (but not all disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Business disclosed in Section 6.9 of the Prospectus.

#### *Review Statement on Proforma Statement of Financial Position*

Based on our review, which is not an audit, nothing has come to our attention, which causes us to believe that the proforma statement of financial position has not been properly prepared on the basis of the proforma transactions and in accordance with the recognition and measurement principles (but not all disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Business disclosed in Section 6.9 of the Prospectus.

### Subsequent Events

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief, no material transactions or events outside of the ordinary business of UnderCoverWear Collection have come to our attention that would require comment on, or adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

### Disclosure

Grant Thornton Corporate Finance does not have any interest in the outcome of the Offer other than normal professional fees that will be received.

Grant Thornton NSW is the auditor of UnderCoverWear Limited and UnderCoverWear Collection.

Consent to the inclusion of the Independent Accountant's Report in the Prospectus in the form and context which it appears, has been given. At the date of this report, consent has not been withdrawn.

Yours faithfully

Grant Thornton Corporate (NSW) Pty Ltd



S T Griffin

Director

Registered Company Auditor



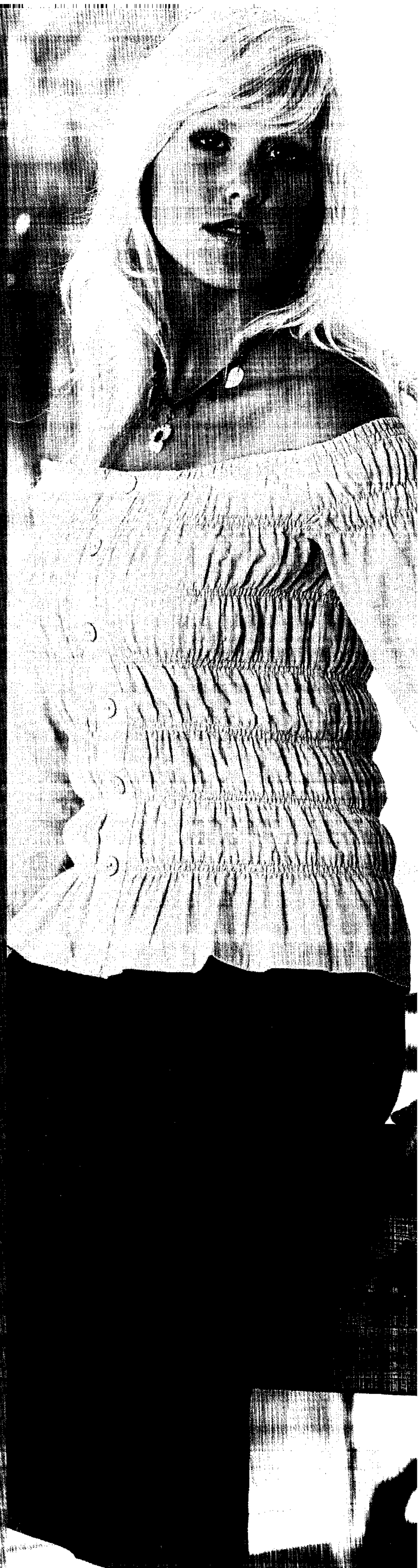
M A Adam-Smith

Director

Registered Company Auditor



# Report on Financial Forecasts





Grant Thornton Corporate Finance  
Level 17, 383 Kent Street  
Sydney NSW 2000  
PO Locked Bag Q800  
QVB Post Office  
Sydney NSW 1230  
T +61 2 9297 7400  
F +61 2 9299 4455  
E [grt@gt.com.au](mailto:grt@gt.com.au)  
[www.grantthornton.com.au](http://www.grantthornton.com.au)

Grant Thornton Corporate (NSW) Pty Ltd  
ABN 59 003 265 987  
Holder of Australian Financial Services  
Licence number 247140

Member of Grant Thornton Association Inc  
Member of Grant Thornton International

The Directors  
UnderCoverWear Limited  
PO Box 1000  
Castle Hill NSW 1765  
13 May 2004

Dear Directors,

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT ON DIRECTORS' PROSPECTIVE FINANCIAL INFORMATION

### Introduction

We have prepared this Independent Accountant's Review Report ("report") on the prospective financial information of UnderCoverWear Limited ("UnderCoverWear" or "the Company") prepared by the Directors', for inclusion in a prospectus to be dated on or about 13 May 2004 ("the Prospectus") relating to the issue of 24 million ordinary shares at an issue price of \$0.50 per share, amounting to \$12 million, ("the Offer") for the proposed admission of the Company to the Official List of the Australian Stock Exchange Limited ("ASX").

Expressions defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it can be given only by an entity, which holds an Australian Financial Services Licence. Grant Thornton Corporate (NSW) Pty Limited ("Grant Thornton Corporate Finance") holds Australian Financial Service Licence number 247140 under the Corporations Act 2001 and its authorised representatives are qualified to provide this report.

### Background

Further details of the Offer are set out in Section 2 of the Prospectus.

### Scope

You have requested Grant Thornton Corporate Finance to prepare a report covering the prospective financial information of the Company as set out in Section 6 of the Prospectus which includes:

- a) the Directors' forecast statement of financial performance and for the two years ending 30 June 2004 and 30 June 2005; and
- b) The Directors' forecast cash flows for the two years ending 30 June 2004 and 30 June 2005 (collectively referred to as "the prospective financial information").

The Directors are responsible for the preparation and presentation of the prospective financial information, including the best-estimate assumptions, which include the proforma transactions, on which they are based. The prospective financial information has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this report or on the prospective financial information to which it relates for any purposes other than for which it was prepared.



### *Review of Directors' Best-Estimate Assumptions*

Our review of the best-estimate assumptions underlying the Directors' prospective financial information was conducted in accordance with the Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports", AUS 804 "The Audit of Prospective Financial Information" and the Australian Securities and Investment Commission ("ASIC") Policy Statement 170 "Prospective Financial Information". Our procedures included discussion with the Directors and management of the Company and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that the best-estimate assumptions do not provide a reasonable basis for the preparation of the prospective financial information and whether, in all material respects, the prospective financial information is properly prepared on the basis of the best-estimate assumptions and is presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and accounting policies of the Company disclosed in Section 6.9 of the Prospectus so as to present a view of the Company which is consistent with our understanding of the Company's past, current and future operations.

The prospective financial information has been prepared by the Directors to provide Investors with a guide to the Company's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of prospective financial information. Actual results may vary materially from the prospective financial information and the variation may be materially positive or negative. Accordingly, Investors should have regard to the sensitivities and investment risks set out in Sections 6.5 and 7 of the Prospectus.

Our review of the prospective financial information, which is based on best-estimate assumptions, is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the prospective financial information included in the Prospectus.

### **Conclusion**

#### *Review Statement on the Prospective Financial Information*

Based on our review of the prospective financial information, which is not an audit, and based on an investigation of the reasonableness of the Directors' best-estimate assumptions giving rise to the prospective financial information, nothing has come to our attention which causes us to believe that:

- (a) the Directors' best-estimate assumptions set out in Section 6.4 of the Prospectus do not provide reasonable grounds for the preparation of prospective financial information;
- (b) the prospective financial information is not properly compiled on the basis of the Directors' best-estimate assumptions and is presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and the mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Section 6.9 of the Prospectus; and
- (c) that the prospective financial information itself is unreasonable.



## 9. Report on Financial Forecasts

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of the Company. If events do not occur as assumed, actual results and distributions achieved by the Company may vary significantly from the prospective financial information. Accordingly, we do not confirm or guarantee the achievement of the prospective financial information, as future events, by their very nature, are not capable of independent substantiation.

### Subsequent Events

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

### Disclosure

Grant Thornton Corporate Finance does not have any interest in the outcome of this Offer other than normal professional fees that will be received.

Grant Thornton NSW is the auditor of UnderCoverWear Limited and UnderCoverWear Collection.

The Directors have agreed to indemnify and hold harmless Grant Thornton Corporate Finance and its employees from any claims arising out of misstatement in or omission from any material or information supplied by the Directors for the purpose of this report.

Consent to the inclusion of the Independent Review of Directors' Prospective Financial Information report in the Prospectus in the form and context which it appears, has been given. At the date of this report, consent has not been withdrawn.

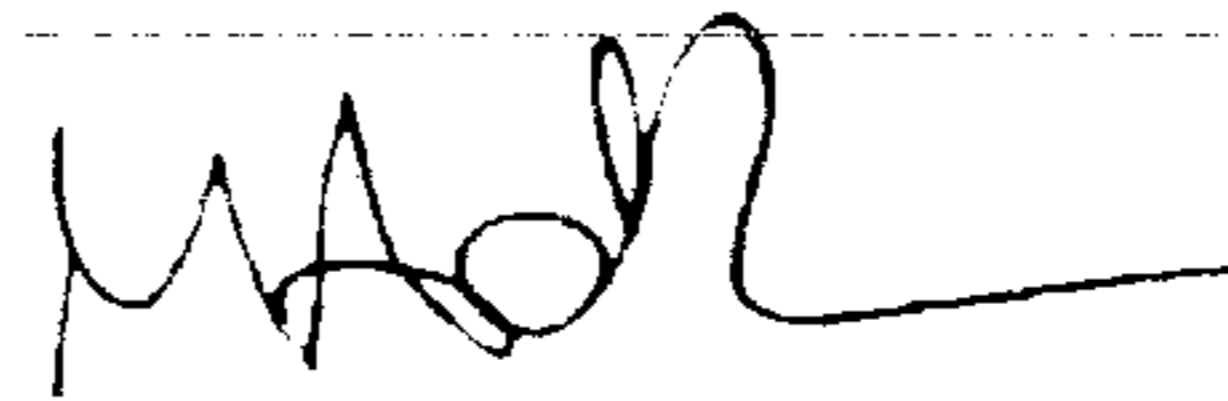
Yours faithfully

Grant Thornton Corporate (NSW) Pty Ltd



---

S T Griffin  
Director and Authorised Representative



---

M A Adam-Smith  
Director and Authorised Representative



SECTION 10

# Additional Information







## 10. Additional Information

### 10.1 INCORPORATION, CONVERSION AND NAME CHANGE

The Company was incorporated in Victoria on 5 May 2004.

### 10.2 SHARE CAPITAL

Following the issue by the Company of the 24,000,000 Shares under this Offer, the Company will have a total Share capital of 48,000,000 ordinary Shares.

### 10.3 RIGHTS ATTACHING TO SHARES

On 5 May 2004, the Company adopted a new Constitution (effective on and from listing of the Company on the ASX). The Constitution is consistent with the ASX Listing Rules. The Company's Constitution will be subject to the ASX Listing Rules in all respects while the Company maintains its listing on the ASX.

Set out below is a summary of the rights, liabilities, privileges and restrictions under the new Constitution that will attach to the Shares of the Company, including the Shares offered under this Prospectus. This summary does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of the Company's Shareholders under the Constitution.

#### **Meeting and Voting:**

Each Shareholder will be entitled to receive notice of, and attend and vote at, general meetings of the Company. At a general meeting, every Shareholder present in person or by proxy, representative or attorney will have one vote on a show of hands and, on a poll, one vote for each Share held.

#### **Notices:**

Each Shareholder will be entitled to receive all notices, accounts and other documents required to be given to Shareholders under the Constitution of the Company, the Corporations Act and the ASX Listing Rules.

#### **Winding Up:**

On a winding up of the Company, Shareholders will participate in any surplus assets of the Company in proportion, as nearly as may be, to the capital paid up on the Shares held by them respectively at the commencement of the winding up.







**Transfer:**

Subject to the Constitution of the Company, the Corporations Act and the ASX Listing Rules, the Shares will be freely transferable.

**Creation and Issue of Further Shares:**

The allotment and issue of any additional Shares will be under the control of the Directors, subject to any restrictions on the allotment of Shares imposed by the Constitution and the Corporations Act.

**Variation of Rights:**

The rights, privileges and restrictions attaching to ordinary Shares can be altered with the approval of a resolution passed at a separate general meeting of the holders of ordinary Shares, by a three quarters majority of those holders who, being entitled to do so, vote at the meeting or, with the written consent of the holders of at least three quarters of the ordinary Shares on issue.

Shares offered under this Prospectus are fully paid ordinary Shares. There is no liability on a holder of these Shares to contribute any further amount to the Company.

Copies of the Company's Constitution are available for inspection at the registered office of the Company.

## 10.4 RE-STRUCTURE ARRANGEMENTS

On 11 May 2004 the Company entered into a Restructuring Agreement with Perpetual Trustee Company Limited ("Quadrant"), John Everett and Sonya Everett as trustees of the Everett Family Settlement ("Everett"), Recon Pty Limited as trustee for the Everingham Family Trust ("Recon"), Hybrid Investments No. 2 Pty Limited ("Hybrid"), UnderCoverWear Pty Limited as trustee of the UnderCoverWear Unit Trust ("UTT"), John Everett, Ian Everingham and UnderCoverWear Limited ("Company") to restructure the UnderCoverWear Lingerie Parties Partnership.

Under the terms of the Agreement the Company has agreed to transfer units from Quadrant, Ian Everingham and John Everett and in consideration of the transfer of the units to the Company, the Company has agreed to issue Shares to each of Quadrant, Everingham and Everett under the terms of the Agreement. The total purchase price for the units is \$21,917,760 which equates to approximately \$33,310 per unit.

Under the terms of the Agreement, Hybrid has also agreed to sell its partnership interest to UUT, and retire as a partner. In consideration of the transfer of Hybrid's partnership interest to UUT the Company has agreed to issue Shares to Hybrid. The purchase price payable to Hybrid for its Partnership interest is \$2,082,240.



## 10. Additional Information

In accordance with the terms of the Agreement, and as soon as it is practicable after preparation of the audited accounts of the Company for the year ended 30 June 2004, the auditors of the Company will prepare a statement of financial position and statement of financial performance of the Partnership for the period from 1 July 2003 to the close of business on the Completion Date and notify each Partner of the net profit of the Partnership for that period which is to be included in the 2004 tax return of the Partnership (Partnership Profit).

The Completion Date is defined in the Agreement as the date on which Shares are allotted to investors, or such other date as agreed by the parties.

Under the terms of the Agreement the Company must, within five business days of the notification referred to above, distribute the Partnership Profits to each Partner in accordance with the terms of the Agreement, less the amount of any such profits that have already been distributed prior to that date ("Distributed Profits").

The Agreement also provides that, to the extent that the Distributed Profits distributed to a Partner exceed that Partner's share of the Partnership Profits, that Partner must remit the excess to the Company within five Business Days of the date of the notification referred to above and determined in accordance with the Agreement.

The above transactions are conditional upon the Company being admitted to the Official List of the ASX and to the quotation of the Shares on conditions, which are acceptable to all the parties and to Shares being allotted to successful applicants. On satisfaction of these conditions, the Unitholders Agreement terminates.

### Buy Back Agreement

On 7 May 2004 the Company entered into a Buy-Back Agreement with Perpetual Trustee Company Limited ("Quadrant") as trustee of the Quadrant Capital Fund No 2 and Hybrid Investments Pty Limited ("Hybrid") to Buy-Back 11,835,220 Shares held by Quadrant and 4,164,480 Shares held by Hybrid. The purchase price for each Buy-Back Share is 50 cents per Share.

Completion of the sale and purchase of the Buy-Back Shares is conditional on the satisfaction of requirements under Part 2J.1 of the Corporations Act 2001, completion of the transaction set out in the Restructuring Agreement, and the Company raising not less than \$12 million under this Prospectus.

Pursuant to the terms of the Agreement, the target time for completion of the Buy-Back is as soon as practicable after new Shares are issued to successful applications under the Prospectus.

### Material Contracts

The Directors consider that the contracts described below and elsewhere in this Prospectus are contracts which an investor would reasonably regard as material and which investors and their professional advisers would reasonably expect to find described in this Prospectus for the purpose of making an informed assessment of the Offer.

The summaries are, of their nature, brief and indicative and should only be read on that basis. To fully understand the rights and responsibilities pursuant to the contracts and the nature and extent of these, it would be necessary to undertake a full legal review of each contract.





## Commercial Arrangements

### (a) Australia Post Agency Agreement

On 24 February 2004, Undercover Collection entered into an agency agreement with Australia Post for a range of services to facilitate the collection of payments on behalf of UnderCoverWear at Australia Post Offices, by telephone and on the internet. The commencement date of the Agreement is 25 February 2004 and the Agreement terminates on 24 February 2005.

Under the terms of the Agreement, each party grants the other a non-exclusive royalty fee and revocable license to use its trademarks to promote each party's involvement with the postbillpay agency services. The Agreement provides that either party may terminate the Agreement for whatever reason by giving the other party ninety (90) days notice in writing.

The representations, warranties and undertakings contained in this agreement are usual for agreements of this nature.

### (b) Master Operating Lease Agreement

On 27 June 2003 UnderCoverWear Pty Ltd as trustee for the UnderCoverWear Unit Trust and Hybrid Investments No. 2 Pty Ltd trading as UnderCoverWear Collection entered into a Master Operating Lease Agreement with Fleet Partners Pty Limited trading as Esanda Fleet Partners, for its fleet vehicle arrangements.

The lease is a net lease and all costs in connection with the use of the goods are to be borne by UnderCoverWear and are not part of the rental. The Agreement prescribes typical obligations with respect to the care and use of the goods (motor vehicles) and there are no unusual or onerous provisions in this regard.

The representations, warranties and undertakings contained in this agreement are usual for agreements of this nature.

### (c) Lease Agreement

On 1 July 1999, UnderCoverWear Limited and Firelaw Pty Ltd entered into a 7 year lease with Sinaz Pty Ltd in respect of custom built premises located at 8 Solent Circuit, Baulkham Hills in New South Wales. Under the terms of the lease the yearly rental is payable monthly in advance by equal installments equivalent to one twelfth of the yearly rent and is payable by way of bank transfer. The lease expires on 30 June 2006, however by way of a Variation of Lease Agreement executed on 3 April 2004, a further term of 7 years commencing from 1 July 2006 has been agreed by the parties.

The representations, warranties and undertakings contained in this agreement are usual for agreements of this nature.

### (d) Executive Service Agreement for Elaine Vincent

The Company has appointed Elaine Vincent as Chief Executive Officer pursuant to an Executive Service Agreement. The Executive Service Agreement has a term of five years commencing on 1 July 2003 and terminating on 30 June 2008 unless terminated earlier in accordance with the Agreement. The initial remuneration payable to Elaine Vincent comprises base salary of \$170,000 increasing to \$216,968 in 2007 plus a profit Share of 15%



## 10. Additional Information

of EBITA less management fees and directors' fees in excess of base year EBITA for year ended 30 June 2003. Ms Vincent has undertaken not to engage in competitive conduct with UnderCoverWear for the term of the agreement and for a further period of up to 12 months from the date of termination of the employment. Under the terms of the Agreement, Ms Vincent's employment may be terminated under the terms of the Agreement with a minimum 6 month notice period, which increases commensurately with the period of service.



### 10.5 EMPLOYEE GIFT SCHEME

The Company has established an Employee Gift Scheme to assist in the retention and motivation of its employees.

Under the terms of the Scheme, all permanent employees will be gifted a maximum of up to \$1,000 worth of Shares.

The Company will administer the Scheme such that the gifted Shares that are issued to employees will be subject to Division 13A of the Income Tax Assessment Act 1936 which governs the taxation of rights and Shares acquired under employees' share schemes.

Under the rules of the Scheme, and to ensure that the Shares gifted to the employees are tax free, the Shares will be subject to disposal restrictions until the earlier of:

- (a) Three (3) years after the acquisition of the Shares, or
- (b) The cessation of employment.

There are no other conditions which attach to Shares issued pursuant to the Employee Gift Scheme.

### 10.6 ESCROW ARRANGEMENTS

Each of the Continuing Shareholders has agreed to a voluntary escrow arrangement with the Company under which they will be restricted from dealing in a specified number of Shares held by them, until the date upon which the Company releases to the ASX its preliminary final report for the financial year ending June 2005.

The total number of Shares held by Continuing Shareholders that are to be subject to this escrow arrangement is approximately 24,000,000, representing 50% of the issued capital of the Company following the Offer and the Buy Back.

The restrictions will only cease to apply in the event that;

- A takeover bid is made for all Shares and holders of at least half of the Shares not subject to the restrictions have accepted the offer under the takeover bid, or
- A scheme of arrangement relating to the Shares becomes effective.







## 10.7 ARRANGEMENT AGREEMENT

On 6 May 2004 the Company and Recone Pty Ltd (“Recone”) entered into an Offer Management Agreement (“The Agreement”) with the Manager.

The Company and Recone have agreed to retain the Manager through an advance monthly payment of \$50,000. The Agreement came into effect on 29 March 2004. The Agreement terminates on the date of this Prospectus.

Under the Agreement the Company and Recone agree to pay the Manager a management fee of 5% of the gross proceeds of the Shares sold by the Company under the Offer less a pro-rata 100% rebate of the monthly retainer fees.

The management fee is payable on the date the Company and Recone have received all of the subscription monies raised under the Offer by way of direct debit from the subscription monies.

The Company and Recone have agreed that should the Offer not proceed (other than through the negligence or otherwise of the Manager), and if within 12 months of the date of the Agreement, the Company or Recone makes an offer of securities on substantially similar terms to the Offer which is not exclusively managed by the Manager, then the Company and Recone must pay the management fee to the Manager in accordance with the terms of the Agreement.

If the Agreement is terminated by the Company or Recone because they intend to pursue an alternative means of realising shareholder value the Company and Recone agree to, within 7 days of terminating the Agreement, pay to the Manager a break fee of \$150,000 plus GST.

Additionally, the Company and Recone have undertaken that:

- (a) The Shares will be issued free from all liens, charges and encumbrances
- (b) They are and will be in compliance with applicable laws and regulatory requirements, and have or will have procedures in place to ensure continued compliance with those requirements
- (c) They will not enter into any agreement or do anything which could reasonably be expected to have a material adverse effect on the outcome of the Offer, and
- (d) They will not make or authorise or permit to be made, any material statement or announcement or issue any press release without the prior consent of the Manager.

The remaining representations, warranties and undertakings contained in this agreement are otherwise usual for agreements of this nature.

Subject to certain exclusions relating to, among other things, fraud, recklessness, wilful misconduct and negligence by the Manager, the Company and Recone have agreed to keep the Manager indemnified from losses suffered in connection with the Offer.

Under the terms of the Agreement the Manager accepts no liability or responsibility in the event that the Offer does not proceed other than as a result of its gross negligence, wilful misconduct, recklessness or fraud, save where that gross negligence or recklessness arises as a result of the indemnified person not independently verifying information provided to it by the Company or Recone.

The Agreement also limits the total liability of the Manager to the Company and Recone, to an amount which is equal to the total amount of all commissions and fees paid to the Manager by the Company and Recone.



# 10. Additional Information

## 10.8 DIRECTORS' INTERESTS

Other than as set out below or elsewhere in this Prospectus, no Director has any interest in the formation or promotion of the Company or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer of the securities under this Prospectus or in the offer of securities. No benefits or amounts have been paid or agreed to be paid to any Director, to induce them to become or qualify as a Director or for services rendered by the Director in connection with the promotion or formation of the Company or the offer of securities under this Prospectus.

### (a) (i) Interests of Directors

John Everett and Ian Everingham have an interest in the lease agreement for premises at 8 Solent Circuit, Baulkham Hills in New South Wales, to which the Company is a party. The lessor named in the lease Agreement is a Company called Sinaz Pty Limited ("Sinaz") which is a company associated with John Everett and Ian Everingham who are both Shareholders and directors. The lessee of the premises is the Company. The lease is on standard arm's length commercial terms. As at the date of this Prospectus the Company has paid Sinaz \$1,138,000 in rent over the past 24 months.

- (ii) On 11 May 2004, John and Sonya Everett in their capacity as trustees of the Everett Family Trust ("Everett") and Recone Pty Limited, a Company associated with Ian Everingham ("Everingham") entered into separate loan agreements ("Agreement") with the Company with respect to certain Shareholder loans to the Company.

The principal advance under each Agreement is one million three hundred dollars (\$1.3 million) and the term of each loan is 36 months. Interest is payable monthly at a rate of 8% per annum. Under the terms of each Agreement, during the first 12 months of the loan, the Company is only required to pay interest on the advance. After the first year of the loan, the Company may, at its sole discretion repay any of the residual advance to Everett or Everingham as the case may be, in accordance with the terms of the Agreement.

The remaining obligations, warranties and undertakings contained in this agreement are usual for agreements of this nature.

### (b) Remuneration

Under the Constitution, each Director may be paid remuneration for ordinary services performed as a Director. Under the ASX Listing Rules, the maximum fees payable to Directors may not be increased without prior approval from the Company at a general meeting. Directors will seek approval from time to time as deemed appropriate.

The maximum aggregate remuneration that may be paid to non-executive Directors is \$600,000. This remuneration may be divided among the Directors in such a fashion as the Board may determine. Notice of any proposed increase in the maximum aggregate remuneration payable to the non-executive Directors must be given to members in the notice covering the general meeting at which the increase is to be proposed.

Executive Directors are full time employees of the Company.





The Directors may also be paid all travelling and other expenses properly incurred by them in attending meetings of the Directors or any committee of Directors or general meetings of the Company or otherwise in connection with the execution of their duties as Directors.

In addition, any Director who is called on to perform extra services or to make special exertions or to undertake any executive or other work for the Company beyond his or her ordinary duties or to go or to reside abroad or otherwise for the purposes of the Company may, subject to law, be remunerated either by a fixed sum or a salary as determined by the Directors. This sum may be either in addition to or in substitution for his or her Share in the remuneration for ordinary services.

(c) **Interests in Shares**

Name of Director Interest in Shares before the Offer Interest in Shares after the Offer

DIRECTOR	INTEREST IN SHARES BEFORE THE OFFER	INTEREST IN SHARES AFTER THE OFFER
John Everett	16,000,000	16,000,000
Ian Everingham	16,000,000	8,000,000
Elaine Vincent	-	500,000*
David Hall	-	100,000*

\* David Hall has committed to purchasing 100,000 Shares in the Offer

\* Elaine Vincent has committed to purchasing 500,000 Shares in the Offer

**Beneficial interest**

Directors are not required under the Constitution to hold any Shares in the Company. As at the date of this Prospectus, Directors hold the Shares in the Company as described above.

**10.9 CORPORATE GOVERNANCE**

(a) **Number of Directors**

The Board currently comprises of four Directors. Under the Constitution of the Company, the maximum number of Directors is ten, or such other number approved by Shareholders. Shareholders may increase or reduce the number of Directors, however, the minimum number of Directors required is three, of which two are required to reside in Australia. At each annual general meeting, one third of all Directors or if the number of Directors is not a multiple of three, the nearest whole number that does not exceed one third are required to retire. Also, no Director may retain office for more than three years or until the third annual general meeting following the Director's appointment, whichever is the longer. In each case, the retiring Director will then be eligible for re-election. The Managing Director is not required to retire by rotation.

The quorum for Directors' meetings is one half of the number of Directors holding office at that time (rounded up in the case of a fraction) or such other number as determined by the Directors from time to time.

(b) **Nomination of New Directors**

The Board will decide whether to nominate new directors to the Board based on the proposed director's ability to contribute skills that are required to assist the Company in its operations



# 10. Additional Information

and future development. The adequacy of the Board from time to time and the nomination of new directors will be reviewed periodically by the existing Board.

## (c) Board Functions

The Board is responsible for directing and monitoring the business and affairs of the Company, including compliance with the Company's corporate governance policies and procedures.

The functions of the Board include:

- ensuring compliance with statutory, regulatory and reporting requirements imposed upon the Company and its officers
- overseeing the financial standing, operating results and business risks of the Company
- approving goals, strategy and plans for the direction of the Company, and
- reviewing the performance of the Managing Director.

## (d) Conflicts of Interest

Directors are generally required to disclose to the Board any contract in which they have an interest. Where a matter is being considered by the Board in which a Director has a material personal interest, that Director may not be present while the matter is being considered and may not vote on the matter.

## (e) Directors' Access to Independent Advice

Any Director who requires legal advice in relation to the performance of the Director's duties as a Director of the Company may inform the Chairman of the issue that raises the concern that requires legal advice, and advice may then be obtained in consultation with the Chairman. Legal costs reasonably incurred are reimbursable by the Company. Any advice obtained is to be made available to all other Directors.

### 10.10 INTERESTS OF EXPERTS AND OTHER PARTIES

Other than as set out below, no person performing a function in a professional, advisory or other capacity for this Prospectus has any interest in the formation or promotion of the Company or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer of securities or in the Offer of securities and no amounts or benefits have been paid or agreed to be paid for services rendered by the person performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus.

### 10.11 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection free of charge at the registered office of the Company for at least 15 months after lodgement of this Prospectus:

- the written consents to the issue of this Prospectus, and





## 10.12 EXPENSES OF THE ISSUE

All expenses connected with the Offer will be met by the Existing Shareholders and the existing Shareholder on a pro rata basis with the exception of the printing ASX and ASIC costs. No form of payment of any kind will be made or agreed to be made to any expert or firm other than for cash. The expenses of the Offer (including any applicable GST) are as follows:

Accounting	\$88,000
Legal	\$130,000
Arrangement Fees	\$660,000
Printing	\$35,000
ASX and ASIC	\$25,000
<hr/>	
Total	\$938,000

Except as set out above or elsewhere in this Prospectus, no sums have been paid or agreed to be paid to any professional adviser or other person in cash, Shares or otherwise by any person in connection with the formation or promotion of UnderCoverWear. Certain parties and employees of the above firms may subscribe for Shares in the context of the Offer.

## 10.13 LITIGATION

Due to the nature of its business, the Company may from time to time be a defendant or co-defendant in litigation. The Company is not currently involved in any litigation that may have a material effect on its financial position.

Other than as set out above, the Company is not involved in any legal or arbitration proceedings, which may have a material effect on the financial position of the Company. As far as the Directors are aware, no other material proceedings are threatened against UnderCoverWear.

## 10.14 CONSENT OF EXPERTS

Written consents to the issue of this Prospectus have been given and at the date of this Prospectus have not been withdrawn by the following parties:

Hunt and Hunt has given and, before lodgement of this Prospectus, has not withdrawn its consent to be named as lawyers to the Offer in the form and context in which it is named. Hunt and Hunt specifically disclaims liability to any person in the event of any omission from, or any false or misleading statement included elsewhere in, this Prospectus. While Hunt and Hunt has provided advice to the Directors in relation to the issue of this Prospectus and the conduct of due diligence enquiries by the Company and the Directors, Hunt and Hunt has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of the Prospectus other than references to its name.

Grant Thornton NSW has given and, before lodgement of this Prospectus, have not withdrawn its consent to be named as auditors of the Company in the form and context in which they are named. Grant Thornton NSW specifically disclaims liability to any person in the event of any omission from, or any false or misleading statement included elsewhere in, this Prospectus. They have not authorised or caused the issue of this Prospectus and take no responsibility for any part of the Prospectus other than the audited financial statements referred to in this Prospectus.



## 10. Additional Information

Grant Thornton Corporate (NSW) Pty Ltd has given and, before lodgement of this Prospectus, has not withdrawn its consent to be named as Independent Accountants to the Offer and to prepare the Report on Financial Forecasts in the form and context in which it is named. Grant Thornton Corporate (NSW) Pty Ltd specifically disclaim liability to any person in the event of any omission from, or any false or misleading statement included elsewhere in, this Prospectus. Grant Thornton Corporate (NSW) Pty Ltd has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of the Prospectus other than the Independent Accountant's Report and the Report on Financial Forecasts.

ComputerShare Investor Services Pty Limited has given and, as at the date hereof has not withdrawn its written consent to be named as the Share Registrar in the form and context in which it is named.

Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registrar to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

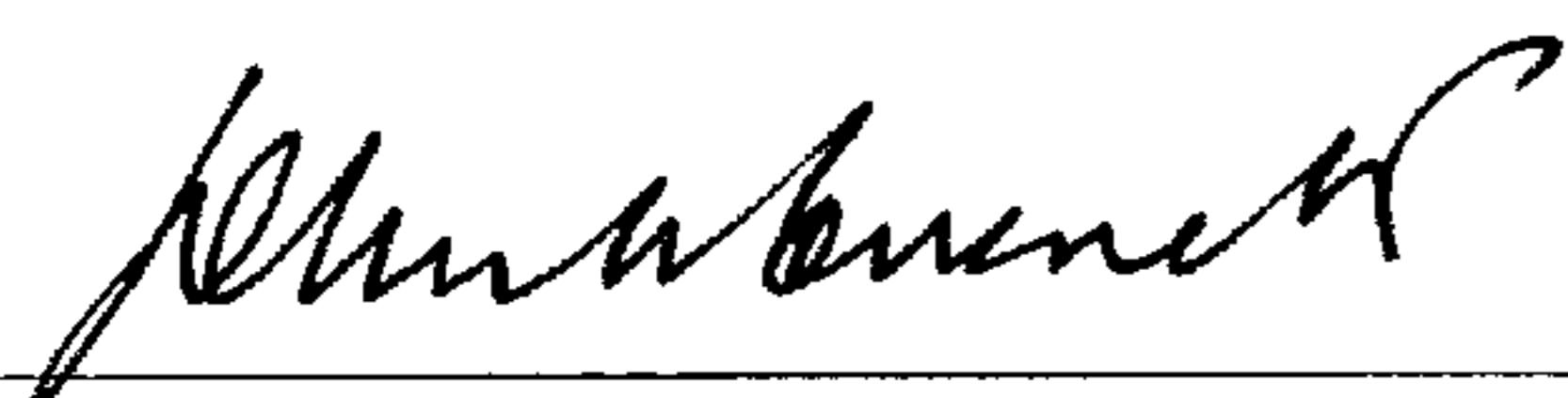
Blackwood Capital Pty Limited has given and, before lodgement of this Prospectus, has not withdrawn its consent to be named as Manager in the form and context in which it is named. Blackwood Capital Pty Limited specifically disclaims liability to any person in the event of any omission from, or any false or misleading statement included elsewhere, in this Prospectus. It has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of the Prospectus other than the references to its name.

### STATEMENT BY DIRECTORS

The Directors report that, in their opinion, since the date of the financial statements used in the preparation of the Independent Accountant's Report, namely [31 December 2003], no circumstances have arisen that materially affect or will materially affect the profitability of the Company or the value of the Company's assets and liabilities, except as disclosed in this Prospectus.

The Directors consent to, and have authorised the issue of, this Prospectus.

Signed by each Director of the Company or by a person authorised by that Director in writing to sign this Prospectus on his or her behalf.



John Everett



Elaine Vincent





SECTION II  
Glossary





# 11. Glossary of Terms

TERM OR ABBREVIATION	MEANING
\$, A\$	Australian Dollars
Applicant	A person who submits an Application
Application	A valid application to subscribe for or acquire a specified number of Shares under the Offer
Application Form	The application form which is attached to and forms part of this Prospectus in relation to the subscription or purchase of Shares
ASIC	Australian Securities & Investments Commission
Associate	An "associate" as defined in the Corporations Act
ASX	Australian Stock Exchange Limited
ASX Listing Rules	The official listing rules of the ASX as amended from time to time
Board	The board of Directors of the Company
Buy Back	means the proposed Buy Back of 15,999,700 Shares from the Exiting Shareholders as described in section 10.4
CHESS	Clearing House Electronic Sub-register System
Closing Date	The date on which applications for Shares closes, expected to be Thursday 10 June 2004 unless the Directors, in conjunction with the Manager, exercise their right to vary that date
Company or UnderCoverWear	UnderCoverWear (ACN 108 962 152)
Continuing Shareholders	means Existing Shareholders who will be Shareholders following completion of the Buy Back
Constitution	The constitution of the Company







TERM OR ABBREVIATION	MEANING
Corporations Act	Corporations Act 2001 (Cth) as amended from time to time
Directors	Directors of the Company
DRP	Dividend Reinvestment Plan
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Existing Shareholders	means holders of Shares on the date of this Prospectus
Exiting Shareholders	means existing shareholders who are participating in the Buy Back as described in section 10.4
Financial Year	A year commencing on 1 July and ending on 30 June of the following year
Group	UnderCoverWear and all Subsidiaries
GST	Goods and Services Tax
Issue	The issue of Shares pursuant to this Prospectus
Listing Rules	Official Listing Rules of the ASX as amended from time to time
Manager	Blackwood Capital Pty Limited (ACN 086 281 950)
Net Borrowings	Financial borrowings less cash
Offer	The offer of Shares under this Prospectus
Offer Price	\$0.50 per Share
Offer Shares	The Shares to be issued by the Company pursuant to this Prospectus



# 11. Glossary of Terms

TERM OR ABBREVIATION	MEANING
PE	Price earnings ratio
Prospectus	This prospectus dated 13 May 2004 for the offer of 24 million Shares in UnderCoverWear as modified by any supplementary prospectus made by the Company and lodged with ASIC from time to time
Scheme	means the Employee Gift Scheme described in Section 10.5
Shares	Ordinary shares in the Company
Subsidiary	A "subsidiary" as defined in the Corporations Act
YOY	Year on year



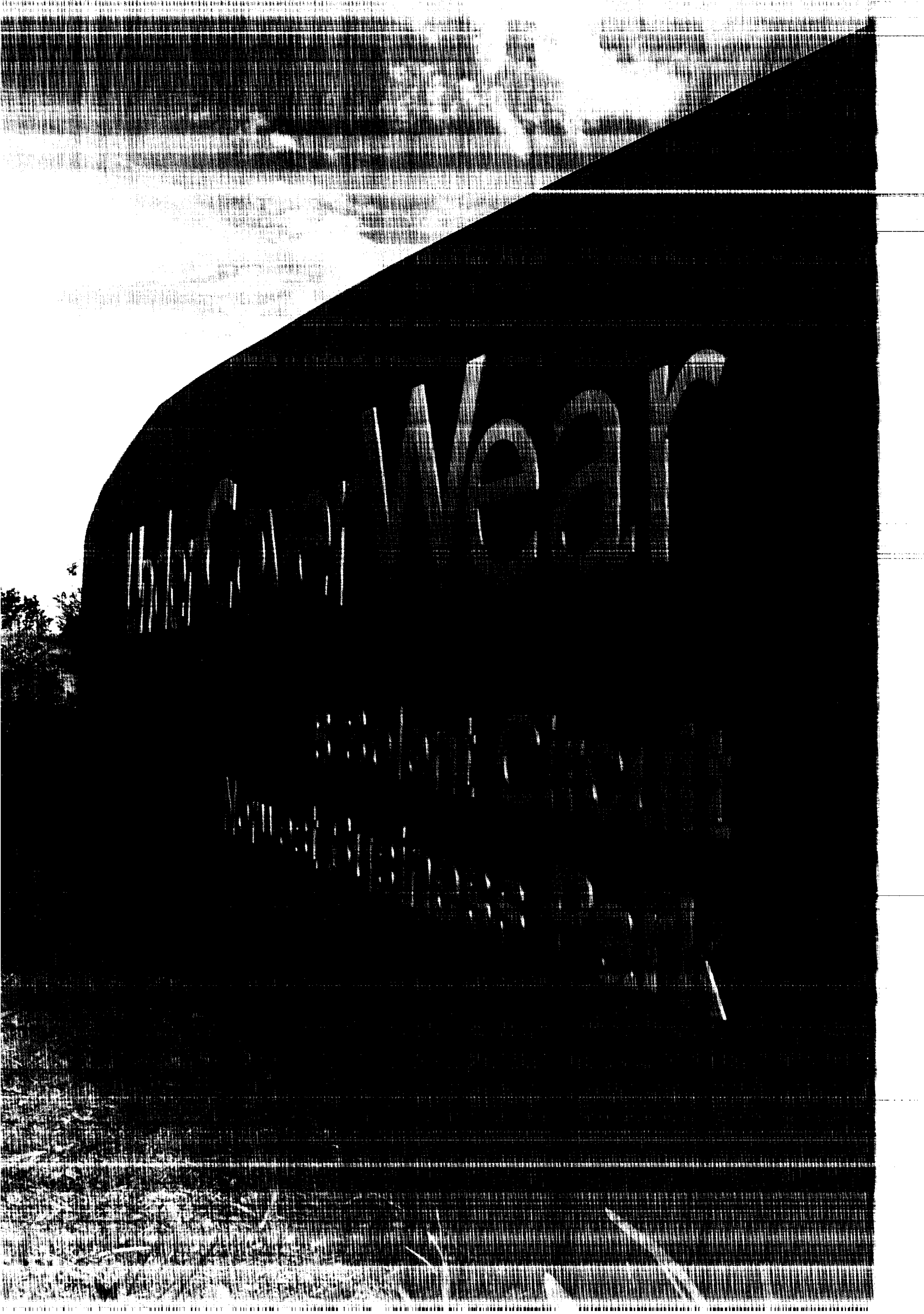


SECTION 12

# Application Form









# Application Form

UNDERCOVERWEAR LIMITED

ACN 108 962 152

**To meet the requirements of the Corporations Law, this Application Form must not be handed on unless attached to the Prospectus.**

Fill out this Application Form if you want to apply for Shares in UnderCoverWear Limited

- Follow instructions overleaf to complete this Application Form.
- Print clearly in capital letters using black or blue ink.

Broker's Code

Broker's Stamp

Adviser

**A** I/We apply for \_\_\_\_\_ number of Securities or such lesser number of Securities as may be allocated to me/us by the Company. (All applications must be for a minimum of 4,000 Securities and thereafter in multiples of 100 shares).

**B** I/We lodge full application monies **A\$** \_\_\_\_\_ (\$0.50 per Security) - refer to Note B overleaf

**C** Single/Joint Applicant No.1 - refer overleaf for correct forms or registerable title(s)  
Title \_\_\_\_\_ Given name(s) \_\_\_\_\_ Surname \_\_\_\_\_  
  
Joint Applicant No.2 or account Designation  
Title \_\_\_\_\_ Given name(s) \_\_\_\_\_ Surname \_\_\_\_\_  
  
Joint Applicant No.3 or account Designation  
Title \_\_\_\_\_ Given name(s) \_\_\_\_\_ Surname \_\_\_\_\_

**D** Enter your postal address details - include State and Postcode  
Unit number \_\_\_\_\_ Street number \_\_\_\_\_ Post Office Box or other Mail Box details (if applicable) \_\_\_\_\_  
  
Street Name \_\_\_\_\_  
  
Suburb/City \_\_\_\_\_ State \_\_\_\_\_ Postcode \_\_\_\_\_

**E** Contact Name \_\_\_\_\_ Home Telephone Number \_\_\_\_\_ Work Telephone Number \_\_\_\_\_  
  
e-mail Address \_\_\_\_\_

**F** CHESS Participant - HIN (where applicable) \_\_\_\_\_

**G** Enter your Tax File Number(s) or exemption category \_\_\_\_\_

**H** Lodge your Application Form as soon as possible. Pin your cheque above - Cheques should be crossed **Not Negotiable** and made payable to: UnderCoverWear Limited Float Offer Account.  
Cheque Details  
Drawer \_\_\_\_\_ Bank \_\_\_\_\_ BSB \_\_\_\_\_ Amount of Cheque \_\_\_\_\_

By lodging this application form, I/We declare that this application is completed and lodged according to the declarations/appropriate statements on the reverse of this form and agree to be bound by the Constitution and By-Laws of the Company and that all statements made by me/us are complete and accurate, notwithstanding that my/our signature does not appear on this form



# 12. Application Form

If you complete the application form attached on the following pages, you will be providing personal information to the Group directly and/or through the share registry. The Group (and the share registry on the Group's behalf) collects, holds and uses that personal information in order to assess your application, service your needs as an investor, provide facilities and services that you request and carry out appropriate administration of the Group. All personal information collected by the Group will be collected in accordance with the National Privacy Principles set out under the Privacy Act 1988.

Under the Privacy Act 1988, you may request access to your personal information held by (or on behalf of) the Group. In certain circumstances, we may charge a fee to access your personal information, particularly where your request requires compilation of personal information that has been archived or is of a significant size.

UnderCoverWear Limited, ACN 108 962 152

## APPLICATION FORMS AND INSTRUCTIONS TO APPLICANTS

Please complete all relevant sections of the Application Form using **BLOCK LETTERS**. If you have any questions on how to complete this Application Form please telephone the number below.

Please post or deliver the completed Application Form together with your cheque to the following address:

UnderCoverWear Share Offer  
Blackwood Capital Pty Limited  
Level 16  
60 Castlereagh Street  
Sydney NSW 2000

Write your **FULL NAME** in Box C. This must be either your own name or the name of a company. You should refer to the examples noted for the correct forms of name which can be registered. Applications using the incorrect form of name may be rejected. If your Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. Any decisions as to whether to treat your application as valid, and how to construe, amend or complete it, shall be final. You will not, however, be treated as having offered to subscribe for more Shares than is indicated by the amount of the accompanying cheque for the application monies referred to in Box B.

Enter a **TAX FILE NUMBER** or exemption category beside your name in Box G. Collection of Tax File Numbers is authorised by taxation laws. Quotation of your Tax File Number is not compulsory and will not affect your application.

Enter your **POSTAL ADDRESS** for all correspondence in Box D. All communications to you from the Company's Registry (shareholding statement, annual/interim reports, correspondence, etc) will be mailed to the person(s) and address as shown.

Enter details of contact person, telephone number, email address and facsimile number if any enquiries need to be made by the company or the Registry.

Insert the **NUMBER OF SHARES** you wish to apply for in Box A.

Insert the amount of your **APPLICATION MONIES** in Box B. The amount must be equal to the number of Shares applied for (as in Box E) multiplied by \$0.50 per Share.

Insert the **TOTAL AMOUNT OF YOUR CHEQUE(S)**. The total amount of your cheque(s) must equal the total application monies (see Box B). Cheques must be drawn on an Australian bank in Australian currency and made payable to "UnderCoverWear Limited - Float Account" and crossed "NOT NEGOTIABLE". Do not send cash. A separate cheque should accompany each Application Form lodged. No receipts will be issued.

The Application form does not need to be signed.

## CORRECT FORMS OF REGISTERABLE TITLE

Note that **ONLY** legal entities can hold the Shares. The application must be in the name(s) of a natural person(s), companies or other legal entities acceptable to UnderCoverWear Limited. At least one full given name and surname is required for each natural person. Applications cannot be made by persons under 18 years of age. Examples of the correct form of registerable title are set out below.

Type of Investor Correct Form of Registerable Title Incorrect Form of Registerable Title Trusts Mr John David Smith John Smith Family trust Deceased Estates Mr Michael Peter Smith John Smith (Deceased) Partnerships Mr John David Smith and Mr Ian Lee Smith John Smith & Son Clubs Unincorporated Bodies Mr John David





# Corporate Directory

## Directors

*Mr* **Timothy A.M. Clarke**

*Mr* **John Everingham**

*Mr* **David Hall**

*Mr* **Robert Vincent, Chief Executive Officer**

## Company Secretary

*Mr* **Francois Hoffmann**

## Registered Office

**ReaderCoverWear Limited**

8 Solent Circuit

Norwest Business Park

Baulkham Hills NSW 2153

## Independent Accountant

*Grant Thornton Corporate (NSW) Pty Limited*

Level 17, 383 Kent Street

Sydney NSW 2000

## Auditor

Grant Thornton NSW

Level 17, 383 Kent Street

Sydney NSW 2000

## Manager

Blackwood Capital Pty Limited

Level 15, 60 Castlereagh Street

Sydney NSW 2000

## Solicitors

Hunt & Hunt

Level 9, 85 Macquarie Street

Hobart TAS 7000

## Share Registry

*Computershare Investor Services Pty Limited*

Level 5, 115 Grenfell Street

Adelaide SA 5000





UnderCoverWear