

UnderCoverWear

APPENDIX 4D

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

1. Details of the reporting period

Current period	1 July 2010 to 31 December 2010
Previous corresponding period	1 July 2009 to 31 December 2009

2. Results for announcement to the market

		\$	Up / down	Movement %
2.1	Revenues from ordinary activities	10,751,754	down	19.8%
2.2	Profit/(loss) from ordinary activities after tax attributable to members	(2,647,282)	down	396.6%
2.3	Net profit/(loss) for the period attributable to members	(2,647,282)	down	396.6%
2.4	Dividends	Amount per Security (cents)	Franked amount per security (cents)	
	<i>Current Period</i>			
	Final	N/A	N/A	
	Interim	N/A	N/A	
	<i>Previous corresponding period</i>			
	Final	N/A	N/A	
	Interim – paid 09 April 2010	1.25	1.25	
2.5	Record date for determining entitlements to dividends		N/A	
2.6	<p>During the half-year ended 31 December 2010, other than disclosed in the Directors' Report, there were no significant items that impacted on the results recorded in our Income Statement.</p> <p>Refer to the Directors' Report contained in attached interim financial report for further explanation of the results.</p>			

3. Net Tangible Assets per security

	31 Dec 2010	31 Dec 2009
Net tangible asset backing per ordinary security	6.37 cents	9.18 cents

4. Details of entities over which control has been gained or lost during the period

i.	Name of entity (or group of entities) over which control was gained/lost	N/A
ii.	Date control was gained/lost	N/A
iii.	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired/lost	N/A
	Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A

5. Details of dividends / distributions

N/A as no interim dividend will be paid.

6. Details of dividend / distribution reinvestment plan

At 31 December 2010, there was no dividend reinvestment plan in operation for UnderCoverWear Limited.

7. Details of associates and joint venture entities

N/A

8. Accounting Standards used by foreign entities

N/A

9. Qualification of audit / review

N/A as there is no audit dispute or qualification. Refer to the attached interim financial report which includes our auditor's Independent Review Report.

UNDERCOVERWEAR LIMITED
A.B.N 85 108 962 152

INTERIM FINANCIAL REPORT
Half-Year Ended 31 December 2010

UNDERCOVERWEAR LIMITED
A.B.N 85 108 962 152

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UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

COMPANY DETAILS

Directors	Stuart Richardson, <i>Chairman</i> John Everett AM Richard Lowry Nick Geddes (<i>Alternate for John Everett</i>)
Company Secretary	Nick Geddes
Registered & Principal Office	UnderCoverWear Limited ABN 85 108 962 152 ACN 108 962 152 8 Solent Circuit Norwest Business Park Baulkham Hills NSW 2153 Tel: +61 2 8853 2800 Fax: +61 2 8853 2899 Website: www.ucw.com.au
Auditor	Grant Thornton Audit Pty Ltd Level 17, 383 Kent Street Sydney NSW 2000
Share Registry	ComputerShare Investor Services Pty Ltd Level 5, 115 Grenfell Street Adelaide SA 5000
Stock Exchange Listing	Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

DIRECTORS' REPORT

Your directors submit the financial report of UnderCoverWear Limited and its controlled entities for the half-year ended 31 December 2010.

Directors

The names of directors who held office during or since the end of the half-year:

Stuart Richardson

John H Everett

Richard Lowry

Nick Geddes (*Alternate for John Everett effective 6th August 2010*)

All directors held office from the start of the half year to the date of this report unless otherwise stated.

Review of Operations

The six months of trading for UnderCoverWear for the period ended 31 December 2010 was in line with the advice to the market early December.

The net loss of \$2,647,282 for the period includes goodwill impairment of \$2,400,000. The impairment loss has been recognised to ensure that the value of the asset is not overstated, and has taken in consideration future earnings, expected growth, share price and the value of the goodwill in the current market.

The headline results comparing first half results for the 2011 financial year with the previous year's first half are as follows:

Revenue	\$10.75m down 19.8%
Loss (excluding impairment)	(\$0.35m) down 127.7%

Trading for the six month period has remained challenging. Issues relating to product quality, sizing consistency and product availability that occurred during the first half of the year have all been addressed.

UnderCoverWear ceased local production as from 31st December, moving to off-shore. This involved one-off restructuring costs which were expensed in the first half of 2010.

As the product range moves to 100% purchased off shore in the second half, there will be improvement to the margin in the third and fourth quarter of 2011.

Other cost saving measures including reduction in head office costs have been implemented.

The focus remains to improve sales volumes, gross margin and the bottom line.

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

DIRECTORS' REPORT

Auditor's Independence Declaration

A copy of the auditor's independence declaration in relation to the review of the interim financial report for the half year ended 31 December 2010 is shown on page 14 and forms part of this report.

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

A handwritten signature in black ink, appearing to read 'Stuart Richardson', is positioned above the printed name.

Stuart Richardson

Director

Dated 25th February 2011

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Consolidated Entity	
	31 December 2010	31 December 2009
	\$	\$
Revenue	10,751,754	13,401,225
Changes in inventories and work in progress	(4,521,070)	(5,641,414)
Distribution costs	(580,797)	(682,525)
Commissions paid	(784,456)	(972,624)
Promotions and advertising expense	(1,140,148)	(1,300,231)
Depreciation and amortisation expense	(146,036)	(73,483)
Impairment expense	(2,400,000)	-
Insurance expense	(86,061)	(59,416)
Employee benefits expense	(2,421,283)	(2,288,758)
Rental expenses	(525,788)	(458,276)
Finance costs	(76,734)	(19,390)
Other expenses	(822,343)	(765,705)
(Loss) / Profit before income tax expense	(2,752,962)	1,139,403
Income tax expense	105,680	(246,853)
(Loss) / Profit attributable to members of the parent entity	(2,647,282)	892,550
Other comprehensive income	-	-
Total comprehensive income	(2,647,282)	892,550
Basic earnings per share (cents per share)	(6.13)c	2.05c
Diluted earnings per share (cents per share)	(6.13)c	2.05c

The accompanying notes form part of this financial report.

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
AS AT 31 DECEMBER 2010

	Consolidated Entity	
	31 December 2010	30 June 2010
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	69,068	308,322
Trade and other receivables	637,696	786,466
Inventories	4,046,702	4,365,924
Other current assets	223,702	194,755
TOTAL CURRENT ASSETS	4,977,168	5,655,467
NON-CURRENT ASSETS		
Plant and equipment	1,149,146	1,266,021
Deferred tax assets	371,248	359,178
Intangible assets	12,217,498	14,617,499
TOTAL NON-CURRENT ASSETS	13,737,892	16,242,698
TOTAL ASSETS	18,715,060	21,898,165
CURRENT LIABILITIES		
Trade and other payables	1,001,473	1,997,734
Interest bearing liabilities	1,608,889	454,463
Short-term provisions	640,910	1,038,660
TOTAL CURRENT LIABILITIES	3,251,272	3,490,857
NON-CURRENT LIABILITIES		
Interest bearing liabilities	404,970	653,361
Deferred tax liabilities	30,835	68,915
Long-term provisions	59,105	68,872
TOTAL NON-CURRENT LIABILITIES	494,910	791,148
TOTAL LIABILITIES	3,746,182	4,282,005
NET ASSETS	14,968,878	17,616,160
EQUITY		
Issued capital	22,809,146	22,809,146
Retained earnings	(7,840,268)	(5,192,986)
TOTAL EQUITY	14,968,878	17,616,160

The accompanying notes form part of this financial report.

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Note	Ordinary Share Capital	Retained Profits	Total
Balance at 1 July 2009		23,960,750	1,595,696	25,556,446
Total comprehensive income for the period		-	892,550	892,550
Share buy back		(1,062,254)	-	(1,062,254)
Dividends paid or provided for	3	-	(480,000)	(480,000)
Balance at 31 December 2009		<u>22,898,496</u>	<u>2,008,246</u>	<u>24,906,742</u>
Balance at 1 July 2010		22,809,146	(5,192,986)	17,616,160
Total comprehensive income for the period		-	(2,647,282)	(2,647,282)
Dividends paid or provided for	3	-	-	-
Balance at 31 December 2010		<u>22,809,146</u>	<u>(7,840,268)</u>	<u>14,968,878</u>

The accompanying notes form part of this financial report.

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Consolidated Entity	
	31 December 2010	31 December 2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	11,971,071	15,104,978
Payments to suppliers and employees	(12,970,268)	(13,970,184)
Interest received	33	28,877
Dividends & trust distributions received	19	16
Finance costs	(76,734)	-
Income taxes paid	(44,035)	(300,338)
Net cash provided by operating activities	(1,119,914)	863,349
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of non-current assets	2,170	-
Purchase of non-current assets	(27,545)	(1,100,679)
Share buy back	-	(1,062,254)
Net cash used in investing activities	(25,375)	(2,162,933)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	-	(480,000)
Interest bearing liabilities	(238,936)	1,107,338
Financing costs	-	(19,390)
Net cash provided by/(used in) financing activities	(238,936)	607,948
Net decrease in cash held	(1,384,225)	(691,636)
Cash at beginning of period	308,322	1,702,317
Cash at end of period	(1,075,903)	1,010,681

The accompanying notes form part of this financial report.

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

NOTE 1: BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by UnderCoverWear Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated entity and are consistent with those applied in the 30 June 2010 financial report.

Reporting basis and conventions

The half year report has been prepared on an accruals basis and is based on historical costs.

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

Consolidated Entity

31 December 2010 31 December 2009

NOTE 2: PROFIT BEFORE TAX

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

Revenue:

• sale of goods	10,316,692	12,861,399
• distribution charges	124,782	171,677
• rental revenue	241,848	258,165
• other revenue	68,381	81,091
• interest & dividends received	51	28,893
Total Revenue	10,751,754	13,401,225

Profit before income tax has been determined after:

• Expenses		
- cost of sales	4,271,069	5,641,414
- borrowing costs	76,734	19,390
- depreciation of non-current assets	123,465	73,227
- bad & doubtful debts	18,453	22,856
- rental expense on operating leases	524,469	551,115
- impairment expense	2,400,000	-
- inventory write-off	250,000	-

UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Consolidated Entity	
	31 December 2010	31 December 2009
NOTE 3: DIVIDENDS		
Dividends provided for and paid during the half year are listed below:		
Dividends paid	-	480,000
An interim fully franked ordinary dividend will not be paid. (2009: 1.25 cent per share franked at the tax rate of 30%)	-	543,325

NOTE 4: BORROWINGS

The consolidated group has borrowed funds via a revolving equipment finance facility to assist with upgrading the fleet of motor vehicles. The facility is for \$1,500,000, of which \$868,889 has been utilised by the end of the interim reporting period.

UnderCoverWear Limited is guarantor for the amount borrowed, and the vehicles purchased are provided as security for the borrowings.

The consolidated group has an overdraft facility of \$1,200,000, of which \$1,161,028 has been utilised by the end of the interim reporting period.

NOTE 5: EVENTS SUBSEQUENT TO REPORTING DATE

A temporary extension of the overdraft facility to \$1,850,000 was approved to 30th April 2011.

NOTE 6: CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

NOTE 7: SEGMENT INFORMATION

The consolidated group has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors (chief decision makers) in assessing performance and determining the allocation of resources.

The group only operated in one business segment being the manufacturing and distribution of underwear and garments through the home party plan, which is supported by an administration office in Sydney, Australia. All segment assets, segment liabilities and segment results relate to the one business segment and therefore no segment analysis has been prepared.

Revenues sourced from New Zealand, the groups only export market, are deemed not to be material and therefore disclosure of assets and revenues by geographic segment is deemed not to be required.

UNDERCOVERWEAR LIMITED
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DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 12:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Stuart Richardson

Director

Dated 25th February 2010

Grant Thornton Audit Pty Ltd
ACN 130 913 594

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**Auditor's Independence Declaration
To The Directors of UnderCoverWear Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of UnderCoverWear Limited for the half-year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Director - Audit & Assurance

Sydney, 25 February 2011

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Independent Auditor's Review Report To the Members of UnderCoverWear Limited

We have reviewed the accompanying half-year financial report of UnderCoverWear Limited (“Company”), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors’ declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year’s end or from time to time during the half-year.

Directors’ responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity’s financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of UnderCoverWear Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of UnderCoverWear Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Director – Audit & Assurance

Sydney, 25 February 2011