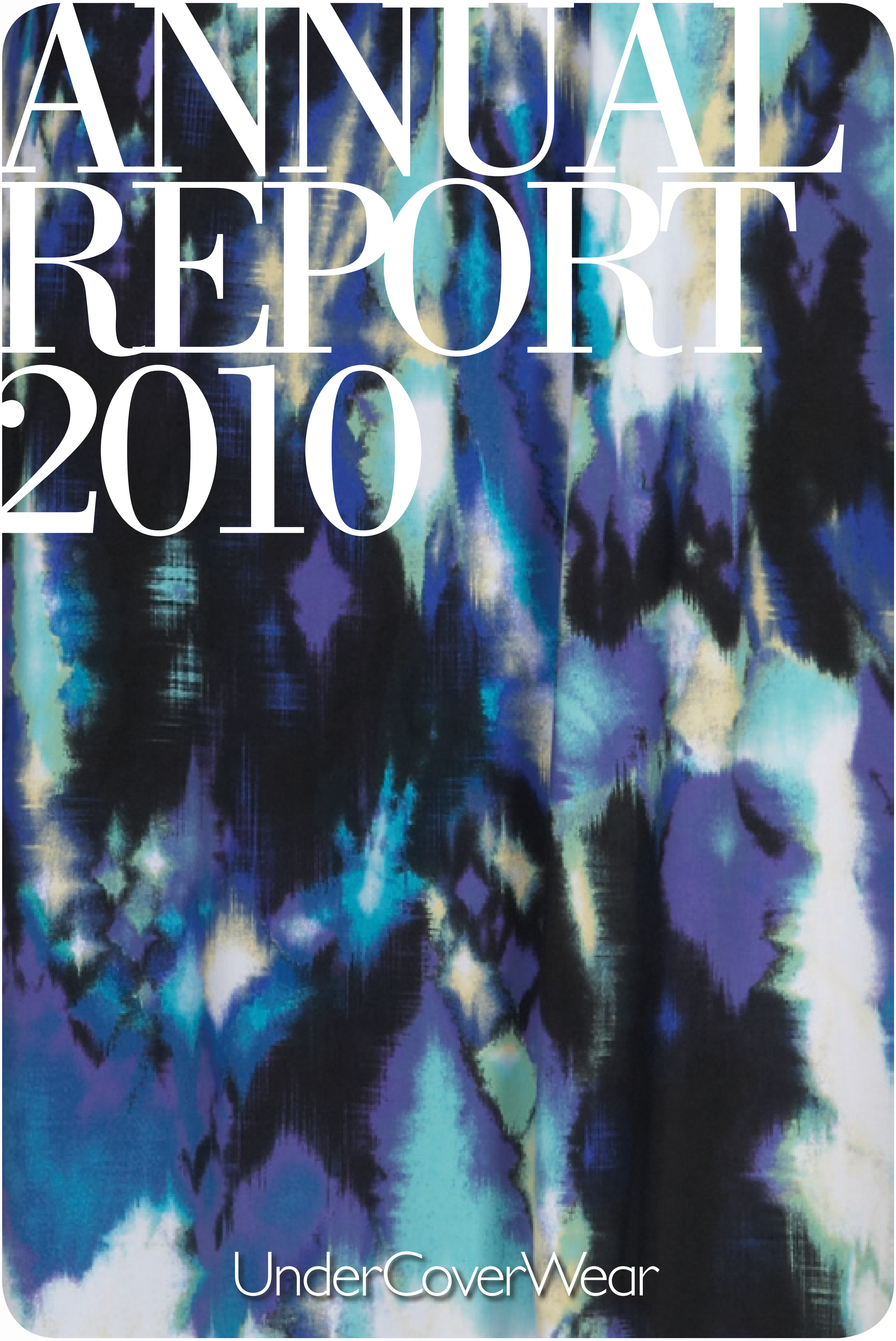
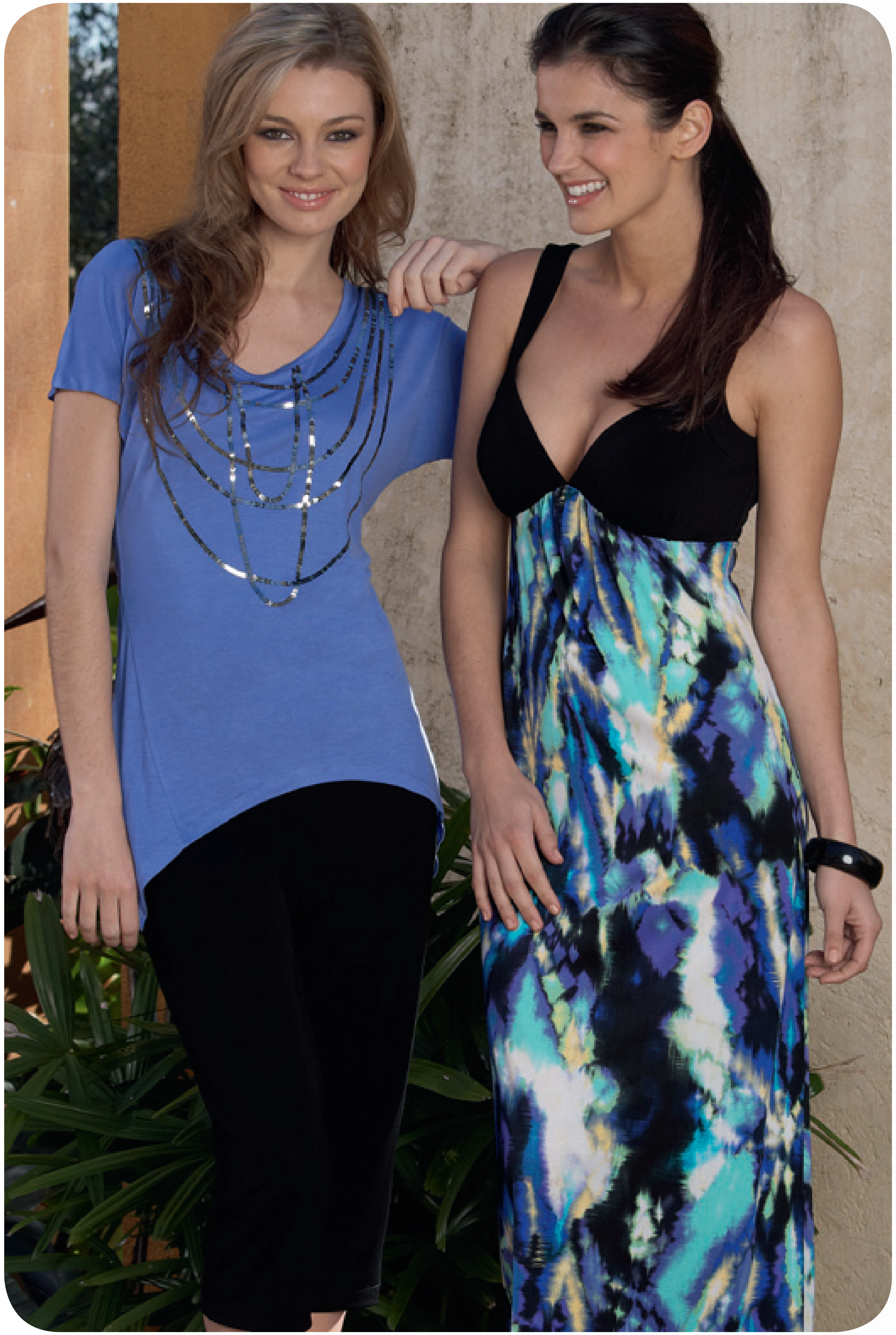
ANNUAL REPORT 2010



UnderCoverWear



2010

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ANNUAL GENERAL MEETING

The Annual General Meeting of UnderCoverWear Limited Consolidated Entity ABN 85 108 962 152 will be held at the offices of Grant Thornton Audit Pty Limited, Level 17, 383 Kent Street, Sydney NSW on 29 October 2010 at 11.30am.

CHAIRMAN

CHAIRMAN'S OVERVIEW

UnderCoverWear Limited (UnderCoverWear) reports a 2010 net loss of $5,768,731 which is an increase from 2009 reported loss of $2,267,571.

This equates to a 2010 negative EPS of 12.92 cents per share compared to a reported negative EPS of 4.72 cents per share 2009. The loss is after impairment changes. The pre impairment NPAT was $531,269, a decline of 67.5 % on 2009 pre impairment profit result.

An impairment adjustment of $6,300,000 was booked, valuing Goodwill at $14,617,499.

This is another poor result for UnderCoverWear. The Board and management have extensively reviewed the business model with a "return to basics" approach that is anticipated to deliver results.

The three areas of focus are:

1. Halting the decline of consultant numbers leaving the business.

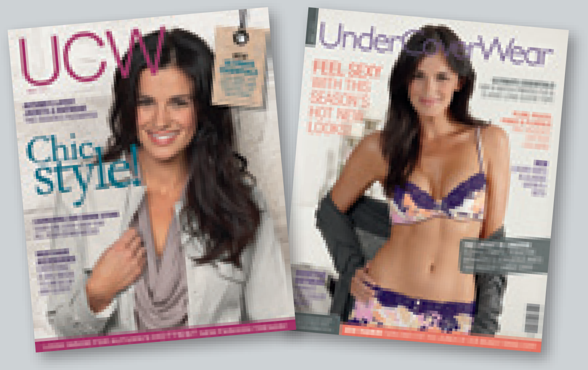
This has largely been achieved and the key to 2010/11 year will be to grow net consultant numbers.

2. Restructuring of the management team

Simon Pervan has been appointed Chief Executive Officer effective 1st April 2010. Simon came to UnderCoverWear from the leading direct selling organisation Nutrimetics. In addition to Simon, a number of key management positions have been upgraded in UnderCoverWear, including National Sales Manager, Logistics Manager, Chief Operating Officer and Design, Merchandising and Buying functions.

3. March 2010 saw the first release of the revitalised product range and the new look catalogue.

This refocuses the product back to similar customer groupings when UnderCoverWear last delivered record results for shareholders.



BOARD CHANGES

I would like to thank Elaine Vincent who stepped down from the Board in March 2010 after nearly fifteen years with UnderCoverWear, guiding UnderCoverWear to a successful public listing in June 2004 and ten years as Group CEO. The Board is grateful for her considerable contribution to UnderCoverWear. The Board is also pleased to welcome Mr Rick Lowry onto the UnderCoverWear board. Rick has worked in the retail industry since 1972 and has held various senior positions in the retail industry. Rick's extensive retailing and strategic experience will greatly benefit UnderCoverWear.

SHARE BUYBACK

In the financial year 2009/10 the company commenced and completed an on-market buyback of 10% of the issued capital of UnderCoverWear.

DIVIDENDS

Based on the reduced earnings for 2009/10 and the Board's wish to conserve cash flows, the Directors announce a final dividend will not be paid. UnderCoverWear paid 1.25 cents as an interim dividend.

OUTLOOK

The Board and management believe the key elements are in place to see UnderCoverWear return to profit growth after a number of disappointing years. A new leadership team, revitalised product range and a very focused effort on the recruitment of consultants, should see UnderCoverWear return to profit growth in 2010/11.

My sincere thanks to shareholders for their continued support and thank you to my fellow directors and head office team who responded well to the challenges encountered in 2009/10.

Stuart A Richardson, Chairman

26 August 2010

CEO

CHIEF EXECUTIVE OFFICER'S REPORT

OVERVIEW

Our mission at UnderCoverWear is to educate and empower women to become the best they can be and the vehicle for this is selling UnderCoverWear garments via the party plan model. To achieve this outcome we must ensure our training modules are simple to understand, our product is competitive and we are easy to do business with. The pathway to further success as a Consultant in our business needs to be clear and the remuneration for increased effort (sales) has to be compelling. To achieve the above we have spent the greater part of the year continuing to realign our focus back onto our 'shop fronts', our Consultants. Our Consultants, particularly during tough times, need to know they have the support and the 'ear' of the Company and we will continue to increase our visibility out in the selling field through events and training activities to obtain a better understanding of where and how they work.

We have re-engineered our organisational structure, re-establishing clear and efficient lines of communication across all key functions of the business. Our objective is an aligned focus on our strategic objective, an increasing field count with increasing productivity and a return to profit growth. Operationally our primary focus is to reduce our cost of doing business, focusing on improving our manufacturing relationships internationally, and reviewing our logistics functions.

CONSULTANT COUNT & ACTIVITY

Management have worked hard to keep the morale of our field leaders (Consultants) at optimum levels as the difficult trading environment and lack of consumer confidence impacts the ease of which Consultants can secure party bookings. Our Consultant count is a reflection of this very point and we finished the year with a slight net loss in Consultant count, down 2.4% (39 Consultants) on FY2009. Pleasingly this is the smallest net loss in Consultants for the past 5 years, signifying a stemming of the erosion in our field count, and reinforces the benefits of the strategies put into place during the year.

Activity, the amount of orders a Consultant places in a month was down from an average 3.8 orders per month in FY2009 to 3.7 orders per month in FY2010, a decrease of 2.6%. This decrease is again a reflection of the trading environment and our Consultants ability to consistently secure party bookings. When we look at the year split into two halves in comparison to FY2009 there are signals of improving trading conditions which coincide with the timing of the revitalised product range and catalogue launched in March 2010.

Average Monthly Orders Per Working Consultant

Year	1st half	2nd half
2009	4.0	3.6
2010	3.8	3.7

PRODUCT

In March 2010 we released our revitalised product range and new look catalogue, refocusing the offering around the customer groupings that saw the business grow to its heights of 2006 and 2007. The new offering and splitting out of our outerwear garments as a new brand, named UCW, has been well received by existing customers and is firmly aimed at attracting new customers to our product offering. We continue to work with a leading Fashion Consultant to refine our product range and identify where new opportunities lie in the coming year. We have employed a new Head of Design and Product Development, Karen Thom, who joined the business in early July and brings with her 20 years of experience in product design and development.

SALES

With my appointment to CEO effective 1 April 2010, I had the opportunity to appoint my replacement and felt the skill set most required in this role needed to be built around consultant training and development. Laurie Fitzgerald accepted the role and commenced in June 2010 bringing a wealth of 'on the ground' party plan experience to the business. Having been our leading Consultant over the past eight years she has the respect and reputation within our Consultant base to carry out the necessary adjustments to our training programs. Laurie will lead our 'in field commitment' to support our Consultants in receiving better training and increased levels of support.

OUTLOOK

The business has taken significant steps in FY2010 to re-establish its presence as a leading direct selling Company within Australia and New Zealand. Our goal is to be a company with a strong offering to Consultants both in income and incentive programs, supported by simple and effective 'take me by the hand' training modules. We will increase our frequency and quality of our field related training events focusing on simple value added selling techniques. The design and development of our product range has re-ignited the passion of our existing Consultant base and we have identified opportunities to leverage this excitement and grow our Consultant count in FY2011. We have and continue to review the timing of our catalogue releases, price points and discount strategies to ensure we remain competitive in the greater market place.

With the re-engineering of key personnel and a re-organisation of the company structure we have assembled an effective management team who are focused on ensuring the long term growth and success of UnderCoverWear. We have implemented simple and achievable strategies in FY2011 to return UnderCoverWear to profit growth in 2011 and onwards.

Simon Pervan, Chief Executive Officer

26 August 2010

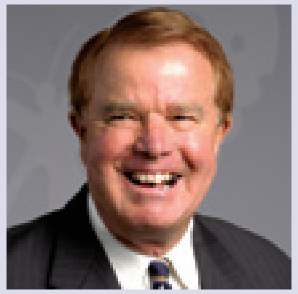
BOARD

BOARD OF DIRECTORS

Stuart Richardson,
B Bus. CPA
Chairman &
Non-Executive Director

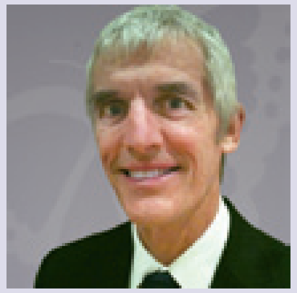
Mr Richardson was appointed as a Director on 10 December 2007 and was also appointed as Chairman on that date. Mr Richardson has extensive experience in capital markets in both Australia and overseas in the field of stockbroking and investment banking. He is a founding director of Blackwood Capital Limited, an Australian-based investment bank operating in capital markets, advisory services and funds management in equities and private equity funds. Stuart holds a Bachelor of Business (Accounting) from the Swinburne University of Technology, Melbourne and is a CPA. Mr Richardson is Chairman of the Audit & Remuneration Committees and holds an interest in 1,673,046 ordinary shares in UnderCoverWear Limited. Mr Richardson also currently serves as a director of Cockatoo Ridge Wines Limited.

John Everett,



A.M., B Econ., A.A.S.A.
Executive Director

Mr Everett has been a director of UnderCoverWear Limited since 5 May 2004. Mr Everett has gained relevant experience with in the Direct Selling Industry since his appointment as Director of the business in 1991. In 2002, Mr Everett was awarded a Member of the Order of Australia (AM) for his services to charity, particularly the Prince of Wales Medical Research Institute. Mr Everett is a member of the Audit & Remuneration Committees and holds an interest in 19,923,219 ordinary shares in UnderCoverWear Limited. Mr Everett has not held directorships in any other public listed companies during the past 3 years.



Richard Lowry,
Non-Executive Director – appointed 31 March 2010

Mr Lowry was appointed as a non executive director on 31 March 2010 this year. Mr Lowry has extensive experience in the retail industry both in Australia and overseas. He has had a 30 year involvement with Myer department stores culminating in his appointment to its management committee as stores director between 1996 through to 2000.
Mr Lowry spent three years overseas as Chief Operating Officer for the Matahari department store group in Indonesia before returning to Australia to work with a number of retail companies including Downtown Duty Free, The Nuance group, Prouds Jewellery and as Managing Director of Babies Galore. He has been consulting on retail projects in companies as diverse as the Laminex group through to Brandcorp and Myer. He has previously held board positions with various state retail traders associations and was a board member of the Melbourne Tourism Authority.
Mr Lowry does not hold any shares in UnderCoverWear Ltd and has not held any directorships in other public companies over the last 3 years.

Nick Geddes,
FCA, FCIS
Company Secretary

Mr Geddes is the principal of Australian Company Secretaries Pty Ltd, a company secretarial practice, which he formed in 1993. Mr Geddes is immediate past President of the National Council of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa the Middle East and Asia.

His qualifications include Chartered Accountant (Fellow of Institute of Chartered Accountants in England & Wales) and Fellow of the Institute of Chartered Secretaries (Chartered Secretaries Australia).
Mr Geddes also currently serves as a director of Chartered Secretaries Australia Limited.

Elaine Vincent,
B Comm.
Executive Director & Chief Executive Officer

Ms Vincent was appointed as a Director on 5 May 2004, and retired as a Director on 31 March 2010. After joining the company in 1995 as Financial Controller, Ms Vincent has held the position of Chief Executive Officer of UnderCoverWear for the past 9 years, retiring as Chief Executive Office on 31 March 2010, and from UnderCoverWear on 30 June 2010.

With over 20 years experience in franchising and retailing in the clothing and textile industry, Ms Vincent has since focussed her attention to direct selling. In particular, the implementation of sound financial systems and tailoring IT solutions to the specific requirements of the Direct Selling Industry.

Prior to this, Ms Vincent operated her own public accounting practice following on from her 10 years experience working for a Chartered Accounting firm. Ms Vincent holds an interest in 704,750 ordinary shares in UnderCoverWear Limited. Ms Vincent has not held directorships in any other public listed companies over the past 3 years.

DIRECTORS

DIRECTORS' REPORT

Your directors present their report on UnderCoverWear Limited consolidated entity (the Group) for the financial year ended 30 June 2010.

Directors

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

- Stuart Alfred Richardson
- John Henry Everett
- Richard Lowry (appointed 31 March 2010)
- Elaine Margaret Vincent (retired 31 March 2010)
- Nicholas JV Geddes (alternate director for John Everett)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated. Details about experience and qualifications of Directors are included on pages 6 and 7 which forms part of this report.

Company Secretary

Mr Nick Geddes has held the position of Company Secretary since 30th October 2007 to the date of this report. Details about his experience and qualifications can be found on page 7 of this report.

Principal Activities

The principal activities of the consolidated entity during the financial year were the importation, manufacturing, distribution and export of underwear and garments. There were no significant changes in the nature of the consolidated entity's principal activities during the financial year.

Operating Results

The consolidated loss of the consolidated entity after providing for impairment of goodwill and income tax amounted to a loss of $5,768,731 (2009: loss of $2,267,571).

Dividends Paid or Recommended

Dividends paid or declared since the end of the previous financial year were:

- An interim ordinary dividend in respect of the half year ended 31 December 2009 of 1.25 cents per share fully franked, paid on 9 April 2010.
- A final ordinary dividend in respect of the year ended 30 June 2009 of 1.0 cent per share fully franked, paid on 4 October 2009.

Review of Operations

In a soft economic environment with aggressive discounting within the apparel retail sector, UnderCoverWear has returned another poor result for the 2010 financial year. Management and the Board have extensively reviewed the business model, and initiatives have been put in place to position UnderCoverWear for a return to growth.

A new Chief Executive Officer, Simon Pervan, was appointed 1 April 2010, and a number of key management positions have been upgraded. A field based National Sales Manager was appointed in June 2010 to support and train UnderCoverWear Independent Sales Consultants, and a new head of Design was appointed at the beginning of July 2010, to continue the revitalisation of the product range and improve efficiencies in the design, development and sourcing process for UnderCoverWear garments.

Financial Position

The net loss of $5,768,731 for the 2010 Financial Year includes goodwill impairment of $6,300,000, one off costs relating to the retirement of the former Chief Executive Officer, and replacement of key roles within the UnderCoverWear organisation.

The mid year share buy back utilised cash reserves, and cashflow management will require a strong focus during the 2011 financial year.

Significant Changes in State of Affairs

Other than the restructure of the UnderCoverWear management team, there has been no significant change in the state of the affairs of the consolidated entity during the financial year.

After Balance Date Events

There were no significant events after the balance sheet reporting date that affects the position at 30 June 2010.

Future Developments, Prospects & Business Strategies

The key focus for the 2011 Financial Year will be to actively support and train UnderCoverWear's Independent Sales Consultants, and to deliver a product that will excite the customer. Initiatives will also be put in place to improve efficiencies in the design, development and sourcing of our product, so that UnderCoverWear can deliver a quality garments on time, whilst achieving solid margins.

Environmental Issues

Operations are not subject to significant environmental regulation under the law of the Commonwealth and State.

Meetings of Directors

During the financial year, 9 meetings of directors (including committees of directors) were held. Attendances by each director during the year are set out in the table below.

	Number of Meetings					
Meetings of Directors	Directors' Meetings		Audit Committee		Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Stuart A Richardson	9	9	2	2	1	1
John H Everett	9	8	2	1	1	1
Nicholas J V Geddes *(Alternate for Mr Everett)*	1	1	1	1	-	-
Richard Lowry	3	3	-	-	1	1
Elaine M Vincent	6	6	2	2	-	-

Indemnifying Officers or Auditor

The Group has paid premiums to insure each of the following Directors & Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as an Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The total amount of the premium was $14,987.

Stuart Richardson	John Everett
Richard Lowry	Elaine Vincent
Nick Geddes	

Options

There were no options over issued shares and no options granted or outstanding during the financial period ended 30 June 2010 or at the date of this report.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Fees to the amount of $7,950 were paid/payable to external auditors during the year ended 30 June 2010 for taxation and consulting services.

Remuneration Report

As required under Section 300A of the Corporations Act 2001 and AASB 124 Related Party Disclosures, the Remuneration Report for the year ended 30 June 2010 can be found on pages 12-15, which forms part of this report, and of which has been audited.

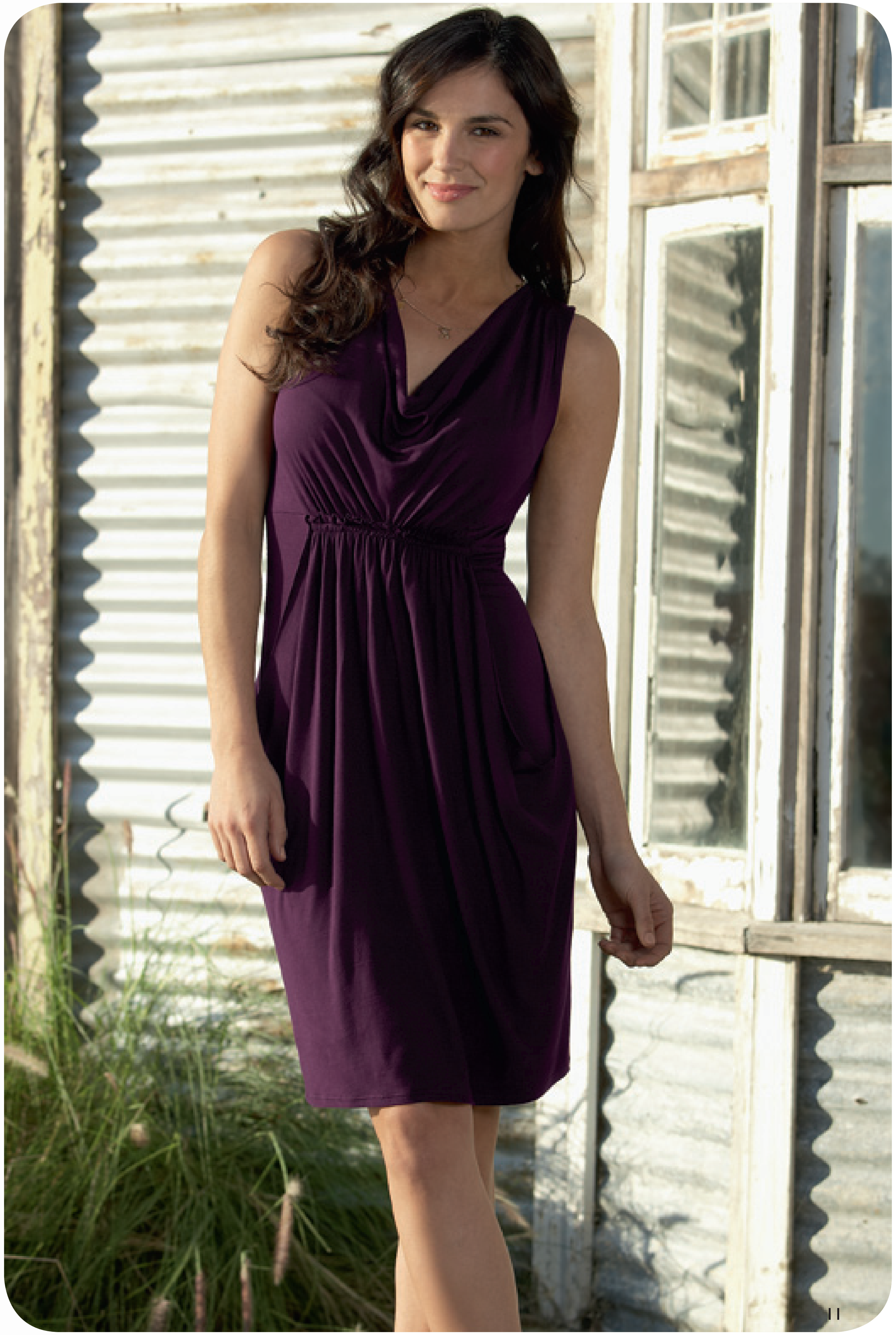
Auditor's Independence Declaration

As required under Section 307C of the Corporations Act, the auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 53 which forms part of this report.

Signed in accordance with a resolution of the Board of Directors.

Stuart A Richardson, Director

26 August 2010



REMUNERATION

REMUNERATION REPORT

Introduction

This report forms part of the Directors' Report for the year ended 30 June 2010. It provides a summary of the board's remuneration policy and practices during the past year as they apply to directors & executives (including 'key management personnel' as defined by the Accounting Standard AASB 124).

The disclosures set out in this report have been prepared in accordance with the requirements of section 300A of the Corporations Act 2001 and the Corporations Regulations 2001 and Accounting Standard AASB 124. As permitted by Corporations Regulation 2M.6.04, the relevant disclosures required by AASB 124 have been transferred from the financial statements to the Remuneration Report and have, as a consequence, been audited.

Principles of Compensation

a. Role of the Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to Board Members and Senior Executives of the Company and its controlled entities. The Board remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The remuneration policy for each type of key management personnel is set out as follows:

■ Non-Executive Directors

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated entity.

■ Executive Directors & other Key Management Personnel

Remuneration packages for executive directors and senior executives include a mix of fixed remuneration (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives.

All directors and other key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase superannuation contributions.

b. Link Between Remuneration & Company Performance

Two members of key management personnel participated in an incentive bonus plan during the FY2010 Financial Year. No other key management personnel participated in an incentive bonus plan during FY2010. The table on the following page shows earnings performance of the consolidated entity over the past five years.

c. Remuneration Practices

■ The consolidated entity's policy for determining the nature and amount of emoluments of board members and other key management personnel of the company is as follows:

Key Financials					
Year ended 30 June	2010	2009	2008	2007	2006
Revenue	23,696,617	24,953,815	33,712,442	43,875,007	46,492,707
Earnings before interest, tax, depreciations & amortisation (EBITDA)	912,308	2,365,923	5,207,502	6,132,249	6,072,971
Net (loss) / profit	(5,678,731)	(2,267,571)	3,649,942	4,124,189	4,060,799
Basic EPS (cents)	(12.92)	(4.72)	7.60	8.59	8.46
Dividend per share (cents)	1.25	2.0	5.75	6.5	6.5

The remuneration structure for Key Management Personnel, including Executive Directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. Except where specified, contracts for service between the company and directors and other key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement, Directors and other key management personnel are paid employee benefit entitlements accrued to date of retirement.

■ Under the two year employment contract which ended 30 June 2010, the retired Chief Executive Officer's remuneration consisted of a fixed salary, including superannuation contributions, and a bonus entitlement not linked to specific performance criteria.

■ The new Chief Executive Officer's remuneration consists of a fixed salary including superannuation contributions , and for the 2011 Financial Year will include an incentive payment linked to achievement of the budgeted EBIT target. The Chief Operating Officer will be remunerated in a similar manner.

■ The performance bonus for the newly appointed National Sales Manager is calculated on sales revenue. Entitlement to the bonus relies on achieving budgeted sales, with incremental increases for achievement above 100% of the budgeted sales target.

■ The Board remuneration policy of its key management personnel is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality within the Group. All other members of key management personal receive a fixed salary and superannuation contributions. Incentive payments for key members of the management team linked to achievement of KPI's and a minimum EBIT target will be built in to the 2011 Financial Year remuneration policy.

■ All members of the key management personal have a minimum two week notice period, unless they have been employed for a period of less than 12 months, where their notice period is one week.

Details of Remuneration for Year Ended 30 June 2010

Names and positions by key management personnel in office at any time during the financial year are:

Key Management Person	Position
Stuart Richardson	Chairman — Non-Executive
John Everett	Director — Executive
Elaine Vincent	Director & Chief Executive Officer (Retired as Chief Executive Officer 31.3.10)
Simon Pervan	National Sales Manager (Appointed as Chief Executive Officer 1.4.10)
Laurie Fitzgerald	National Sales Manager (Appointed 1.6.10)
Angela Catford	Chief Financial Officer (Maternity leave 21.10.09)
Debbie Eisenhauer-Rodney	Chief Financial Officer (Maternity leave cover 23.9.09 Appointed as Chief Operating Officer 1.4.10)
Nicole Riccioni	Executive Marketing Manager (Maternity leave 13.7.09)
Ana Tokic	Head Designer

The remuneration for each director and other KMP of the consolidated entity receiving the highest remuneration during the year was as follows:

For the year ended	Short-term Benefits						
	Salary, Fees & Commissions $	Superannuation Contribution $	Cash Bonus $	Non-monetary Benefits $	Termination Payment $	Total Related $	Performance %
Stuart Richardson^^	59,042	-	-	-	-	59,042	-
John Everett	54,167	4,875	-	-	-	59,042	-
Elaine Vincent ^^^	265,539	14,461	200,000^	11,700	221,633	713,333	-
Richard Lowry	12,500	1,125	-	-	-	13,625	-
Total for Directors	**391,248**	**20,461**	**200,000**	**11,700**	**221,633**	**845,042**	
Simon Pervan	195,574	14,461	5,273	4,585	-	219,893	4.6%
Laurie Fitzgerald (Appointed 1.6.10)	5,385	485	-	-	-	5,870	-
Angela Catford	50,386	5,148	-	6,814	-	62,348	-
Debbie Eisenhauer-Rodney	93,381	8,400	-	-	-	101,781	-
Nicole Riccioni	14,894	1,340	-	-	-	16,234	-
Ana Tokic	88,550	9,769	-	20,000	-	118,319	-
Total for other KMP	**448,170**	**39,603**	**5,273**	**31,399**	**-**	**524,445**	**-**
Total	**839,418**	**60,064**	**205,273**	**43,099**	**221,633**	**1,369,487**	**-**

^ Amounts include any unpaid bonuses, accrued at 30 June 2010.
^^The amount disclosed was paid as a consulting fee to Blackwood Capital, and has been reported as a related party transaction
^^^ Includes Employment Termination Payment and payout of accrued leave entitlements after 30 June 2010

For the year ended 30 June 2009	Short-term Benefits				Share Based Payment		Total Related	Performance
	Salary, Fees & Commissions $	Superannuation Contribution $	Cash Bonus $	Non-monetary Benefits $	Equity settled^^ $	Cash settled $	$	%
Stuart Richardson	50,000	4,500	-	-	-	-	54,500	-
John Everett	50,000	4,500	-	-	-	-	54,500	-
Elaine Vincent	250,600	13,745	-	9,772	-	-	274,117	-
Total for Directors	**350,600**	**22,745**	**-**	**9,772**	-	-	**383,117**	
Angela Catford	108,994	10,321	-	5,685	450	-	125,450	-
Megan Everett (resigned 10.4.09)	89,016	7,431	-	-	450	-	96,897	-
Colleen Walters (resigned 7.11.09)	49,065	-	-	-	450		49,515	-
Simon Pervan^ (appointed 26.11.09)	75,845	9,809	30,837	11,077	-	-	127,568	4.60%
Nicole Riccioni	69,938	6,294	-	-	450	-	76,682	-
Ana Tokic	88,550	9,770	-	20,000	450	-	118,770	-
Total for other KMP	**481,408**	**43,625**	**30,837**	**36,762**	**2,250**	-	**594,882**	
Total	**832,008**	**66,370**	**30,837**	**46,534**	**2,250**	-	**977,999**	

^ Amounts include any unpaid bonuses, accrued at 30 June 2009
^^ These shares were purchased on-market.

Number of Shares Held by Key Management Personnel

	Number of Shares			
Key Management Personnel	Balance 1 July 2009	Received as Remuneration	Net Change Other*	Balance 30 June 2010 #
Stuart Richardson	1,773,046	-	(100,000)	1,673,046
John Everett	19,923,219	-	-	19,923,219
Richard Lowry	-	-	-	-
Elaine Vincent	604,750	-	100,000	704,750
Angela Catford	1,000	-	-	1,000
Simon Pervan	-	-	-	-
Laurie Fitzgerald	6,000	-	-	6,000
Nicole Riccioni	13,000	-	(3,000)	10,000
Debbie Eisenhauer-Rodney	-	-	-	-
Ana Tokic	11,000	-	-	11,000
Total	22,332,015	-	(3,000)	22,329,015

** Net change other refers to shares purchased or sold during the financial year.*
#The balance represents ordinary shares held directly or indirectly by the KMP (including their personally-related entities) at the end of the financial year.

Other KMP Transactions

There have been no other transactions other than those described in the tables above. For details of other transactions with KMP, refer to Note 25 Related Party Transactions.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

This statement discloses the key elements of the Group's governance framework during the reporting period and to the date of this report. Throughout the reporting period, the year ended 30 June 2010, UnderCoverWear governance practices substantially complied with the recommendations contained in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations dated March 2003.

This corporate governance statement is organised under headings reflecting the ASX Corporate Governance Council's current principles and recommendations, as updated in August 2007 and complies with all principles as detailed (unless noted below):

Principle 1: Lay Solid Foundations for Management & Oversight

1.1 Role of the Board & Management

The Board has developed and implemented policies and practices which ensure that the Group complies with the recommendations and principles set out in the guidelines, while recognising that in a dynamic company with a small board the relationships among directors cannot be fully regulated and documented. Matters specifically reserved for the Board are charting the direction, strategies, financial objectives & corporate policies, monitoring compliance with regulatory requirements, and appointing and reviewing the performance of the chief executive officer. A summary of the Group's board charter is available for viewing on the company's website.

1.2 Performance Evaluation of Senior Executives

In July each year, as part of an annual review process, each individual's performance is reviewed against compliance with relevant performance indicators. Also, each individual's performance and behaviour are compared and measured against the performance of their peers and measures adjusted.

Principle 2: Structure the Board to Add Value

The Board Charter describes the relationship between the Board and management, and defines their functions and responsibilities. The Board currently comprises one non-executive director and two executive directors (including the Chief Executive Officer). The Chairman is appointed by the board and provides leadership to ensure that a high standard of values, processes and constructive interaction are maintained. The Chairman represents the views of the Board to shareholders and conducts the annual general meeting to canvass properly the views of stakeholders. The names, skills and experience of the directors in office at the date of this statement, and the period of office of each director, are set out in the Directors' Report.

2.1 Independence of Directors

The Board regularly assesses the independence of each director according to the independence criteria in ASX Principle 2 and to relevant laws, regulations and listing rules. Directors facilitate this review by providing up-to-date information regarding their personal circumstances related to the company, their external relationships and any potential conflicts of interest. The independence of new directors is assessed upon appointment. Wherever there is an actual or potential conflict of interest or material personal interest, the Board's policies and procedures ensure that:

- the interest is fully disclosed and the disclosure is recorded in the register of director's interest and in the Board minutes;
- the relevant director is excluded from all considerations of the matter by the Board;
- the relevant director does not receive any segment of the Board papers or other documents in which there is any reference to the matter.

The Chairman, Mr Stuart Richardson, is a non-executive independent director in accordance with the independence criteria given that he complies will all criteria set down for assessment of independence.

Mr John Everett, an executive director, is a substantial shareholder of the company and is considered not to be independent.

Mr Richard Lowry, is a non-executive independent director in accordance with the independence criteria given that he complies will all criteria set down for assessment of independence.

Mrs Elaine Vincent, former Chief Executive Officer, was considered not to be independent.

Due to the small size of the Board, its composition does not permit the majority of the members to be independent as recommended by the principle.

2.2 The Chairman should be independent

The Chairman of the Company is an independent non-executive director and has extensive experience serving as chairman for boards of public and private companies.

2.3 The role of Chairman and the Chief Executive

The role of Chairman and Chief Executive Officer are exercised by separate individuals.

2.4 Nomination Committee

No formal Nomination Committee exists given that the size of the Board allows the entire Board to participate directly in these functions. The procedures of the Board in relation to matters addressed by a nomination committee are in compliance with the Principles. Such responsibilities include reviewing Board membership, which includes an assessment of the necessary and desirable competencies of Board members, Board succession plans and an evaluation of the Board's performance and consideration of appointments and approvals. When a Board vacancy occurs, the existing Board will identify the particular skills, experience and expertise required that will best complement its effectiveness and then undertake a process to identify candidates who can meet those criteria.

2.5 Board Evaluation

The Board undertakes an annual self-assessment of its performance, in line with recommendations of the guidelines prior to the Annual General Meeting each year. Reviews are initially conducted by way of questionnaire, with the opportunity for follow-up discussions if any director thought it would be beneficial to do so. The Chairman also conducts an annual assessment of the performance of individual directors, where necessary, and meets privately with each director to discuss this assessment. The Chairman's performance is reviewed by the Board.

Continued
Principle 2: Structure the Board to Add Value

The Board provides induction programs for new directors in accordance with the recommendation and complies with all of the recommendations in relation to independent professional advice, access to the company secretary, the appointment and removal of the company secretary, and the provision of information, including requests for additional information. The Company Secretary attends all Board meetings. Each director has the right, at the Company's expense, to seek independent professional advice in relation to the execution of Board responsibilities. Prior approval from the Chairman, which will not be unreasonably withheld, is required. Where appropriate, directors share such advice with the other directors.

Principle 3: Promote Ethical & Responsible Decision making

3.1 Code of Conduct

Through established practices and policies the Board supports the need for directors and employees to observe the highest standards of behaviour and business ethics. All directors, managers and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the company. A formal Code of Conduct for both directors and employees, which draws together all of the Company's existing policies has been established and a summary of their main provisions is published on the Company's website.

3.2 Trading in company securities by directors, officers and employees

The Board has established written guidelines, set out in its Share Trading Policy, that restrict dealings by directors and relevant employees in the Company's shares. The Share Trading Policy complies with the guidelines. It identifies certain periods when, in the absence of knowledge of unpublished price-sensitive information, directors and relevant employees may buy or sell shares. These periods are twenty-one days preceding the announcement of half year and full year results.
A summary of the main provisions of the Share Trading Policy is published on the Company's website. In addition, all share dealings in the Company by directors are notified to the ASX within the required time.

Principle 4: Safeguard Integrity in Financial Reporting

4.1 Audit Committee

The Board has an established Audit Committee which comprises of one non-executive independent directors (including the Chairman) and one non-executive director. The chairman of the Audit Committee is an independent director who is also Chairman of the Board. Due to the small size of the Board, the composition of the Audit Committee does not permit the majority of the members to be independent nor for the Chairman of the Audit Committee to not be the Chairman of the Board, nor for the Committee to consist of three members, as recommended by the principle. The names and qualifications of members of the Committee are set out in the Directors' Report. Meetings of the Committee are attended, by invitation, by the Chief Financial Officer and the engagement partner from the Company's external auditor and such other senior staff or professional people as may be appropriate from time to time. The number of meetings of the Committee held during the year are set out in the Directors' Report. The Committee operates under formal terms of reference (Charter) approved by the Board which are reviewed annually. The functions and responsibilities of the Committee under its Charter comply with the recommendation in the guidelines. Minutes of all Committee meetings are provided to the Board and the Chairman of the Committee also reports to the Board after each Committee meeting.

4.2 Auditor Independence

The external auditor, Grant Thornton Audit Pty Ltd, annually confirms its independence to the Board within the meaning of applicable legislation and professional standards. The Committee has examined detailed material provided by the external auditor and by management and has satisfied itself that the standards for auditor independence and associated issues are fully complied with.

4.3 Financial Report Accountability

The company's Chief Executive Officer and Chief Financial Officer are required to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results are in accordance with the relevant accounting standards.

4.4 Audit Committee Charter

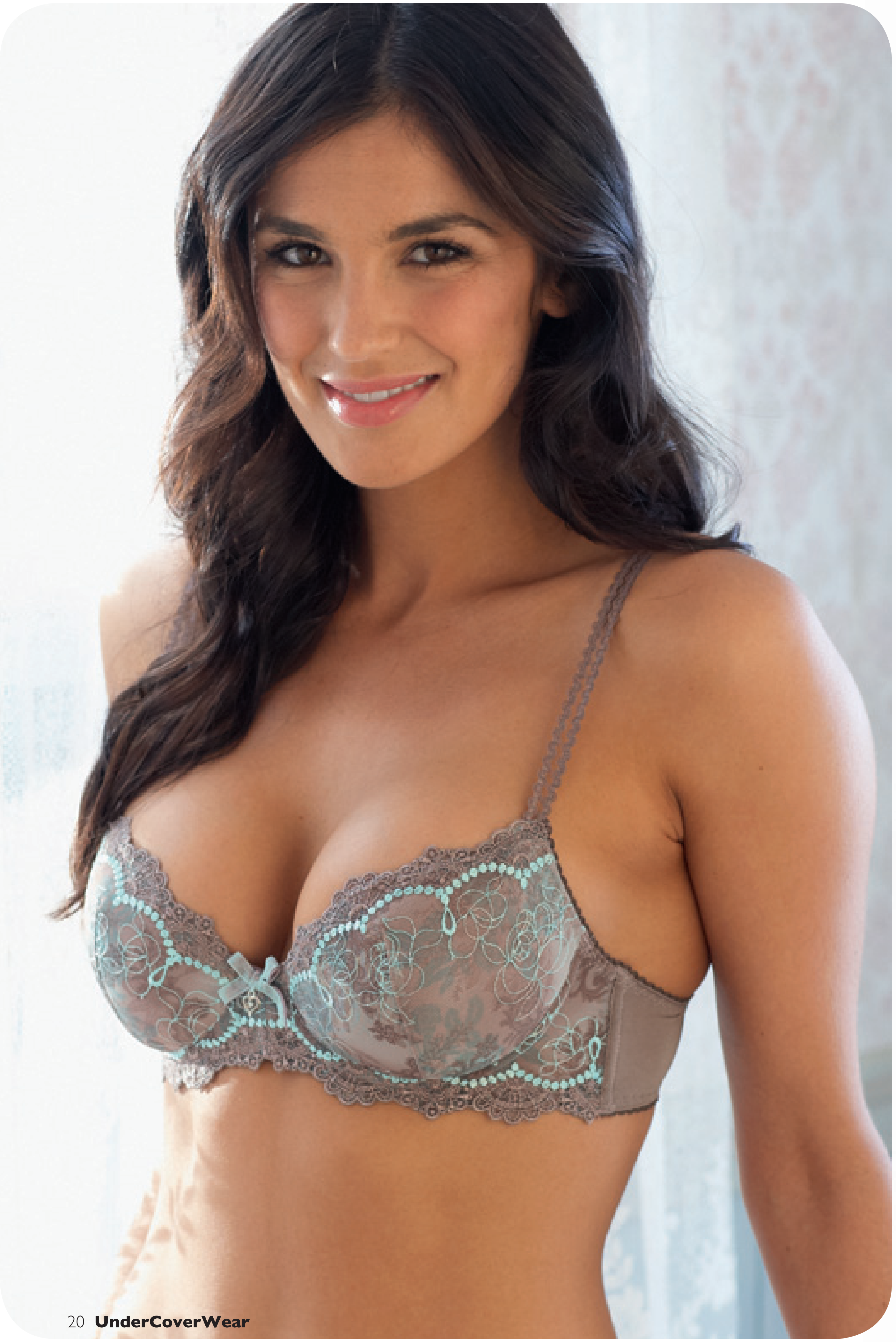
The Audit Committee's Charter is available on the Company's website.

Principle 5: Make Timely & Balanced Disclosure

5.1 Established Disclosure Policies

The Company has established policies and procedures which comply with the recommendation in the guidelines for timely disclosure of material information concerning the Company. These policies and procedures are regularly reviewed to ensure that the Company complies with its obligations at law and under the ASX Listing Rules.

The Company Secretary is responsible for communications with the Australian Stock Exchange including responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing information going to the ASX, shareholders and other interested parties. The directors have an obligation to inform the Company of any securities trading in the Company. All announcements made to the ASX by the Company are published on the Company's website.



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Principle 5: Make Timely & Balanced Disclosure

A summary of the policies and procedures the Company has in place to ensure compliance with ASX Listing Rule disclosure requirements is published on the Company's website. The company provides a review of operations and financial performance in this Annual Report. Results announcements to the ASX, analyst presentations and the full text of the Chairman's and Chief Executive Officer's addresses at the company's annual general meeting are made available on the company's website.

Principle 6: Respect the Rights of Shareholders

6.1 Communications Policy

The Company recognises its duty to ensure that its shareholders informed of the Company's performance and all major developments in an ongoing manner. Information is communicated to shareholders through:

- the annual report which is distributed to all shareholders;
- the half-year shareholders' report which is published in the company's website, containing summarized financial information and a review of the operations during the period since the annual report; and
- the Annual General Meeting and other shareholder meetings called to obtain approval for Board action as appropriate and required;
- other correspondence regarding matters impacting on shareholders as required.

All documents that are released publicly are made available on the Company's website. Shareholders are also encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals. Important issues are presented to shareholders as single resolutions. The engagement partner of the Company's external auditor, Grant Thornton Audit Pty Ltd, attends the Company's annual general meetings and is available to answer questions from shareholders about the audit.

Principle 7: Recognise & Manage Risk

7.1 Risk Management Policy

The Company has a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. The Company believes that it is important for all Board members to be part of this process and, as such, the Board has not established a separate risk management committee.

7.2 Internal Controls

The board has established policies on risk oversight and management. Executive directors are closely involved in the day-to-day management of the Company's operations and, given the current size of the company, are in a position to continually monitor risk with the assistance of the executive team.

7.3 Risk Management Accountability

As part of the process of approving the financial statements, at each reporting date the Chief Executive Officer and Chief Financial Officer are required to provide declarations in writing to the Board on the quality and effectiveness of the company's risk management and internal compliance and control systems. These declarations certify that, having made all reasonable enquiries and to the best of their knowledge and belief, the statements made in relation to the financial integrity of the company's financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and the company's risk management and internal compliance and control system, is operating efficiently and effectively in all material aspects. The Board has received the relevant

Continued

7.3 Risk Management Accountability

declarations required under section 295A of the Corporations Act 2001 and the relevant assurances required under the recommendation 7.3 of the revised ASX Corporate Governance Council principles.

The company has measures in place to mitigate risk in the following areas:

- Security of data and IT systems is maintained by daily back-up of transactions, with the information stored both on-site and off-site. Data is stored on a transactional basis and can be restored to any point in time;
- Security of the head office building is maintained by back to base alarm and patrolled regularly after hours;
- Raw materials for 70% of the finished goods inventory balance are held off-site;
- Fire and bomb threat evacuation procedures are documented and practice drills are performed on regular basis. The fire system is testing weekly, and maintained with a direct link to the closest fire brigade depot. The Annual Fire Safety Statement, (Form 15A) is signed off and lodged each year;
- Insurance policies for risk are maintained for loss of income, property and associated liabilities and form part of the company's disaster recovery strategy.

Principle 8: Remunerate fairly and responsibly

8.1 Remuneration Committee

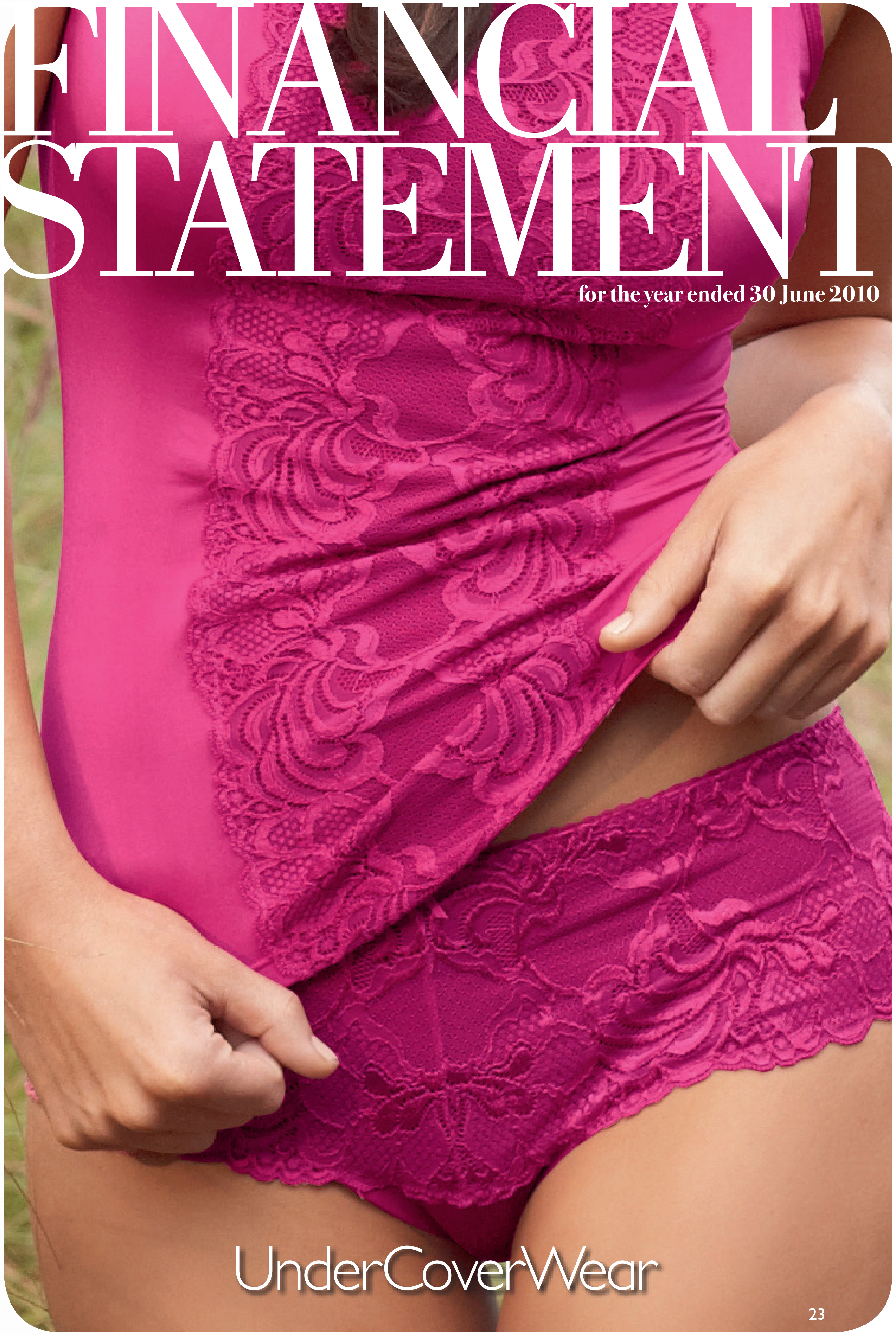
The Board has an established Remuneration Committee, currently comprising one non-executive director and one executive director. Their names and attendance at meetings of the Committee are set out in the Directors' Report. The Remuneration Committee is chaired by the board chairman. The Remuneration Committee of the Board of Directors is responsible for recommending and reviewing remuneration arrangements for the directors, the chief executive officer and the senior executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by the reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Executive management staff are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without increasing the total cost for the Company. A summary of the Committee's role, rights, responsibilities and membership requirements is available on the Company's website.

8.2 Structure of Remuneration

The structure of non-executive directors' remuneration and that of executives is set out in the relevant section of the Directors' Report. Details of the nature and amount of each element of the remuneration of each director of the Company and each of the five executive officers of the Company and the consolidated entity receiving the highest remuneration for the financial year are disclosed in the relevant section of the Directors' Report.

Other Information

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's web site at www.UnderCoverWear.com.au.



STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2010

	Note	Consolidated Entity	
		2010 $	2009 $
Revenue	2	23,696,617	24,953,815
Changes in inventories of finished goods and work in progress	3	(4,628,248)	(6,307,893)
Raw materials and consumables used	3	(5,301,695)	(3,973,882)
Distribution costs		(1,193,651)	(1,187,373)
Commissions paid		(1,695,440)	(1,782,086)
Promotions and advertising expense		(2,395,340)	(2,248,669)
Depreciation and amortisation expense	3	(200,797)	(114,062)
Impairment expense		(6,300,000)	(3,900,000)
Insurance expense		(160,024)	(117,502)
Employee benefits expense		(4,835,141)	(4,461,198)
Rental expenses		(940,035)	(914,026)
Finance costs	3	(87,696)	(259)
Other expenses		(1,634,735)	(1,509,733)
Loss before income tax expense	3	(5,676,185)	(1,562,868)
Income tax expense	4	(92,546)	(704,703)
Loss attributable to members of the parent entity		(5,768,731)	(2,267,571)
Other comprehensive income		-	-
Total comprehensive income for the year		(5,768,731)	(2,267,571)
Basic loss per share (cents per share)	8	(12.92)	(4.72)
Diluted loss per share (cents per share)	8	(12.92)	(4.72)

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

	Note	Consolidated Entity	
		2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	9	308,322	1,702,317
Trade and other receivables	10	786,466	508,572
Inventories	11	4,365,924	4,713,133
Other current assets	12	194,755	188,042
TOTAL CURRENT ASSETS		5,655,467	7,112,064
NON-CURRENT ASSETS			
Plant and equipment	14	1,266,021	135,993
Deferred tax assets	15	359,178	308,328
Intangible assets	16	14,617,499	20,917,499
TOTAL NON-CURRENT ASSETS		16,242,698	21,361,820
TOTAL ASSETS		21,898,165	28,473,884
CURRENT LIABILITIES			
Trade and other payables	17	1,997,734	2,205,667
Interest bearing liabilities	20b	454,463	-
Short-term provisions	18	1,038,660	572,357
TOTAL CURRENT LIABILITIES		3,490,857	2,778,024
NON-CURRENT LIABILITIES			
Interest bearing liabilities	20b	653,361	-
Long-term provisions	18	68,872	83,511
Deferred tax liabilities	15	68,915	55,901
TOTAL NON-CURRENT LIABILITIES		791,148	139,412
TOTAL LIABILITIES		4,282,005	2,917,436
NET ASSETS		17,616,160	25,556,448
EQUITY			
Issued capital	19	22,809,146	23,960,750
Retained earnings		(5,192,986)	1,595,698
TOTAL EQUITY		17,616,160	25,556,448

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2010

	Note	Ordinary Share Capital	Retained Earnings	Total
		$	$	$
Consolidated Entity				
Balance at 1 July 2008		23,960,750	5,663,269	29,624,019
Total comprehensive income for the year		-	(2,267,571)	(2,267,571)
Dividends paid	7	-	(1,800,000)	(1,800,000)
Balance at 30 June 2009		23,960,750	1,595,698	25,556,448
Total comprehensive income for the year		-	(5,768,731)	(5,768,731)
Shares bought back during the period	19	(1,151,604)	-	(1,151,604)
Dividends paid	7	-	(1,019,953)	(1,019,953)
Balance at 30 June 2010		22,809,146	(5,192,986)	17,616,160

The financial statements should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2010

	Note	Consolidated Entity	
		2010	2009
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		26,016,528	27,043,906
Payments to suppliers and employees		(24,412,671)	(24,856,373)
Interest received		36,710	85,531
Dividends & trust distributions received		34	55
Finance costs		(87,696)	(259)
Income taxes paid		(552,342)	(1,141,233)
Net cash provided by operating activities	23a	1,000,563	1,131,627
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	2,727
Purchase of property, plant and equipment		(1,330,825)	(23,212)
Share buy back		(1,151,604)	-
Net cash used in investing activities		(2,482,429)	(20,485)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid by parent entity		(1,019,953)	(1,800,000)
Proceeds from borrowings		1,107,824	-
Net cash provided by/(used in) financing activities		87,871	(1,800,000)
Net decrease in cash & cash equivalents held		(1,393,995)	(688,858)
Cash & cash equivalents at beginning of financial year		1,702,317	2,391,175
Cash & cash equivalents at the end of financial year	9	308,322	1,702,317

The financial statements should be read in conjunction with the accompanying notes.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers UnderCoverWear Limited and its controlled entities as a consolidated entity (the Group). UnderCoverWear Limited is a listed public company, incorporated and domiciled in Australia.

The financial report was authorised for issue on 26th August 2010.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes of UnderCoverWear Limited and its controlled entities comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

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

Reporting basis and conventions

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

Accounting standards not previously applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit and loss are now disclosed as components of "other comprehensive income". In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the separate income statement / single statement approach to the presentation of the Statement of Comprehensive Income;
- other financial statements are renamed in accordance with the Standard; and

Operating Segments

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using the same measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position. Please refer to Note 22 for disclosures required under this standard.

Accounting Policies

The consolidated financial statements incorporate assets, liabilities and results of entities controlled by UnderCoverWear Limited at the end of the reporting period. A controlled entity is any entity UnderCoverWear Limited has the power to govern the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity. Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

a) Income Tax

The income tax expense for the year comprises current tax expense and deferred tax expense. The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date. Current tax liabilities are measured at the amounts expected to be paid to the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

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

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

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

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

b) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. The cost of purchased goods includes purchase price, import and other taxes, transport and handling costs directly attributable to the acquisition of the inventories.

c) Plant and Equipment

Plant and equipment are measured on the cost basis less accumulate depreciation and impairment losses.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use except for motor vehicles which are depreciated on a diminishing value basis.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	6% - 40%
Motor vehicle	13.75% - 22.5%
Furniture, fittings and equipment	13% - 40%
Computer software	40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

d) 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 entities in the consolidated entity, 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 consolidated 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. Please refer Note 20 for disclosures required.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are on a straight line basis over the lease term unless another systematic basis is more representative of the true pattern of the user's benefits.

e) Financial Instruments

- **Recognition and Measurement**

  Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

- **Derecognition**

  Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

- **Classification and Subsequent Measurement**

  i. **Investments in subsidiaries**

  Interests in controlled entities are brought to account at cost and dividend distributions are recognised in the income statement of the company when receivable.

  ii. **Loans and receivables**

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

  iii. **Financial Liabilities**

  Non-derivative financial liabilities are measured at amortised cost, comprising original debt less principal payments and amortisation.

f) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g) Intangibles

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Refer to Note 16 for details of the assumptions and factors incorporated for the impairment testing.

h) 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 assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

i) Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows. Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

j) Cash and Cash Equivalents

Cash and cash equivalents includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 3 months to maturity.

k) Revenue and Other Income

Revenue from the sale of goods is recognised upon the despatch of goods to customers which is the date of significant transfer of risks. Despatch only occurs after payment has been received. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

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

m) Comparative Figures

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

n) Critical Accounting Estimates and Judgments

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

- **Key estimates — Impairment**

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

- **Goodwill**

  Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss of $6,300,000 has been recognised in the current year. Refer to Note 16 for details of the assumptions and factors incorporated for the impairment testing.

- **Investment in subsidiary**

  As the goodwill arises on consolidation with the Company's unit trust, an impairment of $10,200,000 in this Company's investment in the unit trust has been recognised to ensure the investment does not exceed the underlying net assets,

- **Trade receivables**

  Impairment of trade receivables is based on best estimates of amounts that will not be collected from consultants for products purchased.

There were no other critical estimates or judgements that require disclosure.

		Note	Consolidated Entity 2010 $	Consolidated Entity 2009 $
NOTE 2: REVENUE & OTHER INCOME				
Operating activities				
—	sale of goods		22,781,540	23,848,348
—	distribution charges		294,399	388,810
—	rental revenue		497,181	521,991
—	other revenue		86,753	106,353
—	interest received	2a	36,710	85,531
—	dividends received	2a	34	55
Total revenue			23,696,617	24,951,388
Non-operating activities				
—	gain on disposal of plant and equipment		-	2,727
Total other income			-	2,727
Total revenue & other income			23,696,617	24,953,815
a. Interest & dividend revenue from:				
—	other persons		36,744	85,586
Total interest & dividend revenue			36,744	85,586

	Consolidated Entity 2010 $	2009 $
NOTE 3: LOSS BEFORE TAX		
Loss before income tax has been determined after:		
a. Expenses		
Cost of sales	9,804,437	10,281,775
Finance costs:		
— other persons	87,696	259
Total finance costs	87,696	259
Foreign currency translation gains/losses	172,072	112,763
Depreciation / amortisation of non-current assets:		
— plant and equipment	38,041	55,139
— motor vehicles	122,855	379
— furniture, fittings and equipment	39,393	57,309
— computer software	508	1,235
Total depreciation and amortisation	200,797	114,062
Impairment loss	6,300,000	3,900,000
Bad and doubtful debts:		
— trade debtors	69,329	21,498
Total bad and doubtful debts	69,329	21,498
Rental expense on operating leases		
— staff motor vehicles	776	11,012
— consultant motor vehicles	241,074	551,115
— rentals	940,035	914,026
Total of rental expense on operating lease	1,181,885	1,476,153
Write-down of inventories to net realisable value	459,639	295,949
Write-off of obsolete stock	2,525	31,189

	Note	Consolidated Entity 2010 $	2009 $
NOTE 4: INCOME TAX EXPENSE			
a. The components of tax expense comprise:			
Current tax		122,061	616,956
Deferred tax	15	(29,515)	87,747
Income tax expense reported in the income statement		92,546	704,703
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:			
Prima facie tax payable on profit before income tax at 30% (2009: 30%)		(1,702,856)	(468,860)
Add:			
Tax effect of:			
– Imputation & withholding tax gross-up		5	8
– Other non-allowable items		1,890,547	1,173,580
Less:			
Tax effect of:			
— Other non-assessable items		(95,132)	-
— Imputation and withholding tax credits		(18)	(25)
Income tax expense attributable to profit from ordinary activities before income tax		92,546	704,703
The applicable weighted average effective tax rates are as follows		2%	45%

The decrease in the weighted average effective consolidated tax rate for 2010 is a result of taking into account of Investment Allowance and a $6,300,000 impairment loss recognised in 2010.

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

	Consolidated Entity 2010 $	2009 $
NOTE 6: AUDITORS' REMUNERATION		
Remuneration of the auditors of parent and subsidiaries - Grant Thornton Audit Pty Limited for:		
— auditing or reviewing the financial report	77,000	74,000
— other services	7,950	16,100
	84,950	90,100
NOTE 7: DIVIDENDS		
Dividends paid		
2009 final fully franked ordinary dividend of 1.0 cents (2008: 2.75 cents) per share franked at the tax rate of 30%	480,000	1,320,000
Interim fully franked ordinary dividend of 1.25 cent (2009:1.0 cents) per share franked at the tax rate of 30%	539,953	480,000
	1,019,953	1,800,000
a. Proposed final fully franked ordinary dividend of 1.0 cent (2009: 1.0 cents) per share franked at the tax rate of 30% (2009: 30%)	-	480,000
b. Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years	2,389,437	2,021,116
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	-	(205,714)
	2,389,437	1,815,402
NOTE 8: EARNINGS PER SHARE		
a. Reconciliation of earnings to net profit or loss		
Net loss	(5,768,731)	(2,267,751)
Loss used in the calculation of basic and dilutive EPS	(5,768,731)	(2,267,751)
b. Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS	44,641,982	48,000,000

	Note	Consolidated Entity 2010 $	2009 $
NOTE 9: CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		308,322	1,657,317
Short-term bank deposits		-	45,000
		308,322	1,702,317
Reconciliation of Cash			
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:			
Cash and cash equivalents		308,322	1,702,317
		308,322	1,702,317
NOTE 10: TRADE AND OTHER RECEIVABLES			
CURRENT			
Other receivables		254,436	316,084
Amounts receivable from:			
— director related entities	10b	141,997	200,000
— income tax		460,188	38,227
— provision for impairment of receivables – Other receivables		(70,155)	(45,739)
		786,466	508,572

a. Provision for Impairment of Receivables

Other receivables consist mainly of balances relating to our Independent Sales Consultants and are not tracked on an ageing basis. Management monitors the collectability of these accounts by assigning each consultant account a status from 0-7, representing the type of consultant debtor (current & active through to debt collection).

The remainder of Other receivables are assessed for recoverability based on the underlying terms of the contract.

A provision for impairment is recognised when there is objective evidence that an individual receivable is impaired. These amounts have been included in the other expense item.

NOTE 10: TRADE AND OTHER RECEIVABLES (cont)

Movement in the provision for impairment of receivables is as follows:

Consolidated Entity 2010	Opening Balance at 1 July 2009	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2010
Other receivables	45,739	72,165	(47,749)	70,155

Consolidated Entity 2009	Opening Balance at 1 July 2008	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2009
Other receivables	55,387	21,498	(31,146)	45,739

There are no balances within trade and other receivables that contain assets that are not impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

b. Refer to the Related Party Transactions Note 25 for details of this balance.

	Consolidated Entity 2010 $	Consolidated Entity 2009 $
NOTE 11: INVENTORIES		
CURRENT		
At cost:		
Raw materials and stores	687,035	696,127
Work in progress	80,606	155,647
Finished goods	2,464,093	2,194,089
	3,231,734	3,045,863
At net realisable value:		
Raw materials and stores	179,857	282,636
Finished goods	954,333	1,384,634
	1,034,190	1,667,270
	4,365,924	4,713,133

NOTE 12: OTHER CURRENT ASSETS

	2010 $	2009 $
CURRENT		
Prepayments	194,755	188,042
	194,755	188,042

NOTE 13: CONTROLLED ENTITIES

Entity:	Country of Incorporation	Percentage Owned 2010	Percentage Owned 2009
UnderCoverWear Unit Trust	Australia	100%	100%

	Consolidated Entity 2010 $	Consolidated Entity 2009 $
NOTE 14: PLANT AND EQUIPMENT		
Plant and equipment		
At cost	1,027,159	1,006,485
Accumulated depreciation	(949,502)	(911,461)
	77,657	95,024
Motor vehicles		
At cost	1,271,454	12,100
Accumulated depreciation	(133,650)	(10,794)
	1,137,804	1,306
Furniture, fittings and equipment		
At cost	1,018,545	967,747
Accumulated depreciation	(967,985)	(928,592)
	50,560	39,155
Computer software		
At cost	-	176,425
Accumulated depreciation	-	(175,917)
	-	508
Total Plant and Equipment	1,266,021	135,993

NOTE 14: PLANT AND EQUIPMENT (cont)

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment	Motor Vehicles	Furniture, fittings and equipment	Computer software	Total
	$	$	$	$	$
Consolidated Group:					
Balance at 1 July 2008	134,959	1,685	88,557	1,743	226,944
Additions	15,204	-	8,008	-	23,212
Disposals	-	-	(101)	-	(101)
Depreciation expense	(55,139)	(379)	(57,309)	(1,235)	(114,062)
Balance at 30 June 2009	95,024	1,306	39,155	508	135,993
Additions	20,674	1,259,353	50,798	-	1,330,825
Disposals	-	-	-	-	-
Depreciation expense	(38,041)	(122,855)	(39,393)	(508)	(200,797)
Balance at 30 June 2010	77,657	1,137,804	50,560	-	1,266,021

NOTE 15: TAX

Deferred Tax Assets	Opening Balance	Charged to Income	Charged directly to Equity	Closing Balance
Provisions	355,696	(91,063)	-	264,633
Other	46,428	(2,733)	-	43,695
Balance at 30 June 2009	402,124	(93,796)	-	308,328
Provisions	264,633	47,977	-	312,610
Other	43,695	2,873	-	46,568
Balance at 30 June 2010	308,328	50,850	-	359,178

Deferred Tax Liabilities				
Provisions	61,950	(6,049)	-	55,901
Other	-	-	-	-
Balance at 30 June 2009	61,950	(6,049)	-	55,901
Provisions	55,901	13,014	-	68,915
Other	-	-	-	-
Balance at 30 June 2010	55,901	13,014	-	68,915

NOTE 16: INTANGIBLE ASSETS

	Consolidated Entity 2010 $	Consolidated Entity 2009 $
Goodwill at cost	24,817,499	24,817,499
Accumulated impairment losses	(10,200,000)	(3,900,000)
	14,617,499	20,917,499

The recoverable amount is determined based on value-in-use calculations. Value-in-use is calculated based on the 2011 budget and the present value of cash flow projections over a 5 year period plus a terminal value. The use of terminal value is deemed appropriate due to the long-term expected cash flows from the business. Costs are calculated taking into account historical gross margins as well as estimated average inflation rates over the period, which are consistent with inflation rates applicable to the locations in which the segment operates. The cash flows are discounted using the pre-tax weighted average cost of capital at the beginning of the budget period.

The following assumptions were used in the value-in-use calculations:

	2010	2009
Discount rate	19.57%	15.70%
Growth rate (2012-2015)	10%	5%
Terminal value growth rate	0%	0%

Due to the current economic climate and current financial performance, an adjustment of impairment loss for the current year of $6,300,000 has been made to ensure that the value of the asset is not overstated. The impairment loss has taken in consideration future earnings, expected growth, share price and the value of the goodwill in the current market.

		Consolidated Entity 2010 $	2009 $
NOTE 17: TRADE AND OTHER PAYABLES			
CURRENT			
Trade payables		1,197,663	1,283,862
Sundry payables and accrued expenses		516,496	566,225
Commissions payable		283,575	355,580
		1,997,734	2,205,667
NOTE 18: PROVISIONS			
CURRENT			
Promotions	18b	134,021	115,568
Employee benefits	18a	904,639	456,789
		1,038,660	572,357
NON-CURRENT			
Employee benefits	18a	68,872	83,511
		68,872	83,511
a. Aggregate Employee Benefits Liability		973,511	540,300

b. Provision for Promotions

A provision of $134,021 has been recognised for estimated promotional costs payable in respect of the Independent Sales Consultant's achieving specified criteria. The provision for promotions has been based on known or budgeted costs for each promotion. Amounts are allocated monthly over the qualifying period using either a fixed rate as a percentage of party sales or based on future estimated costs.

Movement in provisions is as follows

	Balance at 1 July 2009 $	Additional provisions $	Amounts used $	Unused amounts reversed $	Balance at 30 June 2010 $
Promotions	115,568	600,744	(527,321)	(54,970)	134,021
Employee Benefits	540,300	527,326	(94,115)	-	973,511
Total	655,868	1,128,070	(621,436)	(54,970)	1,107,532

	Consolidated Entity 2010 $	2009 $
NOTE 19: ISSUED CAPITAL		
43,200,000 (2009: 48,000,000) fully paid ordinary shares	22,809,146	23,960,750
	22,809,146	23,960,750
a. Ordinary shares		
At the beginning of the reporting year	23,960,750	23,960,750
Shares bought back during the year	(1,151,604)	-
At reporting date	22,809,146	23,960,750

	Consolidated Entity 2010 No.	2009 No.
At the beginning of reporting year	48,000,000	48,000,000
Shares bought back during the year	(4,800,000)	-
At reporting date	43,200,000	48,000,000

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Changes to the Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Group does not have a limited amount of authorized capital and issued shares do not have a par value.

NOTE 19: ISSUED CAPITAL (cont)

b. Capital Management

Management controls the capital of the consolidated group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks in the market. These responses include the management of debt levels, distributions to stakeholders and share issues.

	Consolidated Entity	
	2010 $	2009 $
NOTE 20: CAPITAL AND LEASING COMMITMENTS		
a) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable		
— not later than 1 year	942,371	1,011,442
— later than 1 year but not later than 5 years	1,877,742	1,680,742
	2,820,113	2,692,184

Property Lease

The property lease is a non-cancellable lease with a seven-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the CPI per annum in years 2010 and 2012 and subject to a market review in year 2011.

	Consolidated Entity	
	2010 $	2009 $
b) Financing Lease Commitments		
Payable		
— not later than 1 year	520,212	-
— later than 1 year but not later than 5 years	685,372	-
Minimum lease payments	1,205,584	-
Less future finance charges	(97,760)	-
Present value of minimum lease payments	1,107,824	-

Motor Vehicle

Financing Leases have been entered into for a three year term to finance the motor vehicle fleet.

NOTE 21: CONTINGENT LIABILITIES

During the period and at the reporting date there was no contingent liability that was not recorded as a liability or would result in an event after the reporting date that the Group is aware of.

NOTE 22: SEGMENT REPORTING

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 operating 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 Group's 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.

NOTE 23: CASH FLOW INFORMATION

	Consolidated Entity 2010 $	2009 $
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Loss after income tax	(5,768,731)	(2,267,571)
Non-cash flows in profit from ordinary activities		
Depreciation	200,797	114,062
Net gain on disposal of property, plant and equipment	-	(2,626)
Impairment losses	6,300,000	3,900,000
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
Decrease/(Increase) in receivables	144,067	(236,032)
(Increase)/Decrease in other assets	(6,713)	326,402
Decrease in inventories	347,208	811,123
Decrease in payables	(207,933)	(488,367)
Decrease in income taxes payable	(421,960)	(486,049)
(Increase)/Decrease in net deferred taxes payable	(37,835)	87,747
Increase/(Decrease) in provisions	451,663	(627,062)
Cash flow from operations	1,000,563	1,131,627

b. Credit Standby Arrangements with Banks

	2010 $	2009 $
Credit facility	3,015,000	1,514,714
Amount utilised	1,318,375	214,714
Unused credit facility	1,696,625	1,300,000
The major facilities are summarised as follows:		
Banking overdrafts	1,200,000	1,200,000
Forward exchange cover	100,000	100,000
Bank guarantee	170,000	169,714
MasterCard corporate card	45,000	45,000
Westpac equipment finance	1,500,000	-
	3,015,000	1,514,714

NOTE 24: EVENTS SUBSEQUENT TO REPORTING DATE

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2010.

NOTE 25: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

a) A rental lease for the property exists between UnderCoverWear Unit Trust, a subsidiary of UnderCoverWear Limited, and the trustee of UnderCoverWear Property Trust of which Ian Everingham held an interest during the year.
Ian Everingham resigned as a director of UnderCoverWear Limited on 14 December 2006, however, continues to hold significant influence by way of indirect shareholdings held in trust and by other family members. At 30 June 2010, Mr Everingham was still a director of the trustee of UnderCoverWear Property Trust.
Rent has been calculated at normal commercial rates, using an independent valuer. Rent is currently payable at a rate of $837,234 per annum, with CPI increases in years 2010 and 2012 and subject to a market review in year 2011.

b) Included in the receivable balance is a loan of $141,997 that was paid to Elaine Vincent on 13 November 2008. Interest has been calculated at the applicable statutory/benchmark interest rate and included as an expense fringe benefit disclosed in the remuneration report. The loan was repaid after Elaine Vincent's retirement during July 2010.

c) An redundancy payment of $58,003 was made to Alan Vincent, husband of retired Chief Executive Officer Elaine Vincent, on 31 March 2010.

d) $59,042 was paid to Blackwood Capital Ltd during the year for consulting services. Stuart Richardson, chairman of the Undercoverwear Board, is a founding director of Blackwood Capital Ltd.

e) Key Management Personnel:

i. Key management personnel compensation

	Consolidated Entity 2010 $	2009 $
Short-term employee benefits	947,854	911,629
Post employment benefits	421,633	66,370
	1,369,487	977,999

Detailed remuneration disclosures and equity holdings of each director and key management person are included in the Remuneration Report on pages 12-15.

NOTE 26: FINANCIAL RISK MANAGEMENT

a) Financial Risk Management Policies

The financial instruments of the Group consist of cash, guarantee, deposit receivables and payables.

The Group did not use derivative financial instruments during the year.

i. Treasury Risk Management

Risk management is carried out by the Chief Executive Officer and members of the executive management team, under policies approved by the Board of Directors. Risks are identified and evaluated in close co-operation with the Group's management and Board.
The overall risk management strategy is to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

ii. Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, credit risk, foreign currency risk & liquidity risk.

- Interest Rate Risk

  The Group's main exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rate, arises from short-term deposits.
  The Group's policy is to ensure that the best interest rate is received for the short-term deposits. The Group uses a number of banking institutions, with a mixture of fixed and variable interest rates. Interest rates are reviewed prior to deposits maturing and re-invested at the best rate.
  For further details on interest rate risk refer to our sensitivity analysis disclosed under Note 26(b)(iii).

- Credit Risk

  The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.
  The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

- Foreign currency risk

  The Group is exposed to fluctuations in foreign currencies arising from the purchase of goods in currencies other than the Group's measurement currency. The Group is able to pass on its risk from fluctuations in the foreign exchange rate through to its customers via catalogue pricing adjustments. The Group's exposure to foreign currency risk is re-assessed prior to each new catalogue release, which is approximately every three months.

- Liquidity Risk

  The Group manages liquidity risk by continuously monitoring forecast and actual cashflows, matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are traded in highly liquid markets.
  At balance date, the Group had cash at bank. Due to the cash available to the Group, there is no use of any credit facilities at balance date.

b) Financial Instruments

i. Financial instrument composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

Consolidated Entity	Weighted Average Effective Interest Rate		Fixed Interest Rate Maturing: Within 1 Year $		1-5 years $		Non-interest Bearing $		Total $	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Financial Assets:										
Cash & cash equivalents	0.81%	2.89%	308,323	1,702,317	-	-	-	-	308,323	1,702,317
Receivables	n/a	n/a	-	-	-	-	326,277	470,345	326,277	470,345
Total Financial Assets			308,323	1,702,317			326,277	470,345	634,600	2,172,662
Financial Liabilities:										
Trade and sundry payables	n/a	n/a	-	-	-	-	1,997,734	2,205,667	1,997,734	2,205,667
Interest bearing liabilities	7.69%	-	454,463	-	653,361	-	-	-	1,107,824	-
Total Financial Liabilities			454,463	-	653,361	-	1,997,734	2,205,667	3,105,558	2,205,667

All trade and sundry payables are due within six months of balance date.

ii. Net Fair Values

The net fair value of cash, non-interest bearing monetary assets and financial liabilities approximate their carrying value.

iii. Sensitivity Analysis

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

- Interest Rate Sensitivity Analysis

  At 30 June 2010, the effect on profit as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Entity 2010	Consolidated Entity 2009
Increase in interest rate by 2%	(1,020)	1,711
Decrease in interest rate by 2%	1,020	(1,711)

NOTE 26: FINANCIAL RISK MANAGEMENT (cont.)

b) Financial Instruments (cont.)

- Foreign Currency Risk Sensitivity Analysis

At 30 June 2010, the effect on purchases as a result of changes in the value of the Australian Dollar to the US Dollar, with all other variables remaining constant is as follows:

	Consolidated Entity	
	2010	2009
Improvement in AUD to USD by 15%	669,751	568,833
Decline in AUD to USD by 15%	(669,751)	(568,833)

The Group does not significantly trade using any currencies other than the Australian and US dollar.

NOTE 27: CHANGE IN ACCOUNTING STANDARDS

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

New / revised pronouncements	Explanation of amendment	Effective date	Likely impact
AASB 9 Financial instruments AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31-Dec-13	Depending on assets held, there may be significant movement of assets between fair value and cost categories and ceasing of impairment testing on available for sale assets.
AASB 9-5 Further Amendment to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	AASB 2009-5 makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project.	31-Dec-10	These amendments are not expected to materially affect the Group.
IFRS Annual Improvements 2010 (May 2010)	Makes various amendments to a number of standards and interpretations.	Application dates either 30 June 2011 or 31 December 2011	These amendments are not expected to materially affect the Group.
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability, These transactions are sometimes referred to as 'debt for equity swaps'.	30-Jun-11	As the entity has not renegotiated any financial liabilities into equity instruments this interpretation is not expected to have any impact on the entity's financial report.

NOTE 28: UNDERCOVERWEAR LIMITED PARENT COMPANY INFORMATION

	2010 $	2009 $
PARENT ENTITY		
ASSETS		
Current assets	3,924,896	5,596,344
Non-current assets	13,850,850	20,100,000
TOTAL ASSETS	17,775,746	25,696,344
LIABILITIES		
Current liabilities	16,498	9,822
Non-current liabilities	91,092	78,078
TOTAL LIABILITIES	107,590	87,900
EQUITY		
Issued capital	22.809,146	23,960,750
Retained earnings	(5,140,990)	1,647,694
TOTAL EQUITY	17,668,156	25,608,444
FINANCIAL PERFORMANCE		
Profit for the year	(5,768,731)	(2,267,571)
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	(5,768,731)	(2,267,571)

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 23-51, are in accordance with the Corporations Act 2001 and:
    a) Comply with Accounting Standards and the Corporations Regulations 2001; and
    b) Give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the consolidated entity;
    c) Comply with International Financial Reporting Standards as disclosed in Note 1;
2. The Chief Executive Officer and the Chief Financial Officer have each declared that:
    a) The financial records of the Group for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
    b) The financial statements and notes for the financial year comply with Accounting Standards; and
    c) The financial statements and notes for the financial year give a true and fair view.
3. In the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Stuart Richardson

Director

Date 26 August 2010

GrantThornton

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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 audit of UnderCoverWear Limited for the year ended 30 June 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 audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton Audit Pty Ltd

GRANT THORNTON AUDIT PTY LTD

Chartered Accountants

C F Farley

Director – Audit & Assurance

Sydney, 26 August 2010

Grant Thornton

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Independent Auditor's Report
To the Members of UnderCoverWear Limited

Report on the financial statements

We have audited the accompanying financial statements of UnderCoverWear Limited and its controlled entity (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial statements and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors also state, in the notes to the financial statements, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial statements, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Auditor's opinion

In our opinion:

a The financial statements of UnderCoverWear Limited are in accordance with the Corporations Act 2001, including:

- i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b The financial statements also comply with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 15 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the Remuneration Report of UnderCoverWear Limited for the year ended 30 June 2010 complies with section 300A of the Corporations Act 2001.

Grant Thornton Audit Pty Ltd

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

C F Farley
Director – Audit & Assurance

Sydney, 26 August 2010

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

a. Distribution of Shareholders as at 31 July 2010

Category (size of holding)	Number of Ordinary Shareholders	Size of Holding
1 – 1,000	243	164,374
1,001 – 5,000	155	508,728
5,001 – 10,000	49	382,253
10,001 – 100,000	121	3,619,416
100,001 – and over	24	38,525,229
	592	43,200,000

b. The number of shareholdings held in less than marketable parcels is nil.

c. The names of the substantial shareholders listed in the holding company's register as at 31 July 2010 are:

Shareholder	Number of Ordinary Shares
Mr John Everett & Ms Sonya Everett <Everett Fam Settlement A/c>	17,132,822
Recone Pty Limited <Everingham Family A/c>	3,860,171
National Nominees Limited	2,932,465
Union Pty Ltd <Everett Staff S/F A/C>	2,712,042
Mr Ian Garnsey Everingham & Mrs Christine Mary Everingham <Rosebank Staff S/F A/C>	2,486,486

Voting Rights

d. The voting rights attached to each class of equity security are as follows:

Ordinary shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. 20 Largest Shareholders — Ordinary Shares as at 31 July 2010

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	Mr John Everett & Ms Sonya Everett <Everett Fam Settlement A/c>	17,132,822	39.66
2.	Recone Pty Limited <Everingham Family A/c>	3,860,171	8.94
3.	National Nominees Limited	2,932,465	6.79
4.	Union Pty Limited <Everett Staff Superannuation Fund A/c>	2,712,042	6.28
5.	Mr Ian Garnsey Everingham & Mrs Christine Mary Everingham <Rosebank Staff Superannuation Fund A/c>	2,486,486	5.76
6.	Mr Ian Garnsey Everingham & Mr George Allan Fleming <Everingham Family Superannuation Fund A/c>	1,653,343	3.83
7.	Mrs Jeanette Richardson	1,126,214	2.61
8.	J P Morgan Nominees Australia Limited	1,071,313	2.48
9.	Contemplator Pty Ltd <ARG Pension Fund A/c>	897,515	2.08
10.	Alan Denis Vincent & Elaine Margaret Vincnent <Vincent Family Superannuation Fund A/c>	700,000	1.62
11.	Mrs Marina Snyman & Mr Frans Nicolaas Snyman	619,471	1.43
12.	FLST Pty Ltd	617,419	1.43
13.	Mrs Jeanette Richardson	434,100	1.00
14.	Mr Craig Phillip O'Shannessy	407,715	0.94
15.	Ruminator Pty Ltd	274,565	0.64
16.	Berkshire Equities Pty Ltd	241,783	0.56
17.	Fashion Buttons Pty Ltd	200,000	0.46
18.	Matthew Charles Goodson	200,000	0.46
19.	HWR Nominees Pty Ltd	200,000	0.46
20.	Mr Rahmon Coupe & Mrs Julia Coupe <Coupe Family A/c>	183,500	0.42
		37,950,924	87.85

COMPANY DETAILS

DIRECTORS

Stuart Richardson, Chairman & Non-Executive Director
John Everett AM, Executive Director
Richard Lowry, Non-Executive Director
Nick Geddes, alternate Director for John Everett

COMPANY SECRETARY

Nick Geddes

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

UnderCoverWear Limited
ABN 85 108 962 152
ACN 108 962 152

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Baulkham Hills NSW 2153
Tel: +61 2 8853 2800 Fax: +61 2 8853 2899

AUDITOR

Grant Thornton Audit Pty Limited
Level 17, 383 Kent Street
Sydney NSW 2000

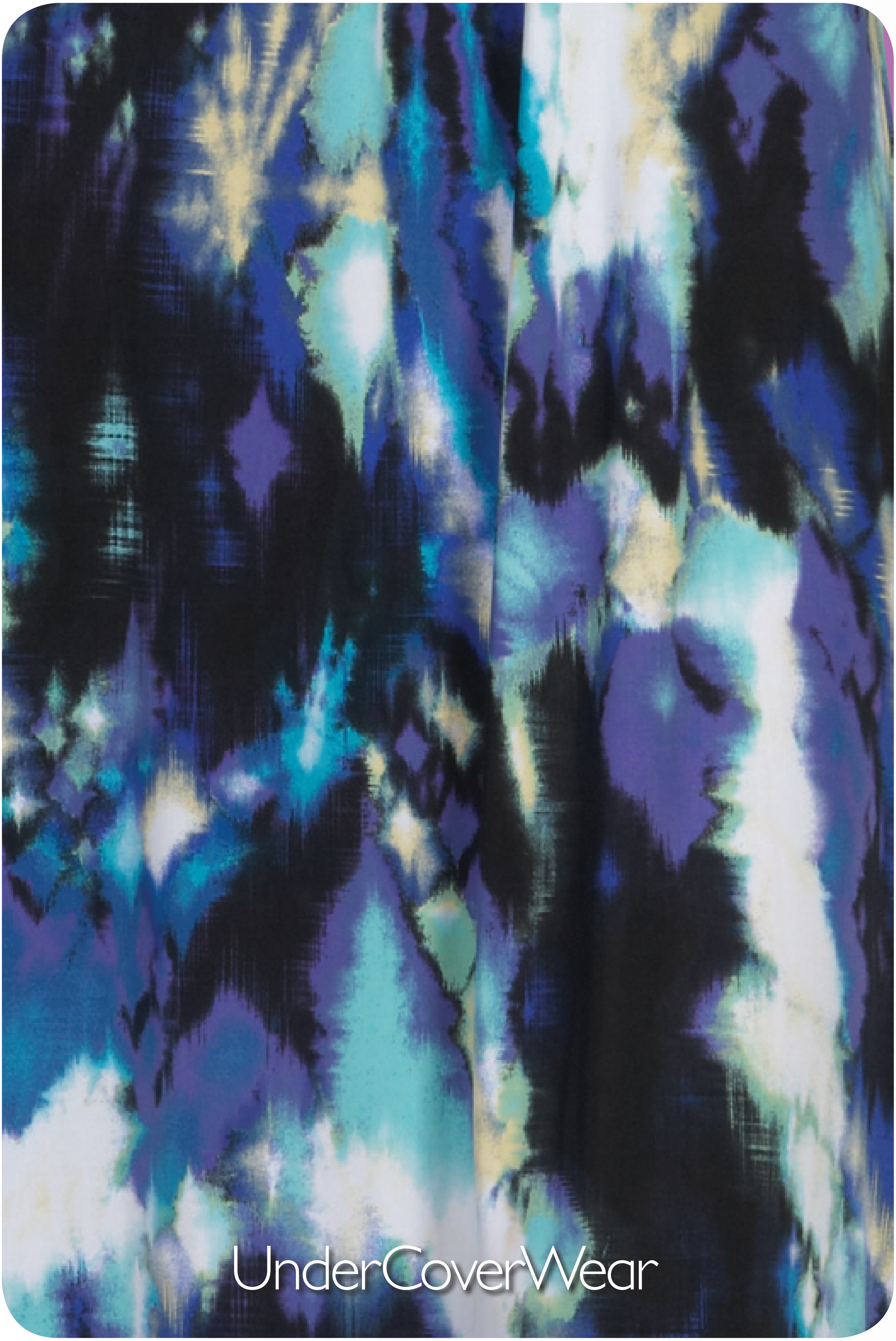
SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000
GPO Box 1903
Adelaide SA 5001

Enquiries within Australia: 1300 556 161
Enquiries outside Australia: 61 3 9415 4000
Email: web.queries@computershare.com.au
Website: www.computershare.com

STOCK EXCHANGE

Quotation has been granted for all the ordinary shares
Listing of the company on all Member Exchanges of the


UnderCoverWear