

ANNUAL REPORT 2009



UnderCoverWear



2009

CONTENTS

Chairman's Overview	2
Chief Executive Officer's Report	4
Board of Directors	6
Director's Report	7
Remuneration Report	10
Corporate Governance Statement	14
Financial Statements	21
Income Statement	22
Balance Sheet	23
Statement of Changes in Equity	24
Cash Flow Statement	25
Notes to the Financial Statements	26
Directors' Declaration	49
Independent Audit Report	50
Auditor's Independence Declaration	52
Shareholder Information	53
Company Details	55

ANNUAL GENERAL MEETING

The Annual General Meeting of UnderCoverWear Limited ABN 85 108 962 152 and Controlled Entities will be held at the offices of Grant Thornton, Level 17, 383 Kent Street, Sydney NSW on 29 October 2009 at 11.30am.

CHAIRMAN

CHAIRMAN'S OVERVIEW

UnderCoverWear Limited (UCW) reports a 2009 net loss of \$2,267,571 which is a significant decline from the 2008 profit of \$3,649,942. This equates to a 2009 negative EPS of (4.7) cents per share compared to 2008 of 7.6 cents per share. The loss is after impairment charges. The pre impairment NPAT was \$1,632,429 a decline of 55% on the 2008 profit result.

This is an unacceptable result for both the Board and management of UnderCoverWear. The result is against the backdrop of one of the more difficult years of trading that UCW has encountered. Initially the 2008/09 year commenced with an economy reaching capacity employment, interest rates rising and fuel prices high, all impacting UCW's ability to recruit consultants, and effecting discretionary spend. The second half of 2008/09 saw rates falling, fuel prices lower and unemployment rising as a result of the impact to the Australian economy from the global financial crisis.

I reported to shareholders last year that the Board and management were reviewing the causes of a steady decline in consultant numbers and were initiating permanent costs savings and focusing on improving the product offering to attract new consultants. I can report the following:

- Cost saving initiatives have been implemented and resulted in a permanent reduction in operating cost.
- Some impairment to goodwill has been recognised, but initiatives are in place to address the reduction in turnover and NPAT.
- Product review – while a number of new product lines were introduced, sales and consultants numbers continued to decline in the first half 2009. In November 2008 a new National Sales Manager was recruited, Simon Pervan. Simon joined UCW after completing

6 years at Nutrimerics as a leading National Sales Manager, bringing to UCW a strong and focused approach to arresting the decline in consultant numbers. A complete review of the consultant incentive program was lead by Simon and changes implemented progressively in the second half of 2009 and ongoing.

The March quarter has seen a range of changes implemented and I am pleased to report consultant numbers and those promoted to Manager level consultant have steadily grown in the June quarter.

In the June quarter 2009 Simon also assumed the role of marketing Manager for the Group and has lead a comprehensive review of the product range. The merging of sales and marketing will build team cohesion, increase communication and focus the two areas in the one direction. The product range will be revamped with the assistance from a highly regarded external consultant, who has extensive experience in an advisory capacity, to a number of Australia's leading female orientated fashion groups. I look forward to an exciting revamp of the product range on offer to the consultant sales force.

- Ongoing review of UCW's procurement and logistics functions will result in further efficiency improvements, freight savings and overall permanent cost savings being achieved.

In what has been a difficult year to report to shareholders on an unacceptable result I would conclude with the following positive remarks:

- UCW has no debt and the balance sheet remains strong with approximately \$2,000,000 positive cash at bank at the time of reporting.
- The recruitment of the National Sales and Marketing Manager, Simon Pervan is driving positive change in

net positive recruitment of consultants and ongoing revamp of the product range and a complete overhaul of the rewards and incentives offered to attract customers. More details of Simon's initiatives can be viewed within the CEO's Report on page 4.

- Permanent cost savings implemented and the Board are forecasting an improvement in the 2010 results.
- The Board will continue to aggressively review all aspects of the business to ensure improved returns to shareholders including a review of all personnel.

Dividends

Based on reduced earnings in the 2008/09 year the Board has declared the payment of a final fully franked dividend of 1.0 cent per share which will be paid on 9 October 2009. This brings the total ordinary dividends paid in respect of the ended 30th June 2009 to 2.0 cents per share respectively.

Share Buyback

In addition to declaring a 1.0 cent per share fully franked final dividend 2009, the board wish to announce the Group's intention to buy back on market up to 10% of the issued capital of UCW over the course of the 2009/2010 financial year.

Outlook

The Board is confident that with recently implemented initiatives and a debt free balance sheet; a mix of dividends and a buyback is the best utilisation of the Group's capital resources.

The outlook remains challenging with a tough economic backdrop prevailing. However the business model is slowly improving and the level of enthusiasm from senior management is of focus and confidence that UCW can build positively off this poor result.



CHIEF EXECUTIVE OFFICER'S REPORT

In our annual report last year we pre-empted that this year would continue to be difficult in light of the worsening economic circumstances and the difficulty being experienced by our sales consultants in maintaining party bookings and attendance at parties. Further impact on this was felt during the year from continuous heavy discounting by fashion retailers, and the results for the year are extremely disappointing.

The financial results for the year show turnover declined by 26% and net profit before tax and impairment declined by 55%. In addition, some impairment to goodwill has been recognised, but initiatives are in place to address this reduction in turnover and net profit.

Number of Sales Consultants

Whilst we did not see a net increase in the number of sales consultants over the 2009 year, the pattern of the previous year when the net number declined by 227 has been steadied. There has been a net increase in consultant count over the last 7 months (January 2009 to July 2009) of 118, compared to a net reduction of 8 in the same period last year (January 2008 to July 2008). Two strong recruiting campaigns were launched in February and again in June teamed with a re-vamped DreamStart program for new consultants resulting in higher retention.

Both these programs are scheduled to be repeated throughout the year ahead.

Consultant Activity

A greater impact on turnover this year has been the effect of a slowing down in the activity of consultants. The average number of parties conducted per consultants during the year fell to 3.8 per month from 4.2 during FY 2008. This is a result of a decline in the booking rate of new parties. To address this

we have implemented a number of programs to reward consultants for higher activity and re-vamped the benefits for customers to hold parties. The party booking rate for new parties has improved from 0.9 to 1.1 over the past 3 months to 30 June.

National Sales Manager & Marketing Manager

As noted in the Chairman's Overview, Simon Pervan was appointed to the position of Sales Manager in November 2008 having been six years with Nutrimetics, a leading business in the direct selling industry. He also assumed the role of Marketing Manager in June 2009. Simon has been instrumental in implementing a number of initiatives:

- Monthly publication (full colour, magazine style) to communicate promotions and training to the sales consultants
- Monthly promotions to promote activity for sales consultants
- Annual promotions for sales consultants to promote sales growth
- Re-vamped company car program for sales managers, augmenting their status based on sales growth
- In October 2009 Simon will re-introduce the Corporate Manager training program at Head Office. This ceased 2 years ago.
- In his position as Marketing Manager, Simon will also update and harmonise corporate print material in line with his approach and new sales promotions.
- A revamped company website will be launched during the December quarter and will include personalised pages for individual sales consultants to drive customers' repeat business directly through the website.



Customer Relations Manager

During the June quarter Robyn Keegan was appointed to the position of Customer Relations Manager to implement a new consultant relationship building program between Head Office and newly recruited consultants. This program is being extended in the current year to set up direct relationships between Head Office and consultants being developed to the position of sales managers.

Both of these programs are designed to recognise achievements and foster greater retention of sales consultants and managers.

Product

Our Fashion Designer, Ana Tokic, has resumed her role designing our full range of product after a period of 2 years as lingerie designer only. Ana was responsible for the development of the many very successful catalogues in outerwear and lingerie from 2000 to 2006.

The nature of our distribution model of party plan brings a broad range of customers to the business, both when segmented by age, size and fashion style. To assist us in this area we have contracted a leading Fashion Business Consultant to work directly with our Designer on the composition of the product range to cover the broad nature of our customer base.

Operations

Reductions in overhead were undertaken in the second half of the year and the full benefit will be evident in the 2010 financial year.

Attention continues to be directed to the efficiencies within the warehousing and distribution function. A reduction in the number of staff in this area and a comprehensive resource planning program, plus

improvements to speed up picking of orders will give rise to further cost savings.

Implementation of improved IT programs giving direct access for sales consultants to manage their orders on line has further reduced the data processing required by Head Office staff.

The roll out earlier in the year of the new payment and delivery options for guests at the parties has resulted in a 50% increase in payments being received at the party. This has greatly reduced the cancellation rate of orders and means the majority of guest orders are despatched immediately after the party.

Outlook

With the uncertain nature of the economy in the year ahead it is difficult to forecast the affect on retail spending, and therefore turnover in the year ahead.

However, we have our focus clearly on improving our product and catalogue presentation, taking full advantage of the potential of our wide customer segments.

We have a well co-ordinated, dedicated and experienced management team focused on the potential to grow our sales team in an uncertain employment environment. We are pursuing re-vitalised promotions every month to encourage higher activity by our sales force which is showing improved response in July and August.

We have a firm control on inventory management with consistent tight stock turns and negligible stock write-downs.

I would like to take this opportunity to thank our management team and staff for the dedication during a very difficult year. We look forward to improving the results for the company in the year ahead.

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 also currently serves as a director of Cockatoo Ridge Wines Limited. Mr Richardson is Chairman of the Audit & Remuneration Committees and holds an interest in 1,773,046 ordinary shares in UnderCoverWear Limited.

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

Ms Vincent was appointed as a Director on 5 May 2004. 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. With over 20 years experience in franchising and retailing in the clothing and textile industry, Ms Vincent has since focused 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 604,750 ordinary shares in UnderCoverWear Limited. Ms Vincent has not held directorships in any other public listed companies during the past 4 years.



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 within 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 4 years.

Nick Geddes, FCA, FCIS
Company Secretary (and at the date of signing this report, alternate director for John Everett)

Mr Geddes is the principal of Australian Company Secretaries Pty Ltd, a company secretarial practice, which he formed in 1993. Mr Geddes is President and Board Chairman 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 was appointed as alternate director for John Everett on 11 August 2009.

DIRECTORS

DIRECTORS REPORT

Your directors present their report on the Company and its controlled entities (the consolidated entity) for the financial year ended 30 June 2009.

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
- Elaine Margaret Vincent
- Nicholas JV Geddes (alternate director for John Everett) appointed 11 August 2009

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 page 6 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 6 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 (\$2,267,571) (2008: profit of \$3,649,942).

Dividends Paid or Recommended

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

- An interim ordinary dividend in respect of the year ended 30 June 2009 of 1.0 cent per share fully franked, paid on 3 April 2009.
- A final ordinary dividend in respect of the year ended 30 June 2008 of 2.75 cents per share fully franked, paid on 3 October 2008.
- A final ordinary dividend in respect of the year ended 30 June 2009 of 1.0 cents per share fully franked has been declared and will be paid on 9 October 2008.

Review of Operations

The result for 2009 is disappointing for the Company, however a number of initiatives have been put in place to address the drop in turnover and NPAT. The result includes an impairment of goodwill taking in consideration future earnings, expected growth, share price and the value of the goodwill in the current market. Refer to Note 16 for more details.

Permanent reductions in operating costs were implemented during 2009 to reduce operating costs and the company is now working with greater efficiency and able to quickly adjust to the changes in the volume of orders to be despatched.

Review of freight processes and charges has resulted in changes to operations and also savings in freight expense.

Implementation of improved IT programs giving direct access for sales consultants to manage their orders on line has further reduced the data processing required by Head Office staff.



The roll out earlier in the year of the new payment and delivery options for guests has been very successful and greatly reduced the cancellation rate of orders and means the majority of guest orders are despatched immediately after the party.

An extensive review and change to the promotions offered to our field of Independent Sales Consultants (ISC) has taken place, with a focus on building personal volume and also sponsoring new ISC's in an effort to produce an increase in sales and also the number of ISC's.

We have continued to support sponsorship and fundraising activities. We have donated almost \$2,150,000 to various charities since 1987, including \$850,000 donated from sales of our "Support The Cause" T-shirts.

Financial Position

UCW has no debt and the balance sheet remains strong with approximately \$2,000,000 positive cash at bank at the time of reporting.

The Company continues to have a firm control on inventory management with consistent tight stock

turns and negligible stock write-downs. Inventory levels remain conservative with a decrease of 14.7% from the value on hand at the end of the 2008 financial year.

Significant Changes in State of Affairs

There has been no significant changes in the state of the affairs of the consolidated entity during the financial year other than as discussed in the Review of Operations.

After Balance Date Events

There were no significant events after the balance sheet reporting date that affects the position at 30 June 2009.

Future Developments, Prospects & Business Strategies

Once again, the main focus in this forthcoming year will be on the growth of our independent sales consultant numbers and therefore increasing sales revenue. In addition, Management will continue to review areas across the business to identify and implement cost saving opportunities.

The Group intends to buy back on market up to 10% of the issued capital of UCW over the course of the 2009/2010 financial year.

Meetings of Directors	Number of Meetings					
	Directors' Meetings		Audit Committee		Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
S Richardson	6	6	2	2	-	-
John H Everett	6	6	2	2	-	-
Elaine M Vincent	6	6	-	-	-	-

Meetings of Directors

During the financial year, 8 meetings of directors (including committees of directors) were held. Attendances by each director during the year are set out in the table below. No Remuneration Committee meetings were held during the financial year.

Environmental Issues

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

Indemnifying Officers or Auditor

The Company 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 \$12,659.

Stuart Richardson	John Everett
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 2009 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 Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company 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 \$16,100 were paid/payable to external auditors during the year ended 30 June 2009 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 2009 can be found on pages 10-13, 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 2009 has been received and can be found on page 52 which forms part of this report.

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

Stuart A Richardson, Director
28th August 2009

REMUNERA

REMUNERATION REPORT

Introduction

This report forms part of the Directors' Report for the year ended 30 June 2009. 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 other key management personnel 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

One member of key management personnel receives an annual bonus which is linked to company performance and this payment is based on achieved targets specified by the executive directors. Bonus payments to other key management personnel are reflective of the company's overall trading results & not specific to an individual's own performance.

The main performance measure was economic profit, with the key component being EBIT. Another performance measure includes Gross Margin Dollars, which are aligned to relevant business plans.

The following table shows earnings performance of the consolidated entity over the past five years:

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Key Financials

Year ended 30 June	2009	2008	2007	2006	2005
Revenue	24,953,815	33,712,442	43,875,007	46,492,707	44,089,490
(Loss)/earnings before interest, tax, depreciations & amortisation (EBITDA)	2,365,923	5,207,502	6,132,249	6,072,971	5,610,069
(Loss)/profit Net	(2,267,571)	3,649,942	4,124,189	4,060,799	3,670,690
Basic EPS (cents)	(4.72)	7.60	8.59	8.46	7.65
Total Dividend per share (cents)	2.0	5.75	6.5	6.5	6.0

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:

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. The contracts for service between the company and specified 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 existing employment contract which ended 30 June 2009, the Chief Executive Officer's remuneration consisted of a fixed salary, including superannuation contributions.
- The performance bonus of the National Sales Manager is calculated on the difference in actual gross margin dollars compared to budgeted

gross margin dollars achieved during the year.

Entitlement to the bonus also relies on the growth in independent sales consultant numbers, which is aligned to relevant business plans. A sign on bonus was also paid at commencement of employment.

- 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 Company.

Share Based Remuneration

Management and administration staff were issued with shares in lieu of the postponement of the annual salary review process. In total 20,000 shares which were purchased on-market were issued to 26 members of the management and administration team.

Details of Remuneration for Year Ended 30 June 2009

Names and positions held of consolidated and parent entity 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
Angela Catford	Chief Financial Officer
Simon Pervan (appointed 26/11/09)	National Sales Manager
Nicole Riccioni	Executive Marketing Manager
Ana Tokic	Head Designer
Megan Everett (resigned 10/4/09)	General Manager – Operations
Colleen Walters (resigned 7/11/08)	Sales & Business Development Manager

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

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.

For the year ended 30 June 2008	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	29,166	2,625	-	-	-	-	31,791	-
John Everett	41,666	3,750	-	-	-	-	45,416	-
Elaine Vincent ^	202,233	59,351	440,238	78,020	-	-	779,842	66.6
David Hall	-	41,667	-	-	-	-	41,667	-
Geoffrey Hill	2,500	8,400	-	-	-	-	10,900	-
Total for Directors	275,565	115,793	440,238	78,020	-	-	909,616	
Tania Thomson	51,627	4,826	2,000	-	-	-	58,453	-
Angela Catford	79,646	7,592	1,000	3,717	-	-	91,955	-
Megan Everett	109,963	10,077	2,000	-	-	-	122,040	-
Colleen Walters	121,346	7,278	7,000	390	-	-	136,014	3.7
Nicole Riccioni	47,643	4,468	2,000	-	-	-	54,111	-
Ana Tokic	88,435	9,916	2,000	20,000	-	-	120,351	-
Total for other KMP	498,660	44,157	16,000	24,107	-	-	582,924	
Total	774,225	159,950	456,238	102,127	-	-	1,492,540	

^ Amounts include any unpaid bonuses, accrued at 30 June 2008.

Number of Shares Held by Key Management Personnel

Key Management Personnel	Number of Shares			
	Balance 1.7.2008	Received as Remuneration	Net Change Other*	Balance 30.6.2009 #
Stuart Richardson	1,373,046	-	400,000	1,773,046
John Everett	18,937,392	-	985,827	19,923,219
Elaine Vincent	602,000	-	2,750	604,750
Angela Catford	-	1,000	-	1,000
Megan Everett	1,000	1,000	-	2,000
Colleen Walters	-	1,000	-	1,000
Simon Pervan	-	-	-	-
Nicole Riccioni	12,000	1,000	-	13,000
Ana Tokic	10,000	1,000	-	11,000
Total	20,935,438	5,000	1,388,577	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 26 Related Party Transactions.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

This statement discloses the key elements of the Company's governance framework during the reporting period and to the date of this report. Throughout the reporting period, the year ended 30 June 2009, 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.

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 Company 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 Company'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 on page 7.

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 with 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.

Mrs Elaine Vincent, the Chief Executive Officer, is considered not to be independent.

Mr Nick Geddes, the Company Secretary and alternate director for John Everett from 11 August 2009 to time of signing this report is a non-executive independent director in accordance with the independence criteria given that he complies with all criteria set down for assessment of independence.

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 director (including the Chairman) and one 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 on page 7. 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, 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





Continued

Principle 5: Make Timely & Balanced Disclosure

Company are published on the Company's website. 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:

6.1 Communications policy

- 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, 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

Continued

7.3 Risk Management Accountability

system, is operating efficiently and effectively in all material aspects. The Board has received the relevant 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 tested 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 on page 7. 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 six key management personnel 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.

FINANCIAL STATEMENT

for the year ended 30 June 2009



UnderCoverWear

INCOME STATEMENT

for the year ended 30 June 2009

	Note	Consolidated Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue	2	24,953,815	33,712,442	2,432,457	5,413,183
Changes in inventories of finished goods and work in progress	3	(6,307,893)	(8,495,620)	-	-
Raw materials and consumables used	3	(3,973,882)	(4,540,931)	-	-
Distribution costs		(1,187,372)	(1,449,988)	-	-
Commissions paid		(1,782,086)	(3,044,865)	-	-
Promotions and advertising expense		(2,248,669)	(2,124,509)	-	-
Depreciation and amortisation expense	3	(114,063)	(158,218)	-	-
Impairment expense		(3,900,000)	-	(3,900,000)	-
Insurance expense		(117,502)	(110,935)	-	-
Employee benefits expense		(4,461,198)	(5,616,957)	-	-
Rental expenses		(914,026)	(906,493)	-	-
Finance costs	3	(259)	-	-	-
Other expenses		(1,509,733)	(2,045,865)	(95,325)	(195,122)
(Loss)/profit before income tax expense	3	(1,562,868)	5,218,061	(1,562,868)	5,218,061
Income tax expense	4	(704,703)	(1,568,119)	(704,703)	(1,568,119)
(Loss)/profit attributable to members of the parent entity		(2,267,571)	3,649,942	(2,267,571)	3,649,942
Basic (loss)/earnings per share (cents per share)	8	(4.72)	7.60		
Diluted (loss)/earnings per share (cents per share)	8	(4.72)	7.60		

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

BALANCE SHEET

as at 30 June 2009

	Note	Consolidated Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
CURRENT ASSETS					
Cash and cash equivalents	9	1,702,317	2,391,175	8,662	5,420
Trade and other receivables	10	508,572	272,540	5,587,682	6,147,525
Inventories	11	4,713,133	5,524,256	-	-
Other	12	188,042	514,443	-	-
TOTAL CURRENT ASSETS		7,112,064	8,702,414	5,596,344	6,152,945
NON-CURRENT ASSETS					
Other financial assets	13	-	-	20,100,000	24,000,000
Plant and equipment	15	135,993	226,944	-	-
Deferred tax assets	18	308,328	402,124	-	81,380
Intangible assets	16	20,917,499	24,817,499	-	-
TOTAL NON-CURRENT ASSETS		21,361,820	25,446,567	20,100,000	24,081,380
TOTAL ASSETS		28,473,884	34,148,981	25,696,344	30,234,325
CURRENT LIABILITIES					
Trade and other payables	17	2,205,667	2,694,034	9,822	550
Current tax liabilities	18	-	486,049	-	486,049
Short-term provisions	19	572,357	1,180,745	-	-
TOTAL CURRENT LIABILITIES		2,778,024	4,360,828	9,822	486,599
NON-CURRENT LIABILITIES					
Long-term provisions	19	83,511	102,184	-	-
Deferred tax liabilities	18	55,901	61,950	78,078	71,711
TOTAL NON-CURRENT LIABILITIES		139,412	164,134	78,078	71,711
TOTAL LIABILITIES		2,917,436	4,524,962	87,900	558,310
NET ASSETS		25,556,448	29,624,019	25,608,444	29,676,015
EQUITY					
Issued capital	20	23,960,750	23,960,750	23,960,750	23,960,750
Retained earnings		1,595,698	5,663,269	1,647,694	5,715,265
TOTAL EQUITY		25,556,448	29,624,019	25,608,444	29,676,015

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2009

	Note	Ordinary Share Capital	Retained Earnings	Total
		\$	\$	\$
Consolidated Entity				
Balance at 1 July 2007		23,960,750	5,133,327	29,094,077
Profit for the period		-	3,649,942	3,649,942
Total recognised income and expense for the period		-	3,649,942	3,649,942
Dividends paid	7	-	(3,120,000)	(3,120,000)
Balance at 30 June 2008		23,960,750	5,663,269	29,624,019
Loss for the period		-	(2,267,571)	(2,267,571)
Total recognised income and expense for the period		-	(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
Parent Entity				
Balance at 1 July 2007		23,960,750	5,185,323	29,146,073
Profit for the period		-	3,649,942	3,649,942
Total recognised income and expense for the period		-	3,649,942	3,649,942
Dividends paid	7	-	(3,120,000)	(3,120,000)
Balance at 30 June 2008		23,960,750	5,715,265	29,676,015
Loss for the period		-	(2,267,571)	(2,267,571)
Total recognised income and expense for the period		-	(2,267,571)	(2,267,571)
Dividends paid	7	-	(1,800,000)	(1,800,000)
Balance at 30 June 2009		23,960,750	1,647,694	25,608,444

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

CASH FLOW STATEMENT

for the year ended 30 June 2009

	Note	Consolidated Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		27,043,906	36,775,524	-	-
Payments to suppliers and employees		(24,856,373)	(31,785,272)	(73,805)	(195,456)
Interest received		85,531	168,776	(6,123)	-
Dividends & trust distributions received		55	63	2,432,456	5,413,183
Finance costs		(259)	-	-	-
Income taxes paid		(1,141,233)	(1,693,694)	(1,147,356)	(1,693,694)
Net cash provided by operating activities	24a	1,131,627	3,465,397	1,205,172	3,524,033
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		2,727	2,400	-	-
Purchase of property, plant and equipment		(23,212)	(54,430)	-	-
Proceeds from subsidiary		-	-	3,030,539	5,040,871
Payments to subsidiary		-	-	(2,432,469)	(5,473,867)
Net cash (used in)/provided by investing activities		(20,485)	(52,030)	598,070	(432,996)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid by parent entity		(1,800,000)	(3,120,000)	(1,800,000)	(3,120,000)
Net cash used in financing activities		(1,800,000)	(3,120,000)	(1,800,000)	(3,120,000)
Net (decrease) /increase in cash & cash equivalents held		(688,858)	293,367	3,242	(28,963)
Cash & cash equivalents at beginning of financial year		2,391,175	2,097,808	5,420	34,383
Cash & cash equivalents at the end of financial year	9	1,702,317	2,391,175	8,662	5,420

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the consolidated entity of UnderCoverWear Limited and controlled entities, and UnderCoverWear Limited as an individual parent entity. UnderCoverWear Limited is a listed public company, incorporated and domiciled in Australia.

The financial report was authorised for issue on 28th August 2009.

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 also 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.

Accounting Policies

a) Principles of Consolidation

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.

b) 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.

c) 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.

d) Plant and Equipment

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

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.

e) 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. There were no finance leases in the reporting period.

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.

f) 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

f) Financial Instruments (cont)

▪ 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.

g) 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.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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).

m) 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.

n) Comparative Figures

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

o) 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 \$3,900,000 has been recognised in the current year. Refer to Note 16 for details of the assumptions and factors incorporated for the impairment testing.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

o) Critical Accounting Estimates and Judgments (cont)

▪ Investment in subsidiary

As the goodwill arises on consolidation with the Company's unit trust, an impairment of \$3,900,000 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		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
NOTE 2: REVENUE & OTHER INCOME					
Operating activities					
— sale of goods		23,848,348	31,749,707	-	-
— profit distribution – unit trust	2a	-	-	2,432,457	5,413,183
— distribution charges		388,810	1,124,095	-	-
— rental revenue		521,991	577,476	-	-
— other revenue		106,353	89,923	-	-
— interest received	2b	85,531	168,777	-	-
— dividends received		55	63	-	-
Total revenue		24,951,087	33,710,041	2,432,457	5,413,183
Non-operating activities					
— gain on disposal of plant and equipment		2,727	2,401	-	-
Total other income		2,727	2,401	-	-
Total revenue & other income		24,953,815	33,712,442	2,432,457	5,413,183

a. Profit distribution from:

— wholly-owned unit trust	-	-	2,432,457	5,413,183
Total distribution received	-	-	2,432,457	5,413,183

b. Interest & dividend revenue from:

— other persons	85,586	168,840	-	-
Total interest & dividend revenue	85,586	168,840	-	-

	Note	Consolidated Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
NOTE 3: PROFIT / (LOSS) BEFORE TAX					
(Loss)/profit before income tax has been determined after:					
a. Expenses					
Cost of sales		10,281,775	13,036,551	-	-
Finance costs:					
— other persons		259	-	-	-
Total finance costs		259	-	-	-
Foreign currency translation gains/losses		112,763	139,463	-	-
Depreciation / amortisation of non-current assets:					
— plant and equipment		55,140	69,283	-	-
— motor vehicles		379	489	-	-
— furniture, fittings and equipment		57,309	85,306	-	-
— computer software		1,235	3,140	-	-
Total depreciation and amortisation		114,063	158,218	-	-
Impairment loss		3,900,000	-	3,900,000	-
Bad and doubtful debts:					
— trade debtors		21,498	24,067	-	-
Total bad and doubtful debts		21,498	24,067	-	-
Rental expense on operating leases					
— minimum lease payments		11,012	23,965	-	-
— motor vehicles		551,115	596,866	-	-
— rentals		914,026	906,493	-	-
Total of rental expense on operating lease		1,476,153	1,527,324	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	Note	Consolidated Entity		Parent Entity		
		2009 \$	2008 \$	2009 \$	2008 \$	
NOTE 4: INCOME TAX EXPENSE						
a.	The components of tax expense comprise:					
		616,956	1,575,454	616,956	1,575,454	
		Current tax				
	18	87,747	(7,335)	87,747	(7,335)	
		Deferred tax				
		704,703	1,568,119	704,703	1,568,119	
		Income tax expense reported in the income statement				
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% (2008: 30%)	(468,860)	1,565,418	(468,860)	1,565,418
		Add:				
		Tax effect of:				
		— Imputation & withholding tax gross-up	8	8	-	-
		— Trust distribution	-	-	3,588	2,729
		— Other non-allowable items	1,173,580	2,721	1,170,000	-
		Less:				
		Tax effect of:				
		— Imputation and withholding tax credits	(25)	(28)	(25)	(28)
		Income tax expense attributable to profit from ordinary activities before income tax	704,703	1,568,119	704,703	1,568,119

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 2009.

NOTE 6: AUDITORS' REMUNERATION

Remuneration of the auditors of parent and subsidiaries
- Grant Thornton NSW for:

— auditing or reviewing the financial report	74,000	85,500	74,000	85,500
— other services	16,100	14,900	-	-
	90,100	100,400	74,000	85,500

	Consolidated Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
NOTE 7: DIVIDENDS				
Dividends paid				
2008 final fully franked ordinary dividend of 2.75 cents (2008: 3.5 cents) per share franked at the tax rate of 30%				
	1,320,000	1,680,000	1,320,000	1,680,000
Interim fully franked ordinary dividend of 1.0 cent (2008: 3.0 cents) per share franked at the tax rate of 30%				
	480,000	1,440,000	480,000	1,440,000
	1,800,000	3,120,000	1,800,000	3,120,000
a.	Proposed final fully franked ordinary dividend of 1.0 cent (2008: 2.75 cents) per share franked at the tax rate of 30% (2008: 30%)			
	480,000	1,320,000	480,000	1,320,000
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			
	2,021,116	2,457,263	2,021,116	2,457,263
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:				
	(205,714)	(565,714)	(205,714)	(565,714)
	1,815,402	1,891,549	1,815,402	1,891,549

NOTE 8: EARNINGS PER SHARE

a.	Reconciliation of earnings to net profit or loss				
	Net (loss)/profit	(2,267,751)	3,649,942	-	-
	(Loss)/earnings used in the calculation of basic and dilutive EPS	(2,267,751)	3,649,942	-	-
b.	Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS				
	48,000,000	48,000,000	-	-	

There were no potential ordinary shares outstanding during the year ended 30 June 2009.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	Note	Consolidated Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
NOTE 9: CASH ASSETS					
Cash at bank and in hand		1,657,317	2,346,175	8,662	5,420
Short-term bank deposits		45,000	45,000	-	-
		<u>1,702,317</u>	<u>2,391,175</u>	<u>8,662</u>	<u>5,420</u>

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	1,702,317	2,391,175	8,662	5,420
	<u>1,702,317</u>	<u>2,391,175</u>	<u>8,662</u>	<u>5,420</u>

NOTE 10: RECEIVABLES

CURRENT

Other receivables	316,084	327,927	-	-
Amounts receivable from:				
— wholly-owned unit trust	-	-	5,549,455	6,147,525
— director related entities (b)	200,000			
— income tax	38,227		38,227	
— provision for impairment of receivables – Other receivables	(45,739)	(55,387)	-	-
	<u>508,572</u>	<u>272,540</u>	<u>5,587,682</u>	<u>6,147,525</u>

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.

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

	Opening Balance at 1 July 2008	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2009
Consolidated Entity 2009				
Other receivables	55,387	21,498	(31,146)	45,739
	<u>Opening Balance at 1 July 2007</u>	<u>Charge for the Year</u>	<u>Amounts Written Off</u>	<u>Closing Balance at 30 June 2008</u>
Consolidated Entity 2008				
Other receivables	35,145	24,067	(3,825)	55,387

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 26 for details of this balance.

	Consolidated Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
NOTE 11: INVENTORIES				
CURRENT				
At cost:				
Raw materials and stores	696,127	530,218	-	-
Work in progress	155,647	98,859	-	-
Finished goods	2,194,089	2,704,709	-	-
	<u>3,045,863</u>	<u>3,333,786</u>	<u>-</u>	<u>-</u>
At net realisable value:				
Raw materials and stores	282,636	321,600	-	-
Finished goods	1,384,634	1,868,870	-	-
	<u>1,667,270</u>	<u>2,190,470</u>	<u>-</u>	<u>-</u>
	<u>4,713,133</u>	<u>5,524,256</u>	<u>-</u>	<u>-</u>

NOTE 12: OTHER ASSETS

CURRENT

Prepayments	188,042	514,443	-	-
	<u>188,042</u>	<u>514,443</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

Note	Consolidated Entity		Parent Entity		
	2009 \$	2008 \$	2009 \$	2008 \$	
NOTE 13: OTHER FINANCIAL ASSETS					
NON-CURRENT					
Investments in subsidiaries:					
Units in unit trusts at cost	13a	-	-	24,000,000	24,000,000
Impairment write-down		-	-	(3,900,000)	-
		-	-	20,100,000	24,000,000

An impairment has been recorded against the investment in the unit trust based on the recoverable amount of the investment. Refer note 16 for further details.

a. Units in Unit Trusts

The parent entity holds the interest in the following unit trust:

i. UnderCoverWear Unit Trust

The trust's principal activities are the manufacture and distribution of underwear and garments in Australia and exporting to New Zealand

- Investment	-	-	20,100,000	24,000,000
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Percentage ownership 100% (2008 100%)

NOTE 14: CONTROLLED ENTITIES

a. Controlled Entities

Entity:	Country of Incorporation	Percentage Owned	
		2009	2008
UnderCoverWear Unit Trust	Australia	100%	100%

NOTE 15: PLANT AND EQUIPMENT

	Consolidated Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Plant and equipment				
At cost	1,006,485	991,280	-	-
Accumulated depreciation	(911,461)	(856,321)	-	-
	95,024	134,959	-	-
Motor vehicles				
At cost	12,100	12,100	-	-
Accumulated depreciation	(10,794)	(10,415)	-	-
	1,306	1,685	-	-
Furniture, fittings and equipment				
At cost	967,747	975,729	-	-
Accumulated depreciation	(928,592)	(887,172)	-	-
	39,155	88,557	-	-
Computer software				
At cost	176,425	176,425	-	-
Accumulated depreciation	(175,917)	(174,682)	-	-
	508	1,743	-	-
Total Plant and Equipment	135,993	226,944	-	-

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 2007	203,056	2,174	121,807	3,695	330,732
Additions	1,186	-	52,056	1,188	54,430
Disposals	-	-	-	-	-
Depreciation expense	(69,283)	(489)	(85,306)	(3,140)	(158,218)
Balance at 30 June 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)	(114,063)
Balance at 30 June 2009	95,024	1,306	39,155	508	135,993

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	Consolidated Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
NOTE 16: INTANGIBLE ASSETS				
Goodwill at cost	24,817,499	24,817,499	-	-
Accumulated impairment losses	(3,900,000)	-	-	-
	20,917,499	24,817,499	-	-

The recoverable amount is determined based on value-in-use calculations. Value-in-use is calculated based on the 2010 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. 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:

	2009	2008
Discount rate	15.70%	12.63%
Growth rate (2011-2014)	5%	2%
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 \$3,900,000 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		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
NOTE 17: TRADE AND OTHER PAYABLES				
CURRENT				
Trade payables	1,283,862	1,790,598	9,822	550
Sundry payables and accrued expenses	566,224	895,649	-	-
Commissions payable	355,580	7,787	-	-
	2,205,667	2,694,034	9,822	550

NOTE 18: TAX

CURRENT

Income tax liability	-	486,049	-	486,049
	-	486,049	-	486,049

NON-CURRENT

	Opening Balance	Charged to Income	Charged directly to Equity	Closing Balance
Deferred Tax Assets				
Consolidated Entity:				
Provisions	323,373	32,323	-	355,696
Other	34,005	12,423	-	46,428
Balance at 30 June 2008	357,378	44,746	-	402,124
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

Parent Entity:

Provisions	-	-	-	-
Other	36,634	44,746	-	81,380
Balance at 30 June 2008	36,634	44,746	-	81,380
Provisions	-	-	-	-
Other	81,380	(81,380)	-	-
Balance at 30 June 2009	81,380	(81,380)	-	-

Deferred Tax Liabilities

Consolidated Entity:				
Provisions	24,539	34,711	-	61,950
Other	-	-	-	-
Balance at 30 June 2008	24,539	34,711	-	61,950
Provisions	61,950	(6,049)	-	55,901
Other	-	-	-	-
Balance at 30 June 2009	61,950	(6,049)	-	55,901

Parent Entity:

Provisions	-	-	-	-
Other	34,300	37,411	-	71,711
Balance at 30 June 2008	34,300	37,411	-	71,711
Provisions	-	-	-	-
Other	71,711	6,367	-	78,078
Balance at 30 June 2009	71,711	6,367	-	78,078

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	Note	Consolidated Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
NOTE 19: PROVISIONS					
Promotions		115,568	325,747	-	-
Employee benefits	19a	456,789	854,998	-	-
		572,357	1,180,745	-	-
NON-CURRENT					
Employee benefits	19a	83,511	102,184	-	-
		83,511	102,184	-	-
a. Aggregate Employee Benefits Liability		540,300	957,182	-	-

	Balance at 1 July 2008	Additional provisions	Amounts used	Unused amounts reversed	Balance at 30 June 2009
	\$	\$	\$	\$	\$
Consolidated Entity:					
Promotions	325,747	115,568	(301,520)	(24,227)	115,568
Employee Benefits	957,182	236,891	(629,672)	(24,101)	540,300
Total	1,282,929	352,459	(931,192)	(48,328)	655,868

Provision for Promotions

A provision of \$115,568 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.

	Consolidated Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
48,000,000 (2007: 48,000,000) fully paid ordinary shares	23,960,750	23,960,750	23,960,750	23,960,750
	23,960,750	23,960,750	23,960,750	23,960,750

NOTE 20: ISSUED CAPITAL

	Consolidated Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
a. Ordinary shares				
At the beginning of the reporting year	23,960,750	23,960,750	23,960,750	23,960,750
At reporting date	23,960,750	23,960,750	23,960,750	23,960,750

	Consolidated Entity		Parent Entity	
	2009 No.	2008 No.	2009 No.	2008 No.
a. Ordinary shares (cont)				
At the beginning of reporting year	48,000,000	48,000,000	48,000,000	48,000,000
At reporting date	48,000,000	48,000,000	48,000,000	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 company does not have a limited amount of authorized capital and issued shares do not have a par value.

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		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
NOTE 21: CAPITAL AND LEASING COMMITMENTS				

Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable

— not later than 1 year	1,011,442	1,349,492	-	-
— later than 1 year but not later than 5 years	1,680,742	2,629,602	-	-
	2,692,184	3,979,094	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

NOTE 21: CAPITAL AND LEASING COMMITMENTS (cont)

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.

Motor Vehicle

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

NOTE 22: 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 company is aware of.

NOTE 23: SEGMENT REPORTING

Segment Revenues

	External sales		Inter-segment*		Other		Total	
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$
Australia	23,763,883	32,135,629	-	-	-	-	23,763,883	32,135,629
Other Countries	1,189,932	1,576,813	-	-	-	-	1,189,932	1,576,813
Total of all segments	24,953,815	33,712,442	-	-	-	-	24,953,815	33,712,442
Eliminations	-	-	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-	-	-
Consolidated	24,953,815	33,712,442	-	-	-	-	24,953,815	33,712,442

* Inter-segment sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods

Segment Results

	2009 \$	2008 \$
Australia	10,039,860	14,251,693
Other Countries	208,732	277,664
Total of all segments	10,248,592	14,529,356
Eliminations	-	-
Unallocated expenses	(11,811,460)	(9,311,295)
(Loss)/profit from ordinary activities before income tax	(1,562,868)	5,218,061
Income tax expense relating to ordinary activities	(704,703)	(1,568,119)
Net (loss)/profit	(2,267,571)	3,649,942

Segment Assets and Liabilities

	Assets		Liabilities	
	2009 \$	2008 \$	2009 \$	2008 \$
Australia	28,475,084	33,958,454	2,868,445	4,400,373
Other Countries	98,800	128,577	48,991	62,639
Total of all segments	28,473,884	34,087,031	2,917,436	4,463,012
Eliminations	-	-	-	-
Unallocated	-	-	-	-
Consolidated	28,473,884	34,087,031	2,917,436	4,463,012

Other Segment Information

	Australia		Other Countries	
	2009 \$	2008 \$	2009 \$	2008 \$
Acquisition of segment assets				
- Land and buildings	-	-	-	-
- Plant and equipment	23,212	54,430	-	-
Depreciation and amortisation of segment assets				
- Plant and equipment	114,063	158,218	-	-
- Impairment expense	(3,900,000)	-	-	-

Products and services within each business segment

For management purposes, the consolidated entity is organised into two geographical areas – Australia and Other Countries. These geographical areas are the basis on which the consolidated entity reports its primary segment information. The consolidated entity operates in one business segment being the manufacturing and distribution of underwear and garments through the home party plan.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

	Consolidated Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
NOTE 24: CASH FLOW INFORMATION				
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax				
(Loss)/profit after income tax	(2,267,571)	3,649,942	(2,267,571)	3,649,942
Non-cash flows in profit from ordinary activities				
Depreciation	114,063	158,218	-	-
Net gain on disposal of property, plant and equipment	(2,626)	(2,401)	-	-
Impairment losses	3,900,000		3,900,000	
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/Decrease in receivables	(236,032)	74,814	-	-
(Increase)/Decrease in other assets	326,401	(184,364)	-	-
Decrease in inventories	811,123	210,916	-	-
(Decrease) in payables	(488,367)	(578,396)	9,272	(334)
(Decrease) in income taxes payable	(486,049)	(118,242)	(524,276)	(118,242)
(Increase)/Decrease in net deferred taxes payable	87,747	(7332)	87,747	(7,333)
(Decrease)/Increase in provisions	(627,062)	262,242	-	-
Cash flow from operations	1,131,627	3,465,397	1,205,172	3,524,033
b. Credit Standby Arrangements with Banks				
Credit facility	1,514,714	1,514,714	-	-
Amount utilised	214,714	214,714	-	-
Unused credit facility	1,300,000	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	169,714	169,714	-	-
MasterCard corporate card	45,000	45,000	-	-
	1,514,714	1,514,714	-	-

NOTE 25: EVENTS SUBSEQUENT TO REPORTING DATE

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2009.

NOTE 26: 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 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 2009, 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 \$817,600 per annum, with CPI increases in years 2010 and 2012 and subject to a market review in year 2011.
- Megan Everett held the position of General Manager of Operations until her resignation on 11 April 2009. Ms Everett is a related party of director John Everett. Ms Everett's remuneration package was negotiated and offered at normal commercial terms. Detailed remuneration disclosures are included in the Remuneration Report.
- Included in the receivable balance is a loan of \$200,000 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.
- Key Management Personnel:
 - Key management personnel compensation

Consolidated Group	2009 \$	2008 \$
Short-term employee benefits	911,629	1,332,590
Post employment benefits	66,370	159,950
	977,999	1,492,540

Detailed remuneration disclosures and equity holdings of each director and key management person are included in the Remuneration Report on pages 10-13.

NOTE 27: FINANCIAL RISK MANAGEMENT

a) Financial Risk Management Policies

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

The financial instruments of the parent entity consist of cash and investments in subsidiaries. The parent and consolidated entity 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 Company'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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

NOTE 27: FINANCIAL RISK MANAGEMENT (cont)

a) Financial Risk Management Policies (cont)

ii. Specific Financial Risk Exposures and Management

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

▪ Interest Rate Risk

The consolidated entity'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 company's policy is to ensure that the best interest rate is received for the short-term deposits. The company 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 27(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 consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

▪ 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 company is able to pass on its risk from fluctuations in the foreign exchange rate through to its customers via catalogue pricing adjustments. The company's exposure to foreign currency risk is re-assessed prior to each new catalogue release, which is approximately every three months.

▪ Liquidity Risk

The Company 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 Company had deposits which mature within one month and cash at bank. Due to the cash available to the Company, 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.

b) Financial Instruments (cont)

i. Financial instrument composition and maturity analysis (cont)

Consolidated Entity	Weighted Average Effective Interest Rate		Fixed Interest Rate Maturing				Total \$	
			Within 1 Year \$		Non-interest Bearing \$			
	2009	2008	2009	2008	2009	2008	2009	2008
Financial Assets:								
Cash & cash equivalents	2.89%	6.88%	1,702,317	2,391,175	-	-	1,702,317	2,391,175
Receivables	n/a	n/a	-	-	470,345	272,540	470,345	272,540
Total Financial Assets			1,702,317	2,391,175	470,345	272,540	2,172,662	2,663,715
Financial Liabilities:								
Trade and sundry payables	n/a	n/a	-	-	2,205,667	2,694,034	2,205,667	2,694,034
Total Financial Liabilities			-	-	2,205,667	2,694,034	2,205,667	2,694,034

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 2009, 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		Parent Entity	
	2009	2008	2009	2008
Increase in interest rate by 2%	1,711	3,376	-	-
Decrease in interest rate by 2%	(1,711)	(3,376)	-	-

▪ Foreign Currency Risk Sensitivity Analysis

At 30 June 2009, 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		Parent Entity	
	2008	2008	2009	2008
Improvement in AUD to USD by 15%	568,833	954,737	-	-
Decline in AUD to USD by 15%	(568,833)	(954,737)	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2009

NOTE 28: CHANGE IN ACCOUNTING STANDARDS

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date and the directors do not expect these requirements to have any material effect on the Group's financial statements.

AASB Standard affected	Application Date of the Standard	Application Date for the Company
AASB 3 – Business Combinations	1 July 2009	1 July 2009
AASB 8 – Operating Segments	1 January 2009	1 July 2009
AASB 101 – Presentation of Financial Statements	1 January 2009	1 July 2009
AASB 2007-3 – Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	1 January 2009	1 July 2009
AASB 2007-8 – Amendments to Australian Accounting Standards arising from AASB 101	1 January 2009	1 July 2009
AASB 2008-2 - Amendments to Australian Accounting Standards –Puttable Financial Instruments and Obligations arising on Liquidation [AASB 7, AASB 101, AASB 132, AASB 139 & Interpretation 2]	1 July 2009	1 July 2009

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 21-48, 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 2009 and of the performance for the year ended on that date of the company and consolidated group;
2. The Chief Executive Officer and the Chief Financial Officer have each declared that:
 - a) The financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) The financial statements and notes for the financial year comply with 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 this 28th day of August 2009

INDEPENDENT AUDITOR'S REPORT

to the members of UnderCoverWear Limited



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Independent Auditor's Report To the Members of UnderCoverWear Limited

Report on the Financial Report

We have audited the accompanying financial report of UnderCoverWear Limited and its controlled entity (the consolidated entity) which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, 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 report, 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 report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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 report of UnderCoverWear Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their 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 report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10-13 of the directors' report for the year ended 30 June 2009. 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

In our opinion the Remuneration Report of UnderCoverWear Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON NSW
Chartered Accountants

N J Bradley
Partner

Sydney, 28 August 2009

AUDITOR'S INDEPENDENCE DECLARATION



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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 and its controlled entity for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

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

GRANT THORNTON NSW
Chartered Accountants

N J Bradley
Partner

Sydney, 28 August 2009

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ADDITIONAL INFORMATION for Listed Public Companies

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

- a. Distribution of Shareholders as at 31 July 2009

Category (size of holding)	Number of Ordinary Shares	Size of Holding
1 – 1,000	245	166,374
1,001 – 5,000	167	548,129
5,001 – 10,000	50	394,391
10,001 – 100,000	131	3,995,831
100,001 – and over	28	42,895,275
	621	48,000,000

- b. The number of shareholdings held in less than marketable parcels is 295.

- c. The names of the substantial shareholders listed in the holding company's register as at 31 July 2009 are:

Shareholder	Number of Ordinary Shares
Mr John Everett & Ms Sonya Everett <Everett Fam Settlement A/c>	9,132,822
Cogent Nominees Pty Limited	5,701,520
Recone Pty Limited <Everingham Family A/c>	3,860,171
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.

ADDITIONAL INFORMATION

for Listed Public Companies

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

e. 20 Largest Shareholders — Ordinary Shares as at 31 July 2009

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>	9,132,822	19.03
2. Cogent Nominees Pty Limited	5,701,520	11.88
3. Recone Pty Limited <Everingham Family A/c>	3,860,171	8.04
4. Union Pty Limited <Everett Staff Superannuation Fund A/c>	2,712,042	5.65
5. Mr Ian Gamsey Everingham & Mrs Christine Mary Everingham <Rosebank Staff Superannuation Fund A/c>	2,486,486	5.18
6. Queensland Investment Corporation	2,198,178	4.58
7. Catherine Everett Investments Pty Ltd <Everett Fam Settlement A/c>	2,000,000	4.17
8. David Everett Investments Pty Ltd <Everett Fam Settlement A/c>	2,000,000	4.17
9. John H Everett Investments Pty Ltd <Everett Fam Settlement A/c>	2,000,000	4.17
10. Megan Everett Investments Pty Ltd <Everett Fam Settlement A/c>	2,000,000	4.17
11. Mr Ian Gamsey Everingham & Mr George Allan Fleming <Everingham Family Superannuation Fund A/c>	1,653,343	3.44
12. National Nominees Limited	1,148,919	2.39
13. Mrs Jeanette Richardson	1,126,214	2.35
14. Contemplator Pty Ltd <ARG Pension Fund A/c>	768,769	1.60
15. Alan Denis Vincent & Elaine Margaret Vincent <Vincent Family Superannuation Fund A/c>	600,000	1.25
16. Mrs Jeanette Richardson	534,100	1.11
17. JP Morgan Nominees Australia Limited	470,511	0.98
18. Bond Street Custodians Limited	426,303	0.89
19. National Australia Trustees Limited <Hayberry Investments P/L A/c>	400,000	0.65
20. Mr Craig Phillip O'Shannessy	312,715	0.65
	<hr/>	<hr/>
	41,532,093	86.53

COMPANY DETAILS

DIRECTORS

Stuart Richardson, Chairman & Non-Executive Director
John Everett AM, Executive Director
Elaine Vincent, Chief Executive Officer

COMPANY SECRETARY

Nick Geddes

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

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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
Australian Stock Exchange Limited.



UnderCoverWear

