

APPENDIX 4D

HALF YEAR REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

1. Details of the reporting period

Current period	1 July 2005 to 31 December 2005
Previous corresponding period	1 July 2004 to 31 December 2004

2. Results for announcement to the market

		\$	Up / down	Movement %
2.1	Revenues from ordinary activities	28,276,979	Up	17.7%
2.2	Profit/(loss) from ordinary activities after tax attributable to members	3,047,490	Up	39.9%
2.3	Net profit/(loss) for the period attributable to members	3,047,490	Up	39.9%
2.4	Dividends	Amount per Security (cents)	Franked amount per security (cents)	
	<i>Current Period</i>			
	Final	N/A	N/A	
	Interim – payable 4 April 2006	3.0	3.0	
	<i>Previous corresponding period</i>			
	Final – paid 4 October 2005	3.0	3.0	
	Interim – paid 12 April 2005	2.0	2.0	
2.5	Record date for determining entitlements to dividends	7 March 2006		
2.6	During the half-year ended 31 December 2005 there were no significant items that impacted on the results recorded in our Income Statement.			

3. Net Tangible Assets per security

	31 Dec 2005	31 Dec 2004
Net tangible asset backing per ordinary security	7.71 cents	3.25 cents

4. Control gained or lost over entities during the period

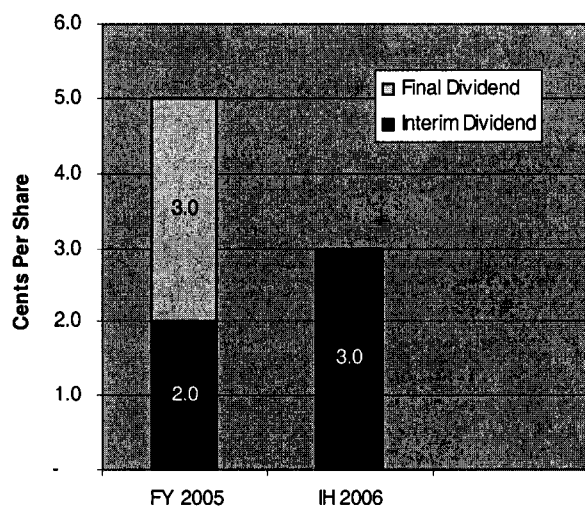
4.1	Name of entity (or group of entities) over which control was gained	N/A
4.2	Date control was gained	N/A
4.3	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was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

5. Details of dividends / distributions

The Directors have declared a fully franked interim dividend of 3.0 cents per share, representing a payout of 47.3% of first half profit after tax.

This dividend compares with the 2.0 cents per share paid in the previous interim period and the 3.0 cents per share final dividend paid 4 October 2005.

The interim dividend will have a payment date of 4 April 2006.



6. Details of dividend / distribution reinvestment plan

At 31 December 2005, there was no dividend reinvestment plan in operation for UnderCoverWear Limited.

7. Details of associates and joint venture entities

N/A

8. Accounting Standards used by foreign entities

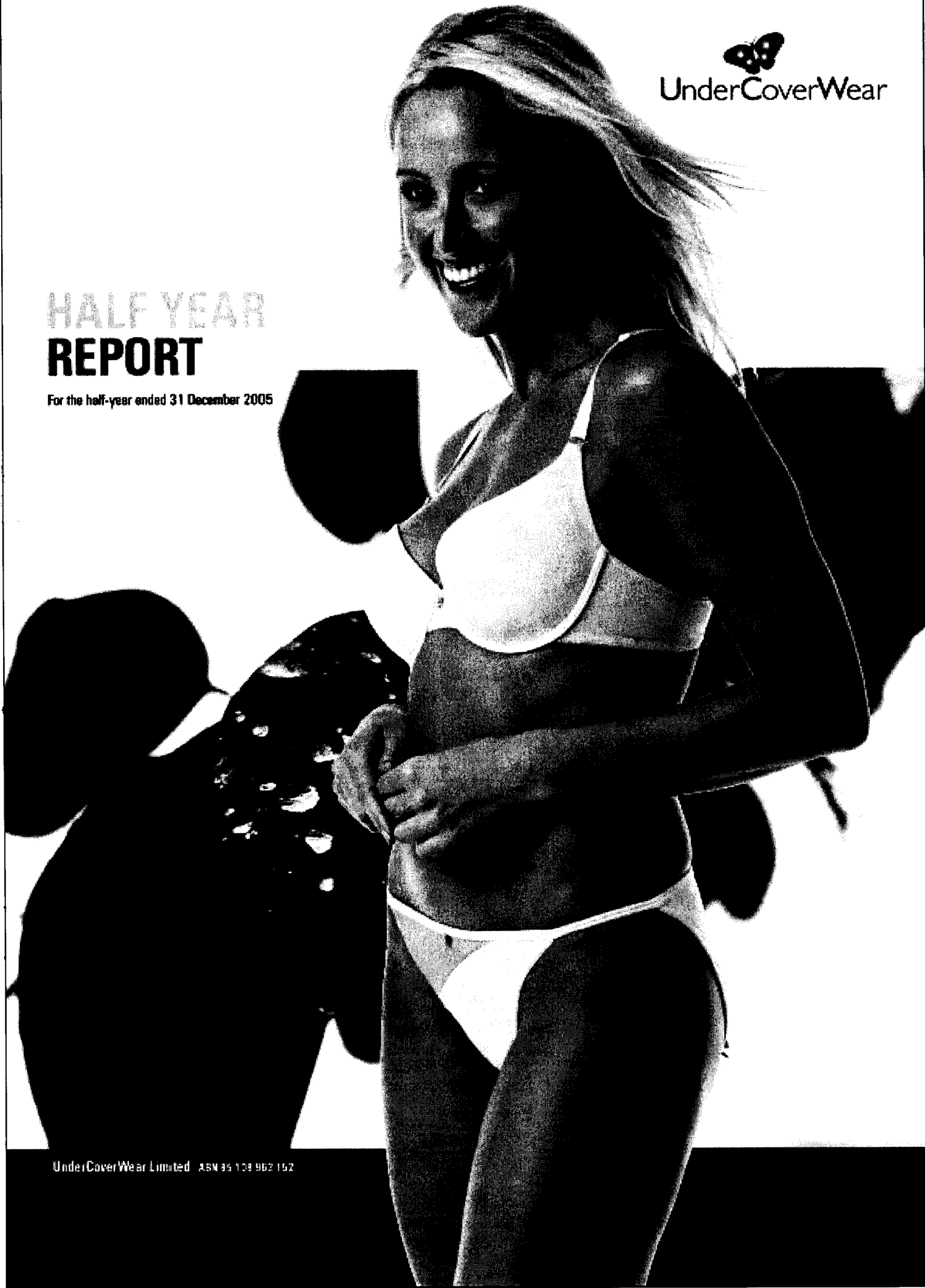
N/A

9. Qualification of audit / review

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

HALF YEAR REPORT

For the half-year ended 31 December 2005



UNDERCOVERWEAR LIMITED
A.B.N 85 108 962 152

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

COMPANY DETAILS

Directors	David Hall, <i>Chairman</i> John Everett AM Ian Everingham Elaine Vincent, <i>Chief Executive Officer</i>
Company Secretary	Tania Thomson
Registered & Principal Office	UnderCoverWear Limited ABN 85 108 962 152 ACN 108 962 152 8 Solent Circuit Norwest Business Park Baulkham Hills NSW 2153 Tel: +61 2 8853 2800 Fax: +61 2 8853 2899
Auditor	Grant Thornton NSW Level 17, 383 Kent Street Sydney NSW 2000
Solicitors	Hunt & Hunt Level 9, 85 Macquarie Street Hobart TAS 7000
Share Registry	ComputerShare Investor Services Pty Ltd Level 5, 115 Grenfell Street Adelaide SA 5000
Stock Exchange Listing	Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

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

DIRECTORS' REPORT

Your directors submit the financial report of UnderCoverWear Limited and its controlled entities for the half-year ended 31 December 2005.

Directors

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

John H Everett

Ian G Everingham

David C Hall

Elaine M Vincent

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

Review of Operations

The six months of operation for UnderCoverWear Ltd for the period ended 31 December 2005 have produced a highly satisfactory result.

When compared with the six months for the half-year ended 31 December 2004, these results can be seen as follows:

Revenue	up 17.7%
Net Profit after Tax	up 39.9%
Dividends declared	up 50%

From the Directors' perspective, these results are very pleasing and the Board can confirm that the policies initiated some 6-12 months ago are proving to be correct with all areas of the company performing creditably.

These measures, so implemented, should be highlighted once more with the necessary updated comments.

1. The focus on broadening our number of Consultants, Managers, and Regional Executives continues with increases in all categories.
2. The Manager Car Program has proven to be highly successful and whilst this program continues to be fine tuned, the policy remains an important program in the overall UnderCoverWear operation.
3. We have intensified our investment in IT and important new software has been written and initiated with positive results.
4. Advertising, both in TV and billboards, has shown positive results to such an extent that in February 2006 a substantial investment in both regional TV, as well as exposure on 80 billboards around Australia and New Zealand, will further broaden the exposure of the company.
5. Twelve months ago we realised certain areas within the management structure needed more support to ensure growth continued in the foreseeable future. These positions were filled throughout the year and your Directors are confident that the existing management personnel have the ability and knowledge to ensure the growth continues.

UNDERCOVERWEAR LIMITED
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DIRECTORS' REPORT

The six month trading period to December 2005 was strong and our forward bookings are such that the next six month period, January – June 2006, give your Directors enough confidence to believe that the budget to this period will be attained.

It is important to note that in direct selling there are two distinct and very different trading periods. The six months to December is always stronger than that to June. This is a direct result of selling patterns which indicate an easing of sales in December, a relatively quiet January with activities picking up in mid February and beyond. Our budget for the forthcoming period has taken those circumstances into account but never the less, we are confident of a very positive six months.

It is thus important not to compare the January-June performance with that of the much stronger July-December.

The financials for the six month period can be summarised as follows:

Revenue	\$ 28,276,979
EBITDA	\$ 4,475,221 * ^
EBIT	\$ 4,352,263 * ^
NPAT	\$ 3,047,490 *

* When compared with previous period in 2004, the financial results included amortisation of goodwill of \$630,000 which has now been reversed under the Australian Equivalents to IFRS.

^ EBIT represents earnings before interest and tax expenses but includes interest income.

The interim dividend for the period now reported has been declared at 3.0 cents per share, an increase of 50% over the previous dividend declared for the corresponding period.

Your Directors continue to manage the finances of the company very conservatively in the interests of our shareholders. We are cash positive, have money on deposit (hence, no debt) and continue to have very low capital expenditure which means our shareholders should be the major beneficiaries of such policies.

Your Directors also believe that by continuing this conservative policy, the next 6-12 months will enable the company to continue a positive growth pattern. Our major investment is in our management team and our sales field of Consultants, Managers and Regional Executives. To this end, it is our intention to continue the training, learning and development of all aspects of the company which will enable our growing numbers in the field to understand their own business, and to ensure that this knowledge will benefit their own teams. By this investment and focus, the growth of the company will continue.

The success of the past six months has been a direct result of Ms. Elaine Vincent and the management team implementing the policies as outlined previously. Your directors sincerely thank her for this success and with the enhanced management team and broader policies in place, gives the Board confidence that our trading results will continue to be positive.

Adoption of Australian Equivalents to IFRS

This interim financial report has been prepared under Australian equivalents to IFRS. A reconciliation of differences between previous GAAP and Australian equivalents to IFRS has been included in Note 2 of this report.

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

DIRECTORS' REPORT

Auditor's Independence Declaration

A copy of the auditor's independence declaration in relation to the review of the interim financial report for the half year ended 31 December 2005 is shown on page 24 and forms part of this report.

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



John H Everett AM

Director

Dated this 9th day of February, 2006

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

CONSOLIDATED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Economic Entity	
	31 December 2005	31 December 2004
	\$	\$
Revenue	28,276,979	24,029,099
Changes in inventories of finished goods and work in progress	(6,269,577)	(4,273,608)
Raw materials and consumables used	(3,896,024)	(4,340,797)
Distribution costs	(973,804)	(884,340)
Commissions paid	(6,228,548)	(5,250,588)
Promotions and advertising expense	(1,303,307)	(1,320,490)
Depreciation and amortisation expense	(122,958)	(179,753)
Insurance expense	(92,408)	(87,735)
Employee benefits expense	(3,330,266)	(2,990,434)
Rental expenses	(373,550)	(374,451)
Finance costs	(1,133)	(79,214)
Other expenses from ordinary activities	(1,334,275)	(1,135,672)
Profit before income tax expense	4,351,129	3,112,017
Income tax expense	(1,303,639)	(933,605)
Profit attributable to members of the parent entity	3,047,490	2,178,412
Basic earnings per share (cents per share)	6.35	4.54
Diluted earnings per share (cents per share)	6.35	4.54

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

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Economic Entity	
	31 December 2005	30 June 2005
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	3,637,641	2,199,616
Trade and other receivables	264,343	337,195
Inventories	4,823,968	5,177,664
Other	328,731	465,837
TOTAL CURRENT ASSETS	9,054,683	8,180,312
NON-CURRENT ASSETS		
Property, plant and equipment	465,593	497,749
Deferred tax assets	394,771	390,258
Intangible assets	24,817,499	24,817,499
TOTAL NON-CURRENT ASSETS	25,677,863	25,705,506
TOTAL ASSETS	34,732,546	33,885,818
CURRENT LIABILITIES		
Trade and other payables	2,303,665	4,358,188
Current tax liabilities	2,581,595	1,339,190
Short-term provisions	1,205,334	1,155,672
TOTAL CURRENT LIABILITIES	6,090,594	6,853,050
NON-CURRENT LIABILITIES		
Long-term provisions	125,373	123,679
TOTAL NON-CURRENT LIABILITIES	125,373	123,679
TOTAL LIABILITIES	6,215,967	6,976,729
NET ASSETS	28,516,579	26,909,089
EQUITY		
Issued capital	23,960,750	23,960,750
Retained earnings	4,555,829	2,948,339
TOTAL EQUITY	28,516,579	26,909,089

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	Note	Ordinary Share Capital	Retained Profits	Total
Balance at 1.7.2004		23,960,750	237,649	24,198,399
Profit attributable to members of parent entity		-	2,178,412	2,178,412
Sub-total		23,960,750	2,416,061	26,376,811
Dividends paid or provided for	4	-	-	-
Balance at 31.12.2004		23,960,750	2,416,061	26,376,811
Balance at 1.7.2005		23,960,750	2,948,339	26,909,089
Shares issued during the year		-	-	-
Profit attributable to members of parent entity		-	3,047,490	3,047,490
Sub-total		23,960,750	5,995,829	29,956,579
Dividends paid or provided for	4	-	(1,440,000)	(1,440,000)
Balance at 31.12.2005		23,960,750	4,555,829	28,516,579

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

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Economic Entity	
	31 December 2005	31 December 2004
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	31,285,757	26,451,086
Payments to suppliers and employees	(28,333,205)	(24,582,764)
Interest received	82,790	40,976
Dividends & trust distributions received	183	-
Finance costs	(1,133)	(79,214)
Income taxes paid	(65,747)	-
Net cash provided by operating activities	2,968,645	1,830,084
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of non-current assets	182	360
Purchase of non-current assets	(90,802)	(142,992)
Net cash used in investing activities	(90,620)	(142,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings to related party	-	(1,499,927)
Dividends paid	(1,440,000)	-
Net cash used in financing activities	(1,440,000)	(1,499,927)
Net increase in cash held	1,438,025	187,525
Cash at 1 July 2005	2,199,616	1,150,367
Cash at 31 December 2005	3,637,641	1,337,892

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1: BASIS OF PREPARATION

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by UnderCoverWear Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

As this is the first interim financial report prepared under Australian equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian equivalents to IFRS has been included below. A reconciliation of equity and profit between previous GAAP and Australian equivalents to IFRS has been prepared per Note 2.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

a. Principles of Consolidation

A controlled entity is any entity UnderCoverWear Limited has the power to control 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 economic 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 economic 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 change for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet 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 to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1: BASIS OF PREPARATION (CONT)

b. Income Tax (cont)

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 economic 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.

d. Property, Plant and Equipment

Each class of property, plant and equipment are carried at cost or fair value less, where applicable, any accumulated depreciation.

Plant and equipment

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

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%

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 economic 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 economic 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 charged as expenses in the periods in which they are incurred.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1: BASIS OF PREPARATION (CONT)

f. Financial Instruments

Recognition

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.

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.

Financial liabilities

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

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the directors assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

g. Impairment of Assets

At each reporting date, the directors review 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 and goodwill on consolidation are 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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 1: BASIS OF PREPARATION (CONT)

j. Employee Benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other 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.

Contributions are made by the economic 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 14 days to maturity.

l. Revenue

Revenue from the sale of goods is recognised upon the despatch of goods to customers. Despatch only occurs after payment has been received.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

l. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

m. Comparative Figures

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Reconciliation of Equity at 1 July 2004	Economic Entity		
	Previous GAAP at 1.7.2004	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 1.7.2004
CURRENT ASSETS			
Cash and cash equivalents	1,150,367	-	1,150,367
Trade and other receivables	352,244	-	352,244
Inventories	4,251,622	-	4,251,622
Other	415,574	-	415,574
TOTAL CURRENT ASSETS	6,169,807	-	6,169,807
NON-CURRENT ASSETS			
Property, plant and equipment	600,503	-	600,503
Deferred tax assets	242,249	-	242,249
Intangible assets	24,905,910	-	24,905,910
TOTAL NON-CURRENT ASSETS	25,748,662	-	25,748,662
TOTAL ASSETS	31,918,469	-	31,918,469
CURRENT LIABILITIES			
Trade and other payables	4,041,182	-	4,041,182
Current tax liabilities	124,287	-	124,287
Short-term provisions	857,098	-	857,098
TOTAL CURRENT LIABILITIES	5,022,567	-	5,022,567
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	2,550,634	-	2,550,634
Long-term provisions	146,869	-	146,869
TOTAL NON-CURRENT LIABILITIES	2,697,503	-	2,697,503
TOTAL LIABILITIES	7,720,070	-	7,720,070
NET ASSETS	24,198,399	-	24,198,399
EQUITY			
Issued capital	23,960,750	-	23,960,750
Retained earnings	237,649	-	237,649
TOTAL EQUITY	24,198,399	-	24,198,399

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT).

Reconciliation of Equity at 31 December 2004	Economic Entity		
	Previous GAAP at 31.12.2004	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 31.12.2004
CURRENT ASSETS			
Cash and cash equivalents	1,337,892	-	1,337,892
Trade and other receivables	475,161	-	475,161
Inventories	5,041,884	-	5,041,884
Other	298,742	-	298,742
TOTAL CURRENT ASSETS	7,153,679	-	7,153,679
NON-CURRENT ASSETS			
Property, plant and equipment	550,743	-	550,743
Deferred tax assets	396,823	-	396,823
Intangible assets	24,187,498	630,000	24,817,498
TOTAL NON-CURRENT ASSETS	25,135,064	630,000	25,765,064
TOTAL ASSETS	32,288,743	630,000	32,918,743
CURRENT LIABILITIES			
Trade and other payables	3,295,608	-	3,295,608
Current tax liabilities	1,124,056	-	1,124,056
Short-term provisions	954,589	-	954,589
TOTAL CURRENT LIABILITIES	5,374,253	-	5,374,253
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	1,050,707	-	1,050,707
Long-term provisions	116,972	-	116,972
TOTAL NON-CURRENT LIABILITIES	1,167,679	-	1,167,679
TOTAL LIABILITIES	6,541,932	-	6,541,932
NET ASSETS	25,746,811	630,000	26,376,811
EQUITY			
Issued capital	23,960,750	-	23,960,750
Retained earnings	1,786,061	630,000	2,416,061
TOTAL EQUITY	25,746,811	630,000	26,376,811

UNDERCOVERWEAR LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT).

Reconciliation of Equity at 30 June 2005	Economic Entity		
	Previous GAAP at 30.06.2005	Adjustments on introduction of Australian equivalents to IFRS	Australian equivalents to IFRS at 30.06.2005
CURRENT ASSETS			
Cash and cash equivalents	2,199,616	-	2,199,616
Trade and other receivables	337,195	-	337,195
Inventories	5,177,664	-	5,177,664
Other	465,837	-	465,837
TOTAL CURRENT ASSETS	8,180,312	-	8,180,312
NON-CURRENT ASSETS			
Property, plant and equipment	497,749	-	497,749
Deferred tax assets	390,258	-	390,258
Intangible assets	23,574,024	1,243,475	24,817,499
TOTAL NON-CURRENT ASSETS	24,462,031	1,243,475	25,705,506
TOTAL ASSETS	32,642,343	1,243,475	33,885,818
CURRENT LIABILITIES			
Trade and other payables	4,358,188	-	4,358,188
Current tax liabilities	1,339,190	-	1,339,190
Short-term provisions	1,155,672	-	1,155,672
TOTAL CURRENT LIABILITIES	6,853,050	-	6,853,050
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	-	-	-
Long-term provisions	123,679	-	123,679
TOTAL NON-CURRENT LIABILITIES	123,679	-	123,679
TOTAL LIABILITIES	6,976,729	-	6,976,729
NET ASSETS	25,665,614	1,243,475	26,909,089
EQUITY			
Issued capital	23,960,750	-	23,960,750
Retained earnings	1,704,864	1,243,475	2,948,339
TOTAL EQUITY	25,665,614	1,243,475	26,909,089

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT).

Reconciliation of Profit or Loss for the half year 31 December 2004	Economic Entity		
	Previous GAAP	Effect of transition to Australian equivalents to IFRS	Australian equivalents to IFRS
Revenue	24,029,099	-	24,029,099
Changes in inventories of finished goods and work in progress	(4,273,608)	-	(4,273,608)
Raw materials and consumables used	(4,340,797)	-	(4,340,797)
Distribution costs	(884,340)	-	(884,340)
Commissions paid	(5,250,588)	-	(5,250,588)
Promotions and advertising expense	(1,320,490)	-	(1,320,490)
Depreciation and amortisation expense	(809,753)	630,000	(179,753)
Insurance expense	(87,735)	-	(87,735)
Employee benefits expense	(2,990,434)	-	(2,990,434)
Rental expenses	(374,451)	-	(374,451)
Finance costs expense	(79,214)	-	(79,214)
Other expenses	(1,135,672)	-	(1,135,672)
Profit before income tax expense	2,482,017	630,000	3,112,017
Income tax expense	(933,605)	-	(933,605)
Profit attributable to members of the parent entity	1,548,412	630,000	2,178,412

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT).

Reconciliation of Profit or Loss for the full year to 30 June 2005	Economic Entity		
	Previous GAAP	Effect of transition to Australian equivalents to IFRS	Australian equivalents to IFRS
Revenue	44,100,923	-	44,100,923
Changes in inventories of finished goods and work in progress	(8,284,218)	-	(8,284,218)
Raw materials and consumables used	(7,305,329)	-	(7,305,329)
Distribution costs	(1,812,896)	-	(1,812,896)
Commissions paid	(9,546,777)	-	(9,546,777)
Promotions and advertising expense	(2,449,161)	-	(2,449,161)
Depreciation and amortisation expense	(1,616,080)	1,243,475	(372,605)
Insurance expense	(177,493)	-	(177,493)
Employee benefits expense	(5,753,072)	-	(5,753,072)
Rental expenses	(759,782)	-	(759,782)
Finance costs expense	(107,920)	-	(107,920)
Other expenses	(2,294,206)	-	(2,294,206)
Profit before income tax expense	3,993,989	1,243,475	5,237,464
Income tax expense	(1,566,774)	-	(1,566,774)
Profit attributable to members of the parent entity	2,427,215	1,243,475	3,670,690

UNDERCOVERWEAR LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

**NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL
FINANCIAL REPORTING STANDARDS (CONT).**

**Notes to the reconciliations of equity and profit and loss at 1 July 2004, 31 December 2004 and
30 June 2005**

	30.6.2005	31.12.2004	1.7.2004
<p>a. Under AASB 3, goodwill is no longer amortised but subject to annual impairment testing. All goodwill amortised under previous GAAP has been reversed. Under the transitional provisions, acquired goodwill values have been retained at their book values applicable at 30 June 2004. Goodwill amounting to \$1,243,475 previously amortised in the 2005 full financial year has been reversed in the income statement for the year ended 30 June 2005. Goodwill amounting to \$630,000 previously amortised for the 2004 half year has been reversed in the income statement for the half year ended 31 December 2004.</p>			
<p>b. Retained earnings comprise:</p>			
Reversal of goodwill previously amortised (refer 2a)	1,243,475	630,000	-
Total	1,243,475	630,000	-

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

Economic Entity

31 December 2005 31 December 2004

NOTE 3: PROFIT FROM ORDINARY ACTIVITIES

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

Revenue:

• sale of goods	26,909,367	22,918,845
• distribution charges	904,649	771,499
• rental revenue	354,323	284,033
• other revenue	25,666	13,419
• interest & dividends received	82,974	40,976
Total Revenue	28,276,979	24,029,099

Profit from ordinary activities before income tax has been determined after:

• Expenses		
- cost of sales	10,165,600	8,614,405
- borrowing costs	1,133	79,214
- depreciation of non-current assets	122,958	122,495
- amortisation of non-current assets	-	687,258
- bad & doubtful debts	23,514	30,000
- rental expense on operating leases	410,754	398,959
• Income		
- net gain on disposal of non-current assets	182	327

UNDERCOVERWEAR LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Economic Entity	
	31 December 2005	31 December 2004
NOTE 4: DIVIDENDS		
Dividends provided for and paid during the half year are listed below:		
Dividends paid	1,440,000	-
Declared interim fully franked ordinary dividend of 3.0 (2005: 2.0) cents per share franked at the tax rate of 30% (2005: 30%)	1,440,000	-

NOTE 5: EVENTS SUBSEQUENT TO REPORTING DATE

On 9 February 2006 an interim dividend of 3.0 cents per ordinary share, fully franked, was declared by the Company. The dividend will be paid on 4 April 2006.

NOTE 6: CONTINGENT LIABILITIES

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

NOTE 7: SEGMENT REPORTING

The Company only operated in one business segment being the manufacturing and distribution of underwear and garments through the home party plan.

The Company operates in one geographic segment being Australia & New Zealand.

UNDERCOVERWEAR LIMITED
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DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 3 to 22:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the economic entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



John H Everett, AM.
Director

Dated this 9th day of February, 2006

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF UNDERCOVERWEAR LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of UnderCoverWear Limited and controlled entities for the half-year ended 31 December 2005, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON NSW
Chartered Accountants



M A ADAM-SMITH
Partner

Sydney

9 February 2006

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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF UNDERCOVERWEAR LIMITED

Scope

The half-year financial report and directors' responsibility

The half-year financial report comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the accompanying notes to the financial statements, and the directors' declaration for the consolidated entity, for the half-year ended 31 December 2005. The consolidated entity comprises both the UnderCoverWear Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the half-year financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the half-year financial report.

Review approach

We conducted an independent review of the half-year financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the half-year financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the consolidated entity's financial position and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the half-year financial report with the Australian Securities & Investments Commission/Australian Stock Exchange Limited.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF UNDERCOVERWEAR LIMITED**

Statement

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.


GRANT THORNTON NSW
Chartered Accountants


M A ADAM-SMITH
Partner

Sydney

9 February 2006