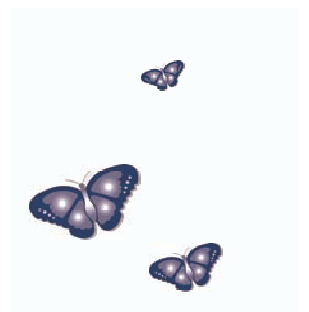




UNDERCOVERWEAR LIMITED
A.B.N. 85 108 962 152

FINANCIAL REPORT
FOR THE
HALF-YEAR ENDED 31 DECEMBER 2004



UNDERCOVERWEAR LIMITED
A.B.N 85 108 962 152

CONTENTS

	<i>Page</i>
Company Details	3
Director's Report	4
Statement of Financial Performance	6
Statement of Financial Position	7
Statement of Cash Flows	8
Notes to the Financial Statements	9
Director's Declaration	12
Auditor's Independence Declaration	13
Independent Review Report	14

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

COMPANY DETAILS

Directors	John Everett AM, <i>Chairman</i> Ian Everingham David Hall 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 Technology Services Pty Ltd 452 Johnston Street, Abbotsford VIC 3067
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 the economic entity for the half-year ended 31 December 2004.

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

Review of operations

The first six months for newly listed (June 2004) UnderCoverWear Limited has resulted in a highly satisfactory result.

As reported in the Chairman's address at the Annual General Meeting of the Company in October 2004, the improved trading performance of the Company, when compared to previous years was a direct result of measures which management initiated and implemented during 2003/2004. It is worth noting these initiatives again.

- 1) The continued expansion of our Regional Managers;
- 2) Further extension of the Manager Car Program which is a proven incentive for managers to grow their business;
- 3) Further investments in IT continues to show dividends in the overall management of the Company;
- 4) Investment in brand advertising is a must and we continue to invest in TV as well as billboards to ensure the name UnderCoverWear becomes increasingly recognised;
- 5) A continued focus on recruiting and expanding our consultant numbers;
- 6) Further employment within the management structure of key personnel to focus on specific programmes to directly support the sales team.

The trading period from July 2004 to December 2004 has been particularly strong. The Chairman reported in October 2004 that the Company was enjoying a very positive uplift and this momentum, which began in the latter months of the previous financial year, has continued to December.

It is important, however, to ensure that the investing public is aware of the seasonality to which direct selling organisations are subjected and to which UnderCoverWear is no exception.

The twelve-month trading year is divided into two six-month periods of which the July-December period is stronger than the January-June. A reason for this is the culture of direct selling, particularly party plan, whereby the better part of December and all January are relatively quiet compared with other months.

Management is obviously aware of these situations and these factors are taken into account when setting budgetary forecasts. Consequently when examining our trading performance it would be wrong to annualise the first six-months and forecast the twelve-month period based on that result.

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

DIRECTORS' REPORT

Having said that, it is particularly pleasing to announce the trading results for the six months to December 2004:

	<i>Actual</i>
Revenue	24,029,099
EBITDA	3,370,984
EBIT	2,561,231
Net Profit	1,548,412

Included in the EBIT figures is an amount of \$630,000 which is for amortisation of goodwill as required by current Australian accounting standards, but as from 1st July 2005 is not required under the Australian Equivalents to International Financial Reporting Standards (AEIFRS) and therefore the amounts charged in the 30 June 2005 year will be reversed against opening retained earnings next year.

Sales and forward orders from January 2005 are ahead of the same period in 2004 which gives the management confidence that the prospectus forecast EBITDA of \$3,740,000, will be comfortably exceeded, bearing in mind earlier comments of the seasonality of sales and profits.

The Board forecast in the prospectus that a dividend for the full year ended 30 June 2005 would be at least 3.25 cents per share. We are pleased to announce that an interim dividend of 2 cents per share will be payable on 12 April 2005. We are confident that a final dividend of 2 cents per share will be payable when the full year's results are available after June 2005, making a total of 4 cents per share.

The strong results of the Company are primarily due to the great efforts of our management and staff under the direction of Ms Elaine Vincent. Ms Vincent has welded a young and enthusiastic team in management, and promotions and marketing, into a very viable and progressive company. Coupled with a team of dedicated staff which performs in our warehouse and distribution and very importantly our consultants and managers in the field, who have performed with so much enthusiasm.

It is worth noting that the majority of our staff and managers are shareholders in the Company which gives everyone a sense of ownership.

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 2004 is shown on page 13 and forms part of this report.

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



John Everett AM

Director

Dated this 21st day of February, 2005

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

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	Economic Entity 31 December 2004 \$
Revenues from ordinary activities	24,029,099
Changes in inventories of finished goods and work in progress	(4,273,608)
Raw materials and consumables used	(4,340,797)
Distribution costs	(884,340)
Commissions paid	(5,250,588)
Promotions and advertising expense	(1,320,490)
Depreciation and amortisation expense	(809,753)
Insurance expense	(87,735)
Employee benefits expense	(2,990,434)
Rental expenses	(374,451)
Borrowing costs expense	(79,214)
Other expenses from ordinary activities	(1,135,672)
Profit from ordinary activities before income tax expense	2,482,017
Income tax expense relating to ordinary activities	(933,605)
Net profit attributable to members of the parent entity	1,548,412
Total changes in equity other than those resulting from transactions with owners as owners	1,548,412
Basic earnings per share (cents per share)	3.23
Diluted earnings per share (cents per share)	3.23

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004

	Economic Entity 31 December 2004	Economic Entity 30 June 2004
CURRENT ASSETS		
Cash assets	1,337,892	1,150,367
Receivables	475,161	352,244
Inventories	5,041,884	4,251,622
Other	298,742	415,574
TOTAL CURRENT ASSETS	7,153,679	6,169,807
NON-CURRENT ASSETS		
Property, plant and equipment	550,743	600,503
Deferred tax assets	396,823	242,249
Intangible assets	24,187,498	24,905,910
TOTAL NON-CURRENT ASSETS	25,135,064	25,748,662
TOTAL ASSETS	32,288,743	31,918,469
CURRENT LIABILITIES		
Payables	3,295,608	4,041,182
Current tax liabilities	1,124,056	124,287
Provisions	954,589	857,098
TOTAL CURRENT LIABILITIES	5,374,253	5,022,567
NON-CURRENT LIABILITIES		
Interest-bearing liabilities	1,050,707	2,550,634
Provisions	116,972	146,869
TOTAL NON-CURRENT LIABILITIES	1,167,679	2,697,503
TOTAL LIABILITIES	6,541,932	7,720,070
NET ASSETS	25,746,811	24,198,399
EQUITY		
Contributed equity	23,960,750	23,960,750
Retained profits	1,786,061	237,649
TOTAL EQUITY	25,746,811	24,198,399

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	Economic Entity
	31 December 2004
	\$
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	26,451,086
Payments to suppliers and employees	(24,582,764)
Interest received	40,976
Borrowing costs	(79,214)
Net cash provided by operating activities	1,830,084
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property, plant & equipment	360
Purchase of property, plant & equipment	(142,992)
Net cash used in investing activities	(142,632)
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of borrowings to related party	(1,499,927)
Net cash used in financing activities	(1,499,927)
Net increase in cash held	187,525
Cash at 1 July 2004	1,150,367
Cash at 31 December 2004	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 2004

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 1029: Interim Financial Reporting, Urgent Issues Group Consensus Views 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 2004 and any public announcements made by UnderCoverWear Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The accounting policies have been consistently applied by the entities in the economic entity and are consistent with those applied in the 30 June 2004 annual report.

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

a. Comparative figures

The Company was incorporated on 5 May 2004 and hence no comparative information is presented in relation to the Statement of Financial Performance, Statement of Cashflow and related notes.

In relation to the Statement of Financial Position and related notes, comparative information as at 30 June 2004 has been presented in accordance with AASB 1029.

b. Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of Australian Equivalents to the International Financial Reporting Standards (AEIFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The economic entity's management, in consultation with its auditors, are assessing the significance of these changes and preparing for their implementation. An AEIFRS committee has been established to oversee and manage the economic entity's transition to AEIFRS. We will seek to keep stakeholders informed as to the impact of these new standards as they are finalised.

The directors are of the opinion that the key differences in the economic entity's accounting policies which will arise from the adoption of AEIFRS are:

Impairment of Assets

The economic entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Goodwill on Consolidation

Under AASB 3: Business Combinations, goodwill is to be capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is to be prohibited. Current accounting policy of the entity is to amortise goodwill on a straight line basis over the period of 20 years.

Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under the AASB 112 Income Tax, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

Share based payments

Under AASB2 Share Based Payments the company will be required to determine the fair value of options issued to employees as remuneration and recognise as an expense in the statement of financial performance. This standard is not limited to options and also extends to other forms of equity based remuneration. Whilst the company has not previously issued equity based remuneration to its employees, should it occur in the future, it would decrease reported profits.

NOTE 2: PROFIT FROM ORDINARY ACTIVITIES

Economic Entity
31 December 2004

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

Revenue from operating activities:

• sale of goods	22,918,845
• distribution charges	771,499
• rental revenue	284,033
• other revenue	13,419
• interest received	40,976

24,028,772

Revenue from non-operating activities:

• proceeds on disposal of property, plant & equipment	327
---	-----

Total Revenue 24,029,099

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

NOTE 2: PROFIT FROM ORDINARY ACTIVITIES (CONT) **Economic Entity**
31 December 2004

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

• Expenses	
- cost of sales	8,614,405
- borrowing costs	79,214
- depreciation of non-current assets	122,495
- amortisation of non-current assets	687,258
- bad & doubtful debts	30,000
- rental expense on operating leases	398,959
• Revenue and net gains	
- net gain on disposal of non-current assets	327

NOTE 3: EVENTS SUBSEQUENT TO REPORTING DATE

On 21 February, 2005 an interim dividend of 2 cents per ordinary share, fully franked, was declared by the Company. The dividend will be paid on 12 April 2005.

NOTE 4: CONTINGENT LIABILITIES

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

NOTE 5: 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
A.B.N. 85 108 962 152

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 3 to 11:
 - a. comply with Accounting Standard AASB 1029: 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 2004 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 Everett AM

Director

Dated this 21st day of February, 2005

AUDITOR'S INDEPENDENCE DECLARATION

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 2004, 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.



M A ADAM-SMITH
Partner
Grant Thornton NSW

Sydney

21 February 2005

**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 statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the consolidated entity, for the half-year ended 31 December 2004. 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 1029: 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.

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T +61 2 8297 2400
F +61 2 9299 4445
E info@gtsw.com.au
W www.grantthornton.com.au

Grant Thornton NSW
A New South Wales Partnership
ABN 25 034 787 757

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW)

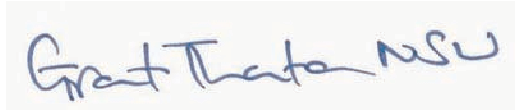
Member of Grant Thornton Association Inc
Member of Grant Thornton International

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF UNDERCOVERWEAR LIMITED (cont)**

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 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 1029: 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

21 February 2005



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

APPENDIX 4D

HALF YEAR REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

1. Details of the reporting period

Current period	1 July 2004 to 31 December 2004
Previous corresponding period	Not available

2. Results for announcement to the market

2.1	Revenues from ordinary activities	\$ 24,029,099	
2.2	Profit/(loss) from ordinary activities after tax attributable to members	\$ 1,548,412	
2.3	Net profit/(loss) for the period attributable to members	\$ 1,548,412	
2.4	Dividends	Amount per Security	Franked amount per security
	<i>Current Period</i>		
	Final Interim	N/A	N/A
	<i>Previous corresponding period</i>		
	Final Interim	N/A N/A	N/A N/A
2.5	Record date for determining entitlements to dividends	N/A	
2.6	<i>Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.</i>		

3. Net Tangible Assets per security

	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	\$ 0.0325	N/A

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

As at 31 December 2004, no dividends had been paid to shareholders.

6. Details of dividend / distribution reinvestment plan

At 31 December 2004, 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 for review report.