

UnderCoverWear

APPENDIX 4D

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

1. Details of the reporting period

Current period	1 July 2011 to 31 December 2011
Previous corresponding period	1 July 2010 to 31 December 2010

2. Results for announcement to the market

		\$	Up / down	Movement %
2.1	Revenues from ordinary activities	6,602,993	down	38.6%
2.2	Loss from ordinary activities after tax attributable to members	(225,903)	down	91.5%
2.3	Net loss for the period attributable to members	(225,903)	down	91.5%
2.4	Dividends	Amount per Security (cents)	Franked amount per security (cents)	
	<i>Current Period</i>			
	Final	N/A	N/A	
	Interim	N/A	N/A	
	<i>Previous corresponding period</i>			
	Final	N/A	N/A	
	Interim	N/A	N/A	
2.5	Record date for determining entitlements to dividends	N/A		
2.6	<p>During the half-year ended 31 December 2011, other than disclosed in the Directors' Report, there were no significant items that impacted on the results recorded in our Income Statement.</p> <p>Refer to the Directors' Report contained in attached interim financial report for further explanation of the results.</p>			

3. Net Tangible Assets per security

	31 Dec 2011	31 Dec 2010
Net tangible asset backing per ordinary security	0.63 cents	5.58 cents

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

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

5. Details of dividends / distributions

N/A as no interim dividend will be paid.

6. Details of dividend / distribution reinvestment plan

At 31 December 2011, there was no dividend reinvestment plan in operation for UnderCoverWear Limited.

7. Details of associates and joint venture entities

N/A

8. Accounting Standards used by foreign entities

N/A

9. Qualification of audit / review

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

UNDERCOVERWEAR LIMITED
A.B.N 85 108 962 152

INTERIM FINANCIAL REPORT
Half-Year Ended 31 December 2011

UNDERCOVERWEAR LIMITED
A.B.N 85 108 962 152

CONTENTS

	<i>Page</i>
Company Details	3
Directors' Report	4
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Financial Performance	7
Consolidated Statement of Changes In Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Interim Financial Statements	10
Directors' Declaration	13
Auditor's Independence Declaration	14
Independent Auditor's Review Report	15

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

COMPANY DETAILS

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

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

DIRECTORS' REPORT

Your directors submit the financial report of UnderCoverWear Limited and its controlled entities for the half-year ended 31 December 2011.

Directors

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

Stuart Richardson

John Everett

Richard Lowry

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

Review of Operations

The headline results comparing first half results for the 2012 financial year with the previous year's first half are as follows:

Revenue	\$6,602,993	down 38.6%
Loss (after tax)	(\$225,903)	down 91.5%

The result is disappointing. Management have significantly reduced expenses and are budgeting to return modest profits in the 2nd half.

Notwithstanding the fact that the statement of cash flows shows net cash provided by operating activities of \$595k, this is after one-off items including a \$427k tax refund and agreeing payment plans for certain liabilities. Management are budgeting for operating cash flows to be positive in the 2nd half.

The focus continues to be on increasing the size of the Independent Sales Consultant field through re-building the recruitment culture. This is supported by new training programs both online and in person, giving the field the necessary tools and skills to build their individual and team sales.

We have continued to keep costs and head count in line with the current sales volume.

The range is now balanced between outerwear and lingerie, which has been received very well by both the sales field and their customers.

Inventory obsolescence is monitored on a monthly basis with a clear strategy and process to sell discontinued inventory through clearance specials in the catalogue, guest, hostess and consultant promotions and the clearance website.

As a result of refocusing the efforts towards consultant recruitment, reducing costs in line with lower revenues, management are budgeting a modest improved 2nd half result.

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 2011 is shown on page 14 and forms part of this report.

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

A handwritten signature in black ink, appearing to read 'Stuart Richardson', with a stylized flourish at the end.

Stuart Richardson

Director

Dated 29th February 2012

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Consolidated Entity	
	31 December 2011	31 December 2010
	\$	\$
Revenue	6,602,993	10,751,754
Changes in inventories and work in progress	(2,562,515)	(4,521,070)
Distribution costs	(352,950)	(580,797)
Commissions paid	(479,402)	(784,456)
Promotions and advertising expense	(488,498)	(1,140,148)
Depreciation and amortisation expense	(98,489)	(146,036)
Impairment expense	-	(2,400,000)
Insurance expense	(66,492)	(86,061)
Employee benefits expense	(1,527,908)	(2,421,283)
Rental expenses	(644,619)	(525,788)
Finance costs	(76,226)	(76,734)
Other expenses	(463,540)	(822,343)
Loss before income tax expense	(157,646)	(2,752,962)
Income tax expense	(68,257)	105,680
Loss attributable to members of the parent entity	(225,903)	(2,647,282)
Other comprehensive income	-	-
Total comprehensive loss	(225,903)	(2,647,282)
Basic earnings /(loss) per share (cents per share)	(0.52)c	(6.13)c
Diluted earnings/(loss) per share (cents per share)	(0.52)c	(6.13)c

The accompanying notes form part of this financial report.

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

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
AS AT 31 DECEMBER 2011

	Consolidated Entity	
	31 December 2011	30 June 2011
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	90,387	36,030
Trade and other receivables	133,882	155,652
Inventories	2,540,460	2,801,614
Other current assets	32,972	68,589
Current tax assets	9,050	504,223
TOTAL CURRENT ASSETS	2,806,751	3,566,108
NON-CURRENT ASSETS		
Plant and equipment	499,515	843,271
TOTAL NON-CURRENT ASSETS	499,515	843,271
TOTAL ASSETS	3,306,266	4,409,379
CURRENT LIABILITIES		
Financial liabilities	965,280	1,600,034
Trade and other payables	1,358,638	1,689,552
Short-term provisions	647,615	434,402
TOTAL CURRENT LIABILITIES	2,971,553	3,723,988
NON-CURRENT LIABILITIES		
Financial liabilities	7,930	129,045
Long-term provisions	52,600	56,240
TOTAL NON-CURRENT LIABILITIES	60,530	185,285
TOTAL LIABILITIES	3,032,063	3,909,273
NET ASSETS	274,203	500,106
EQUITY		
Issued capital	22,809,146	22,809,146
Retained earnings	(22,534,943)	(22,309,040)
TOTAL EQUITY	274,203	500,106

The accompanying notes form part of this financial report.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Note	Ordinary Share Capital	Retained Profits	Total
Balance at 1 July 2010		22,809,146	(5,192,986)	17,616,160
Total comprehensive loss for the period		-	(2,647,282)	(2,647,282)
Dividends paid or provided for	3	-	-	-
Balance at 31 December 2010		22,809,146	(7,840,268)	14,968,878
Balance at 1 July 2011		22,809,146	(22,309,040)	500,106
Total comprehensive loss for the period		-	(225,903)	(225,903)
Dividends paid or provided for	3	-	-	-
Balance at 31 December 2011		22,809,146	(22,534,943)	274,203

The accompanying notes form part of this financial report.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Consolidated Entity	
	31 December 2011	31 December 2010
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	7,354,963	11,971,071
Payments to suppliers and employees	(7,122,001)	(12,970,268)
Interest received	10,994	33
Dividends & trust distributions received	16	19
Finance costs	(76,226)	(76,734)
Income taxes received/(paid)	426,916	(44,035)
Net cash provided by /(used in) operating activities	594,662	(1,119,914)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of non-current assets	285,382	2,170
Purchase of non-current assets	(69,819)	(27,545)
Net cash provided by/(used in) investing activities	215,563	(25,375)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest bearing liabilities	(340,093)	(238,936)
Net cash provided by/(used in) financing activities	(340,093)	(238,936)
Net increase/(decrease) in cash held	470,132	(1,384,225)
Cash at beginning of period	(1,154,055)	308,322
Cash at end of period	(683,923)	(1,075,903)

The accompanying notes form part of this financial report.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 1: BASIS OF PREPARATION

The condensed interim consolidated financial statements (the interim financial statements) of the Group are for the six months ended 31 December 2011 and are presented in Australian dollar (\$), which is the functional currency of the parent company.

These general purpose interim financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with AIFRS, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2011 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Stock Exchange Listing Rules and the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated entity and are consistent with those applied in the 30 June 2011 financial report.

The interim financial statements have been approved and authorised for issue by the board of directors on 29 February 2012.

Reporting basis and conventions

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

Going Concern

Notwithstanding the decline in revenue, the net current liabilities of \$164,802 and the operating loss before income tax for the 6 months ending 31 December of \$157,646, this financial report has been prepared on a going concern basis.

The directors are confident that the combination of careful management of overheads, the continued focus on growing consultant numbers, and the continued access to the bank facility, will provide sufficient funds to meet the ongoing capital requirements of the Group for the foreseeable future.

Whilst there is significant uncertainty, the directors consider it appropriate to prepare the accounts on a going concern basis as they are satisfied that, based on the cash flow forecasts prepared, the Group will be able to meet its debts as and when they become due and payable for a period of at least 12 months from the date of this report.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Consolidated Entity	
	31 December 2011	31 December 2010
NOTE 2: PROFIT BEFORE TAX		
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Revenue:		
• sale of goods	6,232,045	10,316,692
• distribution charges	131,906	124,782
• rental revenue	161,919	241,848
• other revenue	66,114	63,381
• interest & dividends received	11,009	51
Total Revenue	6,602,993	10,751,754

Profit before income tax has been determined after:

• Expenses		
- cost of sales	2,342,563	4,271,069
- foreign currency translation losses	100,104	127,572
- finance costs	76,226	76,734
- depreciation of non-current assets	90,624	123,465
- bad & doubtful debts	12,524	18,453
- rental expense on operating leases	524,619	524,469
- impairment expense	-	2,400,000
- write down of inventories to net realisable value	219,952	250,000

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 3: DIVIDENDS

There were no dividends provided for or paid during the half year.

NOTE 4: BORROWINGS

The consolidated group has borrowed funds via a revolving equipment finance facility to assist with upgrading the fleet of motor vehicles. The facility is for \$450,000, of which \$198,900 has been utilised by the end of the interim reporting period.

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

The consolidated group has an overdraft facility of \$1,200,000, of which \$807,982 has been utilised by the end of the interim reporting period.

NOTE 5: EVENTS SUBSEQUENT TO REPORTING DATE

There were no significant events after the balance sheet reporting date that effects the position at 31 December 2011.

NOTE 6: CONTINGENT LIABILITIES

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

NOTE 7: SEGMENT INFORMATION

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

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

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

NOTE 8: PRIOR PERIOD ERROR

During the period it was identified that a deferred tax asset was incorrectly recognised in respect of the 30 June 2011 tax losses, with this amount being included within income tax receivable.

Given the requirements set out in AASB 112: Income Taxes regarding probability of utilising these losses, the directors now consider that the recognition of an asset in respect of these losses was not appropriate. A prior year adjustment has therefore been processed, in accordance with the requirements of AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors.

The impact of the adjustment is to reduce the net assets of the consolidated group from \$1,452,656 to \$500,106 at 30 June 2011, and to increase the total comprehensive loss for the year from \$16,163,504 to \$17,116,054. No third Balance Sheet has been presented, as the adjustment does not impact 30 June 2010.

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 6 to 12:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Stuart Richardson

Director

Dated 29th February 2012

Grant Thornton Audit Pty Ltd
ACN 130 913 594

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of UnderCoverWear Limited for the half-year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Partner – Audit & Assurance

Sydney, 29 February 2012

Grant Thornton Audit Pty Ltd
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Independent Auditor's Review Report To the Members of UnderCoverWear Limited

We have reviewed the accompanying half-year financial report of UnderCoverWear Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of UnderCoverWear Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity had net current liabilities of \$164,802 at 31 December 2011, and had a continued decline in revenues in addition to incurring a loss before income tax of \$157,646 during the 6 months ended 31 December 2011. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Partner – Audit & Assurance

Sydney, 29 February 2012