UnderCoverWear
Annual Report 2008

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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 30 October 2008 at 11.30am.

There is every reason to be confident the Company has a bright future. The product is high quality and has a well established market. The market place has significant growth opportunities.

It was an honour to be appointed Chairman of the UnderCoverWear Group in this financial year, an honour and a challenge.

The year ended 30 June, 2008 marks the fifth year of UnderCoverWear's operations as a listed ASX company and while there have been remarkable demands on the business throughout this time, there have also been many inspirational adaptations and advances in the way the Company works.

The full year net profit after tax was $3,649,942 representing an 11% decline on the 2006/2007 results or 7.60 cents per share earnings, compared to 8.59 cents per share for 2006/2007.

The full year result was struck on proforma revenues of $39,001,055 a decline of 11% on the previous years results.

As previously forecast by the Board of Directors, trading conditions have been extremely challenged throughout the 2007/2008 financial year. The Board is cognisant of the broader economic environment in which we are now operating. There has been the significant deterioration in consumer confidence as interest rates and general prices for household goods (including food and petrol) have all impacted negatively on the family budget. As such, the Board has taken a very conservative view in terms of cost controls, nil borrowings and a refocused effort to stimulate growth in sales in the year ahead.

Initiatives

The growth of UnderCoverWear is lead by Consultant recruitment. There has been a steady decline in the Consultant base over recent years as families have benefited from better economic conditions and near to full employment rates around the nation.

To counteract this environment, the Board and management initiated a number of new programs.

Focus on costs
Management have identified permanent cost savings that have been implemented immediately after a thorough review of the business year to 30 June 2008.

Focus on growing business
New and innovative product lines have been designed to enhance the UnderCoverWear party experience. Examples are the new 'Mix&Match' concepts of wardrobe design and wardrobe planning advice, already starting to gain enthusiastic acceptance by the Sales Consultants in the field.

To also assist with recruiting new Consultants, an exciting TV advertising campaign with the theme 'Love fashion, love life, love UnderCoverWear' launched nationally in late July 2008. This campaign has been designed to increase brand awareness around the country which in turn, has a knock-on effect of increased recruitment and party bookings.

Dividends

Your Board is pleased to report that based on the profits earned by the Company during the year, the Directors have declared the payment of a final fully franked dividend of 2.75 cents per share which will be paid on the 3 October 2008. This brings the total ordinary dividends paid in respect of the year ended 30 June 2008 to 5.75 cents per share representing an earnings payout ratio of 75%.

Outlook

There is every reason to be confident the Company has a bright future, despite the common challenges of the year ahead.

The product is high quality and has a well established market. The market place has significant growth opportunities. The business model of direct selling is well established and proven, and the management team demonstrates an impressive capacity and inspiring level of enthusiasm, to ensure this Company develops into its full potential.

That said, the UnderCoverWear business will continue to be challenged by the economic environment. The Board is confident that the Company will attain benefits from the initiatives introduced on costs and marketing.

A number of economic influences impacted on UnderCoverWear's business during the year and alongside this, we have implemented a number of changes to address the challenging market.

To grow the Company, the number of Independent Sales Consultants needs to increase (as for other party plan and most direct selling businesses). But unfortunately, unemployment in Australia remained at record lows during 2007/2008 making the recruitment of new Consultants difficult as we compete with other businesses offering part-time roles.

Thus, trading for the Company in the 2007/2008 year has been difficult, with a 12% reduction in the number of Consultants, resulting in a decline of 11% in Net Profit.

As well as a decline in recruitment, our customer market has also experienced turbulence. Rising petrol prices, interest rates and the financial market crises, has seen a reduction in retail spending nation-wide and suggests the slowing of our economy. For UnderCoverWear, it is thought in some regions this is one of the reasons for a reduction in the rate of attendance at parties. But despite this, the overall effect has been marginal with the average spend per head of those attending parties, remaining steady.

In previous years, benefits flowed through to companies like UnderCoverWear when a slowing economy is accompanied by an increase in unemployment. Any reduction in spending power of the individual is generally outweighed by the ability of direct selling companies to recruit more sales people. So far this year, we have not seen both these factors occurring together.

Changes in our relationship with Australian Sales Consultants (as of 1 August 2007) means the turnover declared for the Company from that date is substantially wholesale sales whilst turnover for July 2007 and the preceding financial year is at retail. The difference is explained in the financial statements under Note 4 and proforma figures are provided for comparative purposes. Reported revenue for the year was $33,712,442 however in retail value, this is calculated at $39,001,055, representing a decline of 11% at retail over the previous year.

Geo-demographic Mapping of Market Saturation & Potential Customer Regions

During the year the Company commissioned a geo-demographic mapping report, showing the concentration of our Independent Sales Consultants in certain areas and identifying areas where we do not currently have Consultants. Comparison of socio-economic factors was used to identify two different types of areas of potential expansion.

The first type of areas that were identified were communities with socio-economic profiles that match our existing network, i.e. middle to lower income families, with young children and a mortgage, purchasing their own home. These areas represented areas for potential expansion by our existing network.

The second type of areas of potential expansion identified middle to slightly higher income families, with older children (still of school age), with a mortgage, purchasing their own home, particularly in suburban metropolitan areas. These areas, we believe, will yield new growth.

So while we have a clear regional map of where we need to be, we also wanted to ensure our product was relevant to these new types of customers. In early January 2008, we set out to freshen our approach to new businesses and new markets. We redefined the unique things that set us apart from our traditional retail competitors. We also sought to refresh several party plan traditions that were showing early signs of out datedness, seeking to make our offer to these new areas, more relevant and appealing.

Our Party Plan Business Model

The party plan business model allows for Independent Sales Consultants to operate their own business with the support of a company that offers a dynamic and motivated head office team and access to an exclusive purposefully designed product range. It allows the Consultants to work as much or as little as they choose, the hours they wish to work and the ability to operate from their own home, with minimal expenses and initial outlay.

The model is designed to give Consultants training, motivation and recognition and perhaps most importantly, the ability to build a multi-million dollar turnover business or a part time supplementary income, operating at any level they choose. For the Company, the model ensures high variable costs and relatively low fixed costs, an absence of receivables and low capital investment requirements.

Refreshing Our Payment and Delivery Options

We recognised a number of our established 'ways of doing business' would benefit from slight changes. We needed to give our valued Customers greater choice in the way they received their garments and a wider variety of payment options.

In times past, all guests were required to pay a delivery fee and each party guest was treated as a group, relying on all guests orders being paid before any orders were delivered.

But with the release of our latest catalogue, Customers attending parties were offered a number of options, designed to meet their varying needs as to payment and delivery of their orders. They now have the choice of immediate free delivery, or an affordable personalised delivery to their nominated address and varying payment options for those requiring longer payment times.

Adding Practical Advice to Our Parties

With a view to increasing attendance at our parties we introduced elements into our party format to add value for our Customers and enhance the party experience. In February this year, we appointed a specialist in wardrobe planning to design educational sessions in wardrobe planning that would be easy to demonstrate at our parties. Our latest catalogue presents the range in easily adapted "Mix&Match" co-ordinates, giving the Customer up to 11 different outfits with the purchase of just five garments. In addition, the most appropriate underwear is identified to complete the wardrobe solution. Emphasis is also given to ensuring customers choose the correct bra size with individualised measuring and fitting offered.

Advantages to the Customer

In the retail market place, UnderCoverWear offers the following advantages for the Customer not readily found today in retail stores selling comparable products:

Personalised Sales Service
Professionally trained Consultants offering fashion advice, education on garments that flatter different body shapes and sizes and correct measuring and fitting of bras.

Garment Availability
Our catalogue offers fashion co-ordinates that are available for the entire season. Customers do not have to purchase all pieces in a story at once for fear of the range becoming fragmented or disappearing altogether from the store next week.

Wardrobe Maximising Range
Our 'Mix&Match' wardrobe solutions allow our Sales Consultants to offer sound advice to Customers, making the most out of the money they spend on clothes. Customers also have the incentive to buy several garments that co-ordinate in many ways to make multiple outfits, instead of purchasing individual garments that only work one way.

After Sales Service
Customers are able to speak to the same Sales Consultant for after sales service.

Free Fashion
Customers have the opportunity to receive garments for free by holding their own party.

The Year Ahead

At our annual Sales Convention held in Melbourne in July, our Sales Consultants and Managers were delighted with the release of a number of new initiatives designed to boost market awareness of UnderCoverWear in the year ahead.

Corporate Advertising Campaign

New 30-second and 15-second TV commercials have been produced and are scheduled to be used in three campaigns in all regional areas of Australia, plus New Zealand, over the next year. The first campaign has been run in late July and early August. It is already enjoying an excellent response.

In addition, over 1 million copies of a 12 page mini-catalogue have been printed, with a mail box distribution of over 670,000 to households throughout metropolitan areas in capital cities around Australia, and the remaining distributed in shopping centres, trade shows and parties around the country.

The plan is to repeat the campaign over the months ahead, helping to establish greater brand awareness. It will be followed by targeted promotions in the new areas identified for expansion on our geo-demographic maps.

Re-designed Print Material

New brochures have also been developed which have been most popular with our current sales team. A new host brochure was designed especially to re-vitalise our offer to hold parties. We have also developed a new recruiting booklet which simplifies the recruitment process in a step-by-step way, making joining UnderCoverWear an exciting and easy step to take.

Conclusion

I'd like to acknowledge the valuable contribution of the UnderCoverWear management team and staff at head office, and thank them for their ongoing dedication and enthusiasm throughout the year. Together we approach the year ahead excited at the challenges posed by new opportunities, always looking for continuous improvement and to grow the business. And although we have our work cut out for us, I am confident that our team is invigorated, energised and talented far beyond the demands of the task!


Stuart Richardson


Elaine Vincent


John Everett

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 1,373,046 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 8 years. With over 20 years experience in franchising and retailing in the clothing and textile industry, Ms Vincent has since focussed her attention to direct selling. In particular, the implementation of sound financial systems and tailoring IT solutions to the specific requirements of the Direct Selling Industry. Prior to this, Ms Vincent operated her own public accounting practice following on from her 10 years experience working for a Chartered Accounting firm. Ms Vincent holds an interest in 602,000 ordinary shares in UnderCoverWear Limited. Ms Vincent has not held directorships in any other public listed companies during the past 3 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 18,937,392 ordinary shares in UnderCoverWear Limited. Mr Everett has not held directorships in any other public listed companies during the past 3 years.

Nick Geddes, FCA, FCIS

Company Secretary

Mr Geddes is the principal of Australian Company Secretaries Pty Ltd, a company secretarial practice, that he formed in 1993. Mr Geddes is a Vice President of the National Council of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa the Middle East and Asia. His qualifications include Chartered Accountant (Fellow of Institute of Chartered Accountants in England & Wales) and Fellow of the Institute of Chartered Secretaries (Chartered Secretaries Australia).

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2008.

Directors

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

- Stuart Alfred Richardson (appointed 10 December 2007)
- John Henry Everett
- Elaine Margaret Vincent
- David Capp Hall (resigned 10 December 2007)
- Geoffrey Guild Hill (resigned 19 October 2007)

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 8 which forms part of this report.

Company Secretary

Mr Nick Geddes held the position of Company Secretary at the end of the financial year. Details about his experience and qualifications can be found on page 8 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 profit of the consolidated entity after providing for income tax amounted to $3,649,942 (2007: $4,124,189).

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 2008 of 3.0 cents per share fully franked, paid on 4 April 2008.
- A final ordinary dividend in respect of the year ended 30 June 2007 of 2.75 cents per share fully franked, payable on 3 October 2008.

Review of Operations

Trading for the company during the 2007/08 year has been difficult, with a 12% reduction in the number of Independent Sales Consultants compared to June 2007. This is reflective in the company's net profit after tax figure of $3,649,942, an 11% decrease on last year.

Whilst the company's focus has still been on recruiting, implementing strong training programs and added incentives for recruitment during the past year, to counteract the lower intake of sales consultants occurring, management concentrated on improving productivity both of the sales force and within the head office operations.

A number of projects were undertaken by management in line with the company's overall strategy to improve its key drivers, with particular emphasis on the areas of how to add value at the party, corporate advertising and changes to promotional material. A comprehensive corporate advertising campaign is being launched in the new financial year, aimed at establishing greater brand awareness and also strengthening the local marketing campaigns conducted by our sales consultants. New brochures have been developed, particularly designed to revitalise our offer to hold parties and also to join the sales team.

Our learning & development programs have been enthusiastically received by all those who attend. We have implemented the concept of travelling Roadshows throughout Australia & New Zealand, providing a corporate presence that reaches out to all of our sales consultants. The aim of the Roadshow is to ensure that consultants receive consistent direction in all areas of their business. Other initiatives we have successfully introduced this year has been "Success Connection" – a monthly e-newsletter that helps to inform and inspire our consultants with business building tips and motivational stories - and trial of a new party format.

Our commitment to continuously improving our IT systems has also been a focus. During the year we continued development of our on-line consultant ordering system, bringing added improvements in efficiency & accuracy of the information being processed. We have also introduced new developments with our overseas suppliers to facilitate the transfer and forecast of information, reporting on raw materials supplies and stock levels for future orders.

Production margins were improved due in part to a favourable exchange rate. The number of full time employees at head office decreased, resulting in an overall wages reduction of 3.9%. Total fixed costs were reduced by 3%.

In our manufacturing department, backorders remain at low levels. The percentage of imported goods has has been maintained at 70%, whilst continuing our representation of garments being locally produced. The company has established excellent relationships with its existing suppliers to ensure quality is impeccable and continues to source new supplier relationships to reduce its exposure to any potential risk in this area.

On 1 August 2007, UCW underwent a change in its business model whereby the relationship between UnderCoverWear and the Independent Sales Consultants (ISC's) changed to that of wholesaler and retailer, respectively. This brought UnderCoverWear in line with the operating method of the majority of Direct Selling Organisations. The effect of the change from retailer to wholesaler means that our Independent Sales Consultants are no longer paid commissions on party sales, but instead they will receive a margin, which is the difference between the Selling Value on sales from the party and the wholesale cost of the goods. ISC's will continue to earn Manager bonuses and overrides, as part of our current incentive programs.

In terms of our reporting method for the year ended 30 June 2008, the effect of the change from retailer to wholesaler has seen a decrease in reported revenue and a corresponding decrease in Commissions paid. In overall terms, there has been minimal impact on EBIT and net profit. Note, the changes only affect Australian Independent Sales Consultants.

We have continued to support sponsorship and fundraising activities in conjunction with the Make-A-Wish Foundation and the Cancer Councils of Australia & New Zealand. We have donated almost $1,300,000 to these charities since 1987, including $666,000 donated from sales of our "Support The Cause" t-shirts.

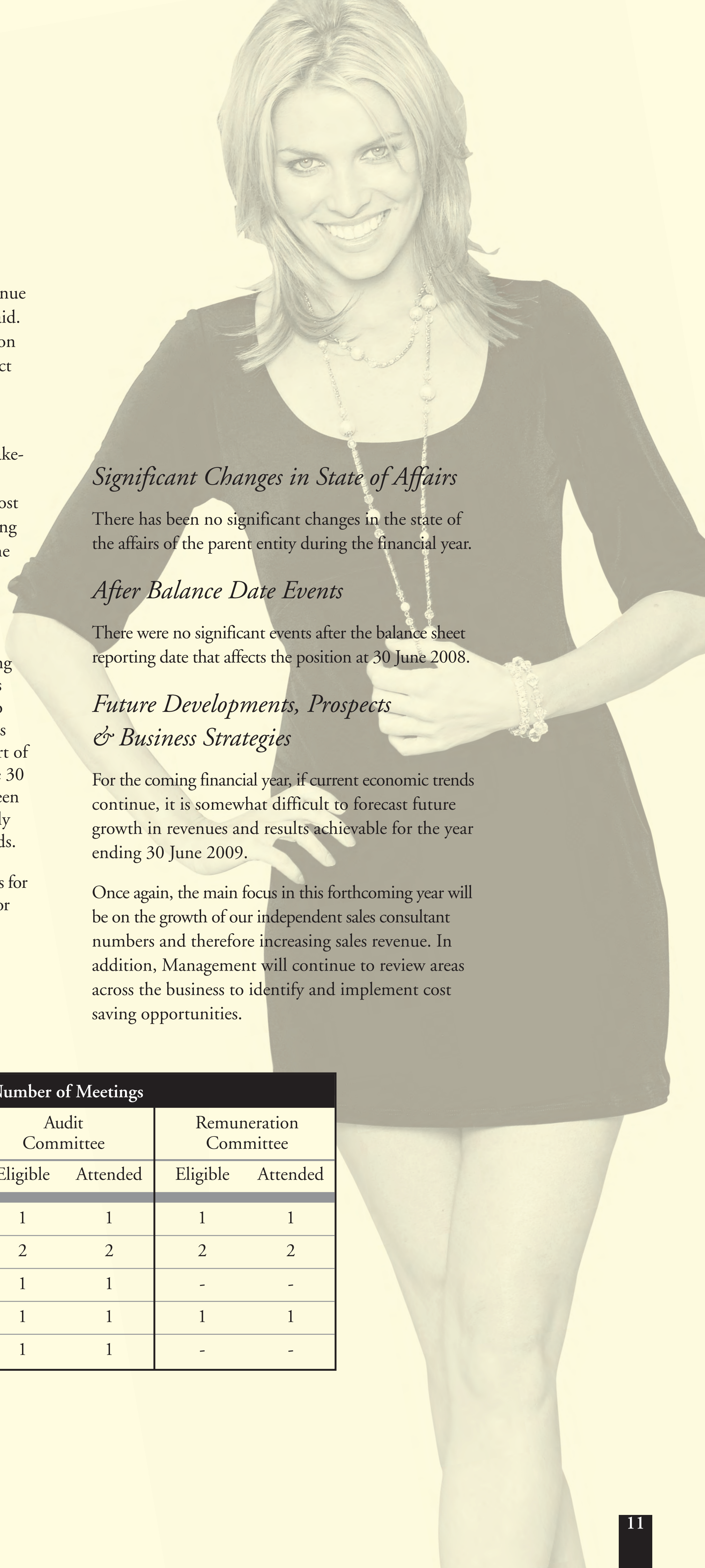
Financial Position

The consolidated entity continues to hold a strong financial position, with cash and cash equivalents held at 30 June 2008 of $2,391,175 compared to $2,097,808 at the same time last year. Inventories have remained at conservative levels since the start of the financial year, with a reduction of 3.7% since 30 June 2007. Tighter Management controls have seen reductions in all components of inventory, namely raw materials, work in progress and finished goods.

Given that our direct selling business model provides for low capital expenditure, the company made no major cash outlays for purchases of new or replacement capital items during the year.

The Company's strong cash generation from its operations will allow it to remain debt free.

Meetings of Directors	Number of Meetings					
	Directors' Meetings		Audit Committee		Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Stuart A Richardson	4	4	1	1	1	1
John H Everett	7	7	2	2	2	2
Elaine M Vincent	7	7	1	1	-	-
David C Hall	3	3	1	1	1	1
Geoffrey G Hill	1	1	1	1	-	-



Significant Changes in State of Affairs

There has been no significant changes in the state of the affairs of the parent entity during the financial year.

After Balance Date Events

There were no significant events after the balance sheet reporting date that affects the position at 30 June 2008.

Future Developments, Prospects & Business Strategies

For the coming financial year, if current economic trends continue, it is somewhat difficult to forecast future growth in revenues and results achievable for the year ending 30 June 2009.

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.

Environmental Issues

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

Meetings of Directors

During the financial year, 11 meetings of directors (including committees of directors) were held. Attendances by each director during the year are set out in the table on page 11 of this report.

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 $11,573.

Stuart Richardson	John Everett
Elaine Vincent	David Hall
Geoffrey Hill	Nick Geddes

Options

There were no options over issued shares and no options granted or outstanding during the financial period ended 30 June 2008 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 $14,900 were paid/payable to external auditors during the year ended 30 June 2008 for Taxation 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 2008 can be found on pages 13-17, 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 2008 has been received and can be found on page 58 which forms part of this report.

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

Stuart A Richardson, Director
28 August 2008

Introduction

This report forms part of the Directors' Report for the year ended 30 June 2008. 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, 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 Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. 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 & Senior Executives**
Remuneration packages for executive directors and senior executives include a mix of fixed remuneration (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives. The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

All directors and executives 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
There are three key management personnel that receive annual bonuses which are linked to company performance and these payments are based on achieved targets specified by Management. Bonus payments to other key management personnel are reflective of the company's overall trading results & not specific to an individuals own performance.

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

c. Remuneration Practices
The consolidated entity's policy for determining the nature and amount of emoluments of board members and Senior Executives of the company is as follows:

■ The remuneration structure for Executive Officers, 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 executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified Directors and Executives are paid employee benefit entitlements accrued to date of retirement.

■ Under the existing employment contract which ended 30 June 2008, the Chief Executive Officer's remuneration consisted of a fixed salary, including superannuation contributions plus a performance bonus (detailed below). A new contract was entered into on 1 July 2008 for a fixed term of two years, with an option to extend the term for a further period. The remuneration package consists of a base salary inclusive of superannuation contributions.

Three key management personnel that received performance bonuses which are based on achieved targets specified by management, are:

■ The performance bonus of the Chief Executive Officer is calculated as a percentage of the difference between the current year's EBIT and 'base year' EBIT. The performance bonus of the Head Designer, is calculated as a percentage of the difference between the current year's EBIT and prior year EBIT. These bonuses are calculated using actual management results.

■ The performance bonus of our Sales & Business Development 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.

Bonus payments for other key management personnel are not based on any individual or management performance criteria.

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

There has been no share based remuneration for the specified directors and executives during the year ended 30 June 2008.

Details of Remuneration for Year Ended 30 June 2008

Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

Key Financials					
Year ended 30 June	2008	2007	2006	2005	2004
Revenue	33,712,442	43,875,007	46,492,707	44,089,490	2,243,664
Earnings before interest, tax, depreciations & amortisation (EBITDA)	5,376,279	6,132,249	6,072,971	5,610,069	435,697
Net profit	3,649,942	4,124,189	4,060,799	3,670,690	289,645
Basic EPS (cents)	7.60	8.59	8.46	7.65	0.50
Total Dividend per share (cents)	5.75	6.5	6.5	6.0	-

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

Key Management Person	Position
Stuart Richardson (appointed 10 December 2007)	Chairman – Non-Executive
John Everett	Director – Executive
Elaine Vincent	Director & Chief Executive Officer
David Hall (resigned 10 December 2007)	Chairman – Non-Executive
Geoffrey Hill (resigned 19 October 2007)	Director – Non-Executive
Tania Thomson^	Chief Financial Officer & Company Secretary
Angela Catford^^	Acting Chief Financial Officer
Megan Everett	General Manager – Operations
Colleen Walters	Sales & Business Development Manager
Nicole Riccioni	Executive Marketing Manager
Ana Tokic	Designer

^Ceased position on 4 October 2007 upon commencing unpaid maternity leave for a period not exceeding 12 months.
^^Commenced position on 27 September 2007 as maternity leave relief for contracted period of 12 months.

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

For the year ended 30 June 2008	Short-term Benefits				Total	Performance Related
	Salary, Fees & Commissions $	Superannuation Contribution $	Cash Bonus $	Non-monetary Benefits $	$	%
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 Executives	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

For the year ended 30 June 2007	Short-term Benefits				Total	Performance Related
	Salary, Fees & Commissions $	Superannuation Contribution $	Cash Bonus $	Non-monetary Benefits $	$	%
David Hall	-	100,000	-	-	100,000	-
John Everett	121,667	2,700	-	-	124,367	-
Elaine Vincent	151,636	85,768	644,437	15,000	896,841	72.2
Geoffrey Hill	16,451	1,481	-	-	17,932	-
Ian Everingham	13,629	1,227	-	-	14,856	-
Total for Directors	303,383	191,176	644,437	15,000	1,153,996	
Tania Thomson	70,723	6,365	2,500	-	79,588	-
Megan Everett	101,774	9,160	2,000	5,415	118,349	-
Colleen Walters	109,194	5,397	11,639	974	127,204	8.1
Nicole Riccioni	51,029	4,593	2,000	-	57,622	-
Ana Tokic	85,550	9,913	6,587	20,000	122,050	5.7
Alice Carter (resigned 4 August 2006)	35,756	1,828	-	2,192	39,776	-
Total for Executives	454,026	37,256	24,726	28,581	544,589	
Total	757,409	228,432	669,163	43,581	1,698,585	

Number of Shares Held by Management Personnel

	Balance 1.7.2007	Received as Remuneration	Net Change Other*	Balance 30.6.2008 #
Stuart Richardson	609,100	-	763,946	1,373,046
John Everett	18,168,377	-	769,015	18,937,392
Elaine Vincent	602,000	-	-	602,000
David Hall	100,000	-	(10,000)	90,000
Geoffrey Hill	10,000	-	(10,000)	-
Tania Thomson	7,500	-	-	7,500
Angela Catford	-	-	-	-
Megan Everett	1,000	-	-	1,000
Colleen Walters	-	-	-	-
Nicole Riccioni	12,000	-	-	12,000
Ana Tokic	10,000	-	-	10,000
Total	19,519,977	-	1,512,961	21,032,938

** Net change other refers to shares purchased or sold during the financial year.*

 # The balance represents ordinary shares held directly or indirectly by the specified directors and executives (including their personally-related entities) at the end of the financial year.

Corporate Governance

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 2008, 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. Further, the company has, where practicable, made an early transition to the Council's revised Corporate Governance Principles and Recommendations, 2nd Edition, published in August 2007, with which our governance practices largely comply.

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.

The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

Principle 2: Structure the Board to Add Value

The Board Charter describes the relationship between the Board and management, and defines their functions and responsibilities. The Board currently comprises one non-executive director and two executive directors (including the Chief Executive Officer). The Chairman is appointed by the board and provides leadership to ensure that a high standard of values, processes and constructive interaction are maintained. The Chairman represents the views of the Board to shareholders and conducts the annual general meeting to canvass properly the views of stakeholders.

The names, skills and experience of the directors in office at the date of this statement, and the period of office of each director, are set out in the Directors' Report.

2.1 Independence of Directors

The Board regularly assesses the independence of each director according to the independence criteria in ASX Principle 2 and to relevant laws, regulations and listing rules. Directors facilitate this review by providing up-to-date information regarding their personal circumstances related to the company, their external relationships and any potential conflicts of interest. The independence of new directors is assessed upon appointment.

Whereever there is an actual or potential conflict of interest or material personal interest, the Board's policies and procedures ensure that:

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

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

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

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

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

2.2 The Chairman should be independent

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

2.3 The role of Chairman and the Chief Executive

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

2.4 Nomination Committee

No formal Nomination Committee exists given that the size of the Board allows the entire Board 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.

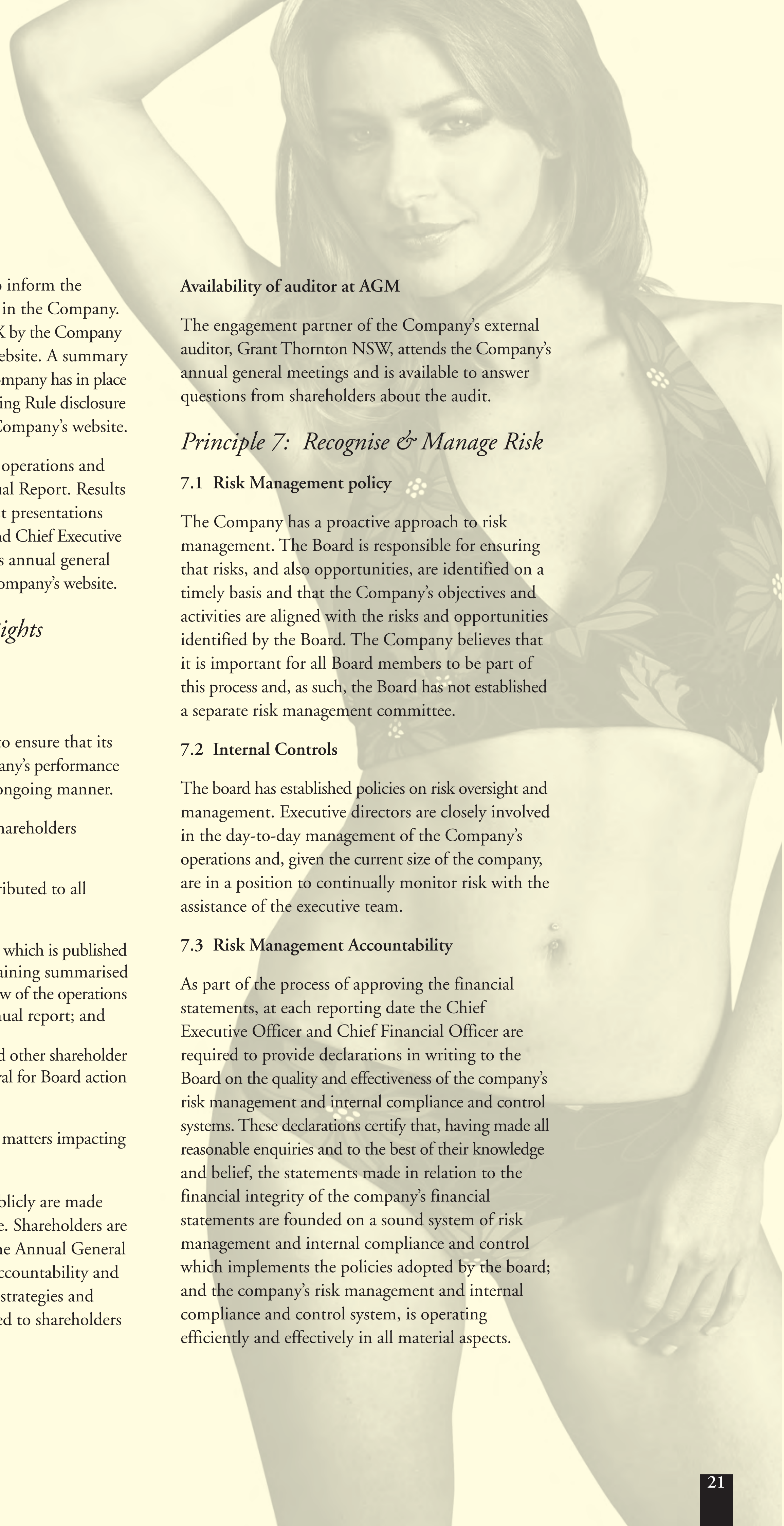
The Board provides induction programs for new directors in accordance with the recommendation and complies with all of the recommendations in relation to independent professional advice, access to the company secretary, the appointment and removal of the company secretary, and the provision of information, 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 two executive directors. 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, as recommended by the principle.

The names and qualifications of members of the Committee are set out in the Directors' Report. Meetings of the Committee are attended, by invitation, by the Chief Financial Officer and the engagement partner from the Company's external auditor and such other senior staff or professional people as may be appropriate from time to time. The number of meetings of the Committee held during the year are set out in the Directors' Report. The Committee operates under formal terms of reference (Charter) approved by the Board which are reviewed annually. The functions and responsibilities of the Committee under its Charter comply with the recommendation in the guidelines. Minutes of all Committee meetings are provided to the Board and the Chairman of the Committee also reports to the Board after each Committee meeting.

4.2 Auditor independence

The external auditor, Grant Thornton NSW, 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 and Balanced Disclosure

5.1 Established disclosure policies

The Company has established policies and procedures which comply with the recommendation in the guidelines for timely disclosure of material information concerning the Company. These policies and procedures are regularly reviewed to ensure that the Company complies with its obligations at law and under the ASX Listing Rules. The Company Secretary is responsible for communications with the Australian Stock Exchange including responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing information going to the ASX, shareholders and other interested parties.

The directors have an obligation to inform the Company of any securities trading in the Company. All announcements made to the ASX by the Company are published on the Company's website. A summary of the policies and procedures the Company has in place to ensure compliance with ASX Listing Rule disclosure requirements is published on the Company's website.

The company provides a review of operations and financial performance in this Annual Report. Results announcements to the ASX, analyst presentations and the full text of the chairman's and Chief Executive Officer's addresses at the company's annual general meeting are made available on the company's website.

Principle 6: Respect the Rights of Shareholders

6.1 Communications policy

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

Information is communicated to shareholders through:

- the annual report which is distributed to all shareholders
- the half-year shareholders' report which is published in the company's website, containing summarised 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.

Availability of auditor at AGM

The engagement partner of the Company's external auditor, Grant Thornton NSW, attends the Company's annual general meetings and is available to answer questions from shareholders about the audit.

Principle 7: Recognise & Manage Risk

7.1 Risk Management policy

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

7.2 Internal Controls

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

7.3 Risk Management Accountability

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

The Board has received the relevant 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.

Principle 8: Remunerate fairly and responsibly

8.1 Remuneration Committee

The Board has an established Remuneration Committee, currently comprising one non-executive director and one executive director. Their names and attendance at meetings of the Committee are set out in the Directors' Report. The Remuneration Committee is chaired by the board chairman.

The Remuneration Committee of the Board of Directors is responsible for recommending and reviewing remuneration arrangements for the directors, the chief executive officer and the senior executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by the reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Executive management staff are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without increasing the total cost for the Company.

A summary of the Committee's role, rights, responsibilities and membership requirements is available on the Company's website.

8.2 Structure of remuneration

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

Other Information

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Revenue	2	33,712,442	43,875,007	5,413,183	5,958,862
Changes in inventories of finished goods and work in progress	3	(8,495,620)	(9,197,673)	-	-
Raw materials and consumables used	3	(4,540,931)	(6,293,572)	-	-
Distribution costs		(1,449,988)	(1,418,924)	-	-
Commissions paid		(3,044,865)	(9,371,423)	-	-
Promotions and advertising expense		(2,124,509)	(2,583,965)	-	-
Depreciation and amortisation expense	3	(158,218)	(238,723)	-	-
Insurance expense		(110,935)	(140,986)	-	-
Employee benefits expense		(5,616,957)	(5,845,544)	-	-
Rental expenses		(906,493)	(814,290)	-	-
Finance costs	3	-	(744)	-	-
Other expenses from ordinary activities		(2,045,865)	(2,076,381)	(195,122)	(66,080)
Profit before income tax expense	3	5,218,061	5,892,782	5,218,061	5,892,782
Income tax expense	5	(1,568,119)	(1,768,593)	(1,568,119)	(1,768,593)
Profit attributable to members of the parent entity		3,649,942	4,124,189	3,649,942	4,124,189
Basic earnings per share (cents per share)	9	7.60	8.59		
Diluted earnings per share (cents per share)	9	7.60	8.59		

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

BALANCE SHEETS

AS AT 30 JUNE 2008

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT ASSETS					
Cash and cash equivalents	10	2,391,175	2,097,808	5,420	34,383
Trade and other receivables	11	272,540	347,354	6,147,525	5,714,527
Inventories	12	5,524,256	5,735,172	-	-
Other	13	514,443	330,080	-	-
TOTAL CURRENT ASSETS		8,702,414	8,510,414	6,152,945	5,748,910
NON-CURRENT ASSETS					
Other financial assets	14	-	-	24,000,000	24,000,000
Plant and equipment	16	226,944	330,732	-	-
Deferred tax assets	19	340,174	332,840	9,669	2,335
Intangible assets	17	24,817,499	24,817,499	-	-
TOTAL NON-CURRENT ASSETS		25,384,617	25,481,071	24,009,669	24,002,335
TOTAL ASSETS		34,087,031	33,991,485	30,162,614	29,751,245
CURRENT LIABILITIES					
Trade and other payables	18	2,694,034	3,272,430	550	881
Current tax liabilities	19	486,049	604,291	486,049	604,291
Short-term provisions	20	1,180,745	904,700	-	-
TOTAL CURRENT LIABILITIES		4,360,828	4,781,421	486,599	605,172
NON-CURRENT LIABILITIES					
Long-term provisions	20	102,184	115,987	-	-
TOTAL NON-CURRENT LIABILITIES		102,184	115,987	-	-
TOTAL LIABILITIES		4,463,012	4,897,408	486,599	605,172
NET ASSETS		29,624,019	29,094,077	29,676,015	29,146,073
EQUITY					
Issued capital	21	23,960,750	23,960,750	23,960,750	23,960,750
Retained earnings		5,663,269	5,133,327	5,715,265	5,185,323
TOTAL EQUITY		29,624,019	29,094,077	29,676,015	29,146,073

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Ordinary Share Capital $	Retained Earnings $	Total $
Consolidated Group				
Balance at 1 July 2006		23,960,750	4,129,138	28,089,888
Profit for the period		-	4,124,189	4,124,189
Total recognised income and expense for the period		-	4,124,189	4,124,189
Dividends paid	8	-	(3,120,000)	(3,120,000)
Balance at 30 June 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	8	-	(3,120,000)	(3,120,000)
Balance at 30 June 2008		23,960,750	5,663,269	29,624,019
Parent Entity				
Balance at 1 July 2006		23,960,750	4,181,134	28,141,884
Profit for the period		-	4,124,189	4,124,189
Total recognised income and expense for the period		-	4,124,189	4,124,189
Dividends paid	8	-	(3,120,000)	(3,120,000)
Balance at 30 June 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	8	-	(3,120,000)	(3,120,000)
Balance at 30 June 2008		23,960,750	5,715,265	29,676,015

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

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		36,775,524	48,447,358	-	-
Payments to suppliers and employees		(31,785,272)	(42,133,564)	(195,456)	(66,349)
Interest received		168,776	138,682	-	6,178
Dividends and trust distributions received		63	113	5,413,183	5,952,684
Finance costs		-	(743)	-	-
Income taxes paid		(1,693,694)	(2,747,779)	(1,693,694)	(2,747,779)
Net cash provided by operating activities	25a	3,465,397	3,704,067	3,524,033	3,144,734
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		2,400	-	-	-
Purchase of property, plant and equipment		(54,430)	(121,400)	-	-
Proceeds from subsidiary		-	-	5,040,871	5,964,991
Payments to subsidiary		-	-	(5,473,867)	(5,961,174)
Net cash (used in)/provided by investing activities		(52,030)	(121,400)	(432,996)	3,817
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid by parent entity		(3,120,000)	(3,120,000)	(3,120,000)	(3,120,000)
Net cash used in financing activities		(3,120,000)	(3,120,000)	(3,120,000)	(3,120,000)
Net increase/(decrease) in cash and cash equivalents held		293,367	462,667	(28,963)	28,551
Cash and cash equivalents at beginning of financial year		2,097,808	1,635,141	34,383	5,832
Cash and cash equivalents at the end of financial year	10	2,391,175	2,097,808	5,420	34,383

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

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 28 August 2008.

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 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 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.

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 accumulated 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%

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.

Note 1: Statement of Significant Accounting Policies - continued

f. Financial Instruments

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

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

Classification and Subsequent Measurement

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

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

Financial liabilities
Non-derivative financial liabilities are measured 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. Impairment losses are recognised in the income statement.

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.

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 14 days 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.

Note 1: Statement of Significant Accounting Policies - continued

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

No impairment has been recognised in respect of goodwill for the year ended 30 June 2008.

Trade receivables

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

Note 2: Revenue & Other Income

		Consolidated Group		Parent Entity	
		2008	2007	2008	2007
	Note	$	$	$	$
Operating activities					
■ sale of goods		31,749,707	41,738,629	-	-
■ profit distribution – unit trust	2a	-	-	5,413,183	5,952,684
■ distribution charges		1,124,095	1,296,857	-	-
■ rental revenue		577,476	628,513	-	-
■ other revenue		89,923	66,035	-	-
■ interest received	2b	168,777	144,860	-	6,178
■ dividends received		63	113	-	-
Total revenue		33,710,041	43,875,007	5,413,183	5,958,862
Non-operating activities					
■ gain on disposal of plant and equipment		2,401	-	-	-
Total other income		2,401	-	-	-
Total revenue & other income		33,712,442	43,875,007	5,413,183	5,958,862
a. Profit distribution from:					
■ wholly-owned unit trust		-	-	5,413,183	5,952,684
Total distribution received		-	-	5,413,183	5,952,684
b. Interest revenue from:					
■ other persons		168,777	144,860	-	6,178
Total interest revenue		168,777	144,860	-	6,178

Note 3: Profit From Ordinary Activities

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Profit from ordinary activities before income tax has been determined after:					
a. Expenses					
Cost of sales		13,036,551	15,491,245	-	-
Finance costs:					
■ other related parties		-	-	-	-
■ other persons		-	744	-	-
Total finance costs		-	744	-	-
Foreign currency translation gains/losses		139,463	155,193	-	-
Depreciation/amortisation of non-current assets:					
■ plant and equipment		69,283	126,762	-	-
■ motor vehicles		489	631	-	-
■ furniture, fittings and equipment		85,306	103,228	-	-
■ computer software		3,140	8,102	-	-
Total depreciation and amortisation		158,218	238,723	-	-
Bad and doubtful debts:					
■ trade debtors		24,067	53,851	-	-
Total bad and doubtful debts		24,067	53,851	-	-
Rental expense on operating leases:					
■ minimum lease payments		23,965	29,248	-	-
■ motor vehicles		596,866	652,865	-	-
■ rentals		906,493	814,290	-	-
■ rental office equipment		-	19,198	-	-
Total of rental expense on operating leases		1,527,324	1,515,601	-	-

Note 4: Change in Business Model

On 1 August 2007, UCW underwent a change in its business model whereby the relationship between UnderCoverWear and the Independent Sales Consultants (ISC's) changed to that of wholesaler and retailer, respectively. This brought UnderCoverWear in line with the operating method of the majority of Direct Selling Organisations. The effect of the change from retailer to wholesaler means that our Independent Sales Consultants are no longer paid commissions on party sales, but instead they will receive a margin, which is the difference between the Selling Value on sales from the party and the wholesale cost of the goods. ISC's will continue to earn Manager bonuses and overrides, as part of our current incentive programs.

In terms of our reporting method for the year ended 30 June 2008, the effect of the change from retailer to wholesaler has seen a decrease in reported revenue and a corresponding decrease in Commissions paid. In overall terms, there has been minimal impact on EBIT and net profit. Note, the changes only affect Australian Independent Sales Consultants.

	30 June 2008 $ Actual (Current Wholesale Model)	30 June 2008 $ Proforma (Retail Model)	30 June 2007 $ Actual (Retail Model)
Revenue	33,712,442	39,001,055	43,875,007
Changes in inventories of finished goods and work in progress	(8,495,620)	(8,495,620)	(9,197,673)
Raw materials and consumables used	(4,540,931)	(4,540,931)	(6,293,572)
Distribution costs	(1,449,988)	(1,449,988)	(1,418,924)
Commissions paid	(3,044,865)	(8,333,478)	(9,371,423)
Promotions and advertising expense	(2,124,509)	(2,124,509)	(2,583,965)
Depreciation and amortisation expense	(158,218)	(158,218)	(238,723)
Insurance expense	(110,935)	(110,935)	(140,986)
Employee benefits expense	(5,616,957)	(5,616,957)	(5,845,544)
Rental expenses	(906,493)	(906,493)	(814,290)
Finance costs	-	-	(744)
Other expenses from ordinary activities	(2,045,865)	(2,045,865)	(2,076,381)
Profit before income tax expense	5,218,061	5,218,061	5,892,782
Income tax expense	(1,568,119)	(1,568,119)	(1,768,593)
Profit attributable to members of the parent entity	3,649,942	3,649,942	4,124,189

Note 5: Income Tax Expense

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
a. The components of tax expense comprise:					
Current tax		1,575,454	1,723,511	1,575,454	1,723,511
Deferred tax	19	(7,335)	45,087	(7,335)	45,087
Over provision in respect of prior year		-	(5)	-	(5)
Income tax expense reported in the income statement		1,568,119	1,768,593	1,568,119	1,768,593
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 from ordinary activities before income tax at 30% (2007: 30%)		1,565,418	1,767,835	1,565,418	1,767,835
Add:					
Tax effect of:					
■ Imputation & withholding tax gross-up		8	7	-	-
■ Trust distribution		-	-	2,729	765
■ Other non-allowable items		2,721	796	-	21
Less:					
Tax effect of:					
■ Imputation and withholding tax credits		(28)	(23)	(28)	(23)
■ Other non-assessable income		-	(17)	-	-
■ Over provision for income tax in prior year		-	(5)	-	(5)
Income tax expense attributable to profit from ordinary activities before income tax		1,568,119	1,768,593	1,568,119	1,768,593

Note 6: Key Management Personnel Compensation

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 (appointed 10 December 2007)	Chairman – Non-Executive
John Everett	Director – Executive
Elaine Vincent	Director & Chief Executive Officer
David Hall (resigned 10 December 2007)	Chairman – Non-Executive
Geoffrey Hill (resigned 19 October 2007)	Director – Non-Executive
Tania Thomson^	Chief Financial Officer & Company Secretary
Angela Catford^^	Acting Chief Financial Officer
Megan Everett	General Manager – Operations
Colleen Walters	Sales & Business Development Manager
Nicole Riccioni	Executive Marketing Manager
Ana Tokic	Designer

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

^Ceased position on 4 October 2007 upon commencing unpaid maternity leave for a period not exceeding 12 months.

^^Commenced position on 27 September 2007 as maternity leave relief for contracted period of 12 months.

Number of Shares Held by Management Personnel

	Balance 1.7.2007	Received as Remuneration	Net Change Other*	Balance 30.6.2008 #
Stuart Richardson	609,100	-	763,946	1,373,046
John Everett	18,168,377	-	769,015	18,937,392
Elaine Vincent	602,000	-	-	602,000
David Hall	100,000	-	(10,000)	90,000
Geoffrey Hill	10,000	-	(10,000)	-
Tania Thomson	7,500	-	-	7,500
Angela Catford	-	-	-	-
Megan Everett	1,000	-	-	1,000
Colleen Walters	-	-	-	-
Nicole Riccioni	12,000	-	-	12,000
Ana Tokic	10,000	-	-	10,000
Total	19,519,977	-	1,512,961	21,032,938

** Net change other refers to shares purchased or sold during the financial year.*

 # The balance represents ordinary shares held directly or indirectly by the specified directors and executives (including their personally-related entities) at the end of the financial year.

Note 7: Auditors' Remuneration

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Remuneration of the auditors of parent and subsidiaries – Grant Thornton NSW for:				
■ auditing or reviewing the financial report	85,500	80,000	85,500	80,000
■ other services	14,900	4,000	-	-
	100,400	84,000	85,000	80,000

Note 8: Dividends

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Dividends paid				
2007 final fully franked ordinary dividend of 3.5 cents (2007: 3.5 cents) per share franked at the tax rate of 30%	1,680,000	1,680,000	1,680,000	1,680,000
Interim fully franked ordinary dividend of 3.0 cents (2007:3.0 cents) per share franked at the tax rate of 30%	1,440,000	1,440,000	1,440,000	1,440,000
	3,120,000	3,120,000	3,120,000	3,120,000
a. Proposed final fully franked ordinary dividend of 2.75 cents (2007: 3.5 cents) per share franked at the tax rate of 30% (2007: 30%)	1,320,000	1,680,000	1,320,000	1,680,000
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	2,457,263	2,218,953	2,457,263	2,218,953
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	(565,714)	(720,000)	(565,714)	(720,000)
	1,891,549	1,498,953	1,891,549	1,498,953

Note 9: Earnings Per Share

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
a. Reconciliation of earnings to net profit or loss				
Net profit	3,649,942	4,124,189	-	-
Earnings used in the calculation of basic and dilutive EPS	3,649,942	4,124,189	-	-
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 2008.

Note 10: Cash Assets

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash at bank and in hand	2,346,175	2,052,808	5,420	34,383
Short-term bank deposits	45,000	45,000	-	-
	2,391,175	2,097,808	5,420	34,383

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:

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash and cash equivalents	2,391,175	2,097,808	5,420	34,383
	2,391,175	2,097,808	5,420	34,383

Note 11: Receivables

	Notes	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT					
Other receivables		327,927	382,499	-	-
Amounts receivable from:					
■ wholly-owned unit trust		-	-	6,147,525	5,714,527
■ provision for impairment of receivables – Other receivables		(55,387)	(35,145)	-	-
		272,540	347,354	6,147,525	5,714,527

a. Provision for Impairment of Receivables

Other receivables consist of balances relating to the Independent Sales Consultants and are not tracked on an ageing basis. Management monitors the collectibility of these accounts by assigning each Consultant account a status from 0-7 representing the type of debtor (current and 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:

Consolidated Group	Opening Balance at 1 July 2007 $	Charge for the Year $	Amounts Written Off $	Closing Balance at 30 June 2008 $
Other receivables	35,145	24,067	(3,825)	55,387

Consolidated Group	Opening Balance at 1 July 2006 $	Charge for the Year $	Amounts Written Off $	Closing Balance at 30 June 2007 $
Other receivables	89,309	53,852	(108,016)	35,145

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.

Note 12: Inventories

	Notes	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT – At cost					
Raw materials and stores		851,818	930,031	-	-
Work in progress		98,859	128,433	-	-
Finished goods		4,573,579	4,676,708	-	-
		5,524,256	5,735,172	-	-

Note 13: Other Assets

	Notes	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT					
Prepayments		514,443	330,080	-	-
		514,443	330,080	-	-

Note 14: Other Financial Assets

	Notes	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
NON-CURRENT					
Investments in subsidiaries:					
■ Units in unit trusts	14a	-	-	24,000,000	24,000,000
		-	-	24,000,000	24,000,000

a. Units in Unit Trusts

Certain controlled entities hold interests in the following unit trusts:

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 & Singapore

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
■ Investment at cost	-	-	24,000,000	24,000,000

Percentage ownership 100% (2007: 100%)
The unit trust is held at cost since fair value cannot be reliably determined.

Note 15: Controlled Entities

a. Controlled Entities

Entity:	Country of Incorporation	Percentage Owned	
		2008	2007
UnderCoverWear Unit Trust	Australia	100%	100%

Note 16: Plant and Equipment

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Plant and equipment				
At cost	991,280	993,223	-	-
Accumulated depreciation	(856,321)	(790,167)	-	-
	134,959	203,056	-	-
Motor vehicles				
At cost	12,100	12,100	-	-
Accumulated depreciation	(10,415)	(9,926)	-	-
	1,685	2,174	-	-
Furniture, fittings and equipment				
At cost	975,729	920,673	-	-
Accumulated depreciation	(887,172)	(798,866)	-	-
	88,557	121,807	-	-
Computer software				
At cost	176,425	175,237	-	-
Accumulated depreciation	(174,682)	(171,542)	-	-
	1,743	3,695	-	-
Total Plant and Equipment	226,944	330,732	-	-

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 & Equipment $	Motor Vehicles $	Furniture, fittings & Equipment $	Computer Software $	Total $
Consolidated Group:					
Balance at 1 July 2006	273,770	2,805	161,583	9,897	448,055
Additions	56,048	-	63,452	1,900	121,400
Disposals	-	-	-	-	-
Depreciation expense	(126,762)	(631)	(103,228)	(8,102)	(238,723)
Balance at 30 June 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

Note 17: Intangible Assets

	Consolidated Group		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Goodwill at cost	24,817,499	24,817,499	-	-
	24,817,499	24,817,499	-	-

The recoverable amount is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 10 year period. 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:

	Rate used
10 year government bonds	5.78%
Beta	0.28
Market risk premium	6.00%

Note 18: Trade and Other Payables

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT				
Trade payables	1,790,598	2,544,031	550	881
Sundry payables and accrued expenses	895,649	661,227	-	-
Commissions payable	7,787	67,172	-	-
	2,694,034	3,272,430	550	881

Note 19: Tax

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
CURRENT				
Income tax liability	486,049	604,291	486,049	604,291
	486,049	604,291	486,049	604,291

	Opening Balance	Charged to Income	Charged directly to Equity	Closing Balance
NON CURRENT				
Deferred Tax Assets				
Consolidated Group:				
Provisions	339,722	(40,887)	-	298,835
Other	38,203	(4,198)	-	34,005
Balance at 30 June 2007	377,925	(45,085)	-	332,840
Provisions	298,835	(5,090)	-	293,745
Other	34,005	12,424	-	46,429
Balance at 30 June 2008	332,840	(7,334)	-	340,174

	Opening Balance	Charged to Income	Charged directly to Equity	Closing Balance
Deferred Tax Assets				
Parent Entity:				
Provisions	-	-	-	-
Other	47,420	(45,085)	-	2,335
Balance at 30 June 2007	47,420	(45,085)	-	2,335
Provisions	-	-	-	-
Other	2,335	7,334	-	9,669
Balance at 30 June 2008	2,335	7,334	-	9,669

Note 20: Provisions

	Note	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Promotions		325,747	414,033	-	-
Employee benefits	20a	854,998	490,667	-	-
		1,180,745	904,700	-	-
NON-CURRENT					
Employee benefits	20a	102,184	115,987	-	-
		102,184	115,987	-	-
a. Aggregate Employee Benefits Liability		957,182	606,654	-	-

	Opening Balance at 1 July 2007 $	Additional provisions $	Amounts used $	Unused amounts $	Balance at 30 June 2008 $
Consolidated Group:					
Promotions	414,033	585,071	(550,179)	(123,178)	325,747
Employee Benefits	606,654	875,752	(525,224)	-	957,182
Total	1,020,687	1,460,823	(1,075,403)	(123,178)	1,282,929

Note 20: Provisions - continued

Provision for Promotions

A provision of $325,747 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.

Note 21: Issued Capital

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
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
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 Group		Parent Entity	
	2008	2007	2008	2007
	Number	Number	Number	Number
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

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 authorised capital and issued shares do not have a par value.

b. Capital Management

Management controls the capital of the 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.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

Note 22: Capital and Leasing Commitments

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable				
■ not later than 1 year	1,349,492	1,434,987	-	-
■ later than 1 year but not later than 5 years	176,802	571,924	-	-
	1,526,294	2,006,911	-	-

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 2009, 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 23: 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 24: Segment Reporting

	External sales		Inter-segment[i]		Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	$	$	$	$	$	$	$	$
Segment Revenues								
Australia	32,135,629	42,000,281	-	-	-	-	32,135,629	42,000,281
Other Countries	1,576,813	1,874,726	-	-	-	-	1,576,813	1,874,726
Total of all segments	33,712,442	43,875,007	-	-	-	-	33,712,442	43,875,007
Eliminations	-	-	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-	-	-
Consolidated	33,712,442	43,875,007					33,712,442	43,875,007

(i) Inter-segment sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods.

	2008	2007
	$	$
Segment Results		
Australia	14,251,693	15,375,569
Other Countries	277,6643	355,691
Total of all segments	14,529,356	15,731,260
Eliminations	-	-
Unallocated expenses	(9,311,295)	(9,838,478)
Profit/(loss) from ordinary activities before income tax expense	5,218,061	5,892,782
Income tax expense relating to ordinary activities	(1,568,119)	(1,768,593)
Profit/(loss) from ordinary activities after related income tax expense	3,649,942	4,124,189
Net Profit/(loss)	3,649,942	4,124,189

	Assets		Liabilities	
	2008	2007	2008	2007
	$	$	$	$
Segment Assets and Liabilities				
Australia	33,958,454	33,781,940	4,400,373	4,808,123
Other Countries	128,577	209,545	62,639	89,285
Total of all segments	34,087,031	33,991,485	4,463,012	4,897,408
Eliminations	-	-	-	-
Unallocated	-	-		
Consolidated	34,087,031	33,991,485	4,463,012	4,897,408

	Australia		Other Countries	
	2008	2007	2008	2007
	$	$	$	$
Other Segment Information				
Acquisition of segment assets				
- Land and buildings	-	-	-	-
- Plant and equipment	54,430	121,400	-	-
Depreciation and amortisation of segment assets				
- Plant and equipment	158,218	238,723	-	-
- Intangibles	-	-	-	-

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.

Note 25: Cash Flow Information

	Consolidated Group 2008 $	Consolidated Group 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
a. Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax				
Profit from ordinary activities after income tax	3,649,942	4,124,189	3,649,942	4,124,189
Non-cash flows in profit from ordinary activities				
Depreciation	158,218	238,723	-	-
Net gain on disposal of property, plant and equipment	(2,401)	-	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Decrease in receivables	74,814	16,598	-	-
(Increase) in other assets	(184,364)	(72,351)	-	-
Decrease in inventories	210,916	525,131	-	-
(Decrease)/Increase in payables	(578,396)	193,387	(334)	(269)
(Decrease)/Increase in income taxes payable	(118,242)	(1,024,272)	(118,242)	(1,024,272)
(Increase)/Decrease in net deferred taxes payable	(7,332)	45,087	(7,333)	45,086
(Decrease)/Increase in provisions	262,242	(342,425)	-	-
Cash flow from operations	3,465,397	3,704,067	3,524,033	3,144,734
b. Credit Standby Arrangements with Banks				
Credit facility	1,514,714	1,514,714	-	-
Amount utilised	214,714	207,714	-	-
Unused credit facility	1,300,000	1,307,000	-	-
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 26: Events Subsequent to Reporting Date

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2008.

Note 27: Related Party Transactions

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

Transactions with related parties:

a. A rental lease for the property exists between UnderCoverWear Unit Trust, a subsidiary of UnderCoverWear Limited, and the trustee of UnderCoverWear Property Trust of which Ian Everingham held an interest during the year.

   Ian Everingham resigned as a director of UnderCoverWear Limited on 14 December 2006, however, continues to hold significant influence by way of indirect shareholdings held in trust and by other family members. At 30 June 2008, 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 annual reviews on 1 July each year until 2012.

b. During the period Megan Everett held the position of General Manager of Operations. 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.

c. Key Management Personnel:

   (i) Key management personnel compensation

	Consolidated Group 2008 $	Consolidated Group 2007 $
Short-term employee benefits	1,492,540	1,698,585
Post employment benefits	-	-
	1,492,540	1,698,585

Detailed remuneration disclosures and equity holdings of each director and key management person are included in the Remuneration Report on pages 13-17.

Note 28: Financial Risk Management

a. Financial Risk Management Policies

The financial instruments of the consolidated entity consist of cash, guarantee deposit and receivables. The liabilities consist of payables and also loans to related parties where the rates are fixed.

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.

ii. 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 and 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 Note 28(b)(i).

– 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 functional 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.

Consolidated Group	FIXED INTEREST RATE MATURING						Total	
	Weighted Average Effective Interest Rate		Within 1 Year $		Non-interest Bearing $		Total $	
	2008	2007	2008	2007	2008	2007	2008	2007
Financial Assets:								
Cash & cash equivalents	6.88%	4.84%	2,391,175	2,097,808	-	-	2,391,175	2,097,808
Receivables	n/a	n/a	-	-	272,540	347,354	272,540	347,354
Total Financial Assets			2,391,175	2,097,808	272,540	347,354	2,663,715	2,445,162
Financial Liabilities:								
Trade & sundry payables	n/a	n/a	-	-	2,694,034	3,272,430	2,694,034	3,272,430
Total Financial Liabilities			-	-	2,694,034	3,272,430	2,694,034	3,272,430

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
Interest Rate Risk and Foreign Currency Risk
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.

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
– Interest Rate Sensitivity Analysis At 30 June 2008, the effect on profit as a result of changes in the interest rate, with all other variables remaining constant would be as follows:				
Increase in interest rate by 2%	3,376	2,897	-	124
Decrease in interest rate by 2%	(3,376)	(2,897)	-	(124)
– Foreign Currency Risk Sensitivity Analysis At 30 June 2008, 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:				
Improvement in AUD to USD by 15%	954,737	923,330	-	-
Decline in AUD to USD by 15%	(954,737)	(923,330)	-	-

Note 29: Change in Accounting Policy

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.

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

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 24 - 54, 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 2008 and of the performance for the year ended on that date of the company and consolidated entity;

2. The Chief Executive Officer and 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 the Accounting Standards; and

   (c) The financial statements and notes for the financial year give a true and fair view.

3. 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 this 28th day of August, 2008.

Grant Thornton

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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 2008, 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.

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 2008 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 the International Financial Reporting Standards as noted in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 13 - 17 of the directors' report for the year ended 30 June 2008. 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 2008, complies with section 300A of the Corporations Act 2001.

Grant Thornton NSW

Grant Thornton NSW
Chartered Accountants

N J BRADLEY
Partner

Sydney, 28 August 2008

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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 2008, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

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

Grant Thornton NSW

Grant Thornton NSW
Chartered Accountants

N J BRADLEY
Partner

Sydney, 28 August 2008

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Additional Information for Listed Public Companies

a. Distribution of Shareholders

Category (size of holding)	Number of Ordinary Shares	Size of Holding
1 – 1,000	244	165,967
1,001 – 5,000	165	536,813
5,001 – 10,000	43	337,426
10,001 – 100,000	109	3,196,832
100,001 – and over	29	43,762,962
	590	48,000,000

b. The number of shareholdings held in less than marketable parcels is 245.

c. The names of the substantial shareholders listed in the holding company's register as at 31 July 2008 are:

Shareholder	Number of Ordinary Shares
Mr John Everett & Ms Sonya Everett <Everett Fam Settlement A/c>	9,132,822
Cogent Nominees Pty Limited	5,681,520
Recone Pty Limited <Everingham Family A/c>	4,860,171
Queensland Investment Corporation	2,913,178

d. Voting Rights

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 THE YEAR ENDED 30 JUNE 2008

e. 20 Largest Shareholders — Ordinary Shares

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	5,681,520	11.84
3. Recone Pty Limited <Everingham Family A/c>	4,860,171	10.13
4. Queensland Investment Corporation	2,913,178	6.07
5. Catherine Everett Investments Pty Ltd <Everett Fam Settlement A/c>	2,000,000	4.17
6. David Everett Investments Pty Ltd <Everett Fam Settlement A/c>	2,000,000	4.17
7. John H Everett Investments Pty Ltd <Everett Fam Settlement A/c>	2,000,000	4.17
8. Megan Everett Investments Pty Ltd <Everett Fam Settlement A/c>	2,000,000	4.17
9. Union Pty Limited <Everett Staff Superannuation Fund A/c>	1,726,215	3.60
10. Mr Ian Garnsey Everingham & Mr George Allan Fleming <Everingham Family Superannuation Fund A/c>	1,653,343	3.44
11. Mr Ian Garnsey Everingham & Mrs Christine Mary Everingham <Rosebank Staff Superannuation Fund A/c>	1,486,486	3.10
12. National Nominees Limited	1,271,810	2.65
13. Citicorp Nominees Pty Limited	1,213,134	2.53
14. UBS Nominees Pty Limited	955,254	1.99
15. Mrs Jeanette Richardson	726,214	1.51
16. HSBC Custody Nominees (Australia) Limited	709,077	1.48
17. Bond Street Custodians Limited	636,775	1.33
18. Alan Denis Vincent & Elaine Margaret Vincent <Vincent Family Superannuation Fund A/c>	600,000	1.25
19. Mrs Jeanette Richardson	534,100	1.11
20. JP Morgan Nominees Australia Limited	470,511	0.98
	42,570,610	88.72

Company Details

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

Company Secretary
Nick Geddes

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Email: web.queries@computershare.com.au
Website: www.computershare.com

Stock Exchange
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

UnderCoverWear