ASX & Media Announcement

26 August 2005

UnderCoverWear Exceeds 2005 Prospectus Profit Forecast

The Board and Management of UnderCoverWear Limited are pleased to announce the financial results for the year ended 30 June 2005.

The performance of the company in its first full year of trading has surpassed all expectations achieving a net profit from ordinary activities before tax of $3,993,989 and a net profit after tax of $2,427,215.

Key Financial Results

	2005 Actual	2005 Prospectus	Change
Turnover	44,100,923	36,039,000	↑ 22%
EBITDA	5,717,990	3,740,000	↑ 52%
EBIT	4,101,910	2,240,000	↑ 83%
NPAT	2,427,215	994,000	↑ 144%
Earnings Per Share (cents)	5.06	2.07	↑ 2.99 cents

The improvement in turnover during the past 12 months is highlighted by positive variations in a number of the key business drivers:

- Consultant numbers have risen steadily as expected and are in line with prospectus forecasts
- Party activity per consultant has increased by 10%
- Average value of party sales has increased by 10%

Outlook for the next 12 months

The company anticipates the sustained growth of the sales team to continue during the next 12 months and is forecasting a solid increase in revenue.

Further expenditure on marketing and advertising campaigns is expected to strengthen existing product and brand awareness throughout Australia and New Zealand.

We value the support of our customers and shareholders as we continue to be the leaders in party plan for fashion and lingerie.

Dividends

The Directors have declared a fully franked final dividend of 3.0 cents per share, which in addition to the interim dividend of 2.0 cents per share paid in April 2005, represents an annualised yield of 10% based on the initial offer price. This exceeds our prospectus forecasts of a total 3.25 cents per share.

The final dividend will be payable on 4th October 2005.

Annual General Meeting

The Annual General Meeting of UnderCoverWear Limited will be held at the offices of Grant Thornton, Level 17, 383 Kent Street, Sydney NSW on 3 November 2005 at 11.30am.

Yours sincerely

John Everett AM
Chairman

2005 Preliminary Final Report

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

APPENDIX 4E - PRELIMINARY FINAL REPORT

Details of the reporting period

Current period	1 July 2004 to 30 June 2005
Previous corresponding period	16 June 2004 to 30 June 2004

Results for Announcement to the Market

Revenues from ordinary activities	$ 44,100,923 up 1,865.5%	
Profit/(loss) from ordinary activities after tax attributable to members	$ 2,427,215 up 921.3%	
Net profit/(loss) for the period attributable to members	$ 2,427,215 up 921.3%	
Dividend Information	Amount per Security	Franked amount per security
Current Period		
Interim dividend *(paid 12 April 2005)*	2.0c	2.0c
Final dividend	3.0c	3.0c
Total dividends per share for year	5.0c	5.0c
Previous corresponding period		
Interim dividend	N/A	N/A
Final dividend	N/A	N/A
Final Dividend Date		
Record date	7th September 2005	
Payment date	4th October 2005	

Explanation necessary to enable the figures to be understood.

The current period is the first full year of trading since the company listed on the Australian Stock Exchange on 5 May 2004 .The comparatives represent the results from the date of incorporation to 30 June 2004. However, the company was essentially dormant until it acquired 100% holding in the UnderCoverWear Unit Trust on 15 June 2004. The results presented for 2004 therefore represent 15 days of trading. Further commentary on the results against prospectus forecasts is contained in the following sections.

Retained Earnings

	Current Period	Previous Corresponding Period
Retained earnings at the beginning of the financial period	237,649	-
Net profit attributable to members of the parent entity	2,427,215	237,649
Dividends provided for or paid	960,000	-
Retained earnings at the end of the financial period	1,704,864	237,649

Net Tangible Assets per security

	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	$0.0436	$0.010

Control gained or lost over entities during the period

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

Details of dividend / distribution reinvestment plan

At 30 June 2005, there was no dividend reinvestment plan in operation for UnderCoverWear Limited.

Commentary on the results for the period

The Directors are pleased to report on the consolidated results of UnderCoverWear Limited and its controlled entities for the year ended 30 June 2005.

Profit & earnings per share

Net profit after tax for the year ended 30 June 2005 was $2,427,215. This result represents an increase of 144% in our prospectus forecast net profit after tax figure.

Based on 48,000,000 weighted average ordinary shares on issue during the year ended 30 June 2005, this result represents earnings of 7.65 cents per share before goodwill amortisation, compared to our prospectus forecast of 2.07 cents per share. Earnings per share post-goodwill amortisation was 5.06 cents per share.

It is not appropriate to compare these results to 30 June 2004 figures, as the company had only traded as a public company for fifteen days to 30 June 2004.

Dividends
The Directors have declared a fully franked final dividend of 3.0 cents per share, which in addition to the interim dividend of 2.0 cents per share paid in April 2005, represents an annualised yield of 10% based on the initial offer price. This exceeds our prospectus forecasts of a total 3.25 cents per share (6.5% annualised yield).

The final dividend will have a payment date of 4th October 2005.

Review of operating performance
Revenue results were 22% above prospectus forecasts at $44,100,923 for the year ended 30 June 2005. The improvement in turnover during the past 12 months can be attributed to variations in a number of key drivers:

- Consultant numbers have risen steadily as expected and are in line with prospectus forecasts
- Party activity per consultant has increased by 10%
- The average value of party sales have increased by 10%

Successful advertising campaigns through the use of billboards, radio and TV advertising has also impacted on the results as well as increasing brand awareness throughout Australia and New Zealand.

Gross margins have remained stable throughout the year and were consistent with the company's original forecasts. As a result of the increase in turnover, fixed overhead costs have decreased as a percentage of total revenue.

The company operates under one business segment only.

Outlook for the Company

The results over the last twelve months have been very pleasing.

For the financial year ended 30 June 2006, the company anticipates a strong increase in revenue. Sustained growth and consistent productivity of the sales team, combined with on-going training and development programs, aims to ensure that these results will be achieved.

Further expenditure on marketing and advertising campaigns during the next twelve months is expected to strengthen existing product and brand awareness.

The company's strong cash generation from its operations allows it to remain debt free.

Impact of Australian Equivalents to International Financial Reporting Standards (A-IFRS)
UnderCoverWear has undertaken a preliminary assessment of the impact of A-IFRS on its accounts. From 1 July 2005, UnderCoverWear expects an increase in profit after tax of $1,243,475 as a result of ceasing to expense goodwill amortisation resulting from the acquisition of UnderCoverWear Collection. Please also refer to Note 1 in the financial statements for further information of the impact.

This report is based on the consolidated financial report which is in the process of being audited, however it is expected that there will be no changes to the information contained in this report.

UNDERCOVERWEAR LIMITED

A.B.N. 85 108 962 152

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 $	2004 (i) $	2005 $	2004 (i) $
Revenues from ordinary activities	2	44,100,923	2,243,664	4,031,645	421,759
Changes in inventories of finished goods and work in progress		(8,284,218)	(501,106)	-	-
Raw materials and consumables used		(7,305,329)	(253,444)	-	-
Distribution costs		(1,812,896)	(70,637)	-	-
Commissions paid		(9,546,777)	(499,965)	-	-
Promotions and advertising		(2,449,161)	(142,195)	-	-
Depreciation and amortisation expense	3	(1,616,080)	(73,915)	-	-
Insurance expense		(177,493)	(6,465)	-	-
Employee benefits expense		(5,753,072)	(193,743)	-	-
Rental expenses		(759,782)	(30,186)	-	-
Borrowing costs expense	3	(107,920)	(11,911)	-	-
Other expenses from ordinary activities		(2,294,206)	(98,315)	(54,181)	(7,981)
Profit from ordinary activities before income tax expense	3	3,993,989	361,782	3,977,464	413,778
Income tax expense relating to ordinary activities	4	(1,566,774)	(124,133)	(1,566,774)	(124,133)
Net profit attributable to members of the parent entity		2,427,215	237,649	2,410,690	289,645
Total changes in equity other than transactions with owners as owners		2,427,215	237,649	2,410,690	289,645
Basic earnings per share (cents per share)	8	5.06	0.50	-	-
Diluted earnings per share (cents per share)	8	5.06	0.50	-	-

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

(i) The parent entity was incorporated on 5 May 2004 and hence the comparatives represent the results from the date of incorporation to 30 June 2004. However, the company was essentially dormant until it acquired 100% holding in the UnderCoverWear Unit Trust on 15 June 2004. The results presented for 2004 therefore represent 15 days of trading.

UNDERCOVERWEAR LIMITED

A.B.N. 85 108 962 152

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 $	2004 $	2005 $	2004 $
CURRENT ASSETS					
Cash assets	9	2,199,616	1,150,367	6,961	-
Receivables	10	337,195	352,244	2,974,658	421,759
Inventories	11	5,177,664	4,251,622	-	-
Other	12	465,837	415,574	-	-
TOTAL CURRENT ASSETS		8,180,312	6,169,807	2,981,619	421,759
NON-CURRENT ASSETS					
Other financial assets	13	-	-	24,000,000	24,000,000
Property, plant and equipment	15	497,749	600,503	-	-
Deferred tax assets	16	390,258	242,249	59,753	154
Intangible assets	17	23,574,024	24,905,910	-	-
TOTAL NON-CURRENT ASSETS		24,462,031	25,748,662	24,059,753	24,000,154
TOTAL ASSETS		32,642,343	31,918,469	27,041,372	24,421,913
CURRENT LIABILITIES					
Payables	18	4,358,188	4,041,182	1,097	47,231
Current tax liabilities	19	1,339,190	124,287	1,339,190	124,287
Provisions	20	1,155,672	857,098	-	-
TOTAL CURRENT LIABILITIES		6,853,050	5,022,567	1,340,287	171,518
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	21	-	2,550,634	-	-
Provisions	20	123,679	146,869	-	-
TOTAL NON-CURRENT LIABILITIES		123,679	2,697,503	-	-
TOTAL LIABILITIES		6,976,729	7,720,070	1,340,287	171,518
NET ASSETS		25,665,614	24,198,399	25,701,085	24,250,395
EQUITY					
Contributed equity	22	23,960,750	23,960,750	23,960,750	23,960,750
Retained profits	23	1,704,864	237,649	1,740,335	289,645
TOTAL EQUITY		25,665,614	24,198,399	25,701,085	24,250,395

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

UNDERCOVERWEAR LIMITED

A.B.N. 85 108 962 152

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 $	2004 (i) $	2005 $	2004 (i) $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		48,773,071	3,539,119	-	-
Payments to suppliers and employees		(43,496,840)	(2,790,561)	(100,315)	-
Interest received		71,996	336	-	-
Dividends & trust distributions received		412	-	4,031,645	-
Borrowing costs		(107,920)	(11,911)	-	-
Income taxes paid		(411,470)		(411,470)	
Net cash provided by operating activities	25a	4,829,249	736,983	3,519,860	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		11,918	943	-	-
Purchase of property, plant and equipment		(281,284)	(26,620)	-	-
Payment for subsidiary, net of cash acquired		-	(23,521,689)	-	(24,000,000)
Proceeds from subsidiary		-	-	1,513,780	-
Payments to subsidiary		-	-	(4,066,679)	-
Net cash used in investing activities		(269,366)	(23,547,366)	(2,552,899)	(24,000,000)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	23,960,750	-	23,960,750
(Payment)/proceeds from related party		(2,550,634)	-		39,250
Dividends paid		(960,000)	-	(960,000)	-
Net cash (used in) / provided by financing activities		(3,510,634)	23,960,750	(960,000)	24,000,000
Net increase in cash held		1,049,249	1,150,367	6,961	-
Cash at the beginning of the period		1,150,367	-	-	-
Cash at the end of the period	9	2,199,616	1,150,367	6,961	-

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

(i) The parent entity was incorporated on 5 May 2004 and hence the comparatives represent the results from the date of incorporation to 30 June 2004. However, the company was essentially dormant until it acquired 100% holding in the UnderCoverWear Unit Trust on 15 June 2004. The results presented for 2004 therefore represent 15 days of trading.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic 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 has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

a. **Principles of Consolidation**

A controlled entity is any entity controlled by UnderCoverWear Limited. Control exists where UnderCoverWear Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with UnderCoverWear Limited to achieve the objectives of UnderCoverWear Limited. A list of controlled entities is contained in Note 13 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

b. **Income Tax**

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on profit from ordinary activities adjusted for permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

d. **Property, Plant and Equipment**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Plant and equipment

Plant and equipment are measured on the cost basis.

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

Depreciation

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

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	6% - 40%
Motor Vehicle	13.75% - 22.5%
Furniture, fittings and equipment	13% - 40%
Computer software	40%

e. **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. There were no finance leases in the reporting period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

f. **Investments**

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

g. **Intangibles**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

h. **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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

i. **Employee Benefits**

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

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

j. **Cash**

For the purpose of the statement of cash flows, cash 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.

k. **Revenue**

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

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

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

l. **Goods and Services Tax (GST)**

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

m. **Comparative Figures**

The parent entity was incorporated on 5 May 2004 and hence the comparatives represent the results from the date of incorporation to 30 June 2004. However, the company was essentially dormant until it acquired 100% holding in the UnderCoverWear Unit Trust on 15 June 2004. The results presented for 2004 therefore represent 15 days of trading.

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

n. **Impact of Adoption of Australian Equivalents to International Financial Reporting Standards**

The economic entity is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (A-IFRS) effective for the financial years commencing from 1 January 2005. The adoption of A-IFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of A-IFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the A-IFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management has assessed the significance of the expected changes and is preparing for their implementation. An A-IFRS committee is overseeing and managing the economic entity's transition to A-IFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

n. **Impact of Adoption of Australian Equivalents to International Financial Reporting Standards (cont)**

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to A-IFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current A-IFRS or interpretation of the A-IFRS requirements changes from the continuing work of the economic entity's A-IFRS committee.

Goodwill on Consolidation

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

Impairment testing as at 1 July 2005 confirmed no impairment of the $24,905,910 goodwill. Current year amortisation of $1,243,475 will, therefore be reversed resulting in an increase in profit amounting to $1,243,475 for the year ended 30 June 2005.

On transition to A-IFRS the estimated cumulative financial effect of the reliably known differences on the parent and economic entity's reported net profit and equity as at 30 June 2005 is summarised below. As noted above, these amounts represent management's best estimates, and could differ from actuals.

	Economic Entity	Parent Entity
	2005 $	2005 $
Reconciliation of Net Profit		
Net profit reported under Australian Accounting Standards	2,427,215	2,410,690
Key transitional adjustments:		
— Reversal of amortisation of goodwill	1,243,475	-
Total transitional adjustments	1,243,475	-
Net profit under A-IFRS	3,670,690	2,410,690
Reconciliation of Equity		
Total equity reported under Australian Accounting Standards	25,665,614	25,701,085
Increase in current year profit resulting from transition to A-IFRS	1,243,475	-
Total equity under A-IFRS	26,909,089	25,701,085

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 $	2004 (1m) $	2005 $	2004 (1m) $
NOTE 2: REVENUE					
Operating activities					
— sale of goods		41,953,897	2,129,020	-	-
— profit distribution – unit trust	2a	-	-	4,031,535	421,759
— distribution charges		1,426,308	74,717	-	-
— rental revenue		589,315	23,788	-	-
— other revenue		47,077	14,859	-	-
— interest & dividends received	2b	72,408	337	110	-
		44,089,005	2,242,721	4,031,645	421,759
Non-operating activities					
— proceeds on disposal of property, plant and equipment		11,918	943	-	-
Total Revenue		44,100,923	2,243,664	4,031,645	421,759
a. Profit distribution from:					
— wholly-owned unit trust		-	-	4,031,535	421,759
Total distribution received		-	-	4,031,535	421,759
b. Interest & dividend revenue from:					
— other persons		72,408	337	110	-
Total interest revenue		72,408	337	110	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 $	2004 (1m) $	2005 $	2004 (1m) $
NOTE 3: PROFIT FROM ORDINARY ACTIVITIES					
Profit from ordinary activities before income tax has been determined after:					
a. Expenses					
Cost of sales		15,589,547	807,519	-	-
Borrowing costs:					
— other related parties		100,997	4,602	-	-
— other persons		6,923	7,309	-	-
Total borrowing costs		107,920	11,911	-	-
Depreciation of non-current assets:					
— plant and equipment		118,791	4,127	-	-
— motor vehicles		4,040	184	-	-
— furniture, fittings and equipment		134,404	5,047	-	-
— computer software		115,370	12,561	-	-
Total depreciation		372,605	21,919	-	-
Amortisation of non-current assets:					
— goodwill on consolidation		1,243,475	51,996	-	-
Total amortisation		1,243,475	51,996	-	-
Total depreciation and amortisation		1,616,080	73,915	-	-
Bad and doubtful debts:					
— trade debtors		132,239	1,077	-	-
Total bad and doubtful debts		132,239	1,077	-	-
Rental expense on operating leases					
— minimum lease payments		43,087	15,922	-	-
— rentals		759,782	30,186	-	-
— rental office equipment		15,493	646	-	-
b. Revenue and Net Gains					
Net gain on disposal of non-current assets:					
— property, plant and equipment		485	429	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity		Parent Entity	
	2005 $	2004 (1m) $	2005 $	2004 (1m) $
NOTE 4: INCOME TAX EXPENSE				
a. 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% (2004: 30**%**)	1,198,197	108,535	1,193,239	124,133
Add:				
Tax effect of:				
— non-deductible depreciation and amortisation on consolidation	373,042	15,598	-	-
— Imputation & withholding tax gross-up	2,262	-	14	
— Trust distribution	-	-	381,060	-
— other non-allowable items	892	-	-	-
Less:				
Tax effect of:				
— Imputation and withholding tax credits	7,539	-	7,539	-
— other non-assessable income	80	-	-	-
Income tax expense attributable to profit from ordinary activities before income tax	1,566,774	124,133	1,566,774	124,133

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION

a. Names and positions held of parent entity directors and specified executives in office at any time during the financial year are:

Parent Entity Directors

John Henry Everett	Chairman — Executive
Elaine Margaret Vincent	Managing Director — Executive
Ian Garnsey Everingham	Director — Non-Executive
David Capp Hall	Director — Non-Executive

Specified Executives

Patricia Handford	International Sales Manager
Alice Bernice Carter	General Manager — Operations
Tania Thomson	Chief Financial Officer & Company Secretary
Nicole Spike	Marketing Manager
Ana Tokic	Designer

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION (CONT)

b. Parent Entity Directors' Remuneration

For the year ended 30 June 2005	**Primary**				**Post Employ-ment**	**Equity**	**Other**	**Total**
	Salary, Fees & Comm-issions	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
	$	$	$	$	$	$	$	$
John Henry Everett	130,000	2,700	-	-	-	-	-	132,700
Elaine Margaret Vincent	132,081	95,980	80,000	12,277	-	-	-	320,338
Ian Garnsey Everingham	30,000	2,700	-	-	-	-	-	32,700
David Capp Hall	32,500	2,925	-	-	-	-	-	35,425
	324,581	104,305	80,000	12,277	-	-	-	521,163

The service and performance criteria set to determine remuneration are included per Note (e).

For the period ended 30 June 2004 (1m)	**Primary**				**Post Employ-ment**	**Equity**	**Other**	**Total**
	Salary, Fees & Comm-issions	Super-annuation Contrbution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
	$	$	$	$	$	$	$	$
John Henry Everett	5,416	112	-	-	-	-	-	5,528
Elaine Margaret Vincent	9,060	556	4,670	-	-	-	-	14,286
Ian Garnsey Everingham	1,250	112	-	-	-	-	-	1,362
David Capp Hall	1,250	112	-	-	-	-	-	1,362
	16,976	892	4,670	-	-	-	-	22,538

The service and performance criteria set to determine remuneration are included per Note (e).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION (CONT)

c. Specified Executives' Remuneration

For the year ended 30 June 2005	Primary				Post Employ-ment	Equity	Other	Total
	Salary & Fees	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
	$	$	$	$	$	$	$	$
Patricia Handford	273,182	35,822	2,500	-	-	-	-	311,504
Ana Tokic	80,000	28,280	12,000	-	-	-	-	120,280
Alice Bernice Carter	84,999	7,650	2,000	19,232	-	-	-	113,881
Tania Thomson	81,553	7,340	1,000	9,616	-	-	-	99,509
Nicole Spike	66,757	6,008	2,000	12,000	-	-	-	86,765
	586,491	85,100	19,500	40,848	-	-	-	731,939

The service and performance criteria set to determine remuneration are included per Note (e).

For the period ended 30 June 2004 (1m)	Primary				Post Employ-ment	Equity	Other	Total
	Salary & Fees	Super-annuation Contribution	Cash Bonus	Non-Cash Benefits	Super-annuation	Options		
	$	$	$	$	$	$	$	$
Patricia Handford	8,226	458	-	-	-	-	-	8,684
Francois Hoffman	4,583	412	-	-	-	-	-	4,995
Alice Bernice Carter	4,062	309	-	-	-	-	-	4,371
Ana Tokic	3,854	346	-	-	-	-	-	4,200
Nicole Spike	3,020	234	-	-	-	-	-	3,254
	23,745	1,759	-	-	-	-	-	25,504

The service and performance criteria set to determine remuneration are included per Note (e).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION (CONT)

d. Shareholdings

Number of Shares Held by Parent Entity Directors and Specified Executives:

	Balance 1.7.2004	Received as Remuneration	Net Change Other*	Balance 30.6.2005 #
Parent Entity Directors				
John Henry Everett	16,000,000	-	-	16,000,000
Elaine Margaret Vincent	502,000	-	-	502,000
Ian Garnsey Everingham	8,000,000	-	-	8,000,000
David Capp Hall	100,000	-	-	100,000
Specified Executives				
Patricia Handford	122,000	-	28,000	150,000
Ana Tokic	10,000	-	-	10,000
Alice Bernice Carter	22,000	-	-	22,000
Tania Thomson	6,000	-	-	6,000
Nicole Spike	12,000	-	-	12,000
Total	24,774,000	-	28,000	24,802,000

** 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.

e. Remuneration Practices

The economic 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.

Bonuses included per Note 5(b) and 5(c) are based on achieved targets specified by management.

f. Share Based Remuneration

There has been no share based remuneration for the specified directors and executives during the year ended 30 June 2005.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
NOTE 6: AUDITORS' REMUNERATION				
Remuneration of the auditors of subsidiaries for:				
— auditing or reviewing the financial report	66,500	45,000	66,500	45,000
— other services	2,762	-	-	-
	69,262	45,000	66,500	45,000

	Economic Entity 2005 $	Economic Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
NOTE 7: DIVIDENDS				
Interim fully franked ordinary dividend of 2.0 cents (2004:nil) per share franked at the tax rate of 30%	960,000	n/a	960,000	n/a
a. Proposed final fully franked ordinary dividend of 3 cents (2004:nil) per share franked at the tax rate of 30%	1,440,000	n/a	1,440,000	n/a
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	42	-	42	-

	Economic Entity 2005 $	Economic Entity 2004 $
NOTE 8: EARNINGS PER SHARE		
a. Reconciliation of earnings to net profit or loss		
Net profit	2,427,215	237,649
Earnings used in the calculation of basic and dilutive EPS	2,427,215	237,649
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 2005.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Note	Economic Entity		Parent Entity	
		2005 $	2004 $	2005 $	2004 $
NOTE 9: CASH ASSETS					
Cash at bank		2,154,616	1,105,367	6,961	-
Deposits at call		45,000	45,000	-	-
		2,199,616	1,150,367	6,961	-
Reconciliation of Cash					
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:					
Cash		2,199,616	1,150,367	6,961	-
		2,199,616	1,150,367	6,961	-
NOTE 10: RECEIVABLES					
CURRENT					
Other debtors		413,843	445,643	-	-
Amounts receivable from:					
— wholly-owned unit trust		-	-	2,974,658	421,759
— provision for doubtful debts		(76,648)	(93,399)	-	-
		337,195	352,244	2,974,658	421,759
NOTE 11: INVENTORIES					
CURRENT – At cost					
Raw materials and stores		991,270	1,128,093	-	-
Work in progress		179,814	256,734	-	-
Finished goods		4,006,580	2,866,795	-	-
		5,177,664	4,251,622	-	-
NOTE 12: OTHER ASSETS					
CURRENT					
Prepayments		465,837	415,574	-	-
		465,837	415,574	-	-
NOTE 13: OTHER FINANCIAL ASSETS					
NON-CURRENT					
Investments in subsidiaries:					
— units in unit trusts	13a	-	-	24,000,000	24,000,000
				24,000,000	24,000,000

	Economic Entity		Parent Entity	
	2005 $	2004 $	2005 $	2004 $
NOTE 13: OTHER FINANCIAL ASSETS (CONT)				
a. Units in Unit Trusts				
Certain controlled entities hold interests in the following unit trusts:				
i. UnderCoverWear Unit Trust				
The trusts' principal activities are the manufacture and distribution of underwear and garments in Australia and exporting to New Zealand				
- Investment at cost	-	-	24,000,000	24,000,000
Percentage ownership 100% (2004: 100%)				

NOTE 14: CONTROLLED ENTITIES

a. Controlled Entities

Entity:	Country of Incorporation	Percentage Owned	
		2005	2004
UnderCoverWear Unit Trust	Australia	100%	100%

	Economic Entity		Parent Entity	
	2005 $	2004 $	2005 $	2004 $
NOTE 15: PROPERTY, PLANT AND EQUIPMENT				
Plant and equipment				
At cost	831,569	704,247	-	-
Accumulated depreciation	(539,673)	(421,633)	-	-
	291,896	282,614	-	-
Motor Vehicles				
At cost	26,100	26,100	-	-
Accumulated depreciation	(14,139)	(10,666)	-	-
	11,961	15,434	-	-
Furniture, fittings and equipment				
At cost	763,019	642,253	-	-
Accumulated depreciation	(614,533)	(480,128)	-	-
	148,486	162,125	-	-
Computer software				
At cost	173,337	152,891	-	-
Accumulated depreciation	(127,931)	(12,561)	-	-
	45,406	140,330	-	-
Total Property, Plant and Equipment	497,749	600,503	-	-

NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONT)

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment	Motor Vehicles	Furniture, fittings and equipment	Computer software	Total
	$	$	$	$	$
Economic Entity:					
Balance at the beginning of year	282,614	15,434	162,125	140,330	600,503
Additions	128,073	12,000	120,765	20,446	281,284
Disposals	-	(11,433)	-	-	(11,433)
Depreciation expense	(118,791)	(4,040)	(134,404)	(115,370)	(372,605)
Carrying amount at the end of year	291,896	11,961	148,486	45,406	497,749

	Economic Entity		Parent Entity	
	2005 $	2004 $	2005 $	2004 $
NOTE 16: DEFERRED TAX ASSETS				
Future income tax benefit				
a. The future income tax benefit is made up of the following estimated tax benefits:				
— timing differences	390,258	242,249	59,753	154
	390,258	242,249	59,753	154
NOTE 17: INTANGIBLE ASSETS				
Goodwill at cost	24,869,495	24,957,906	-	-
Accumulated amortisation	(1,295,471)	(51,996)	-	-
	23,574,024	24,905,910	-	-
NOTE 18: PAYABLES				
CURRENT				
Payable to a previous partner (Quadrant)	-	474,606	-	-
Trade creditors	3,076,301	2,456,836	1,097	-
Sundry creditors and accrued expenses	670,929	620,489	-	-
Commissions payable	610,958	489,251	-	-
Amounts payable to:				
— wholly-owned subsidiaries	-	-	-	47,231
	4,358,188	4,041,182	1,097	47,231

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Economic Entity		Parent Entity	
		2005 $	2004 $	2005 $	2004 $
NOTE 19: TAX LIABILITIES					
CURRENT					
Income tax		1,339,190	124,287	1,339,190	124,287
NOTE 20: PROVISIONS					
CURRENT					
Promotions		518,703	353,971	-	-
Employee benefits	20a	636,969	453,127	-	-
Other		-	50,000	-	-
		1,155,672	857,098	-	-
NON-CURRENT					
Employee benefits	20a	123,679	146,869	-	-
		123,679	146,869	-	-
a. Aggregate Employee Benefits Liability		760,648	599,996	-	-
b. Number of Employees at year end		106	81	-	-
NOTE 21: INTEREST BEARING LIABILITIES					
NON-CURRENT					
Payable to Directors		-	2,550,634	-	-
		-	2,550,634	-	-
NOTE 22: CONTRIBUTED EQUITY					
48,000,000 (2004: 48,000,000) fully paid ordinary shares	22a	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/period		23,960,750	-	23,960,750	-
Shares issued during the year/period		-	24,000,001	-	24,000,001
Transaction costs relating to share issues		-	(39,250)	-	(39,250)
Shares bought back during the year/period		-	(1)	-	(1)
At reporting date		23,960,750	23,960,750	23,960,750	23,960,750

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Economic Entity		Parent Entity	
	2005 No.	2004 No.	2005 No.	2004 No.
NOTE 22: CONTRIBUTED EQUITY (CONT)				
At the beginning of reporting year/period	48,000,000	-	48,000,000	-
Shares issued during year/period	-	48,000,002	-	48,000,002
Shares bought back during year/period	-	(2)	-	(2)
At reporting date	48,000,000	48,000,000	48,000,000	48,000,000

At 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.

	Notes	Economic Entity		Parent Entity	
		2005 $	2004 $	2005 $	2004 $
NOTE 23: RETAINED PROFITS					
Retained profits at the beginning of the financial year/period		237,649	-	289,645	-
Net profit for the year/period		2,427,215	237,649	2,410,690	289,645
Dividends paid	7	(960,000)	-	(960,000)	-
Retained profits at the end of the financial year/period		1,704,864	237,649	1,740,335	289,645

NOTE 24: CAPITAL AND LEASING COMMITMENTS

Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable				
— not later than 1 year	1,355,244	1,238,630	-	-
— later than 1 year but not later than 5 years	354,500	782,724	-	-
	1,709,744	2,021,354	-	-

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 2007, 2009, 2010 and 2012. An option exists to renew the lease at the end of the seven-year term for an additional term of seven years, commencing 1 July 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 24: CAPITAL AND LEASING COMMITMENTS (CONT)

Motor Vehicle

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

Office Equipment

Some office equipment is leased over a five year term.

	Economic Entity		Parent Entity	
	2005 $	2004 $	2005 $	2004 $
NOTE 25: CASH FLOW INFORMATION				
a. Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax				
Profit from ordinary activities after income tax	2,427,215	237,649	2,410,690	-
Non-cash flows in profit from ordinary activities				
Amortisation	1,243,475	51,996	-	-
Depreciation	372,605	21,919	-	-
Net gain on disposal of property, plant and equipment	(485)	(423)	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Decrease in receivables	15,049	202,426	-	-
(Increase) in other debtors	(50,263)	(241,121)	-	-
(Increase)/decrease in inventories	(926,042)	79,374	-	-
Increase/(decrease) in payables	317,007	251,124	(46,134)	-
Increase in income taxes payable	1,214,902	124,287	1,214,902	-
Decrease in deferred taxes payable	(59,598)	(154)	(59,598)	-
Increase in provisions	275,384	9,906	-	-
Cash flow from operations	4,829,249	736,983	3,519,860	-
b. Credit Standby Arrangements with Banks				
Credit facility	1,504,714	2,291,000	-	-
Amount utilised	-	-	-	-
Unused credit facility	1,504,714	2,291,000	-	-
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	168,000	-	-
MasterCard corporate card	35,000	23,000	-	-
Commercial Bill Facility	-	800,000	-	-
	1,504,714	2,291,000	-	-

	Economic Entity		Parent Entity	
	2005 $	2004 $	2005 $	2004 $
NOTE 26: RELATED PARTY TRANSACTIONS				
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
a. Director related transactions	-	2,550,634	-	-

The balance of loans owing to Ian Everingham and John Everett, listed under interest bearing liabilities (note 21), were fully repaid on 14 April 2005.

Interest was paid at the rate of 8% p.a on any unpaid balance during the year.

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 two directors Ian Everingham and John Everett hold an interest. Rent is payable at a rate of $674,412 per annum. There is an option to renew for seven years on 1 July 2006.

NOTE 27: SEGMENT REPORTING

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

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

NOTE 28: FINANCIAL INSTRUMENTS

a. Financial Instruments

The financial instruments of the economic entity consist of cash and a guarantee deposit. The liabilities consist of loans to related parties where the rates are fixed.

The economic entity did not use derivative financial instruments during the year.

b. Interest Rate Risk

The economic entity's 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 rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

Financial Instruments	Weighted Average Effective Interest Rate		Fixed Interest Rate Maturing Within 1 Year $		Fixed Interest Rate Maturing 1 to 5 Years $		Total $	
	2005	2004	2005	2004	2005	2004	2005	2004
Financial Assets:								
Cash	4.99%	3.7%	2,154,616	1,105,367	-	-	2,154,616	1,105,367
Receivables								
Investments	6.35%	5.25%	45,000	45,000	-	-	45,000	45,000
Total Financial Assets			2,199,616	1,150,367	-	-	2,199,616	1,150,367

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

NOTE 28: FINANCIAL INSTRUMENTS (CONT)

Financial Instruments	Weighted Average Effective Interest Rate		Fixed Interest Rate Maturing				Total $	
			Within 1 Year $		1 to 5 Years $			
	2005	2004	2005	2004	2005	2004	2005	2004
Financial Liabilities:								
Amounts payable related Parties	n/a	8%	-	-	-	2,550,634	-	2,550,634
Total Financial Liabilities			-	-	-	2,550,634	-	2,550,634

All other assets and liabilities are non-interest bearing.

c. 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 doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

NOTE 29: 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 30: EVENTS SUBSEQUENT TO REPORTING DATE

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2005.