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

ANNUAL REPORT
FOR THE
YEAR ENDED 30 JUNE 2011

CONTENTS

Annual General Meeting

The Annual General Meeting of UnderCoverWear Limited Consolidated Entity ABN 85 108 962 152 will be held at the offices of Grant Thornton, Level 17, 383 Kent Street, Sydney NSW on 25th November 2011 at 11.00am.

CHAIRMAN'S OVERVIEW

UnderCoverWear Limited (UnderCoverWear) reports a 2011 net loss of $16,163,504 which is an increase from the 2010 reported loss of $5,768,731. The result includes an impairment adjustment of $14,617,499 writing off all remaining goodwill.

This equates to a 2011 negative EPS of 37.42 cents per share compared to a reported negative EPS of 12.92 cents per share 2010. The pre impairment net loss after tax was $1,546,005 a decline of $2,077,274 on the 2010 $531,269 profit result.

The result is disappointing and below expectations. It has been a challenging year in many ways with the result including one off expenses relating to staff costs of $300,000 and aged inventory write downs of $1.6m.

The management team has reviewed all aspects of the business. Staff numbers have been reduced by 25% at head office, the majority of manufacturing has been relocated offshore and the focus very much on growing consultant numbers.

Dividends

Based on the reduced earnings for 2010/11 and the Board's wish to conserve cash flows, the Directors announce that a final dividend will not be paid. UnderCoverWear did not pay an interim dividend.

Outlook

The process of re-building has begun in relation to product quality, sizing consistency, and availability. The number of products per catalogue has been brought back to a manageable size for the sales consultants. Consistency of training and practices within the field of sales consultants is taking shape and a training program is scheduled for role out in 2012. All areas of the business are being reviewed to ensure best practice and a strict attention to costs.

My sincere thanks to shareholders for their continued support.

Stuart Richardson
Chairman

29 September 2011

EXECUTIVE DIRECTOR'S REPORT

This has been a poor year by any measure; we have had sales of $17,049,933, a decline from last year of 28% driven by a large decline in consultants from 1,392 down to 917. The underlying cause of this decline has been identified and corrected.

We have now stabilised this drop out in consultant numbers and have put in programs to re-build the company's recruitment culture. The field management structure and our incentive plans are now rewarding people for building a sustainable business.

We have implemented training programs both online and in person for our field leadership teams, we have agreed goals with the sales team that are measurable and are discussed every week with UnderCoverWear management.

We have reduced costs in line with current volumes by a headcount reduction and substantial changes to the way we produce our catalogues amongst many other cost saving initiatives.

We plan to have 95% of production offshore for the first release in 2012 with an immediate impact on costs and an increase in margin.

We have brought back to the company a top quality designer who knows our customer base well and a procurement manager who is building our offshore relationships with a focus on appropriate cost of goods, quality control and required quantities. Quality, fit and fashionability are the key to rebuilding our reputation with the field.

We will move our business progressively back to more balanced ranges between lingerie and outerwear.

In addition we have an inventory controller with a finance background supporting the buying team providing high quality analysis, advice and direction.

We now have a depth of understanding of our inventory requirements and the makeup of our current inventory. We are engaged in the task of liquidating some 137,000 items of discontinued products, the proceeds of which will be used to further reduce our debt level. This level of clearance is a distraction to the new business however we have built a clearance website and this will become a very valuable asset for UnderCoverWear as we build our database. This is the embryo of a new digital strategy for UnderCoverWear.

The steps taken will stabilize the company and generate a small profit over the next 12 months as we rebuild our consultant base.

The upside for the future is to build a strong digital model around, and for, our consultant base with the party plan model in addition to direct sales linked to a streamlined supply chain built on direct sourcing.

Richard Lowry
Executive Director

29 September 2011

BOARD OF DIRECTORS

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 is Chairman of the Audit & Remuneration Committees and holds an interest in 1,686,046 ordinary shares in UnderCoverWear Limited. Mr Richardson's only directorship held with a public listed company during the past 3 years was with Cockatoo Ridge Wines Limited, of which he is no longer a director.

John Everett, A.M., B Econ., A.A.S.A.

Non-Executive Director

Mr Everett has been a director of UnderCoverWear Limited since 5 May 2004, becoming an executive director for the period 3 December 2010 to 30 June 2011. 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 19,923,219 ordinary shares in UnderCoverWear Limited. Mr Everett has not held directorships in any other public listed companies during the past 3 years.

Richard Lowry

Executive Director

Mr Lowry has been a director of UnderCoverWear Limited since 31 March 2010 initially as a non-executive director before becoming and executive director on 1 May 2011. Mr Lowry has extensive experience in the retail industry both in Australia and overseas. Mr Lowry has had a 30 year involvement with Myer department stores culminating in his appointment to its management committee as stores director in 1996 through to 2000. Mr Lowry spent three years overseas as Chief Operating Officer for the Matahari department store group in Indonesia before returning to Australia to work with a number of retail companies including Downtown Duty Free, The Nuance group, Prouds Jewellery and as Managing Director of Babies Galore. He has been consulting on retail projects in companies as diverse as the Laminex group through to Brandcorp and Myer. Mr Lowry has previously held board positions with various state retail traders associations and was a board member of the Melbourne Tourism Authority. Mr Lowry does not hold any shares in UnderCoverWear Ltd and has not held any directorships in other public listed companies over the last 3 years.

Nick Geddes, FCA, FCIS

Company Secretary (alternate director for John Everett)

Mr Geddes is the principal of Australian Company Secretaries Pty Ltd, a company secretarial practice, which he formed in 1993. Mr Geddes is immediate past 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). Mr Geddes also currently serves as a director of Chartered Secretaries Australia Limited.

DIRECTORS' REPORT

Your directors present their report on Undercoverwear Limited consolidated entity (the Group) for the financial year ended 30 June 2011.

Directors

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

- Stuart A Richardson
- John H Everett
- Richard L Lowry
- Nicholas JV Geddes (alternate director for John Everett - appointed 6th August 2010)

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 5 which forms part of this report.

Company Secretary

Mr Geddes has held the position of Company Secretary since 30th October 2007 to the date of this report. Details about his experience and qualifications can be found on page 5 of this report.

Principal Activities

The principal activities of the Group 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 Group's principal activities during the financial year.

Operating Results

The consolidated loss of the Group after providing for impairment of goodwill and income tax amounted to $16,163,504. (2010: loss of $5,768,731).

Dividends Paid or Recommended

No dividends have been paid or declared since the end of the previous financial year.

Review of Operations

Quality, fit and fashion are key to rebuilding the operation. We will move our business progressively back to more balanced ranges between lingerie and outerwear. The steps taken will stabilize the company and generate a small profit over the next 12 months we will rebuild our consultant base.

The upside for the future is to build a strong digital model, around and for, our consultant base with the party plan model in addition to direct sales linked to a streamlined supply chain built on direct sourcing.

Financial Performance

The net loss of $16,163,504 for the 2011 Financial Year includes goodwill impairment of $14,617,699.

The result includes one off expenses relating to staff costs of $300,000 and aged inventory write downs of $1.6m. Cash flow management will continue to require a strong focus during the 2012 financial year.

DIRECTORS' REPORT (cont)

Significant Changes in State of Affairs

Other than the restructure of the UnderCoverWear management team, there has been no significant change in the state of the affairs of the Group during the financial year.

After Balance Date Events

There were no significant events after balance sheet reporting date that affects the position at 30 June 2011, other than the decision by the directors to write off the remaining goodwill balance as at 30 June 2011.

Future Developments, Prospects & Business Strategies

The upside for the future is to build a strong digital model around, and for, our consultant base with the party plan model in addition to direct sales linked to a streamlined supply chain built on direct sourcing.

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, 15 meetings of directors (including committees of directors) were held. Attendances by each director during the year are set out in the table below.

	NUMBER OF MEETINGS			
DIRECTORS	DIRECTORS' MEETINGS		AUDIT COMMITTEE	
	Eligible	Attended	Eligible	Attended
Stuart A Richardson	13	12	2	2
John H Everett	13	12	2	1
Nicholas J V Geddes (Alternate for Mr Everett)	1	1	1	1
Richard Lowry	13	13	2	2

There were no meetings of the remuneration committee during the year.

Indemnifying Officers or Auditor

The Group has paid premiums to insure each of the following Directors and 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 $15,092.

Stuart Richardson	John Everett
Richard Lowry	Nick Geddes

Options

There were no options over issued shares and no options granted or outstanding during the financial period ended 30 June 2011 or at the date of this report.

DIRECTORS' REPORT (cont)

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group 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 $9,295 were paid/payable to external auditors during the year ended 30 June 2011 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 2011 can be found on pages 9-12, which forms part of this report, and of which has been audited.

Going Concern

Notwithstanding the operating loss for the 2011 financial year of $16.2m, a goodwill impairment of $14.6m, net cash used in operating activities of $1.1m, and a net decrease in cash of $1.5m, this financial report has been prepared on a going concern basis. The directors are confident that the combination of careful management of overheads, the continued focus on growing consultant numbers, and the continued access to the bank facility, will provide sufficient funds to meet the ongoing capital requirements of the Group for the foreseeable future. Whilst there is significant uncertainty, the directors consider it appropriate to prepare the accounts on a going concern basis as they are satisfied that, based on the cash flow forecasts prepared, the Group will be able to meet its debts as and when they become due and payable for a period of at least 12 months from the date of this report.

Auditor's Independence Declaration

As required under Section 307C of the Corporations Act, the auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 47 which forms part of this report.

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

Stuart Richardson
Chairman

29 September 2011

REMUNERATION REPORT

Introduction

This report forms part of the Directors' Report for the year ended 30 June 2011. 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 and 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 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 Group.

- *Executive Directors & other Key Management Personnel*

  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.
  All directors and other key management personnel 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

Bonus payments to key management personnel are reflective of the company's overall trading results & not specific to an individuals own performance. There we no bonus payments made during the year ended 30 June 2011.
The following table shows earnings performance of the Group over the past five years:

Year ended 30 June	2011	2010	2009	2008	2007
Revenue	17,049,933	23,696,617	24,953,815	33,712,442	43,875,007
Earnings before interest, tax, depreciations & amortisation (EBITDA)	(1,947,815)	912,308	2,365,923	5,207,502	6,132,249
Net (loss) / profit	(16,163,504)	(5,678,731)	(2,267,571)	3,649,942	4,124,189
Basic EPS (cents)	(37.42)	(12.92)	(4.72)	7.60	8.59
Dividend per share (cents)	-	1.25	2.0	5.75	6.5

The main performance measure was economic profit, with the key component being EBIT.

REMUNERATION REPORT (cont)

c. Remuneration Practices

- The Group's policy for determining the nature and amount of emoluments of board members and other key management personnel of the company is as follows:

  The remuneration structure for Key Management Personnel, 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 other key management personnel are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement, Directors and other key management personnel are paid employee benefit entitlements accrued to date of retirement.
- 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 Group. Incentive payments for key members of the management team linked to EBIT will be built in to the 2012 Financial Year remuneration policy.

Details of Remuneration for Year Ended 30 June 2011

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 (KMP)	Position
Stuart Richardson	Chairman - Non-Executive
John Everett	Director - Non-Executive
Richard Lowry	Director - Executive
Laurie Fitzgerald	General Manager Sales
Angela Catford	Chief Financial Officer
Simon Pervan	Chief Executive Officer (resigned 3/12/10)
Debbie Eisenhauer-Rodney	Chief Operating Officer (redundancy 14/9/10)
Karen Thom (appointed 5/7/10)	General Manager Product (redundancy 21/3/11)

REMUNERATION REPORT (cont)

The remuneration for each director and other KMP of the Group during the year was as follows:

For the year ended 30 June 2011 — **Short-term Benefits**

	Salary, Fees & Commissions	Superannuation Contribution	Cash Bonus	Non-monetary Benefits	Termination Payment	Total Related	Performance
	$	$	$	$	$	$	%
Stuart Richardson^	66,667	-	-	-	-	66,667	-
John Everett	115,322	6,629	-	-	-	121,951	-
Richard Lowry	85,948	7,735	-	-	-	93,683	-
Total for Directors	267,937	14,364	-	-	-	282,301	-
Laurie Fitzgerald	145,384	13,085	-	19,119	-	177,588	-
Angela Catford	78,259	7,029	-	-	-	85,288	-
Simon Pervan (resigned 3/12/10)	130,064	11,352	-	8,821	-	150,237	-
Debbie Eisenhauer-Rodney (redundancy 14/9/10)	42,919	3,612	-	-	24,700	71,231	-
Karen Thom (appointed 5/7/10 – redundancy 21/3/11))	106,589	8,370	-	-	10,000	124,959	-
Total for other KMP	503,215	43,448	-	27,940	34,700	609,303	
Total	771,152	57,812	-	27,940	34,700	891,604	

^The amount disclosed was paid as a consulting fee to Blackwood Capital, and has been reported as a related party transaction
The executive management has been restructured and there are less Key Management Personnel for the purposes of this report.

For the year ended 30 June 2010 — **Short-term Benefits**

	Salary, Fees and Commissions	Superannuation Contribution	Cash Bonus	Non-monetary Benefits	Termination Payment	Total Related	Performance
	$	$	$	$	$	$	%
Stuart Richardson^^	59,042	-	-	-	-	59,042	-
John Everett	54,167	4,875	-	-	-	59,042	-
Elaine Vincent ^^^	265,539	14,461	200,000^	11,700	221,633	713,333	-
Richard Lowry	12,500	1,125	-	-	-	13,625	-
Total for Directors	391,248	20,461	200,000	11,700	221,633	845,042	
Simon Pervan	195,574	14,461	5,273	4,585	-	219,893	4.6%
Laurie Fitzgerald (Appointed 1/6/10)	5,385	485	-	-	-	5,870	-
Angela Catford	50,386	5,148	-	6,814	-	62,348	-
Debbie Eisenhauer-Rodney	93,381	8,400	-	-	-	101,781	-
Nicole Riccioni	14,894	1,340	-	-	-	16,234	-
Ana Tokic	88,550	9,769	-	20,000	-	118,319	-
Total for other KMP	448,170	39,603	5,273	31,399	-	524,445	
Total	839,418	60,064	205,273	43,099	221,633	1,369,487	

^ Amounts include any unpaid bonuses, accrued at 30 June 2010.

^^The amount disclosed was paid as a consulting fee to Blackwood Capital, and has been reported as a related party transaction

^^^ Salary, fees and commissions includes Eligible Termination Payment and payout of accrued leave entitlements after 30 June 2010

REMUNERATION REPORT (cont)

Number of Shares Held by Key Management Personnel

	Balance 1.7.2010	Received as Remuneration	Net Change Other*	Balance 30.6.2011 #
Stuart Richardson	1,673,046	-	13,000	1,686,046
John Everett	19,923,219	-	-	19,923,219
Richard Lowry	-	-	-	-
Laurie Fitzgerald	6,000	-	-	6,000
Angela Catford	1,000	-	-	1,000
Simon Pervan	-	-	-	-
Debbie Eisenhauer-Rodney	-	-	-	-
Karen Thom	-	-	-	-
Total	21,703,265	-	13,000	21,716,265

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

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

The executive management has been restructured and there are less Key Management Personnel for the purposes of this report.

Other KMP Transactions

There have been no other transactions other than those described in the tables above. For details of other transactions with KMP, refer to Note 26 Related Party Transactions.

CORPORATE GOVERNANCE STATEMENT

This statement discloses the key elements of the Group's governance framework during the reporting period and to the date of this report. Throughout the reporting period, the year ended 30 June 2011, UnderCoverWear governance practices substantially complied with the recommendations contained in the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

This corporate governance statement is organized under headings reflecting the ASX Corporate Governance Council's current principles and recommendations, as updated in August 2007, and complies with all principles as detailed (unless noted below).

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 Group 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 Group'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.

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. Wherever 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.

CORPORATE GOVERNANCE STATEMENT

Principle 2: Structure the Board to Add Value (cont)

2.1 Independence of Directors (cont)

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

Mr Richard Lowry, an executive director, is considered not to be independent.

Mr Nick Geddes, the Company Secretary and alternate director for John Everett from 11 August 2009 to time of signing this report 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.

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 to 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.

CORPORATE GOVERNANCE STATEMENT

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.

New recommendations 3.2-3.4 on diversity

The board notes a the recent changes to the ASX Corporate Governance Principles and Recommendations, which seek to incorporate three new recommendations in relation to diversity and, in particular gender diversity.

Whilst the Group notes that the disclosure in relation to the recently introduced changes will only be required to be made in and from its 2012 Annual Report, the Board has taken the opportunity to consider the changes at an early stage in its commitment to maintaining good corporate governance standards.

New 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include the requirements for the board to establish measurable objectives and progress in achieving them.

The Board has contemplated the necessity of implementing a diversity policy. Noting the relatively small size of the Group and the fact that the Group has a small number of employees, the Board has resolved to depart from the new recommendations by not implementing a gender diversity policy. The departure from recommendation 3.2 will subsequently be explained in the Group's annual report for the financial year ending 30 June 2012, by indicating that the recommendation is inappropriate to the Group's particular circumstances.

New 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them

The Board's departure from recommendation 3.3 will be explained in the Group's annual report for the financial year ending 30 June 2012, by indicating that the recommendation is inappropriate to the Group's particular circumstances.

New 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

The Group intends to disclose in each future annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

3.5 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.

CORPORATE GOVERNANCE STATEMENT

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 one 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, nor for the Committee to consist of three members, 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 is 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 Audit Pty Ltd, 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.

CORPORATE GOVERNANCE STATEMENT

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 summarized 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. The engagement partner of the Company's external auditor, Grant Thornton, 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.

CORPORATE GOVERNANCE STATEMENT

Principle 7: Recognise & Manage Risk (cont)

7.3 Risk Management Accountability (cont)

The company has measures in place to mitigate risk in the following areas:

- Security of data and IT systems is maintained by daily back-up of transactions, with the information stored both on-site and off-site. Data is stored on a transactional basis and can be restored to any point in time;
- Security of the head office building is maintained by back to base alarm and patrolled regularly after hours;
- Raw materials for 90% of the finished goods inventory balance are held off-site.
- Fire and bomb threat evacuation procedures are documented and practice drills are performed on regular basis. The fire system is testing weekly, and maintained with a direct link to the closest fire brigade depot. The Annual Fire Safety Statement, (Form 15A) is signed off and lodged each year.
- Insurance policies for risk are maintained for loss of income, property and associated liabilities and form part of the company's disaster recovery strategy.

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 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 Group 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.

STATEMENT OF COMPREHENSIVE INCOME

	Note	Consolidated Entity	
		2011 $	2010 $
Revenue	2	17,049,933	23,696,617
Changes in inventories of finished goods and work in progress	3	(5,606,382)	(4,628,248)
Raw materials and consumables used	3	(2,706,892)	(5,301,695)
Distribution costs		(872,711)	(1,193,651)
Commissions paid		(1,224,440)	(1,695,440)
Promotions and advertising expense		(1,724,051)	(2,395,340)
Depreciation and amortisation expense	3	(260,476)	(200,797)
Impairment expense		(14,617,499)	(6,300,000)
Insurance expense		(168,349)	(160,024)
Employee benefits expense		(4,084,167)	(4,835,141)
Rental expenses		(1,105,599)	(940,035)
Finance costs	3	(194,017)	(87,696)
Other expenses		(1,311,140)	(1,634,735)
Loss before income tax expense	3	(16,825,790)	(5,676,185)
Income tax expense	4	662,286	(92,546)
Loss attributable to members of the parent entity		(16,163,504)	(5,768,731)
Other comprehensive income		-	-
Total comprehensive income for the year		(16,163,504)	(5,768,731)
Basic loss per share (cents per share)	8	(37.42)	(12.92)
Diluted loss per share (cents per share)	8	(37.42)	(12.92)

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

STATEMENT OF FINANCIAL POSITION

	Note	Consolidated Entity	
		2011 $	2010 $
CURRENT ASSETS			
Cash and cash equivalents	9	36,030	308,322
Trade and other receivables	10	1,387,350	786,466
Inventories	11	2,801,614	4,365,924
Other current assets	12	68,589	194,755
TOTAL CURRENT ASSETS		4,293,583	5,655,467
NON-CURRENT ASSETS			
Plant and equipment	14	843,271	1,266,021
Deferred tax assets	15	313,549	359,178
Intangible assets	16	-	14,617,499
TOTAL NON-CURRENT ASSETS		1,156,820	16,242,698
TOTAL ASSETS		5,450,403	21,898,165
CURRENT LIABILITIES			
Financial liabilities	17	1,600,034	454,463
Trade and other payables	18	1,689,552	1,997,734
Short-term provisions	19	434,402	1,038,660
TOTAL CURRENT LIABILITIES		3,723,988	3,490,857
NON-CURRENT LIABILITIES			
Financial liabilities	17	129,045	653,361
Long-term provisions	19	56,240	68,872
Deferred tax liabilities	15	88,474	68,915
TOTAL NON-CURRENT LIABILITIES		273,759	791,148
TOTAL LIABILITIES		3,997,747	4,282,005
NET ASSETS		1,452,656	17,616,160
EQUITY			
Issued capital	20	22,809,146	22,809,146
Retained earnings		(21,356,490)	(5,192,986)
TOTAL EQUITY		1,452,656	17,616,160

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

STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary Share Capital	Retained Earnings	Total
		$	$	$
Consolidated Entity				
Balance at 1 July 2009		23,960,750	1,595,698	25,556,448
Total comprehensive income for the year		-	(5,768,731)	(5,768,731)
Shares bought back during the period	20	(1,151,604)	-	(1,151,604)
Dividends paid	7	-	(1,019,953)	(1,019,953)
Balance at 30 June 2010		22,809,146	(5,192,986)	17,616,160
Total comprehensive income for the year		-	(16,163,504)	(16,163,504)
Balance at 30 June 2011		22,809,146	(21,356,490)	1,452,656

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

STATEMENT OF CASH FLOWS

	Note	Consolidated Entity 2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		18,787,841	26,016,528
Payments to suppliers and employees		(19,550,899)	(24,412,671)
Interest received		66	36,710
Dividends & trust distributions received		37	34
Finance costs		(194,017)	(87,696)
Income taxes paid		(44,035)	(552,342)
Net cash (used in)/provided by operating activities	24a	(1,001,007)	1,000,563
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		180,664	-
Purchase of property, plant and equipment		(73,204)	(1,330,825)
Share buy back		-	(1,151,604)
Net cash provided by/(used in) by investing activities		107,460	(2,482,429)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid by parent entity		-	(1,019,953)
Proceeds from borrowings		(568,830)	1,107,824
Net cash (used in)/provided by financing activities		(568,830)	87,871
Net decrease in cash & cash equivalents held		(1,462,377)	(1,393,995)
Cash & cash equivalents at beginning of financial year		308,322	1,702,317
Cash & cash equivalents at the end of financial year	9	(1,154,055)	308,322

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers UnderCoverWear Limited and its controlled entities as a consolidated entity (the Group). UnderCoverWear Limited is a listed public company, incorporated and domiciled in Australia.

The financial report was authorised for issue on 29th September 2011.

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 of UnderCoverWear Limited and its controlled entities 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.

There were no other critical estimates or judgements that require disclosure.

Reporting basis and conventions

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

Accounting standards not previously applied

There were no new or revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current period which had a significant impact on the financial statements.

Accounting Policies

The consolidated financial statements incorporate assets, liabilities and results of entities controlled by UnderCoverWear Limited at the end of the reporting period. A controlled entity is any entity UnderCoverWear Limited has the power to govern 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 Group, 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 Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

a) 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. Current tax liabilities are measured at the amounts expected to be paid to the relevant taxation authority.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

a) Income Tax (cont)

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 Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

b) 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.

c) Plant and Equipment

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

d) Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Group 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%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.
Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

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 Group, 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 Group 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. Please refer Note 21 for disclosures required.

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.

f) Financial Instruments

- **Recognition and 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.

iii. **Financial Liabilities**

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

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

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. Refer to Note 16 for details of the assumptions and factors incorporated for the impairment testing.

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 Group'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 cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows. Contributions are made by the Group 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 3 months 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

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.

- **Key estimates - Trade receivables**

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

- **Key estimates - Inventories**

  The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account, the ageing of inventories and other factors that affect inventory obsolescence.

- **Key estimates – Long service leave**

  The liability for long service leave is recognised and measured at the present value of the estimated future cashflows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through inflation have been taken into account.

p) Going concern

Notwithstanding the operating loss for the 2011 financial year of $16.2m, a goodwill impairment of $14.6m, net cash used in operating activities of $1.1m, and a net decrease in cash of $1.5m, this financial report has been prepared on a going concern basis. The directors are confident that the combination of careful management of overheads, the continued focus on growing consultant numbers, and the continued access to the bank facility, will provide sufficient funds to meet the ongoing capital requirements of the Group for the foreseeable future. Whilst there is significant uncertainty, the directors consider it appropriate to prepare the accounts on a going concern basis as they are satisfied that, based on the cash flow forecasts prepared, the Group will be able to meet its debts as and when they become due and payable for a period of at least 12 months from the date of this report.

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity 2011 $	2010 $
NOTE 2: REVENUE & OTHER INCOME			
Operating activities			
— sale of goods		16,181,347	22,781,540
— distribution charges		230,474	294,399
— rental revenue		439,912	497,181
— other revenue		194,473	86,753
— interest received	2a	66	36,710
— dividends received	2a	37	34
Total revenue		17,046,309	23,696,617
Non-operating activities			
— gain on disposal of plant and equipment		3,624	-
Total other income		3,624	-
Total revenue & other income		17,049,933	23,696,617
a. Interest & dividend revenue from:			
— other persons		103	36,744
Total interest & dividend revenue		103	36,744

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: LOSS BEFORE TAX

Loss before income tax has been determined after:

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
a. Expenses		
Cost of sales	8,313,274	9,804,437
Finance costs:		
— other persons	194,017	87,696
Total finance costs	194,017	87,696
Foreign currency translation gains/losses	241,291	172,072
Depreciation / amortisation of non-current assets:		
— plant and equipment	76,418	38,041
— motor vehicles	153,072	122,855
— furniture, fittings and equipment	30,986	39,393
— computer software	-	508
Total depreciation and amortisation	260,476	200,797
Impairment loss	14,617,499	6,300,000
Bad and doubtful debts:		
— trade debtors	30,926	69,329
Total bad and doubtful debts	30,926	69,329
Rental expense on operating leases		
— staff motor vehicles	9,885	776
— consultant motor vehicles	70,051	241,074
— rentals	1,025,663	940,035
Total of rental expense on operating lease	1,105,599	1,181,885
Write-down of inventories to net realisable value	1,635,346	459,639
Write-off of obsolete stock	58,362	2,525

NOTES TO THE FINANCIAL STATEMENTS

		Note	Consolidated Entity 2011 $	2010 $

NOTE 4: INCOME TAX EXPENSE

		Note	2011 $	2010 $
a.	The components of tax expense comprise:			
	Current tax		(727,474)	122,061
	Deferred tax	15	65,188	(29,515)
	Income tax (benefit)/expense reported in the income statement		(662,286)	92,546

		2011 $	2010 $
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 before income tax at 30% (2010: 30%)		(5,047,737)	(1,702,856)
Add:			
Tax effect of:			
—	Imputation & withholding tax gross-up	5	5
—	Other non-allowable items	4,385,630	1,890,547
Less:			
Tax effect of:			
—	Other non-assessable items	(166)	(95,132)
—	Imputation and withholding tax credits	(18)	(18)
Income tax expense attributable to profit from ordinary activities before income tax		(662,286)	92,546
The applicable weighted average effective tax rates are as follows		(4%)	2%

The decrease in the weighted average effective consolidated tax rate for 2011 is a result of taking into account the $14,617,499 impairment loss recognised in 2011.

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
NOTE 6: AUDITORS' REMUNERATION		
Remuneration of the auditors of parent and subsidiaries - Grant Thornton Audit Pty Limited for:		
— auditing or reviewing the financial report	100,250	77,000
— other services	9,295	7,950
	109,545	84,950
NOTE 7: DIVIDENDS		
Dividends paid		
Nil 2010 final fully franked ordinary dividend (2009: 1.0 cent) per share franked at the tax rate of 30%	-	480,000
Nil interim fully franked ordinary dividend (2010:1.25 cents) per share franked at the tax rate of 30%	-	539,953
	-	1,019,953
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	1,460,025	2,389,437
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	-	-
	1,460,025	2,389,437
NOTE 8: EARNINGS PER SHARE		
a. Reconciliation of earnings to net profit or loss		
Net loss	(16,163,504)	(5,768,731)
Loss used in the calculation of basic and dilutive EPS	(16,163,504)	(5,768,731)
b. Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS	43,200,000	44,641,982

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity 2011 $	2010 $
NOTE 9: CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		36,030	308,322
		36,030	308,322
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:			
Cash and cash equivalents		36,030	308,322
Bank overdraft	17	(1,190,085)	-
		(1,154,055)	308,322
NOTE 10: TRADE AND OTHER RECEIVABLES			
CURRENT			
Other receivables		242,997	254,436
Provision for impairment of other receivables	a	(87,344)	(70,155)
Amounts receivable from:			
— director related entities		-	141,997
— income tax		1,231,697	460,188
		1,387,350	786,466

a. Provision for Impairment of Receivables

Other receivables consist mainly of balances relating to our Independent Sales Consultants and are not tracked on an ageing basis. Management monitors the collectability of these accounts by assigning each consultant account a status from 0-7, representing the type of consultant debtor (current & 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 Entity 2011	Opening Balance at 1 July 2010	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2011
Other receivables	70,155	30,260	(13,071)	87,344

Consolidated Entity 2010	Opening Balance at 1 July 2009	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2010
Other receivables	45,739	72,165	(47,749)	70,155

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.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
NOTE 11: INVENTORIES		
CURRENT		
At cost:		
Raw materials and stores	218,879	687,035
Work in progress	30,077	80,606
Finished goods	1,976,999	2,464,093
	2,225,955	3,231,734
At net realisable value:		
Raw materials and stores	79,112	179,857
Finished goods	496,547	954,333
	575,659	1,034,190
	2,801,614	4,365,924

NOTE 12: OTHER CURRENT ASSETS

	2011 $	2010 $
CURRENT		
Prepayments	68,589	194,755
	68,589	194,755

NOTE 13: CONTROLLED ENTITIES

Entity:	Country of Incorporation	Percentage Owned 2011	Percentage Owned 2010
UnderCoverWear Unit Trust	Australia	100%	100%

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
NOTE 14: PLANT AND EQUIPMENT		
Plant and equipment		
At cost	1,029,183	1,027,159
Accumulated depreciation	(969,154)	(949,502)
	60,029	77,657
Motor vehicles		
At cost	999,441	1,271,454
Accumulated depreciation	(250,186)	(133,650)
	749,255	1,137,804
Furniture, fittings and equipment		
At cost	1,032,958	1,018,545
Accumulated depreciation	(998,971)	(967,985)
	33,987	50,560
Total Plant and Equipment	843,271	1,266,021

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 and Equipment	Motor Vehicles	Furniture, fittings and equipment	Computer software	Total
	$	$	$	$	$
Consolidated Group:					
Balance at 1 July 2009	95,024	1,306	39,155	508	135,993
Additions	20,674	1,259,353	50,798	-	1,330,825
Disposals	-	-	-	-	-
Depreciation expense	(38,041)	(122,855)	(39,393)	(508)	(200,797)
Balance at 30 June 2010	77,657	1,137,804	50,560	-	1,266,021
Additions	58,791	-	14,413	-	73,204
Disposals	-	(235,478)	-	-	(235,478)
Depreciation expense	(76,419)	(153,071)	(30,986)	-	(260,476)
Balance at 30 June 2011	60,029	749,255	33,987	-	843,271

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15: TAX

Deferred Tax Assets	Opening Balance	Charged to Income	Charged directly to Equity	Closing Balance
Provisions	264,633	47,977	-	312,610
Other	43,695	2,873	-	46,568
Balance at 30 June 2010	308,328	50,850	-	359,178
Provisions	312,610	(50,741)	-	261,869
Other	46,568	5,112	-	51,680
Balance at 30 June 2011	359,178	(45,629)	-	313,549

Deferred Tax Liabilities				
Provisions	55,901	13,014	-	68,915
Other	-	-	-	-
Balance at 30 June 2010	55,901	13,014	-	68,915
Provisions	68,915	19,559	-	88,474
Other	-	-	-	-
Balance at 30 June 2011	68,915	19,559	-	88,474

	Note	Consolidated Entity 2011 $	2010 $
NOTE 16: INTANGIBLE ASSETS			
Goodwill at cost		24,817,499	24,817,499
Accumulated impairment losses		(24,817,499)	(10,200,000)
		-	14,617,499

Due to the current economic climate and current financial performance, an impairment loss for the current year of $14,617,499 has been made to write down the asset completely. The impairment loss has taken in consideration future earnings, expected growth, share price and the value of the goodwill in the current market.

	Note	2011 $	2010 $
NOTE 17: FINANCIAL LIABILITIES			
CURRENT			
Finance lease liabilities	21b	409,949	454,463
Bank overdraft	9	1,190,085	-
		1,600,034	454,463
NON-CURRENT			
Finance lease liabilities	21b	129,045	653,361

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: FINANCIAL LIABILITIES (cont)

The consolidated group has an overdraft facility of $1,200,000, of which $1,190,028 has been utilised by the end of the reporting period.

A temporary extension of the overdraft facility to $1,650,000 was approved to 30th October 2011.

The consolidated group has borrowed funds via a revolving equipment finance facility to assist with upgrading the fleet of motor vehicles. The facility is for $1,500,000, of which $538,994 has been utilised by the end of the interim reporting period.

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

	Note	Consolidated Entity	
		2011 $	2010 $
NOTE 18: TRADE AND OTHER PAYABLES			
CURRENT			
Trade payables		1,018,970	1,197,663
Sundry payables and accrued expenses		607,904	516,496
Commissions payable		62,678	283,575
		1,689,552	1,997,734
NOTE 19: PROVISIONS			
CURRENT			
Promotions	19b	153,359	134,021
Employee benefits	19a	281,043	904,639
		434,402	1,038,660
NON-CURRENT			
Employee benefits	19a	56,240	68,872
		56,240	68,872
a. Aggregate Employee Benefits Liability		337,283	973,511

b. Provision for Promotions

A provision of $153,359 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19: PROVISIONS (cont)

Movement in provisions is as follows:

	Balance at 1 July 2010	Additional provisions	Amounts used	Unused amounts reversed	Balance at 30 June 2011
	$	$	$	$	$
Promotions	134,021	138,915	(47,863)	(71,714)	153,359
Employee Benefits	973,511	251,874	(865,505)	(22,597)	337,283
Total	1,107,532	390,789	(913,368)	(94,311)	490,642

	2011 $	2010 $
NOTE 20: ISSUED CAPITAL		
43,200,000 (2010: 43,200,000) fully paid ordinary shares	22,809,146	22,809,146
	22,809,146	22,809,146
a. Ordinary shares		
At the beginning of the reporting year	22,809,146	23,960,750
Shares bought back during the year	-	(1,151,604)
At reporting date	22,809,146	22,809,146

	2011 No.	2010 No.
At the beginning of reporting year	43,200,000	48,000,000
Shares bought back during the year	-	(4,800,000)
At reporting date	43,200,000	43,200,000

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. 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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21: CAPITAL AND LEASING COMMITMENTS

	Consolidated Entity 2011 $	Consolidated Entity 2010 $
a) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable		
— not later than 1 year	904,524	942,371
— later than 1 year but not later than 5 years	888,209	1,877,742
	1,792,733	2,820,113

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 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.

	2011 $	2010 $
b) Interest bearing liabilities		
Payable		
— not later than 1 year	434,404	520,212
— later than 1 year but not later than 5 years	130,687	685,372
Minimum payments	565,091	1,205,584
Less future finance charges	(26,097)	(97,760)
Present value of minimum payments	538,994	1,107,824
Included in the statement of financial position as		
Current financial liabilities (note 17)	409,949	454,463
Non-current financial liabilities (note 17)	129,045	613,361
	538,045	1,107,824

Motor Vehicle

Interest bearing loans have been entered into for a three year term to finance the motor vehicle fleet.

NOTE 22: 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 Group is aware of.

NOTE 23: SEGMENT REPORTING

Segment Information

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23: SEGMENT REPORTING (cont)

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

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

	Consolidated Entity	
	2011 $	2010 $
NOTE 24: CASH FLOW INFORMATION		
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Loss after income tax	(16,163,504)	(5,768,731)
Non-cash flows in profit from ordinary activities		
Depreciation	260,476	200,797
Net loss on disposal of property, plant and equipment	54,812	-
Impairment losses	14,617,499	6,300,000
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
Decrease in receivables	170,626	144,067
Decrease/(increase) in other assets	126,166	(6,713)
Decrease in inventories	1,564,311	347,208
(Decrease) in payables	(308,183)	(207,933)
(Decrease) in income taxes payable	(771,509)	(421,960)
Increase/(decrease) in net deferred taxes payable	65,189	(37,835)
(Decrease)/increase in provisions	(616,890)	451,663
Cash flow from operations	(1,001,007)	1,000,563

b. Credit Standby Arrangements with Banks

Credit facility	3,465,000	3,015,000
Amount utilised	1,903,600	1,318,375
Unused credit facility	1,561,400	1,696,625
The major facilities are summarised as follows:		
Banking overdrafts	1,650,000	1,200,000
Forward exchange cover	100,000	100,000
Bank guarantee	170,000	170,000
MasterCard corporate card	45,000	45,000
Westpac equipment finance	1,500,000	1,500,000
	3,465,000	3,015,000

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25: EVENTS SUBSEQUENT TO REPORTING DATE

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2011.

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.

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 2011, 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 $948,573 per annum plus outgoings of $170,280 per annum, with CPI increases in 2012 and subject to a market review in year 2011.

b) $66,667 was paid to Blackwood Capital Ltd during the year for consulting services. Stuart Richardson, chairman of the Undercoverwear Board, is a founding director of Blackwood Capital Ltd.

c) Key Management Personnel:

    i. Key management personnel compensation

	Consolidated Entity	
	2011 $	2010 $
Short-term employee benefits	856,904	1,147,854
Post employment benefits	34,700	221,633
	891,604	1,369,487

Detailed remuneration disclosures and equity holdings of each director and key management person are included in the Remuneration Report on pages 9-12.

NOTE 27: FINANCIAL RISK MANAGEMENT

a) Financial Risk Management Policies

The financial instruments of the Group consist of cash, guarantee, deposit receivables and payables.

The Group 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 Group'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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27: FINANCIAL RISK MANAGEMENT (cont)

a) Financial Risk Management Policies (cont)

ii. Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, credit risk, foreign currency risk & liquidity risk.

- Interest Rate Risk

  The Group'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 Group's policy is to ensure that the best interest rate is received for the short-term deposits. The Group 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 our sensitivity analysis disclosed under Note 27(b)(iii).

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

- 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 measurement currency. The Group is able to pass on its risk from fluctuations in the foreign exchange rate through to its customers via catalogue pricing adjustments. The Group's exposure to foreign currency risk is re-assessed prior to each new catalogue release, which is approximately every three months.

- Liquidity Risk

  The Group 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 Group had cash at bank. Due to the cash available to the Group, there is no use of any credit facilities at balance date.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27: FINANCIAL RISK MANAGEMENT (cont)

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 Entity	Weighted Average Effective Interest Rate		Fixed Interest Rate Maturing: Within 1 Year $		Fixed Interest Rate Maturing: 1-5 years $		Non-interest Bearing $		Total $	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Financial Assets:										
Cash & cash equivalents	0.19%	0.81%	36,030	308,322	-	-	-	-	36,030	308,322
Receivables	n/a	n/a	-	-	-	-	155,653	326,278	155,653	326,278
Total Financial Assets			36,030	308,322			155,653	326,278	191,683	634,600
Financial Liabilities:										
Bank Overdraft	11.74%	-	1,190,085	-	-	-	-	-	1,190,085	-
Trade and sundry payables	n/a	n/a	-	-	-	-	1,689,552	1,997,734	1,689,552	1,997,734
Interest bearing liabilities	7.64%	7.69%	409,949	454,463	129,045	653,361	-	-	538,994	1,107,824
Total Financial Liabilities			1,600,034	454,463	129,045	653,361	1,689,552	1,997,734	3,418,631	3,105,558

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

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. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

- Interest Rate Sensitivity Analysis

  At 30 June 2011, the effect on profit as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Entity 2011	Consolidated Entity 2010
Increase in interest rate by 2%	(36,363)	(1,020)
Decrease in interest rate by 2%	36,363	1,020

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27: FINANCIAL RISK MANAGEMENT (cont.)

b) Financial Instruments (cont.)

- Foreign Currency Risk Sensitivity Analysis

  At 30 June 2011, 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:

	Consolidated Entity	
	2011	2010
Improvement in AUD to USD by 15%	479,701	669,751
Decline in AUD to USD by 15%	(479,701)	(669,751)

The percentage change is the expected overall volatility of the USD, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last six months each year and the spot rate at each reporting date.

The Group does not significantly trade using any currencies other than the Australian and US dollar.

NOTE 28: CHANGE IN ACCOUNTING STANDARDS

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

New / revised pronouncements	Explanation of amendment	Effective date	Likely impact
AASB 9 Financial instruments AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31-Dec-13	Depending on assets held, there may be significant movement of assets between fair value and cost categories and ceasing of impairment testing on available for sale assets.
IFRS Annual Improvements 2010 (May 2010)	Makes various amendments to a number of standards and interpretations.	Application dates either 30 June 2011 or 31 December 2011	These amendments are not expected to materially affect the Group.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28: CHANGE IN ACCOUNTING STANDARDS (cont)

New / revised pronouncements	Explanation of amendment	Effective date	Likely impact
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability, These transactions are sometimes referred to as 'debt for equity swaps'.	30-Jun-11	As the entity has not renegotiated any financial liabilities into equity instruments this interpretation is not expected to have any impact on the entity's financial report.
AASB10 Consolidated Financial Statements	AASB10 establishes a new control model that applies to all entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manger may give control, the impact of the potential voting rights and when holding less than a majority voting rights may give control.	31-Dec-13	These amendments are not expected to materially affect the Group.
Fair Value Measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	31-Dec-13	For financial assets IFRS 13's guidance is broadly consistent with existing practice. It will however also apply to the measurement of fair value for non-financial assets and will make a significant change to existing guidance in the applicable standards.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29: UNDERCOVERWEAR LIMITED PARENT COMPANY INFORMATION

	2011 $	2010 $
PARENT ENTITY		
ASSETS		
Current assets	1,636,683	3,924,896
Non-current assets	5,220	13,850,850
TOTAL ASSETS	1,641,903	17,775,746
LIABILITIES		
Current liabilities	26,600	16,498
Non-current liabilities	110,651	91,092
TOTAL LIABILITIES	137,251	107,590
EQUITY		
Issued capital	22.809,146	22.809,146
Retained earnings	(21,304,494)	(5,140,990)
TOTAL EQUITY	1,504,652	17,668,156
FINANCIAL PERFORMANCE		
Profit for the year	(16,163,504)	(5,768,731)
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME	(16,163,504)	(5,768,731)

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 19-45, are in accordance with the Corporations Act 2001 and:
    a) Comply with Accounting Standards and the Corporations Regulations 2001;
    b) Give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Group; and
    c) Comply with International Financial Reporting Standards as disclosed in Note 1.
2. The Chief Executive Officer (or equivalent) and the Chief Financial Officer have each declared that:
    a) The financial records of the Group 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 Accounting Standards; and
    c) The financial statements and notes for the financial year give a true and fair view.
3. In the director's 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

29 September 2011

Grant Thornton

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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 for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

C F Farley
Director - Audit & Assurance

Sydney, 29 September 2011

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 (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information 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 of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, 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 which require us to 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 Company'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 Company'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 opinion.

Independence

In conducting our audit, we have complied with the 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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred a net loss of $16,163,504 during the year ended 30 June 2011, recorded an impairment against goodwill of $14,617,499, had net cash used in operating activities of $1,001,007, and had a net decrease in cash of $1,462,377. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in pages 9 to 12 of the directors' report for the year ended 30 June 2011. 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 on the remuneration report

In our opinion, the remuneration report of UnderCoverWear Limited for the year ended 30 June 2011 complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

C F Farley
Director - Audit & Assurance

Sydney, 29 September 2011

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

a. *Distribution of Shareholders as at 26 September 2011*

Category (size of holding)	*Number of Ordinary Shareholders*	*Size of Holding*
1 – 1,000	*240*	*160,239*
1,001 – 5,000	*144*	*466,328*
5,001 – 10,000	*42*	*333,311*
10,001 – 100,000	*118*	*3,516,948*
100,001 – and over	*25*	*38,723,174*
	569	*43,200,000*

b. *The number of shareholdings held in less than marketable parcels is 446.*

c. *The names of the substantial shareholders listed in the holding company's register as at 26 September 2011 are:*

Shareholder	*Number of Ordinary Shares*
Mr John Everett & Ms Sonya Everett <Everett Fam Settlement A/c>	*17,132,822*
Recone Pty Limited <Everingham Family A/c>	*3,860,171*
National Nominees Limited	*2,932,465*
Union Pty Ltd <Everett Staff S/F A/C>	*2,712,042*
Mr Ian Garnsey Everingham & Mrs Christine Mary Everingham <Rosebank Staff S/F A/C>	*2,486,486*

Voting Rights

d. *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 LISTED PUBLIC COMPANIES (cont)

e. 20 Largest Shareholders — Ordinary Shares as at 26 September 2011

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>	17,132,822	39.66
2.	Recone Pty Limited <Everingham Family A/c>	3,860,171	8.94
3.	National Nominees Limited	2,932,465	6.79
4.	Union Pty Limited <Everett Staff Superannuation Fund A/c>	2,712,042	6.28
5.	Mr Ian Garnsey Everingham & Mrs Christine Mary Everingham <Rosebank Staff Superannuation Fund A/c>	2,486,486	5.76
6.	Mr Ian Garnsey Everingham & Mr George Allan Fleming <Everingham Family Superannuation Fund A/c>	1,653,343	3.83
7.	Mrs Jeanette Richardson	1,126,214	2.61
8.	J P Morgan Nominees Australia Limited	1,071,313	2.48
9.	Contemplator Pty Ltd <ARG Pension Fund A/c>	897,515	2.08
10.	Alan Denis Vincent & Elaine Margaret Vincnent <Vincent Family Superannuation Fund A/c>	700,000	1.62
11.	FLST Pty Ltd	617,419	1.43
12.	Mr Craig Phillip O'Shannessy	607,715	1.41
13.	Mrs Marina Snyman	541,469	1.25
14.	Mrs Jeanette Richardson	422,100	0.98
15.	Ruminator Pty Ltd	290,065	0.67
16.	Gotterdamerung Pty Limited <Gotterdamerung S/F A/C>	255,000	0.59
17.	Berkshire Equities Pty Ltd	241,783	0.56
18.	Mr Rahmon Coupe & Mrs Julia Coupe <Coupe Family A/c>	183,500	0.42
19.	Ariel Computing	160,000	0.37
20.	Dorran Pty Ltd	150,000	0.35
		38,041,422	88.06

COMPANY DETAILS

Directors	Stuart Richardson, Chairman & Non-Executive Director John Everett AM, Non-Executive Director Richard Lowry, Executive Director Nick Geddes, alternate director for John Everett
Company Secretary	Nick Geddes
Registered Office & Principal Place of Business	UnderCoverWear Limited ABN 85 108 962 152 ACN 108 962 152 8 Solent Circuit Norwest Business Park Baulkham Hills NSW 2153 Tel: +61 2 8853 2800 Fax: +61 2 8853 2899
Auditor	Grant Thornton Audit Pty Limited Level 17, 383 Kent Street Sydney NSW 2000
Share Registry	Computershare Investor Services Pty Limited Level 5, 115 Grenfell Street Adelaide SA 5000 GPO Box 1903 Adelaide SA 5001 Enquiries within Australia: 1300 556 161 Enquiries outside Australia: 61 3 9415 4000 Email: web.queries@computershare.com.au Website: www.computershare.com
Stock Exchange Listing	Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.