UNDERCOVERWEAR LIMITED

ACN 108 962 152

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY NOTES

PROXY FORM

Date of Meeting

15 November 2013

Time of Meeting

9am (EST)

Place of Meeting

Grant Thornton, Level 19
2 Market Street
Sydney NSW

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Shareholders of UnderCoverWear Limited ("**UCW**") will be held at Grant Thornton, Level 19, 2 Market Street, Sydney NSW, commencing at 9am (EST) on 15 November.

The Explanatory Notes to this Notice provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Notes and the Proxy Form are part of this Notice of Meeting.

Pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at 5pm (EST) on 13 November 2013.

Terms and abbreviations used in this Notice and Explanatory Notes are defined in the attached Glossary.

BUSINESS

Financial Statements and Reports

To receive and consider the Financial Report together with the Directors' Report and the Auditor's Report for the Company and its controlled entities for the year ending 30 June 2013.

1. **Resolution 1 - Approval of issue of Shares to The Clothing Group Ltd**

   To consider, and if thought fit, to pass the following Resolution as an **ordinary resolution**:

   > *"That for the purposes of Listing Rule 10.11 and section 611 item 7 of the Corporations Act and for all other purposes, approval is given for The Clothing Group Limited to acquire a relevant interest in 43,200,000 Shares in accordance with the terms and conditions summarised in the Explanatory Notes."*

2. **Resolution 2 – Adoption of Remuneration Report**

   To consider and, if thought fit, to pass the following Resolution as a **non-binding resolution**:

   > "*That the Company approves the adoption of the Remuneration Report as contained in the Company's Annual Financial Report for the financial year ended 30 June 2013*".

3. **Resolution 3 – Election of Director – Mr Montgomery Grant**

   To consider and, if thought fit, to pass the following Resolution as an **ordinary resolution**:

> "*That, pursuant to clause 54.2 of the Constitution and for all other purposes Mr Montgomery Grant be elected as a Director of the Company".*

4. **Resolution 4 – Retirement by Rotation and Re-Election of Director – Mr Richard Lowry**

   To consider and, if thought fit, to pass the following Resolution as an **ordinary resolution**:

   > "*That, pursuant to clause 56.1 of the Constitution and for all other purposes, Mr Richard Lowry be re-elected as a Director of the Company".*

Voting Exclusion Statement

The following voting exclusion statement applies to the Resolutions under the Listing Rules or, where applicable, the provisions of the Corporations Act, to the following persons ("**Excluded Persons**"). The Company will disregard any votes on the following Resolutions cast by the following Excluded Persons and Associates of those persons:

Resolution No.	Title	Excluded Persons
1	Approval of issue of Shares to The Clothing Group Ltd	The Clothing Group Ltd and its Associates.
2	Adoption of Remuneration Report	A member of the Key Management Personnel ("KMP"), or a Closely Related Party of the KMP, whose remuneration details are included in the Remuneration Report for the year ended 30 June 2013.

However, the Company need not disregard a vote in relation to Resolutions 1 and 2 if it is cast by:

1. a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or

2. the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

A vote may be cast on Resolution 2 by a KMP or a Closely Related Party of a KMP if:

1. the KMP is acting as proxy and the Proxy Form specifies how the proxy is to vote, and the vote is not cast on behalf of a person who is otherwise excluded from voting on these Resolutions as described above; or

2. the KMP is the Chair voting an undirected proxy which expressly authorises the Chair to vote the proxy on a resolution connected with the remuneration of a member of the KMP.

Voting by Proxy

The Corporations Act now places certain restrictions on the ability of KMP and their Closely Related Parties to vote on resolutions connected directly or indirectly with the remuneration of the Company's KMP.

For those reasons, Shareholders who intend to vote by proxy should carefully consider the identity of their proxy and consider appointing someone other than one of the Company's KMP; as such proxies may not be able to vote undirected proxies.

If you appoint the Chairman as your proxy by marking the box in **STEP 1** on the Proxy Form, you are providing express authorisation for the Chairman to vote on Resolution 2, in accordance with his intentions as set out in this Notice and the Proxy From (except where you have indicated a different voting intention by marking the voting boxes in **STEP 2** on the Proxy Form).

This express authorisation acknowledges that the Chairman may exercise your proxy in relation to Resolution 2 even though this Resolution is connected with remuneration of KMP and Resolution 2 is a Resolution in respect of which the Chairman of the meeting has an interest.

Votes cast by the Chairman on Resolution 2 other than as authorised proxy holder will be disregarded because of his interest in the outcome of that Resolution.

The Chairman intends to vote available proxies in favour of all Resolutions.

DATED 17 OCTOBER 2013
BY ORDER OF THE BOARD

Richard Rodgers
Company Secretary

EXPLANATORY NOTES

These Explanatory Notes have been prepared for the information of the Shareholders of the Company in connection with the business to be conducted at the Annual General Meeting to be held at 9am (EST) at Grant Thornton, Level 19, 2 Market Street, Sydney NSW, on 15 November 2013.

The purpose of these Explanatory Notes is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolution in the Notice of Annual General Meeting.

Resolution 1 – Approval of issue of Shares to The Clothing Group Limited

1. Overview

As announced to ASX on 13 September 2013 the Company has entered into a Share Subscription Agreement ("**SSA**") with The Clothing Group Limited ("**TCG**"), a company controlled by Director Montgomery Grant.

Under the SSA, TCG have agreed to subscribe for 43,200,000 Shares at $0.01 per Share to raise $432,000 subject to certain terms and conditions set out in the SSA ("**TCG Shares**").

The TCG Shares are the maximum number of Shares that will be issued to TCG pursuant to the terms of the SSA and will rank equally in all respects with the fully paid ordinary Shares of the Company as quoted on ASX. If Shareholder approval is obtained the Company intends to issue the TCG Shares within 4 business days of the AGM.

The key terms of the SSA are set out below.

The funds raised from the issue of the TCG Shares will be used for working capital purposes in order to fund the ongoing operation of the Company and to retire all existing bank debt.

The Directors believe that if Shareholders do not approve Resolution 1 for the issue of the TCG Shares then the Company will be unlikely to have sufficient capital resources to continue to operate as a trading entity. The Directors have explored a range of funding options for the Company. However, they have been unable to identify any alternative to the proposed investment by TCG that are on terms acceptable to the Company.

The Board believes that if Shareholders do not approve Resolution 1, then the Company will have no alternative other than to immediately liquidate its assets.

2. Key terms of the SSA

The key terms of the SSA (as previously announced to ASX) include:

2.1 TCG have agreed to subscribe for 43,200,000 Shares at $0.01 per Share to raise $432,000,000.

2.2 The issue of the TCG Shares is conditional on:

2.2.1 Shareholder approval for the issue (Resolution 1); and

2.2.2 UCW not being under external administration

by 30 November 2013 (“**Conditions**”).

2.3 TCG will subscribe and pay for the TCG Shares no later than 2 business days after the satisfaction or waiver of the Conditions.

2.4 UCW will issue the TCG Shares within 2 business days of receipt of a subscription notice and payment from TCG for the TCG Shares.

2.5 Upon execution of the SSA, UCW appoints Mr Montgomery Grant as Director and Chief Executive Officer.

2.6 No later than 7 days prior to the date of this Meeting, TCG will nominate 2 additional Directors to be appointed to the Board.

2.7 Prior to the issue of the Subscription Shares to TGC, UCW must:

2.7.1 continue to carry on its business in a proper and efficient manner, consistent with past practice;

2.7.2 use all reasonable endeavours to preserve its goodwill;

2.7.3 not increase nor reduce its issued shares, or issue any securities, or other rights convertible into shares, or any options for the issue of shares, or other securities other than, the issue of shares upon the conversion of exercise of any securities issued by UCW prior to the date of entry into this Agreement by all parties;

2.7.4 not declare or pay a dividend or other distribution;

2.7.5 not amend its constitution;

2.7.6 comply in all material respects with the requirements of the ASX Listing Rules

except with TCG’s consent.

3. Why is the Resolution required?

Section 611 item 7

Part 6.1 of the Corporations Act contains provisions that prohibit the acquisition of voting shares or a Relevant Interest in voting shares of a publicly listed company, if that acquisition results in a person’s voting power in the Company increasing to more than 20%.

Item 7 of section 611 of the Corporations Act provides an exception to these provisions where the Shareholders of the Company whose Shares are being acquired, approve the acquisition by resolution in a general meeting.

The proposed issue of the TCG Shares will result in TCG having 50% of the Voting Power in the Company.

As the issue of the TCG Shares will result in TCG having a Relevant Interest in more than 20% of the Voting Power in the Company, Shareholder approval is required for the acquisition by TCG of the TCG Shares.

As the Company is seeking Shareholder approval for the transaction for the purposes of item 7 of section 611 of the Corporations Act, Shareholder approval under ASX Listing Rule 7.1 is not required for the issue of the TCG Shares.

Listing Rule 10.11

Shareholder approval for the issue of the TCG Shares is also required for the purpose of Listing Rule 10.11 because TCG is a Related Party of UCW by virtue of being a company that is controlled by Director Montgomery Grant.

No Chapter 2E approval

Under section 208 of the Corporations Act shareholder approval is required for public companies to give a financial benefit to a Related Party, unless one of the exceptions set out in the Corporations Act applies.

The issue of the TCG Shares constitutes the giving of a 'financial benefit' to TCG who is a Related Party.

One of the exceptions to the requirement to obtain shareholder approval is where the financial benefit is given on terms that would be regarded as reasonable in the circumstances if the parties were dealing at arms length, or on terms that are less favourable to the Related Party than such arms length terms ("**Arms Length Exception**").

The independent Directors, Mr Stuart Richardson, Mr Richard Lowry and Mr John Everett ("**Independent Directors**") consider that the terms of the proposed issue of the TCG Shares satisfy the Arms Length Exception. Therefore, Shareholder approval of the issue of the TCG Shares in not required for the purpose of Chapter 2E of the Corporations Act.

In forming this view, the Independent Directors have considered a number of factors relevant to the particular circumstances of the Company, including those set out by ASIC in Regulatory Guide 76. The reasons why the Independent Directors consider the proposed transaction with TCG is on arms length terms are set out below.

TCG is a Related Party by virtue of Mr Montgomery Grant being appointed to the Board as an additional Director on 13 September 2013, being prior to the issue of the TCG Shares. Mr Grant was appointed to the Board prior to the issue of the TCG Shares so that he could immediately begin to implement his recovery strategy for the Company.

Mr Grant was not a Director of UCW, and TCG was not a Related Party, at the time that the SSA was negotiated and entered into. Therefore, the SSA was negotiated between non-Related Parties who were both bargaining at arms length for the best commercial outcome. Both UCW and TCG engaged appropriately qualified professional representatives to provide advice on the terms of the proposed transaction, the drafting of the binding SSA and related party transactions generally. The company announced entry into the SSA to ASX on 13 September 2013. A summary of the key terms of the SSA is set out at paragraph 2 of this Notice. A full copy of the SSA is annexed to the ASX announcement and available for Shareholders to review.

The Independent Directors considered transactions similar to the TCG investment and believe that the contractual terms of the SSA are comparable to those of similar transactions given the current financial circumstances of the Company.

The Independent Directors considered the impact on the Company if Shareholders do not approve the issue of the TCG Shares and have formed the view that the Company will have no alternative other than to immediately seek to liquidate its assets in a forced sale scenario if Resolution 1 is not approved.

The Independent Directors considered alternative funding options available to the Company and determined that the issue of the TCG Shares is in the best interests of the Company. Please see paragraph 4 below for further details about the alternative funding options considered by the Board.

4. **Reasons for the TCG investment**

The Board believes that the investment by TCG is critical for the preservation of the Company as a trading entity. If Shareholders do not approve the issue of the TCG Shares then it is likely that the Company will be required to explore opportunities to realise the value of its assets in a forced sale scenario.

The Company's recent history has been marked by significant trading losses and high debt levels. As the Board and Shareholders are aware, retail trading conditions remain challenging and the industry's outlook remains uncertain.

The Company released its 2013 Annual Report to ASX on 30 September 2013. As set out in Financial Report contained in the Annual Report, the Company made a significant loss during the 2012/13 financial year ($1,365,404) and has negative net equity ($1,468,892).

The Directors Report states that notwithstanding the current financial position of the Company, the Directors have assessed that the Company can continue as a going concern on the basis of the SSA and the issue of the TCG Shares being approved by Shareholders.

The Independent Auditor's Report to the 2013 Financial Report states that the financial conditions, as set out in the report, indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern. Therefore, the Company 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.

A copy of the Company's FY2013 Financial Report is attached to this Notice.

The Company is guarantor for borrowings from Westpac Banking Corporation to Undercoverwear Australia Pty Ltd ("**UCW Australia**"). On 30 April 2013 the Company announced to ASX that Westpac has advised that there has been an event of default of UCW Australia's banking covenants due to a material change in the risk profile and security UCW Australia has provided as a result of the release of the Company's December 31st 2012 half-year results. Westpac requires UCW Australia to fully clear its indebtedness to the bank by 31 December 2013. The Company and UCW Australia require an overdraft (or similar) credit facility to manage cash flow and funding conditions; particularly over the summer holiday period.

The Board has explored a range of funding options in order to obtain sufficient capital to meet the ongoing operating commitments of the Company. However, the Board has been unable to identify any other alternatives that are on acceptable terms to the Board or that satisfy the Company's capital requirements other than the proposed investment by TCG. The funding alternatives that the Board considered include:

1. **Rights issue**. The Board considered a pro-rata rights issue. However, two main factors preclude this option:

1.1 A rights issue on a 1:1 basis may generate a similar sum raised as the TCG investment. However, key Shareholders require a revamped management team and strategy. A rights issue will not deliver a management team capable of the financial turnaround the Company requires.

1.2 Given the continuing financial losses UCW has incurred Shareholders are unlikely to participate in a rights issue and the Board was not able to secure an underwriter for a rights issue. Therefore, there was no guarantee of the Company raising sufficient capital to satisfy its immediate funding requirements under a rights issue.

2. **15% placement**. The Board considered a placement of 15% of its issued capital pursuant to its Listing Rule 7.1 placement capacity. A 15% placement would raise approximately $66,000, well short of the immediate funding requirements of the Company.

3. **Sale of listed shell**. The Board has approached two investment banks with a view to the possible sale of UCW as a listed shell; neither approach generated a sale and indicative offers were uneconomic. A sale of the listed shell would mean that UCW would then operate as a private company. Many Shareholders are restricted to investing in listed companies or prefer investing in a listed company. Under this option the Shares in UCW would become largely illiquid. Furthermore, the sale of the shell would not have generated sufficient working capital or a restructuring of the management team.

If Shareholders approve the issue of the TCG Shares, UCW proposes to use the funds received for the following purposes:

- $200,000 will be applied immediately to fully repay the Company's overdraft facility with Westpac Banking Corporation.

- $230,000 will be applied to repayment of outstanding trade creditors. Trade creditors currently total approximately $850,000 with many trade creditors agreeing to repayment plans. The $230,000 will be applied to the oldest outstanding trade debts of UCW.

The Board believes that Montgomery Grant, the company's new Director and CEO has the qualifications and experience to implement his strategy to return the Company to a strong financial position. Please see paragraph 8 below for more information on Mr Grant's qualifications and experience and paragraph 7 for further information regarding TCG's intentions for the future of the Company if Shareholders approve the issue of the TCG Shares.

5. **Advantages and disadvantages of the issue of the TCG Shares**

There are a number of various advantages and disadvantages which Shareholders should consider in assessing the impact of the issue of the TCG Shares on the Company and deciding how to vote on Resolution 1.

In particular, the Independent Directors believe that the key advantages to Shareholders are that:

- The Company will have funds available to immediately repay its overdraft facility ($200,000) with Westpac and to make payments against a range of outstanding trade creditors.

- The Company will have sufficient capital to continue as a trading entity and will not be forced to immediately seek to liquidate its assets in a forced sale scenario.

The key disadvantages to Shareholders in approving the issue of the TCG Shares are:

- TCG will control UCW as a 50% Shareholder. Notwithstanding TCG's current intentions regarding the Company (as set out in paragraph 7 below), TCG will control the Board and will have the capacity to determine the outcome of decisions about the Company's financial and operating policies.

- The interests in the Company of individual Shareholders will be significantly diluted on a percentage basis.

6. **Who is TCG?**

TCG is an unlisted public company incorporated on 16 July 2012. TCG is ultimately controlled by UCW Director and CEO Montgomery Grant. Mr Grant owns or controls (either directly or indirectly) 89% of the issued capital of TCG as at the date of this Notice.

TCG was established for the sole purpose of acquiring and retaining trade marks and equity in private and public enterprises. It currently owns 100% of several unique and well established labels in the specialized workwear and corporate uniform market including F.R. Timmins uniforms, Iron Bank Clothing, F n Tuff and Ashgrove Apparel Manufacturing and Management.

TCG's Associates are:

- Its directors, Mr Montgomery Grant, Mr Robert Haughey and Ms Saskia van der Slooten. Mr Grant is also TCG's company secretary; and

- Its fully owned subsidiaries:

    - Ironbark Clothing Pty Ltd ACN 159 856 498;

    - F n Tuff Pty Ltd ACN 131 873 295;

    - F.R. Timmins Pty Ltd ACN 158 404 972; and

    - Ashgrove Apparel Manufacturers Pty Ltd ACN 159 106 402

7. **TCG's intentions**

TCG has disclosed to the Company that its current intentions regarding the Company are as follows:

- TCG intends to turn UCW's current financial performance around and grow the Company through the restructure of its business, an injection of funding and expertise to assist with organic growth. Initially TCG will focus on improving the business of UCW through:

    - greater focus on design and production of garments;

    - fine tuning the selling consultants' incentives to improve the party experience;

  - better utilisation of UCW's customer database to potentially expand the Company's product offerings to a greater number of potential customers;
  - promoting a marketing strategy to target the recruitment of field consultants.

- TCG is confident that the future will see UCW rebound strongly over the next twelve months and continue to grow through its relationship with TCG and its associated enterprises.
- It is not envisaged that there will be any major changes made to the core business of UCW in the future.
- The injection of further capital needed to assist in the turn-around and growth of UCW will be implemented by way of trade finance facilities as well as through the negotiation of more favourable trading terms from its network of suppliers.
- The transferring of assets between UCW and TCG Board approval and shareholder approval (where required) and would be on commercial terms.
- TCG does not envisage that any need should arise to redeploy any of the few remaining fixed assets of UCW, but does plan to increase the utilization of these assets both by internal growth and third party arrangements.
- TCG does not intend to vend any of its assets with UCW.
- The human resources of the Company will be managed consistently with the level of activities and future prospects. While this may lead to some changes at an individual level, the net employment is expected to grow over the next few years.
- TCG does not intend to significantly change the financial or dividend distribution policies of the company.

If Shareholders approve the issue of the TCG Shares, TCG and UCW will not be a merged entity post transaction. TCG will be a 50% Shareholder of the Company and intends to utilise its business knowledge and experience to grow the business of UCW independently of TCG's other business activities.

8. **TCG nominee Directors**

In accordance with the terms of the SSA and as announced to ASX on 13 September 2013, the Company has appointed Mr Montgomery Grant to the Board as a TCG representative Director.

As set out in the Company's announcement on 13 September 2013, Mr Grant has over 30 years of operational experience in the clothing industry. Mr Grant founded, chairs and controls TCG. Please see paragraph 6 for further information about TCG. Mr Grant previously established Bodyline Intimates and Ashgrove Apparel; both of these groups focused on the design, manufacture, sales and distribution of women's apparel.

Pursuant to the SSA, TCG has nominated Ms Christine Kennedy and Ms Tracie-Lee Symons as additional Directors to be appointed to the Board. Ms Kennedy and Ms Symons will be appointed to the Board after the date of the AGM, subject to Shareholder approval of Resolution 1. A summary of Ms Kennedy and Ms Symons relevant qualifications and experience are set out below:

Ms Symons holds a Master of Business (Applied Finance), Bachelor of Economics (Honours) and Bachelor of Business (Distinction). Ms Symons has extensive commercial experience in business consulting and advisory. Ms Symons is currently employed as a Director, Urban Water Policy and Pricing, Queensland Department of Energy and Water. Previously Ms Symons spent 4 years with KPMG Risk Advisory Services, Queensland and has held consulting roles at ACIL Tasman and The Allen Consulting Group.

Ms Kennedy is a highly skilled civil litigation and commercial lawyer having practised law for legal practices in Brisbane, London and Singapore. Ms Kennedy is currently managing Director of York Fidelity Ltd, a family company with an extensive investment portfolio. Ms Kennedy through her family company investments has been actively involved in multi-level marketing; a valuable experience for UCW.

If shareholders approve Resolution 1, current Directors Mr Stuart Richardson, Mr Richard Lowry and Mr John Everett intend to retire from the Board immediately following the appointment of Ms Kennedy and Ms Symons.

9. **Voting power**

TCG does not hold any securities in the Company at the date of this Notice.

The proposed issue of the TCG Shares will result in TCG having 50% of the Voting Power in the Company. TCG will therefore control UCW. This means that TCG will have the capacity to determine the outcome of decisions about UCW's financial and operating policies.

As at the date of this Notice the issued capital of the Company is 43,200,000 ordinary Shares and zero Options.

10. **No Independent Expert Report**

Generally, a resolution seeking shareholder approval for the purposes of item 7 of section 611 of the Corporations Act must be accompanied by an Independent Expert Report ("**IER**") in order for the Company to satisfy its obligation to provide members with all material information on how to vote on the resolution.

The role of the independent expert is to analyse the proposed transaction and express an opinion as to whether the transaction is 'fair and reasonable' to shareholders in the circumstances.

However, the Board has determined not to commission an IER in order to access whether the issue of the TCG Shares is fair and reasonable to Shareholders on the basis that:

- The costs of commissioning an IER (estimated to be $15,000 - $20,000) would place an unreasonable burden on the Company in light of the Company's small market capitalisation and financial position and is not considered by the Board to be in the best interests of Shareholders. Please see the copy of UCW's 2013 Financial Report attached to this Notice for details of the Company's specific financial circumstances.

- The Company requires immediate funds. The delay associated with obtaining an IER (at least 3-4 weeks) will result in a delay in obtaining the funds from the issue of the TCG Shares. This delay is likely to jeopardise the Company's ability pay its debts when they fall due and to continue to operate as a trading entity.

- There is a risk that the Company may become insolvent prior to the Shareholder approval for the issue of the TCG Shares. The Company's immediate requirement for funds means that the Board considers that obtaining an IER is not in the best interests of Shareholders in the circumstances.

- The Board has explored a range of options to raise working capital sufficient to guarantee the ongoing operation of the Company. However, the Board has been unable to identify an alternative means of satisfying the Company's immediate need for working capital. Please see paragraph 4 for further information regarding these alternative options.

- The price of the TCG Shares ($0.01 per Shares) is consistent with the last on market traded price of Shares as at 16 October 2013. No Shares have been traded on-market in the September 2013 quarter (no trades for July, August or September as at the date of this Notice). The VWAP of the Shares for the month of June 2013 was $0.0098 and $0.01 for the month of May 2013. The Board considers that the price for the TCG Shares is commensurate with current market value and is appropriate in the current market circumstances. The Board does not consider that the Company is able to obtain a premium for control, either from TCG or at all, particularly given the risks facing the Company and its Shareholders.

- The Directors believe that if Shareholders do not approve the issue of the TCG Shares then the Company will be unlikely to have sufficient capital resources to continue to operate as a trading entity and it will be necessary for the Company to explore opportunities to immediately realise the value of its assets in a forced sale scenario. Please see paragraph 4 for further information regarding why the proposed investment by TCG is essential to the ongoing operation of the Company.

- In light of these circumstances, the Board does not consider that the determination of an independent expert as to the fairness and reasonableness of the proposed issue of the TCG Shares would provide any additional assistance or benefit to Shareholders in deciding whether to approve the issue of the TCG Shares.

11. **Directors' Recommendation**

For the reasons set out in paragraph 4, the Directors (other than Mr Grant who abstains given his material personal interest in the outcome) recommend that Shareholders vote in favour of Resolution 1.

The Directors intend to vote all Shares in which they hold or have a Relevant Interest in favour of Resolution 1. This includes Director Mr John Everett who has a Relevant Interest in approximately 46.1% of the issued Shares of the Company as at the date of this Notice.

Resolution 2 – Adoption of Remuneration Report

The Corporations Act requires that at a listed Company's Annual General Meeting, a resolution that the remuneration report be adopted must be put to the Shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company (**Key Management Personnel**). The Remuneration Report is part of the Directors' Report contained in the Annual Report of the Company for the financial year ending 30 June 2013.

The vote on the resolution for adoption of the remuneration report is advisory only and does not bind the Directors or the Company. However, under changes to the Corporations Act which came into effect on 1 July 2011, if at least 25% of the votes cast on the resolution at the annual general meeting are against adoption of the Remuneration Report, then:

- if comments are made on the remuneration report at the Annual General Meeting, the Company's remuneration report for the financial year ending 30 June 2014 will be required to include an explanation of the Board's proposed action in response or, if no action is proposed, the Board's reasons for this; and
- if, at the Company's 2014 Annual General Meeting, at least 25% of the votes cast on the resolution for adoption of the remuneration report for the 2014 financial year are against its adoption, the Company will be required to put to Shareholders a resolution proposing that a general meeting (**Spill Meeting**) be called to consider the election of Directors of the Company (**Spill Resolution**).

The Spill Meeting must be held within 90 days of the date of the 2014 Annual General Meeting. For any Spill Resolution to be passed, more than 50% of the votes cast on the resolution must be in favour of it. If a Spill Resolution is passed, all of the Directors (other than the Managing Director and any Director taking office since the Directors resolved to put the Directors' report to that AGM) will cease to hold office immediately before the end of the Spill Meeting unless re-elected at that meeting.

An opportunity will be provided for discussion of the Remuneration Report at the meeting. In relation to the approval of the remuneration report of the Company for 2012, less than 25% of the votes cast on that resolution were against it.

The Chairman intends to vote all available proxies in favour of Resolution 2.

Directors Recommendation

The Remuneration Report forms part of the Directors' Report which has unanimously been adopted by resolution of the Board. The Directors recommend it to Shareholders for adoption.

Resolution 3 – Election of Director – Mr Montgomery Grant

Mr Montgomery Grant was appointed to the Board as an additional Director on 13 September 2103 to represent the interests of TCG. In accordance with clause 54.2 of the Constitution, Mr Grant only holds office until the next annual general meeting of the Company and is then eligible for re-election. Mr Grant seeks re-election to the Board.

General

As announced to ASX on 13 September 2013, Mr Grant has extensive operational experience in the clothing industry, with in excess of 30 years direct association in the clothing industry. Mr Grant founded and remains Chairman of The Clothing Group Ltd, a manufacturer of industrial clothing and food preparation clothing. Mr Grant previously established Bodyline Intimates and Ashgrove Apparel, both groups focussed on design, manufacture and sales/distribution of women's apparel.

Directors' Recommendation

The Directors (other than Mr Grant who abstains given his personal interest in the Resolution) recommend that Shareholders vote in favour of the election of Mr Grant.

Resolution 4 – Retirement by rotation and re-election of Director – Mr Richard Lowry

Pursuant to Listing Rule 14.4 and clause 56.1 of the Company's Constitution, one-third of the Directors of the Company (rounded to the nearest whole number) must retire each year, excluding the Managing Director. A retiring Director may then be eligible for re-election. Mr Lowry retires by rotation and being eligible, seeks re-election to the Board.

General

Mr Lowry has been a director of UCW since 31 March 2010 initially as a non-executive director before becoming an 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.

Directors' Recommendation

The Directors (other than Mr Lowry who abstains given his personal interest in the Resolution) recommend that Shareholders vote in favour of the re-election of Mr Lowry.

GLOSSARY

In this Notice of Meeting:

AGM, **General Meeting** or **Meeting** means the annual general meeting of Shareholders convened for the purposes of considering the Resolutions.

ASIC means the Australian Securities and Investments Commission.

Annual Report means the Directors Report, the Financial Report and the Auditors Report in respect to the financial year ended 30 June 2013.

Associate has the same meaning as in the Corporations Act.

ASX means ASX Limited ACN 008 624 691 or the market it operates known as the Australian Securities Exchange, as applicable.

Auditor means the auditor of the Company.

Auditors Report means the auditor's report on the Financial Report.

Board or **Board of Directors** means the board of Directors of the Company.

CEO means Chief Executive Officer.

Chair or **Chairman** means the person appointed the chair of the Meeting convened by this Notice.

Closely Related Party has the meaning given in section 9 of the *Corporations Act*.

Company means Undercoverwear Limited ACN 108 962 152.

Constitution means the constitution of the Company.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of the Company.

Directors' Report means the annual Directors report.

EST means Australian Eastern Standard Time.

Explanatory Notes means the Explanatory Notes accompanying the Notice of Meeting.

Financial Report means the annual financial report prepared under chapter 2M of the Corporations Act for the Company and its controlled entities.

Key Management Personnel or **KMP** means key management personnel as identified in the Remuneration Report for the financial year ended 30 June 2013.

Listing Rules means the Listing Rules of the ASX.

Notice of Meeting or **Notice** means the notice convening the Annual General Meeting accompanying this Explanatory Notes.

Option means an option to acquire a Share.

Proxy Form means a proxy form accompanying this Notice of Meeting.

Related Party has the same meaning as in section 228 of the *Corporations Act*.

Remuneration Report means the remuneration report of the Company contained in the Directors' Report.

Resolution means a resolution to be considered at the Annual General Meeting as contained in the Notice of Meeting.

Share means a fully paid ordinary share in the Company and includes any TCG Share

Shareholder means a person registered as a holder of a Share.

The Clothing Group Limited or **TCG** means The Clothing Group Limited ACN 159 499 135.

Voting Power has the same meaning as in the *Corporations Act*.

VWAP means volume weighted average price.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Consolidated Entity	
		2013 $	2012 $
Revenue	2	8,016,760	11,493,915
Changes in inventories of finished goods and work in progress	3	(3,470,520)	(4,537,211)
Distribution costs		(572,006)	(643,025)
Commissions paid		(702,818)	(925,651)
Promotions and advertising expense		(642,999)	(698,758)
Depreciation and amortisation expense	3	(62,132)	(148,238)
Insurance expense		(99,820)	(127,369)
Employee benefits expense		(2,308,720)	(2,940,490)
Rental expenses		(769,021)	(1,061,768)
Finance costs	3	(107,481)	(141,997)
Other expenses		(646,647)	(804,121)
Loss before income tax expense	3	(1,365,404)	(534,713)
Income tax expense	4	-	(68,881)
Loss attributable to members of the parent entity		(1,365,404)	(603,594)
Other comprehensive income		-	-
Total comprehensive income for the year		(1,365,404)	(603,594)
Basic loss per share (cents per share)	8	(3.16)	(1.40)
Diluted loss per share (cents per share)	8	(3.16)	(1.40)

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

STATEMENT OF FINANCIAL POSITION

	Note	Consolidated Entity 2013 $	Consolidated Entity 2012 $
CURRENT ASSETS			
Cash and cash equivalents	9	9,182	12,416
Trade and other receivables	10	123,287	91,743
Inventories	11	769,193	2,291,589
Other current assets	12	87,481	28,510
TOTAL CURRENT ASSETS		989,143	2,424,258
NON-CURRENT ASSETS			
Plant and equipment	14	245,397	374,731
TOTAL NON-CURRENT ASSETS		245,397	374,731
TOTAL ASSETS		1,234,540	2,798,989
CURRENT LIABILITIES			
Financial liabilities	15	288,857	954,406
Trade and other payables	16	1,801,865	1,473,876
Short-term provisions	17	299,506	383,945
TOTAL CURRENT LIABILITIES		2,390,228	2,812,227
NON-CURRENT LIABILITIES			
Financial liabilities	15	281,570	53,553
Long-term provisions	17	31,634	36,697
TOTAL NON-CURRENT LIABILITIES		313,204	90,250
TOTAL LIABILITIES		2,703,432	2,902,477
NET LIABILITIES		(1,468,892)	(103,488)
EQUITY			
Issued capital	18	22,809,146	22,809,146
Accumulated losses		(24,278,038)	(22,912,634)
TOTAL EQUITY		(1,468,892)	(103,488)

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

STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary Share Capital	Accumulated Losses	Total
		$	$	$
Consolidated Entity				
Balance at 30 June 2011		22,809,146	(22,309,040)	500,106
Total comprehensive loss for the year		-	(603,594)	(603,594)
Balance at 30 June 2012		22,809,146	(22,912,634)	(103,488)
Total comprehensive loss for the year		-	(1,365,404)	(1,365,404)
Balance at 30 June 2013		22,809,146	(24,278,038)	(1,468,892)

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

STATEMENT OF CASH FLOWS

	Note	Consolidated Entity 2013 $	2012 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		8,008,960	11,575,581
Payments to suppliers and employees		(7,510,636)	(11,473,963)
Interest received		2	11,468
Dividends & trust distributions received		31	32
Finance costs		(107,481)	(141,997)
Income taxes refunded		-	435,342
Net cash provided by operating activities	22a	390,876	406,463
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		261,975	373,503
Purchase of property, plant and equipment		(218,552)	(82,460)
Net cash provided by investing activities		43,423	291,043
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		228,758	-
Repayment of borrowings		-	(398,786)
Net cash provided by/(used in) financing activities		228,758	(398,786)
Net increase in cash & cash equivalents held		663,057	298,720
Cash & cash equivalents at beginning of financial year		(855,335)	(1,154,055)
Cash & cash equivalents at the end of financial year	9	(192,278)	(855,335)

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. UnderCoverWear Limited is a listed public company, incorporated and domiciled in Australia.

The financial report were approved and authorised for issue by the board of directors on 30 September 2013.

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. UnderCoverWear Limited is a for profit entity for the purposes of preparing the financial statements.

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

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (Applies annual reporting periods beginning on or after 1 July 2012)

AASB 2011-9 requires entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently, and changes the title of ‘statement of comprehensive income’ to ‘statement of profit or loss and other comprehensive income’.

The adoption of the new and revised Australian Accounting Standards and Interpretations has had no significant impact on the Group’s accounting policies or the amounts reported during the year. The adoption of AASB 2011-9 has resulted in changes to the Group’s presentation of its financial statements.

Standards not yet effective

AASB 9 *Financial Instruments (effective from 1 January 2015)*

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The entity does not have any financial liabilities measured at fair value through profit or loss. Therefore, there will be no impact on the financial statements when these amendments to AASB 9 are first adopted.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)
Accounting standards not previously applied (cont)

AASB 10 *Consolidated Financial Statements (effective from 1 January 2013)*

AASB 10 establishes a revised control model that applies to all entities. It replaces the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements and AASB Interpretation 112 Consolidation – Special Purpose Entities.

The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes additional guidance for applying the model to specific situations, including when acting as an agent may give control, the impact of potential voting rights and when holding less than a majority voting rights may give 'de facto' control.

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on the transactions and balances recognised in the financial statements.

AASB 13 *Fair Value Measurement (effective from 1 January 2013)*

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted by other Standards.

AASB 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.

When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective from 1 July 2013)*

The Standard amends AASB 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. This amendment reflects the AASB's view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the accounting standards.
In March 2013, the Australian government released Corporations Legislation Amendment Regulation 2013 which proposed to insert these disclosures into Corporations Regulations 2001 to ensure the disclosure requirements continue to be operative for financial years commencing on or after 1 July 2013. The closing date for submissions was 10 May 2013.
When these amendments are first adopted for the year ending 30 June 2014, they are unlikely to have any significant impact on the entity.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

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.

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 accumulated 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.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	17% - 27%
Motor vehicle	15%- 33%
Furniture, fittings and equipment	27% - 40%
Computer software	40%

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

d) Depreciation (cont)

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.

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 19 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 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

g) **Impairment of Assets**
At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h) **Intangibles**
Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

n) **Comparative Figures**

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

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 cash flows 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 2013 financial year of $1,365,404 and net liabilities of $1,468,982 this financial report has been prepared on a going concern basis. The Directors have assessed that the Group can continue as a going concern on the basis of the Share Subscription Agreement (SSA) with The Clothing Group Limited announced to the ASX on the 12 September 2013 for 43,200,000 fully paid ordinary shares at $0.01 per share to raise $432,000 which is subject to shareholder approval by 30 November 2013.
In addition to this, the directors are confident that the combination of careful management of overheads, the continued focus on growing consultant numbers, and other initiatives being looked at by the Directors, will provide sufficient funds to meet the ongoing capital requirements of the Group for the foreseeable future. Whilst there is material 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 2013 $	2012 $
NOTE 2: REVENUE & OTHER INCOME			
Operating activities			
— sale of goods		7,596,368	10,786,968
— distribution charges		267,263	268,193
— rental revenue		147,175	268,761
— other revenue		5,921	158,493
— interest received	2a	2	11,468
— dividends received	2a	31	32
Total revenue		8,016,760	11,493,915

a. Interest & dividend revenue from:			
— other persons		33	11,500
Total interest & dividend revenue		33	11,500

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3: LOSS BEFORE TAX

	Consolidated Entity 2013 $	2012 $
Loss before income tax has been determined after:		
a. Expenses		
Cost of sales	3,470,520	4,537,211
Finance costs:		
— other persons	107,481	141,997
Total finance costs	107,481	141,997
Foreign currency translation gains/losses	133,091	194,716
Depreciation / amortisation of non-current assets:		
— plant and equipment	20,767	11,683
— motor vehicles	29,462	110,148
— furniture, fittings and equipment	11,903	26,407
— computer software	-	-
Total depreciation and amortisation	62,132	148,238
Bad and doubtful debts:		
— trade debtors	10,493	36,817
Total bad and doubtful debts	10,493	36,817
Rental expense on operating leases		
— staff motor vehicles	4,012	7,234
— consultant motor vehicles	2,332	34,240
— premises	762,677	1,020,294
Total of rental expense on operating lease	769,021	1,061,768
Write-down of inventories to net realisable value	127,975	312,147
Write-off of obsolete stock	-	61,771

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity 2013 $	Consolidated Entity 2012 $

NOTE 4: INCOME TAX EXPENSE

a.

	2013 $	2012 $
Current tax	-	-
Deferred tax	-	68,881
Income tax expense reported in the income statement	-	68,881

b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

	2013 $	2012 $
Prima facie tax payable on profit before income tax at 30% (2012: 30%)	(2,405,028)	(160,414)
Add:		
Tax effect of:		
— Other non-allowable items	-	1,892
Less:		
Tax effect of:		
— Reversal of deferred tax balances	2,405,028	227,403
Income tax expense attributable to profit from ordinary activities before income tax	-	68,881
The applicable weighted average effective tax rates are as follows	-	(12%)

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 2013.
Key management personnel compensation.

	Consolidated Entity 2013 $	Consolidated Entity 2012 $
Short-term employee benefits	677,016	794,613
Post employment benefits	-	-
	677,016	794,613

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity 2013 $	2012 $
NOTE 6: AUDITORS' REMUNERATION			
Remuneration of the auditors of parent and subsidiaries - Grant Thornton Audit Pty Limited for:			
— auditing or reviewing the financial report		65,781	86,021
— other services		3,200	17,050
		68,981	103,071
NOTE 7: DIVIDENDS			
Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years		2,070,474	2,070,474
NOTE 8: EARNINGS PER SHARE			
a. Reconciliation of earnings to net profit or loss			
Net loss		(1,365,404)	(603,594)
Loss used in the calculation of basic and dilutive EPS		(1,365,404)	(603,594)
b. Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS		43,200,000	43,200,000
NOTE 9: CASH AND CASH EQUIVALENTS	Note		
Cash at bank and in hand		9,182	12,416
		9,182	12,416
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		9,182	12,416
Bank overdraft	15	(201,460)	(867,751)
		(192,278)	(855,335)

NOTES TO THE FINANCIAL STATEMENTS

		Consolidated Entity 2013 $	Consolidated Entity 2012 $
NOTE 10: TRADE AND OTHER RECEIVABLES			
CURRENT			
Other receivables		175,192	149,273
Provision for impairment of other receivables	a	(51,905)	(57,530)
		123,287	91,743

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 2013	Opening Balance at 1 July 2012	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2013
Other receivables	57,530	10,493	(16,118)	51,905

Consolidated Entity 2012	Opening Balance at 1 July 2011	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2012
Other receivables	87,344	36,817	(66,631)	57,530

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.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Consolidated Entity	
		2013 $	2012 $
Revenue	2	8,016,760	11,493,915
Changes in inventories of finished goods and work in progress	3	(3,470,520)	(4,537,211)
Distribution costs		(572,006)	(643,025)
Commissions paid		(702,818)	(925,651)
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Insurance expense		(99,820)	(127,369)
Employee benefits expense		(2,308,720)	(2,940,490)
Rental expenses		(769,021)	(1,061,768)
Finance costs	3	(107,481)	(141,997)
Other expenses		(646,647)	(804,121)
Loss before income tax expense	3	(1,365,404)	(534,713)
Income tax expense	4	-	(68,881)
Loss attributable to members of the parent entity		(1,365,404)	(603,594)
Other comprehensive income		-	-
Total comprehensive income for the year		(1,365,404)	(603,594)
Basic loss per share (cents per share)	8	(3.16)	(1.40)
Diluted loss per share (cents per share)	8	(3.16)	(1.40)

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

STATEMENT OF FINANCIAL POSITION

	Note	Consolidated Entity	
		2013 $	2012 $
CURRENT ASSETS			
Cash and cash equivalents	9	9,182	12,416
Trade and other receivables	10	123,287	91,743
Inventories	11	769,193	2,291,589
Other current assets	12	87,481	28,510
TOTAL CURRENT ASSETS		989,143	2,424,258
NON-CURRENT ASSETS			
Plant and equipment	14	245,397	374,731
TOTAL NON-CURRENT ASSETS		245,397	374,731
TOTAL ASSETS		1,234,540	2,798,989
CURRENT LIABILITIES			
Financial liabilities	15	288,857	954,406
Trade and other payables	16	1,801,865	1,473,876
Short-term provisions	17	299,506	383,945
TOTAL CURRENT LIABILITIES		2,390,228	2,812,227
NON-CURRENT LIABILITIES			
Financial liabilities	15	281,570	53,553
Long-term provisions	17	31,634	36,697
TOTAL NON-CURRENT LIABILITIES		313,204	90,250
TOTAL LIABILITIES		2,703,432	2,902,477
NET LIABILITIES		(1,468,892)	(103,488)
EQUITY			
Issued capital	18	22,809,146	22,809,146
Accumulated losses		(24,278,038)	(22,912,634)
TOTAL EQUITY		(1,468,892)	(103,488)

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

STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary Share Capital	Accumulated Losses	Total
		$	$	$
Consolidated Entity				
Balance at 30 June 2011		22,809,146	(22,309,040)	500,106
Total comprehensive loss for the year		-	(603,594)	(603,594)
Balance at 30 June 2012		22,809,146	(22,912,634)	(103,488)
Total comprehensive loss for the year		-	(1,365,404)	(1,365,404)
Balance at 30 June 2013		22,809,146	(24,278,038)	(1,468,892)

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

STATEMENT OF CASH FLOWS

	Note	Consolidated Entity 2013 $	Consolidated Entity 2012 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		8,008,960	11,575,581
Payments to suppliers and employees		(7,510,636)	(11,473,963)
Interest received		2	11,468
Dividends & trust distributions received		31	32
Finance costs		(107,481)	(141,997)
Income taxes refunded		-	435,342
Net cash provided by operating activities	22a	390,876	406,463
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		261,975	373,503
Purchase of property, plant and equipment		(218,552)	(82,460)
Net cash provided by investing activities		43,423	291,043
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		228,758	-
Repayment of borrowings		-	(398,786)
Net cash provided by/(used in) financing activities		228,758	(398,786)
Net increase in cash & cash equivalents held		663,057	298,720
Cash & cash equivalents at beginning of financial year		(855,335)	(1,154,055)
Cash & cash equivalents at the end of financial year	9	(192,278)	(855,335)

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. UnderCoverWear Limited is a listed public company, incorporated and domiciled in Australia.

The financial report were approved and authorised for issue by the board of directors on 30 September 2013.

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. UnderCoverWear Limited is a for profit entity for the purposes of preparing the financial statements.

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

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (Applies annual reporting periods beginning on or after 1 July 2012)

AASB 2011-9 requires entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently, and changes the title of ‘statement of comprehensive income’ to ‘statement of profit or loss and other comprehensive income’.

The adoption of the new and revised Australian Accounting Standards and Interpretations has had no significant impact on the Group’s accounting policies or the amounts reported during the year. The adoption of AASB 2011-9 has resulted in changes to the Group’s presentation of its financial statements.

Standards not yet effective
AASB 9 *Financial Instruments (effective from 1 January 2015)*

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The entity does not have any financial liabilities measured at fair value through profit or loss. Therefore, there will be no impact on the financial statements when these amendments to AASB 9 are first adopted.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)
Accounting standards not previously applied (cont)

AASB 10 *Consolidated Financial Statements (effective from 1 January 2013)*

AASB 10 establishes a revised control model that applies to all entities. It replaces the consolidation requirements in AASB 127 Consolidated and Separate Financial Statements and AASB Interpretation 112 Consolidation – Special Purpose Entities.

The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes additional guidance for applying the model to specific situations, including when acting as an agent may give control, the impact of potential voting rights and when holding less than a majority voting rights may give ‘de facto’ control.

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on the transactions and balances recognised in the financial statements.

AASB 13 *Fair Value Measurement (effective from 1 January 2013)*

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted by other Standards.

AASB 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.

When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective from 1 July 2013)*

The Standard amends AASB 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. This amendment reflects the AASB’s view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the accounting standards.
In March 2013, the Australian government released Corporations Legislation Amendment Regulation 2013 which proposed to insert these disclosures into Corporations Regulations 2001 to ensure the disclosure requirements continue to be operative for financial years commencing on or after 1 July 2013. The closing date for submissions was 10 May 2013.
When these amendments are first adopted for the year ending 30 June 2014, they are unlikely to have any significant impact on the entity.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

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.

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 accumulated 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.

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

Class of Fixed Asset	**Depreciation Rate**
Plant and equipment	17% - 27%
Motor vehicle	15%- 33%
Furniture, fittings and equipment	27% - 40%
Computer software	40%

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

d) Depreciation (cont)

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.

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 19 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 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

g) **Impairment of Assets**
At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h) **Intangibles**
Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Accounting Policies (cont)

n) Comparative Figures

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

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 cash flows 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 2013 financial year of $1,365,404 and net liabilities of $1,468,982 this financial report has been prepared on a going concern basis. The Directors have assessed that the Group can continue as a going concern on the basis of the Share Subscription Agreement (SSA) with The Clothing Group Limited announced to the ASX on the 12 September 2013 for 43,200,000 fully paid ordinary shares at $0.01 per share to raise $432,000 which is subject to shareholder approval by 30 November 2013.

In addition to this, the directors are confident that the combination of careful management of overheads, the continued focus on growing consultant numbers, and other initiatives being looked at by the Directors, will provide sufficient funds to meet the ongoing capital requirements of the Group for the foreseeable future. Whilst there is material 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 2013 $	2012 $
NOTE 2: REVENUE & OTHER INCOME			
Operating activities			
— sale of goods		7,596,368	10,786,968
— distribution charges		267,263	268,193
— rental revenue		147,175	268,761
— other revenue		5,921	158,493
— interest received	2a	2	11,468
— dividends received	2a	31	32
Total revenue		8,016,760	11,493,915

a. Interest & dividend revenue from:			
— other persons		33	11,500
Total interest & dividend revenue		33	11,500

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity 2013 $	Consolidated Entity 2012 $
NOTE 3: LOSS BEFORE TAX		
Loss before income tax has been determined after:		
a. Expenses		
Cost of sales	3,470,520	4,537,211
Finance costs:		
— other persons	107,481	141,997
Total finance costs	107,481	141,997
Foreign currency translation gains/losses	133,091	194,716
Depreciation / amortisation of non-current assets:		
— plant and equipment	20,767	11,683
— motor vehicles	29,462	110,148
— furniture, fittings and equipment	11,903	26,407
— computer software	-	-
Total depreciation and amortisation	62,132	148,238
Bad and doubtful debts:		
— trade debtors	10,493	36,817
Total bad and doubtful debts	10,493	36,817
Rental expense on operating leases		
— staff motor vehicles	4,012	7,234
— consultant motor vehicles	2,332	34,240
— premises	762,677	1,020,294
Total of rental expense on operating lease	769,021	1,061,768
Write-down of inventories to net realisable value	127,975	312,147
Write-off of obsolete stock	-	61,771

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4: INCOME TAX EXPENSE

	Consolidated Entity 2013 $	Consolidated Entity 2012 $
a.		
Current tax	-	-
Deferred tax	-	68,881
Income tax expense reported in the income statement	-	68,881
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% (2012: 30%)	(2,405,028)	(160,414)
Add:		
Tax effect of:		
— Other non-allowable items	-	1,892
Less:		
Tax effect of:		
— Reversal of deferred tax balances	2,405,028	227,403
Income tax expense attributable to profit from ordinary activities before income tax	-	68,881
The applicable weighted average effective tax rates are as follows	-	(12%)

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 2013.
Key management personnel compensation.

	Consolidated Entity 2013 $	Consolidated Entity 2012 $
Short-term employee benefits	677,016	794,613
Post employment benefits	-	-
	677,016	794,613

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity 2013 $	Consolidated Entity 2012 $
NOTE 6: AUDITORS' REMUNERATION			
Remuneration of the auditors of parent and subsidiaries - Grant Thornton Audit Pty Limited for:			
— auditing or reviewing the financial report		65,781	86,021
— other services		3,200	17,050
		68,981	103,071
NOTE 7: DIVIDENDS			
Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years		2,070,474	2,070,474
NOTE 8: EARNINGS PER SHARE			
a. Reconciliation of earnings to net profit or loss			
Net loss		(1,365,404)	(603,594)
Loss used in the calculation of basic and dilutive EPS		(1,365,404)	(603,594)
b. Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS		43,200,000	43,200,000
NOTE 9: CASH AND CASH EQUIVALENTS	Note		
Cash at bank and in hand		9,182	12,416
		9,182	12,416
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		9,182	12,416
Bank overdraft	15	(201,460)	(867,751)
		(192,278)	(855,335)

NOTES TO THE FINANCIAL STATEMENTS

		Consolidated Entity 2013 $	Consolidated Entity 2012 $
NOTE 10: TRADE AND OTHER RECEIVABLES			
CURRENT			
Other receivables		175,192	149,273
Provision for impairment of other receivables	a	(51,905)	(57,530)
		123,287	91,743

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 2013	Opening Balance at 1 July 2012	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2013
Other receivables	57,530	10,493	(16,118)	51,905

Consolidated Entity 2012	Opening Balance at 1 July 2011	Charge for the Year	Amounts Written Off	Closing Balance at 30 June 2012
Other receivables	87,344	36,817	(66,631)	57,530

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	
	2013	2012
	$	$
NOTE 11: INVENTORIES		
CURRENT		
At cost:		
Work in progress	-	35,689
Finished goods	718,634	1,578,737
	718,634	1,614,426
At net realisable value:		
Raw materials and stores	1,261	22,599
Finished goods	49,298	654,564
	50,559	677,163
	769,193	2,291,589
NOTE 12: OTHER CURRENT ASSETS		
CURRENT		
Prepayments	87,481	28,510
	87,481	28,510

NOTE 13: CONTROLLED ENTITIES

Entity:	Country of Incorporation	Percentage Owned	
		2013	2012
UnderCoverWear Unit Trust	Australia	100%	100%

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity 2013 $	Consolidated Entity 2012 $
NOTE 14: PLANT AND EQUIPMENT		
Plant and equipment		
At cost	385,296	1,009,902
Accumulated depreciation	(356,163)	(965,401)
	29,133	44,501
Motor vehicles		
At cost	241,991	495,100
Accumulated depreciation	(35,632)	(176,945)
	206,359	318,155
Furniture, fittings and equipment		
At cost	675,450	1,037,453
Accumulated depreciation	(665,545)	(1,025,378)
	9,905	12,075
Total Plant and Equipment	245,397	374,731

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	Total
	$	$	$	$
Consolidated Entity:				
Balance at 1 July 2011	60,029	749,255	33,987	843,271
Additions	614	77,351	4,495	82,460
Disposals	(4,459)	(398,303)	-	(402,762)
Depreciation expense	(11,683)	(110,148)	(26,407)	(148,238)
Balance at 30 June 2012	44,501	318,155	12,075	374,731
Additions	43,351	164,639	10,562	218,552
Disposals	(37,952)	(246,973)	(829)	(285,754)
Depreciation expense	(20,767)	(29,462)	(11,903)	(62,132)
Balance at 30 June 2013	29,133	206,359	9,905	245,397

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Entity 2013 $	2012 $
NOTE 15: FINANCIAL LIABILITIES			
CURRENT			
Finance lease liabilities	19b	87,397	86,655
Bank overdraft	9	201,460	867,751
		288,857	954,406
NON-CURRENT			
Finance lease liabilities	19b	81,570	53,553
Shareholder loan	24d	200,000	-
		281,570	53,553

The consolidated group has an overdraft facility of $200,000, of which $180,035 has been utilised excluding reconciling items, by the end of the reporting period. The consolidated group has borrowed funds via an equipment finance facility to assist with upgrading the fleet of motor vehicles. The facility balance is $168,967 at the end of the reporting period. UnderCoverWear Limited is guarantor for the amount borrowed, and the vehicles purchased are provided as security for the borrowings.

	Note	Consolidated Entity 2013 $	2012 $
NOTE 16: TRADE AND OTHER PAYABLES			
CURRENT			
Trade payables		917,270	732,853
Sundry payables and accrued expenses		851,873	687,504
Commissions payable		32,722	53,519
		1,801,865	1,473,876
NOTE 17: PROVISIONS			
CURRENT			
Promotions	17b	42,506	143,602
Employee benefits	17a	257,000	240,343
		299,506	383,945
NON-CURRENT			
Employee benefits	17a	31,634	36,697
		31,634	36,697
a. Aggregate Employee Benefits Liability		288,634	277,040

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17: PROVISIONS (cont)

b. Provision for Promotions

A provision of $42,506 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.

Movement in provisions is as follows:

	Balance at 30 June 2012	Additional provisions	Amounts used	Unused amounts reversed	Balance at 30 June 2013
	$	$	$	$	$
Promotions	143,602	72,300	(166,547)	(6,849)	42,506
Employee Benefits	277,040	161,497	(149,903)	-	288,634
Total	420,642	233,797	(316,450)	(6,849)	331,140

	2013 $	2012 $
NOTE 18: ISSUED CAPITAL		
43,200,000 (2012: 43,200,000) fully paid ordinary shares	22,809,146	22,809,146
	22,809,146	22,809,146

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.

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.

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.

UnderCoverWear Limited is guarantor for borrowings from Westpac Banking Corporation (the Bank) to the Group. The Group has, at the request of the Bank, been reducing its borrowings from the Bank. The Bank advised 5 April 2013, as announced on the ASX, that a material adverse change in the Group`s risk profile and security it has provided, based upon the release of 31 December half year results; “constitutes an event of default under the loan and security documentation and the Bank has reserved its rights to act under the default.”

The Group continues to operate within the overdraft facility limits provided within the Bank's facility and the Bank requires the Group to fully clear its indebtedness to the Bank by 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Entity	
	2013 $	2012 $
NOTE 19: CAPITAL AND LEASING COMMITMENTS		
a) Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable		
— not later than 1 year	237,505	1,025,604
— later than 1 year but not later than 5 years	612,668	-
	850,173	1,025,604

Property Lease

The property lease is a non-cancellable lease with a four-year term, with rent payable monthly in advance.

Motor Vehicle

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

	Consolidated Entity	
	2013 $	2012 $
b) Interest bearing liabilities		
Payable		
— not later than 1 year	96,031	92,206
— later than 1 year but not later than 5 years	85,104	56,510
Minimum payments	181,135	148,716
Less future finance charges	(12,168)	(8,508)
Present value of minimum payments	168,967	140,208
Included in the statement of financial position as		
Current financial liabilities (note 15)	87,397	86,655
Non-current financial liabilities (note 15)	81,570	53,553
	168,967	140,208

NOTE 20: 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21: SEGMENT REPORTING

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.

The Group only operated in one business segment being the 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	
	2013 $	2012 $
NOTE 22: CASH FLOW INFORMATION		
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Loss after income tax	(1,365,404)	(603,594)
Non-cash flows in profit from ordinary activities		
Depreciation	62,132	148,238
Net loss on disposal of property, plant and equipment	23,781	29,259
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in receivables	(31,544)	63,909
(Increase)/decrease in other assets	(58,971)	40,079
Decrease in inventories	1,522,396	510,025
Increase/(decrease) in payables	327,989	(215,676)
Increase in income taxes payable	-	504,223
(Decrease) in provisions	(89,503)	(70,000)
Cash flow from operations	390,876	406,463
b. Credit Standby Arrangements with Banks		
Credit facility	682,000	1,815,000
Amount utilised	358,574	1,007,618
Unused credit facility	323,426	807,382
The major facilities are summarised as follows:		
Banking overdrafts	200,000	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	167,000	300,000
	682,000	1,815,000

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

On 12 September 2013, Undercoverwear Limited (**UCW**) entered into a share subscription agreement with The Clothing Group Limited (**TCG**),. On 13 September 2013 UCW appointed Mr Montgomery Grant as new Chief Executive Officer and announced the future appointment of additional directors.

Share Subscription Agreement

UCW entered into a share subscription agreement (**SSA**) with TCG, a company controlled by Mr Grant, on 12th September 2013. Under the SSA, TCG has agreed to subscribe for 43,200,000 fully paid ordinary shares in UCW at $0.01 per share to raise $432,000.

Share Subscription Agreement (cont)

The issue of shares to TCG is subject to UCW shareholder approval by 30 November 2013, and the company not being under external administration before shareholder approval is obtained. If the SSA is approved by shareholders, upon issue of the shares to TCG, it will own 50% of the issued shares of UCW.

UCW shareholders will receive notification of a general meeting to approve the issue of shares to TCG in accordance with the terms of the SSA.

Under the SSA, TCG has the right to appoint three new directors to the Board of UCW.

New Chief Executive Officer

UCW appointed Mr Grant as CEO and director effective 13 September 2013 pursuant to the SSA. Mr Grant has extensive operational experience in the clothing industry, with in excess of 30 years direct association in the clothing industry. Mr Grant founded and remains Chairman of The Clothing Group Ltd, a manufacturer of industrial clothing and food preparation clothing. Mr Grant previously established Bodyline Intimates and Ashgrove Apparel, both groups focused on design, manufacture and sales / distribution of women's apparel.

Mr Rick Lowry tendered his resignation as CEO effective 13 September 2013 and will remain a non-executive director of UCW. The Board of Directors wish to thank Mr Lowry for his two years as CEO and operating in difficult times for UCW.

Additional Directors

In addition to Mr Grant, two highly qualified directors will join the Board as nominee directors of TCG in accordance with the terms of the SSA. These appointments will be confirmed no later than 7 days prior to the Shareholders Meeting to approve the transaction.

NOTE 24: 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 existed 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. This lease concluded on 21 December 2012. 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. Rent had been calculated at normal commercial rates, using an independent valuer. On 21 December 2012 UnderCoverWear terminated this lease agreement with make good of $145,455 payable. The rent amount accrued for the year was$471,121. The amount payable at 30 June 2013 was $637,773. No interest has been paid on this amount.

b) $24,500 was paid to Boston First Capital during the year for consulting services of UnderCoverWear chairman Stuart Richardson.

c) $58,333 was paid to John Everett during the year for consulting services of UnderCoverWear director John Everett.

d) A loan of $200,000 was made by director John Everett to the Consolidated Entity to assist with the cost of changing premises during December 2012. The loan attracts compound interest at a rate of 10%. In the period to 30 June 2013 interest of $12,297 has been paid in relation to the loan.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24: RELATED PARTY TRANSACTIONS

Transactions with related parties (cont):

e) Key Management Personnel:

i. Key management personnel compensation

	Consolidated Entity 2013 $	Consolidated Entity 2012 $
Short-term employee benefits	677,016	794,613
Post employment benefits	-	-
	677,016	794,613

Detailed remuneration disclosures and equity holdings of each director and key management person are included in the Remuneration Report on pages 11-14.

NOTE 25: 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.

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 25(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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25: FINANCIAL RISK MANAGEMENT (cont)

a) Financial Risk Management Policies (cont)

ii. Specific Financial Risk Exposures and Management (cont)

- 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 cash flows, matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are traded in highly liquid markets.

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.

			Fixed Interest Rate Maturing							
Consolidated Entity	Weighted Average Effective Interest Rate		Within 1 Year $		1-5 years $		Non-interest Bearing $		Total $	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Financial Assets:										
Cash & cash equivalents	-	-	-	-	-	-	9,182	12,416	9,182	12,416
Receivables	n/a	n/a	-	-	-	-	129,797	91,743	129,797	91,743
Total Financial Assets			-	-	-	-	138,979	104,159	138,979	104,159
Financial Liabilities:										
Bank Overdraft	12.31%	12.31%	201,460	867,751	-	-	-	-	201,460	867,751
Trade and sundry payables	n/a	n/a	-	-	-	-	1,801,865	1,473,876	1,801,865	1,473,876
Interest bearing liabilities	8.62%	7.58%	87,397	86,655	281,570	53,553			368,967	140,208
Total Financial Liabilities			288,857	954,406	281,570	53,553	1,801,865	1,473,876	2,372,292	2,481,835

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26: FINANCIAL RISK MANAGEMENT (cont)

a) Financial Instruments (cont)

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 2013, 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	
	2013	2012
Increase in interest rate by 2%	(18,776)	(24,331)
Decrease in interest rate by 2%	18,776	24,331

- Foreign Currency Risk Sensitivity Analysis

  At 30 June 2013, 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	
	2013	2012
Improvement in AUD to USD by 15%	177,489	332,377
Decline in AUD to USD by 15%	(177,489)	(332,377)

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27: CHANGE IN ACCOUNTING STANDARDS

New / revised pronouncements	Explanation of amendment	Effective date	Likely impact
AASB 9 Financial instruments	AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1-Jan-15	The entity does not have any financial liabilities measured at fair value through profit or loss. Therefore, there will be no impact on the financial statements when these amendments to AASB 9 are first adopted.
AASB 10 Consolidated Financial Statements	AASB10 establishes a revised control model that applies to all entities. The revised control model broadens the situations when an entity is considered to be controlled by another entity and includes additional guidance for applying the model to specific situations, including when acting as an agent may give control, the impact of potential voting rights and when holding less than a majority voting rights may give 'de facto' control.	1-Jan-13	The adoption of AASB 10 is not expected to materially affect the Group.
AASB 13 Fair Value Measurement	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted by other Standards. Application of this definition may result in different fair values being determined for the relevant assets. AASB 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.	1-Jan-13	The adoption of AASB 13 is not expected to materially affect the Group.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27: CHANGE IN ACCOUNTING STANDARDS (cont.)

New / revised pronouncements	Explanation of amendment	Effective date	Likely impact
AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101]	Amendments to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments, e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).	30-June-13	These changes are not expected to materially affect the group
AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective from 1 July 2013)	The Standard amends AASB 124 Related Party Disclosures to remove the individual key management personnel (KMP) disclosures required by Australian specific paragraphs. This amendment reflects the AASB's view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the accounting standards. In March 2013, the Australian government released Corporations Legislation Amendment Regulation 2013 which proposed to insert these disclosures into Corporations Regulations 2001 to ensure the disclosure requirements continue to be operative for financial years commencing on or after 1 July 2013. The closing date for submissions was 10 May 2013.	30-June-14	These changes are not expected to materially affect the group

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28: UNDERCOVERWEAR LIMITED PARENT COMPANY INFORMATION

	2013 $	2012 $
PARENT ENTITY		
ASSETS		
Current assets	109	983
TOTAL ASSETS	109	983
LIABILITIES		
Current liabilities	24,497	19,093
TOTAL LIABILITIES	24,497	19,093
EQUITY		
Issued capital	22,809,146	22,809,146
Retained earnings	(22,833,534)	(22,827,256)
TOTAL EQUITY	(24,388)	(18,110)
FINANCIAL PERFORMANCE		
Loss for the year	(1,365,404)	(603,594)
TOTAL COMPREHENSIVE INCOME	(1,365,404)	(603,594)

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 21-48, are in accordance with the Corporations Act 2001 and:
   a) Comply with Accounting Standards (including The Australian Accounting Interpretations) and the Corporations Regulations 2001;
   b) Give a true and fair view of the financial position as at 30 June 2013 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 directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer (or equivalent) and Chief Financial Officer for the financial year ended 30 June 2013

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

30 September 2013