



2006 ANNUAL REPORT

YEARS OF

UnderCoverWear 

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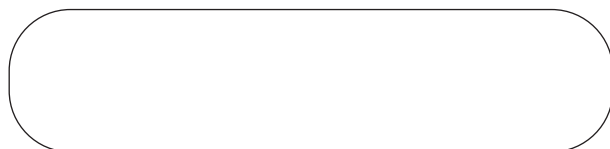
After 25 years
we've got
it in the bag!

... now for the next 25



UnderCoverWear

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We have strong foundations

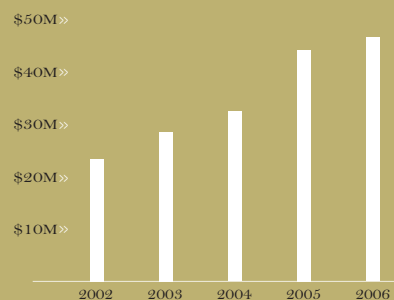
As one of Australia and New Zealand's largest and most successful direct-selling organisations, UnderCoverWear has come along way since its humble beginning as a small home business.

From a garage back in 1981, to the warehouse of international standards and network of more than 2,500 people that the company boasts today, UnderCoverWear's 25-year history is a phenomenal story of success and continued growth.

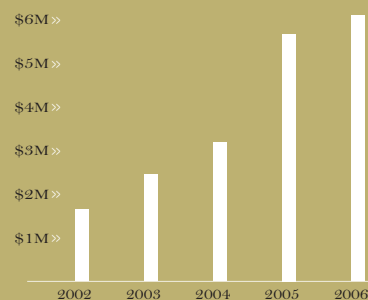
Our strengths rest in efficient operations, strong product offerings and a team of people who are driven, energetic and extremely talented. We are now industry leaders and we enjoy a long and stable company history, highlighted in 2004 by the successful float of UnderCoverWear onto the Australian Stock Exchange. Over the years, our performance has been consistently strong. We've shown flexibility and innovation in times of change and challenge as we constantly strive for further evolution and improvement.

So, while we mark the first 25-year chapter of our history, we also look forward to the next 25 years, using our established foundation to continue to grow and nurture the best people, best products and the best business imaginable.

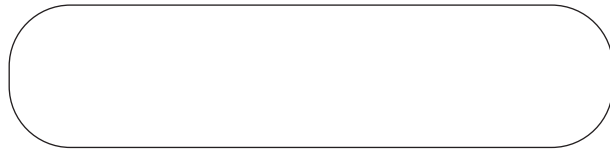
>> REVENUE



>> EBITDA







It's our people

They call it people power - we call it our best asset. At UnderCoverWear, we motivate, we nurture and we encourage our work team and we do it to develop both personal and professional growth.

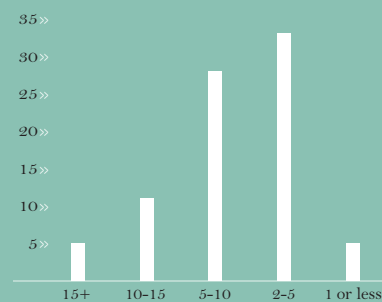
Through training, support and effective incentives, all our team members, from the CEO to the design and warehouse staff, are inspired to be the best they can be. More than 2,500 sales consultants and around 100 head office staff members live the UnderCoverWear difference every day.

Selling more than 6,000 garments a day, our sales team boasts some of the most enthusiastic and passionate people in the country. We have mums looking to balance work and home commitments, business women looking for a job that provides opportunities to boost their income and, those returning to the workforce. Our team is constantly growing and evolving and this sees the introduction of new skills and talents.

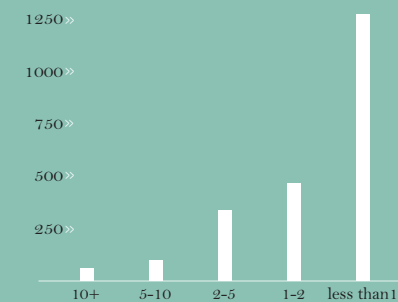
Empowered through the flexibility of party plan and driven by the results it can deliver, our highly motivated and ever-growing network of sales consultants are the backbone of our business, while the professional team at head office provides unmatched support, service and strategic direction.

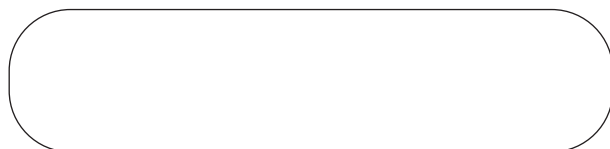
UnderCoverWear strives towards the highest levels of job satisfaction possible and together, we relish in the sense of achievement that comes with a job well done. And as they say, when you're onto a good thing, stick to it, which is perhaps why the company can boast a low level of staff turnover and impressive long-service records. UnderCoverWear - appreciating the power of our people, every day.

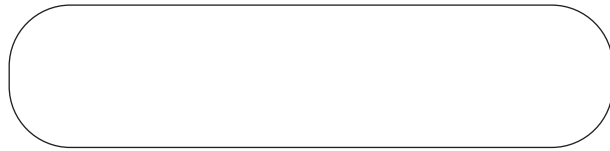
» TENURE OF EMPLOYEES IN YEARS



» TENURE OF SALES CONSULTANTS IN YEARS







It's our Product

From sexy, comfortable and seductive underwear to unbeatable casual wear and elegant evening garments, UnderCoverWear's four seasonal collections are our signature of style, quality and affordability.

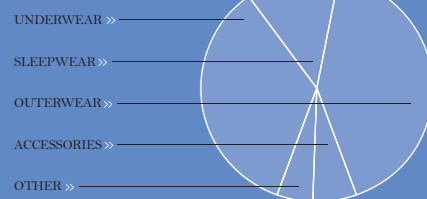
To an eager audience, UnderCoverWear launches four collections annually, announcing the latest looks in underwear, sleepwear, casual wear and evening wear. Our designers source the best fabrics, the best suppliers and create innovative styles to develop a range that not only looks good but is consistent in quality and affordability. And our size range is one of the most impressive on the market - from size 6 through to 26.

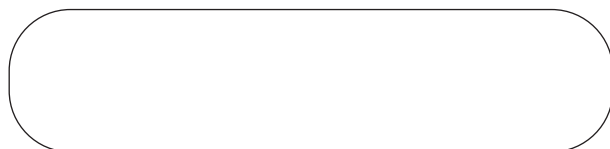
Be it a pair of embellished jeans, a cotton tee or a three-way uplift bra, we take the time to make sure each garment is not only good looking, but comfortable and well made. Our return rate is an impressively low 3% of all sales. We constantly review our suppliers against stringent production and operational benchmarks and we have some of the best designers of today working from our head office.

And each new UnderCoverWear collection is honoured in a stylish, 44 page, colour catalogue. Our talented marketing department photographs, designs and prints more than 750,000 catalogues each year which become not only useful sales tools for our consultants, but references for fashion journalists and photographers on some of the country's leading magazines.

From pyjamas for mum, to sexy camis and briefs or playful summer singlets, UnderCoverWear's impressive range of products is often selected above our competitors' to be endorsed by the fashion pages of magazines such as Cosmopolitan, That's Life!, Take 5, Dolly and Bride to Be.

>> SALES MIX





It's our Party

Friends, fashion and fun? Take these three elements and combine them with UnderCoverWear's inspiring people and impressive products, and voila! The perfect home shopping experience is created. UnderCoverWear's unique party-plan format means our customers relax in the comfort and privacy of their own home, with their friends and family.

Who comes to the party? Well, the more the merrier! Offering strong incentives for larger party bookings, UnderCoverWear really makes the most of any party, encouraging as many guests as possible. Maybe it's a mothers' group meeting, a fundraising event, a bridal shower or just a friendly get-together on a Saturday afternoon, UnderCoverWear parties are renowned as a fun, exciting and convenient way to get the latest looks at the best prices.

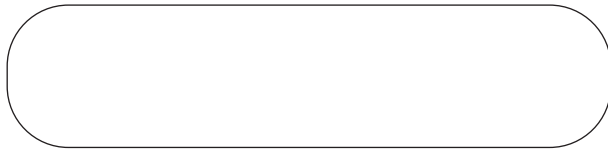
Unlike other fashion retailers, we don't have small change rooms with bright lights! Our customers don't need to negotiate a massive mall to reach us and our opening hours are not restricted to 9-5. Instead, UnderCoverWear takes the hassle, the annoyance and the stress of shopping out of the equation.

Lounge rooms become private fashion boutiques, our customers sit and relax with their friends as they are presented a preview of the season's hottest looks. As the party continues, they might try on different garments as they workshop ideas with friends and receive some clever fashion tips from our talented fashion consultants.

Our consultants know how to get the party going! We begin with clever party kits which contain invitations and information to get the party really working. UnderCoverWear offers entertaining and playful party concepts including pyjama parties and slipper parties and of course, bridal showers and Christmas parties.

Party hosts also enjoy Party Privileges, with free shopping dollars and access to the exclusive, UnderCoverWear VIP collection. Stress-free and fun-filled shopping - now that's cause for a party!





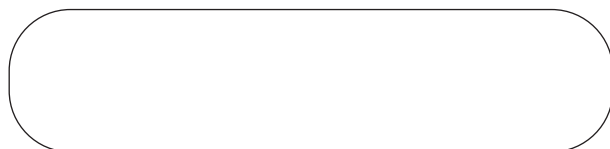
... and we can't wait for the next 25 years!



With a solid foundation of great people, competitive products and a proven business model, UnderCoverWear is well positioned to embrace the trials and triumphs that future years will bring.

We will work tirelessly, striving for greater heights and greater growth and, will remain flexible and prepared for whatever challenges lay ahead. So as we celebrate the past 25 years of impressive performance, we look forward to the next 25, where we set our standards even higher.

With UnderCoverWear's renowned innovation, creativity and strong family values, the UnderCoverWear team will empower each other, striving to bring the Company unprecedented success.



Chairman's Review

As Chairman, I am pleased to present the third Annual Report of UnderCoverWear Limited for the year ended 30 June 2006.

The consolidated profit for the economic entity after providing for income tax amounted to \$4,060,799 (2005 \$3,670,690).

Revenue from ordinary activities for the economic entity for the year ended 30 June 2006 was \$46,492,144 (2005 \$44,089,005).

These results represent:

- 10.6% increase in consolidated profit
- 5.5% increase in revenue.

It's important to recognise that the normal cycle of the direct-selling industry in Australia is for revenue and ensuing profit for the six month period ending December in each year usually exceeds the results for the following six months ending in June. The summer school holidays and Easter traditionally cause a comparative slowing of revenue in the second six month period of the financial year.

Whilst the cycle is budgeted for in each year, the slowing in the six months ended 30 June 2006 was greater than expected and, was further influenced by the contraction in discretionary spending and the slowing in most sectors of retail. Progressively lower unemployment levels also adversely effected the recruitment of new UnderCoverWear consultants.

We continually review and instigate new initiatives to address conditions affecting performance, including the cyclical trend observed between January and June. Your company proudly continues to maintain a strong cash flow, does not maintain any borrowings and operates with a comparatively low level of capital expenditure.

And we continue our focus on quality, consistency and new technology to optimise performance and to ensure UnderCoverWear is operating in the most efficient manner possible.

» DIVIDENDS

Your Board is pleased to report that based on the profits earned by the Company during the year, the Directors have declared the payment of a final fully franked dividend of 3.5 cents per share which will be paid on 5 October 2006. This brings the total ordinary dividend paid for the year ended 30 June 2006 to 6.5 cents per share compared to 5.0 cents per share last year, a 30% increase.

» OUTLOOK

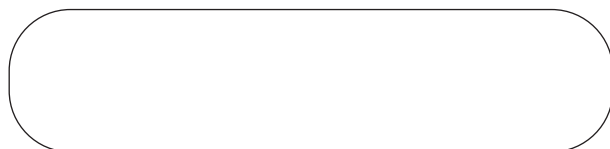
UnderCoverWear will work to continue its efficient operations and competitive performance within the challenging climate predicted. If the economic trends in retail sales and low unemployment continue, it is somewhat difficult to forecast future growth in revenues and results achieved for the year ending 30 June 2007.

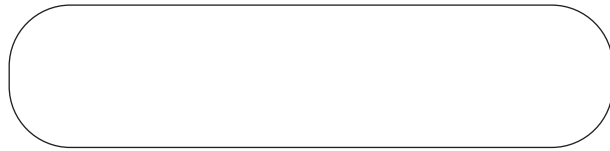
However, as one of Australia's leading direct-selling organisations, UnderCoverWear is ever-increasingly looking to improve the Company's performance, reducing costs and increasing margins profit.

» MANAGEMENT

I wish to acknowledge the outstanding, dedicated contributions of our Chief Executive Officer, Elaine Vincent, the management team and our very focused sales force who are dynamically enthused to pursue the success of UnderCoverWear Limited by outperforming the challenging prevailing market.

David Hall, Chairman





Chief Executive Officer's Report

Following a record year of trading in 2005, the team at UnderCoverWear faced a challenging period of trade - particularly in the second six months of this year. But despite a tough six months, I'm proud to report the overall results for the year are the company's highest ever, showing an increase in net profit of 10.6% over last year.

The slow-down in sales in those second six months saw fewer parties held and lower sales. This was a relatively common theme across the direct-selling industry as customers adjusted to increased fuel costs and higher interest rates. With those six months passed, I am pleased to report that since the release of our latest range and the introduction of new consultant incentives, UnderCoverWear is enjoying an improvement in levels of sales and party bookings.

>> APPOINTMENT OF KEY NEW STAFF

2006 saw the retirement of two long-serving team members, Patti Handford and Bernice Carter. As Chief Executive, I wish to thank both Patti and Bernice for their long standing contributions and I join the whole team in wishing them well in their new endeavours.

These farewells have led to the creation of a new position and the exciting appointment of Colleen Walters. An expert in the field, Colleen joins the team as Sales and Business Development Manager, where she will utilise 10 years experience in the party plan and direct-selling industry, both overseas as well as in Australia.

Megan Everett, formerly our Events Manager has been promoted to the position of General Manager - Operations. Megan has established herself in her new role with much enthusiasm and is proving to be an excellent asset to our Operations Division.

We have also appointed a second Fashion Designer. The talented Robyn Eddy, will now specialise in our outerwear range, giving our Chief Designer,

Ana Tokic, the resources to devote her skills exclusively to UnderCoverWear's lingerie and sleepwear collections.

>> REPORT ON OPERATIONS

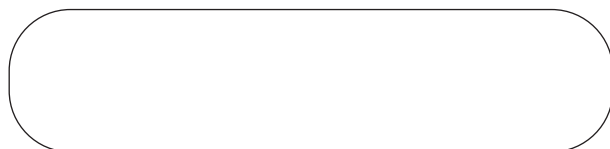
Throughout the year we have implemented a number of innovations in our IT systems, ensuring our direct-selling and distribution system remains one of the most advanced in the industry. Speed and accuracy are improved with a new process of electronic ordering, making the system highly efficient and giving UnderCoverWear potential to increase our productivity. New IT upgrades have not only improved our back-end delivery, but also our training and performance capabilities. Team leaders are now able to track the performance of their sales team, with in-depth analysis of vital KPI's, assisting them to manage and develop the skill sets of each team member.

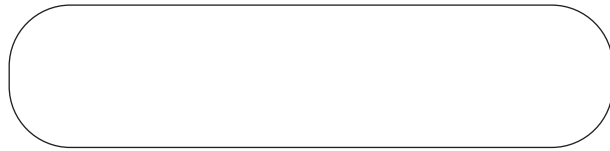
Gross margins have been consistent again this year, with approximately 35% of garments being manufactured by our local production department. Producing high quality garments that sell at competitive prices is the result of expert design, efficient manufacturing processes and, intelligent fabric sourcing. This capability to produce garments locally has also increased our ability to meet short lead times and, subsequently, has reduced the costs associated with holding inventory.

Importing the remaining 65% of our garments is now a more efficient process thanks to a refinement in warehouse management, the result of which has lessened UnderCoverWear's overheads.

In addition, substantial savings have been achieved in distribution costs. With better coordination of overseas deliveries, we have nearly eliminated the costs and labour that comes from backordering.

And while we've improved IT, manufacturing and other behind-the-scenes operations, we've also encouraged the development of our frontline team.





Chief Executive Officer's Report *continued*

Over 100 trainees attended our monthly Corporate Manager Training Program, with 52 new managers already successfully promoted. To ensure our overall growth, we continue to encourage sales consultants to strive for promotion. With support, training and goal-setting, sales consultants are able to achieve managerial status. This strategic fostering not only grows the personal performance of the consultant but also expands the Company.

Our Regional Executive forums have also been sharpened, with conference calls proving a favourable strategy to instigate peer knowledge-sharing, communication and feedback.

Moving on from people to places, I'm also proud to report that building on the extension to the mezzanine floor has commenced. The new area will provide training rooms and space for our enhanced design and marketing departments.

» SUPPORTING THE CAUSE

As a responsible corporate citizen and intelligent product developer, UnderCoverWear recently partnered with the Cancer Council of Australia and the Cancer Society in New Zealand to develop a uniquely designed, fundraising t-shirt. We have sold over 20,000 "Supporting the Cause" t-shirts, raising over \$200,000 for Breast Cancer Support Services and, we look forward to driving this initiative through 2006/7.

UnderCoverWear's social agenda marches on further, as we become major sponsor for the Cancer Council's Girls Night In initiative. Throughout the month of October, the Cancer Council will be encouraging participation in Girls Night In UnderCoverWear parties - events designed to raise money and awareness for breast cancer. With obvious synergies to our party-plan concept and the marketing potential this allows us, our sponsorship is further valued with guaranteed visual recognition of our logo in all material developed for this event.

» MARKETING AND PROMOTIONS

Public relations continues to be a successful marketing avenue with frequent editorial achieved in several target magazines. Market research is also being conducted to further define who our customer is and to aid in the re-development of our advertising messages. In addition, UnderCoverWear is developing a new Party Pack tool, designed to generate fresh excitement and consumer interest in hosting an UnderCoverWear party.

» CONFERENCES

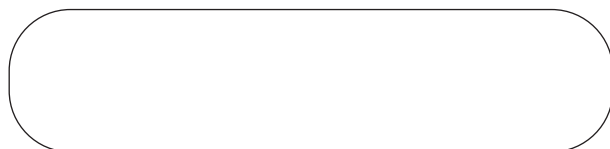
In July 2006, over 160 managers and head office staff attended the four-day Annual Managers' Conference held in Queensland. Plans for the coming year were released to a very excited and motivated group, including new promotional incentives for Consultants and Managers, as well as promotions for party bookings. Our major Consultant Sales Convention is held in September in Sydney where all are invited to join in this informative and motivational conference, followed by a spectacular fashion show and awards ceremony.

» THE YEAR AHEAD

What a source of excitement, what a challenge, and what a team goal it will be to achieve repeated success in the year ahead. From our warehouse and call centre staff, to our sales teams, marketing and design departments right through to the board at UnderCoverWear, the enthusiasm, talent and drive of the whole team stands us in good stead as we endeavour to grow and develop the company, our products and our people.

As your Chief Executive, I would like to thank each and every team member for their ongoing dedication and enthusiasm and I ask you to join me as we welcome in another exciting, financial new year!

Elaine Vincent





Board of Directors

>> *DAVID HALL FCA, FAICD, FTIA*

David Hall was appointed as Chairman of the Board on 3 November 2005 and has been a Director since 5 May 2004. Mr Hall brings to the Board and shareholders extensive experience in corporate management, finance and the direct-selling industry. A Fellow of the Institute of Chartered Accountants and former partner in a large chartered accounting firm, Mr Hall has also held the positions of Group Managing Director of Nutrimeics International and Executive Deputy Chairman of the Griffin Holdings Limited Group. Mr Hall is currently Managing Director of Roche Group Pty Ltd. Mr Hall holds an external directorship in Brickworks Investment Company Limited (since October 2003). He has previously held external directorships in Ainsworth Game Technology Limited (March 2001 to August 2003), Pacific Strategic Investments Limited (July 1998 to March 2005) and, Challenger Listed Investments Limited responsible entity for Challenger Wine Trust and Challenger Infrastructure Fund (1995 to June 2006).

Mr Hall is Chairman of the Audit and Remuneration Committees. He is also a member of the Finance Committee and IFRS Committee. Interest held: 100,000 Ordinary Shares.

>> *ELAINE VINCENT B COMM*

Elaine Vincent was appointed as a Director on 5 May 2004. Ms Vincent has held the position of Chief Executive Officer of UnderCoverWear for the past six years after joining the company in 1995 as Financial Controller. With over 20 years experience in franchising and retailing in the clothing and textile industry, Ms Vincent has since focussed her attention on the direct-selling industry. Prior to this, Ms Vincent operated her own public accounting practice following on from her 10 years experience working for a chartered accounting firm. Ms Vincent is a member of the Finance Committee & IFRS Committee. Interest held: 502,000 Ordinary Shares.

>> *JOHN EVERETT A.M B ECON A.A.S.A*

John Everett has been a Director of UnderCoverWear Limited since 5 May 2004 and previously held the position of Chairman of Directors. Mr Everett has gained relevant experience within the direct-selling industry since his appointment as Director of the business in 1991. Prior to this, Mr Everett held the position of Chairman of Whites Wires Aust Pty Ltd, Carbolite Industries Pty Ltd and Nield Transport Pty Ltd. In 2002, Mr Everett was awarded a Member of the Order of Australia (AM) for his services to charity, particularly the Prince of Wales Medical Research Institute.

Mr Everett is a member of the Audit Committee, Remuneration Committee, Finance Committee & IFRS Committee. Interest held: 16,000,000 Ordinary Shares.

>> *IAN EVERINGHAM*

Ian Everingham has been a director of UnderCoverWear Limited since 5 May 2004. He brings more than 23 years of manufacturing industry experience to the Company as previous owner and Managing Director of Epping Rubber Co. Pty Ltd - a manufacturer of moulded and extruded products. Mr Everingham is currently a Director of several private companies in the finance and property industries. Mr Everingham is a member of the Audit and Remuneration Committees. Interest held: 8,000,000 Ordinary Shares.

>> *TANIA THOMSON B COMM CA*

Tania Thomson commenced her employment with the company in July 2004 as Financial Controller. Prior to this, Ms Thomson had over 10 years experience working in Chartered Accounting firms. Ms Thomson was appointed Company Secretary on 15 September 2004 and has also held the role of Chief Financial Officer since that date.

David Hall | *CHAIRMAN*



Elaine Vincent | *EXECUTIVE DIRECTOR &
CHIEF EXECUTIVE OFFICER*



John Everett | *EXECUTIVE
DIRECTOR*

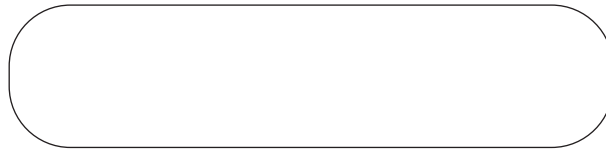


Ian Everingham | *NON-EXECUTIVE
DIRECTOR*



Tania Thomson | *COMPANY SECRETARY &
CHIEF FINANCIAL OFFICER*





Corporate Governance

This statement discloses the key elements of the Company's governance framework during the reporting period and to the date of this report. In this statement, the Company's relevant governance practices are cross referenced to the ASX Corporate Governance Council's Best Practice Recommendations. The Company's governance practices substantially comply with the Best Practice Recommendations.

» PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board has developed and implemented policies and practices which ensure that the Company complies with the recommendations and principles set out in the guidelines, while recognising that in a dynamic company with a small Board the relationships among Directors cannot be fully regulated and documented. Matters specifically reserved for the Board are charting the direction, strategies, financial objectives & corporate policies, monitoring compliance with regulatory requirements, and appointing and reviewing the performance of the Chief Executive Officer. A summary of the Company's board charter is available for viewing on the company's website.

» PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

During the financial year, the Board comprised two Non-Executive Directors (including the chairman) and two Executive Directors (including the CEO). The names, skills and experience of the Directors in office at the date of this Statement, and the period of office of each Director, are set out in the Directors' Report.

Independence of Directors

The Board considers that only one Director (out of the total of four), is independent of management influence. The Board distinguishes between the concept of independence and the issues of conflict of interest or material personal interests which

may arise from time to time. Wherever there is an actual or potential conflict of interest or material personal interest, the Board's policies and procedures ensure that:

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

Independent Professional Advice

Each Director has the right, at the Company's expense, to seek independent professional advice in relation to the execution of Board responsibilities. Prior approval of the Chairman, which will not be unreasonably withheld, is required. Where appropriate, Directors share such advice with the other Directors.

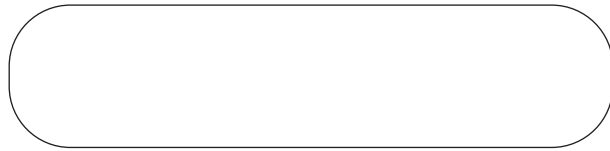
The current Chairman of the Company is a Non-Executive Director and has extensive experience serving as Chairman for boards of public and private companies.

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

Nomination Committee

Previously the Nomination Committee was formed by the Chairman and one independent Director. As the current Chairman is the sole independent director, there is no longer a separate Nomination Committee. The Board has decided that due to its small size, the responsibilities previously undertaken by the Nomination Committee will now be conducted by the Board. It is noted that the composition of the Board does not permit the majority of members to be independent, as recommended by the principle.





Corporate Governance *continued*

These responsibilities include reviewing Board membership. This includes an assessment of the necessary and desirable competencies of Board members, Board succession plans and an evaluation of the Board's performance and consideration of appointments and approvals. When a Board vacancy occurs, the existing Board will identify the particular skills, experience and expertise required that will best complement its effectiveness and then undertake a process to identify candidates who can meet those criteria.

>> PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

Through established practices and policies the Board supports the need for Directors and Employees to observe the highest standards of behaviour and business ethics. All Directors, Managers and Employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the company. A formal Code of Conduct for both Directors and Employees, which draws together all of the Company's existing policies has been implemented and a summary of their main provisions is published on the Company's website.

Trading in company securities by Directors, Officers and Employees

The Board has established written guidelines, set out in its Share Trading Policy, that restrict dealings by Directors and relevant Employees in the Company's shares. The Share Trading Policy complies with the guidelines. It identifies certain periods when, in the absence of knowledge of unpublished price-sensitive information, Directors and relevant Employees may buy or sell shares. These periods are 21 days preceding the announcement of half year and full year results. A summary of the main provisions of the Share Trading Policy is published on the Company's website.

>> PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Management Accountability

The Company encourages management accountability and requires that the CEO and CFO state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and are in accordance with the relevant accounting standards.

Audit Committee

The Committee comprises of one Executive Director and two Non-Executive Directors (including the Chairman who is also an independent Director). In recognition of the importance placed on direct-selling experience, the Board has decided that the majority of the Audit Committee need not be independent as recommended by this principle.

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

Auditor Independence

The external auditor, Grant Thornton NSW, has declared its independence to the Board. The Committee has examined detailed material provided by the external auditor and by management and has satisfied itself that the standards for auditor independence and associated issues are fully complied with.

» PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

» PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Communications Strategy

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

Information is communicated to shareholders through:

- the Annual Report which is distributed to all shareholders
- the Half-Year Shareholders' Report which is published in the Company's website, containing summarised financial information and a review

of the operations during the period since the Annual Report; and

- the Annual General Meeting and other shareholder meetings called to obtain approval for Board action as appropriate and required;
- other correspondence regarding matters impacting on shareholders as required.

All documents that are released publicly are made available on the Company's web site. Shareholders are also encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals. Important issues are presented to shareholders as single resolutions.

Availability of Auditor at AGM

The engagement partner of the Company's external auditor, Grant Thornton NSW, attends the Company's Annual General Meetings and is available to answer questions from shareholders about the audit. The Chairman advises the shareholders of this at the commencement of each annual general meeting.

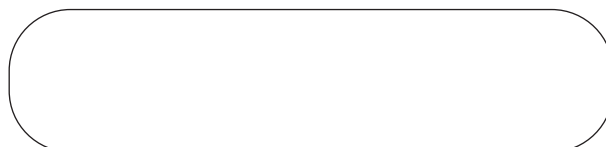
» PRINCIPLE 7: RECOGNISE & MANAGE RISK

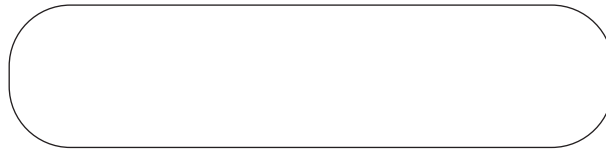
The Company has a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. The Company believes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

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

» PRINCIPLE 8: ENCOURAGE ENHANCED BOARD AND MANAGEMENT PERFORMANCE

The Board undertakes an annual self-assessment of its performance, in line with recommendations of the guidelines, prior to the Annual General Meeting each year. A review was undertaken during September & October 2005, and a report





Corporate Governance *continued*

on its findings and recommendations was presented to the Board in December 2005.

The review was initially conducted by way of questionnaire, with the opportunity for follow-up discussions if any Director thought it would be beneficial to do so. The review indicated that the Board was continuing to perform soundly.

The Chairman also conducts an annual assessment of the performance of individual Directors, where necessary and meets privately with each Director to discuss this assessment. The Chairman's performance is reviewed by the Board.

The Board provides induction programs for new Directors in accordance with the recommendation and complies with all of the recommendations in relation to independent professional advice, access to the Company Secretary, the appointment and removal of the Company Secretary, and the provision of information, including requests for additional information. The Company Secretary attends all Board meetings.

» PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY

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

Remuneration Committee

The Board has an established Remuneration Committee, comprising one Executive Director and two Non-Executive Directors (including the Chairman who is also an independent Director). Their names and attendance at meetings of the Committee are set out in the Directors' Report. Due to the small size of the Board, the composition of the Remuneration Committee does not permit the majority of members to be independent as recommended by the principle.

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

Structure of remuneration

The structure of Non-Executive Directors' remuneration and that of executives is set out in the relevant section of the Directors' Report. Details of the nature and amount of each element of the remuneration of each Director of the Company and each of the five Executive Officers of the Company and the consolidated entity receiving the highest remuneration for the financial year are disclosed in the relevant section of the Directors' Report.

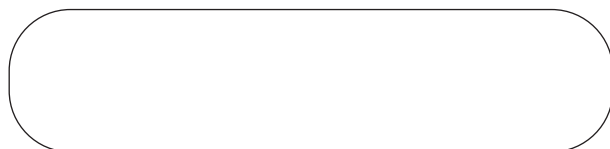
» PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

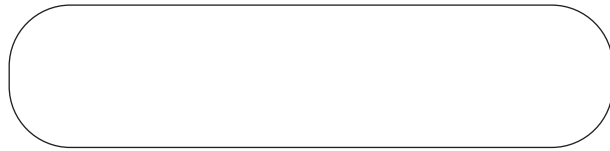
The Company has well-established policies, procedures and codes of conduct which seek to promote throughout the Company a culture of compliance with legal requirements and ethical standards.

As indicated under Principle 3, the Employee's Code of Conduct and Director's Code of Conduct, which draws together all the Company's policies and codes have been established and a summary of their main provisions are available on the Company's website.

Other Information

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





Directors' Report

Your Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2006.

» DIRECTORS & COMPANY SECRETARY

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

John H Everett	Elaine M Vincent
David C Hall	Ian G Everingham

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Tania Thomson held the position of Company Secretary during and at the end of the financial year.

Details about experience and qualifications of Directors and Company Secretary are on page 21 which forms part of this report.

» PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the financial year were the importation, manufacturing, distribution and export of underwear and garments.

There were no significant changes in the nature of the economic entity's principal activities during the financial year.

» OPERATING RESULTS

The consolidated profit of the economic entity after providing for income tax amounted to \$4,060,799 (2005: \$3,670,690 under A-IFRS – see below).

» DIVIDENDS PAID OR RECOMMENDED

Dividends paid or declared by the Company since the end of the previous financial were:

- An interim ordinary dividend in respect of the year ended 30 June 2006 of 3.0 cents per share fully franked, paid on 4h April 2006.
- A final ordinary dividend in respect of the

year ended 30 June 2006 of 3.5 cents per share fully franked, payable on 5th October 2006.

» REVIEW OF OPERATIONS

The performance of the Company in 2006 has achieved another year of record highs. The rate of revenue growth was 5.4% above last year at \$46,492,707 and continues to be driven by organic growth of our sales team. Net profit after income tax was \$4,060,799, a 10.6% increase on last year. Our success in growing all of our key business drivers, consultant numbers, consultant productivity and party average, highlights the importance of our business model and our management team.

Gross margins have been consistent again this year, with approximately 35% of garments being manufactured by our local production department. The capability to produce garments locally has also increased our ability to meet short lead times and, subsequently, has reduced the costs associated with holding inventory. Importing the remaining 65% of our garments is now a more efficient process thanks to a refinement in warehouse management, the result of which has lessened UnderCoverWear's overheads.

First implemented in early 2005, we are beginning to see the effects of our Corporate Manager Training program, which encourages sales consultants to strive for promotion to management. This strategic fostering not only grows the personal performance of the consultant but also expands the UnderCoverWear business.

The continuing development of IT systems and custom programming has led to greater efficiencies for customer ordering with the majority of our orders being submitted electronically via the internet. We have also developed unique software to track the performance of our sales teams, providing an in-depth analysis of vital KPI's and useful graphs to develop the skills set of each consultant.





Directors' Report *continued*

We have continued to support sponsorship and fundraising activities and we have donated in excess of \$600,000 to the Make-A-Wish Foundations and Cancer Councils of Australia & New Zealand, since 1987.

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

>> SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

>> ADOPTION OF AUSTRALIAN EQUIVALENTS TO A-IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (A-IFRS), the Company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to A-IFRS is included in Note 2 to this report.

>> AFTER BALANCE DATE EVENTS

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2006.

>> FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

For the coming financial year, if the economic trends in retail sales and low unemployment continue, it is somewhat difficult to forecast future growth in revenues and results achievable for the year ending 30 June 2007. However, management will continue to operate in accordance with current business strategies and recognises the importance of internal growth and consistent productivity within the sales team in ensuring that our goals are achieved.

>> ENVIRONMENTAL ISSUES

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

>> REMUNERATION REPORT

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to Board Members and Senior Executives of the Company and its controlled entities. The Board remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Non-Executive Directors

The Board policy is to remunerate Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the economic entity.

Executive Directors & Senior Executives

Remuneration packages for Executive Directors and Senior Executives include a mix of fixed remuneration (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives. The Remuneration Committee reviews executive

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

All Directors and Executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase superannuation contributions.

Details of Remuneration for Year Ended 30 June 2006

The remuneration for each Director and each of the Executive Officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	SALARY FEES & COMMISSIONS \$	SUPERANNUATION CONTRIBUTION \$	CASH BONUS \$	NON-CASH BENEFITS \$	TOTAL \$
Elaine Margaret Vincent	176,796	100,587	529,215	58,724	865,322
John Henry Everett	130,000	2,700	—	—	132,700
David Capp Hall	32,592	44,600	—	—	77,192
Ian Garnsey Everingham	30,000	2,700	—	—	32,700
Total for Directors	369,388	150,587	529,215	58,724	1,107,914
Patricia Handford	95,974	5,000	—	—	100,974
Ana Tokic	82,500	8,746	41,920	20,000	153,166
Alice Bernice Carter	86,400	16,376	—	19,000	121,776
Tania Thomson	94,525	8,507	5,000	4,500	112,532
Nicole Riccioni	75,000	6,750	5,000	13,300	100,050
Total for Executives	434,399	45,379	51,920	56,800	588,498

Meetings of Directors

During the financial year, nine meetings of Directors (including Committees of Directors) were held. Attendances by each Director during the year were as follows:

	NUMBER OF MEETINGS			
	DIRECTORS MEETINGS ELIGIBLE	DIRECTORS MEETINGS ATTENDED	AUDIT COMMITTEE ELIGIBLE	AUDIT COMMITTEE ATTENDED
John H Everett	7	7	2	2
David C Hall	7	7	2	2
Ian G Everingham	7	7	2	2
Elaine M Vincent	7	6	—	—



Directors' Report *continued*

>> INDEMNIFYING OFFICERS OR AUDITOR

The Company has paid premiums to insure each of the following Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The total amount of the premium was \$23,210.

David C Hall
Elaine M Vincent
John H Everett
Ian G Everingham
Tania Thomson (Secretary)

>> OPTIONS

There were no options over issued shares and no options granted or outstanding during the financial period ended 30 June 2006 or at the date of this report.

>> PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

>> NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did

not compromise the external auditor's independence for the following reasons:

- the nature of the services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1: Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Fees to the amount of \$3,020 were paid to external auditors during the year ended 30 June 2006 for Business & Taxation services.

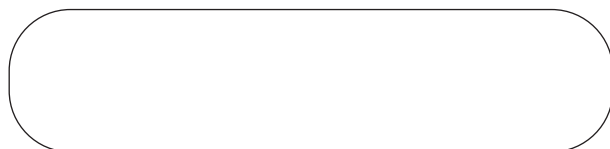
>> AUDITOR'S INDEPENDENCE DECLARATION

As required under Section 307C of the Corporations Act, the auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 69, which forms part of this report.

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

David C Hall
Director

24 August 2006



Income Statement for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2006 \$	2005 \$	2006 \$	2005 \$
Revenue	3	46,492,144	44,089,005	7,121,319	4,031,645
Other income	3	563	485	—	—
Changes in inventories of finished goods and work in progress		(9,437,874)	(8,284,218)	—	—
Raw materials and consumables used		(7,307,159)	(7,305,329)	—	—
Distribution costs		(1,589,061)	(1,812,896)	—	—
Commissions paid		(10,042,565)	(9,546,777)	—	—
Promotions and advertising expense		(2,693,088)	(2,449,161)	—	—
Depreciation and amortisation expense	4	(272,197)	(372,605)	—	—
Insurance expense		(184,679)	(177,493)	—	—
Employee benefits expense		(6,070,468)	(5,753,072)	—	—
Rental expenses		(736,798)	(759,782)	—	—
Finance costs	4	(2,599)	(107,920)	—	—
Other expenses from ordinary activities		(2,355,445)	(2,282,773)	(60,545)	(54,181)
Profit before income tax expense	4	5,800,774	5,237,464	7,060,774	3,977,464
Income tax expense	5	(1,739,975)	(1,566,774)	(1,739,975)	(1,566,774)
Profit attributable to members of the parent entity		4,060,799	3,670,690	5,320,799	2,410,690
Basic earnings per share (cents per share)	9	8.46	7.65		
Diluted earnings per share (cents per share)	9	8.46	7.65		

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

Balance Sheet as at 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT ASSETS					
Cash and cash equivalents	10	1,635,141	2,199,616	5,832	6,961
Trade and other receivables	11	363,952	337,195	5,718,343	2,974,658
Inventories	12	6,260,303	5,177,664	–	–
Other	13	257,730	465,837	–	–
TOTAL CURRENT ASSETS		8,517,126	8,180,312	5,724,175	2,981,619
NON-CURRENT ASSETS					
Other financial assets	14	–	–	24,000,000	24,000,000
Property, plant and equipment	16	448,055	497,749	–	–
Deferred tax assets	17	411,104	434,253	90,363	113,510
Intangible assets	18	24,817,499	24,817,499	–	–
TOTAL NON-CURRENT ASSETS		25,676,658	25,749,501	24,090,363	24,113,510
TOTAL ASSETS		34,193,784	33,929,813	29,814,538	27,095,129
CURRENT LIABILITIES					
Trade and other payables	19	3,079,043	4,358,188	1,150	1,097
Current tax liabilities	20	1,628,563	1,339,190	1,628,563	1,339,190
Short-term provisions	21	1,238,137	1,155,672	–	–
TOTAL CURRENT LIABILITIES		5,945,743	6,853,050	1,629,713	1,340,287
NON-CURRENT LIABILITIES					
Long-term provisions	21	124,974	123,679	–	–
Deferred tax liabilities	22	33,179	43,995	42,941	53,757
TOTAL NON-CURRENT LIABILITIES		158,153	167,674	42,941	53,757
TOTAL LIABILITIES		6,103,896	7,020,724	1,672,654	1,394,044
NET ASSETS		28,089,888	26,909,089	28,141,884	25,701,085
EQUITY					
Issued capital	23	23,960,750	23,960,750	23,960,750	23,960,750
Retained earnings		4,129,138	2,948,339	4,181,134	1,740,335
TOTAL EQUITY		28,089,888	26,909,089	28,141,884	25,701,085

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

Statement of Changes in Equity for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

	NOTE	ORDINARY SHARE CAPITAL \$	RETAINED EARNINGS \$	TOTAL \$
ECONOMIC ENTITY				
Balance at 1 July 2004	2	23,960,750	237,649	24,198,399
Profit for the period		–	3,670,690	3,670,690
Total recognised income and expense for the period		–	3,670,690	3,670,690
Dividends paid	8	–	(960,000)	(960,000)
Balance at 30 June 2005		23,960,750	2,948,339	26,909,089
Profit for the period		–	4,060,799	4,060,799
Total recognised income and expense for the period		–	4,060,799	4,060,799
Dividends paid	8	–	(2,880,000)	(2,880,000)
Balance at 30 June 2006		23,960,750	4,129,138	28,089,888
PARENT ENTITY				
Balance at 1 July 2004	2	23,960,750	289,645	24,250,395
Profit for the period		–	2,410,690	2,410,690
Total recognised income and expense for the period		–	2,410,690	2,410,690
Dividends paid	8	–	(960,000)	(960,000)
Balance at 30 June 2005		23,960,750	1,740,335	25,701,085
Profit for the period		–	5,320,799	5,320,799
Total recognised income and expense for the period		–	5,320,799	5,320,799
Dividends paid	8	–	(2,880,000)	(2,880,000)
Balance at 30 June 2006		23,960,750	4,181,134	28,141,884

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

Cash Flow Statement for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		51,266,438	48,773,071	–	–
Payments to suppliers and employees		(47,430,922)	(43,496,840)	(60,492)	(100,315)
Interest received		142,554	71,996	–	–
Dividends & trust distributions received		265	412	7,121,319	4,031,645
Finance costs		(2,599)	(107,920)	–	–
Income taxes paid		(1,438,271)	(411,470)	(1,438,270)	(411,470)
Net cash provided by operating activities	25a	2,537,465	4,829,249	5,622,557	3,519,860
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		7,454	11,918	–	–
Purchase of property, plant and equipment		(229,394)	(281,284)	–	–
Proceeds from subsidiary		–	–	4,377,468	1,513,780
Payments to subsidiary		–	–	(7,121,154)	(4,066,679)
Net cash used in investing activities		(221,940)	(269,366)	(2,743,686)	(2,552,899)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of borrowings to related party		–	(2,550,634)	–	–
Dividends paid by parent entity		(2,880,000)	(960,000)	(2,880,000)	(960,000)
Net cash (used in)/provided by financing activities		(2,880,000)	(3,510,634)	(2,880,000)	(960,000)
Net decrease in cash held		564,475	(1,049,249)	1,129	(6,961)
Cash at beginning of financial year		2,199,616	1,150,367	6,961	–
Cash at the end of financial year	10	1,635,141	2,199,616	5,832	6,961

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

Notes to the Financial Statements for the Year Ended 30 June 2006

» UNDERCOVERWEAR LIMITED ABN 85 108 962 152

» NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers the economic entity of UnderCoverWear Limited and controlled entities, and UnderCoverWear Limited as an individual parent entity. UnderCoverWear Limited is a listed public company, incorporated and domiciled in Australia. The financial report of UnderCoverWear Limited and controlled entities, and UnderCoverWear Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (A-IFRS) in their entirety. Compliance with A-IFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

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

BASIS OF PREPARATION

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

UnderCoverWear Limited and controlled entities, and UnderCoverWear Limited as an individual parent entity have prepared financial statements in accordance with the Australian Equivalents to International Financial Reporting Standards (IFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of IFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of UnderCoverWear Limited to be prepared in accordance with Australian equivalents to IFRS.

Reconciliations of the transition from previous Australian GAAP to IFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

ACCOUNTING POLICIES

a. Principles of Consolidation

A controlled entity is any entity UnderCoverWear Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

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

b. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

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

c. Inventories

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

d. Property, Plant and Equipment

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

Plant and equipment

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

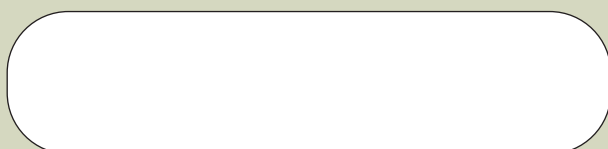
The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal.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

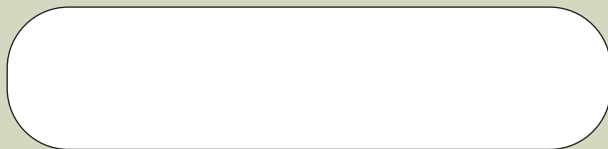
Depreciation

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

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

CLASS OF FIXED ASSET	DEPRECIATION RATE
Plant and equipment	6% – 40%
Motor vehicle	13.75% – 22.5%
Furniture, fittings and equipment	13% – 40%
Computer software	40%





Notes to the Financial Statements for the Year Ended 30 June 2006

» UNDERCOVERWEAR LIMITED ABN 85 108 962 152

» NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

e. Leases

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

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged 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

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.

Loans and receivables

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

Financial liabilities

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

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Directors assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

g. Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. Intangibles

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

i. Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

j. Employee Benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, 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.

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

k. Cash and cash equivalents

Cash and cash equivalents includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

l. Revenue

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

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

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

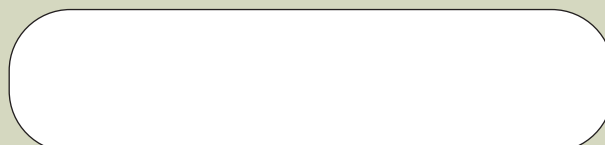
m. Goods and Services Tax (GST)

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 statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

n. Comparative Figures

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



Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

ECONOMIC ENTITY	PREVIOUS GAAP AT 1 JULY 2004 \$	ADJUSTMENT \$	AUSTRALIAN EQUIVALENTS TO IFRS AT 1 JULY 2004 \$
RECONCILIATION OF EQUITY AT 1 JULY 2004			
CURRENT ASSETS			
Cash and cash equivalents	1,150,367	–	1,150,367
Trade and other receivables	352,244	–	352,244
Inventories	4,251,622	–	4,251,622
Other	415,574	–	415,574
TOTAL CURRENT ASSETS	6,169,807	–	6,169,807
NON-CURRENT ASSETS			
Property, plant and equipment	600,503	–	600,503
Deferred tax assets	242,249	–	242,249
Intangible assets	24,905,910	–	24,905,910
TOTAL NON-CURRENT ASSETS	25,748,662	–	25,748,662
TOTAL ASSETS	31,918,469	–	31,918,469
CURRENT LIABILITIES			
Trade and other payables	4,041,182	–	4,041,182
Current tax liabilities	124,287	–	124,287
Short-term provisions	857,098	–	857,098
TOTAL CURRENT LIABILITIES	5,022,567	–	5,022,567
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	2,550,634	–	2,550,634
Long-term provisions	146,869	–	146,869
TOTAL NON-CURRENT LIABILITIES	2,697,503	–	2,697,503
TOTAL LIABILITIES	7,720,070	–	7,720,070
NET ASSETS	24,198,399	–	24,198,399
EQUITY			
Issued capital	23,960,750	–	23,960,750
Retained earnings	237,649	–	237,649
TOTAL EQUITY	24,198,399	–	24,198,399

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

ECONOMIC ENTITY		PREVIOUS GAAP AT 30 JUNE 2005 \$	ADJUSTMENTS ON INTRODUCTION OF AUSTRALIAN EQUIVALENTS TO IFRS \$	AUSTRALIAN EQUIVALENTS TO IFRS AT 30 JUNE 2005 \$
RECONCILIATION OF EQUITY AT 30 JUNE 2005	NOTE			
CURRENT ASSETS				
Cash and cash equivalents		2,199,616	–	2,199,616
Trade and other receivables		337,195	–	337,195
Inventories		5,177,664	–	5,177,664
Other		465,837	–	465,837
TOTAL CURRENT ASSETS		8,180,312	–	8,180,312
NON-CURRENT ASSETS				
Property, plant and equipment		497,749	–	497,749
Deferred tax assets		390,258	43,955	434,253
Intangible assets	2(a)	23,574,024	1,243,475	24,817,499
TOTAL NON-CURRENT ASSETS		24,462,031	1,287,470	24,749,501
TOTAL ASSETS		32,642,343	1,287,470	33,885,813
CURRENT LIABILITIES				
Trade and other payables		4,358,188	–	4,358,188
Current tax liabilities		1,339,190	–	1,339,190
Short-term provisions		1,155,672	–	1,155,672
TOTAL CURRENT LIABILITIES		6,853,050	–	6,853,050
NON-CURRENT LIABILITIES				
Long-term provisions		123,679	–	123,679
Deferred tax liabilities		–	43,955	43,955
TOTAL NON-CURRENT LIABILITIES		123,679	43,955	167,634
TOTAL LIABILITIES		6,976,729	43,955	7,020,724
NET ASSETS		25,665,614	1,243,475	26,909,089
EQUITY				
Issued capital		23,960,750	–	23,960,750
Retained earnings	2(b)	1,704,864	1,243,475	2,948,339
TOTAL EQUITY		25,665,614	1,243,475	26,909,089

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

PARENT ENTITY	PREVIOUS GAAP AT 1 JULY 2004 \$	ADJUSTMENT \$	AUSTRALIAN EQUIVALENTS TO IFRS AT 1 JULY 2004 \$
RECONCILIATION OF EQUITY AT 1 JULY 2004			
CURRENT ASSETS			
Cash and cash equivalents	-	-	-
Trade and other receivables	421,759	-	421,759
Inventories	-	-	-
Other	-	-	-
TOTAL CURRENT ASSETS	421,759	-	421,759
NON-CURRENT ASSETS			
Other financial assets	24,000,000	-	24,000,000
Property, plant and equipment	-	-	-
Deferred tax assets	154	-	154
Intangible assets	-	-	-
TOTAL NON-CURRENT ASSETS	24,000,154	-	24,000,154
TOTAL ASSETS	24,421,913	-	24,421,913
CURRENT LIABILITIES			
Trade and other payables	47,231	-	47,231
Current tax liabilities	124,287	-	124,287
Short-term provisions	-	-	-
TOTAL CURRENT LIABILITIES	171,518	-	171,518
NON-CURRENT LIABILITIES			
Long-term provisions	-	-	-
TOTAL NON-CURRENT LIABILITIES	-	-	-
TOTAL LIABILITIES	171,518	-	171,518
NET ASSETS	24,250,395	-	24,250,395
EQUITY			
Issued capital	23,960,750	-	23,960,750
Retained earnings	289,645	-	289,645
TOTAL EQUITY	24,250,395	-	24,250,395

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

PARENT ENTITY	PREVIOUS GAAP AT 30 JUNE 2005 \$	ADJUSTMENTS ON INTRODUCTION OF AUSTRALIAN EQUIVALENTS TO IFRS \$	AUSTRALIAN EQUIVALENTS TO IFRS AT 30 JUNE 2005 \$
RECONCILIATION OF EQUITY AT 30 JUNE 2005			
CURRENT ASSETS			
Cash and cash equivalents	6,961	–	6,961
Trade and other receivables	2,974,658	–	2,974,658
Inventories	–	–	–
Other	–	–	–
TOTAL CURRENT ASSETS	2,981,619	–	2,981,619
NON-CURRENT ASSETS			
Other financial assets	24,000,000	–	24,000,000
Property, plant and equipment	–	–	–
Deferred tax assets	59,753	53,757	113,510
Intangible assets	–	–	–
TOTAL NON-CURRENT ASSETS	24,059,753	53,757	24,113,510
TOTAL ASSETS	27,041,372	53,757	24,095,129
CURRENT LIABILITIES			
Trade and other payables	1,097	–	1,097
Current tax liabilities	1,339,190	–	1,339,190
Short-term provisions	–	–	–
TOTAL CURRENT LIABILITIES	1,340,287	–	1,340,287
NON-CURRENT LIABILITIES			
Long-term provisions	–	–	–
Deferred tax liabilities	–	53,757	53,757
TOTAL NON-CURRENT LIABILITIES	–	53,757	53,757
TOTAL LIABILITIES	1,340,287	53,757	1,394,044
NET ASSETS	25,701,085	–	25,701,085
EQUITY			
Issued capital	23,960,750	–	23,960,750
Retained earnings	1,740,335	–	1,740,335
TOTAL EQUITY	25,701,085	–	25,701,085

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

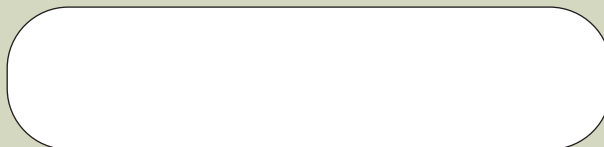
>> NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

ECONOMIC ENTITY RECONCILIATION OF PROFIT OR LOSS FOR 2005	NOTE	PREVIOUS GAPP \$	EFFECT OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS \$	AUSTRALIAN EQUIVALENTS TO IFRS \$
Revenue	2(c)	44,100,923	(11,433)	44,089,490
Changes in inventories of finished goods and work in progress		(8,284,218)	–	(8,284,218)
Raw materials and consumables used		(7,305,329)	–	(7,305,329)
Distribution costs		(1,812,896)	–	(1,812,896)
Commissions paid		(9,546,777)	–	(9,546,777)
Promotions and advertising expense		(2,449,161)	–	(2,449,161)
Depreciation and amortisation expense	2(b)	(1,616,080)	1,243,475	(372,605)
Insurance expense		(177,493)	–	(177,493)
Employee benefits expense		(5,753,072)	–	(5,753,072)
Rental expenses		(759,782)	–	(759,782)
Finance costs expense		(107,920)	–	(107,920)
Other expenses	2(c)	(2,294,206)	11,433	(2,282,773)
Profit before income tax expense	2(b)	3,993,989	1,243,475	5,237,464
Income tax expense		(1,566,774)	–	(1,566,774)
Profit attributable to members of the parent entity	2(b)	2,427,215	1,243,475	3,670,690

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

PARENT ENTITY			
RECONCILIATION OF PROFIT OR LOSS FOR 2005	PREVIOUS GAPP \$	EFFECT OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS \$	AUSTRALIAN EQUIVALENTS TO IFRS \$
Revenue	4,031,645	-	4,031,645
Changes in inventories of finished goods and work in progress	-	-	-
Raw materials and consumables used	-	-	-
Distribution costs	-	-	-
Commissions paid	-	-	-
Promotions and advertising expense	-	-	-
Depreciation and amortisation expense	-	-	-
Insurance expense	-	-	-
Employee benefits expense	-	-	-
Rental expense	-	-	-
Finance costs expense	-	-	-
Other expenses	(54,181)	-	(54,181)
Profit before income tax expense	3,977,464	-	3,977,464
Income tax expense	(1,566,774)	-	(1,566,774)
Profit attributable to members of the parent entity	2,410,690	-	2,410,690



Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

NOTES TO THE RECONCILIATIONS OF EQUITY AND PROFIT AND LOSS AT 1 JULY 2004 AND 30 JUNE 2005	30 JUNE 2005 \$	1 JULY 2004 \$
--	-----------------------	----------------------

a. Under AASB 3, goodwill is no longer amortised but subject to annual impairment testing. All goodwill amortised under previous GAAP has been reversed. Under the transitional provisions, acquired goodwill values have been retained at their book values applicable at 30 June 2004. Goodwill amounting to \$1,243,475 previously amortised in the 2005 full financial year has been reversed in the income statement for the year ended 30 June 2005.

b. Adjustments to retained earnings comprise:

Economic Entity

Reversal of goodwill previously amortised	1,243,475	–
Total	1,243,475	–

c. A reclassification has been made to the income statement for the year ended 2005 as follows:

- i. Under Australian equivalents to IFRS, the sale of non-current assets must be reflected as a gain or loss on sale and not separately split between proceeds and costs of disposal.

This reclassification has no effect on profit for the 2005 financial year.

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 3: REVENUE & OTHER INCOME

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
		\$	\$	\$	\$
Operating activities					
■ sale of goods		44,118,186	41,953,897	–	–
■ profit distribution – unit trust	3a	–	–	7,121,154	4,031,535
■ distribution charges		1,475,314	1,426,308	–	–
■ rental revenue		703,024	589,315	–	–
■ other revenue		52,801	47,077	–	–
■ interest & dividends received	3b	142,819	72,408	165	110
Total revenue		46,492,144	44,089,005	7,121,319	4,031,645
Non-operating activities					
■ gain on disposal of property, plant and equipment		563	485	–	–
Total other income		563	485	–	–
Total revenue & other income		46,492,707	44,089,490	7,121,319	4,031,645
a. Profit distribution from:					
■ wholly-owned unit trust		–	–	7,121,154	4,031,535
Total distribution received		–	–	7,121,154	4,031,535
b. Interest & dividend revenue from:					
■ other persons		142,819	72,408	165	110
Total interest revenue		142,819	72,408	165	110

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 4: PROFIT FROM ORDINARY ACTIVITIES

	ECONOMIC ENTITY		PARENT ENTITY	
	2006 \$	2005 \$	2006 \$	2005 \$
Profit from ordinary activities before income tax has been determined after:				
a. Expenses				
Cost of sales	16,745,033	15,589,547	–	–
Finance costs:				
■ other related parties	–	100,997	–	–
■ other persons	2,599	6,923	–	–
Total finance costs	2,599	107,920	–	–
Depreciation of non-current assets:				
■ plant and equipment	124,496	118,791	–	–
■ motor vehicles	2,265	4,040	–	–
■ furniture, fittings and equipment	109,927	134,404	–	–
■ computer software	35,509	115,370	–	–
Total depreciation and amortisation	272,197	372,605	–	–
Bad and doubtful debts:				
■ trade debtors	80,846	132,239	–	–
Total bad and doubtful debts	80,846	132,239	–	–
Rental expense on operating leases				
■ minimum lease payments	49,554	43,087	–	–
■ rentals	736,798	759,782	–	–
■ rental office equipment	17,848	15,493	–	–
Total of rental expense on operating lease	804,200	818,362	–	–

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 5: INCOME TAX EXPENSE

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2006 \$	2005 \$	2006 \$	2005 \$
a. The components of tax expense comprise:					
Current tax		1,727,647	1,627,190	1,727,647	1,627,190
Deferred tax	26	12,331	(60,416)	12,331	(60,416)
Over provision in respect of prior year		(3)	–	(3)	–
Income tax expense reported in the income statement		1,739,975	1,566,774	1,739,975	1,566,774
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:					
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%)		1,740,232	1,571,239	2,118,232	1,193,239
Add:					
Tax effect of:					
■ Imputation & withholding tax gross-up		26	2,262	21	14
■ Trust distribution		–	–	–	381,060
■ Other non-allowable items		1,472	892	26	–
Less:					
Tax effect of:					
■ Imputation and withholding tax credits		85	7,539	85	7,539
■ Trust distribution		–	–	378,216	–
■ Other non-assessable income		1,667	80	–	–
■ Over provision for income tax in prior year		3	–	3	–
Income tax expense attributable to profit from ordinary activities before income tax		1,739,975	1,566,774	1,739,975	1,566,774

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION

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

Key Management Person	Position
Elaine Margaret Vincent	Director & Chief Executive Officer
John Henry Everett	Director – Executive
David Capp Hall	Chairman – Non-Executive
Ian Garnsey Everingham	Director – Non-Executive
Patricia Handford	International Sales Manager
Alice Bernice Carter	General Manager – Operations
Tania Thomson	Chief Financial Officer & Company Secretary
Nicole Spike	Marketing Manager
Ana Tokic	Designer

- b. Key Management Personnel Compensation

2006 KEY MANAGEMENT PERSONNEL	SALARY FEES & COMMISSIONS \$	SHORT TERM BENEFITS			POST EMPLOYMENT BENEFITS
		SUPERANNUATION CONTRIBUTION \$	CASH BONUS \$	NON-CASH BENEFITS \$	SUPERANNUATION \$
Elaine Margaret Vincent [‡]	176,796	100,587	529,215	58,724	–
John Henry Everett	130,000	2,700	–	–	–
David Capp Hall	32,592	44,600	–	–	–
Ian Garnsey Everingham	30,000	2,700	–	–	–
Ana Tokic	82,500	8,746	41,920	20,000	–
Alice Bernice Carter	86,400	16,376	–	19,000	–
Tania Thomson	94,525	8,507	5,000	4,500	–
Patricia Handford	95,974	–	–	–	5,000
Nicole Riccioni	75,000	6,750	5,000	13,300	–
	803,787	190,966	581,135	115,524	5,000

2006 KEY MANAGEMENT PERSONNEL	OTHER LONG-TERM BENEFITS	SHARE-BASED PAYMENT		TOTAL	PERFORMANCE RELATED
	OTHER \$	EQUITY \$	OPTIONS \$	\$	%
Elaine Margaret Vincent	–	–	–	865,322	72.4
John Henry Everett	–	–	–	132,700	–
David Capp Hall	–	–	–	77,192	–
Ian Garnsey Everingham	–	–	–	32,700	–
Ana Tokic	–	–	–	153,166	28.2
Alice Bernice Carter	–	–	–	121,776	–
Tania Thomson	–	–	–	112,532	–
Patricia Handford	–	–	–	100,974	–
Nicole Riccioni	–	–	–	100,050	–
	–	–	–	1,696,412	–

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

2005 KEY MANAGEMENT PERSONNEL	SALARY FEES & COMMISSIONS \$	SHORT TERM BENEFITS			POST EMPLOYMENT BENEFITS
		SUPERANNUATION CONTRIBUTION \$	CASH BONUS \$	NON-CASH BENEFITS \$	SUPERANNUATION \$
Elaine Margaret Vincent [‡]	132,081	81,171	284,829	45,365	—
John Henry Everett	130,000	2,700	—	—	—
David Capp Hall	32,500	2,700	—	—	—
Ian Garnsey Everingham	30,000	2,700	—	—	—
Ana Tokic	80,000	8,280	30,722	20,000	—
Alice Bernice Carter	84,999	7,650	2,000	19,232	—
Tania Thomson	81,553	7,340	1,000	9,616	—
Patricia Handford	273,182	35,822	2,500	—	—
Nicole Spike	66,757	6,008	2,000	12,000	—
	911,072	154,371	323,051	106,213	—

2005 KEY MANAGEMENT PERSONNEL	OTHER LONG-TERM BENEFITS	SHARE-BASED PAYMENT		TOTAL	PERFORMANCE RELATED
	OTHER \$	EQUITY \$	OPTIONS \$	\$	%
Elaine Margaret Vincent	—	—	—	543,446	58.2
John Henry Everett	—	—	—	132,700	—
David Capp Hall	—	—	—	35,200	—
Ian Garnsey Everingham	—	—	—	32,700	—
Ana Tokic	—	—	—	139,002	22.1
Alice Bernice Carter	—	—	—	113,881	—
Tania Thomson	—	—	—	99,509	—
Patricia Handford	—	—	—	311,504	—
Nicole Riccioni	—	—	—	86,765	—
	—	—	—	1,494,707	—

Note - The comparative figures shown above have been calculated on an accruals basis, however the 2005 published results were calculated on a cash basis hence the difference between these figures

‡ Performance bonus has not been adjusted as a result of the change in treatment of goodwill amortisation under A-IFRS.

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 6: DIRECTORS' AND EXECUTIVES' REMUNERATION CONTINUED

	BALANCE 17.2005	RECEIVED AS REMUNERATION	NET CHANGE OTHER*	BALANCE 30.6.2006#
c. Shareholdings				
Number of Shares Held by Key Management Personnel				
Elaine Margaret Vincent	502,000	—	—	502,000
John Henry Everett	16,000,000	—	—	16,000,000
David Capp Hall	100,000	—	—	100,000
Ian Garnsey Everingham	8,000,000	—	—	8,000,000
Patricia Handford	150,000	—	—	150,000
Alice Bernice Carter	22,000	—	—	22,000
Tania Thomson	6,000	—	1,500	7,500
Nicole Riccioni	12,000	—	—	12,000
Ana Tokic	10,000	—	—	10,000
Total	24,802,000	—	1,500	24,803,500

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

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

d. Remuneration Practices

The economic entity's policy for determining the nature and amount of emoluments of Board members and Senior Executives of the company is as follows:

The remuneration structure for Executive Officers, including Executive Directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified Directors and Executives are paid employee benefit entitlements accrued to date of retirement.

Bonuses included per Note 6(b) are based on achieved targets specified by management.

e. Share Based Remuneration

There has been no share based remuneration for the specified Directors and Executives during the year ended 30 June 2006.

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 7: AUDITORS' REMUNERATION

	ECONOMIC ENTITY		PARENT ENTITY	
	2006 \$	2005 \$	2006 \$	2005 \$
Remuneration of the auditors of subsidiaries for:				
■ auditing or reviewing the financial report	69,200	66,500	69,200	66,500
■ other services	3,020	2,762	–	–
	<u>72,220</u>	<u>69,262</u>	<u>69,200</u>	<u>66,500</u>

>> NOTE 8: DIVIDENDS

Dividends paid

2005 final fully franked ordinary dividend of 3.0 cents (2004: nil) per share franked at the tax rate of 30%	1,440,000	–	1,440,000	–
Interim fully franked ordinary dividend of 3.0 cents (2005: 3.0 cents) per share franked at the tax rate of 30%	1,440,000	960,000	1,440,000	960,000
	<u>2,880,000</u>	<u>960,000</u>	<u>2,880,000</u>	<u>960,000</u>
a. Proposed final fully franked ordinary dividend of 3.5 cents (2005: 3.0 cents) per share franked at the tax rate of 30% (2005: 30%)	1,680,000	1,440,000	1,680,000	1,440,000
b. Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years	1,832,590	1,339,229	1,832,590	1,339,229
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	(720,000)	(617,143)	(720,000)	(617,143)
	<u>1,112,590</u>	<u>722,086</u>	<u>1,112,590</u>	<u>722,086</u>

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 9: EARNINGS PER SHARE

	ECONOMIC ENTITY		PARENT ENTITY	
	2006 \$	2005 \$	2006 \$	2005 \$
a. Reconciliation of earnings to net profit or loss				
Net profit	4,060,779	3,670,690	–	–
Earnings used in the calculation of basic and dilutive EPS	4,060,779	3,670,690	–	–
b. Weighted average number of ordinary shares outstanding during the period used in calculation of basic and dilutive EPS	48,000,000	48,000,000	–	–

There were no potential ordinary shares outstanding during the year ended 30 June 2006.

>> NOTE 10: CASH ASSETS

Cash at bank	1,590,141	2,154,616	5,832	6,961
Short-term bank deposits	45,000	45,000	–	–
	1,635,141	2,199,616	5,832	6,961

Reconciliation of Cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

Cash and cash equivalents	1,635,141	2,199,616	5,832	6,961
	1,635,141	2,199,616	5,832	6,961

>> NOTE 11: RECEIVABLES

CURRENT

Other debtors	453,261	413,843	–	–
Amounts receivable from:				
■ wholly-owned unit trust	–	–	5,718,343	2,974,658
■ provision for doubtful debts	(89,309)	(76,648)	–	–
	363,952	337,195	5,718,343	2,974,658

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 12: INVENTORIES

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT – At cost					
Raw materials and stores		1,175,637	991,270	–	–
Work in progress		162,289	179,814	–	–
Finished goods		4,922,377	4,006,580	–	–
		<u>6,260,303</u>	<u>5,177,664</u>	<u>–</u>	<u>–</u>

>> NOTE 13: OTHER ASSETS

CURRENT

Prepayments		257,730	465,837	–	–
		<u>257,730</u>	<u>465,837</u>	<u>–</u>	<u>–</u>

>> NOTE 14: OTHER FINANCIAL ASSETS

NON-CURRENT

Investments in subsidiaries:

■ Units in unit trusts	14a	–	–	24,000,000	24,000,000
		<u>–</u>	<u>–</u>	<u>24,000,000</u>	<u>24,000,000</u>

a. Units in Unit Trusts

Certain controlled entities hold interests
in the following unit trusts:

i. UnderCoverWear Unit Trust

The trusts' principal activities are the manufacture
and distribution of underwear and garments
in Australia and exporting to New Zealand

– Investment at cost		–	–	24,000,000	24,000,000
Percentage ownership 100% (2005: 100%)					

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 15: CONTROLLED ENTITIES

a. Controlled Entities

ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE OWNED	
		2006	2005
UnderCoverWear Unit Trust	Australia	100%	100%

>> NOTE 16: PROPERTY, PLANT AND EQUIPMENT

	ECONOMIC ENTITY		PARENT ENTITY	
	2006 \$	2005 \$	2006 \$	2005 \$
Plant and equipment				
At cost	937,175	831,569	-	-
Accumulated depreciation	(663,405)	(539,673)	-	-
	273,770	291,896	-	-
Motor Vehicles				
At cost	12,100	26,100	-	-
Accumulated depreciation	(9,295)	(14,139)	-	-
	2,805	11,961	-	-
Furniture, fittings and equipment				
At cost	886,043	763,019	-	-
Accumulated depreciation	(724,460)	(614,533)	-	-
	161,583	148,486	-	-
Computer software				
At cost	173,337	173,337	-	-
Accumulated depreciation	(163,440)	(127,931)	-	-
	9,897	45,406	-	-
Total Property, Plant and Equipment	448,055	497,749	-	-

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

a. Movements in Carrying Amounts

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

	PLANT AND EQUIPMENT \$	MOTOR VEHICLES \$	FURNITURE, FITTINGS AND EQUIPMENT \$	COMPUTER SOFTWARE \$	TOTAL \$
Economic Entity:					
Balance at the beginning of year	291,896	11,961	148,486	45,406	497,749
Additions	106,370	–	123,024	–	229,394
Disposals	–	(6,891)	–	–	(6,891)
Depreciation expense	(124,496)	(2,265)	(109,927)	(35,509)	(272,197)
Carrying amount at the end of year	273,770	2,805	161,583	9,897	448,055

>> NOTE 17: DEFERRED TAX ASSETS

	ECONOMIC ENTITY		PARENT ENTITY	
	2006 \$	2005 \$	2006 \$	2005 \$
Deferred tax assets comprise:				
■ timing differences	411,104	434,253	90,363	113,510
	411,104	434,253	90,363	113,510

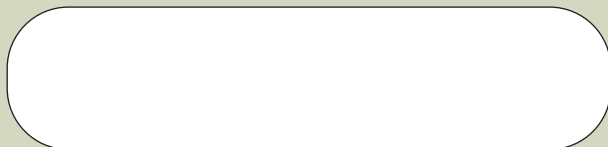
>> NOTE 18: INTANGIBLE ASSETS

Goodwill at cost	24,817,499	24,817,499	–	–
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>> NOTE 19: PAYABLES

CURRENT

Trade creditors	2,497,355	3,076,301	1,150	1,097
Sundry creditors and accrued expenses	541,596	670,929	–	–
Commissions payable	40,092	610,958	–	–
	3,079,043	4,358,188	1,150	1,097



Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 20: TAX LIABILITIES

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2006 \$	2005 \$	2006 \$	2005 \$
CURRENT					
Income tax		1,628,563	1,339,190	1,628,563	1,339,190

>> NOTE 21: PROVISIONS

CURRENT					
Promotions		463,783	518,703	–	–
Employee benefits	21a	774,354	636,969	–	–
Other		–	–	–	–
		1,238,137	1,155,672	–	–
NON-CURRENT					
Employee benefits	21a	124,974	123,679	–	–
		124,974	123,679	–	–
a. Aggregate Employee Benefits Liability		899,328	760,648		
b. Number of Employees at year end		98	106		

>> NOTE 22: DEFERRED TAX LIABILITIES

	ECONOMIC ENTITY		PARENT ENTITY	
	2006 \$	2005 \$	2006 \$	2005 \$
Deferred tax liabilities comprise:				
■ timing differences	33,179	43,995	42,941	53,757
	33,179	43,995	42,941	53,757

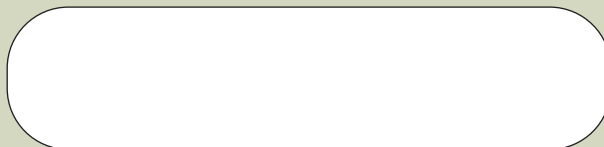
Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 23: CONTRIBUTED EQUITY

	NOTE	ECONOMIC ENTITY		PARENT ENTITY	
		2006 No.	2005 No.	2006 No.	2005 No.
48,000,000 (2005: 48,000,000)					
fully paid ordinary shares	23a	23,960,750	23,960,750	23,960,750	23,960,750
		23,960,750	23,960,750	23,960,750	23,960,750
a. Ordinary shares					
At the beginning of the reporting year		23,960,750	23,960,750	23,960,750	23,960,750
Shares issued during the year		–	–	–	–
Transaction costs relating to share issues		–	–	–	–
Shares bought back during the year		–	–	–	–
At reporting date		23,960,750	23,960,750	23,960,750	23,960,750
At the beginning of reporting year		48,000,000	48,000,000	48,000,000	48,000,000
Shares issued during year		–	–	–	–
Shares bought back during year		–	–	–	–
At reporting date		48,000,000	48,000,000	48,000,000	48,000,000

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.



Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 24: CAPITAL AND LEASING COMMITMENTS

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable				
■ not later than 1 year	1,106,914	1,355,244	–	–
■ later than 1 year but not later than 5 years	206,315	354,500	–	–
	<u>1,313,229</u>	<u>1,709,744</u>	<u>–</u>	<u>–</u>

Property Lease

The property lease is a non-cancellable lease with a seven-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the CPI per annum in years 2007, 2009, 2010 and 2012.

Motor Vehicle

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

Office Equipment

Some office equipment is leased over a five year term.

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 25: CASH FLOW INFORMATION

	ECONOMIC ENTITY		PARENT ENTITY	
	2006 \$	2005 \$	2006 \$	2005 \$
a. Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax				
Profit from ordinary activities after income tax	4,060,799	3,670,690	5,320,799	2,410,690
Non-cash flows in profit from ordinary activities				
Depreciation	272,197	372,605	–	–
Net gain on disposal of property, plant and equipment	(563)	(485)	–	–
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Decrease in receivables	(26,757)	15,049	–	–
(Increase) in other debtors	208,108	(50,263)	–	–
(Increase)/decrease in inventories	(1,082,639)	(926,042)	–	–
Increase/(decrease) in payables	(1,279,145)	317,007	54	(46,134)
Increase in income taxes payable	289,373	1,214,902	289,373	1,214,902
Decrease in deferred taxes payable	12,331	(59,598)	12,331	(59,598)
Increase in provisions	83,761	275,384	–	–
Cash flow from operations	2,537,465	4,829,249	5,622,557	3,519,860
b. Credit Standby Arrangements with Banks				
Credit facility	1,514,714	1,504,714	–	–
Amount utilised	–	–	–	–
Unused credit facility	1,514,714	1,504,714	–	–
The major facilities are summarised as follows:				
Banking Overdrafts	1,200,000	1,200,000	–	–
Forward exchange cover	100,000	100,000	–	–
Bank guarantee	169,714	169,714	–	–
MasterCard corporate card	45,000	35,000	–	–
	1,514,714	1,504,714	–	–

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 26: RELATED PARTY TRANSACTIONS

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

Transactions with related parties:

- a. A rental lease for the property exists between UnderCoverWear Unit Trust, a subsidiary of UnderCoverWear Limited and the trustee of UnderCoverWear Property Trust, of which two directors, Ian Everingham and John Everett hold an interest. Rent is currently payable a rate of \$674,412 per annum, with annual reviews on 1 July each year until 2012.
- b. Key Management Personnel

YEAR	SHORT-TERM EMPLOYEE BENEFITS				POST	SHARE	TOTAL
	SALARY, FEES & COMMISSIONS \$	SUPER- ANNUATION \$	CASH BONUS \$	NON-CASH BENEFITS \$	EMPLOYMENT BENEFITS \$	BASED PAYMENTS EQUITY \$	
Elaine Margaret Vincent Director & CEO	2006	176,796	100,587	529,215	58,724	—	865,322
	2005	132,081	81,171	284,829	45,365	—	543,446
John Henry Everett Director	2006	130,000	2,700	—	—	—	132,700
	2005	130,000	2,700	—	—	—	132,700
David Capp Hall Chairman	2006	32,592	44,600	—	—	—	77,192
	2005	32,500	2,700	—	—	—	35,200
Ian Garnsey Everingham Director	2006	30,000	2,700	—	—	—	32,700
	2005	30,000	2,700	—	—	—	32,700
TOTAL DIRECTORS	2006	369,388	150,587	529,215	58,724	—	1,107,914
	2005	324,581	89,271	284,829	45,365	—	744,046

The service and performance criteria set to determine remuneration are included per Note 6(e).

Note - The comparative figures shown above have been calculated on an accruals basis, however the 2005 published results were calculated on a cash basis hence the difference between these figures.

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

	YEAR	SHORT-TERM EMPLOYEE BENEFITS				POST	SHARE	TOTAL
		SALARY, FEES & COMMISSIONS \$	SUPER- ANNUATION \$	CASH BONUS \$	NON-CASH BENEFITS \$	EMPLOYMENT BENEFITS \$	BASED PAYMENTS EQUITY \$	
Patricia Handford	2006	95,974	–	–	–	5,000	–	100,974
International Sales Manager	2005	273,182	35,822	2,500	–	–	–	311,504
Alice Bernice Carter	2006	86,400	16,376	–	19,000	–	–	121,776
Manager – Operations	2005	84,999	7,650	2,000	19,232	–	–	113,881
Tania Thomson – Chief Financial	2006	94,525	8,507	5,000	4,500	–	–	112,532
Officer & Company Secretary	2005	81,553	7,340	1,000	9,616	–	–	99,509
Nicole Riccioni	2006	75,000	6,750	5,000	13,300	–	–	100,050
Marketing Manager	2005	66,757	6,008	2,000	12,000	–	–	86,765
Ana Tokic	2006	82,500	8,746	41,920	20,000	–	–	153,166
Designer	2005	80,000	8,280	30,722	20,000	–	–	139,002
TOTAL FOR EXECUTIVES	2006	434,399	45,379	51,920	56,800	–	–	588,498
	2005	586,491	65,100	38,222	60,848	–	–	750,661

The service and performance criteria set to determine remuneration are included per Note 6(d).

Note - The comparative figures shown above have been calculated on an accruals basis, however the 2005 published results were calculated on a cash basis hence the difference between these figures

>> NOTE 27: SEGMENT REPORTING

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

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

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 28: FINANCIAL INSTRUMENTS

a. Financial Instruments

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

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

b. Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

FINANCIAL INSTRUMENTS	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE		FIXED INTEREST RATE MATURING				TOTAL		
	2006	2005	WITHIN 1 YEAR		1 TO 5 YEARS		2006	2005	
	%		\$		\$		\$		
Financial Assets:									
Cash	5.06	4.99	1,590,141	2,154,616	—	—	1,590,141	2,154,616	
Receivables	—	—	—	—	—	—	—	—	
Investments	6.40	6.35	45,000	45,000	—	—	45,000	45,000	
Total Financial Assets			1,635,141	2,199,616	—	—	1,635,141	2,199,616	
Financial Liabilities:									
Amounts payable related parties	n/a	n/a	—	—	—	—	—	—	
Total Financial Liabilities			—	—	—	—	—	—	

All other assets and liabilities are non-interest bearing.

c. Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

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

Notes to the Financial Statements for the Year Ended 30 June 2006

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

>> NOTE 29: CONTINGENT LIABILITIES

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

>> NOTE 30: EVENTS SUBSEQUENT TO REPORTING DATE

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2006.

>> NOTE 31: CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards, which have been issued or amended, are applicable to the Company but are not yet effective and have not been adopted in preparation of the financial statements at reporting date. Application of these standards will not affect any of the amounts recognised or disclosed in the financial statements.

AASB STANDARD AFFECTED	APPLICATION DATE OF THE STANDARD	APPLICATION DATE FOR THE COMPANY
AASB 2005-9 Amendments to Australian Accounting Standards [AASB4, AASB 1023, AASB 139 & AASB 132]	1 January 2006	1 July 2006
AASB 7 Financial Instruments: Disclosures	1 January 2007	1 July 2007
AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	1 January 2007	1 July 2007
AASB 2005-6 Amendments to Australian Accounting Standards [AASB 121]	1 January 2007	1 July 2007



Directors' Declaration

>> UNDERCOVERWEAR LIMITED ABN 85 108 962 152

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 34 to 67, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and economic entity;

2. the Chief Executive Officer and Chief Financial Officer have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view.

3. in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

David Hall

Director

Dated this 24th day of August, 2006.

Auditor's Independence Declaration

>> TO THE DIRECTORS OF UNDERCOVERWEAR LIMITED ABN 85 108 962 152



In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of UnderCoverWear Limited (the Company) and the UnderCoverWear Group (the consolidated entity) for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in black ink that reads "Grant Thornton NSW".

Grant Thornton NSW
Chartered Accountants

A handwritten signature in black ink that reads "M A Adam-Smith".

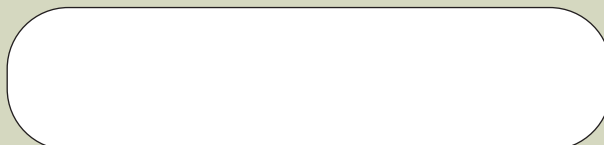
M A Adam-Smith
Partner

Dated this 24th day of August, 2006.

Grant Thornton NSW
A New South Wales Partnership ABN 25 034 787 757 Chartered Accountants, Business Advisers & Consultants

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Independent Audit Report

>> TO THE MEMBERS OF UNDERCOVERWEAR LIMITED ABN 85 108 962 152

Grant Thornton 

SCOPE

The Financial Report and Directors' Responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the Directors' declaration for UnderCoverWear Limited (the Company) and the UnderCoverWear Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

AUDIT OPINION

In our opinion, the financial report of UnderCoverWear Limited is in accordance with:

- a. the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - ii. complying with Accounting Standards in Australia and the *Corporations Act 2001*; and
- b. other mandatory professional reporting requirements in Australia.



Grant Thornton NSW
Chartered Accountants



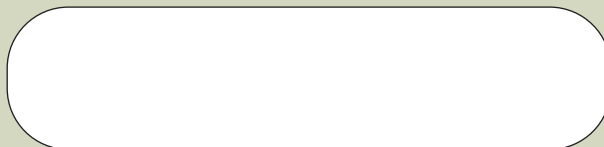
M A Adam-Smith
Partner

Dated this 24th day of August, 2006.

Grant Thornton NSW
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Additional Information

» FOR LISTED PUBLIC COMPANIES

CATEGORY (SIZE OF HOLDING)	NUMBER OF ORDINARY SHARES	SIZE OF HOLDING
a. Distribution of Shareholders		
1 – 1,000	259	179,207
1,001 – 5,000	193	649,926
5,001 – 10,000	54	443,300
10,001 – 100,000	111	3,337,572
100,001 – and over	25	43,389,995
	642	48,000,000

b. The number of shareholdings held in less than marketable parcels is 10.

SHAREHOLDER	NUMBER OF ORDINARY SHARES
c. The names of the substantial shareholders listed in the holding company's register as at 31 July 2006 are:	
Mr John Everett & Ms Sonya Everett (Everett Fam Settlement A/c)	8,000,000
Recone Pty Limited (Everingham Family A/c)	8,000,000
ANZ Nominees Limited	7,369,502
Westpac Custodian Nominees Limited	3,680,509

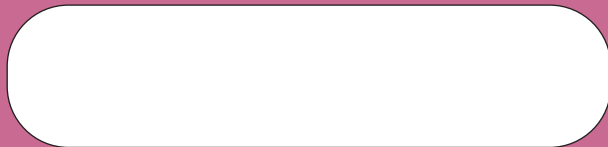
d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

20 LARGEST SHAREHOLDERS – ORDINARY SHARES	NUMBER OF ORDINARY FULLY PAID SHARES HELD	% HELD OF ISSUED ORDINARY CAPITAL
1. Mr John Everett & Ms Sonya Everett (Everett Fam Settlement A/c)	8,000,000	16.67
2. Recone Pty Limited (Everingham Family A/c)	8,000,000	16.67
3. ANZ Nominees Limited	7,369,502	15.35
4. Westpac Custodian Nominees Limited	3,680,509	7.67
5. JP Morgan Nominees Australia Limited	2,493,010	5.19
6. HSBC Custody nominees (Australia) Limited	2,399,000	5.00
7. Catherine Everett Investments Pty Ltd (Everett Family Settlement A/c)	2,000,000	4.17
8. David Everett Investments Pty Ltd (Everett Fam Settlement A/c)	2,000,000	4.17
9. John H Everett Investments Pty Ltd (Everett Fam Settlement A/c)	2,000,000	4.17
10. Megan Everett Investments Pty Ltd (Everett Fam Settlement A/c)	2,000,000	4.17
11. Mrs Jeanette Richardson	534,100	1.11
12. Alan Denis Vincent & Elaine Margaret Vincent (Vincent Family S/Fund A/c)	500,000	1.04
13. Cogent Nominees Pty Limited	453,289	0.94
14. Mr Francis Harper & Ms Claudia Harper	320,000	0.67
15. UBS Nominees Pty Limited	300,254	0.63
16. Bond Street Custodians Ltd	275,000	0.57
17. Mr Samuel Booth	200,000	0.42
18. National Nominees Limited	186,391	0.39
19. AA Lam Pty Ltd	171,932	0.36
20. Mr Robert Leonard Handford & Mrs Patricia Anne Handford	148,000	0.31
	43,030,987	89.67



Notice of Meeting

» *ANNUAL GENERAL MEETING*

The Annual General Meeting of UnderCoverWear Limited ABN 85 108 962 152 and Controlled Entities will be held at the offices of Grant Thornton, Level 17, 383 Kent Street, Sydney NSW on 31 October 2006 at 11.30am.

Company Details

>> *DIRECTORS*

David Hall, *Chairman*
Elaine Vincent, *Chief Executive Officer*
John Everett AM
Ian Everingham

>> *COMPANY SECRETARY*

Tania Thomson

>> *REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS*

UnderCoverWear Limited
ABN 85 108 962 152 ACN 108 962 152
8 Solent Circuit, Norwest Business Park
Baulkham Hills NSW 2153
Tel: +61 2 8853 2800 Fax: +61 2 8853 2899

>> *AUDITOR*

Grant Thornton NSW
Level 17, 383 Kent Street, Sydney NSW 2000

>> *SHARE REGISTRY*

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide SA 5000
GPO Box 1903, Adelaide SA 5001
Enquiries within Australia: 1300 556 161
Enquiries outside Australia: 61 3 9415 4000
Email: web.queries@computershare.com.au
Website: www.computershare.com

>> *STOCK EXCHANGE*

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

