

## APPENDIX 4D

### HALF YEAR REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

#### 1. Details of the reporting period

Current period	1 July 2006 to 31 December 2006
Previous corresponding period	1 July 2005 to 31 December 2005

#### 2. Results for announcement to the market

		\$	Up / down	Movement %
<b>2.1</b>	Revenues from ordinary activities	24,792,228	down	12.3%
<b>2.2</b>	Profit/(loss) from ordinary activities after tax attributable to members	2,414,802	down	20.8%
<b>2.3</b>	Net profit/(loss) for the period attributable to members	2,414,802	down	20.8%
<b>2.4</b>	Dividends	Amount per Security (cents)	Franked amount per security (cents)	
	<i>Current Period</i>			
	Final	N/A		N/A
	Interim – payable 24 April 2007	3.0		3.0
	<i>Previous corresponding period</i>			
	Final – paid 5 October 2006	3.5		3.5
	Interim – paid 4 April 2006	3.0		3.0
<b>2.5</b>	Record date for determining entitlements to dividends	5 March 2007		
<b>2.6</b>	During the half-year ended 31 December 2006, other than disclosed in the Directors' Report, there were no significant items that impacted on the results recorded in our Income Statement.  Refer to the Directors' Report contained in attached interim financial report for further explanation of the results.			

#### 3. Net Tangible Assets per security

	31 Dec 2006	31 Dec 2005
Net tangible asset backing per ordinary security	8.35 cents	6.82 cents

**4. Details of entities over which control has been gained or lost during the period**

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

**5. Details of dividends / distributions**

The Directors have declared a fully franked interim dividend of 3.0 cents per share. This dividend maintains the 3.0 cents per share paid in the previous interim period.

The interim dividend will have a payment date of 24 April 2007.

**6. Details of dividend / distribution reinvestment plan**

At 31 December 2006, there was no dividend reinvestment plan in operation for UnderCoverWear Limited.

**7. Details of associates and joint venture entities**

N/A

**8. Accounting Standards used by foreign entities**

N/A

**9. Qualification of audit / review**

N/A as there is no audit dispute or qualification. Refer to the attached interim financial report which includes our auditor's Independent Review Report.





Half Yearly  
Financial  
Report

ended 31 December 2006



UnderCoverWear



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

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

**COMPANY DETAILS**

<b>Directors</b>	David Hall, <i>Chairman</i> John Everett AM Geoffrey Hill Elaine Vincent, <i>Chief Executive Officer</i>
<b>Company Secretary</b>	Tania Thomson
<b>Registered &amp; Principal Office</b>	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
<b>Auditor</b>	Grant Thornton NSW Level 17, 383 Kent Street Sydney NSW 2000
<b>Share Registry</b>	ComputerShare Investor Services Pty Ltd Level 5, 115 Grenfell Street Adelaide SA 5000
<b>Stock Exchange Listing</b>	Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

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

**DIRECTORS' REPORT**

Your directors submit the financial report of UnderCoverWear Limited and its controlled entities for the half-year ended 31 December 2006.

**Directors**

The names of directors who held office during or since the end of the half-year:

David C Hall

John H Everett

Ian G Everingham (resigned 14 December 2006)

Geoffrey Hill (appointed 14 December 2006)

Elaine M Vincent

All directors held office from the start of the half year to the date of this report unless otherwise stated.

**Review of Operations**

The six months of trading for UnderCoverWear Limited for the period ended 31 December 2006 were disappointing even though the results were the second highest in the history of the Company.

When compared with the corresponding period to December 2005, the comparisons can be highlighted as follows:

Revenue	- down 12%
Net profit after tax	- down 20%

These results were foreshadowed in the Annual Report, to the 2006 Annual General Meeting. The report indicated that the trading results for the period from January – June 2006 were disappointing due to the contraction in discretionary spending and the outlook for the six months to December 2006 would be difficult to forecast particularly if low unemployment continued, as this impacts heavily on the ability of the Company to recruit consultants.

For the first three months of this reporting period, this was in fact the case and trading and profitability was subdued. Whilst the growth in the number of new consultants continued to be slow, the final three months of trading showed considerable improvement due to measures previously implemented.

In fact, trading for these three months (October to December 2006) exceeded that of the corresponding period in 2005. This, however, was not sufficient to overcome the weakness in trading during the period July to September 2006.

**Outlook**

Low unemployment is the major impediment to recruiting and this situation still remains. As indicated in the Chairman's Report for the year ended 30 June 2006, it is difficult to forecast the results for the twelve months to June 2007. However, the results for the last quarter would indicate that the 2006/07 results will be in line with the year ended 30 June 2006.

Despite the first half result, your Board has recommended that the interim dividend be maintained at 3.0 cents per share payable on 24 April 2007.

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

**DIRECTORS' REPORT**

The Company continues to invest heavily in IT development and our training programmes for our sales consultants continue to be a huge priority. We believe both investments are showing favourable results.

Critical changes in head office personnel introduced in the past six months, have brought a new enthusiasm to the management team.

Our CEO, Elaine Vincent, continues to address the issues of improving our gross margins whilst maintaining the quality of the product, as well as overseeing the important issues as outlined above. Your Board endorses these initiatives which we believe will be evident during trading in the next six months.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration in relation to the review of the interim financial report for the half year ended 31 December 2006 is shown on page 14 and forms part of this report.

This report is signed in accordance with a resolution of the board of directors.



**David Hall**

Director

Dated this 22<sup>nd</sup> day of February, 2007



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

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	<b>Consolidated Entity</b>	
	<b>31 December 2006</b>	<b>31 December 2005</b>
	<b>\$</b>	<b>\$</b>
Revenue	24,792,228	28,276,979
Changes in inventories of finished goods and work in progress	(5,627,175)	(6,269,577)
Raw materials and consumables used	(3,400,066)	(3,896,024)
Distribution costs	(790,093)	(973,804)
Commissions paid	(5,293,423)	(6,228,548)
Promotions and advertising expense	(1,473,152)	(1,303,307)
Depreciation and amortisation expense	(118,047)	(122,958)
Insurance expense	(73,640)	(92,408)
Employee benefits expense	(3,054,666)	(3,330,266)
Rental expenses	(386,813)	(373,550)
Finance costs	(657)	(1,133)
Other expenses from ordinary activities	(1,123,815)	(1,334,275)
Profit before income tax expense	3,450,681	4,351,129
Income tax expense	(1,035,879)	(1,303,639)
Profit attributable to members of the parent entity	2,414,802	3,047,490
Basic earnings per share (cents per share)	5.03	6.35
Diluted earnings per share (cents per share)	5.03	6.35

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

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

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2006**

	Consolidated Entity	
	31 December 2006	30 June 2006
	\$	\$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3,703,779	1,635,141
Trade and other receivables	210,923	363,952
Inventories	4,913,671	6,260,303
Other	348,491	257,730
<b>TOTAL CURRENT ASSETS</b>	<b>9,176,864</b>	<b>8,517,126</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	408,026	448,055
Deferred tax assets	406,137	411,104
Intangible assets	24,817,499	24,817,499
<b>TOTAL NON-CURRENT ASSETS</b>	<b>25,631,662</b>	<b>25,676,658</b>
<b>TOTAL ASSETS</b>	<b>34,808,526</b>	<b>34,193,784</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	2,489,240	3,079,043
Current tax liabilities	2,262,045	1,628,563
Short-term provisions	1,061,165	1,238,137
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,812,450</b>	<b>5,945,743</b>
<b>NON-CURRENT LIABILITIES</b>		
Long-term provisions	110,903	124,974
Deferred tax liabilities	60,483	33,179
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>171,386</b>	<b>158,153</b>
<b>TOTAL LIABILITIES</b>	<b>5,983,836</b>	<b>6,103,896</b>
<b>NET ASSETS</b>	<b>28,824,690</b>	<b>28,089,888</b>
<b>EQUITY</b>		
Issued capital	23,960,750	23,960,750
Retained earnings	4,863,940	4,129,138
<b>TOTAL EQUITY</b>	<b>28,824,690</b>	<b>28,089,888</b>

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	Note	Ordinary Share Capital	Retained Profits	Total
<b>Balance at 1 July 2005</b>		23,960,750	2,948,339	26,909,089
Profit for the period		-	3,047,490	3,047,490
Total recognised income and expense for the period		23,960,750	5,995,829	29,956,579
Dividends paid or provided for	<b>3</b>	-	(1,440,000)	(1,440,000)
<b>Balance at 31 December 2005</b>		23,960,750	4,555,829	28,516,579
<b>Balance at 1 July 2006</b>		23,960,750	4,129,138	28,089,888
Profit for the period		-	2,414,802	2,414,802
Total recognised income and expense for the period		23,960,750	6,543,940	30,504,690
Dividends paid or provided for	<b>3</b>	-	(1,680,000)	(1,680,000)
<b>Balance at 31 December 2006</b>		23,960,750	4,863,940	28,824,690

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



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

**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	<b>Consolidated Entity</b>	
	<b>31 December 2006</b>	<b>31 December 2005</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	27,542,629	31,285,757
Payments to suppliers and employees	(23,419,302)	(28,333,205)
Interest received	74,084	82,790
Dividends & trust distributions received	26	183
Finance costs	(657)	(1,133)
Income taxes paid	(370,124)	(65,747)
Net cash provided by operating activities	3,826,656	2,968,645
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of non-current assets	-	182
Purchase of non-current assets	(78,018)	(90,802)
Net cash used in investing activities	(78,018)	(90,620)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(1,680,000)	(1,440,000)
Net cash used in financing activities	(1,680,000)	(1,440,000)
Net increase in cash held	2,068,638	1,438,025
Cash at 1 July 2006	1,635,141	2,199,616
Cash at 31 December 2006	3,703,779	3,637,641

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

**NOTE 1: BASIS OF PREPARATION**

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2006 and any public announcements made by UnderCoverWear Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the entities in the consolidated entity and are consistent with those applied in the 30 June 2006 annual report.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

**Consolidated Entity**

**31 December 2006    31 December 2005**

**NOTE 2: PROFIT FROM ORDINARY ACTIVITIES**

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

Revenue:

• sale of goods	23,634,848	26,909,367
• distribution charges	734,940	904,649
• rental revenue	322,370	354,323
• other revenue	25,216	25,666
• interest & dividends received	74,854	82,974
<b>Total Revenue</b>	<b>24,792,228</b>	<b>28,276,979</b>

Profit from ordinary activities before income tax has been determined after:

• Expenses		
- cost of sales	9,027,240	10,165,600
- borrowing costs	657	1,133
- depreciation of non-current assets	118,047	122,958
- bad & doubtful debts	4,878	23,514
- rental expense on operating leases	417,002	410,754
• Income		
- net gain on disposal of non-current assets	-	182



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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2006**

	<u>Consolidated Entity</u>	
	<u>31 December 2006</u>	<u>31 December 2005</u>
<b>NOTE 3: DIVIDENDS</b>		
Dividends provided for and paid during the half year are listed below:		
Dividends paid	1,680,000	1,440,000
Declared interim fully franked ordinary dividend of 3.0 (2005: 2.0) cents per share franked at the tax rate of 30% (2005: 30%)	1,440,000	1,440,000

**NOTE 4: EVENTS SUBSEQUENT TO REPORTING DATE**

On 22 February 2007, an interim dividend of 3.0 cents per ordinary share, fully franked, was declared by the Company. The dividend will be paid on 24 April 2007.

**NOTE 5: CONTINGENT LIABILITIES**

There has been no change in contingent liabilities since the last annual reporting date.

**NOTE 6: 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 & New Zealand.

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

**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 3 to 12:
  - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
  - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half year ended on that date.
  
2. 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 22<sup>nd</sup> day of February, 2007

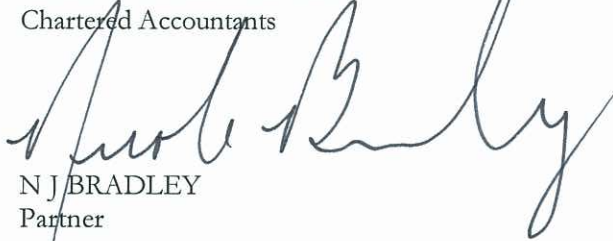
**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF UNDERCOVERWEAR LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of UnderCoverWear Limited and controlled entities for the half-year ended 31 December 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON NSW  
Chartered Accountants



N J BRADLEY  
Partner

Sydney

22 February 2007

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF UNDERCOVERWEAR LIMITED

### Report on the half-year financial report

We have reviewed the accompanying half-year financial report of UnderCoverWear Limited and its controlled entities (the consolidated entity), which comprises the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flows statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes to the financial statements and the directors' declaration for the consolidated entity. The consolidated entity comprises both UnderCoverWear Limited (the company) and the entities it controlled during that half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation and true and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including, giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of UnderCoverWear Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF UNDERCOVERWEAR LIMITED (CONT)**

*Independence*

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

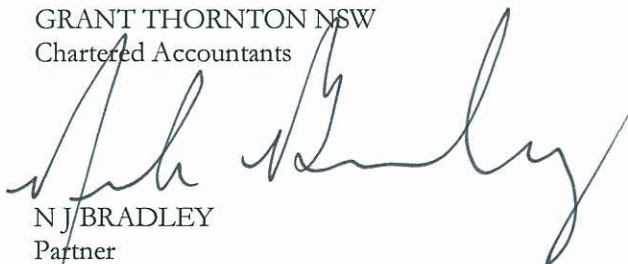
*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of UnderCoverWear Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.



GRANT THORNTON NSW  
Chartered Accountants



N J BRADLEY  
Partner

Sydney

22 February 2007