

## APPENDIX 4E

### PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2007

#### Details of the reporting period

Current period	1 July 2006 to 30 June 2007
Previous corresponding period	1 July 2005 to 30 June 2006

#### Results for announcement to the market

		\$	Up / down	Movement %	
i.	Revenues from ordinary activities	43,875,007	Down	5.6%	
ii.	Profit/(loss) from ordinary activities after tax attributable to members	4,124,189	Up	1.6%	
iii.	Net profit/(loss) for the period attributable to members	4,124,189	Up	1.6%	
iv.	Dividends	Amount per Security (cents)	Franked amount per security (cents)		
	<i>Current Period</i>				
	Interim – paid 24 April 2007		3.0	3.0	
	Final – payable 5 October 2007		3.5	3.5	
	<i>Previous corresponding period</i>				
	Interim – paid 4 April 2006		3.0	3.0	
Final – payable 5 October 2006		3.5	3.5		
v.	Record date for determining entitlements to dividends	14 September 2007			
vi.	Refer to the attached ASX announcement for commentary on the results. The information contained in this report is to be read in conjunction with the 2007 Annual Report.				

**Income Statement** – refer to page 32 of the attached financial report

**Balance Sheet** – refer to page 33 of the attached financial report.

**Cashflow Statement** – refer to page 35 of the attached financial report.

**Details of dividend / distribution reinvestment plan**

At 30 June 2007, there was no dividend reinvestment plan in operation for UnderCoverWear Limited.

**Retained Earnings**

	Current Period	Previous Corresponding Period
Retained earnings at the beginning of the financial period	4,129,138	2,948,339
Net profit attributable to members of the parent entity	4,124,189	4,060,799
Dividends provided for or paid	3,120,000	2,880,000
Retained earnings at the end of the financial period	5,133,327	4,129,138

**Net Tangible Assets per security**

	30 June 2007	30 June 2006
Net tangible asset backing per ordinary security	8.91 cents	6.82 cents

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

<b>i.</b>	Name of entity (or group of entities) over which control was gained/lost	N/A
<b>ii.</b>	Date control was gained/lost	N/A
<b>iii.</b>	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

**Details of associates and joint venture entities**

N/A

## Commentary on the results for the period

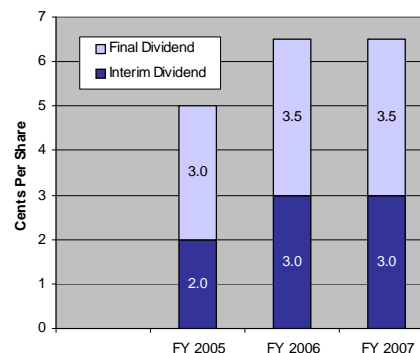
### Profit & earnings per share

The consolidated income statement shows a net profit after tax for the year ended 30 June 2007 of \$4,124,189 compared to \$4,060,799 in 2006.

Based on 48,000,000 weighted average ordinary shares on issue during the year ended 30 June 2007, this result represents earnings of 8.59 cents per share, an increase of 1.6% (0.13 cents per share).

### Dividends

The 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 2007. This brings the total ordinary dividend paid for the year ended 30 June 2007 to 6.5 cents per share.



### Review of operating performance

Overall, results for the Company during the past financial year were positive, showing a NPAT of \$4,124,189, a 1.6% increase on last year. These results were achieved even though revenue was down by 5.6%, reflective of improved gross margins and reductions in fixed overhead costs.

Consultant numbers continue to be the main driver in realising the Company's results in revenue and this has been the main focus for the major part of the year. As unemployment levels in Australia continue to fall, this has had an adverse effect on the recruitment of new consultants. Whilst there had been an initial slump in the earlier part of the year, our consultant numbers have remained steady during the last five months – largely due to the development and implementation of new training programs in the field.

Whilst consultant numbers have been down on previous years, revenue has not fallen in the same proportion. This is because we have been able to achieve growth in other key business drivers of consultant productivity and party sales average.

The Company has achieved improvements in gross margins, in part due to favourable foreign exchange rates and the rising Australian dollar. We continue to review our product mix, with approximately 70% of garments currently being imported – this is in line with our business strategy. The remaining 30% of garments are manufactured by our local production department, and we have been able to maintain the gross margins applied to these garments in line with previous years even with reduced quantities being produced. Through improvements in inventory management, inventory-on-hand levels have reduced over the past twelve months.

Cost reductions in a number of fixed overhead expenses have also benefited the Company during the year, despite the cost of increased rental space due to internal building extensions. These extensions, which were completed in November 2006, incorporate new facilities for in-house training and development.

In May 2007, the Company established a new sales group and further expanded its operations overseas, supplying product from our head office warehouse in Sydney direct to customers in Singapore. Results so far have been very pleasing with future growth in this location anticipated.

We have continued to support sponsorship and fundraising activities in conjunction with the Make-A-Wish Foundation and the Cancer Councils of Australia & New Zealand. We have donated in excess of \$1,035,000 to these charities since 1987.

### Financial Position

The consolidated entity continues to hold a strong financial position, with cash at 30 June 2007 of \$2,097,808 compared to \$1,635,141 at the same time last year. The Company's strong cash generation from its operations will allow it to remain debt free.

	FY 2007	FY 2006
Total Revenue	\$43,875,007	\$46,492,144
EBITDA	\$6,132,248	\$6,075,570
EBIT	\$5,893,525	\$5,803,373
Profit before tax	\$5,892,782	\$5,800,774
NPAT	\$4,124,189	\$4,060,799
Earnings per share (cents)	8.59	8.46
Total dividend (cents)	6.50	6.50
Dividend yield at 30 June	6.3%	5.0%

### Outlook for the Company

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 2008. The main focus for the forthcoming year will be on the growth of our sales consultant numbers and increasing sales revenue. Management is currently investigating alternative business opportunities enabling us to reach new customers in other geographic locations both within and outside of Australia, also with the view of increasing the numbers in our sales force.

### Qualification of audit / review

The accounts have been audited and the audit report contains no qualifications.



# evolve

{ [i-volv] Pronunciation, e-volved, e-volv-ing, -verb (used with or without an object)  
To come forth gradually into being; develop; undergo evolution:  
The idea evolved from a casual remark.  
[Origin: 1635-45; < L *évolvere* to unroll, unfold, equiv. to *é-* e- + *volvere* to roll, turn] }





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The UnderCoverWear opportunity to grow and evolve means different things to different people.

For our Sales Consultants it is the opportunity to develop a successful business in the fashion industry, the ability to work around family commitments and the chance to evolve personally.

For our Customers, it is an opportunity to have fun with friends whilst shopping from home and to discover the latest looks at great prices.

And for our Shareholders, it is an investment which evolves each year with sound business strategies and dedicated management.

**Our Vision**

To support family values, and to empower women from all walks of life, by offering them a unique business opportunity to be part of the leading party plan business in Australia, New Zealand & Singapore.



The improved consolidated profit was achieved as a result of management's successful implementation of initiatives to improve efficiencies, working capital utilisation and achieve greater productivity with our sales consultants.

This is the fourth Annual Report of UnderCoverWear Limited, for the year ended 30 June 2007.

The consolidated profit for the consolidated entity after providing for income tax amounted to \$4,124,189 (2006, \$4,060,799) representing a 1.6% increase over last year and earnings of 8.59 cents per share. This is a direct result of an improvement in gross margins, on-going efficiency reviews and an intensive education and learning program, rather than an increase in sales and an improvement in consultant numbers. Unless these key areas are turned around, the prospects of any significant improvement in the coming twelve months remain subdued.

This result was derived from Revenue from Ordinary Activities for the consolidated entity for the year ended 30 June 2007 of \$43,875,007 (2006, \$46,492,144) even though it was a disappointing 5.6% lower than last year.

The improved consolidated profit was achieved as a result of management's successful implementation of initiatives to improve efficiencies, working capital utilisation and to achieve greater productivity with our sales consultants.

A positive indicator was that the revenues and consolidated profit for the six months ended 30 June 2007 exceeded the same period in 2006, whilst the first six months of each chronological year is traditionally the Company's, and the direct selling industry's, quietest half of each year.

Whilst the retail economy has improved during the year, so has the level of unemployment which has had the counter effect of adversely affecting the

recruitment of new UnderCoverWear consultants. Active consultant numbers have stabilised over the past five months after a less than 10% decline in the previous seven months. Management is focused on growing this sales force as well as improving the average sales per order and the activity rate of each consultant by emphasising leadership, education and support for the Consultants.

Your Company continues to maintain a strong improved cash flow, does not maintain any borrowings and operates with a low level of capital investment and expenditure.

At year end, 70% of sales were represented by imported garments as opposed to 64% at 30 June 2006. Your Board and Management have recently reviewed the impact of fluctuations in the Australian dollar on the costs of the imported inventory and formed the view that it should not materially affect the results of the Company.

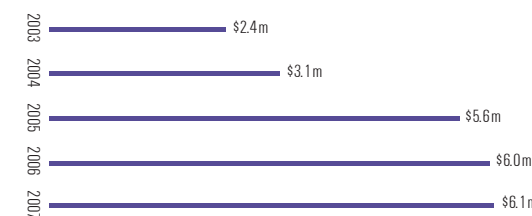
**Dividends**

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 2007. This brings the total ordinary dividend paid for the year ended 30 June 2007 to 6.5 cents per share, representing an earnings payout ratio of 75.7%.

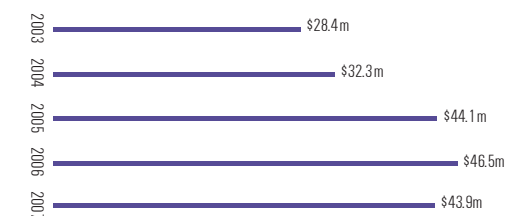
**Outlook**

In this strong economic climate the increasingly low levels of unemployment are hampering the ability to increase active Consultant numbers which normally correspond to an increase in revenues.

EBITDA 2003 - 2007



Turnover 2003 - 2007



Accordingly, it remains somewhat difficult to forecast future growth in revenues and the results to be achieved for this and future years. However, as one of Australia's leading direct-selling organisations, UnderCoverWear is actively pursuing all initiatives to improve the Company's performance.

**Management**

On behalf of the Board I thank the Management, under the leadership of our Chief Executive, Elaine Vincent, for their dedicated, enthusiastic and inspirational achievements during a challenging

year and the UnderCoverWear sales consultants who are very focused and motivated to be the leading performers in the direct selling industry.

Throughout this Annual Report, you'll read some of the personal stories from our sales consultants who inspire us all to reach for greater heights in the coming year.



Imagine yourself in one of hundreds of lounge rooms around Australia. There, you see a bunch of friends laughing and enjoying their time together as they browse through high quality yet affordable garments. Can you see the person running the show? At UnderCoverWear, we call them our greatest assets - our Sales Consultants.

## Evolve - a business overview

At present, we have around 2,000 sales consultants working with us around Australia, New Zealand and Singapore. These consultants are our life blood - our hands and feet - quite literally, our team on the ground.

Which is why we work hard for them and with them. From high-end incentives to our state-of-the-art training and motivational programs, we aim to motivate, inspire and nurture the success of our sales consultants throughout the entire span of their careers with us.

The Company also works to ensure that the general brand of UnderCoverWear maintains a strong level of integrity. In addition to fantastic designs and quality garments, we ensure our products and party concepts are affordable and desirable to our buying markets.

We recognise the need to attract new consultants in order to improve the company's performance for the coming 12 months. We believe that our educational programs, performance rewards and motivational incentives are amongst the best in the country and position UnderCoverWear favourably in attracting new talent. In addition, retaining our current consultants has never been more important to us. We want to make sure they have all the

business tools, all the motivation, all the knowledge and all the drive they need to not only succeed in their UnderCoverWear careers but also, to enjoy them.

We believe that along with financial profit, the happiness and success of our people is one of the truest measures of our performance so we're delighted when we hear our consultants sing praises of their evolution since joining UnderCoverWear. Be it because their choice in career lets them have more time for the family, gives them greater earning capacity or helps them grow personally, we are proud to say that the majority of our consultants can't imagine a better career choice.

Within our sales team, there are literally hundreds of rags-to-riches Cinderella stories, countless stories from happy and fulfilled stay-at-home mums, many tales from retirees who have enjoyed a gentle return to the workforce and plenty of stories from ordinary workers who still do a 9 to 5 job but enjoy UnderCoverWear as a secondary source of income and fulfillment. Throughout the next few pages we bring you just some of UnderCoverWear's stories. All are true, real-life stories of people who have, through UnderCoverWear, learnt the meaning of Dreaming, Believing and Achieving.





“When you’re at home all day with the kids, you can really miss having your own time. I adore being a mum to my three children but I mean, who wants to talk just nappies and bottles all day?

UnderCoverWear has been great. It’s let me be the sort of mum I want to be... I’m there for the kids, I’ve made loads of friends and I earn good money working when I want to. //

*Consultant Sam Vella, NSW*

Looking for an outlet to express herself and meet new people, Sam Vella joined UnderCoverWear earlier this year.

As a mother of twins – Joshua and Nathan (aged 9) and Liam (aged 4), Sam says she loves her new career because the flexibility lets her achieve personal goals and still be a full-time mum. “I don’t have to disguise that my family always comes first... it’s the perfect life/work balance,” she says.

Working part time, Sam has already achieved one of her goals – to qualify for the recent Sales Convention on the Gold Coast. Sam says along

with the flexibility of the career, she simply loves the size range at UnderCoverWear, as it caters to all her friends of different shapes.

With previous experience in retail and lingerie, Sam says working with UnderCoverWear has enhanced her quality of life. “I’m still a mum first of all. Except now I go out three times a week, meet new people, talk fashion and get paid for it!” she says.

Sam lives in Sydney and has been married to her proud husband, Matt, for 12 years. “He appreciates we girls need our own lives too,” Sam says. “We need to mingle and set goals for ourselves.”



“ I remember a few weeks before our wedding, my fiancé was shocked to learn how expensive weddings were. He near panicked and asked if we had enough money for it all... ‘Don’t worry, I’ve got it covered’ I said. But I think that shocked him even more!

We had a six-month old baby and I was working part time so how could I have saved that much, he must have thought. It’s nice surprising people.”

*Manager Julie Ashworth, ACT*

It was a little more than ten years ago when Julie Ashworth joined UnderCoverWear. Her original motivation was to earn a bit of extra money to pay off her new car but it didn’t take long for Julie to see the opportunities on offer – so after just a short while, UnderCoverWear became her full-time career.

Over the years, Julie says her career has evolved with her lifestyle. “I’ve made it part-time when I had the children and then full-time when I had more time... and all the while, I’ve earned more than I could have imagined.”

And Julie’s family has enjoyed the perks too, joining her in Hawaii in April 2007 where she was attending

the UnderCoverWear Conference. Another highlight was seeing their mum win a black UnderCoverWear branded Citroen at our Consultant Conference in September 2005 for highest sales.

Working in the suburbs of Canberra, Julie is one of many mums, successfully running a busy household and her own UnderCoverWear business. With two young children, Tiffany (7) and Bailey (4), Julie says “Being independent is important. This career helps you to realise that you can do whatever you want to do. Set goals, work hard and realise the dream. It’s that simple.”

*“ If ever there was a Cinderella story, it's probably mine. I really feel like I've come from rags to riches! 11 years ago, we lived in the tiniest fibro house - I used to call it 'the caravan without wheels'. Today, I'm the primary breadwinner of the house and the house is our absolute dream home with an in-ground pool and big balcony. Life is good! ”*

*Regional Executive Manager Laurie Fitzgerald, QLD*

Laurie Fitzgerald joined UnderCoverWear over ten years ago. Coming from a low-paying retail job, Laurie was on maternity leave with her second child when she discovered the career opportunities at UnderCoverWear. After doing one party, Laurie decided to never go back to her full-time job and she says she's never looked back either!

Since joining UnderCoverWear, Laurie's success has been outstanding. Financially and personally, Laurie's growth over the span of her career has flourished. In just her first year with the company, Laurie worked hard to qualify for a holiday to Club Med, Singapore.

The next year, she became a Manager and the year after that she was promoted further, to Senior Manager. Working in Queensland, today Laurie enjoys her role as Regional Executive Manager, leading a record-breaking team of 230 UnderCoverWear Consultants and Managers. And although Laurie works hard, she says the flexibility of her career has also let her be a full-time mum to Daniel (14), Sheree (12) and Courtney (10) and a full-time wife to husband, John. As one of the company's most successful managers, Laurie is a living example of someone dreaming, believing and achieving her way to absolute success.





To counteract this difficult environment, UnderCoverWear has focused heavily on improving productivity and average value of sales at our parties. This has been achieved by the introduction of new sales training programs.

As a whole, the 2006/07 financial year has been a challenging year in the direct selling industry so in view of this, our record NPAT result represents quite an achievement, despite the fall of 5.6% in turnover and a reduction of 10% in the number of our sales consultants.

UnderCoverWear's growth (as in other party plan and most direct selling businesses), relies on increasing the number of independent sales consultants. During the past 18 months the continued, low unemployment rates in Australia has made it increasingly difficult to recruit new talent to our sales teams and hence the Company has been unable to achieve a net increase in these numbers, with the intake of new consultants being 300 less than the previous year.

To counteract this difficult environment, UnderCoverWear has focused heavily on improving productivity and the average value of sales at our parties. This has been achieved by the introduction of new sales training programs. These programs concentrate attention on the pre-party planning to ensure greater success of the party. This has had many positive benefits on the business. With higher sales for the Consultant, their earnings are higher which in turn, raises consultant satisfaction levels.

This allows us to continue to improve the average length of their stay with UnderCoverWear. Further, successful parties benefit the hosting customer, which leads to increased referrals for ongoing bookings.

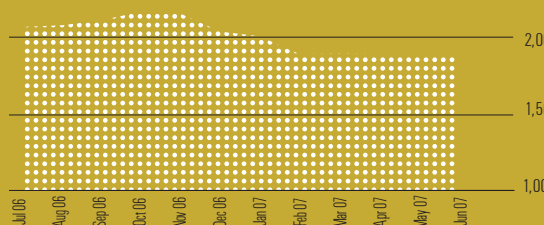
To expand our sales teams beyond our existing geographical locations, we continue to investigate potential new markets and this year, UnderCoverWear successfully established a new sales group in Singapore. In the same way as we have distributed to New Zealand for the past 14 years, orders are despatched from our Sydney warehouse direct to our customers in Singapore. This model of expansion is proving to be very efficient and effective and so we will continue to evaluate similar opportunities in the future.

**Learning & Development**

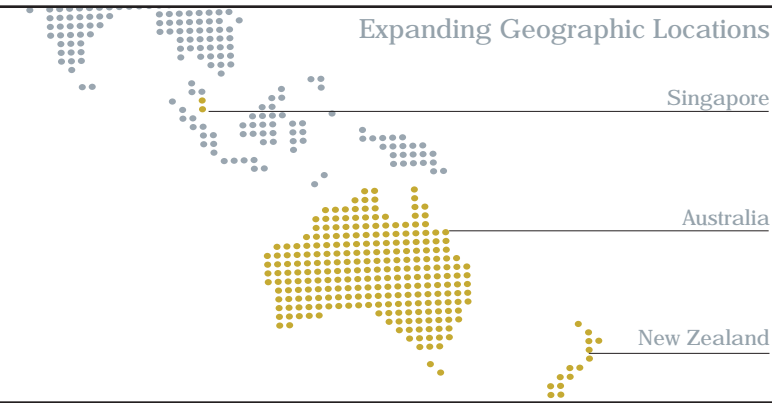
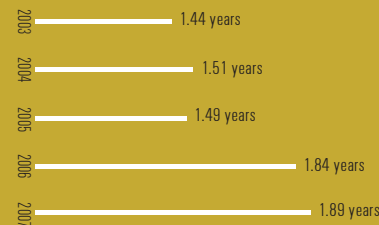
With the appointment of Colleen Walters in July 2006 to the position of Sales and Business Development Manager we have seen unprecedented positive results from changes made in the development of our sales teams.

The changes have been both in the duplicable systems that Colleen has introduced and in the methods of delivery of these programs.

Number of Sales Consultants



Average Tenure of Consultants



Firstly, the way in which our training is structured is both efficient and effective. Each Consultant is a member of an UnderCoverWear Team with a Manager responsible for their training and development. Each Manager is a member of a Region. These 19 Regions are headed by proven, successful Regional Managers. It is the responsibility of the head office Learning and Development team to deliver effective training programs to these Managers so they in turn can duplicate this training to every member of their team.

We now also deliver these programs in a variety of ways. Throughout the organisation, we use a cost-effective system of conference calling on a weekly basis. This has allowed personal contact with a vast number of people in a very structured process. Training sessions are recorded and available as podcasts for ongoing review, as well as making programs available to participants not able to dial in at the designated times. These are also supported by "VIDItalk" - short video clips allowing demonstration and more thorough explanation.



To our team of 2,000 Consultants, weekly emails still retain much benefit as well as our bi-monthly, 36 page, full colour printed newsletter. In addition to the delivery of hard copy documents, all communications are immediately posted electronically in the Consultant section on our website. This ensures accessibility is not limited.

For consultants aspiring to climb the management ladder, two and three day specialised training programs are held at our Sydney head office. This year we sponsored 60 participants attending in groups of up to 10 per session, whose participation levels has qualified them to attend, free of charge. These programs are a highlight for many participants, triggering their enthusiasm and realisation of the potential business opportunities being offered to them. In addition, those interested in management are supported in the field by their Regional Managers with ongoing training programs.

Our three day annual convention was held this year on the Gold Coast with a record number of 330 delegates attending. Our motto, "Dream, Believe, Achieve" used throughout the year, truly embodied the theme of this year's convention, culminating with the presentation given by our guest speaker, the inspirational "dream coach", Marcia Wieder.

### Incentive Programs

As well as the wealth of personal development, selling and management skills training our consultants are offered, they also receive many incentives and performance-based programs to encourage high performance and activity.

Our "Dream Start" program is three-staged and encourages new consultants to higher levels of activity. After successful completion of designated training sessions and meetings, participants receive additional sample garments for their business kits. Since "Dream Start" began, 240 consultants have participated in the program.

A similar "Fast Track to Manager" program offers training and appropriate rewards to new consultants that progress to management within a designated time of joining the Company.

The "Rewards Points" program offers incentives for high performance and activity on an ongoing basis. Recognition for high performance is highlighted at monthly team and regional meetings as well as at our annual awards. A fleet of 100 company cars are available for Managers, based on consistent results.

Consultants included in the "Circle of Excellence" are announced every six months. This team of 20 top performers is consulted on a regular basis on sales, marketing and training issues and trialled with pilot programs before they are released.



Sales of our "Supporting the Cause" T-Shirt have raised over \$440,000 during the last financial year for breast cancer support services.



### Operations

Towards the end of the previous financial year we appointed an additional Designer providing valuable assistance and collaboration within our design team. This has resulted in the production of four very successful new fashion ranges during the year and a 9.8% increase in spend-per-head by our customers.

In addition, we fulfilled another objective in firming up the percentage of imported garments in the range at a time when the AUD exchange rate has been consistently favourable. Our profit result reflects improved margins as a result of the successful implementation of this strategy.

Cost-reduction in a number of fixed overhead expenses has also resulted in our improved net profit results for the year.

" The biggest thing that attracted me to UnderCoverWear was the fashion!

I am a self-diagnosed addict and now my daughters are the same - they're only one and three years old but they love modelling the kids' ranges!

Along with the fashion, it's nice to be doing something I enjoy to earn extra money - money that lets me have those nice little luxuries like facials and massages. //

*Manager Hope Wilson, QLD*

Hope Wilson is a qualified psychologist and primary school teacher but it was her passion for fashion that led her to UnderCoverWear.

Hope started her business three years ago. Since then, she has qualified for Sales Conventions in 2005, 2006 and 2007 and has been promoted from Consultant to Manager.

Apart from the fashion and the ability to build her business around her family commitments, Hope believes the best thing about her job is that it has taught her new things about herself. Once a shy woman with a fear of public speaking, today Hope is a confident and successful business woman who can speak to three or 300 people with ease. "I am proud of my work and I absolutely love what I do. I'll do it forever!"

A major part of this Annual Report has been dedicated to highlighting the importance our Consultants play in the success of our Company. As Chief Executive Officer I wish to personally acknowledge their hard work and inspiring attitudes.

Together we look forward to the year ahead, excited at the challenges and rewards posed by new opportunities.

Additionally, UnderCoverWear's commitment to enhancing our sophisticated computer systems remains a priority. This year we have upgraded our infrastructure requirements, our high speed performance, redundancy systems and our independently managed off-site backups and data mirroring. All of these updates were aimed at giving the highest possible reliability to our computer systems.

A customer survey was commissioned during the year revealing an overall favourable response from our customers and hosts - 94% of customers reported either a "great" or "quite good" party experience, with a likelihood of attending another party or purchasing again at 88% and 89% respectively. Other results from the survey have assisted us to target our future marketing strategies to meet our customers' needs.

**Future Developments**

The main focus for the coming year will be on growth of consultant numbers and increasing sales revenue. Management is currently investigating alternate and viable business opportunities, enabling us to reach new customers and potential consultants in other geographical locations both within and outside of Australia.

**Conclusion**

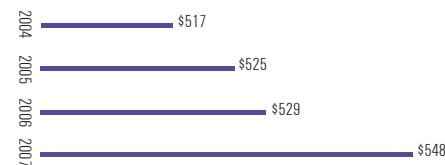
A major part of this Annual Report has been dedicated to highlighting the importance our Consultants play in the success of our Company. As Chief Executive Officer I wish to personally acknowledge their hard work and inspiring attitudes.

I also wish to acknowledge the valuable contribution of our Management team and staff at head office and I'd like to thank them for their ongoing dedication and enthusiasm throughout the year. Together we look forward to the year ahead, excited at the challenges and rewards posed by new opportunities.

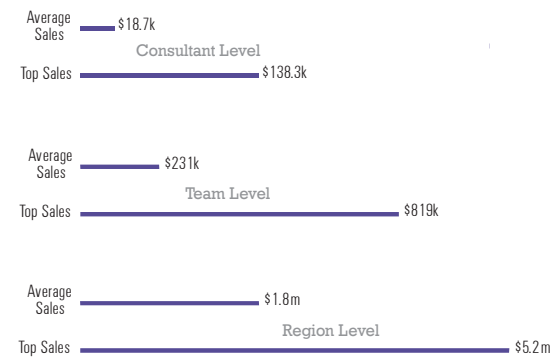
**Average Spend per Customer**



**Average Sales per Party**



**Sales per annum**



**“ Gabby, Chloe, Casey, Tayla, Chelsea and William. That’s a lot of kids and a lot of little mouths to feed!**

**When I joined UnderCoverWear it was really to make ends meet for our family of eight. Of course I’m a full-time Mum first, but because I also work, we can now afford holidays and renovations – things I thought were near impossible! ”**

**Senior Manager Angie Ridgeway, VIC**

With six children under 11 years of age, Angie and her husband Grant, turned to UnderCoverWear 4 years ago as a part-time way to make ends meet. Within her first three months, Angie was invited to attend a Future Managers meeting which inspired her to set career goals and work hard to achieve them.

With the six children keeping her busy, Angie says she's never looked back. For Angie and her family, the extra income has meant the whole family now enjoys holidays together and weekends away. They have also afforded renovations to their home and been able to enrol their eldest two children, Gabby and Chloe, into private secondary schools.



**David Hall**

**FCA, FAICD, FTIA,  
Chairman & Non-Executive Director**

David Hall has been a director since 5 May 2004 and was appointed as Chairman of the Board in November 2005. 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 Nutri-Metics International, Executive Deputy Chairman of the Griffin Holdings Limited Group and Managing Director of Roche Group Pty Ltd. Mr Hall continues to serve as a director of Roche Group Pty Ltd.

Mr Hall also currently serves as a director of Brickworks Investment Company Limited. During the past three years, he has held external directorships in Challenger Listed Investments Limited responsible entity for Challenger Wine Trust and Challenger Infrastructure Fund, Ainsworth Game Technology Limited and Pacific Strategic Investments Limited.

Mr Hall is Chairman of the Audit and Remuneration Committees. He is also a member of the Finance Committee.

Mr Hall holds an interest in 100,000 Ordinary Shares in UnderCoverWear Limited.

**Elaine Vincent**

**B Comm.,  
Executive Director & Chief Executive Officer**

Ms Elaine Vincent was appointed as a Director on 5 May 2004. After joining the company in 1995 as Financial Controller, Ms Vincent has held the position of Chief Executive Officer of UnderCoverWear for the past seven years. With over 20 years experience in franchising and retailing in the clothing and textile industry, Ms Vincent has since focused her attention to direct selling. In particular, the implementation of sound financial systems and tailoring IT solutions to the specific requirements of 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. Ms Vincent holds an interest in 602,000 Ordinary Shares in UnderCoverWear Limited. Ms Vincent has not held directorships in any other public listed companies during the past three years.



**John Everett**

**A.M., B Econ., A.A.S.A.,  
Executive Director**

Mr John Everett has been a Director of UnderCoverWear Limited since 5 May 2004. Mr Everett has gained relevant experience within the Direct Selling Industry since his appointment as Director of the business in 1991.

In 2002, Mr Everett was awarded a Member of the Order of Australia (AM) for his services to charity, particularly the Prince of Wales Medical Research Institute.

Mr Everett is a Member of the Audit & Remuneration Committees.

Mr Everett holds an interest in 18,168,377 Ordinary Shares in UnderCoverWear Limited. Mr Everett has not held directorships in any other public listed companies during the past three years.

**Geoffrey Hill**

**B.Econ., MBA, FCPA, ASIA FAICD,  
Non-Executive Director**

Mr Geoffrey Hill has been a director of UnderCoverWear Limited since 14 December 2006. A merchant banker, Mr Hill has identified and implemented mergers and takeovers and has acted for a wide range of corporate clients in Australia and overseas.

Mr Hill also currently serves as a director of Brickworks Investment Company Limited, Heritage Gold NZ Limited, Hills Industries Limited and Souls Private Equity Limited (alternate director). During the past three years, he has held external directorships in Enterprise Energy NL & Biron Capital Limited.

Mr Hill is a Member of the Audit Committee and Remuneration Committee.

Mr Hill holds an interest in 10,000 Ordinary Shares in UnderCoverWear Limited.

**Tania Thomson**

**B Comm., CA,  
Company Secretary & Chief  
Financial Officer**

Ms 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.



## Directors' Report

Overall, results for the Company during the past financial year were positive, showing a NPAT of \$4,124,189, a 1.6% increase on last year.

These results were achieved even though revenue was down by 5.6%, reflective of improved gross margins and reductions in fixed overhead costs.

Your directors present their report on the Company and its controlled entity for the financial year ended 30 June 2007.

### Directors & Company Secretary

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

David C Hall  
 John H Everett  
 Elaine M Vincent  
 Geoffrey G Hill (*appointed 14 December 2006*)  
 Ian G Everingham (*resigned 14 December 2006*)

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 at the end of the financial year.

Details about experience and qualifications of Directors and Company Secretary are included on page 18 - 19 which forms part of this report.

### Principal Activities

The principal activities of the consolidated 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 consolidated entity's principal activities during the financial year.

### Operating Results

The consolidated profit of the consolidated entity after providing for income tax amounted to \$4,124,189 (2006: \$4,060,799).

### 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 2007 of 3.0 cents per share fully franked, paid on 12th April 2007.
- A final ordinary dividend in respect of the year ended 30 June 2007 of 3.5 cents per share fully franked, payable on 5th October 2007.

### Review of Operations

Overall, results for the Company during the past financial year were positive, showing a NPAT of \$4,124,189, a 1.6% increase on last year. These results were achieved even though revenue was down by 5.6%, reflective of improved gross margins and reductions in fixed overhead costs.

Consultant numbers continue to be the main driver in realising the Company's results in revenue and this has been the main focus for the major part of the year. As unemployment levels in Australia continue to fall, this has had an adverse affect on the recruitment of new consultants. Whilst there had been an initial slump in the earlier part of the year, our consultant numbers have remained steady during the last five months.

In May 2007, the Company established a new sales group and further expanded its operations overseas, supplying product from our head office warehouse in Sydney direct to customers in Singapore. Results so far have been very pleasing with future growth in this location anticipated.





We have continued to support sponsorship and fundraising activities in conjunction with the Make-A-Wish Foundation and the Cancer Councils of Australia & New Zealand. We have donated in excess of \$1,035,000 to these charities 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.

**After Balance Date Events**

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2007.

**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 2008. The main focus for the forthcoming year will be on the growth of our sales consultant numbers and increasing sales revenue. Management is currently investigating alternative business opportunities to enable us to reach new customers in other geographic locations both within and outside of Australia with the view of increasing the numbers of our sales consultants.

**Meetings of Directors**

During the financial year, 11 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

Meetings of Directors	Number of Meetings					
	Directors' Meetings		Audit Committee		Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
John H Everett	7	7	2	2	2	2
David C Hall	7	7	2	2	2	2
Elaine M Vincent	7	7	-	-	-	-
Geoffrey G Hill	4	4	1	1	1	1
Ian G Everingham	3	3	1	1	1	1

**Environmental Issues**

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

**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 \$13,732.

- John Everett
- Elaine Vincent
- David Hall
- Geoffrey Hill
- Ian 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 2007 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:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Fees to the amount of \$4,000 were paid/payable to external auditors during the year ended 30 June 2007 for 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 2007 has been received and can be found on page 63, which forms part of this report.

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

David C Hall , Director  
23 August 2007

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 consolidated entity.

Remuneration for the Year Ended 30 June 2007	Salary, Fees & Commissions \$	Superannuation Contribution \$	Cash Bonus \$	Non-Cash Benefits \$	Post Employment \$	Total \$	Performance Related %
Elaine Margaret Vincent	151,636	85,768	644,437	15,000	-	896,841	72.2
John Henry Everett	121,667	2,700	-	-	-	124,367	-
David Capp Hall	-	100,000	-	-	-	100,000	-
Geoffrey Guild Hill <i>(appointed 14 December 2006)</i>	16,451	1,481	-	-	-	17,932	-
Ian Garnsey Everingham <i>(resigned 14 December 2006)</i>	13,629	1,227	-	-	-	14,856	-
<b>Total for Directors</b>	<b>303,383</b>	<b>191,176</b>	<b>644,437</b>	<b>15,000</b>	<b>-</b>	<b>1,153,996</b>	
Colleen Walters <i>(commenced 3 July 2006)</i>	109,194	5,397	11,639	974	-	127,204	8.1
Ana Tokic	85,550	9,913	6,587	20,000	-	122,050	5.7
Megan Everett <i>(commenced 14 August 2006)</i>	101,774	9,160	2,000	5,415	-	118,349	-
Tania Thomson	70,723	6,365	2,500	-	-	79,588	-
Nicole Riccioni	51,029	4,593	2,000	-	-	57,622	-
Alice Bernice Carter <i>(resigned 4 August 2006)</i>	35,756	1,828	-	2,192	-	39,776	-
<b>Total for Executives</b>	<b>454,026</b>	<b>37,256</b>	<b>24,726</b>	<b>28,581</b>	<b>-</b>	<b>544,589</b>	

## 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 consolidated 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 2007

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:

## 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:

Remuneration for the Year Ended 30 June 2006	Salary, Fees & Commissions \$	Superannuation Contribution \$	Cash Bonus \$	Non-Cash Benefits \$	Post Employment \$	Total \$	Performance Related %
Elaine Margaret Vincent	176,796	100,587	529,215	58,724	-	865,322	72.4
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	-
<b>Total for Directors</b>	<b>369,388</b>	<b>150,587</b>	<b>529,215</b>	<b>58,724</b>	<b>-</b>	<b>1,107,914</b>	
Ana Tokic	82,500	8,746	41,920	20,000	-	153,166	28.8
Alice Bernice Carter	86,400	16,376	-	19,000	-	121,776	-
Tania Thomson	94,525	8,507	5,000	4,500	-	112,532	-
Patricia Handford	95,974	-	-	-	5,000	100,974	-
Nicole Riccioni	75,000	6,750	5,000	13,300	-	100,050	-
<b>Total for Executives</b>	<b>434,399</b>	<b>40,379</b>	<b>51,920</b>	<b>56,800</b>	<b>5,000</b>	<b>588,498</b>	

## Number of Shares Held by Key Management Personnel

	Balance 1.7.2006	Received as Remuneration	Net Change Other*	Balance 30.6.2007 #
Elaine Margaret Vincent	502,000	-	100,000	602,000
John Henry Everett	16,000,000	-	2,168,377	18,168,377
David Capp Hall	100,000	-	-	100,000
Geoffrey Guild Hill	-	-	10,000	10,000
Ian Garnsey Everingham	8,000,000	-	-	8,000,000
Tania Thomson	7,500	-	-	7,500
Alice Bernice Carter	22,000	-	-	22,000
Megan Everett	1,000	-	-	1,000
Colleen Walters	-	-	-	-
Nicole Riccioni	12,000	-	-	12,000
Ana Tokic	10,000	-	-	10,000
<b>Total</b>	<b>24,654,500</b>	<b>-</b>	<b>2,278,377</b>	<b>26,932,877</b>

\* 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.

Headquartered in Baulkham Hills, Sydney, UnderCoverWear operates from a large, modern complex that incorporates garment and product design, administration, production, warehousing and distribution facilities.

## Principles of Compensation

There are three key management personnel that receive performance bonuses which are based on achieved targets specified by management, as described below.

The performance bonus of the Chief Executive Officer is calculated as a percentage of the difference between the current year's EBIT and 'base year' EBIT. The performance bonus of our Designer, is calculated as a percentage of the difference between the current year's EBIT and prior year EBIT. These bonuses are calculated using actual management results.

The performance bonus of our Sales & Business Development Manager is calculated bonus on the difference in actual gross margin dollars compared to budgeted gross margin dollars achieved during the year.

Bonus payments for other key management personnel are not based on any performance criteria.

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 within the Company.

## Remuneration Practices

The consolidated entity's policy for determining the nature and amount of emoluments of board members and Senior Executives of the company as outlined below.

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.

## Share Based Remuneration

There has been no share based remuneration for the specified directors and executives during the year ended 30 June 2007.



## 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 referenced to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (March 2003). 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 and 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

The Board Charter describes the relationship between the Board and management, and defines their functions and responsibilities.

### 2.1 Independence of Directors

The Board currently comprises of two independent 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.

The Board regularly assesses the independence of each director according to the independence criteria in ASX Principle 2 and to relevant laws, regulations and listing rules. Directors facilitate this review by providing up-to-date information regarding their personal circumstances related to the company, their external relationships and any potential conflicts of interest. The independence of new directors is assessed upon appointment.

Where there is an actual or potential conflict of interest or material personal interest, the Board's policies and procedures ensure that:

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

The Chairman, Mr David Hall, meets the independence criteria given that he complies will all criteria set down for assessment of independence.

Mr Geoffrey Hill is an independent Non-Executive Director in accordance with the independence criteria, given that he complies with all criteria set down for assessment of independence.

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

Mrs Elaine Vincent, the Chief Executive Officer, is considered not to be independent.

#### *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.

#### **2.2 The Chairman should be independent**

The Chairman of the Company is an independent non-executive director and has extensive experience serving as Chairman for Boards of public and private companies.

#### **2.3 The role of Chairman and Chief Executive**

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

#### **2.4 Nomination Committee**

No formal Nomination Committee exists given that the size of the Board allows the entire Board to participate directly in these functions. The procedures of the Board in relation to matters addressed by a nomination committee are in compliance with the Principles.

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

### **Principle 3: Promote Ethical and Responsible Decision Making**

#### **3.1 Code of Conduct**

Through established practices and policies the Board supports the need for directors and

employees to observe the highest standards of behaviour and business ethics. All directors, managers and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Company. A formal Code of Conduct for both directors and employees, which draws together all of the Company's existing policies has been implemented and a summary of their main provisions is published on the Company's website.

#### **3.2 Trading in Company Securities by Directors, Officers and Employees**

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

### **Principle 4: Safeguard Integrity in Financial Reporting**

#### **4.1 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.

#### **4.2 Established Audit Committee**

The Board has an established Audit Committee.

#### **4.3 Structure of the Audit Committee**

The Committee comprises of two non-executive independent directors (including the Chairman) and one executive director. The Chairman of the Audit Committee is an independent director who is also Chairman of the Board.

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.

#### *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.

#### **4.4 Audit Committee Charter**

The Audit Committee's Charter is available on the Company's website.

### **Principle 5: Make Timely and Balanced Disclosure**

#### **5.1 Established Disclosure Policies**

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

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

### **Principle 6: Respect the Rights of Shareholders**

#### **6.1 Communications Strategy**

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

#### **6.2 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**

#### **7.1 Risk Management**

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.

#### **7.2 Management Accountability**

The Company encourages management accountability and requires that the CEO and CFO state in writing to the Board that, in accordance with Best Practice Recommendation 4.1 (the integrity of the company's

financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and the Company's risk management and internal compliance and control system, is operating efficiently and effectively in all material aspects.

## Principle 8: Encourage Enhanced Board and Management Performance

### 8.1 Performance Evaluation

The Board undertakes an annual self-assessment of its performance, in line with recommendations of the guidelines prior to the Annual General Meeting each year. Reviews are initially conducted by way of questionnaire, with the opportunity for follow-up discussions if any director thought it would be beneficial to do so.

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

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

## Principle 9: Remunerate Fairly and Responsibly

### 9.1 Remuneration Policy

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.

### 9.2 Remuneration Committee

The Board has an established Remuneration Committee, currently 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.

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

### 9.3 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 of 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.undercoverwear.com.au](http://www.undercoverwear.com.au).



# Financial Statements

for the year ended 30 June 2007

# Income Statement

for the year ended 30 June 2007

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	Note	Consolidated Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	2	43,875,007	46,492,144	5,958,862	7,121,319
Other income	2	-	563	-	-
Changes in inventories of finished goods and work in progress		(9,197,673)	(9,437,874)	-	-
Raw materials and consumables used		(6,293,572)	(7,307,159)	-	-
Distribution costs		(1,418,924)	(1,589,061)	-	-
Commissions paid		(9,371,423)	(10,042,565)	-	-
Promotions and advertising expense		(2,583,965)	(2,693,088)	-	-
Depreciation and amortisation expense	3	(238,723)	(272,197)	-	-
Insurance expense		(140,986)	(184,679)	-	-
Employee benefits expense		(5,845,544)	(6,070,468)	-	-
Rental expenses		(814,290)	(736,798)	-	-
Finance costs	3	(744)	(2,599)	-	-
Other expenses from ordinary activities		(2,076,381)	(2,355,445)	(66,080)	(60,545)
Profit before income tax expense	3	5,892,782	5,800,774	5,892,782	7,060,774
Income tax expense	4	(1,768,593)	(1,739,975)	(1,768,593)	(1,739,975)
Profit attributable to members of the parent entity		4,124,189	4,060,799	4,124,189	5,320,799
Basic earnings per share (cents per share)	8	8.59	8.46		
Diluted earnings per share (cents per share)	8	8.59	8.46		

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

# Balance Sheet

as at 30 June 2007

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	Note	Consolidated Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	9	2,097,808	1,635,141	34,383	5,832
Trade and other receivables	10	347,354	363,952	5,714,527	5,718,343
Inventories	11	5,735,172	6,260,303	-	-
Other	12	330,080	257,730	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>8,510,414</b>	<b>8,517,126</b>	<b>5,748,910</b>	<b>5,724,175</b>
<b>NON-CURRENT ASSETS</b>					
Other financial assets	13	-	-	24,000,000	24,000,000
Property, plant and equipment	15	330,732	448,055	-	-
Deferred tax assets	16	357,376	411,104	36,635	90,363
Intangible assets	17	24,817,499	24,817,499	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>25,505,607</b>	<b>25,676,658</b>	<b>24,036,635</b>	<b>24,090,363</b>
<b>TOTAL ASSETS</b>		<b>34,016,021</b>	<b>34,193,784</b>	<b>29,785,545</b>	<b>29,814,538</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	18	3,272,430	3,079,043	881	1,150
Current tax liabilities	19	604,291	1,628,563	604,291	1,628,563
Short-term provisions	20	904,700	1,238,137	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,781,421</b>	<b>5,945,743</b>	<b>605,172</b>	<b>1,629,713</b>
<b>NON-CURRENT LIABILITIES</b>					
Long-term provisions	20	115,987	124,974	-	-
Deferred tax liabilities	21	24,536	33,179	34,300	42,941
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>140,523</b>	<b>158,153</b>	<b>34,300</b>	<b>42,941</b>
<b>TOTAL LIABILITIES</b>		<b>4,921,944</b>	<b>6,103,896</b>	<b>639,472</b>	<b>1,672,654</b>
<b>NET ASSETS</b>		<b>29,094,077</b>	<b>28,089,888</b>	<b>29,146,073</b>	<b>28,141,884</b>
<b>EQUITY</b>					
Issued capital	22	23,960,750	23,960,750	23,960,750	23,960,750
Retained earnings		5,133,327	4,129,138	5,185,323	4,181,134
<b>TOTAL EQUITY</b>		<b>29,094,077</b>	<b>28,089,888</b>	<b>29,146,073</b>	<b>28,141,884</b>

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

## Statement of Changes in Equity

for the year ended 30 June 2007

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	Note	Ordinary Share Capital \$	Retained Earnings \$	Total \$
<b>Consolidated Entity</b>				
Balance at 1 July 2005		23,960,750	2,948,339	26,909,089
Profit for the period		-	4,060,799	4,060,799
<b>Total recognised income and expense for the period</b>		-	4,060,799	4,060,799
Dividends paid	7	-	(2,880,000)	(2,880,000)
<b>Balance at 30 June 2006</b>		23,960,750	4,129,138	28,089,888
Profit for the period		-	4,124,189	4,124,189
<b>Total recognised income and expense for the period</b>		-	4,124,189	4,124,189
Dividends paid	7	-	(3,120,000)	(3,120,000)
<b>Balance at 30 June 2007</b>		23,960,750	5,133,327	29,094,077
<b>Parent Entity</b>				
Balance at 1 July 2005		23,960,750	1,740,335	25,701,085
Profit for the period		-	5,320,799	5,320,799
<b>Total recognised income and expense for the period</b>		-	5,320,799	5,320,799
Dividends paid	7	-	(2,880,000)	(2,880,000)
<b>Balance at 30 June 2006</b>		23,960,750	4,181,134	28,141,884
Profit for the period		-	4,124,189	4,124,189
<b>Total recognised income and expense for the period</b>		-	4,124,189	4,124,189
Dividends paid	7	-	(3,120,000)	(3,120,000)
<b>Balance at 30 June 2007</b>		23,960,750	5,185,323	29,146,073

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

## Cash Flow Statement

for the year ended 30 June 2007

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	Note	Consolidated Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		48,447,358	51,266,438	-	-
Payments to suppliers and employees		(42,133,564)	(47,430,922)	(66,349)	(60,492)
Interest received		138,682	142,554	6,178	-
Dividends & trust distributions received		113	265	5,952,684	7,121,319
Finance costs		(743)	(2,599)	-	-
Income taxes paid		(2,747,779)	(1,438,271)	(2,747,779)	(1,438,270)
Net cash provided by operating activities	24a	3,704,067	2,537,465	3,144,734	5,622,557
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment		-	7,454	-	-
Purchase of property, plant and equipment		(121,400)	(229,394)	-	-
Proceeds from subsidiary		-	-	5,964,991	4,377,468
Payments to subsidiary		-	-	(5,961,174)	(7,121,154)
Net cash (used in)/provided by investing activities		(121,400)	(221,940)	3,817	(2,743,686)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividends paid by parent entity		(3,120,000)	(2,880,000)	(3,120,000)	(2,880,000)
Net cash (used in) financing activities		(3,120,000)	(2,880,000)	(3,120,000)	(2,880,000)
Net increase in cash held		462,667	564,475	28,551	1,129
Cash at beginning of financial year		1,635,141	2,199,616	5,832	6,961
Cash at the end of financial year	9	2,097,808	1,635,141	34,383	5,832

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

## 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, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated 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 consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

### 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, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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%



**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 consolidated 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 consolidated 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 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 consolidated 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 consolidated 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).

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 1: Statement of Significant Accounting Policies (Continued)

### 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.

### o. Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

#### Key estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Goodwill is evaluated for impairment on a yearly basis. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of goodwill for the year ended 30 June 2007.

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

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 2: Revenue & Other Income

	Note	Consolidated Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Operating activities					
■ sale of goods		41,738,629	44,118,186	-	-
■ profit distribution – unit trust	2a	-	-	5,952,684	7,121,154
■ distribution charges		1,296,857	1,475,314	-	-
■ rental revenue		628,513	703,024	-	-
■ other revenue		66,035	52,801	-	-
■ interest & dividends received	2b	144,973	142,819	6,178	165
Total revenue		43,875,007	46,492,144	5,958,862	7,121,319
Non-operating activities					
■ gain on disposal of property, plant and equipment		-	563	-	-
Total other income		-	563	-	-
Total revenue & other income		43,875,007	46,492,707	5,958,862	7,121,319
a. Profit distribution from:					
■ wholly-owned unit trust		-	-	5,952,684	7,121,154
Total distribution received		-	-	5,952,684	7,121,154
b. Interest & dividend revenue from:					
■ other persons		144,973	142,819	6,178	165
Total interest revenue		144,973	142,819	6,178	165

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 3: Profit from Ordinary Activities

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Profit from ordinary activities before income tax has been determined after:				
a. Expenses				
Cost of sales	15,491,246	16,745,033	-	-
Finance costs:				
■ other related parties	-	-	-	-
■ other persons	744	2,599	-	-
Total finance costs	744	2,599	-	-
Depreciation of non-current assets:				
■ plant and equipment	126,762	124,496	-	-
■ motor vehicles	631	2,265	-	-
■ furniture, fittings and equipment	103,228	109,927	-	-
■ computer software	8,102	35,509	-	-
Total depreciation and amortisation	238,723	272,197	-	-
Bad and doubtful debts:				
■ trade debtors	53,851	80,846	-	-
Total bad and doubtful debts	53,851	80,846	-	-
Rental expense on operating leases				
■ minimum lease payments	29,248	49,554	-	-
■ rentals	814,290	736,798	-	-
■ rental office equipment	19,198	17,848	-	-
Total of rental expense on operating lease	862,736	804,200	-	-

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# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 4: Income Tax Expense

	Note	Consolidated Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
a. The components of tax expense comprise:					
■ Current tax		1,723,511	1,727,647	1,723,511	1,727,647
■ Deferred tax	16, 21	45,087	12,331	45,087	12,331
■ Over provision in respect of prior year		(5)	(3)	(5)	(3)
Income tax expense reported in the income statement		1,768,593	1,739,975	1,768,593	1,739,975
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% (2006: 30%)		1,767,835	1,740,232	1,767,835	2,118,232
Add:					
Tax effect of:					
■ Imputation & withholding tax gross-up		7	26	-	21
■ Trust distribution		-	-	765	-
■ Other non-allowable items		796	1,472	21	26
Less:					
Tax effect of:					
■ Imputation and withholding tax credits		23	85	23	85
■ Trust distribution		-	-	-	378,216
■ Other non-assessable income		17	1,667	-	-
■ Over provision for income tax in prior year		5	3	5	3
Income tax expense attributable to profit from ordinary activities before income tax		1,768,593	1,739,975	1,768,593	1,739,975

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# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 5: Key Management Personnel Compensation

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

Key Management Person	Position
Elaine Margaret Vincent	Director & Chief Executive Officer
John Henry Everett	Director - Executive
David Capp Hall	Chairman - Non-Executive
Geoffrey Guild Hill ( <i>appointed 14 December 2006</i> )	Director - Non-Executive
Ian Garnsey Everingham ( <i>resigned 14 December 2006</i> )	Director - Non-Executive
Tania Thomson	Chief Financial Officer & Company Secretary
Megan Everett ( <i>commenced role on 14 August 2006</i> )	General Manager - Operations
Colleen Walters ( <i>commenced role 3 July 2006</i> )	Sales & Business Development Manager
Nicole Riccioni	Marketing Manager
Ana Tokic	Designer
Alice Bernice Carter ( <i>resigned 4 August 2006</i> )	General Manager – Operations

b. Key Management Personnel Compensation

For the year ended 30 June 2007	Short-term Benefits			Post Employment	
	Salary, Fees & Commissions \$	Superannuation Contribution \$	Cash Bonus \$	Non-Cash Benefits \$	Superannuation \$
Elaine Margaret Vincent ^	151,636	85,768	644,437	15,000	-
John Henry Everett	121,667	2,700	-	-	-
David Capp Hall	-	100,000	-	-	-
Geoffrey Guild Hill	16,451	1,481	-	-	-
Ian Garnsey Everingham	13,629	1,227	-	-	-
Colleen Walters ^	109,194	5,397	11,639	974	-
Ana Tokic ^	85,550	9,913	6,587	20,000	-
Megan Everett	101,774	9,160	2,000	5,415	-
Tania Thomson	70,723	6,365	2,500	-	-
Nicole Riccioni	51,029	4,593	2,000	-	-
Alice Bernice Carter	35,756	1,828	-	2,192	-
	757,409	228,432	669,163	43,581	-

# Notes to the Financial Statements

for the year ended 30 June 2007

For the year ended 30 June 2007	Other Long-Term Benefit	Share Based Payment		Total	Performance Related
	Other \$	Equity \$	Options \$	\$	%
Elaine Margaret Vincent ^	-	-	-	896,841	72.2
John Henry Everett	-	-	-	124,367	-
David Capp Hall	-	-	-	100,000	-
Geoffrey Guild Hill	-	-	-	17,932	-
Ian Garnsey Everingham	-	-	-	14,856	-
Colleen Walters ^	-	-	-	127,204	8.1
Ana Tokic ^	-	-	-	122,050	5.7
Megan Everett	-	-	-	118,349	-
Tania Thomson	-	-	-	79,588	-
Nicole Riccioni	-	-	-	57,622	-
Alice Bernice Carter	-	-	-	39,776	-
	-	-	-	1,698,585	

The service and performance criteria set to determine remuneration are included per Notes 5(d) & 5(e).

^ Amounts include any unpaid bonuses, accrued at 30 June 2007.

For the year ended 30 June 2006	Short-term Benefits			Post Employment	
	Salary, Fees & Commissions \$	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

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 5: Key Management Personnel Compensation (Continued)

For the year ended 30 June 2006	Other Long-Term Benefit		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		

The service and performance criteria set to determine remuneration are included per Notes 5(d) & 5(e).

### c. Shareholdings

Number of Shares Held by Key Management Personnel:

	Balance 1.7.2006	Received as Remuneration	Net Change Other*	Balance 30.6.2007#
Elaine Margaret Vincent	502,000	-	100,000	602,000
John Henry Everett	16,000,000	-	2,168,377	18,168,377
David Capp Hall	100,000	-	-	100,000
Geoffrey Guild Hill	-	-	10,000	10,000
Ian Garnsey Everingham	8,000,000	-	-	8,000,000
Tania Thomson	7,500	-	-	7,500
Alice Bernice Carter	22,000	-	-	22,000
Megan Everett	1,000	-	-	1,000
Colleen Walters	-	-	-	-
Nicole Riccioni	12,000	-	-	12,000
Ana Tokic	10,000	-	-	10,000
Total	24,654,500	-	2,278,377	26,932,877

\* 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.

# Notes to the Financial Statements

for the year ended 30 June 2007

### d. Principles of Compensation

There are three key management personnel that receive performance bonuses which are based on achieved targets specified by management, as outlined below.

The performance bonus of the Chief Executive Officer is calculated as a percentage of the difference between the current year's EBIT and 'base year' EBIT. The performance bonus of our Designer, is calculated as a percentage of the difference between the current year's EBIT and prior year EBIT. These bonuses are calculated using actual management results.

The performance bonus of our Sales & Business Development Manager is calculated on the difference in actual gross margin dollars compared to budgeted gross margin dollars achieved during the year.

Bonus payments for other key management personnel are not based on any performance criteria.

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 within the Company.

### e. Remuneration Practices

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

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

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

### f. Share Based Remuneration

There has been no share based remuneration for the specified directors and executives during the year ended 30 June 2007.

## Note 6: Auditors' Remuneration

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Remuneration of the auditors of subsidiaries for:				
■ auditing or reviewing the financial report	61,500	69,200	61,500	69,200
■ other services	4,000	3,020	-	-
	65,500	72,220	61,500	69,200

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 7: Dividends

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Dividends paid				
2006 final fully franked ordinary dividend of 3.5 cents (2005: 3.0 cents) per share franked at the tax rate of 30%	1,680,000	1,440,000	1,680,000	1,440,000
Interim fully franked ordinary dividend of 3.0 cents (2006:3.0 cents) per share franked at the tax rate of 30%	1,440,000	1,440,000	1,440,000	1,440,000
	<u>3,120,000</u>	<u>2,880,000</u>	<u>3,120,000</u>	<u>2,880,000</u>
a. Proposed final fully franked ordinary dividend of 3.5 cents (2006: 3.5 cents) per share franked at the tax rate of 30% (2006: 30%)	1,680,000	1,680,000	1,680,000	1,680,000
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	2,218,953	1,832,590	2,218,953	1,832,590
Subsequent to year-end, the franking account would be reduced by the proposed dividend reflected per (a) as follows:	(720,000)	(720,000)	(720,000)	(720,000)
	<u>1,498,953</u>	<u>1,112,590</u>	<u>1,498,953</u>	<u>1,112,590</u>

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# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 8: Earnings Per Share

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
a. Reconciliation of earnings to net profit or loss				
Net profit	4,124,189	4,060,799	-	-
Earnings used in the calculation of basic and dilutive EPS	<u>4,124,189</u>	<u>4,060,799</u>	<u>-</u>	<u>-</u>
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 2007.

## Note 9: Cash Assets

Cash at bank	2,052,808	1,590,141	34,383	5,832
Short-term bank deposits	45,000	45,000	-	-
	<u>2,097,808</u>	<u>1,635,141</u>	<u>34,383</u>	<u>5,832</u>
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 balance sheet as follows:				
Cash and cash equivalents	2,097,808	1,635,141	34,383	5,832
	<u>2,097,808</u>	<u>1,635,141</u>	<u>34,383</u>	<u>5,832</u>

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# Notes to the Financial Statements

for the year ended 30 June 2007

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## Note 10: Receivables

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
CURRENT				
Other debtors	382,499	453,261	-	-
Amounts receivable from:				
■ wholly-owned unit trust	-	-	5,714,527	5,718,343
■ provision for doubtful debts	(35,145)	(89,309)	-	-
	<u>347,354</u>	<u>363,952</u>	<u>5,714,527</u>	<u>5,718,343</u>

## Note 11: Inventories

CURRENT – At cost				
Raw materials and stores	930,031	1,175,637	-	-
Work in progress	128,433	162,289	-	-
Finished goods	4,676,708	4,922,377	-	-
	<u>5,735,172</u>	<u>6,260,303</u>	-	-

## Note 12: Other Assets

CURRENT				
Prepayments	330,080	257,730	-	-
	<u>330,080</u>	<u>257,730</u>	-	-

# Notes to the Financial Statements

for the year ended 30 June 2007

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## Note 13: Other Financial Assets

	Note	Consolidated Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
NON-CURRENT					
Investments in subsidiaries:					
■ Units in unit trusts	13a	-	-	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 & Singapore

■ Investment at cost - - 24,000,000 24,000,000

Percentage ownership 100%  
(2006: 100%)

## Note 14: Controlled Entities

### a. Controlled Entities

Entity	Country of Incorporation	Percentage Owned	
		2007	2006
UnderCoverWear Unit Trust	Australia	100%	100%

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 15: Property, Plant and Equipment

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Plant and equipment				
At cost	993,223	937,175	-	-
Accumulated depreciation	(790,167)	(663,405)	-	-
	203,056	273,770	-	-
Motor Vehicles				
At cost	12,100	12,100	-	-
Accumulated depreciation	(9,926)	(9,295)	-	-
	2,174	2,805	-	-
Furniture, fittings and equipment				
At cost	920,673	886,043	-	-
Accumulated depreciation	(798,866)	(724,460)	-	-
	121,807	161,583	-	-
Computer software				
At cost	175,237	173,337	-	-
Accumulated depreciation	(171,542)	(163,440)	-	-
	3,695	9,897	-	-
Total Property, Plant and Equipment	330,732	448,055	-	-

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# Notes to the Financial Statements

for the year ended 30 June 2007

## 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:

Consolidated Entity	Plant and Equipment \$	Motor Vehicles \$	Furniture, fittings and equipment \$	Computer software \$	Total \$
Balance at the beginning of year	273,770	2,805	161,583	9,897	448,055
Additions	56,048	-	63,452	1,900	121,400
Disposals	-	-	-	-	-
Depreciation expense	(126,762)	(631)	(103,228)	(8,102)	(238,723)
Carrying amount at the end of year	203,056	2,174	121,807	3,695	330,732

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## Note 16: Deferred Tax Assets

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Deferred tax assets comprise:				
■ timing differences	357,376	411,104	36,635	90,363
	357,376	411,104	36,635	90,363

## Note 17: Intangible Assets

Goodwill at cost	24,817,499	24,817,499	-	-
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# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 18: Payables

	Note	Consolidated Entity		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
CURRENT					
Trade creditors		2,544,031	2,497,355	881	1,150
Sundry creditors and accrued expenses		661,227	541,596	-	-
Commissions payable		67,172	40,092	-	-
		<u>3,272,430</u>	<u>3,079,043</u>	<u>881</u>	<u>1,150</u>

## Note 19: Tax Liabilities

		2007 \$	2006 \$	2007 \$	2006 \$
CURRENT					
Income tax		604,291	1,628,563	604,291	1,628,563

## Note 20: Provisions

		2007 \$	2006 \$	2007 \$	2006 \$
CURRENT					
Promotions		414,033	463,783	-	-
Employee benefits	20a	490,667	774,354	-	-
		<u>904,700</u>	<u>1,238,137</u>	<u>-</u>	<u>-</u>
NON-CURRENT					
Employee benefits	20a	115,987	124,974	-	-
		<u>115,987</u>	<u>124,974</u>	<u>-</u>	<u>-</u>
a. Aggregate Employee Benefits Liability		606,654	899,328	-	-
b. Number of Employees at year end		89	98	-	-

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 21: Deferred Tax Liabilities

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Deferred tax liabilities comprise:				
■ timing differences	24,536	33,179	34,300	42,941
	<u>24,536</u>	<u>33,179</u>	<u>34,300</u>	<u>42,941</u>

## Note 22: Contributed Equity

	2007 \$	2006 \$	2007 \$	2006 \$
48,000,000 (2006: 48,000,000) fully paid ordinary shares	23,960,750	23,960,750	23,960,750	23,960,750
	<u>23,960,750</u>	<u>23,960,750</u>	<u>23,960,750</u>	<u>23,960,750</u>
a. Ordinary shares				
At the beginning of the reporting year	23,960,750	23,960,750	23,960,750	23,960,750
At reporting date	<u>23,960,750</u>	<u>23,960,750</u>	<u>23,960,750</u>	<u>23,960,750</u>

	Consolidated Entity		Parent Entity	
	2007 No.	2006 No.	2007 No.	2006 No.
At the beginning of reporting year	48,000,000	48,000,000	48,000,000	48,000,000
At reporting date	<u>48,000,000</u>	<u>48,000,000</u>	<u>48,000,000</u>	<u>48,000,000</u>

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 2007

## Note 23: Capital and Leasing Commitments

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>Operating Lease Commitments</b>				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable				
■ not later than 1 year	1,434,987	1,106,914	-	-
■ later than 1 year but not later than 5 years	571,924	206,315	-	-
	<u>2,006,911</u>	<u>1,313,229</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 2009, 2010 and 2012.

### Motor Vehicle

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

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 24: Cash Flow Information

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>a. Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax</b>				
Profit from ordinary activities after income tax	4,124,189	4,060,799	4,124,189	5,320,799
Non-cash flows in profit from ordinary activities				
Depreciation	238,723	272,197	-	-
Net gain on disposal of property, plant and equipment	-	(563)	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Decrease in receivables	16,598	(26,757)	-	-
(Increase) in other debtors	(72,351)	208,108	-	-
(Increase)/Decrease in inventories	525,131	(1,082,639)	-	-
Increase/(Decrease) in payables	193,387	(1,279,145)	(269)	54
(Decrease)/Increase in income taxes payable	(1,024,272)	289,373	(1,024,272)	289,373
Decrease in deferred taxes	45,087	12,331	45,086	12,331
(Decrease)/Increase in provisions	(342,425)	83,761	-	-
Cash flow from operations	<u>3,704,067</u>	<u>2,537,465</u>	<u>3,144,734</u>	<u>5,622,557</u>
<b>b. Credit Standby Arrangements with Banks</b>				
Credit facility	1,514,714	1,514,714	-	-
Amount utilised	(207,714)	(207,714)	-	-
Unused credit facility	<u>1,307,000</u>	<u>1,307,000</u>	-	-
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	45,000	-	-
	<u>1,514,714</u>	<u>1,514,714</u>	-	-

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 25: 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, John Everett & Ian Everingham held an interest during the year.

John Everett resigned as a director of the trustee of UnderCoverWear Property Trust on 27 December 2006.

Ian Everingham resigned as a director of UnderCoverWear Limited on 14 December 2006, however, continues to hold significant influence by way of indirect shareholdings held in trust and by other family members. At 30 June 2007, Mr Everingham was still a director of the trustee of UnderCoverWear Property Trust.

Rent has been calculated at normal commercial rates, using an independent valuer. Rent is currently payable a rate of \$817,000 per annum, with annual reviews on 1 July each year until 2012.

- b. During the period, Megan Everett was appointed as General Manager of Operations. Ms Everett is a related party of director John Everett. Ms Everett's remuneration package was negotiated and offered at normal commercial terms. For further details refer to Note 5.
- c. Key Management Personnel:

### Directors

The following persons were directors of UnderCoverWear Limited during the financial year:

Elaine Margaret Vincent	Director & Chief Executive Officer
John Henry Everett	Director – Executive
David Capp Hall	Chairman – Non-Executive
Geoffrey Guild Hill ( <i>appointed 14 December 2006</i> )	Director – Non-Executive
Ian Garnsey Everingham ( <i>resigned 14 December 2006</i> )	Director – Non-Executive

### Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the UnderCoverWear Group, directly or indirectly during the financial year:

Tania Thomson	Chief Financial Officer & Company Secretary
Megan Everett ( <i>commenced role on 14 August 2006</i> )	General Manager – Operations
Colleen Walters ( <i>commenced role 3 July 2006</i> )	Sales & Business Development Manager
Nicole Riccioni	Marketing Manager
Ana Tokic	Designer
Alice Bernice Carter ( <i>resigned 4 August 2006</i> )	General Manager – Operations

# Notes to the Financial Statements

for the year ended 30 June 2007

## Key management personnel compensation

	Consolidated Entity	
	2007 \$	2006 \$
Short-term employee benefits	1,698,585	1,691,412
Post employment benefits	-	5,000
	<u>1,698,585</u>	<u>1,696,412</u>

Detailed remuneration disclosures are included in Note 5 on page 44.

## Note 26: 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 the following geographic segments: Australia, New Zealand and Singapore.

Primary segment – geographical

Geographical location:	Segment revenues from External Customers		Total carrying amount of segment assets		Acquisitions of Non-current Segment Assets	
	2007	2006	2007	2006	2007	2006
Australia	42,000,281	44,330,482	33,806,754	34,071,443	121,400	229,364
Other countries	1,874,726	2,161,662	209,267	122,341	-	-
Total	<u>43,875,007</u>	<u>46,492,144</u>	<u>34,016,021</u>	<u>34,193,784</u>	<u>121,400</u>	<u>229,364</u>

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 27: Financial Instruments

### a. Financial Instruments

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

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

### b. Interest Rate Risk

The consolidated 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 \$	
			Within 1 Year \$		Non-interest Bearing			
	2007	2006	2007	2006	2007	2006	2007	2006
<b>Financial Assets:</b>								
Cash and cash equivalents	4.84%	5.06%	2,097,808	1,635,141	-	-	2,097,808	1,635,141
Trade & other receivables	n/a	n/a	-	-	347,354	363,952	347,354	363,952
<b>Total Financial Assets</b>			<b>2,097,808</b>	<b>1,635,141</b>	<b>347,354</b>	<b>363,952</b>	<b>2,445,162</b>	<b>1,999,093</b>
<b>Financial Liabilities:</b>								
Trade and other payables	n/a	n/a	-	-	3,272,430	3,079,043	3,272,430	3,079,043
<b>Total Financial Liabilities</b>					<b>3,272,430</b>	<b>3,079,043</b>	<b>3,272,430</b>	<b>3,079,043</b>

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

# Notes to the Financial Statements

for the year ended 30 June 2007

## Note 28: 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 29: Events Subsequent to Reporting Date

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2007.

## Note 30: 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 7 – Financial Instruments: Disclosures	1 January 2007	1 July 2007
AASB 8 – Operating Segments	1 January 2009	1 July 2009
AASB 101 – Presentation of Financial Statements (Amended)	1 January 2007	1 July 2007
AASB 123 – Borrowing Costs (Amended)	1 January 2009	1 July 2009
AASB 2007-4 – Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1028]	1 July 2007	1 July 2007

The directors of the company declare that:

1. the financial statements and notes, as set out on 32 to 61, 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 2007 and of the performance for the year ended on that date of the company and consolidated 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

23 August 2007

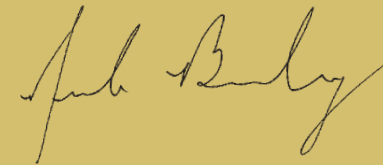
to the Directors of UnderCoverWear Limited  
& its controlled entity

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of UnderCoverWear Limited and its controlled entity ("the Group") for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON NSW  
Chartered Accountants



N J BRADLEY  
Partner

Sydney

23 August 2007

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# Independent Auditor's Report

to the members of UnderCoverWear Limited

ABN 85 108 962 152

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We have audited the accompanying financial report of UnderCoverWear Limited (the Company) and UnderCoverWear Limited and its controlled entity (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising both the Company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing and maintaining internal control relevant to the preparation and fair presentation of the 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. In Note 1 the Directors also state, in accordance with Accounting Standard AASB101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards, which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independence

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

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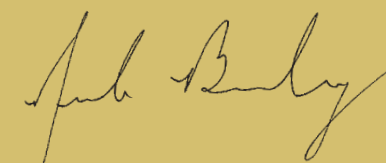
## Auditor's opinion

In our opinion:

- (a) The financial report of UnderCoverWear Limited is in accordance with the Corporations Act 2001, including:
  - i. Giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



GRANT THORNTON NSW  
Chartered Accountants



N J BRADLEY  
Partner

Sydney

23 August 2007

Grant Thornton NSW  
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## Additional Information for Listed Public Companies

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### a. Distribution of Shareholders

Category (size of holding)	Number of Ordinary Shares	Size of Holding
1 – 1,000	252	172,416
1,001 – 5,000	177	578,764
5,001 – 10,000	43	361,146
10,001 – 100,000	98	2,978,588
100,001 – and over	23	43,909,086
	593	48,000,000

b. The number of shareholdings held in less than marketable parcels is 112.

c. The names of the substantial shareholders listed in the holding company's register as at 31 July 2007 are:

Shareholder	Number of Ordinary Shares
Mr John Everett & Ms Sonya Everett <Everett Fam Settlement A/c>	9,132,822
Recone Pty Limited <Everingham Family A/c>	6,858,278
Cogent Nominees Pty Limited	5,812,520
JP Morgan Nominees Australia Limited	3,556,766

### 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.

## Additional Information for Listed Public Companies

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### e. 20 Largest Shareholders — Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. Mr John Everett & Ms Sonya Everett (Everett Fam Settlement A/c)	9,132,822	19.03
2. Recone Pty Limited (Everingham Family A/c)	6,858,278	14.29
3. Cogent Nominees Pty Limited	5,812,520	12.11
4. JP Morgan Nominees Australia Limited	3,556,766	7.41
5. Catherine Everett Investments Pty Ltd (Everett Fam Settlement A/c)	2,000,000	4.17
6. David Everett Investments Pty Ltd (Everett Fam Settlement A/c)	2,000,000	4.17
7. John H Everett Investments Pty Ltd (Everett Fam Settlement A/c)	2,000,000	4.17
8. Megan Everett Investments Pty Ltd (Everett Fam Settlement A/c)	2,000,000	4.17
9. HSBC Custody Nominees (Australia) Limited	1,709,133	3.56
10. Citicorp Nominees Pty Limited	1,699,619	3.54
11. Queensland Investment Corporation	1,490,104	3.10
12. Mr Ian Garnsey Everingham & Mr George Allan Fleming (Everingham Family Superannuation Fund A/c)	1,141,722	2.38
13. Union Pty Limited (Everett Staff Superannuation Fund A/c)	1,035,200	2.16
14. Alan Denis Vincent & Elaine Margaret Vincent (Vincent Family S/Fund A/c)	600,000	1.25
15. Mrs Jeanette Richardson	534,100	1.11
16. Bond Street Custodians Ltd	419,674	0.87
17. Grahger Capital Investment Pty Limited	400,000	0.83
18. ANZ Nominees Limited	379,822	0.79
19. UBS Nominees Pty Limited	365,254	0.76
20. National Nominees Limited	301,881	0.63
	43,436,895	90.49

## Notice of Annual General Meeting

The Annual General Meeting of UnderCoverWear Limited ABN 85 108 962 152 and its controlled entity will be held at the offices of Grant Thornton, Level 17, 383 Kent Street, Sydney NSW on 30 October 2007 at 11.30am.



## Company Details

### Directors

David Hall, *Chairman & Non-Executive Director*  
John Everett AM, *Executive Director*  
Elaine Vincent, *Chief Executive Officer*  
Geoffrey Hill, *Non-Executive Director*

### 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](mailto:web.queries@computershare.com.au)  
Website: [www.computershare.com](http://www.computershare.com)

### Stock Exchange

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





# UnderCoverWear

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Baulkham Hills NSW 2153 Australia

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