



2005 ANNUAL REPORT


UnderCoverWear



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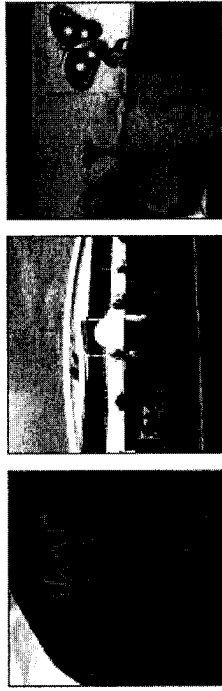
UNDERCOVER

QUALITY

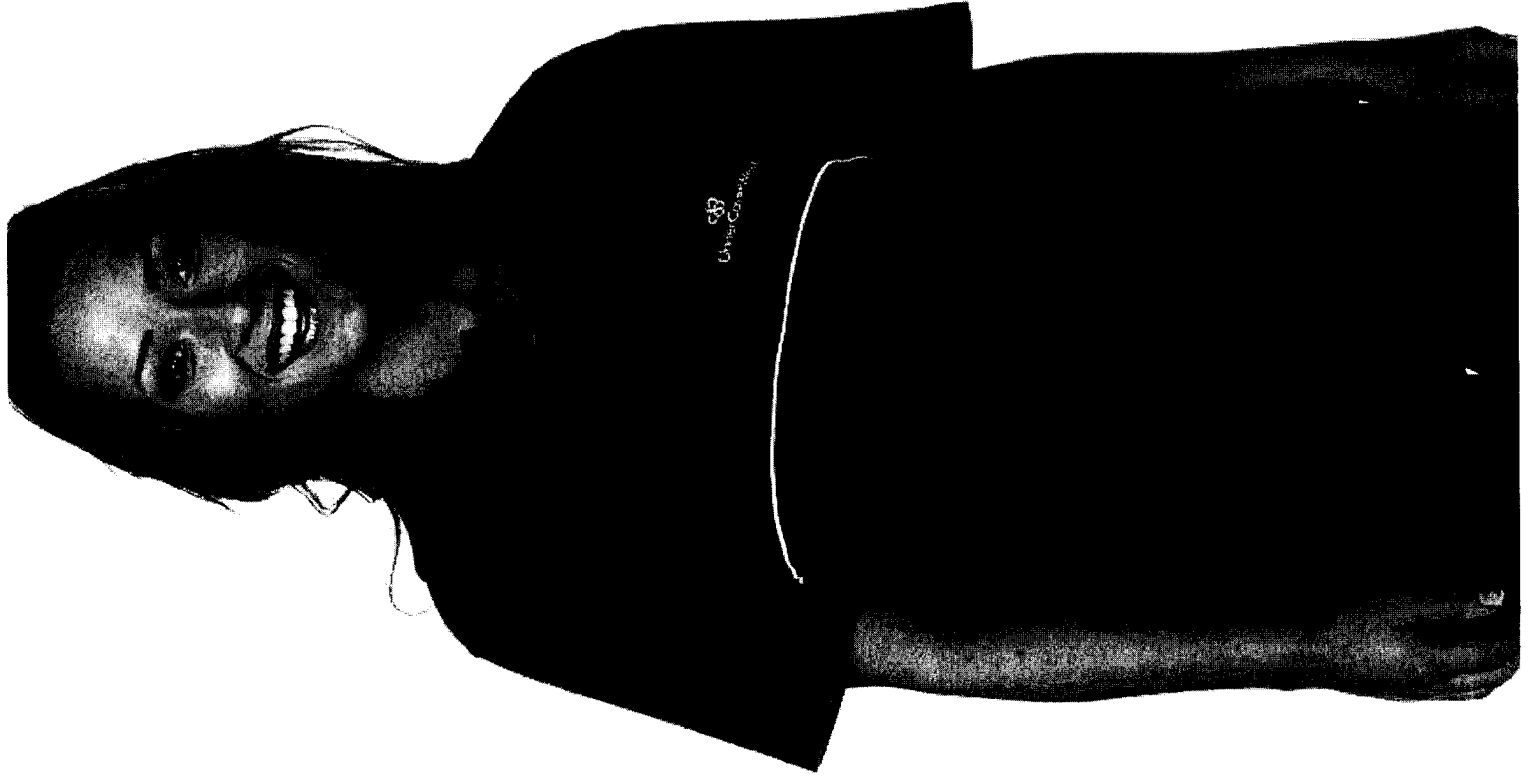


Quality inspires excellence
and defines perfection,
reaching beyond the
garments themselves:
extending beyond things
you can see and touch to
underpin every decision,
every process and above all
every relationship.

CONSISTENCY



Consistency builds trust
in both people and
systems to provide quality
you can depend on.
In business as in life, trust
is the heart and soul of
every relationship, creating
the confidence and
support that gives us all
the spirit of success.



CHAIRMAN'S REVIEW

It gives me great pleasure to present the results for the trading period 1 July 2004 to 30 June 2005.

As UnderCoverWear listed on the Australian Stock Exchange in June 2004 this is our first twelve month period as a Public Company. I am delighted to report that the results far exceeded our Prospectus forecasts.

- Sales revenue increased by 22%
- Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by 52%
- The final dividend payable is 3.0 cents per share, making a total of 5.0 cents per share. This was an increase on the dividend forecast of 54%.

These increases are a direct result of the policy initiated by the Board over 12 months ago when we identified IT software, marketing, training, promotions, incentives and recognition as key factors in ensuring that the Company is well structured and will continue to improve.

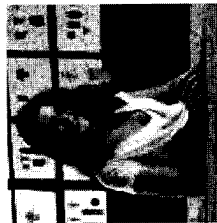
If the company is to achieve the targets we have set, the sales force in the field must continue to expand. To ensure this happens, we have put into place a very focused Learning and Development team which is dedicated to the training of our consultants in all aspects of business management in general, and sales techniques in particular.

We have also developed some very sophisticated software which helps our consultants to grow their business by tracking their own performance. With continuous feedback, they can quickly assess which strategies are most successful, and which need to be refined.

Whilst training has made the most significant contribution to the past twelve months' success, there was strong support in the shape of traditional marketing incentives. The positive results achieved through promotions, advertising and rewards leave us in no doubt that we shall achieve our goal for consultant numbers by June 2006.

Throughout the year we have also focused on quality and consistency.

With these vitally important factors as benchmarks for the overall operation of the company, we shall always strive to have the best in management, the best marketing personnel and programs, the best IT software and, very importantly, the best trained sales consultants.



Service of a consistently high quality is the key both to profitable long-term relationships and valuable word-of-mouth recommendations. And consistency also provides the ultimate

in support for the UnderCoverWear team of managers and consultants. They know that they can trust both the people they work with and the systems they use - and this is an exceptionally powerful business tool.

Both quality and consistency are also crucial to our customers. They need to know that, whatever they choose to purchase, they can depend on value for money and also that sizes and fit will be consistent across the range.

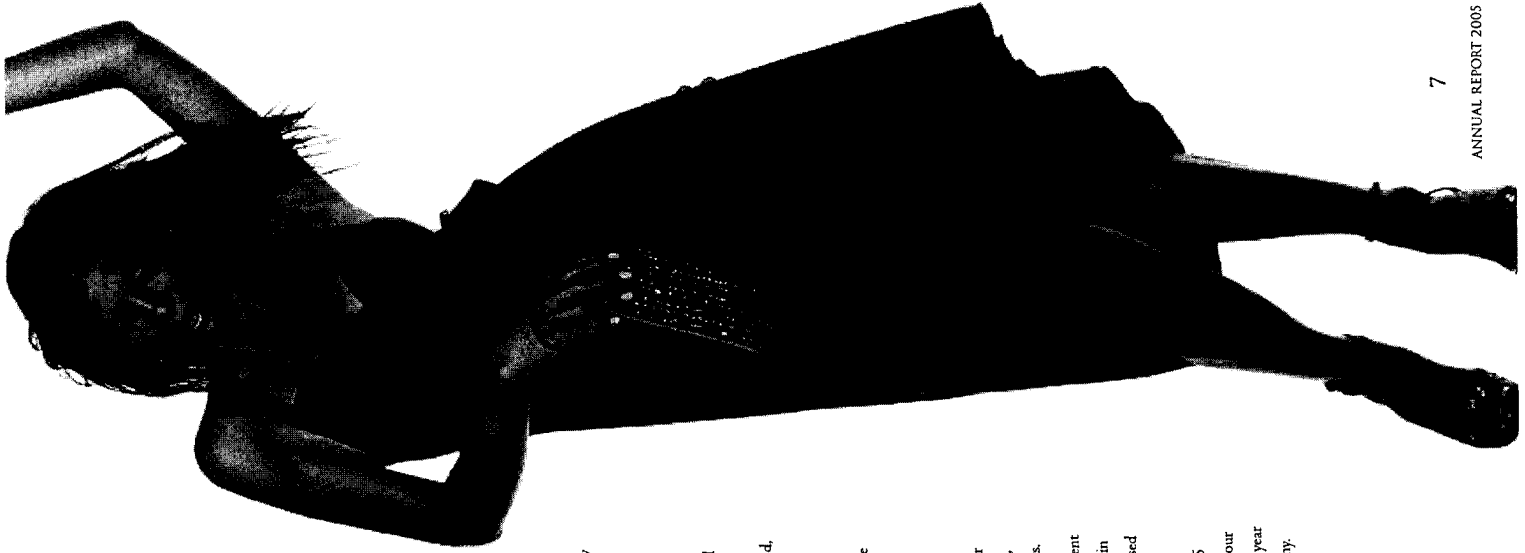
As fundamental aspects of our commitment to growth - quality and consistency are mentioned frequently throughout this report. We shall continue to place great emphasis on both of these virtues and, in doing so, will ensure that the company remains well placed for continuing improvement.

Meanwhile, the year 2005/2006 has started very strongly and we are confident that this strength will continue throughout the next 12 months. Accordingly, I am also confident that we can achieve double-digit growth in sales and profit. UnderCoverWear enjoys strong cash flow, has no debt and very low capital expenditure. Your Board will of course act prudently in declaring future dividends, but I believe that you, as a shareholder, will see considerable benefits.

Finally, I must acknowledge the wonderful efforts of Elaine Vincent and the management team, as well as our very focused sales force in the field. They have achieved a great deal and are very much focused on attaining success.

I did express confidence 12 months ago that the year 2004/2005 would be of significance, and there is no question that we exceeded our expectations by considerable margins. I now look forward for the year 2005/2006 reaching new heights for this dynamic young company.

John Everett AM
Chairman



CEO'S REPORT

I am proud to present the Chief Executive Officer's report for the year ended 30 June 2005. This was a fulfilling year for all involved in our company, being our first full year in the public corporate arena.

I would like to thank our Executive and Head Office Management Teams, 100 employees and 2,500 Sales Consultants and Managers. Their fantastic energy and support was instrumental in making this such a successful year, both in terms of financial results and continuing the pattern of growth established during the preceding three years.

Our May 2004 prospectus forecast for the year 2005 was to increase turnover to \$36m to give a Net Profit After Tax of \$994k. In fact we increased turnover to \$44m and Net Profit After Tax to \$2,427k. Respectively, these results were 22% and 144% above the forecasts. This resulted in earnings per share of 5.06 cents, or 7.65 cents per share before goodwill amortisation, results of which we can all be very proud.

KEY FACTORS OF SUCCESS

We maintained consistent growth in the number of new consultants joining and retained in the sales team. At the conclusion of this financial year, we had a total of 2,509 consultants and managers, 15% more than last year.

The promotion of four new Regional Executive Managers

from within existing regions formed four exciting new 'communities'. This is an important part of the sales model, and will ensure the relationship between sales consultants and their leaders remains close.

The number of parties held per consultant increased this year by 10%, which was a much higher productivity rate per consultant. To some extent, this is attributed to the introduction of an incentive rewards program for consultants and managers.

TV and billboard advertising and public relations marketing helped establish brand awareness in the market place and the introduction of a fourth catalogue targeting Christmas gift shopping improved December quarterly results.

OPERATIONAL PLANNING FOR GROWTH

The roll out of new computer programming has improved the on-line ordering and monitoring systems for sales consultants and managers. Up to 80% of orders are received and paid electronically, reducing the labour costs involved in processing orders this year by 19%.

Imports represent around 70% of our product range with gross margins marginally higher than forecast (by 1% of sales). This was supported by a relatively stable

exchange rate and the lowering of import duties on clothing and fabrics.

Variable selling costs were contained at 0.6% of sales less than forecast. This included the cost of both the new consultant incentive rewards program and adding to our fleet of company cars during the year.

STRATEGIC DECISIONS

A new monthly Corporate Manager Training program was put in place whereby the company sponsored a number of consultants to take part in a two-day specialised program designed to develop the skills required in sales management.

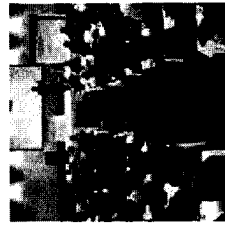
A new system of analysis and on-line communication of data using graphs has been introduced to help managers identify areas for improvement in the selling, booking and recruiting skills of their sales team.

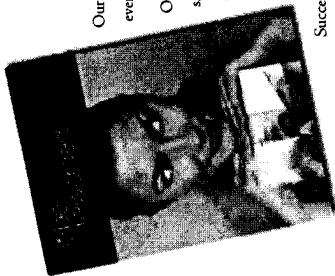
An increased emphasis on learning and development was designed to improve the skills of our Regional Executive Managers in managing their businesses, and our Head Office staff's computer and customer service skills.

The introduction of a new Local Marketing Kit this year will improve the consistency of the message given in the market place by our sales team.

FOCUS ON QUALITY AND CONSISTENCY

UnderCoverWear is proud to offer quality products at reasonable prices. We begin by creating all designs in house, applying the latest fashion trends in a wide range of styles and sizes with our customers clearly in mind. Fabrics and components are sourced and tested by our experienced staff. Garments are manufactured by our trusted local makers or proven offshore factories using our detailed specifications, and are subject to our strict quality control inspections.





Our commitment to quality reaches beyond our product into every aspect of our business.

Of vital importance is the quality of service provided by our sales team. We need to be sure that parties are fun, and that customers receive the information necessary to feel confident in choosing their garments. Continuous on-the-job training ensures our service operators can handle any follow-up queries.

Success depends on high quality training in the field and at head office, as well as consistency in the processes of conducting our business.

Our dedicated Learning and Development Manager travels around Australia and New Zealand implementing first class 'train the trainer' workshops to develop the training skills of our ISO-strong sales management team in the field. He also conducts seminars at head office in computer skills and customer service programs for staff. Every month we sponsor a group of sales consultants to attend a specially-tailored training program for the development of new managers. This runs over several days, and is conducted by Patti Handford, our Associate Director of Sales.

Extensive resources are committed to the continual improvement of our systems and processes. Orders and sales data is captured electronically from our sales teams with no processing required at head office, eliminating costly errors and greatly improving both the timeliness and quality of data collection.

Sales data is analysed and reported back to each sales manager in the field, which improves the quality of management of our sales teams.

Marketing material is provided free of charge to sales consultants to help to maintain consistency in branding and in 'what we say'.

UnderCoverWear seeks to provide a quality workplace by building harmony through mentoring, recognition for exceptional conduct and performance and encouraging learning and growth. Our inherent focus on quality in all areas of our business creates a climate for employee satisfaction and self-esteem in the knowledge of a job well done.



COMPANY ACTIVITIES

This year, 180 delegates attended our Managers' Conference in Alice Springs. This was preceded by a fun-packed 3 days of R&R at Uluru for 60 of our top sales managers. Our Consultant Conference is held in Sydney in September each year and, this year, the highlight will be announcing the winner of a Citroen C3 car and 100 other prizes to our award winning sales consultants.

To date, UnderCoverWear has donated over \$565,000 to the Cancer Councils and the Make-A-Wish Foundations of Australia and New Zealand. UnderCoverWear's entire Head Office staff took part in a fun-filled "Big Pyjama Party" in support of Make-A-Wish Foundations' 20th birthday celebration, earlier this year. Their teamwork and ingenuity raised many thousands of dollars for this deserving charity. By offering fundraising parties to our customers, UnderCoverWear supports local communities by giving others the opportunity to raise money for their own chosen charity, school, sporting club or registered organisation. Fundraising parties held this year helped to raise more than \$15,000 for these worthy causes.

A new promotional concept of awarding Reward Points to our sales consultants and managers for sales, activity and recruiting was launched in October 2004. It proved extremely successful with consultants choosing to redeem their points for a wide range of rewards including items to help them with their business, garments for their sample kits, travel and household items.

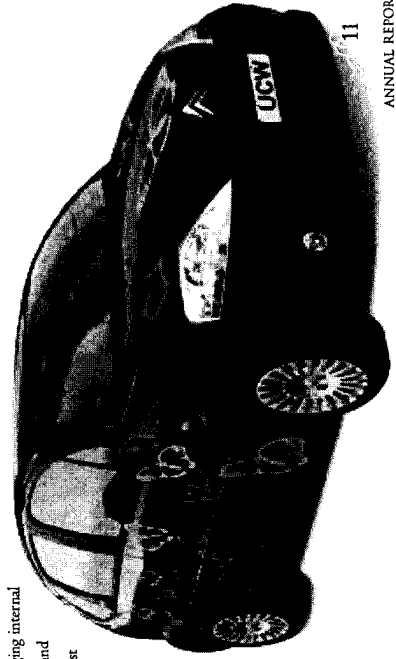
THE YEAR AHEAD

We plan to release a new advertising campaign early in the New Year, once again using TV and Billboards, which have proved so successful in previous years.

Our emphasis will remain on training programs designed to build vibrant, stronger sales teams. We shall also focus on encouraging internal growth by promoting-out new managers and Regional Executive Managers. This is a most effective way of increasing the numbers of people in our sales teams and, ultimately, the growth of the business.

I look forward to the coming year with much confidence and anticipate being able to report on another successful year.

Elaine Vincent



BOARD OF DIRECTORS



JOHN EVERETT AM B Eon A.A.S.A. Chairman

John Everett has been the Chairman of Directors 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. Prior to this, Mr Everett held the position of Chairman of Whites Wires Aut Pty Ltd, Carbollite Industries Pty Ltd and Nield Transport Pty Ltd. In 2002, Mr Everett was awarded a Member of the Order of Australia (AM) for his services to charity, particularly the Prince of Wales Medical Research Institute. Mr Everett is a Member of the Audit, Remuneration, Finance, Nominations & IFRS Committees. Mr Everett holds no other Directorships. Interest held: 16,000,000 Ordinary Shares.

ELAINE VINCENT B Comm, Executive Director and Chief Executive Officer

Elaine Vincent was appointed as a Director on 5 May 2004. Ms Vincent has held the position of Chief Executive Officer for the past 5 years after joining the company in 1995 as Financial Controller. With over 20 years experience in franchising and retailing in the clothing and textile industry, Ms Vincent has since focussed her attention on the direct selling industry. Prior to this, Ms Vincent operated her own public accounting practice following on from her 10 years chartered accounting experience. Ms Vincent is a Member of the Finance and IFRS Committees. Ms Vincent holds no other Directorships. Interest held: 502,000 Ordinary Shares.

IAN EVERINGHAM Non-Executive Director

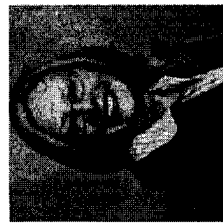
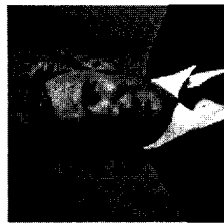
Mr Everingham has been a director of UnderCoverWear Limited since 5 May 2004. He brings more than 23 years of manufacturing industry experience to the company as previous owner and Managing Director of Epping Rubber Co. Pty Ltd - a manufacturer of moulded and extruded products. A consultant for the company since July 1990, he is currently also Director of several private companies in the finance and property industries. Mr Everingham is a Member of the Audit and Remuneration Committees. Interest held: 8,000,000 Ordinary Shares.

DAVID HALL FCA FHCID FTIA Non-Executive Director

David Hall was appointed as a director on 5 May 2004 and has extensive experience in corporate management, finance and the Direct Selling Industry. A Fellow of the Institute of Chartered Accountants, Mr Hall has also held the position of Group Managing Director of Nutri-Merics International and Executive Deputy Chairman of the Griffin Holdings Ltd Group. Mr Hall is currently Managing Director of Roche Group Pty Ltd. He also holds external directorships in Brickworks Investment Company Ltd (since October 2003), Pacific Strategic Investments Ltd (since July 1998) and Challenger Listed Investments Ltd responsible entity for Challenger Wine Trust and Challenger Infrastructure Fund (since July 2003). He has previously held an external directorship in Ausworth Game Technology Ltd (March 2001 to August 2003). Mr Hall is Chairman of the Audit, Remuneration and Nominations Committees, and the Finance and IFRS Committees. Interest held: 100,000 Ordinary Shares.

TANIA THOMSON B Comm CA, Company Secretary

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



Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2005.

DIRECTORS & COMPANY SECRETARY

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

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

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

Tania Thomson held the position of company secretary at the end of the financial year.

PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the financial year were: importation, manufacturing, distribution and export of underwear and garments. There were no significant changes in the nature of the economic entity's principal activities during the financial year.

OPERATING RESULTS

The consolidated profit of the economic entity after providing for income tax amounted to \$2,427,215.

DIVIDENDS PAID OR RECOMMENDED

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

- An interim ordinary dividend in respect of the year ended 30 June 2005 of 2.0 cents per share fully franked, paid on 12 April 2005.
- A final ordinary dividend in respect of the year ended 30 June 2005 of 3.0 cents per share fully franked, payable on 4 October 2005.

REVIEW OF OPERATIONS

The performance of the company in its first full year of trading has surpassed all expectations achieving a net profit from ordinary activities before tax of \$3,993,989 and a net profit after tax of \$2,427,215.

Sales revenue has increased by 22% on prospectus forecasts. This growth in sales was driven by the improvement in a number of key business drivers. In addition, investments in marketing and advertising campaigns have helped to raise product and brand awareness throughout Australia and New Zealand. This has contributed to the growth in new customers and increased sales from existing customers. The introduction of a fourth catalogue release during the year has also proven very successful.

Working consultant numbers have increased steadily and are in line with prospectus forecasts, with more than 2,500 consultants as at 30 June 2005. The introduction of Corporate Manager Training Programs has assisted in providing the necessary business skills required for promotion to senior positions within the sales team.

On a per consultant basis, the party activity rate has increased by 10% over the past 12 months. This has been complemented by a 10% increase in average value of party sales.

Cost of sales in 2005 has increased, but at a rate that is less than the rate of increase in sales. The company has been able to negotiate more competitive pricing amongst suppliers, as well as making the most of the appreciating Australian Dollar to improve the gross margin percentage.

The company's strong cash generation resulting from improved trading results has enabled repayment of loans to related parties totalling \$2,530,364 and payment of the interim dividend in April 2005 totalling \$960,000. There has been minimal capital expenditure during the year.

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 2005.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Management will continue to operate in accordance with current business strategies and recognises the importance of internal growth within the sales team. For the coming financial year the company anticipates a strong increase in revenue which will be achievable through sustained growth and consistent productivity.

ENVIRONMENTAL ISSUES

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

REMUNERATION REPORT

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

NON-EXECUTIVE DIRECTORS

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment

and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity.

EXECUTIVE DIRECTORS & SENIOR EXECUTIVES

Remuneration packages for executive directors and senior executives include a mix of fixed remuneration (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives. The remuneration committee reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

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

Details of remuneration for year ended 30 June 2005 for directors and the executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	SALARY FEES & COMMISSIONS	SUPERANNUATION CONTRIBUTION	CASH BONUS	NON-CASH BENEFITS	TOTAL
	\$	\$	\$	\$	\$
John Henry Everett	130,000	2,700	-	-	132,700
Elaine Margaret Vincent	132,081	95,980	80,000	12,277	320,338
Ian Garnsey Everingham	30,000	2,700	-	-	32,700
David Capp Hall	32,500	2,700	-	-	35,200
Total for Directors	324,581	104,080	80,000	12,277	520,938
Patricia Handford	273,182	35,822	2,500	-	311,504
Ana Tokic	80,000	28,280	12,000	-	120,280
Alice Bernice Carter	84,999	7,650	2,000	19,232	113,881
Tania Thomson	81,553	7,340	1,000	9,616	99,509
Nicole Spike	66,757	6,008	2,000	12,000	86,765
Total for Executives	586,491	85,100	19,500	40,848	731,939

MEETINGS OF DIRECTORS

During the financial year, 9 meetings (including committees of directors) were held. Attendances were as follows:

DIRECTORS	NUMBER OF MEETINGS				REMUNERATION COMMITTEE	
	DIRECTORS' MEETING	AUDIT COMMITTEE	ELIGIBLE	ATTENDED	ELIGIBLE	ATTENDED
John H Everett	6	6	2	2	1	1
David C Hall	6	6	2	2	1	1
Ian G Everingham	6	6	2	2	1	-
Elaine M Vincent	6	6	-	-	-	-

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. Total amount of the premium was \$24,595.

John Everett Ian Everingham Elaine Vincent
David Hall Tania Thomson (Secretary)

OPTIONS

There were no options over issued shares and no options granted or outstanding during the financial year ended 30 June 2005 or at the date of this report.

PROCEEDINGS ON BEHALF OF COMPANY

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

NON-AUDIT SERVICES

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act

2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

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

Fees to the amount of \$2,762 were paid/payable to the external auditors during the year ended 30 June 2005 for Business & Taxation services.

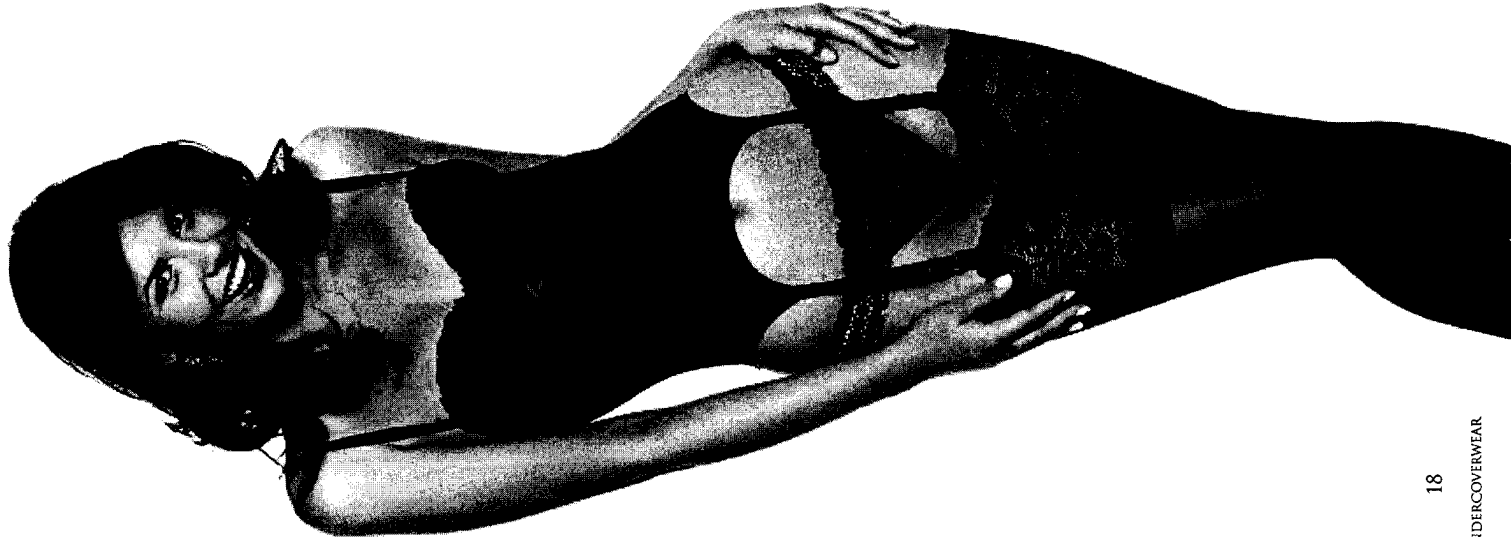
AUDITOR'S INDEPENDENCE DECLARATION

As required under Section 307C of the Corporations Act, the auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 51, which forms part of the report.

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

John Everett

John Everett, Director
8 September 2005.



CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

This statement discloses the key elements of the Company's governance framework during the reporting period and to the date of this report.

In this statement, the Company's relevant governance practices are cross referenced to the ASX Corporate Governance Council's Best Practice Recommendations. The Company's governance practices substantially comply with the Best Practice Recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

During the financial year, the Board comprised two non-executive directors and two executive directors (including the Chairman and CEO). The names, skills and experience of the directors in office at the date of this Statement, and the period of office of each director, are set out in the Directors' Report.

Independence of Directors

The Board considers that only one director (out of the total of four) is independent of management influence. The Board distinguishes between the concept of independence and the issues of conflict of interest or material personal interests which may arise from time to time. Where ever there is an actual or potential conflict of interest or material personal interest, the Board's policies and procedures ensure that:

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

Independent Professional Advice

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

The current chairman of the Company is an executive director and has extensive experience serving as chairman for boards of several private companies. The role of chairman and chief executive are exercised by separate individuals.

Nomination Committee

A Nomination Committee has been established by the Board of Directors and currently consists of the chairman of the board and one independent director. Due to the small size of the Board,

the composition of the Nomination Committee does not permit the majority of members to be independent as recommended by the principle.

The committee is responsible for reviewing Board membership. This includes an assessment of the necessary and desirable competencies of Board members, Board succession plans and an evaluation of the Board's performance and consideration of appointments and approvals.

When a Board vacancy occurs, the Nomination Committee will identify the particular skills, experience and expertise that will best complement Board effectiveness and then undertakes a process to identify candidates who can meet those criteria.

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

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

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



Trading in company securities by directors, officers and employees

The Board has established written guidelines, set out in its Share Trading Policy, that restrict dealings by directors and relevant employees in the Company's shares. The Share Trading Policy complies with the guidelines. It identifies certain periods when, in the absence of knowledge of unpublished price-sensitive information, directors and relevant employees may not 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

Management Accountability

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

Audit Committee

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

The names and qualifications of members of the Committee are set out in the Directors' Report. Meetings of the Committee are attended by invitation, by the Chief Financial Officer and the engagement partner from the Company's external auditor and such other senior staff or professional people as may be appropriate from time to time. The number of meetings of the Committee held during the year are set out in the Directors' Report. The Committee operates under formal terms of reference (Charter) approved by the Board which are reviewed annually.

The functions and responsibilities of the Committee under its Charter comply with the recommendation in the guidelines. Minutes of all Committee meetings are provided to the Board, and the Chairman of the Committee also reports to the Board after each Committee meeting. The Audit Committee's Charter is available on the Company's website.

Auditor Independence

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Communications Strategy

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

Information is communicated to shareholders through:

- the annual report which is distributed to all shareholders
- the half-year shareholders' report which is published in the company's website, containing summarised financial information and a review of the operations during the period since the annual report;
- the Annual General Meeting and other shareholder meetings called to obtain approval for Board action as appropriate and required; and
- other correspondence regarding matters impacting on shareholders as required.

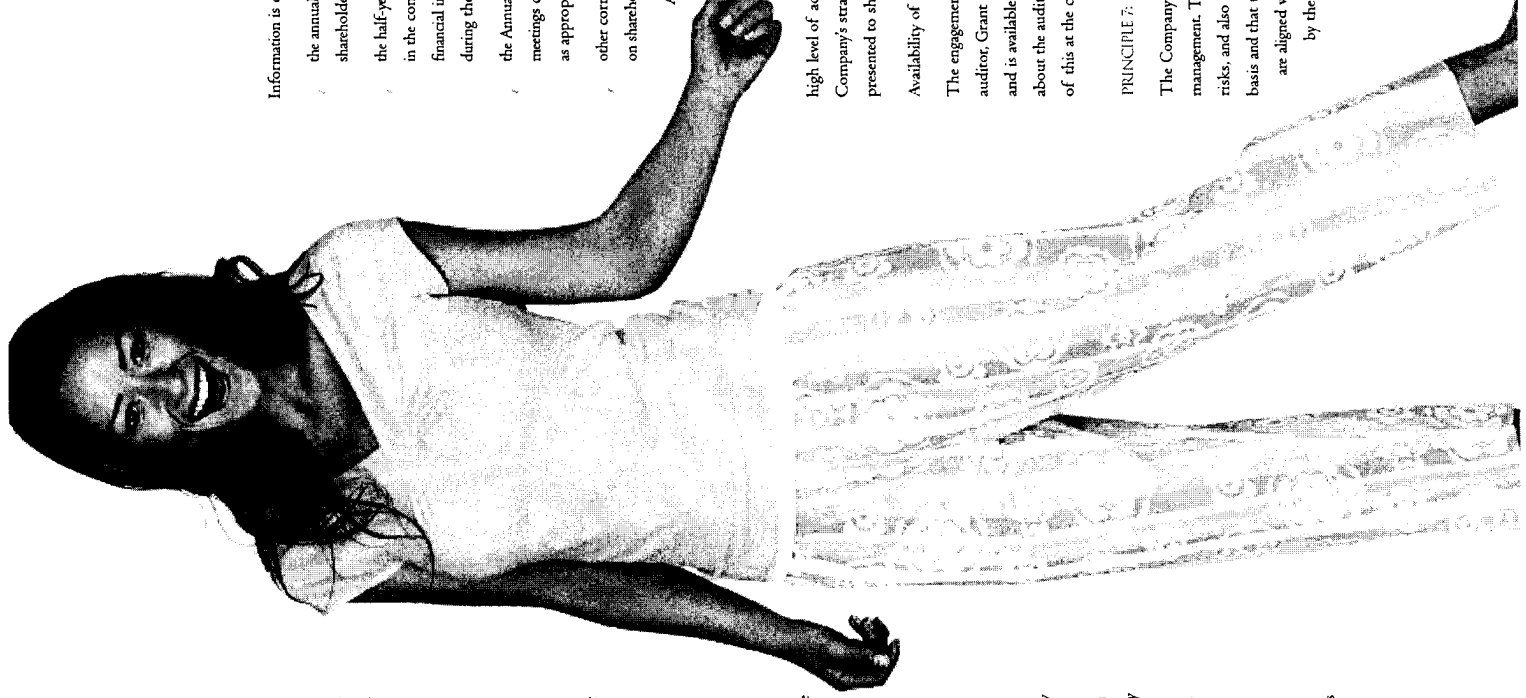
All documents that are released publicly are made available on the Company's website. Shareholders are also encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals. Important issues are presented to shareholders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

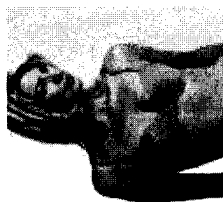
Availability of Auditor at AGM

The engagement partner of the Company's external auditor, Grant Thornton, attends the Company's AGM and is available to answer questions from shareholders about the audit. The Chairman advises the shareholders of this at the commencement of each AGM.

PRINCIPLE 7: RECOGNISE & MANAGE RISK

The Company has a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. The Company believes that it is





important for all Board members to be part of this process and, as such, the Board has not established a separate risk management committee.

The board is in the process of formalising policies on risk oversight and management. Executive directors are closely involved in the day-to-day management of the Company's operations and, given the current size of the company, are in a position to continually monitor risk with the assistance of the executive team.

PRINCIPLE 8: ENCOURAGE ENHANCED BOARD AND MANAGEMENT PERFORMANCE

The Board will undertake an annual review of its performance in line with recommendations of the guidelines prior to the Annual General Meeting. The Chairman must annually assess the performance of each director. The Chairman's performance is reviewed by the Board.

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

PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY

The Remuneration Committee of the Board of Directors is responsible for recommending and reviewing remuneration arrangements for the directors, the Chief Executive Officer and the senior executive team.

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

Remuneration Committee

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

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

Structure of Remuneration

The structure of non-executive directors' remuneration and that of executives is set out in the relevant section of the Directors' Report. Details of the nature and amount of each element of the remuneration of each director of the Company and each of the five executive officers of the Company and the consolidated entity receiving the highest remuneration for the financial year are disclosed in the relevant section of the Directors' Report.

PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

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

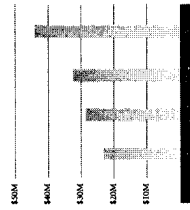
As indicated under Principle 3, the Employee's Code of Conduct and Director's Code of Conduct, which draws together all of the Company's policies and codes have been established and a summary of their main provisions are available on the Company's website.

OTHER INFORMATION

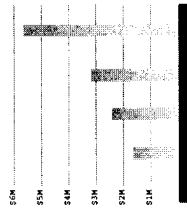
Further information relating to the company's corporate governance practices and policies has been made publicly available on the Company's website at www.uclw.com.au

HIGHLIGHTS

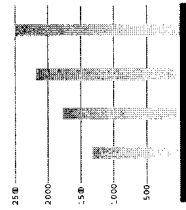
REVENUE



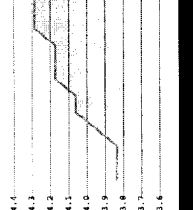
EBITDA



Consultant Number



2004-2005 No retail Productive Y



Historically, UnderCoverWear has recorded significant increases in revenue and EBIT through organic growth. The performance of the company in its first full year of trading is no exception. Sales revenue totalled \$44,100,923 for the year, which, over the four years to 30 June 2005 represents a compound annual growth rate of 24.2%.

This growth in sales has been driven by the improvement in a number of key business drivers. During the past 12 months, effective marketing and advertising campaigns have helped to raise product and brand awareness throughout Australia and New Zealand. This has contributed to the growth in new customers and increased sales from existing customers. Consultant numbers have increased steadily and are in line with prospectus forecasts with more than 2,500 consultants.

On a per consultant basis, the productivity rate has increased by 10% over the past 12 months. This has been complemented by a 10% improvement in average value of party sales over the same period.

UnderCoverWear has achieved a net profit from ordinary activities before tax for the year of \$3,993,989 and a net profit after tax of \$2,427,215. The EBITDA result was \$5,717,990 for the twelve months, which represents a compound annual growth rate of 55.0% over the four years to 30 June 2005.

The total dividend payable in respect of the year ended 30 June 2005 represents a 10% return to shareholders based on initial offer price.

	2005 ACTUAL
Sales revenue	44,100,923
EBITDA	5,717,990
EBIT	4,101,910
Profit before tax	3,993,989
NPAT	2,427,215
NPAT - before goodwill amortisation	3,670,690
Earnings per share (cents)	5.06
Earnings per share (cents) - before goodwill amortisation	7.65
Total dividend (cents)	5.0
Dividend yield (on initial offer price)	10%



FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

UnderCoverWear

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	NOTE	ECONOMIC ENTITY 2005 \$	ECONOMIC ENTITY 2004(i) \$	PARENT ENTITY 2005 \$	PARENT ENTITY 2004 \$
Revenues from ordinary activities	2	44,100,923	2,243,664	4,031,645	421,759
Changes in inventories of finished goods and work in progress		(8,284,218)	(501,106)	-	-
Raw materials and consumables used		(7,305,329)	(253,444)	-	-
Distribution costs		(1,812,896)	(70,637)	-	-
Commissions paid		(9,546,777)	(499,965)	-	-
Promotions and advertising		(2,449,161)	(142,195)	-	-
Depreciation and amortisation expense	3	(1,616,080)	(73,915)	-	-
Insurance expense		(177,493)	(6,465)	-	-
Employee benefits expense		(5,753,072)	(193,743)	-	-
Rental expenses		(759,782)	(30,186)	-	-
Borrowing costs expense	3	(107,920)	(11,911)	-	-
Other expenses from ordinary activities		(2,294,206)	(98,315)	(54,181)	(7,981)
Profit from ordinary activities before income tax expense	3	3,993,989	361,782	3,977,464	413,778
Income tax expense relating to ordinary activities	4	(1,566,774)	(124,133)	(1,566,774)	(124,133)
Net profit attributable to members of the parent entity		2,427,215	237,649	2,410,690	289,645
Total changes in equity other than transactions with owners as owners		2,427,215	237,649	2,410,690	289,645
Basic earnings per share (cents per share)	8	5.06	0.50	-	-
Diluted earnings per share (cents per share)	8	5.06	0.50	-	-

	NOTE	ECONOMIC ENTITY 2005 \$	ECONOMIC ENTITY 2004 \$	PARENT ENTITY 2005 \$	PARENT ENTITY 2004 \$
CURRENT ASSETS					
Cash assets	9	2,199,616	1,150,367	6,961	-
Receivables	10	337,195	352,244	2,974,658	421,759
Inventories	11	5,177,664	4,251,622	-	-
Other	12	465,837	415,574	-	-
TOTAL CURRENT ASSETS		8,180,312	6,169,807	2,981,619	421,759
NON-CURRENT ASSETS					
Other financial assets	13	-	-	24,000,000	24,000,000
Property, plant and equipment	15	497,749	600,503	-	-
Deferred tax assets	16	390,258	242,249	59,753	154
Intangible assets	17	23,574,024	24,905,910	-	-
TOTAL NON-CURRENT ASSETS		24,462,031	25,748,662	24,059,753	24,000,154
TOTAL ASSETS		32,642,343	31,918,469	27,041,372	24,421,913
CURRENT LIABILITIES					
Payables	18	4,358,188	4,041,182	1,097	47,231
Current tax liabilities	19	1,339,190	124,287	1,339,190	124,287
Provisions	20	1,155,672	857,098	-	-
TOTAL CURRENT LIABILITIES		6,853,050	5,022,567	1,340,287	171,518
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	21	-	2,550,634	-	-
Provisions	20	123,679	146,869	-	-
TOTAL NON-CURRENT LIABILITIES		123,679	2,697,503	-	-
TOTAL LIABILITIES		6,976,729	7,720,070	1,340,287	171,518
NET ASSETS		25,665,614	24,198,399	25,701,085	24,250,395
EQUITY					
Contributed equity	22	23,960,750	23,960,750	23,960,750	23,960,750
Retained profits	23	1,704,864	237,649	1,740,335	289,645
TOTAL EQUITY		25,665,614	24,198,399	25,701,085	24,250,395

(i) The parent entity was incorporated on 5 May 2004 and hence the comparatives represent the results from the date of incorporation to 30 June 2004. However, the company was essentially dormant until it acquired 100% holding in the UnderCoverWear Unit Trust on 15 June 2004. The results presented for 2004 therefore represent 15 days of trading.

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

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 Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of UnderCoverWear Limited and controlled entities, and UnderCoverWear Limited as an individual parent entity. UnderCoverWear Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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

a. Principles of Consolidation

A controlled entity is any entity controlled by UnderCoverWear Limited. Control exists where UnderCoverWear Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with UnderCoverWear Limited to achieve the objectives of UnderCoverWear Limited. A list of controlled entities is contained in Note 14 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

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

b. Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on profit from ordinary activities adjusted for permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

c. Inventories

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

NOTE	ECONOMIC ENTITY 2005 \$	2004(i) \$	PARENT ENTITY 2005 \$	2004(i) \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	48,773,071	3,539,119	-	-
Payments to suppliers and employees	(43,496,840)	(2,790,561)	(100,315)	-
Interest received	71,996	336	-	-
Dividends & trust distributions received	412	-	4,031,645	-
Borrowing costs	(107,920)	(11,911)	-	-
Income taxes paid	(411,470)	-	(411,470)	-
Net cash provided by operating activities	4,829,249	736,983	3,519,860	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment	11,918	943	-	-
Purchase of property, plant and equipment	(281,284)	(26,620)	-	-
Payment for subsidiary, net of cash acquired	-	(23,521,689)	-	(24,000,000)
Proceeds from subsidiary	-	-	1,513,780	-
Payments to subsidiary	-	-	(4,066,679)	-
Net cash used in investing activities	(269,366)	(23,547,366)	(2,552,899)	(24,000,000)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	-	23,960,750	-	23,960,750
(Payments)/proceeds from related party	(2,550,634)	-	-	39,250
Dividends paid	(960,000)	-	(960,000)	-
Net cash (used in)/provided by financing activities	(3,510,634)	23,960,750	(960,000)	24,000,000
Net increase in cash held	1,049,249	1,150,367	6,961	-
Cash at the beginning of the period	1,150,367	-	-	-
Cash at the end of the period	9	2,199,616	1,150,367	6,961

(i) The parent entity was incorporated on 5 May 2004 and hence the comparative represents the results from the date of incorporation to 30 June 2004. However, the company was essentially dormant until it acquired 100% holding in the UnderCoverWear Unit Trust on 15 June 2004. The results presented for 2004 therefore represent 15 days of trading.

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

d. Property, Plant and Equipment

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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

Depreciation

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

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%

e. Leases

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

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

f. Investments

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

g. 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. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

h. 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.

i. Employee Benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other 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 when incurred.

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

j. Cash

For the purpose of the statement of cash flows, cash 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.

k. 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).

l. 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.

m. Comparative Figures

The parent entity was incorporated on 5 May 2004 and hence the comparatives represent the results from the date of incorporation to 30 June 2004. However, the company was essentially dormant until it acquired 100% holding in the UnderCoverWear Unit Trust on 15 June 2004. The results presented for 2004 therefore represent 15 days of trading.

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

n. Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The economic entity is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (A-IFRS) effective for the financial years commencing from 1 January 2005. The adoption of A-IFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of A-IFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the A-IFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management has assessed the significance of the expected changes and is preparing for their implementation. An A-IFRS committee is overseeing and managing the economic entity's transition to A-IFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to A-IFRS and the financial effect of those differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current A-IFRS or interpretation of the A-IFRS requirements changes from the continuing work of the economic entity's A-IFRS committee.

Goodwill on Consolidation

Under AASB 3: Business Combinations, goodwill is capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is prohibited. Current accounting policy of the entity is to amortise goodwill on a straight-line basis over a period of 20 years.

Impairment testing as at 1 July 2005 confirmed no impairment of the \$24,905,910 in goodwill. Current year amortisation of \$1,243,475 will therefore be reversed resulting in an increase in profit amounting to \$1,243,475 for the year ended 30 June 2005.

On transition to A-IFRS the estimated cumulative financial effect of the reliably known differences on the parent and economic entity's reported net profit and equity as at 30 June 2005 is summarised below. As noted above, these amounts represent management's best estimates, and could differ from actuals.

	ECONOMIC ENTITY 2005 \$	PARENT ENTITY 2005 \$
Reconciliation of Net Profit		
Net profit reported under Australian Accounting Standards	2,427,215	2,410,690
Key transitional adjustments:		
– Reversal of amortisation of goodwill	1,243,475	–
Total transitional adjustments	1,243,475	–
Net profit under A-IFRS	3,670,690	2,410,690
Reconciliation of Equity		
Total equity reported under Australian Accounting Standards	25,665,614	25,701,085
Increase in current year profit resulting from transition to A-IFRS	1,243,475	–
Total equity under A-IFRS	26,909,089	25,701,085

NOTE 2 REVENUE

	NOTE	ECONOMIC ENTITY 2005 \$	2004 \$	PARENT ENTITY 2005 \$	2004 \$
Operating activities					
– sale of goods		41,953,897	2,129,020	–	–
– profit distribution – unit trust	2a	–	–	4,031,535	421,759
– distribution charges		1,426,308	74,717	–	–
– rental revenue		589,315	23,788	–	–
– other revenue		47,077	14,859	–	–
– interest and dividends received	2b	72,408	337	110	–
		44,089,005	2,242,721	4,031,645	421,759
Non-operating activities					
– proceeds on disposal of property, plant and equipment		11,918	943	–	–
Total Revenue		44,100,923	2,243,664	4,031,645	421,759
a. Profit distribution from:					
– wholly-owned unit trust		–	–	4,031,535	421,759
Total distribution received		–	–	4,031,535	421,759
b. Interest and dividend revenue from:					
– other persons		72,408	337	110	–
Total interest and dividend revenue		72,408	337	110	–

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 3 Profit from ordinary activities

	ECONOMIC ENTITY 2005 \$	ECONOMIC ENTITY 2004 \$	PARENT ENTITY 2005 \$	PARENT ENTITY 2004 \$
Profit from ordinary activities before income tax has been determined after:				
a. Expenses				
Cost of sales	15,589,547	807,519	-	-
Borrowing costs:				
- other related parties	100,997	4,602	-	-
- other persons	6,923	7,309	-	-
Total borrowing costs	107,920	11,911	-	-
Depreciation of non-current assets:				
- plant and equipment	118,791	4,127	-	-
- motor vehicles	4,040	184	-	-
- furniture, fittings and equipment	134,404	5,047	-	-
- computer software	115,370	12,561	-	-
Total depreciation	372,605	21,919	-	-
Amortisation of non-current assets:				
- goodwill on consolidation	1,243,475	51,996	-	-
Total amortisation	1,243,475	51,996	-	-
Total depreciation and amortisation	1,616,080	73,915	-	-
Bad and doubtful debts:				
- trade debtors	132,239	1,077	-	-
Total bad and doubtful debts	132,239	1,077	-	-
Rental expense on operating leases				
- minimum lease payments	43,087	15,922	-	-
- rentals	759,782	30,186	-	-
- rental office equipment	15,493	646	-	-
b. Revenue and Net Gains				
Net gain on disposal of non-current assets:				
- property, plant and equipment	485	429	-	-

NOTE 4 Income tax expense

	ECONOMIC ENTITY 2005 \$	ECONOMIC ENTITY 2004 \$	PARENT ENTITY 2005 \$	PARENT ENTITY 2004 \$
a. 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% (2004: 30%)	1,198,197	108,535	1,193,239	124,133
Add:				
Tax effect of:				
- non-deductible depreciation and amortisation on consolidation	373,042	15,598	-	-
- Imputation & withholding tax gross-up	2,262	-	14	-
- Trust distribution	-	-	381,060	-
- other non-allowable items	892	-	-	-
Less:				
Tax effect of:				
- Imputation and withholding tax credits	7,539	-	7,539	-
- other non-assessable income	80	-	-	-
Income tax expense attributable to profit from ordinary activities before income tax	1,566,774	124,133	1,566,774	124,133

NOTE 5 DIRECTORS' AND EXECUTIVES' REMUNERATION

a. Names and positions held of parent entity directors and specified executives in office at any time during the financial year are:

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

b. Parent Entity Directors' Remuneration
For the year ended 30 June 2005

	Primary			Post Employment			Other	Total
	Salary & Fees Commissions	Superannuation Contribution	Cash Bonus	Non-Cash Benefits	Superannuation	Options		
	\$	\$	\$	\$	\$	\$	\$	\$
John Henry Everett	130,000	2,700	–	–	–	–	–	132,700
Elaine Margaret Vincent	132,081	95,980	80,000	12,277	–	–	–	320,338
Ian Garnsey Everingham	30,000	2,700	–	–	–	–	–	32,700
David Capp Hall	32,500	2,700	–	–	–	–	–	35,425
	324,581	104,080	80,000	12,277	–	–	–	520,938

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

For the year ended 30 June 2004

	Primary			Post Employment			Other	Total
	Salary & Fees Commissions	Superannuation Contribution	Cash Bonus	Non-Cash Benefits	Superannuation	Options		
	\$	\$	\$	\$	\$	\$	\$	\$
John Henry Everett	5,416	112	–	–	–	–	–	5,528
Elaine Margaret Vincent	9,060	556	4,670	–	–	–	–	14,286
Ian Garnsey Everingham	1,250	112	–	–	–	–	–	1,362
David Capp Hall	1,250	112	–	–	–	–	–	1,362
	16,976	892	4,670	–	–	–	–	22,538

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

c. Specified Executives' Remuneration
For the year ended 30 June 2005

	Primary			Post Employment			Other	Total
	Salary & Fees	Superannuation Contribution	Cash Bonus	Non-Cash Benefits	Superannuation	Options		
	\$	\$	\$	\$	\$	\$	\$	\$
Patricia Handford	273,182	35,822	2,500	–	–	–	–	311,504
Ana Tokic	80,000	28,280	12,000	–	–	–	–	120,280
Alice Bernice Carter	84,999	7,650	2,000	19,232	–	–	–	113,881
Tania Thomson	81,553	7,340	1,000	9,616	–	–	–	99,509
Nicole Spike	66,757	6,008	2,000	12,000	–	–	–	86,765
	586,491	85,100	19,500	40,848	–	–	–	731,939

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

For the year ended 30 June 2004

	Primary			Post Employment			Other	Total
	Salary & Fees	Superannuation Contribution	Cash Bonus	Non-Cash Benefits	Superannuation	Options		
	\$	\$	\$	\$	\$	\$	\$	\$
Patricia Handford	8,226	458	–	–	–	–	–	8,684
Francois Hoffman	4,583	412	–	–	–	–	–	4,995
Alice Bernice Carter	4,062	309	–	–	–	–	–	4,371
Ana Tokic	3,854	346	–	–	–	–	–	4,200
Nicole Spike	3,020	234	–	–	–	–	–	3,254
	23,745	1,759	–	–	–	–	–	25,504

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

NOTE 5 DIRECTORS' AND EXECUTIVES' REMUNERATION CONTINUED

d. Shareholdings

Number of Shares Held by Parent Entity Directors and Specified Executives:

	BALANCE 1/2004	RECEIVED AS REMUNERATION	NET CHANGE OTHER*	BALANCE 30.6.2005#
Parent Entity Directors				
John Henry Everett	16,000,000	-	-	16,000,000
Elaine Margaret Vincent	502,000	-	-	502,000
Ian Garnsey Everingham	8,000,000	-	-	8,000,000
David Capp Hall	100,000	-	-	100,000
Specified Executives				
Patricia Handford	122,000	-	28,000	150,000
Ana Tokic	10,000	-	-	10,000
Alice Bernice Carter	22,000	-	-	22,000
Tania Thomson	6,000	-	-	6,000
Nicole Spike	12,000	-	-	12,000
Total	24,774,000	-	28,000	24,802,000

* 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.

e. Remuneration Practices

The economic entity's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

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

Bonuses included per Note 5(b) and 5(c) are based on achieved targets specified 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 2005.

NOTE 6 AUDITORS' REMUNERATION

	ECONOMIC ENTITY 2005 \$	ECONOMIC ENTITY 2004 \$	PARENT ENTITY 2005 \$	PARENT ENTITY 2004 \$
Remuneration of the auditors of subsidiaries for:				
- auditing or reviewing the financial report	66,500	45,000	66,500	45,000
- other services	2,762	-	-	-
	69,262	45,000	66,500	45,000

NOTE 7 DIVIDENDS

Interim fully franked ordinary dividend of 2.0 cents (2004:nt) per share franked at the tax rate of 30%

	960,000	n/a	960,000	n/a
--	---------	-----	---------	-----

a. Proposed final fully franked ordinary dividend of 3 cents (2004:nt) per share franked at the tax rate of 30%

	1,440,000	n/a	1,440,000	n/a
--	-----------	-----	-----------	-----

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

	42	-	42	-
--	----	---	----	---

NOTE 8 EARNINGS PER SHARE

a. Reconciliation of earnings to net profit or loss

Net profit	2,427,215	237,649
------------	-----------	---------

Earnings used in the calculation of basic and dilutive EPS

	2,427,215	237,649
--	-----------	---------

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 2005.

NOTE 9 CASH ASSETS

	ECONOMIC ENTITY 2005 \$	2004 \$	PARENT ENTITY 2005 \$	2004 \$
--	-------------------------------	------------	-----------------------------	------------

Cash at bank

2,154,616 1,105,367 6,961 -

Deposits at call

45,000 45,000 - -

2,199,616 1,150,367 6,961 -

Reconciliation of Cash

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

Cash

2,199,616 1,150,367 6,961 -

2,199,616 1,150,367 6,961 -

NOTE 10 RECEIVABLES

CURRENT

Other debtors

413,843 445,643 - -

Amounts receivable from:

- wholly-owned unit trust

- (76,648) (93,399) 2,974,658 421,759

- provision for doubtful debts

337,195 352,244 2,974,658 421,759

NOTE 11 INVENTORIES

CURRENT - At cost

Raw materials and stores

991,270 1,128,093 - -

Work in progress

179,814 256,734 - -

Finished goods

4,006,580 2,866,795 - -

5,177,664 4,251,622 - -

NOTE 12 OTHER ASSETS

	ECONOMIC ENTITY 2005 \$	2004 \$	PARENT ENTITY 2005 \$	2004 \$
--	-------------------------------	------------	-----------------------------	------------

CURRENT

Prepayments

465,837 415,574 - -

465,837 415,574 - -

NOTE 13 OTHER FINANCIAL ASSETS

NON-CURRENT

Investments in subsidiaries:

- units in unit trusts

13a - - 24,000,000 24,000,000

- - - 24,000,000 24,000,000

2. Units in Unit Trusts
Certain controlled entities hold interests in the following unit trusts:

i. UnderCoverWear Unit Trust

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

- Investment at cost

- - 24,000,000 24,000,000

Percentage ownership 100% (2004: 100%)

NOTE 14 CONTROLLED ENTITIES

2. Controlled Entities

ENTITY	COUNTRY OF INCORPORATION	PERCENTAGE OWNED 2005	2004
UnderCoverWear Unit Trust	Australia	100%	100%

NOTE 15: PROPERTY, PLANT AND EQUIPMENT

	ECONOMIC ENTITY 2005 \$	2004 \$	PARENT ENTITY 2005 \$	2004 \$
Plant and equipment				
At cost	831,569	704,247	-	-
Accumulated depreciation	(539,673)	(421,633)	-	-
	291,896	282,614	-	-
Motor Vehicles				
At cost	26,100	26,100	-	-
Accumulated depreciation	(14,139)	(10,666)	-	-
	11,961	15,434	-	-
Furniture, fittings and equipment				
At cost	763,019	642,253	-	-
Accumulated depreciation	(614,533)	(480,128)	-	-
	148,486	162,125	-	-
Computer software				
At cost	173,337	152,891	-	-
Accumulated depreciation	(127,931)	(12,561)	-	-
	45,406	140,330	-	-
Total Property, Plant and Equipment	497,749	600,503	-	-

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

	PLANT AND EQUIPMENT \$	MOTOR VEHICLES \$	FURNITURE, FITTINGS AND EQUIPMENT \$	COMPUTER SOFTWARE \$	TOTAL \$
Economic Entity					
Balance at the beginning of year	282,614	15,434	162,125	140,330	600,503
Additions	128,073	12,000	120,765	20,446	281,284
Disposals	-	(11,433)	-	-	(11,433)
Depreciation expense	(118,791)	(4,040)	(134,404)	(115,370)	(372,605)
Carrying amount at the end of year	291,896	11,961	148,486	45,406	497,749

NOTE 16: DEFERRED TAX ASSETS

	ECONOMIC ENTITY 2005 \$	2004 \$	PARENT ENTITY 2005 \$	2004 \$
--	-------------------------------	------------	-----------------------------	------------

Future income tax benefit
a. The future income tax benefit is made up
of the following estimated tax benefits:
- timing differences

	390,258	242,249	59,753	154
	390,258	242,249	59,753	154

NOTE 17: INTANGIBLE ASSETS

Goodwill at cost	24,869,495	24,957,906	-	-
Accumulated amortisation	(1,295,471)	(51,996)	-	-
	23,574,024	24,905,910	-	-

NOTE 18: PAYABLES

CURRENT				
Payable to a previous partner (Quadrant)	-	474,606	-	-
Trade creditors	3,076,301	2,456,836	1,097	-
Sundry creditors and accrued expenses	670,929	620,489	-	-
Commissions payable	610,958	489,251	-	-
Amounts payable to: - wholly-owned subsidiaries	-	-	-	47,231
	4,358,188	4,041,182	1,097	47,231

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

NOTE 19 TAX LIABILITIES

NOTE	ECONOMIC ENTITY 2005 \$	ECONOMIC ENTITY 2004 \$	PARENT ENTITY 2005 \$	PARENT ENTITY 2004 \$
------	-------------------------------	-------------------------------	-----------------------------	-----------------------------

CURRENT Income tax	1,339,190	124,287	1,339,190	124,287
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NOTE 20 PROVISIONS

CURRENT				
Promotions	518,703	353,971	-	-
Employee benefits	636,969	453,127	-	-
Other	-	50,000	-	-
	1,155,672	857,098	-	-
NON-CURRENT				
Employee benefits	123,679	146,869	-	-
	123,679	146,869	-	-
a. Aggregate Employee Benefits Liability	760,648	599,996	-	-
b. Number of Employees at year end	106	81	-	-

NOTE 21 INTEREST BEARING LIABILITIES

NON-CURRENT				
Payable to Directors	-	2,550,634	-	-
	-	2,550,634	-	-

NOTE 22 CONTRIBUTED EQUITY

NOTE	ECONOMIC ENTITY 2005 \$	ECONOMIC ENTITY 2004 \$	PARENT ENTITY 2005 \$	PARENT ENTITY 2004 \$
------	-------------------------------	-------------------------------	-----------------------------	-----------------------------

48,000,000 (2004: 48,000,000) fully paid ordinary shares	22a	23,960,750	23,960,750	23,960,750
		23,960,750	23,960,750	23,960,750

a. Ordinary shares				
At the beginning of the reporting year/period		23,960,750	23,960,750	-
Shares issued during the year/period		-	24,000,001	-
Transaction costs relating to share issues		-	(39,250)	-
Shares bought back during the year/period		-	(1)	(1)
At reporting date		23,960,750	23,960,750	23,960,750

	ECONOMIC ENTITY 2005 NO.	ECONOMIC ENTITY 2004 NO.	PARENT ENTITY 2005 NO.	PARENT ENTITY 2004 NO.
At the beginning of reporting year/period	48,000,000	-	48,000,000	-
Shares issued during year/period	-	48,000,002	-	48,000,002
Shares bought back during year/period	-	(2)	-	(2)
At reporting date	48,000,000	48,000,000	48,000,000	48,000,000

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

NOTE 23 RETAINED PROFITS

	ECONOMIC ENTITY 2005 \$	ECONOMIC ENTITY 2004 \$	PARENT ENTITY 2005 \$	PARENT ENTITY 2004 \$
--	-------------------------------	-------------------------------	-----------------------------	-----------------------------

Retained profits at the beginning of the financial year/period	237,649	-	289,645	-
Net profit for the year/period	2,427,215	237,649	2,410,690	289,645
Dividends paid	7	(960,000)	(960,000)	-
Retained profits at the end of the financial year/period	1,704,864	237,649	1,740,335	289,645

NOTE 24 CAPITAL AND LEASING COMMITMENTS

	ECONOMIC ENTITY 2005	2004	PARENT ENTITY 2005	2004
	\$	\$	\$	\$

Operating Lease Commitments
Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable				
— not later than 1 year	1,355,244	1,238,630	—	—
— later than 1 year but not later than 5 years	354,500	782,724	—	—
	1,709,744	2,021,354	—	—

Property Lease

The property lease is a non-cancellable lease with a seven-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the CPI per annum in years 2007, 2009, 2010 and 2012. An option exists to renew the lease at the end of the seven-year term for an additional term of seven years, commencing 1 July 2006.

Motor Vehicle

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

Office Equipment

Some office equipment is leased over a five year term.

NOTE 25 CASH FLOW INFORMATION

	ECONOMIC ENTITY 2005	2004	PARENT ENTITY 2005	2004
	\$	\$	\$	\$

a. Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax

Profit from ordinary activities after income tax	2,427,215	237,649	2,410,690	—
Non-cash flows in profit from ordinary activities				
Amortisation	1,243,475	51,996	—	—
Depreciation	372,605	21,919	—	—
Net gain on disposal of property, plant and equipment	(485)	(423)	—	—
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Decrease in receivables	15,049	202,426	—	—
(Increase) in other debtors	(50,263)	(241,121)	—	—
(Increase)/decrease in inventories	(926,042)	79,374	—	—
Increase/(decrease) in payables	317,007	251,124	(46,134)	—
Increase in income taxes payable	1,214,902	124,287	1,214,902	—
Decrease in deferred taxes payable	(59,598)	(154)	(59,598)	—
Increase in provisions	275,384	9,906	—	—
Cash flow from operations	4,829,249	736,983	3,519,860	—

b. Credit Standby Arrangements with Banks

Credit facility	1,504,714	2,291,000	—	—
Amount utilised	—	—	—	—
Unused credit facility	1,504,714	2,291,000	—	—

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	168,000	—	—
MasterCard corporate card	35,000	23,000	—	—
Commercial Bill Facility	—	800,000	—	—
	1,504,714	2,291,000	—	—

NOTE 26 RELATED PARTY TRANSACTIONS

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

	ECONOMIC ENTITY		PARENT ENTITY	
	2005	2004	2005	2004
	\$	\$	\$	\$

a. Director related transactions

— 2,550,634

The balance of loans owing to Ian Everingham and John Everett, listed under interest bearing liabilities (note 21), were fully repaid on 14 April 2005.

Interest was paid at the rate of 8% pa on any unpaid balance during the year.

A rental lease for the property exists between UnderCoverWear Unit Trust, a subsidiary of UnderCoverWear Limited and the trustee of UnderCoverWear Property Trust, of which two directors Ian Everingham and John Everett hold an interest. Rent is payable at a rate of \$674,412 per annum. There is an option to renew for seven years on 1 July 2006.

NOTE 27 SEGMENT REPORTING

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

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

NOTE 28 FINANCIAL INSTRUMENTS

a. Financial Instruments

The financial instruments of the economic entity consist of cash and a guarantee deposit. The liabilities consist of loans to related parties where the rates are fixed. The economic entity did not use derivative financial instruments during the year.

b. Interest Rate Risk

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

FINANCIAL INSTRUMENTS	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE 2005	2004	FIXED INTEREST RATE MATURING						
			WITHIN 1 YEAR \$		1 TO 5 YEARS \$		TOTAL \$		
			2005	2004	2005	2004	2005	2004	
Financial Assets:									
Cash	4.99%	3.7%	2,154,616	1,105,367	—	—	2,154,616	1,105,367	
Receivables									
Investments	6.35%	5.25%	45,000	45,000	—	—	45,000	45,000	
Total Financial Assets			2,199,616	1,150,367	—	—	2,199,616	1,150,367	
Financial Liabilities:									
Amounts payable related									
Parties	n/a	8%	—	—	—	2,550,634	—	2,550,634	
Total Financial Liabilities			—	—	—	2,550,634	—	2,550,634	
All other assets and liabilities are non-interest bearing.									

c. Credit Risk

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

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

NOTE 29 CONTINGENT LIABILITIES

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

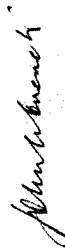
NOTE 30 EVENTS SUBSEQUENT TO REPORTING DATE

There were no significant events after the balance sheet reporting date that effects the position at 30 June 2005.

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 26 to 49 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 2005 and of the performance for the year ended on that date of the company and economic entity;
2. the Chief Executive Officer and Chief Finance 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.



John Everett
Director

8 September 2005.

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of UnderCoverWear Limited (the company) and the UnderCoverWear Group (the consolidated entity) for the year ended 30 June 2005, 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.



M A ADAM-SMITH
Partner
Grant Thornton NSW

Sydney, 8 September 2005

SCOPE

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both UnderCoverWear Limited (the company) and the UnderCoverWear Group (the consolidated entity) for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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INDEPENDENCE

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

AUDIT OPINION

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney, 8 September 2005

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a. Distribution of Shareholders

CATEGORY (SIZE OF HOLDING)	ORDINARY	NUMBER	REDEEMABLE
1 - 1,000	250		175,019
1,001 - 5,000	198		675,100
5,001 - 10,000	56		453,155
10,001 - 100,000	122		4,412,646
100,001 - and over	18		42,284,080
	644		48,000,000

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

c. The names of the substantial shareholders listed in the holding company's register as at 15 August 2005 are:

SHAREHOLDER	NUMBER OF ORDINARY SHARES
1. Mr John Everett & Ms Sonya Everett (Everett Fam Settlement A/c)	16,000,000
2. ANZ Nominees Limited	9,391,170
3. Recone Pty Limited (Everingham Family A/c)	8,000,000
4. Westpac Custodian Nominees Limited	3,450,163

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.

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)	16,000,000	33.33
2. ANZ Nominees Limited	9,391,170	19.56
3. Recone Pty Limited (Everingham Family A/c)	8,000,000	16.67
4. Westpac Custodian Nominees Limited	3,450,163	7.19
5. JP Morgan Nominees Australia Limited	1,948,017	4.06
6. Mrs Jeanette Richardson	534,100	1.11
7. Alan Denis Vincent & Elaine Margaret Vincent (Vincent Family S/Fund A/c)	500,000	1.04
8. National Nominees Limited	388,300	0.81
9. McNeil Nominees Pty Ltd	341,123	0.71
10. SUS Pty Ltd	320,000	0.67
11. Mr Francis Harper & Ms Claudia Harper	304,000	0.63
12. Bydand Capital Pty Ltd	270,000	0.56
13. Brahman Securities Pty Ltd	250,000	0.52
14. Mr Samuel Booth	200,000	0.42
15. Mr Robert Leonard Handford & Mrs Patricia Anne Handford	148,000	0.31
16. JSR Nominees Pty Ltd	130,000	0.27
17. Mr Rohan Boman	125,207	0.26
18. Mr Ronald Hugh Beevor & Mrs Fiona Mary Beevor	100,000	0.21
19. Mireau Investments Pty Ltd (Miriam Henry S/F A/c)	100,000	0.21
20. Nibot Pty Limited	100,000	0.21
	42,600,080	88.75

COMPANY DETAILS

Directors

John Everett AM, Chairman
Les Ewingham
David Hull

Elaine Vincent, *Chief Executive Officer*

Company Secretary

Tania Thomson

Registered Office &

Principal Place of Business

UndercoverWar Limited

ABN 85 108 962 152

ACN 108 962 152

8 Sideris Circuit

Norwan Business Park

Roadkham Hills NSW 2153

Tel: +61 2 8853 2800

Fax: +61 2 8853 2899

Auditor

Grant Thornton NSW

Level 17, 383 Kent Street

Sydney NSW 2002

Solicitors

Hunt & Hunt

Level 9, 85 Macquarie Street

Hobart TAS 7000

Share Registry

Computershare Investor Services Pty Ltd

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 9418 4000

Email: webqueries@computershare.com.au

Website: www.computershare.com

Stock Exchange Listing

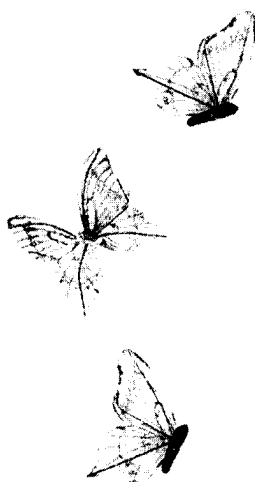
Quotation has been granted for

all the ordinary shares

of the company on all

Member Exchanges of the

Australian Stock Exchange Limited



UnderCoverWear