

ASX Announcement

Annual General Meeting – 31st October 2006

CHAIRMAN'S ADDRESS

It is pleasing to submit my first Chairman's Address to the third Annual General Meeting of UnderCoverWear Limited for the year ended 30 June 2006, being the 25th Anniversary since UnderCoverWear commenced business whilst it has only been a listed public company for three years.

Our Chief Executive Officer Mrs Elaine Vincent will shortly present an Operational Review of the performance of the Company.

Whilst the rate of growth in the past year did not match that of the prior year, pleasing progress was achieved with the performance for the year ended 30 June 2006 exceeding the prior year by –

- Sales increase of 5.5%
- Consolidated Profit increase of 10.6%
- Dividend increase of 30.0%, as a result of the total ordinary fully franked dividend paid for the year ended 30 June 2006 being 6.5 cents per share.

There are several important aspects to these results as previously addressed in my Chairman's Review in the Annual Report.

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

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

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For the period 1 July 2006 to date, the Company has achieved budget and if it does so for the remainder of the year ending 30 June 2007 the results should be similar to those of the 2006 year. However, to achieve the 2007 budget, the number of active sales consultants needs to be restored to at least 2006 levels, being a 15% increase on present numbers.

If the economic trends in retail sales and low unemployment continue, it is somewhat difficult to forecast future growth in revenues and results achievable for the year ending 30 June 2007. However, the Company is diligently looking to improve its performance by increasing profit margins and reducing costs with the goal of achieving budgeted Net Profit After Tax and at least maintaining the present dividend rate.

Confidence in the future of UnderCoverWear has recently been tangibly demonstrated by the disclosed share acquisitions, equating to approximately 3% of the capital of UnderCoverWear, by the interests of our directors, Mr John Everett and Ms Elaine Vincent.

After 15 years as a partner and, since listing, a director of UnderCoverWear, Mr Ian Everingham has advised that he intends to retire as a director to pursue his other interests. However, he has confirmed his confidence in the Company and its future by expressing his intention to retain his 16.67% shareholding.

I would like to take this opportunity to formally record the Company's gratitude, appreciation and indebtedness to Ian for his enormous contribution in taking the Company from a fledgling business to its stature today.

Your board is cognisant of its commitment to not only grow the UnderCoverWear business but also to pursue all prudent avenues to grow the listed Company's activity, profit and dividends payable. With this in mind, your board has had discussions with Mr Geoffrey Hill who has agreed to be appointed a director. Geoffrey is a merchant banker, Managing Director of Pitt Capital Partners, former Managing Director of Morgan Grenfell in Australia and USA who has identified and implemented mergers and takeovers, and has acted for a wide range of corporate clients in Australia and overseas.

In respect of the Remuneration Report, as set out on Page 31 of the Annual Report, I confirm that the Cash Bonus paid to Ms Elaine Vincent is computed in accordance with her Service Agreement that was executed prior to the listing of the Company and which was also detailed in the Prospectus. The Service Agreement is for a period ending on 30 June 2008.

I thank my co-directors for their contribution and support during the year, the Chief Executive Officer, Ms Elaine Vincent, and her management team and staff, and not least the sales consultants for their outstanding dedicated contribution in a challenging prevailing market.

I also wish to thank our shareholders for their continuous support which, in return, we look forward to rewarding by the growth of the Company.



David Hall
Chairman

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UnderCoverWear