

*LOVISA*

LOVISA HOLDINGS LIMITED

ANNUAL REPORT

2017

For personal use only



For personal use only





# CONTENTS

<b>Overview</b>	<b>04</b>
<b>Chairman's and MD's Report</b>	<b>10</b>
<b>Directors Report</b>	<b>12</b>
<b>Financial Statements</b>	
Consolidated statement of financial position	34
Consolidated statement of profit or loss and other comprehensive income	35
Consolidated statement of changes in equity	36
Consolidated statement of cash flows	37
<b>Notes to Financial Statements</b>	
Setting the scene	38
Business performance	40
Asset platform	46
Risk and capital management	52
Other information	62
<b>Signed Reports</b>	
Directors' declaration	74
Independent auditor's report	75
Lead auditor's independence declaration	79
<b>ASX information</b>	
Shareholder information	82

OUR BRAND

# MOVING GLOBALLY



- 288 Stores in 13 Countries
- First Spanish Store Opened in June 2017
- 120 new products arriving weekly
- New Franchise territories in Vietnam and Bahrain
- Bank Facilities refinanced to 2020

# HIGHLIGHTS

For personal use only

EBIT up 68%  
**\$40.7m**



\$29.0m  
**NPAT up 75%**



Like For Like sales  
**+10.3%**



Revenue up 16.5%  
**\$178.7m**



Total Stores  
**288**  
Net increase of 38 stores



Final Dividend  
**7.6** CPS  
Fully Franked





For personal use only

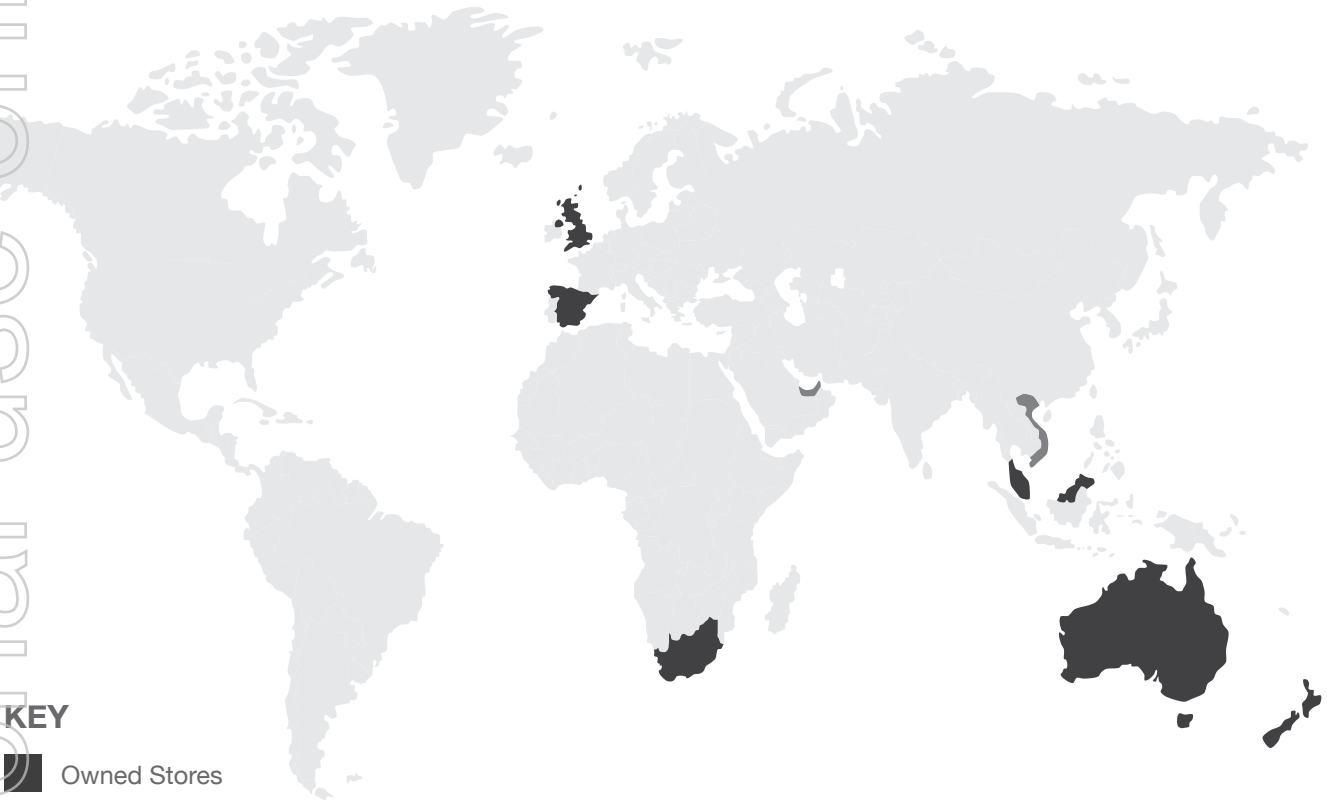


# WHITE CITY

LONDON

# GLOBAL REACH

For personal use only



**KEY**

- Owned Stores
- Franchise

**STORE NUMBERS**

Owned		FY16	FY17	Franchise	
Aus/NZ	Australia	144	145	Asia	- 4
	New Zealand	18	18	Middle East	16 19
Asia	Singapore	19	21	<b>Total Franchise</b>	<b>16 23</b>
	Malaysia	14	19	<b>TOTAL STORES</b>	<b>250 288</b>
Africa	South Africa	36	50		
Europe	United Kingdom	3	11		
	Spain	-	1		
<b>Total Owned</b>		<b>234</b>	<b>265</b>		

# ABOUT LOVISA

LOVISA WAS BORN FROM A DESIRE TO FILL THE VOID FOR FASHION FORWARD AND DIRECTIONAL JEWELLERY THAT IS BRILLIANTLY AFFORDABLE.

Now trading from 288 stores in 13 Countries. To stay ahead of trend, Lovisa utilises daily inventory monitoring software and airfreight to move product to store locations within 48 hours from our centrally located warehouses in Melbourne and Hong Kong.







# CHAIRMAN'S & MANAGING DIRECTOR'S REPORT



Global roll-out continued in 2017 with strong earnings growth, a strengthened balance sheet and disciplined control of CODB.

## OVERVIEW

It is very pleasing to report that Lovisa Holdings Limited (Lovisa) has delivered a record result for the year ended 2nd July 2017 with sales, profits, cash flow and dividends all significantly up on the prior year. This result was driven by a combination of sales growth, margin improvement and lower cost of doing business underpinned by emphasis on ensuring our retail offer resonates with our customers.

The company continued its international expansion with a net increase of 38 new stores which included three new markets. Following strong operating cash flows Lovisa refinanced and repaid its debt facilities ensuring the company is well positioned to accelerate its international growth plans.

## FINANCIALS

Revenue for the year was \$178.7m being a 16.5% increase on the prior year. Sales momentum was strong throughout the year with same store growth of 10.3% driven predominantly by on-trend ranges and price increases introduced during the second half of 2016 to offset foreign currency pressures.

Trading margins increased to 78.8% from 74% in the prior year following a reduction in sales and markdown activity and more disciplined inventory management. This increase in trading margins was delivered despite AUD currency headwinds on the prior year and we estimate that on a constant currency basis trading margins would have lifted a further 500 bps.

The Company's Cost of Doing Business (CODB) decreased during the year despite the continued investment in both management bench strength and the opening of a net 38 new stores. While Lovisa continues to invest in its international operating structure ahead of the curve, importantly the key retail metrics of labour, rent and distribution all experienced reductions in percentage to sales ratios during the year.

Earnings before interest and tax (EBIT) was \$40.7m being a 68% increase on EBIT from the prior year.

Financing costs decreased during the year due to less reliance on debt facilities resulting in Net profit after tax increasing 75.5% to \$29.0m with EPS lifting to 27.7 cents.

The Company's cash flow was strong with operating cash conversion at 109% resulting in cashflow from operating activities lifting \$17.9m to \$50.4m. Capital expenditure predominantly into new stores and existing store refurbishments was \$8.8m. Free cash flow after debt repayments and dividends was \$6.2m.

## CAPITAL MANAGEMENT

The balance sheet was strengthened significantly during the year with the company repaying all its debt and ending the financial year with net cash reserves of \$11.0m. During the year Lovisa refinanced its bank facilities for a further three years and took the opportunity to increase its available debt facilities to \$30m and adjust its covenant package to be more in line with the company's international rollout ambitions. In addition, as part of the refinancing our bank has agreed to additional acquisition finance subject to due diligence of \$15m if an acquisition opportunity was to present itself.

## INTERNATIONAL STORE EXPANSION

During the year the company increased its store network to 288 stores. The company's international expansion continued with store openings within its existing international markets of South Africa, Singapore, Malaysia, New Zealand and the United Kingdom. We continue to be diligent in ensuring store location and rent economics meet our internal hurdles before signing long term leases. We are engaged with Landlords across Asia and Europe ensuring Landlords are familiar with the Lovisa Brand and the company's financial strength.

In May, Lovisa South Africa agreed to purchase 17 stores from Klins South Africa. This transaction has accelerated the rate of growth in South Africa and takes to maturity the anticipated roll-out program in this territory (subject to some minor store rationalisation) and allows management to focus on other international opportunities.

In June Lovisa opened its first company owned store in Spain as part of a pilot program. We continue to perform due diligence on other markets.

During the year Lovisa opened two new Franchise territories in Bahrain and Vietnam.

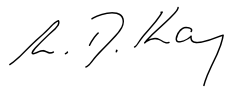
## DIVIDENDS

Following the strong earnings performance the Directors declared a final dividend of 7.6 cents per share fully franked for the year ended 2nd July 2017. The final dividend will be paid on 26th October 2017.

## OUTLOOK

It has been a relatively positive start to the year and we expect 2018 to be a year of further profitable growth for Lovisa as we continue to open new stores in our current markets and continue due diligence on other markets. We will update shareholders upon success of any pilot programs we are undertaking in new territories. We are targeting to open 20 to 30 stores for the 2018 financial year.

The key success drivers of Lovisa derive from our ability to offer on-trend and well priced fast fashion jewellery to our customers supported by a talented and enthusiastic team. Your Board and Management team remain committed to maintaining and enhancing these capabilities. We look forward to another exciting and successful year.



Michael Kay  
Non-Executive Chairman



Shane Fallscheer  
Managing Director



For personal use only

# THE DIRECTORS REPORT



For personal use only





# THE DIRECTORS



For personal use only



Details of the qualifications and experience of each Director in accordance with the requirements of the Corporation Act have been included below.



Michael Kay



Shane Fallscheer



Tracey Blundy



Paul Cave



James King

Michael Kay

**Independent Non-Executive Director & Chairman**

*Appointed 13 April 2016*

*Chairman of the Board*

*Chairman of the Remuneration & Nomination Committee*

*Member of the Audit, Business Risk & Compliance Committee.*

A qualified lawyer, Michael Kay brings a wealth of commercial experience to Lovisa. Michael was CEO and Managing Director of listed salary packaging business McMillan Shakespeare, a position he held for six years. Previously, Michael was CEO of national insurer AAMI after serving in a variety of senior roles with that firm. Prior to joining AAMI, he spent 12 years in private legal practice. Michael is Chairman of ASX listed litigation funder, IMF Bentham Ltd (ASX : IMF) and is Chairman of Apply Direct Ltd (ASX : AD1). Michael has also been a non-executive Director of Quintis Limited (ASX : QIN) since February 2015 and is a non-executive Director of Royal Automotive Club Insurance (WA). Michael holds a Bachelor of Laws from The University of Sydney.

Shane Fallscheer

**Managing Director**

*Appointed 6 November 2014*

Shane Fallscheer is the Managing Director and founder of Lovisa. He has 30 years of experience in retailing operations across Australia, UK and US markets. He was previously in senior management roles with retailers including: General Manager, Sanity Australia; Chief Executive Officer, Sanity UK; Chief Executive Officer, Diva; and Global Retail Chairman and Chief Operating Officer, Rip Curl USA.

Tracey Blundy

**Non-Executive Director**

*Appointed 6 November 2014*

*Member of the Audit, Business Risk & Compliance Committee*

*Member of the Remuneration & Nomination Committee.*

Tracey joined BB Retail Capital in 1981 and is the nominated representative of BB Retail Capital on the Board of Lovisa. Over the past 36 years, she has held a number of senior executive positions across BB Retail Capital's brands, including Chief Executive Officer of Sanity Entertainment and Bras n Things. She is a Board-level advisor across the BB Retail Capital portfolio bringing in-depth knowledge and expertise on retail operations and roll-out strategy.

Tracey was a founding shareholder of Lovisa in 2010, and has since been a senior advisor to the Company's management team. Tracey is currently a Director of BB Retail Capital Pty Limited, Bras N Things Pty Limited and BB Retail Property Pty Limited. Tracey was previously a Director of Aventus Capital Limited.

Paul Cave

**Independent Non-Executive Director**

*Appointed 6 November 2014*

*Member of the Audit, Business Risk & Compliance Committee*

*Member of the Remuneration & Nomination Committee*

Paul is a Non-Executive Director of Domino's Pizza Enterprises Ltd since 2005 and the Chairman and Founder of BridgeClimb. Paul was made a Member of the Order of Australia in 2010 for his services to the tourism industry. Paul has previously worked in marketing and general management roles for B&D Roll A-Door and also founded the Amber Group in 1974, which he sold in 1996. Paul was a founding Director of Chris O'Brien Lifehouse at the Royal Prince Alfred Hospital, and founding Director of InterRisk Australia Pty Ltd. He is a patron of the Hunter Melanoma Foundation, and holds a Bachelor of Commerce from the University of New South Wales.

James King

**Independent Non-Executive Director**

*Appointed 17 May 2016*

*Chairman of the Audit, Business Risk & Compliance Committee*

*Member of the Remuneration & Nomination Committee*

James has over 30 years' experience as a Director and an Executive in major multinational corporations in Australia and internationally. He was previously with Foster's Group Limited as Managing Director Carlton & United Breweries and Managing Director Foster's Asia. Prior to joining Foster's, he spent six years in Hong Kong as President of Kraft Foods (Asia Pacific). He is currently a non-executive Director of Navitas Ltd and a member of Global Coaching Partnership. Previously James was a Director of ASX listed JB Hi-Fi Limited, Trust Company Ltd, Pacific Brands and Tattersalls, a member of the Council of Xavier College and Chairman of Juvenile Diabetes Research Foundation (Victoria). James holds a Bachelor of Commerce from University of New South Wales and is a Fellow of the Australian Institute of Company Directors.

For personal use only



## 1. DIRECTORS

The Directors of Lovisa Holdings Limited (the 'Company') present their report together with the Consolidated Financial Statements of the Company and its controlled entities (the 'Group' or 'Consolidated Entity') for the financial year ended 2 July 2017.

Director	Board		Audit and Risk		Remuneration & Nomination	
	Number attended	Number held	Number attended	Number held	Number attended	Number held
M Kay	11	11	4	4	4	4
T Blundy	11	11	4	4	4	4
P Cave	10	11	3	4	4	4
S Fallscheer	11	11	-	-	-	-
J King	11	11	4	4	4	4

### 1.1 Company Secretary

Graeme Fallet was appointed Company Secretary on 14 April 2016. He is also the company's Chief Financial Officer. Mr Fallet is a Chartered Accountant and a Member of the Institute of Company Directors.

## 1.2 Directors Interests in Shares

The relevant interest of each Director in the Company at the date of the report is as follows:

Director	Ordinary Shares in the Company
M Kay (1)	250,000
P Cave (2)	1,000,000
T Blundy (3)	1,153,005
S Fallscheer (4)	4,490,000
J King (5)	34,000

(1) Shares held by Doveton Kay Investments Pty Ltd ATF Doveton Kay Investments Trust and M&S Kay Superannuation Fund Pty Ltd ATF M&S Kay Superannuation Fund

(2) Shares held by P.B.C. Investments Pty Limited

(3) Shares held by Coloskye Pty Ltd

(4) Shares held by Centerville Pty Ltd

(5) Shares held by King Family Super Fund

## 2. PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the retail sale of fashion jewellery and accessories.

The business has 288 retail stores in operation at 2 July 2017 including 23 franchise stores.

There was no significant change in the nature of the activities of the Group during the period.

## 3. DIVIDENDS

Dividends paid to members during the financial year were as follows:

	2017	2016
	\$000's	\$000's
Final ordinary dividend for the year ended 30 June 2016 of 2.00 cents (2015: 4.07 cents) per fully paid share fully franked paid on 27 October 2016	2,100	4,273
Interim ordinary dividend for the year ended 30 June 2017 of 10.00 cents (2016: 6.67 cents) per fully paid share fully franked (2016: 75% franked) paid on 28 April 2017	10,500	7,004
Total dividends paid	12,600	11,277

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final dividend of \$7,980,000 (7.60 cents per fully paid share) expected to be paid on 26 October 2017. The dividend will be fully franked.

## 4. REVIEW OF OPERATIONS

The following summary of operating results and operating metrics reflects the Group's performance for the year ended 2 July 2017:

Consolidated	2017	2016
Gross Margin %	79%	74%
EBITDA (\$000)	46,243	30,256
NPAT (\$000)	29,046	16,553
Basic Earnings per share	27.66c	15.76c

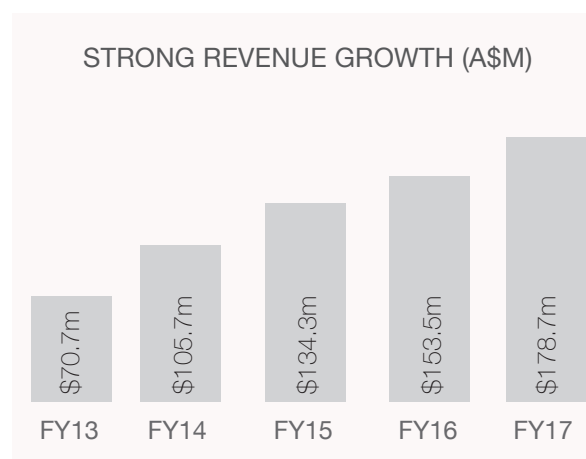
### 4.1 Financial Performance

For the year ended 2 July 2017 the Group reported a net profit after tax of \$29.0 million following continued strong same store sales growth of 10.3% and the addition of a further net 38 stores across the globe assisted by an increase in gross margin on the back of retail price increases first implemented in the first half of 2016.

This result reflects an increase of 75.5% on the Group's 2016 net profit.

Consolidated \$'000	FY2017	FY2016	Change
Sales	178,746	153,461	16.5%
Gross profit	140,822	113,562	24.0%
Operating expenses	94,579	83,306	13.5%
EBITDA	46,243	30,256	52.8%
EBIT	40,704	24,222	68.0%
Net profit after tax (NPAT)	29,046	16,553	75.5%

### 4.1.1 Sales



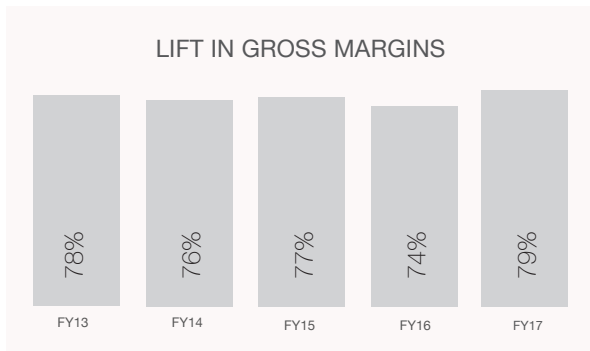


4.1.1 Sales (continued)



The Group's reported revenue was \$178.7m, being a 16.5% increase on the prior year with comparable sales growth of 10.3% across the Group. Total Company sales were \$177.6m being 16.3% up on last year. Franchise income increased by 32% to \$1.1m following the addition of two new Franchise territories in Vietnam and Bahrain. The offshore expansion continued during the year with the addition of a net 38 stores across the Group including a trial Company store opened in Spain in June.

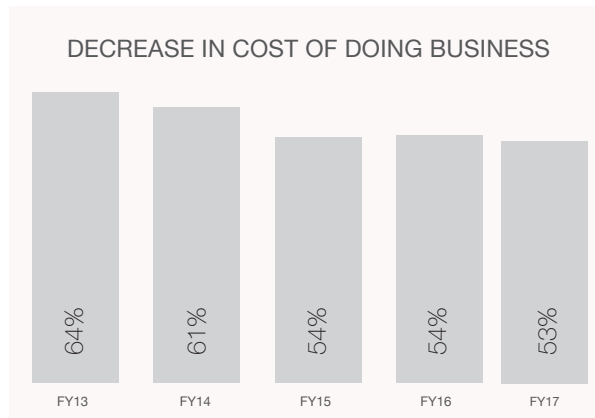
4.1.2 Gross Profit Margin



The Group's Gross Profit increased by 24% to \$140.8m. Gross Margin increased to 78.8% from 74.0% in the prior year following price increases introduced in 2016 along with reductions in clearance activity and average unit cost. In addition the Group experienced strong performances in a number of fashion trends throughout the year.

This Margin increase was achieved on the back of continued currency headwinds associated with the Australian Dollar. We estimate that on a 2016 constant currency basis on stock purchases Gross Margin would have lifted by a further 500bps to 79.3%.

4.1.3 Cost Of Doing Business



The Group's Cost of Doing Business (CODB) decreased during the year despite the continued investment in both management bench strength and the net opening of 38 new stores. While the Group continues to invest in its international operating structure ahead of the curve, importantly the key retail metrics of labour, rent and distribution all experienced reductions in percentage to sales ratios during the year.

4.1.4 Earnings

Earnings before interest and tax (EBIT) was \$40.7m being a 68% increase on EBIT from the prior year. Financing costs decreased during the year following strong cash flow and less reliance on debt facilities.

Net profit after tax increased 75.5% to \$29.0m with EPS lifting to 27.7 cents.

4.1.5 Cash Flow

The Group's net cash flow from operating activities increased \$16.3m during the year to \$39.6m. The Group's cash flow before tax and financing costs was \$50.4m. Capital expenditure of \$8.8m relates predominately to new store openings and refurbishments of current stores upon lease renewal. During the year the Group repaid its cash advance facility and has net cash of \$11m on hand at year end.



For personal use only

## 4.2 Financial Position

Consolidated	Actual FY2017 \$'000	Actual FY2016 \$'000	Change FY16/FY17 %
Trade receivables and prepayments	3,615	2,293	57.7%
Inventories	13,127	15,034	(12.7%)
Trade payables and provisions	(19,996)	(14,995)	33.4%
Net working capital	(3,254)	2,332	(239.5%)
Property, plant & equipment	15,658	13,123	19.3%
Intangible assets and goodwill	2,276	2,073	9.8%
Total funds employed	14,680	17,528	(16.2%)
Net debt	11,039	(7,271)	(251.8%)
Net derivative liability	(805)	(909)	(11.4%)
Net deferred tax balances	3,275	1,823	79.6%
Net assets/equity	28,189	11,171	152.3%

### Net working capital

The Group's net working capital strengthened during the year predominately from improved inventory management. Inventory levels decreased from \$15.0m to \$13.1m during the year despite an increase of 31 company owned stores and 7 Franchise stores.

### Property, plant and equipment

Capital expenditure during the year reflects fit out costs associated with new stores and refurbishment of existing stores. Fit out costs are depreciated over the term of the lease.

### Debt facilities

The Group refinanced its debt facilities during the year in line with its international growth expectations. The Group increased its debt facilities to \$25m along with a \$5m contingent liability facility predominately for issuance of Bank Guarantees and Letters of Credit to international landlords. Following the strong cash flow during the year the Group repaid its cash advance facility with net cash reserves of \$11m at year end.



## 5. BUSINESS STRATEGIES

Lovisa has achieved rapid growth since it was founded, with revenue growing from \$25.5 million in FY2011 to \$178.7 million in FY2017. The Group continues to focus on its key drivers to deliver growth in sales and profit growth.

Growth pillar	Business Strategy Section	Strategy	Risks	Achievements
<b>International expansion</b>	5.2	<ul style="list-style-type: none"> <li>Continue to leverage current international territories</li> <li>Leverage the Company's capital in large international markets</li> <li>Roll out UK territory and investigate other Northern Hemisphere markets</li> <li>Consider franchise partners for selected territories</li> <li>Expand into new international markets, targeting one new trial territory per annum</li> </ul>	<ul style="list-style-type: none"> <li>Competition (6.2)</li> <li>Retail environment and general economic conditions (6.3)</li> <li>Failure to successfully implement growth strategies (6.4)</li> </ul>	<ul style="list-style-type: none"> <li>Net 37 stores opened outside of Australia during the year including 8 stores in the United Kingdom, a trial new store in Spain with 8 franchise stores opened during the year</li> </ul>
<b>Streamline global supply chain</b>	5.3	<ul style="list-style-type: none"> <li>Streamline and optimise supply base in Asia</li> <li>Optimise air and sea freight whilst maintaining speed to market operating model</li> <li>Consider Northern Hemisphere distribution centre</li> </ul>	<ul style="list-style-type: none"> <li>Exchange rates (6.5)</li> <li>Product sourcing or supply chain disruptions</li> </ul>	<ul style="list-style-type: none"> <li>Over 36% of product was moved through the HK warehouse (FY16: 34%)</li> <li>Re-engineering of supply chain to accommodate sea freight</li> </ul>
<b>Enhance existing store performance</b>	5.4	<ul style="list-style-type: none"> <li>Optimise and improve existing store network</li> <li>Continue to target high traffic shopping precincts</li> <li>Judicious pricing</li> </ul>	<ul style="list-style-type: none"> <li>Competition (6.2)</li> <li>Retail environment and general economic conditions (6.3)</li> <li>Prevailing fashions and consumer preferences may change (6.6)</li> </ul>	<ul style="list-style-type: none"> <li>FY17 LFL sales growth of 10.3%</li> <li>We continue to close stores in sub-optimal locations</li> </ul>
<b>Brand proliferation</b>	5.5	<ul style="list-style-type: none"> <li>Continue to leverage online social media to connect with customers and increase brand loyalty</li> </ul>	<ul style="list-style-type: none"> <li>Prevailing fashions and consumer preferences may change (6.6)</li> <li>Privacy breaches</li> </ul>	<ul style="list-style-type: none"> <li>Increased social media engagement</li> </ul>
<b>Lead and pre-empt trends</b>	5.1	<ul style="list-style-type: none"> <li>Stay on trend with shifts in jewellery and accessory market</li> <li>Continue to provide a high quality and diverse product offering</li> </ul>	<ul style="list-style-type: none"> <li>Prevailing fashions and consumer preferences may change (6.6)</li> </ul>	<ul style="list-style-type: none"> <li>Continued strong LFL growth being testament to an ability to identify trends</li> </ul>

### 5.1 Lead and Pre-Empt Trends

Product innovation is a core component of Lovisa's competitive advantage. Its customers expect a broad range of fashionable products that are in line with the latest global fashion trends. In order to meet this expectation, Lovisa employs a product team of more than 20 people who are responsible for Lovisa's forward range planning, designs, product development, production, visual merchandising and merchandise planning, ensuring Lovisa is continually meeting market demand. Whilst product teams are based in Melbourne and London, its team members travel the world to identify global trends. In addition, its product teams meet with suppliers in China, India, Thailand and other parts of Asia frequently.

As Lovisa is frequently developing new products in response to evolving fashion trends, it does not register patents on its product designs. This is consistent with practices in the fast fashion industry.



## 5.2 New Store Rollouts & International Expansion

One of the key attributes of the Group's success has been the ability to identify and secure quality retail store sites in locations with high pedestrian traffic. This typically involves securing leases in AA, A or B grade rating shopping centres and malls. Lovisa has refined its global store model based on what it understands to be the optimal store size, location and format. The combination of a 50 square metre floor space and a homogenised layout allows Lovisa to have strict criteria when identifying and securing potential store sites in new regions, facilitating the roll-out of stores quickly, at low cost. On average, it takes approximately 14 days to fit out a new Lovisa store.

The key driver of future growth for Lovisa is the continued international store roll-out. Lovisa has proven it is capable of successfully operating profitably in international territories, having established its initial portfolio of company owned stores in Australia, New Zealand, Singapore, Malaysia, South Africa and the United Kingdom and supporting franchised stores in Kuwait, the United Arab Emirates, Oman, Bahrain and Saudi Arabia. During the year, Lovisa also opened its first store in Vietnam and commenced a pilot program in Spain. Lovisa will continue to explore other markets through pilot programs and will advise shareholders upon successful completion of those pilot programs.

The Group plans to remain nimble and opportunistic in expanding and moving into new markets, such that if opportunities arise, the Group may accelerate its plans to enter a new market or continue to grow an existing market. Likewise it will defer its entry into a new market if it considers that appropriate opportunities are not presented at the relevant time.

Lovisa's objective is to fully maximise its footprint in its current territories within the medium term (1-2 years) and target at least one new territory a year.

The history of Lovisa stores is as follows:

	FY2013	FY2014	FY2015	FY2016	FY2017
<b>Australia</b>	160	166	146	144	145
<b>New Zealand</b>	6	14	14	18	18
<b>Singapore</b>	6	10	15	19	21
<b>South Africa</b>	-	11	36	36	50
<b>Malaysia</b>	3	7	15	14	19
<b>United Kingdom</b>	-	-	-	3	11
<b>Spain</b>	-	-	-	-	1
<b>Middle East*</b>	-	2	13	16	19
<b>Vietnam*</b>	-	-	-	-	4
<b>Total</b>	<b>175</b>	<b>210</b>	<b>239</b>	<b>250</b>	<b>288</b>

\* Franchise Stores

## 5.3 Streamline Global Supply Chain

Lovisa's third party suppliers are currently located in mainland China, India and Thailand. Stock is inspected by Lovisa's quality control team in China. Once manufactured, stock is transported to Lovisa's leased warehouse in Melbourne, Australia (for stock to be sold in Australian and New Zealand stores) or its third party operated warehouse in Hong Kong (for stock to be sold in all other countries). There is sufficient capacity in Lovisa's third party operated Hong Kong warehouse to handle further international growth.

Lovisa constantly reviews its supply chain process for potential efficiency gains and cost reductions in order to generate higher gross margins. This includes improvements in its global warehouse and logistics program and the consolidation and rationalisation of its supplier base.

## 5.4 Enhance Existing Store Performance

Lovisa's store roll-out in Australia is largely complete with 145 stores in operation as at 2 July 2017. Subject to the availability of attractive sites, Lovisa will still seek to open a small number of new stores per year in Australia for the foreseeable future. This growth is expected to be supplemented by store optimisation and improvement initiatives.

Lovisa believes it will be able to enhance profitability through improvements to its store portfolio and operations. This includes the planned closure of some company owned stores acquired from Klines South Africa in June 2017.

## 5.5 Brand Proliferation

Lovisa supports the growth of its brand through social media and promotional activity that matches our customer base, and our international footprint. Efforts are focussed on social media, rather than traditional media, as we believe it connects us directly to our customers in a way that suits their lifestyle.

The brand is also developed through the customer in-store experience – on trend product, cleanly merchandised, focussed imagery, and the store “look and feel”. Stores are located in high foot traffic areas, in high performing centres.

## 6. MATERIAL BUSINESS RISKS

### 6.1 Business Risks

The business risks faced by the Group and how it manages these risks are set out below. Further information surrounding how the Group monitors, assesses, manages and responds to risks identified is included within Principle 7 of the Company's Corporate Governance statement.

### 6.2 Competition

The fast fashion jewellery sector in which Lovisa operates is highly competitive. While the costs and time that would be required to replicate Lovisa's business model, design team, IT systems, store network, warehouse facilities and level of brand recognition would be substantial, the industry as a whole has relatively low barriers to entry. The industry is also subject to ever changing customer preferences.

Lovisa's current competitors include:

- specialty retailers selling predominately fashion jewellery;
- department stores;
- fashion apparel retailers with a fashion jewellery section; and
- smaller retailers (i.e. less than five stores) that specialise in the affordable jewellery segment.

Competition is based on a variety of factors including merchandise selection, price, advertising, new stores, store location, store appearance, product presentation and customer service.

Lovisa's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new competitors (such as international retailers or online retailers) or a failure by Lovisa to successfully respond to changes in the industry.

To mitigate this risk, Lovisa employs a product team of more than 20 people to meet market demands as described in section 5.1. Management believe it would take a number of years for a new entrant to establish a portfolio of leases comparable with Lovisa in premium store locations due to substantial barrier to entry costs as detailed above.

### 6.3 Retail Environment and General Economic Conditions

As Lovisa's products are typically viewed by consumers to be 'discretionary' items rather than 'necessities', Lovisa's financial performance is sensitive to the current state of, and future changes in, the retail environment in the countries in which it operates. However, with a low average retail spend per transaction, macro market performance has minimal impact for Lovisa.

Lovisa's main strategy to overcome any downturn in the retail environment or economic conditions is to continue to offer our customers quality, affordable and on trend products.

### 6.4 Failure to Successfully Implement Growth Strategies

Lovisa's growth strategy is based on its ability to increase earnings contributions from existing stores and continue to open and operate new stores on a timely and profitable basis. This includes the opening of new stores in both Australia and overseas.

Lovisa's store roll-out program is dependent on securing stores in suitable locations on acceptable terms, and may be impacted by factors including delays, cost overruns and disputes with landlords.

The following risks apply to the roll out program:

- new stores opened by Lovisa may be unprofitable;
- Lovisa may be unable to source new stores in preferred areas, and this could reduce Lovisa's ability to continue to expand its store footprint;
- new stores may reduce revenues of existing stores; and
- establishment costs may be greater than budgeted for.

Factors mitigating these risks are that fit-out costs are low with minimal standard deviation in set-up costs across sites and territories through our small store format and homogeneous store layout, minimising potential downside for new stores. The Group assesses store performance regularly and evaluates store proximity and likely impact on other Lovisa stores as part of its roll-out planning.

When entering new markets, Lovisa assesses the region, which involves building knowledge by leveraging a local network of industry contacts, and aims to secure a portfolio of stores in order to launch an operating footprint upon entry. The Group plans to remain nimble and opportunistic in expanding and moving into new markets, such that if opportunities arise, the Group may accelerate its plans to enter a new market or continue to grow an existing market. Likewise it will defer its entry into a new market if it considers that appropriate opportunities are not presented at the relevant time. Regular investigation and evaluation of new stores and territories is undertaken by management to ensure that the Group's store footprint continues to expand.

### 6.5 Exchange Rates

The majority of inventory purchases that are imported by Lovisa are priced in USD. Consequently, Lovisa is exposed to movements in the exchange rate in the markets it operates in. Adverse movements could have an adverse impact on Lovisa's gross profit margin.

The Group's foreign exchange policy is aimed at managing its foreign currency exposure in order to protect profit margins by entering into forward exchange contracts specifically against movements in the USD rate against the AUD associated with its cost of goods. The Group does not currently hedge its foreign currency earnings. The Group monitors its working capital in its foreign subsidiaries to ensure exposure to movements in currency is limited.

### 6.6 Prevailing Fashions and Consumer Preferences May Change

Lovisa's revenues are entirely generated from the retailing of jewellery, which is subject to changes in prevailing fashions and consumer preferences. Failure by Lovisa to predict or respond to such changes could adversely impact the future financial performance of Lovisa. In addition, any failure by Lovisa to correctly judge customer preferences, or to convert market trends into appealing product offerings on a timely basis, may result in lower revenue and margins. In addition, any unexpected change in prevailing fashions or customer preferences may lead to Lovisa carrying increased obsolete inventory.

To mitigate this risk, Lovisa employs a product team of more than 20 people to meet market demands as described in section 5.1. As the Group responds to trends as they occur, this drives store visits by customers and significantly reduces the risk of obsolete stock.

## 7. EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial year the Directors have recommended the payment of a final dividend of \$7,980,000 (7.60 cents per fully paid share) expected to be paid on 26 October 2017. The dividend will be fully franked.

No other matters or circumstance has arisen since 2 July 2017 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

## 8. LIKELY DEVELOPMENTS

Information on likely developments is contained within the Review of Operations section of this annual report.





## 9. REMUNERATION REPORT - AUDITED

### 9.1 Remuneration Overview

The Board recognises that the performance of the Group depends on the quality and motivation of its team members employed by the Group across Australia and internationally. The Group remuneration strategy therefore seeks to appropriately attract, reward and retain team members at all levels of the business, but in particular for management and key executives. The Board aims to achieve this by establishing executive remuneration packages that include a mix of fixed remuneration, short term incentives and long term incentives.

The Board has appointed the Remuneration and Nomination Committee whose objective is to assist the Board in relation to the Group remuneration strategy, policies and actions. In performing this responsibility, the Committee must give appropriate consideration to the Group's performance and objectives, employment conditions and external remuneration relativities.

Further information surrounding the responsibilities of the Remuneration and Nomination Committee is included within Principle 8 of the Company's Corporate Governance statement.

### 9.2 Principles Used to Determine the Nature and Amount of Remuneration

#### Key Management Personnel

Key Management Personnel (KMP) have the authority and responsibility for planning, directing and controlling the activities of the consolidated entity, and comprise:

1. Non-Executive Directors
2. Managing Director
3. Chief Executive Officer
4. Chief Financial Officer

#### Non-Executive Director KMP

Michael Kay	Chairman
Paul Cave	Director
James King	Director
Tracy Blundy	Director

#### Executive KMP

Shane Fallscheer	Managing Director
Steven Doyle	Chief Executive Officer (Appointed 25 October 2016)
Graeme Fallet	Chief Financial Officer

This report has been audited by the Company's Auditor KPMG as required by Section 308 (3C) of the Corporation Act 2001.

The Remuneration and Nomination Committee is governed by its Charter which was developed in line with ASX Corporate Governance Principles and Recommendations. The Charter specifies the purpose, authority, membership and the activities of the Remuneration and Nomination Committee and the Charter is annually reviewed by the Committee to ensure it remains consistent with regulatory requirements.

### A. Principles Used to Determine the Nature and Amount of Remuneration

#### (a) Non-Executive Directors KMP Remuneration

Non-executive Directors' fees are determined within an aggregate Non-executive Directors' pool limit of \$600,000. Total Non-executive Directors' remuneration including non-monetary benefits and superannuation paid at the statutory prescribed rate for the year ended 2 July 2017 was \$390,000.

Michael Kay, the Non-executive Chairman, is entitled to receive annual fees of \$150,000, which is inclusive of superannuation. Other Non-executive Directors are entitled to receive annual fees of \$80,000 inclusive of superannuation.

The Non-executive Directors' fees are reviewed annually to ensure that the fees reflect market rates. There are no guaranteed annual increases in any Directors' fees. None of the non-executive Directors participate in the short or long term incentives.

#### (b) Executive remuneration

Lovisa's remuneration strategy is to;

- Offer a remuneration structure that will attract, focus, retain and reward highly capable people
- Have a clear and transparent link between performance and remuneration
- Build employee engagement and align management and shareholder interest through ownership of Company shares
- Ensure executive remuneration is set with regard to the size and nature of the position with reference to market benchmarks and the performance of the individual.

Remuneration will incorporate at risk elements to;

- Link executive reward with the achievement of Lovisa's business objectives and financial performance
- Ensure total remuneration is competitive by market standards.

### B. Remuneration Structure

The current executive salary and reward framework consists of the following components;

1. Base salary and benefits including superannuation
2. Short term incentive scheme comprising cash
3. Long term incentive scheme comprising options and performance rights

The mix of fixed and at risk components for each Senior Executive as a percentage of total target remuneration for the 2017 financial year is as follows

Senior Executive	Fixed remuneration	At risk remuneration
Shane Fallscheer	67%	33%
Steven Doyle	50%	50%
Graeme Fallet	67%	33%

Note: the above assumes each KMP receives their maximum STI and LTI in the relevant period. If this is not the case, then the mix would change in favour of the fixed remuneration %.

### Base Salary and Benefits

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and non-cash benefits. Retirement benefits are delivered to the employee's choice of Superannuation fund. The Company has no interest or ongoing liability to the fund or the employee in respect of retirement benefits.

### Short Term Incentive plan

The Company operates a short-term incentive (STI) plan that rewards some Executives and Management on the achievement of pre-determined key performance indicators (KPIs) established for each financial year according to the accountabilities of his/her role and its impact on the organisation's performance. KPIs include company profit targets and personal performance criteria. Using a profit target ensures variable reward is paid only when value is created for shareholders.

### Long Term Incentive plan

The Company operates a long term incentive plan. The plan is designed to align the interests of the employees with the interest of the shareholders by providing an opportunity for the employees to receive an equity interest in Lovisa. The plan provides flexibility for the Company to grant performance rights and options as incentives, subject to the terms of the individual offers and the satisfaction of performance conditions determined by the Board from time to time.

The key terms associated with the Long Term Incentive plan are;

- A Performance Option entitles the holder to acquire a share upon payment of an applicable exercise price at the end of the performance period, subject to meeting specific performance conditions.
- A Performance Right entitles the holder to acquire a share for nil consideration at the end of the performance period, subject to meeting specific performance conditions.
- Options and Performance Rights will be granted for nil consideration.
- No exercise price is payable in respect of the Performance Rights.

### Performance Conditions

The Board considers EPS Growth the most appropriate performance condition as it aligns the interest of shareholders with management.

### Initial Public Offering Grant – Performance Rights

In conjunction with the Initial Public Offering a number of Executives and Management were granted Performance Rights.

The key terms associated with the IPO Grant are;

- The performance period ends 30 June 2017.
- The grant of Performance Rights are subject to performance conditions based on achieving the Company's EPS over the performance period.
- One third of the Performance Rights will vest on the achievement of the Company's EPS Prospectus forecast.
- 50% of the remaining Performance Rights will vest on an aggregate EPS of 37.33 cents over the 2016 and 2017 financial year.
- The remaining 50% will vest on a straight line basis from 37.33 cents to 41.23 cents.

During the year 100% of Performance Rights vested with an aggregate EPS of 43.42 cents achieved over the 2016 and 2017 financial years.

### Initial Public Offering Grant - Options

In conjunction with the Initial Public Offering the Managing Director Shane Fallscheer was granted 550,000 Options at a face value of \$210,000.

The key terms associated with these options are:

- The performance period commences from the time of the Initial Public Offering and ends on 2 July 2017.
- An exercise price of \$2.30 is payable on exercise of the Options.

The grant of options were subject to the following performance conditions;

- One third awarded upon achievement of prospectus forecast.
- 50% of the remaining options will vest on an aggregate EPS of 37.33 cents over the 2016 and 2017 financial year.
- The remaining 50% will vest on a straight line basis from 37.33 cents to 41.23 cents.

During the year 100% of these options vested with an aggregate EPS of 43.42 cents achieved over the 2016 and 2017 financial years.

### FY2017 LTI – Performance Options

In May 2016 and August 2016 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2017 LTI. The key terms associated with the 2016 Grant are;

- The performance period commences 4 July 2016 and ends 30 June 2019.
- The exercise price of the Performance Options is \$2.10 for the May granted options, and \$2.63 for the August granted options, which represents the 30 day VWAP to the date of grant.
- A total of 3,459,916 Performance Options were granted in the May grant and 411,764 in the August grant. 1,687,764 of these options were subject to shareholder approval.
- The expiry of the Performance Options is 12 months following the end of the performance period.
- The grant of Performance Options are subject to performance conditions based on achieving the Company's EPS over the performance period.
- The Performance Options granted to the Managing Director were approved at the 2016 AGM.

The Board has determined the threshold EPS Target as follows;

EPS over the Performance Period	% Exercisable
Less than threshold	Nil
10% compound growth	20% awarded
12.5% compound growth	40% awarded
15% compound growth	60% awarded
17.5% compound growth	80% awarded
20% compound growth	100% awarded

### 9.3 Details of Remuneration

Details of the remuneration of the Directors and Key Management Personnel (KMPs) is set out below.

	Year	Short Term Employment Benefits			Post-Employment Benefits	Long Term Benefits	Share Based Payments	Total (\$)
		Salary & Fees (\$)	Non-monetary benefits (\$)	Performance based payment (\$)	Super Contributions (\$)	Annual & Long Service Leave (\$)	Options/Rights (\$)	
<b>NON-EXEC DIRECTORS</b>								
M Kay (1)	2017	136,986	-	-	13,014	-	-	150,000
	2016	34,247	-	-	3,253	-	-	37,500
P Cave	2017	73,059	-	-	6,941	-	-	80,000
	2016	111,510	-	-	10,593	-	-	122,103
T Blundy	2017	60,000	-	-	20,000	-	-	80,000
	2016	58,333	-	-	21,667	-	-	80,000
J King (2)	2017	73,059	-	-	6,941	-	-	80,000
	2016	9,133	-	-	867	-	-	10,000
<b>TOTAL NON-EXEC DIRECTORS</b>	<b>2017</b>	<b>343,104</b>	<b>-</b>	<b>-</b>	<b>46,896</b>	<b>-</b>	<b>-</b>	<b>390,000</b>
	2016	213,223	-	-	36,380	-	-	249,603
<b>EXEC DIRECTORS</b>								
S Fallscheer	2017	607,025	22,023	-	30,000	65,891	245,144	970,083
	2016	668,454	8,425	-	30,000	96,415	100,489	903,783
<b>OTHER KMP</b>								
S Doyle (3)	2017	546,118	-	225,000	19,616	47,787	100,000	938,521
	2016	382,519	-	-	12,872	29,630	-	425,021
G Fallet (4)	2017	367,217	-	60,000	21,250	30,299	40,000	518,766
	2016	84,598	-	-	4,291	6,493	-	95,382
<b>TOTAL EXEC</b>	<b>2017</b>	<b>1,520,360</b>	<b>22,023</b>	<b>285,000</b>	<b>70,866</b>	<b>143,978</b>	<b>385,144</b>	<b>2,427,370</b>
	2016	1,135,571	8,425	-	47,163	132,538	100,489	1,424,186

(1) Appointed to the Board of Lovisa Holdings on 13th April 2016

(2) Appointed to the Board of Lovisa Holdings on 17th May 2016

(3) Appointed Global General Manager on 4th November 2015 and appointed CEO on 25 October 2016

(4) Appointed Chief Financial Officer on 14th April 2016



#### 9.4 STI Remuneration Analysis

##### Analysis of STI included in remuneration

Details of STI bonuses awarded as remuneration to each key management person are detailed below.

	Grant Date	STI awarded (\$)	STI awarded as % of maximum STI	% of STI award forfeited
S Doyle	15 August 2017	225,000	75%	25%
G Fallet	15 August 2017	60,000	75%	25%

#### 9.5 Equity Remuneration Analysis

##### Analysis of Performance Rights over Equity Instruments Granted as Compensation

Details of the vesting profile of performance rights awarded as remuneration to each key management person are detailed below.

	Performance Rights/Options granted			Included in Remuneration \$	% vested in the period	% forfeited in the period	Financial period in which grant vests
	Number	Value \$	Performance period commences				
<b>S Fallscheer</b>							
IPO LTIP	550,000	210,000	18 December 2014	111,811	100	-	2 July 2017
FY17 LTIP	1,687,764	400,000	4 July 2016	133,333	-	-	30 June 2019
<b>S Doyle</b>							
FY17 LTIP	1,265,823	300,000	4 July 2016	100,000	-	-	30 June 2019
<b>G Fallet</b>							
FY17 LTIP	506,329	120,000	4 July 2016	40,000	-	-	30 June 2019

#### 9.6 Options and Performance Rights Over Equity Instruments

The movement during the reporting period in the number of performance rights and options over ordinary shares in Lovisa Holdings Limited held directly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 4 July 2016	Granted	Exercised	Forfeited	Held at 2 July 2017	Vested during the year %	Vested and exercisable at 2 July 2017
<b>Directors</b>							
S Fallscheer							
- IPO LTIP	550,000	-	-	-	550,000	100	550,000
- FY17 LTIP	1,687,764	-	-	-	1,687,764	-	-
<b>Executives</b>							
S Doyle							
- FY17 LTIP	1,265,823	-	-	-	1,265,823	-	-
G Fallet							
- FY17 LTIP	506,329	-	-	-	506,329	-	-

P/27

For personal use only



**9.7 Consequences of Performance on Shareholder Wealth**

In considering the consolidated entity's performance and the benefits for shareholder wealth, the Remuneration and Nomination Committee has regard to a range of indicators in respect of senior executive remuneration and linked these to the previously described short and long term incentives.

The following table presents these indicators showing the impact of the Group's performance on shareholder wealth, during the financial years:

	FY 2017	FY2016	FY2015*
Net profit after tax (\$000)	29,046	16,553	17,602
Dividends paid (\$000)	12,600	11,277	14,591
Share Price	\$3.69	\$2.28	\$3.50

\* Pro-forma result as disclosed in 2015 Lovisa Holdings Ltd Annual Report

*KMP Shareholdings*

The following table details the ordinary shareholdings and the movements in the shareholdings of KMP (including their personally related entities) for FY2017.

No. of shares	Held at 3 July 2016	Shares Purchased	Held at 2 July 2017
<b>Non-executive Directors</b>			
M Kay	250,000	-	250,000
T Blundy	1,153,005	-	1,153,005
P Cave	1,000,000	-	1,000,000
J King	-	34,000	34,000
<b>Executive Directors</b>			
S Fallscheer	4,490,000	-	4,490,000
<b>Executive</b>			
S Doyle	-	164,000	164,000
G Fallet	-	-	-



## 10. INSURANCE OF OFFICERS AND INDEMNITIES

During the financial year, Lovisa Holdings Limited paid a premium of \$43,000 (2016: \$37,000) to insure the Directors and officers of the Group.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group.

## 11. AUDIT SERVICES

### 11.1 Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 79 and forms part of this Directors' Report.

### 11.2 Audit and Non-Audit Services Provided by the External Auditor

During the financial year ended 2 July 2017, the following fees were paid or were due and payable for services provided by the external auditor, KPMG, of the Consolidated Entity:

Consolidated Entity	2017 \$000	2016 \$000
<b>Audit and assurance services</b>		
Audit and review of financial statements	230	220
<b>Other services</b>		
Tax compliance services	129	47
Other accounting services	86	107
	445	374

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The Board of Directors has considered the position and, in accordance with advice received from the Audit, Business Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit, Business Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

## 12. PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## 13. ENVIRONMENTAL REGULATION

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Directors believe that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of these environmental requirements as they apply to the entity.

## 14. ROUNDING OF AMOUNTS

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the Directors



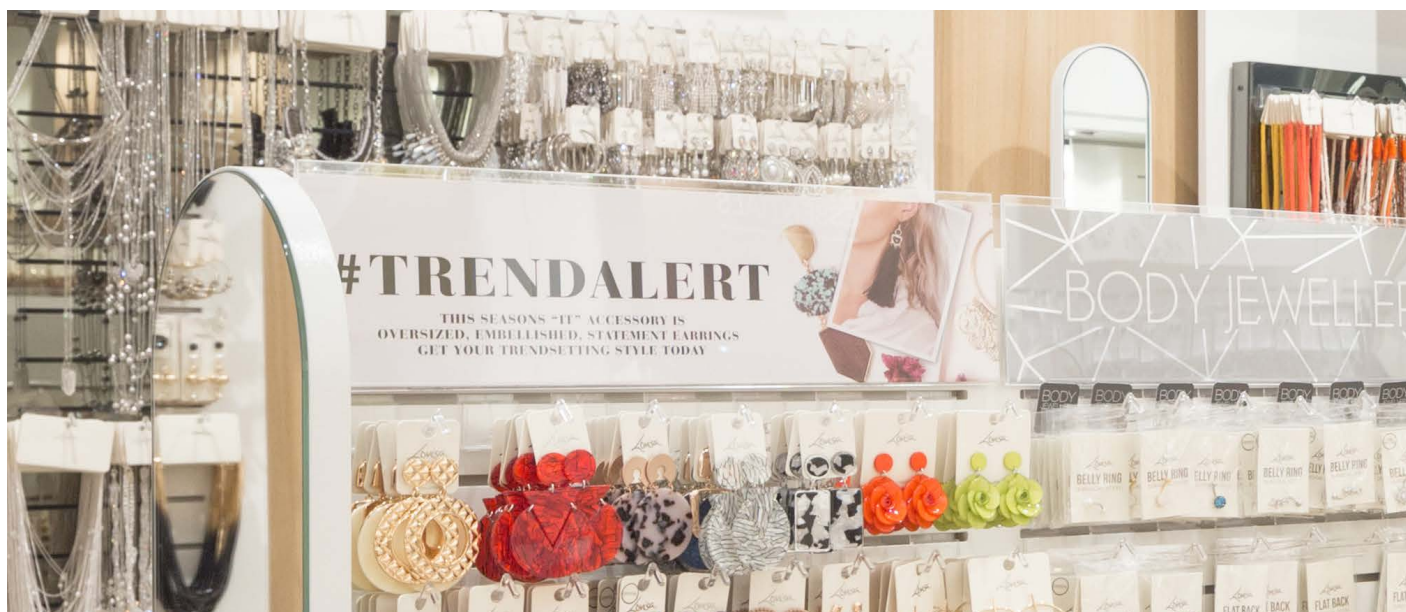
Michael Kay  
Non-Executive Chairman



Shane Fallscheer  
Managing Director

Melbourne, 23 August 2017





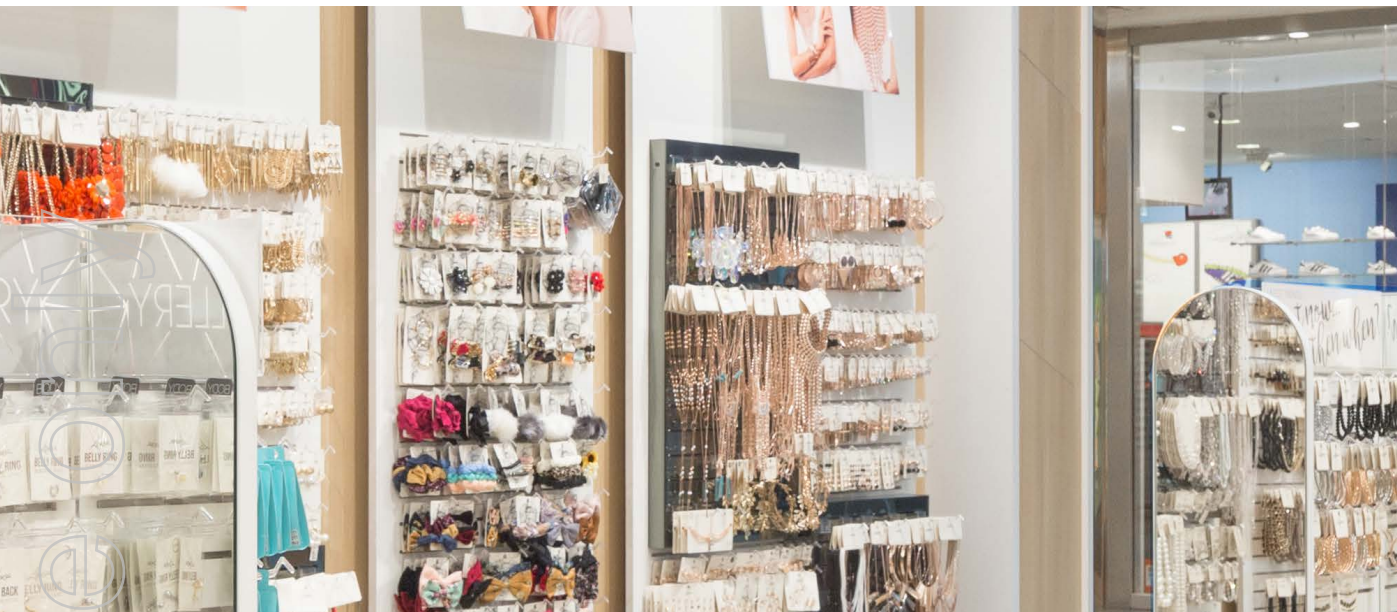
# CONTENTS

## Financial Statements

Consolidated statement of financial position	34
Consolidated statement of profit or loss and other comprehensive income	35
Consolidated statement of changes in equity	36
Consolidated statement of cash flows	37

## Notes to the consolidated financial statements

Setting the scene	38
Business performance	40
A1 Operating segments	40
A2 Revenue	41
A3 Expenses	42
A4 Earnings per share	42
A5 Dividends	43
A6 Income taxes	43
Asset platform	46
B1 Trade and other receivables	46
B2 Inventories	46
B3 Property, plant and equipment	46
B4 Intangible assets and goodwill	48
B5 Impairment of property, plant and equipment & intangible assets and goodwill	48
B6 Trade and other payables	49
B7 Provisions	49
B8 Employee benefits	50



For personal use

**Notes to the consolidated financial statements cont'd**

Risk and capital management	52
C1 Capital and reserves	52
C2 Capital management	53
C3 Loans and borrowings	53
C4 Financial instruments – Fair values and risk management	54
C5 Cash flows	60
Other information	62
D1 List of subsidiaries	62
D2 Operating leases	62
D3 Commitments and contingencies	63
D4 Share-based payment arrangements	63
D5 Related parties	66
D6 Auditors' remuneration	67
D7 Deed of cross guarantee	68
D8 Parent entity disclosures	70
D9 New standards and interpretations adopted by the group	70
D10 New standards and interpretations not yet adopted	71
<b>Signed Reports</b>	
Directors' declaration	74
Independent auditor's report	75
Lead auditor's independence declaration	79
<b>ASX information</b>	
Shareholder information	82
Corporate directory	84



For personal use only





For personal use only

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 2 July 2017

	Note	2 July	3 July
<i>Consolidated (\$000s)</i>		2017	2016
<b>Assets</b>			
Cash and cash equivalents	C5	12,744	8,295
Trade and other receivables	B1	3,615	2,293
Inventories	B2	13,127	15,034
<b>Total current assets</b>		29,486	25,622
Deferred tax assets	A6	3,275	1,823
Property, plant and equipment	B3	15,658	13,123
Intangible assets and goodwill	B4	2,276	2,073
<b>Total non-current assets</b>		21,209	17,019
<b>Total assets</b>		50,695	42,641
<b>Liabilities</b>			
Bank overdraft	C5	1,705	3,566
Trade and other payables	B6	10,001	8,350
Employee benefits - current	B8	2,075	1,594
Derivatives	C4	805	909
Provisions - current	B7	1,042	655
Current tax liabilities		3,819	1,487
<b>Total current liabilities</b>		19,447	16,561
Employee benefits - non current	B8	608	401
Loans and borrowings	C3	-	12,000
Provisions - non current	B7	2,451	2,508
<b>Total non-current liabilities</b>		3,059	14,909
<b>Total liabilities</b>		22,506	31,470
<b>Net assets</b>		28,189	11,171
<b>Equity</b>			
Issued capital	C1	208,526	208,526
Common control reserve		(208,906)	(208,906)
Other reserves		(461)	(1,032)
Retained earnings		29,030	12,584
<b>Total equity</b>		28,189	11,171

The Notes on pages 38 to 71 are an integral part of these consolidated financial statements.

For personal use only

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the financial year ended 2 July 2017

Consolidated (\$'000s)	Note	2017	2016
Revenue	A2	178,746	153,461
Cost of sales		(37,924)	(39,899)
<b>Gross profit</b>		140,822	113,562
Salaries and employee benefits expense	A3	(45,276)	(39,980)
Property expenses		(28,683)	(25,881)
Distribution costs		(4,464)	(4,340)
Depreciation and amortisation expense		(5,539)	(6,034)
Loss on disposal of property, plant and equipment		(785)	(162)
Other expenses		(15,371)	(12,943)
<b>Operating profit</b>		40,704	24,222
Finance income		142	49
Finance costs		(404)	(723)
<b>Net finance costs</b>		(262)	(674)
<b>Profit before tax</b>		40,442	23,548
Income tax expense	A6	(11,396)	(6,995)
<b>Profit after tax</b>		29,046	16,553
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Cash flow hedges		41	(772)
Foreign operations - foreign currency translation differences		90	(257)
		131	(1,029)
<b>Other comprehensive income, net of tax</b>		131	(1,029)
<b>Total comprehensive income</b>		29,177	15,524
<b>Profit attributable to:</b>			
Owners of the Company		29,046	16,553
		29,046	16,553
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		29,177	15,524
<b>Total comprehensive income for the year</b>		29,177	15,524
<b>Earnings per share</b>			
Basic earnings per share (cents)	A4	27.66	15.76
Diluted earnings per share (cents)	A4	27.25	15.74

The Notes on pages 38 to 71 are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 2 July 2017

## Attributable to Equity Holders of the Company

<i>Consolidated (\$000s)</i>	Note	Share Capital	Common Control Reserve	Retained Earnings	Share Based Payments Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Total Equity
<b>Balance at 29 June 2015</b>		208,526	(208,907)	7,308	-	-	(119)	6,808
<b>Total comprehensive income for the year</b>								
Profit		-	-	16,553	-	-	-	16,553
Cash flow hedges		-	-	-	-	(772)	-	(772)
Foreign operations - foreign currency translation differences		-	-	-	-	-	(257)	(257)
Total comprehensive income for the year		-	-	16,553	-	(772)	(257)	15,524
<b>Transactions with owners of the Company</b>								
Employee share schemes	D4	-	-	-	116	-	-	116
Dividends	A5	-	-	(11,277)	-	-	-	(11,277)
Total transactions with owners of the Company		-	-	(11,277)	116	-	-	(11,161)
<b>Balance at 3 July 2016</b>		208,526	(208,907)	12,584	116	(772)	(376)	11,171
<b>Balance at 4 July 2016</b>		208,526	(208,907)	12,584	116	(772)	(376)	11,171
<b>Total comprehensive income for the year</b>								
Profit		-	-	29,046	-	-	-	29,046
Cash flow hedges		-	-	-	-	41	-	41
Foreign operations - foreign currency translation differences		-	-	-	-	-	90	90
Total comprehensive income for the year		-	-	29,046	-	41	90	29,177
<b>Transactions with owners of the Company</b>								
Employee share schemes	D4	-	-	-	440	-	-	440
Dividends	A5	-	-	(12,600)	-	-	-	(12,600)
Total transactions with owners of the Company		-	-	(12,600)	440	-	-	(12,160)
<b>Balance at 2 July 2017</b>		208,526	(208,907)	29,030	556	(731)	(286)	28,189

The Notes on pages 38 to 71 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 2 July 2017

<i>Consolidated (\$000s)</i>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		197,296	169,891
Cash paid to suppliers and employees		(146,931)	(137,475)
Cash generated from operating activities		50,365	32,416
Interest received		142	49
Interest paid		(404)	(723)
Income taxes paid		(10,471)	(8,404)
<b>Net cash from operating activities</b>	C5	39,632	23,338
<b>Cash flows from investing activities</b>			
Acquisition of fixed assets	B3	(8,800)	(9,282)
Proceeds from sale of property, plant and equipment		-	21
Acquisition of subsidiary, net of cash acquired		-	(250)
<b>Net cash used in investing activities</b>		(8,800)	(9,511)
<b>Cash flows from financing activities</b>			
Repayment of cash advance facility		(12,000)	-
Dividends paid	A5	(12,600)	(11,277)
<b>Net cash used in financing activities</b>		(24,600)	(11,277)
<b>Net increase in cash and cash equivalents</b>		6,231	2,550
Cash and cash equivalents at the beginning of the year	C5	4,729	2,343
Effect of movement in exchange rates on cash held		79	(164)
<b>Cash and cash equivalents at the end of the year</b>	C5	11,039	4,729

The Notes on pages 38 to 71 are an integral part of these consolidated financial statements.

# SETTING THE SCENE



Lovisa Holdings Limited (the “Company”) is a for-profit company incorporated and domiciled in Australia with its registered office at 41-45 Camberwell Road, Hawthorn East, Victoria 3123. The consolidated financial statements comprise the Company and its subsidiaries (collectively the “Group” and individually the “Group companies”). The Group is primarily involved in the retail sale of fashion jewellery and accessories.

Lovisa Holdings Limited reports within a retail financial period. The current financial year represents a 52 week period ended on the 2 July 2017 (2016: 53 week period ended 3 July 2016). This treatment is consistent with section 323D of Corporations Act 2001.

The consolidated financial statements of the Group for the financial year ended 2 July 2017 were authorised for issue by the Board of Directors on 23 August 2017.

## Basis of accounting

The consolidated financial statements and supporting notes form a general purpose financial report. It:

- Has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AASBs) including Australian Accounting Interpretations, adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) and Interpretations as issued by the International Accounting Standards Board;
- Has been prepared on a historical cost basis except for derivative financial instruments which are measured at fair value. Non-current assets are stated at the lower of carrying amount and fair value less costs to sell;
- Presents reclassified comparative information where required for consistency with the current year’s presentation;
- Adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2016. Refer to note D9 for further details; and
- Does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective except as disclosed in note D10.

## Use of judgements and estimates

In preparing these consolidated financial statements, management has made a number of judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Judgements and estimates which are material to the financial statements are outlined below:

### Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the financial year ended 2 July 2017 are included in the following notes:

- Note A6 – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used;
- Note B5 – impairment test: key assumptions underlying recoverable amounts, including the recoverability of goodwill; and
- Notes B7 and D3 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

## Basis of consolidation

### Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note B5). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see note C1).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.



**Subsidiaries**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power to direct activities of the entity.

The financial results of subsidiaries are included in the consolidated financial information from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

**Foreign currency****Functional and presentation currency**

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

**Translation of foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Lovisa at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

**Foreign operations**

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the exchange rates at the end of the reporting period.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign currency operation is disposed of, the cumulative amount in the translation reserve related to that foreign operation is transferred to profit or loss on disposal of the entity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange

gains and losses arising from such a monetary item that are considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented in the translation reserve in equity.

**About the Notes to the financial statements**

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- The amount with respect to the information is significant because of its size or nature;
- The information is important for understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group's business; or
- It relates to an aspect of the Group's operations that is important to its future performance.

**Subsequent events**

There are no matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in future financial years.



For personal use only

# BUSINESS PERFORMANCE

*This section highlights key financial performance measures of the Lovisa Group's operating segments, as well as Group financial metrics incorporating revenue, earnings, taxation and dividends.*



## A1 OPERATING SEGMENTS

### (a) Basis for segmentation

The Chief Operating Decision Maker (CODM) for Lovisa Holdings Limited and its controlled entities, is the Managing Director (MD). For management purposes, the Group is organised into geographic segments to review sales by territory. All territories offer similar products and services and are managed by sales teams in each territory reporting to the Global GM of Sales, however overall company performance is managed on a global level by the MD and the Group's management team. Store performance is typically assessed at an individual store level. Lovisa results are aggregated to form one reportable operating segment, being the retail sale of fashion jewellery and accessories. This is a difference in the basis of segmentation from the 3 July 2016 annual report. The individual stores meet the aggregation criteria to form a reportable segment.

The company's stores exhibit similar long-term financial performance and economic characteristics throughout the world, which include:

- a. Consistent products are offered throughout the company's stores worldwide;
- b. All stock sold throughout the world utilises common design processes and products are sourced from the same supplier base;
- c. Customer base is similar throughout the world;
- d. All stores are serviced from two delivery centres;
- e. No major regulatory environment differences exist between operating territories.

As the Group reports utilising one reportable operating segment, no reconciliation of the total of the reportable segments measure of profit or loss to the consolidated profit has been provided as no reconciling items exist.

**(b) Geographic information**

The segments have been disclosed on a regional basis consisting of Australia and New Zealand, Asia (consisting of Singapore and Malaysia), Africa (South Africa) and Europe (United Kingdom and Spain) and the Group's franchise stores in the Middle East and Asia. Geographic revenue information is included in Note A2.

In presenting the following information, segment assets were based on the geographic location of the assets.

(\$000s)	2017	2016
	Non-current assets (i)	Non-current assets (i)
a) Australia / New Zealand	8,499	8,008
b) Asia	1,763	2,046
c) Africa	3,186	2,344
d) Europe	2,210	725
<b>Total</b>	<b>15,658</b>	<b>13,123</b>

(i) Excluding financial instruments, deferred tax assets, employee benefit assets and intangible assets.

**A2 REVENUE****Revenue by nature and geography**

The geographic information below analyses the Group's revenue by region. In presenting the following information, segment revenue has been based on the geographic location of customers.

(\$000s)	2017	2016
<b>Sale of Goods</b>		
Australia / New Zealand	122,577	108,401
Asia	28,320	25,500
Africa	21,895	18,182
Europe	4,830	530
<b>Total Sale of Goods</b>	<b>177,622</b>	<b>152,613</b>
<b>Franchise Revenue</b>		
Middle East	891	848
Asia	233	-
<b>Total Franchise Revenue</b>	<b>1,124</b>	<b>848</b>
<b>Total Revenue</b>	<b>178,746</b>	<b>153,461</b>

**a) Revenue recognition and measurement**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns and trade discounts. The following specific recognition criteria must also be met before revenue is recognised:

**Sale of Goods**

Revenue from the sale of fashion jewellery is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

**Franchise income**

Franchise income, which is generally earned based upon a percentage of sales is recognised on an accrual basis.



## A3 EXPENSES

### Expenses by nature

Consolidated (\$000s)	2017	2016
Lease expense	23,861	24,516
Salaries and employee benefits expense		
Wages and salaries	41,047	36,362
Compulsory social security contributions	3,677	3,380
Increase in liability for long-service leave	112	122
Share-based payment expense	440	116
Total salaries and employee benefits expense	45,276	39,980

## A4 EARNINGS PER SHARE (EPS)

### Calculation methodology

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

### EPS for profit attributable to ordinary shareholders of Lovisa Holdings Limited

	2017	2016
Basic EPS (cents)	27.66	15.76
Diluted EPS (cents)	27.25	15.74
Profit attributable to ordinary shareholders (\$000s)	29,046	16,553
Weighted average number of ordinary shares for basic EPS (shares)	105,000,000	105,000,000
Weighted average number of ordinary shares and potential ordinary shares for diluted EPS (shares)	106,581,406	105,193,666

	2017	2016
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	105,000,000	105,000,000
Adjustments for calculation of diluted earnings per share:		
Options	1,565,406	188,333
Performance Rights	16,000	5,333
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	106,581,406	105,193,666

### Information concerning the classification of securities

#### i) Options and performance rights

Options and performance rights granted to employees under the Lovisa Holdings Long Term Incentive Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required hurdles would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options and performance rights have not been included in the determination of basic earnings per share. Details relating to the options are set out in note D4.



## A5 DIVIDENDS

The Board may pay any interim and final dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

The following dividends were declared and paid by the Company for the year.

<i>Consolidated (\$000s)</i>	<b>2017</b>	<b>2016</b>
2.00 cents per qualifying ordinary share (2016: 4.07 cents)	2,100	4,273
10.00 cents per qualifying ordinary share (2016: 6.67 cents)	10,500	7,004
	12,600	11,277

After the reporting date, the following dividends were proposed by the Board of Directors. The dividends have not been recognised as liabilities and there are no tax consequences.

<i>Consolidated (\$000s)</i>	<b>2017</b>	<b>2016</b>
7.60 cents per qualifying ordinary share (2016: 2.00 cents)	7,980	2,100
	7,980	2,100

<i>Consolidated (\$000s)</i>	<b>2017</b>	<b>2016</b>
<b>Dividend franking account</b>		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2016: 30%)	5,363	2,308

## A6 INCOME TAXES

### Recognition and measurement

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following differences are not provided for: reversal of buy back of company shares, goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

### (a) Amounts recognised in profit or loss

<i>Consolidated (\$000s)</i>	<b>2017</b>	<b>2016</b>
<b>Current tax expense</b>		
Current period	12,933	6,218
Changes in estimates related to prior years	(79)	-
	12,854	6,218
<b>Deferred tax (benefit)/expense</b>		
Origination and reversal of temporary differences	(1,148)	777
Changes in temporary differences related to prior years	(310)	-
	(1,458)	777
<b>Total income tax expense</b>	<b>11,396</b>	<b>6,995</b>

## A6 INCOME TAXES (CONTINUED)

## (b) Reconciliation of effective tax rate

Consolidated (\$000s)	2017	2016
Profit before tax from continuing operations	40,442	23,548
Tax at the Australian tax rate of 30% (2016: 30%)	12,133	7,064
Effect of tax rates in foreign jurisdictions	(674)	(384)
Non-deductible expenses	318	225
Tax exempt income	(52)	(8)
Utilisation of carried-forward tax losses	(201)	(24)
Current year losses for which no deferred tax asset is recognised	262	122
Changes in estimate related to prior years	(390)	-
<b>Total non temporary differences</b>	<b>11,396</b>	<b>6,995</b>
<b>Temporary differences</b>		
Amounts recognised in OCI	(51)	45
Net movement in deferred tax balances	1,458	(777)
<b>Total temporary differences</b>	<b>1,407</b>	<b>(732)</b>
<b>Income taxes payable for the current financial year</b>	<b>12,803</b>	<b>6,263</b>
Income taxes payable at the beginning of the year	1,487	3,628
Less: Tax paid during the year	(10,471)	(8,404)
<b>Income taxes payable as at year end</b>	<b>3,819</b>	<b>1,487</b>
<b>Represented in the Statement of financial position by:</b>		
Current tax liabilities	3,819	1,487
Current tax assets	-	-
	3,819	1,487

**Effective tax rates (ETR)***Bases of calculation of each ETR*

Global operations – Total consolidated tax expense ETR: IFRS calculated total consolidated company income tax expense divided by total consolidated accounting profit on continuing operations.

Australian operations – Australian company income tax expense ETR: IFRS calculated company income tax expense for all Australian companies and Australian operations of overseas companies included in these consolidated financial statements, divided by accounting profit derived by all Australian companies included in these consolidated financial statements.

Percentage	2017	2016
<b>ETR</b>		
Global operations – Total consolidated tax expense	28.2%	29.7%
Australian operations – Australian company income tax expense	29.9%	29.3%

## A6 INCOME TAXES (CONTINUED)

## (c) Deferred tax assets and liabilities reconciliation

<i>Consolidated (\$000s)</i>	Statement of financial position		Statement of profit or loss	
	2017	2016	2017	2016
Property, plant and equipment	357	(397)	(760)	563
Employee benefits	967	719	(248)	(160)
Provisions	1,084	754	(332)	92
Other items	397	43	(353)	(27)
Transaction costs	469	704	235	309
Carry forward tax losses	-	-	-	-
<b>Deferred tax expense</b>			(1,458)	777
<b>Net deferred tax assets</b>	<b>3,275</b>	<b>1,823</b>		
Presented in the Statement of financial position as follows:				
Deferred tax assets	3,275	1,823		

Unused tax losses for which no deferred tax asset has been recognised total \$913,000 (2016: \$907,000).

## (d) Expected settlement of deferred tax balances

<i>Consolidated (\$000s)</i>	2017	2016
Deferred tax assets expected to be settled within 12 months	2,454	1,604
Deferred tax assets expected to be settled after 12 months	1,169	863
	3,623	2,467
Deferred tax liabilities expected to be settled within 12 months	178	302
Deferred tax liabilities expected to be settled after 12 months	171	342
	348	644
<b>Net deferred tax assets</b>	<b>3,275</b>	<b>1,823</b>



# ASSET PLATFORM

This section outlines the key operating assets owned and liabilities incurred by the Group.

## B1 TRADE AND OTHER RECEIVABLES

### Recognition and measurement

Trade and other receivables are initially recognised at fair value and subsequently stated at their amortised cost using the effective interest method, less impairment losses.

Consolidated (\$000s)	Note	2017	2016
Trade receivables		1,001	375
Deposits		1,954	1,214
Prepayments		620	610
Other receivables		40	94
		3,615	2,293

### Impairment of receivables

Recoverability of receivables is assessed monthly to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Significant receivables are individually assessed for impairment. Receivables with a short duration are not discounted.

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is disclosed in Note C4.

## B2 INVENTORIES

### Recognition and measurement

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost includes the product purchase cost, import freight and duties together with other costs incurred in bringing inventory to its present location and condition using the weighted average cost method. All stock on hand relates to finished goods.

Costs of goods sold comprises purchase price from the supplier, cost of shipping product from supplier to warehouse, shrinkage and obsolescence. Warehouse and outbound freight costs are reported as distribution expenses. Inventories recognised as expenses during 2017 and included in cost of sales amount to \$32,508,000 (2016: \$34,564,000).

During 2017 inventories of \$5,180,000 (2016: \$4,801,000) were written down to net realisable value and included in cost of sales.

## B3 PROPERTY, PLANT AND EQUIPMENT

### Recognition and measurement

#### Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of acquired assets includes estimates of the costs of dismantling and removing the items and restoring the site on which they are located where it is probable that such costs will be incurred.

#### Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the entity and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

#### Depreciation and amortisation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life on all property, plant and equipment. Land is not depreciated.

The residual value, the useful life and the depreciation method applied to an asset are re-assessed at least annually.

#### Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount of the disposed asset and are recognised in the profit or loss in the year the disposal occurs.

## B3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

## Reconciliation of carrying amount

<i>Consolidated (\$000s)</i>	<b>Note</b>	<b>Leasehold improvements</b>	<b>Hardware and software</b>	<b>Fixtures and fittings</b>	<b>Office equipment</b>	<b>Total</b>
<b>Depreciation policy</b>		Lease term	3 years	3 years	3 years	
<b>Cost</b>						
Balance at 29 June 2015		23,400	2,482	436	53	26,371
Additions		8,379	620	283	-	9,282
Disposals		(3,320)	(94)	-	-	(3,414)
Effect of movements in exchange rates		(306)	(21)	-	-	(327)
<b>Balance at 3 July 2016</b>		<b>28,153</b>	<b>2,987</b>	<b>719</b>	<b>53</b>	<b>31,912</b>
Balance at 4 July 2016		28,153	2,987	719	53	31,912
Additions		7,962	684	151	3	8,800
Disposals		(3,495)	(2,124)	(679)	(53)	(6,351)
Effect of movements in exchange rates		(89)	8	-	-	(81)
<b>Balance at 2 July 2017</b>		<b>32,532</b>	<b>1,555</b>	<b>191</b>	<b>3</b>	<b>34,281</b>

<i>Consolidated (\$000s)</i>	<b>Note</b>	<b>Leasehold improvements</b>	<b>Hardware and software</b>	<b>Fixtures and fittings</b>	<b>Office equipment</b>	<b>Total</b>
<b>Accumulated depreciation and impairment losses</b>						
Balance at 29 June 2015		(14,017)	(1,657)	(269)	(27)	(15,971)
Depreciation		(5,356)	(535)	(127)	(16)	(6,034)
Disposals		3,148	83	-	-	3,231
Effect of movements in exchange rates		(20)	5	-	-	(15)
<b>Balance at 3 July 2016</b>		<b>(16,245)</b>	<b>(2,104)</b>	<b>(396)</b>	<b>(43)</b>	<b>(18,789)</b>
Balance at 4 July 2016		(16,245)	(2,104)	(396)	(43)	(18,789)
Depreciation		(4,861)	(522)	(146)	(10)	(5,539)
Disposals		3,089	1,920	504	52	5,566
Effect of movements in exchange rates		137	2	1	-	140
<b>Balance at 2 July 2017</b>		<b>(17,881)</b>	<b>(704)</b>	<b>(37)</b>	<b>(1)</b>	<b>(18,623)</b>
<b>Carrying amounts</b>						
At 28 June 2015		9,382	825	167	25	10,400
At 3 July 2016		11,908	883	323	10	13,123
<b>At 2 July 2017</b>		<b>14,651</b>	<b>851</b>	<b>154</b>	<b>2</b>	<b>15,658</b>

## B4 INTANGIBLE ASSETS AND GOODWILL

### Recognition and measurement

#### Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

#### Amortisation

Goodwill is not amortised.

### (a) Reconciliation of carrying amount

Consolidated (\$000s)	Note	Goodwill
<b>Cost</b>		
Balance at 29 June 2015		1,610
Finalisation of purchase price adjustment from previous business combination		984
Effect of movements in exchange rates		(522)
<b>Balance at 3 July 2016</b>		<b>2,073</b>
Balance at 4 July 2016		2,073
Effect of movements in exchange rates		203
<b>Balance at 2 July 2017</b>		<b>2,276</b>

## B5 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AND GOODWILL

### Recognition and measurement

#### Impairment

The carrying amounts of the Group's property, plant and equipment, and intangible assets and goodwill, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated in line with the calculation methodology listed below.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

#### Calculation of recoverable amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### Impairment test

#### Impairment testing for CGUs containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's CGUs identified by country.

The recoverable amount of each CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU.

Key assumptions used in the calculation of value in use were as follows:

In Percent	2017	2016
Discount rate	15.0%	12.7%
Budgeted EBITDA growth rate (average of next five years)	3.0%	5.0%

The discount rate was a pre-tax measure based on the rate of 10-year government bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific CGU.



## B5 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

### Impairment test (continued)

#### Impairment testing for CGUs containing goodwill (continued)

Five years of cash flows were included in the discounted cash flow model with a long-term growth rate into perpetuity determined as the lower of the nominal GDP rates for the countries in which the CGU operates and the long-term compound annual EBITDA growth rate estimated by management.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth with FY18 balances based on budgeted results. Beyond this period, revenue growth was projected taking into account the growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

If no growth was budgeted to occur no impairment would result.

### Reversals of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in previous years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

There were no material reversals of impairment in the current or prior year.

## B6 TRADE AND OTHER PAYABLES

### Recognition and measurement

Liabilities for trade payables and other amounts are carried at their amortised cost.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Consolidated (\$000s)	2017	2016
Trade payables	4,568	4,292
Non-trade payables and accrued expenses	5,433	4,058
	10,001	8,350

Trade payables are unsecured and are usually paid within 30 days of recognition. Information about the Group's exposure to currency and liquidity risk is included in Note C4.

## B7 PROVISIONS

### Recognition and measurement

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Consolidated (\$000s)	Site restoration	Straight line rent and lease incentive	Onerous lease	Other provisions	Total
Balance at 4 July 2016	1,721	791	411	240	3,163
Provisions made during the year	865	448	-	-	1,313
Provisions used during the year	(669)	(115)	-	-	(784)
Provisions released during the year	-	-	-	(240)	(240)
Effect of movement in exchange rates	39	2	-	-	41
Balance at 2 July 2017	1,956	1,126	411	-	3,493
Current	552	79	411	-	1,042
Non-current	1,404	1,047	-	-	2,451
	1,956	1,126	411	-	3,493

**B7 PROVISIONS (CONTINUED)****Recognition and measurement (continued)****(a) Site restoration**

Description	Key Estimates
<p>In accordance with the Group's legal requirements, a provision for site restoration in respect of make good of leased premises is recognised when the premises are occupied.</p> <p>The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.</p> <p>The amount of the provision for future restoration costs is capitalised and is depreciated in accordance with the policy set out above. The unwinding of the effect of discounting on the provision is recognised as a finance cost.</p>	<p>Expenditure to settle the restoration obligation at the end of the lease term is based on the Group's best estimate.</p>

**(b) Straight line rent and lease incentive**

Description	Key Estimates
<p>Lease payments are recognised on a straight-line basis over the lease term.</p> <p>The lease incentive liability in relation to non-cancellable operating leases are offset against lease rental expense on a straight line basis over the lease term (generally three to five years).</p>	<p>No major estimation required in the calculation of these provisions.</p>

**c) Onerous leases**

Description	Key Estimates
<p>Onerous leases arise when the cost of exiting an existing lease is greater than the loss on the sub-lease arrangement. In these circumstances, the best estimate is made of the expenditure required to settle the present obligation at the end of the reporting period with a provision made based on the least net cost alternative of exiting the lease. Provisions are based on the excess of the cash flows for the unavoidable costs in meeting the obligations under the lease over the unrecognised estimated future economic benefits from the lease.</p> <p>Where the Group has agreed to exit an existing lease early, these balances have been accrued for at year-end.</p>	<ul style="list-style-type: none"> <li>• Sub-lease party to undertake rental in line with agreements</li> <li>• Expenditure to settle the lease at the end of the lease term is based on the Group's best estimate</li> </ul>

**B8 EMPLOYEE BENEFITS****Recognition and measurement***Long-term service benefits*

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using high quality Australian corporate bond rates at the balance sheet date which have maturity dates approximating to the terms of the Group's obligations.

*Short-term benefits*

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

**B8 EMPLOYEE BENEFITS (CONTINUED)****Recognition and measurement (continued)**

<i>Consolidated (\$000s)</i>	<b>2017</b>	<b>2016</b>
<b>Current</b>		
Liability for annual leave	2,075	1,594
<b>Total employee benefit liabilities</b>	<b>2,075</b>	<b>1,594</b>
<i>Consolidated (\$000s)</i>	<b>2017</b>	<b>2016</b>
<b>Non-Current</b>		
Liability for long-service leave	608	401
<b>Total employee benefit liabilities</b>	<b>608</b>	<b>401</b>

For details on the related employee benefit expenses, see Note A3.

**Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

For personal use only

# RISK AND CAPITAL MANAGEMENT

This section discusses the Group's capital management practices, as well as the instruments and strategies utilised by the Group in minimising exposures to and impact of various financial risks on the financial position and performance of the Group.

## C1 CAPITAL AND RESERVES

### Recognition and measurement

#### Ordinary shares

Initially, share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### (a) Share capital

	No. of Ordinary Shares		Value of Ordinary Shares	
	2017	2016	2017	2016
	'000's	'000's	'\$000's	'\$000's
On issue at beginning/end of year	105,000	105,000	208,526	208,526

All ordinary shares rank equally with regard to the Company's residual assets.

#### (i) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of these shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company. All rights attached to the Company's shares held by the Group are suspended until those shares are reissued.

#### (b) Nature and purpose of reserves

##### (i) Common control reserve

The Group's accounting policy is to use book value accounting for common control transactions. The book value used is the book value of the transferor of the investment. Book value accounting is applied on the basis that the entities are part of a larger economic group, and that the figures from the larger group are the relevant ones. In applying book value accounting, no entries are recognised in profit or loss; instead, the result of the transaction is recognised in equity as arising from a transaction with shareholders.

The book value (carry-over basis) is accounting on the basis that the investment has simply been moved from one Group owner to a new Group Company. In applying book value accounting, an adjustment may be required in equity to reflect any difference between the consideration received and the aggregated capital of the transferee. The adjustment is reflected in the 'common control reserve' capital account.

##### (ii) Translation reserve

The translation reserve reflects all foreign currency differences of the international entities upon translation to the Group's functional currency.

##### (iii) Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

#### Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.



## C1 CAPITAL AND RESERVES (CONTINUED)

### (b) Nature and purpose of reserves (continued)

#### (iv) Share-based payments reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the grant date fair value of deferred shares granted to employees but not yet vested

## C2 CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

## C3 LOANS AND BORROWINGS

### Recognition and measurement

Loans and borrowings are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Consolidated (\$000s)	Note	2017	2016
<b>Current liabilities</b>			
Bank overdraft		1,705	3,566
<b>Non-current liabilities</b>			
Secured bank loans		-	12,000

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in Note C4.

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

Consolidated (\$000s)	Currency	Nominal interest rate	Year of maturity	2 July 2017		3 July 2016	
				Face value	Carrying amount	Face value	Carrying amount
Cash advance facility	AUD	3.62%	2020	-	-	12,000	12,000
Multi-option facility	AUD	6.73%	2018	1,705	1,705	3,566	3,566
Contingent liability facility	AUD	2.30%	2018	-	-	-	-
Corporate card facility	AUD	17.99%	2017	54	54	-	-
<b>Total interest-bearing liabilities</b>				<b>1,759</b>	<b>1,759</b>	<b>15,566</b>	<b>15,566</b>

The bank loans are secured by security interests granted by Lovisa Holdings Limited and its subsidiaries over all of their assets in favour of the Commonwealth Bank of Australia (CBA).

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

### (a) Fair values

#### Recognition and measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has begun to establish a control framework with respect to the measurement of fair values. This includes overseeing all significant fair value measurements, including Level 3 fair values, by the CFO.

The Group periodically reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Group assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group Audit, Business Risk and Compliance Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the financial year during which the change has occurred.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2 July 2017		Carrying Amount				Fair Value			
Consolidated (\$000s)	Note	Hedging instruments	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial liabilities measured at fair value</b>									
Derivatives		805	-	-	805	-	805	-	805
		805	-	-	805	-	805	-	805
<b>Financial assets not measured at fair value</b>									
Trade and other receivables	B1	-	3,615	-	3,615	-	-	-	-
Cash and cash equivalents	C5	-	12,744	-	12,744	-	-	-	-
		-	16,359	-	16,359	-	-	-	-
<b>Financial liabilities not measured at fair value</b>									
Bank overdrafts	C5	-	-	1,705	1,705	-	-	-	-
Secured bank loans	C3	-	-	-	-	-	-	-	-
Trade and other payables	B6	-	-	10,001	10,001	-	-	-	-
		-	-	11,706	11,706	-	-	-	-

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

## (a) Fair values (continued)

## Recognition and measurement (continued)

3 July 2016		Carrying Amount				Fair Value			
Consolidated (\$000s)	Note	Hedging instruments	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial liabilities measured at fair value</b>									
Derivatives		909	-	-	909	-	909	-	909
		909	-	-	909	-	909	-	909
<b>Financial assets not measured at fair value</b>									
Trade and other receivables	B1	-	2,293	-	2,293	-	-	-	-
Cash and cash equivalents	C5	-	8,295	-	8,295	-	-	-	-
		-	10,588	-	10,588	-	-	-	-
<b>Financial liabilities not measured at fair value</b>									
Bank overdrafts	C5	-	-	3,566	3,566	-	-	-	-
Secured bank loans	C3	-	-	12,000	12,000	-	-	-	-
Trade and other payables	B6	-	-	8,350	8,350	-	-	-	-
		-	-	23,916	23,916	-	-	-	-

## (i) Valuation technique and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

*Financial instruments measured at fair value*

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Forward exchange contracts	Market comparison technique: Fair value of forward exchange contracts is determined using forward exchange rates at the balance sheet date. These over-the-counter derivatives utilise valuation techniques maximising the use of observable market data where it is available.	Not applicable.	Not applicable.

*Financial instruments not measured at fair value*

Type	Valuation technique	Significant unobservable inputs
Secured bank loans	Discounted cash flows.	Not applicable.

## (ii) Transfers between Level 1 and 2

There were no transfers between Level 1 and Level 2 during the year.

## (iii) Level 3 fair values

*Transfer out of Level 3*

There were no transfers out of Level 3 during the year.

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### (b) Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk (see (b)(ii))
- liquidity risk (see (b)(iii))
- market risk (see (b)(iv))

#### (i) Risk Management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Audit, Business Risk and Compliance Committee, which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit, Business Risk and Compliance Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Committee's specific function with respect to risk management is to review and report to the Board that:

- a) the Group's ongoing risk management program effectively identifies all areas of potential risk;
- b) adequate policies and procedures have been designed and implemented to manage identified risks;
- c) a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- d) proper remedial action is undertaken to redress areas of weakness.

#### (ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and deposits placed for leased outlets.

The Group's credit risk on its receivables is recognised on the consolidated statement of financial position at the carrying amount of those receivable assets, net of any provisions for doubtful debts. Receivable balances and deposit balances are monitored on a monthly basis with the result that the Group's exposure to bad debts is not considered to be material.

Credit risk also arises from cash and cash equivalents and derivatives with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted by Lovisa.

At the reporting date, the carrying amount of financial assets recorded in the financial statements, net of any allowances for impairment losses, represents the Group's maximum exposure to credit risk. There were no significant concentrations of credit risk.

#### *Past due but not impaired*

As at 2 July 2017, no trade receivables were past due but not impaired (2016: nil). The other classes within trade and other receivables do not contain impaired assets and are not past due.

#### (iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Cash flow forecasts are updated and monitored weekly.

In addition, the Group maintains the following lines of credit secured by security interests granted by Lovisa Holdings Ltd and its subsidiaries over all of their assets in favour of the Commonwealth Bank of Australia (CBA):

- \$15 million revolving cash advance facility
- \$10 million multi option facility
- \$5 million contingent liability facility for global letters of credit and bank guarantees.

#### *Exposure to liquidity risk*

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

For personal use only



## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

## (b) Financial risk management (continued)

## (iii) Liquidity risk (continued)

2 July 2017	Contractual cash flows						
Consolidated (\$000s)	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Trade payables	4,568	4,568	4,568	-	-	-	-
Bank overdrafts	1,705	1,705	-	1,705	-	-	-
Secured bank loans	-	-	-	-	-	-	-
	6,273	6,273	4,568	1,705	-	-	-
<b>Derivative financial liabilities</b>							
Forward exchange contracts used for hedging:							
- Outflow	-	35,586	7,140	28,446	-	-	-
- Inflow	-	(34,781)	(7,015)	(27,766)	-	-	-
Total	805	805	125	680	-	-	-

3 July 2016	Contractual cash flows						
Consolidated (\$000s)	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Trade payables	4,292	4,292	4,292	-	-	-	-
Bank overdrafts	3,566	3,566	-	3,566	-	-	-
Secured bank loans	12,000	12,000	-	-	12,000	-	-
	19,858	19,858	4,292	3,566	12,000	-	-
<b>Derivative financial liabilities</b>							
Forward exchange contracts used for hedging:							
- Outflow	-	25,633	6,861	18,772	-	-	-
- Inflow	-	(24,724)	(6,532)	(18,192)	-	-	-
Total	909	909	329	580	-	-	-

The gross inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

As disclosed in Note C3, the Group has a secured bank loan which contains a loan covenant. A future breach of covenant may require the Group to repay the loan earlier than indicated in the above table. The interest payments on bank overdrafts and secured bank loans in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change. The future cash flows on trade payables may be different from the amount in the above table as exchange rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### (b) Financial risk management (continued)

#### (iv) Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses derivatives to manage market risks. All such transactions are carried out within the guidelines set by the Audit, Business Risk and Compliance Committee. The Group also applies hedge accounting in order to manage volatility in profit or loss.

#### Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group companies. The presentation currency of the Group is the Australian dollar (AUD) which is the functional currency of the majority of Lovisa. The currencies in which transactions are primarily denominated are Australian dollars, Singapore dollars, US dollars, British pounds and South African Rand.

The Company's foreign exchange policy is aimed at managing its foreign currency exposure in order to protect profit margins by entering into forward exchange contracts and currency options, specifically against movements in the USD rate against the AUD.

The following table defines the range of cover that has been authorised by the Board relating to purchases over a defined period:

Exposure	Minimum Hedge Position	Neutral Hedge Position	Maximum Hedge Position
Purchases 0 to 6 months	60%	80%	100%
Purchases 7 to 9 months	40%	50%	75%
Purchases 10 to 12 months	30%	40%	50%

#### Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows:

In thousands of	2 July 2017				3 July 2016			
	SGD	USD	GBP	ZAR	SGD	USD	GBP	ZAR
Cash and cash equivalents	1,174	-	1,108	7,404	1,920	-	75	1,951
Trade receivables	-	406	-	-	-	108	-	10
Trade payables	(28)	(3,491)	(117)	(136)	(127)	(2,876)	(385)	(12)
<b>Net statement of financial position exposure</b>	<b>1,146</b>	<b>(3,085)</b>	<b>991</b>	<b>7,268</b>	<b>1,793</b>	<b>(2,768)</b>	<b>(310)</b>	<b>1,949</b>

#### Sensitivity analysis

A reasonably possible strengthening (weakening) of the USD, the SGD, the GBP or ZAR against all other currencies would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases. The translation of the net assets in subsidiaries with a functional currency other than the Australian dollar has not been included in the sensitivity analysis as part of the equity movement.

There is no impact on equity as the foreign currency denominated assets and liabilities represent cash, receivables and payables.

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### (b) Financial risk management (continued)

(iv) Market risk (continued)

Sensitivity Analysis (continued)

Effect in thousands of dollars	Profit or loss	
	Strengthening	Weakening
<b>2 July 2017</b>		
SGD (5 percent movement)	(55)	60
USD (5 percent movement)	147	(162)
GBP (5 percent movement)	(54)	59
ZAR (5 percent movement)	(346)	383
<b>3 July 2016</b>		
SGD (5 percent movement)	(85)	94
USD (5 percent movement)	132	(146)
GBP (5 percent movement)	15	(16)
ZAR (5 percent movement)	(93)	103

#### Interest rate risk

The Group is subject to exposure to interest rate risk as changes in interest rates will impact borrowings which bear interest at floating rates. Any increase in interest rates will impact Lovisa's costs of servicing these borrowings which may adversely impact its financial position. This impact is not assessed to be material.

Increases in interest rates may also affect consumer sentiment and the level of customer demand, potentially leading to a decrease in consumer spending.

#### Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

Consolidated (\$000s)	Nominal amount	
	2017	2016
<b>Variable-rate instruments</b>		
Financial liabilities	1,705	15,566
	1,705	15,566

#### Cash flow sensitivity analysis for variable rate instruments

At 2 July 2017, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, pre tax profit for the year would have been \$114,000 lower/higher (3 July 2016 - \$122,000 lower/higher), as a result of higher/lower interest expense from variable rate borrowings. There is no additional impact on equity.

### (c) Derivative assets and liabilities

The Group holds derivative financial instruments to manage its foreign currency risk exposures.

#### Recognition and measurement

Derivative financial instruments are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value, and changes therein are generally recognised in profit or loss.

#### Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

#### Forward rate contracts

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free interest rate (based on government bonds).

For personal use only

## C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

### (c) Derivative assets and liabilities (continued)

#### Forward rate contracts (continued)

The following table provides details of the derivative financial assets and liabilities included on the balance sheet:

Consolidated (\$000s)	2017	2016
<b>Current Investments</b>		
Forward exchange contracts	(805)	(909)
	(805)	(909)

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments.

Consolidated (\$000s)	2017				2016			
	Carrying Amount	Expected Cash Flows			Carrying Amount	Expected Cash Flows		
		Total	12 mths of less	More than 1 year		Total	12 mths of less	More than 1 year
<b>Forward exchange contracts:</b>								
Assets	-	-	-	-	-	-	-	-
Liabilities	(805)	(805)	(805)	-	(909)	(909)	(909)	-
	(805)	(805)	(805)	-	(909)	(909)	(909)	-

A loss of \$64,000 was included in other expenses on foreign currency derivatives not qualifying as hedges (2016: \$3,000).

## C5 CASH FLOWS

### Recognition and measurement

Cash and cash equivalents comprise cash balances, and cash in transit and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Consolidated (\$000s)	2017	2016
<b>Bank balances</b>		
Cash and cash equivalents in the statement of financial position	12,744	8,295
Bank overdrafts used for cash management purposes	(1,705)	(3,566)
Cash and cash equivalents in the statement of cash flows	11,039	4,729

For personal use only



**C5 CASH FLOWS (CONTINUED)****Reconciliation of cash flows from operating activities**

<i>Consolidated (\$000s)</i>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
Profit		29,046	16,553
Adjustments for:			
Depreciation		5,539	6,034
Loss on sale of property, plant and equipment		785	162
Share based payments		440	116
Fair value adjustment to derivatives	C4	64	3
Exchange differences		(376)	1,154
		35,498	24,022
Change in inventories		1,907	(146)
Change in trade and other receivables		(1,322)	(23)
Change in deferred tax assets		(1,452)	734
Change in derivatives		-	30
Change in trade and other payables		1,651	580
Change in current tax liabilities		2,332	(2,141)
Change in provisions and employee benefits		1,018	282
<b>Net cash from operating activities</b>		<b>39,632</b>	<b>23,338</b>

For personal use only

# OTHER INFORMATION

This section includes mandatory disclosures to comply with Australian Accounting Standards, the Corporations Act 2001 and other regulatory pronouncements.

## D1 LIST OF SUBSIDIARIES

Set out below is a list of subsidiaries of the Group. All subsidiaries are wholly owned, unless otherwise stated.

Name	Principal place of business
Lovisa Australia Pty Ltd	Australia
Lovisa Pty Ltd	Australia
Lovisa International Pte Ltd	Singapore
Lovisa Singapore Pte Ltd	Singapore
Lovisa Accessories Pty Ltd	South Africa
DCK Jewellery South Africa (Pty) Ltd	South Africa
Lovisa New Zealand Pty Ltd	New Zealand
Lovisa Malaysia Sdn Bhd	Malaysia
Lovisa UK Ltd	United Kingdom
Lovisa Global Pte Ltd	Singapore
Lovisa Complementos España SL	Spain
Lovisa America, LLC	United States of America
Lovisa Hong Kong Ltd	Hong Kong

## D2 OPERATING LEASES

### Recognition and measurement

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

The lease incentive liability in relation to the non-cancellable operating leases are offset against lease rental expense on a straight line basis over the lease terms (generally three to five years).

### (a) Leases as lessee

The Group has a number of lease commitments related to the operation of its retail stores. The leases typically run for a period of 3 to 5 years, with an option to renew the lease after that date. Leases typically have an annual rental increase linked to CPI or a fixed annual increase.

#### (i) Future minimum lease payments

The future minimum lease payments under non-cancellable leases are payable as follows:

Consolidated (\$000s)	2017	2016
Less than one year	17,930	14,574
Between one and five years	36,062	21,280
More than five years	5,552	364
	59,544	36,218

## D3 COMMITMENTS AND CONTINGENCIES

### (a) Guarantees

The Group has guarantees outstanding to landlords and other parties to the value of \$1,810,000 at 2 July 2017 (2016: \$670,000).

### (b) Capital commitments and contingent liabilities

The Group is committed to incur capital expenditure of \$557,000 (2016: nil). There are no contingent liabilities that exist at 2 July 2017 (3 July 2016: none).

## D4 SHARE-BASED PAYMENT ARRANGEMENTS

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

### (a) Descriptions of the share-based payment arrangements

The Board has issued share option programmes that entitle key management personnel and senior management to purchase shares in the Company. Under these programmes, holders of vested options are entitled to purchase shares at the market price of the shares at the grant date. Currently, these programmes are limited to key management personnel and senior management.

The key terms and conditions related to the grants under these programmes are as follows; all options are to be settled by physical delivery of shares.

At 2 July 2017 the Group has the following share-based payment arrangements:

#### (i) Share option programmes (equity-settled)

#### FY2017 LTI - Performance Options (1)

Grant date/employee entitled	Number of instruments (000's)	Vesting conditions	Contractual life of options
<b>Options granted</b>			
On 18 May 2016	3,460	20% compound increase in EPS over 3 years, with a decrease in the number of options vesting down to a minimum of 10% compound EPS growth over the 3 year period in line with the table below.	3 years
Total share options	3,460		

1,687,764 of these options were approved at the Company's AGM on 25 October 2016.

The Board has determined that the threshold EPS target is 10% compound growth over the 3 year period and the stretch EPS target is 20% compound growth over the 3 year period.

Company's EPS over the Performance Period	% of Performance Options that become exercisable
Less than threshold	Nil
Equal to threshold	10% compound growth - 20% awarded
Between threshold and stretch	12.5% compound growth - 40% awarded
	15% compound growth - 60% awarded
	17.5% compound growth - 80% awarded
Stretch	20% compound growth - 100% awarded

**D4 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)****(a) Descriptions of the share-based payment arrangements (continued)***i) Share option programmes (equity-settled) (continued)***FY2017 LTI - Performance Options (2)**

<i>Grant date/employee entitled</i>	<b>Number of instruments (000's)</b>	<b>Vesting conditions</b>	<b>Contractual life of options</b>
<b>Options granted</b>			
On 15 August 2016	412	20% compound increase in EPS over 3 years, with a decrease in the number of options vesting down to a minimum of 10% compound EPS growth over the 3 year period in line with the table below.	3 years
Total share options	412		

The Board has determined that the threshold EPS target is 10% compound growth over the 3 year period and the stretch EPS target is 20% compound growth over the 3 year period.

<b>Company's EPS over the Performance Period</b>	<b>% of Performance Options that become exercisable</b>
Less than threshold	Nil
Equal to threshold	10% compound growth - 20% awarded
Between threshold and stretch	12.5% compound growth - 40% awarded
	15% compound growth - 60% awarded
	17.5% compound growth - 80% awarded
Stretch	20% compound growth - 100% awarded

**Initial Public Offering - Performance Options**

<i>Grant date/employee entitled</i>	<b>Number of instruments (000's)</b>	<b>Vesting conditions</b>	<b>Contractual life of options</b>
<b>Options granted</b>			
On 23 December 2014	550	As per table below	2.5 years
Total share options	550		

The achievement of forecast EPS for FY15 (15.62c) resulted in the award of one third of the options.

The remaining two thirds of Options were subject to a performance condition based on the Company's EPS over FY16 and FY17 (EPS Hurdle). The Board determined that the threshold EPS target was 37.33c and the stretch EPS target was 41.23c over FY16 and FY17.



**D4 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)****(a) Descriptions of the share-based payment arrangements (continued)***i) Share option programmes (equity-settled) (continued)***Initial Public Offering - Performance Options (continued)**

Company's EPS over the Performance Period	% of Performance Options that become exercisable
Less than threshold	Nil
Equal to threshold	50% awarded
Between threshold and stretch	50% - 100%, on a straight-line sliding scale
Stretch	100% awarded

*(ii) Performance rights (equity-settled)*

On 18 November 2015, the Group granted 20,000 and 16,000 performance rights to the former CFO and Head of Product respectively, which entitle them to acquire a Share for nil consideration at the end of the performance period, subject to satisfaction of specific performance conditions.

The 20,000 performance rights were cancelled in the prior year upon the resignation of the former CFO.

**(b) Measurement of fair values***(i) Equity-settled share-based payment arrangements*

The fair value of the employee share options and performance rights (see (a)(i) and (a)(ii)) have been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the transactions were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows.

	Share option programme		
	IPO LTI	FY2017 LTI (1)	FY2017 LTI (2)
Fair value at grant date	\$0.386	\$0.237	\$0.340
Share price at grant date	\$2.300	\$2.050	\$2.79
30 day VWAP share price at grant date	N/A	\$2.100	\$2.63
Exercise price	\$2.300	\$2.100	\$2.63
Expected volatility (weighted-average)	34%	24.70%	25.88%
Expected life (weighted-average)	2.5 years	3 years	3 years
Expected dividends	4.67%	5.11%	4.08%
Risk-free interest rate (based on government bonds)	2.23%	1.86%	1.44%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price.

## D4 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

### (c) Reconciliation of outstanding share options

The number and weighted average exercise prices of share options under the share option programmes (see (a)(i)) and performance rights (see (a)(ii)) were as follows.

	Number of options	Weighted average exercise price	Number of performance rights
	2017	2017	2017
	000's	\$	000's
<b>Outstanding at 4 July</b>	4,010	\$2.13	16
Granted during the year	412	\$2.63	-
Forfeited during the year	(206)	\$2.63	-
Exercised during the year	-	-	-
<b>Outstanding at 2 July</b>	4,216	\$2.15	16
Exercisable at 2 July	550	\$2.30	16

### (d) Expenses recognised in profit or loss

For details on the related employee benefit expenses, see Note A3.

## D5 RELATED PARTIES

### (a) Parent and ultimate controlling party

Lovisa Holdings Limited is the parent entity and ultimate controlling party in the Group comprising itself and its subsidiaries. Subsidiaries of the Group are listed in note D1.

### (b) Transactions with key management personnel

#### (i) Key management personnel compensation

The key management personnel compensation comprised the following:

Consolidated (\$000s)	2017	2016
Short-term employee benefits	2,170	1,634
Post-employment benefits	118	99
Share based payment	385	100
Other long term benefits	144	146
	2,817	1,979

Compensation of the Group's key management personnel includes salaries and non-cash benefits (see Note A3).

Detailed remuneration disclosures are provided in the Remuneration report on pages 24 to 28.

#### (ii) Key management personnel and Director transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or joint control over these companies. There were no transactions or balances outstanding from these related parties during the period or at 2 July 2017 (3 July 2016: nil).

**D5 RELATED PARTIES (CONTINUED)****(c) Other related party transactions**

<i>Consolidated (\$000s)</i>	<b>Transaction values for the year ended</b>		<b>Balance outstanding as at</b>	
	<b>2 July 2017</b>	<b>3 July 2016</b>	<b>2 July 2017</b>	<b>3 July 2016</b>
<b>a) Expenses</b>				
Expense recharges	752	394	-	(28)
<b>b) Sales</b>				
Recharges	121	3	32	2

Transactions between the Lovisa Group and BB Retail Capital and its related parties have been disclosed above due to BB Retail Capital continuing to be in a position of holding significant influence in relation to the Group, with representation on the Board of Directors. Lovisa has, and will continue to benefit from the relationships that its management team and BB Retail Capital have developed over many years of retail operating experience. BB Retail Capital has provided certain property management services to Lovisa on an arm's length basis including managing negotiations with landlords for new leases and lease renewals. This arrangement ceased as at 2 July 2017 with property management services now provided in-house. Non property management related expense recharges are also priced on an arms length basis. The Group will continue to utilise BBRC Retail Capital's retail operating experience on an arms length basis.

All outstanding balances with other related parties are priced on an arm's length basis and are to be settled in cash within two months post the end of the reporting year. None of the balances are secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

**D6 AUDITOR'S REMUNERATION**

<i>Consolidated (\$)</i>	<b>2017</b>	<b>2016</b>
<b>a) KPMG</b>		
<b>Audit and review services</b>		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	186,787	199,240
Network firms of KPMG Australia		
Audit and review of financial statements	43,213	20,760
Total remuneration for audit and review services	230,000	220,000
<b>Other services</b>		
Auditors of the Company - KPMG Australia		
In relation to other assurance, taxation and due diligence services	193,430	137,250
Network firms of KPMG Australia		
In relation to other assurance, taxation and due diligence services	21,402	16,842
Total remuneration for other services	214,832	154,092
Total remuneration of KPMG	444,832	374,092
<b>b) Non-KPMG audit firms</b>		
<b>Audit and review services</b>		
Audit and review of financial statements	9,972	18,978
Total remuneration for audit and review services	9,972	18,978
<b>Other services</b>		
In relation to other assurance, taxation and due diligence services	46,803	165
Total remuneration for other services	46,803	165
Total remuneration of non-KPMG audit firms	56,775	19,143
<b>Total auditors remuneration</b>	<b>501,607</b>	<b>393,235</b>

## D7 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investment Commission, the wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Instrument that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- Lovisa Australia Pty Ltd
- Lovisa Pty Ltd

Both of these companies became a party to the Deed on 18 June 2015, by virtue of a Deed of Assumption.

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 2 July 2017 is set out as follows.

### Statement of profit or loss and other comprehensive income and retained earnings

Consolidated (\$000s)	2017	2016
Revenue	112,825	100,387
Cost of sales	(26,298)	(26,507)
<b>Gross profit</b>	<b>86,527</b>	<b>73,880</b>
Salaries and employee benefits expense	(35,081)	(32,198)
Property expenses	(18,167)	(17,035)
Distribution costs	(1,183)	(767)
Depreciation	(2,995)	(3,726)
Loss on disposal of property, plant and equipment	(666)	(184)
Other expenses	(3,899)	(3,075)
Finance income	4,757	1
Finance costs	(403)	(706)
<b>Profit before tax</b>	<b>28,890</b>	<b>16,189</b>
Tax expense	(7,225)	(4,736)
<b>Profit after tax</b>	<b>21,665</b>	<b>11,453</b>
Other comprehensive income for the year, net of tax	41	(772)
<b>Total comprehensive income for the year, net of tax</b>	<b>21,705</b>	<b>10,681</b>
Retained earnings at beginning of year	426	250
Dividends recognised during the year	(12,600)	(11,277)
<b>Retained earnings at end of year</b>	<b>9,491</b>	<b>426</b>



## D7 DEED OF CROSS GUARANTEE (CONTINUED)

*Statement of financial position*

<i>Consolidated (\$000s)</i>	<b>2 July 2017</b>	<b>3 July 2016</b>
<b>Assets</b>		
Cash and cash equivalents	1,770	2,055
Trade and other receivables	27,311	6,587
Inventories	6,224	10,062
<b>Total current assets</b>	<b>35,305</b>	<b>18,704</b>
Deferred tax assets	2,806	1,541
Property, plant and equipment	7,421	6,876
Investments	210,000	210,000
<b>Total non-current assets</b>	<b>220,227</b>	<b>218,417</b>
<b>Total assets</b>	<b>255,532</b>	<b>237,121</b>
<b>Liabilities</b>		
Bank overdraft	1,705	3,566
Trade and other payables	26,870	6,474
Employee benefits - current	1,660	1,404
Current tax liabilities	2,774	874
Derivatives	805	909
Provisions - current	886	357
<b>Total current liabilities</b>	<b>34,700</b>	<b>13,584</b>
Employee benefits - non-current	608	401
Loans and borrowings	-	12,000
Provisions - non current	1,457	1,916
<b>Total non-current liabilities</b>	<b>2,065</b>	<b>14,317</b>
<b>Total liabilities</b>	<b>36,765</b>	<b>27,901</b>
<b>Net assets</b>	<b>218,767</b>	<b>209,221</b>
<b>Equity</b>		
Issued capital	208,526	208,526
Common control reserve	925	925
Share based payments reserve	556	116
Cash flow hedge reserve	(731)	(772)
Retained earnings	9,491	426
<b>Total equity</b>	<b>218,767</b>	<b>209,221</b>

## D8 PARENT ENTITY DISCLOSURES

(\$000s)	2017	2016
<b>Result of parent entity</b>		
Profit for the year	17,194	13,208
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>17,194</b>	<b>13,208</b>
<b>Financial position of parent entity at year end</b>		
Current assets	5,535	-
Total assets	216,560	210,826
Current liabilities	2,774	2,074
Total liabilities	2,774	2,074
<b>Total equity of parent entity comprising of:</b>		
Share capital	208,526	208,526
Share based payments reserve	556	116
Accumulated profits	4,704	110
<b>Total equity</b>	<b>213,786</b>	<b>208,752</b>

**(a) Parent entity accounting policies**

The financial information for the parent entity, Lovisa Holdings Limited, has been prepared on the same basis as the consolidated financial report, except as set out below.

*Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost.

**(b) Parent entity contingent liabilities**

The parent entity did not have any contingent liabilities as at 2 July 2017.

**(c) Parent entity guarantees in respect of the debts of its subsidiaries**

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in Note D7.

## D9 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP

The Group has applied the following standards and amendments for the first time for the annual reporting year ending 2 July 2017:

- AASB 1057 Application of Australian Accounting Standards

The adoption of these standards did not have any impact on the current year or any prior year and are not likely to affect future years.

## D10 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2016; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of the requirements	Possible impact on consolidated financial statements
IFRS 9 Financial Instruments	<p>IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.</p> <p>IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	<p>The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9 however the impact of the new standard is not expected to be material.</p>
IFRS 15 Revenue from Contracts with Customers	<p>IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.</p> <p>IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.</p>	<p>Adoption of IFRS 15 not expected to have a material impact on the Group's profit. Recognition of a provision for refunds will result in a gross up of balances on the statement of financial position. The impact on reported sales and margins is not expected to be material in the ordinary course of events.</p>
IFRS 16 Leases	<p>IFRS 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases.</p> <p>Short-term leases (less than 12 months) and leases of low-value assets are exempt from the lease accounting requirements.</p> <p>There are also changes in accounting over the life of the lease. This will result in the recognition of a front-loaded pattern of expense for most leases, even when constant annual rentals are paid.</p> <p>Lessor accounting remains similar to current practice.</p> <p>IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.</p>	<p>As a lessee with a substantial portfolio of operating leases, the implementation of IFRS 16 is expected to have a material impact on the future statutory performance of Lovisa Holdings Limited as the Groups operating leases are recognised on the balance sheet.</p> <p>A summary of the key impacts are as follows:</p> <ul style="list-style-type: none"> <li>• EBITDA: increases because no operating lease expense is included</li> <li>• Equity: decreases as carrying amount of right-of-use asset reduces faster than the reduction of the lease liability in the early years of the lease</li> <li>• Profit before tax/EPS: Decreases as amortisation and interest expense recognised is greater than operating lease expense in the early years of the lease</li> </ul> <p>The overall income statement impact is profit neutral over the course of a lease. The impact upon implementation will depend on the leases in place on transition.</p>

For personal use only







# SIGNED REPORTS

For personal use only

# DIRECTORS' DECLARATION

1. In the opinion of the Directors of Lovisa Holdings Limited ('the Company'):
  - (a) the consolidated financial statements and notes that are set out on pages 34 to 71 and the Remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 2 July 2017 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note D7 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 2 July 2017.
4. The Directors draw attention to the Basis of Accounting for the consolidated financial statements set out on page 38, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



---

Shane Fallscheer  
Director  
Melbourne  
23 August 2017

For personal use only

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED



## Independent Auditor's Report

To the shareholders of Lovisa Holdings Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the **Financial Report** of Lovisa Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 2 July 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 2 July 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

For personal use only

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED (CONTINUED)



## Key Audit Matters

**Key Audit Matters** are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of inventories (\$13.1m)

Refer to Note B2 to the financial report.

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's valuation of inventories, given the relative size of the balance (being 26% of total assets within the Group's consolidated statement of financial position) and the judgement we apply to assess the Group's estimates specific to the value of obsolete inventory.</p> <p>The Group sells fashion jewellery and is therefore subject to changing consumer demands and fashion trends. This increases the risk that, as trends change, products may either need to be sold at a discount below their recorded cost, or ultimately disposed of for zero value. Estimating the level of provisioning for obsolete inventory requires consideration of the ageing and condition of products on hand, historic trends in write-offs and inventory turnover and anticipated future sales. Such judgements may have a significant impact on the calculation of the inventory provision, and therefore the overall carrying value of inventories, necessitating our audit effort thereon.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>Assessing the historical accuracy of the Group's inventory provision against actual outcomes, to inform our evaluation of the current year provision and assumptions;</li> <li>Challenging the Group's assumptions within their provision, particularly the extent to which aged and seasonal inventory can be sold, taking into account our knowledge of the industry and past Group performance;</li> <li>Analysing current and historic trends in inventory holdings and ageing to identify indicators of slow-moving or obsolete inventory. We compared this to the Group's listing of obsolete inventory;</li> <li>Checking the integrity of the inventory ageing report at 2 July 2017, as a key input used in the provision calculation, by comparing on a sample basis inventory age per the report to purchase invoices;</li> <li>Attending a sample of inventory counts across the store and warehouse locations to observe the existence and condition of products held; and</li> <li>Comparing a statistical sample of inventory carrying values to post year-end sales prices, and against amounts recorded in the provision.</li> </ul>

For personal use only



# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED (CONTINUED)



## Other Information

Other Information is financial and non-financial information in Lovisa Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report. The Chairman and Chief Executive's Report, and the ASX Additional Information are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our Auditor's Report.

For personal use only

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED (CONTINUED)



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Lovisa Holdings Limited for the year ended 2 July 2017, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in section 9 of the Directors' report for the year ended 2 July 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Maurice Bisetto  
*Partner*

Melbourne  
23 August 2017

For personal use only

# LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001



## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Lovisa Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Lovisa Holdings Limited for the financial year ended 2 July 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

M. Bisetto

Maurice Bisetto

Partner

Melbourne

23 August 2017

P/79

For personal use only

For personal use only



For personal use only

# ASX INFORMATION



# ASX ADDITIONAL INFORMATION

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Lovisa Holdings Limited is responsible for the corporate governance of the Group. The Lovisa Holdings Board of Directors is committed to achieving best practice in the area of corporate governance and business conduct. Lovisa Holding Limited's Corporate Governance Statement outlines the main corporate governance principles and practices followed by the Group. These policies and practices are in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) unless otherwise stated.

Details of the Company's Corporate Governance Statement as well as key policies and practices and the charters for the Board and each of its committees are available on the Company's website (<http://www.lovisa.com.au/shareholder-info/>), including performance against measurable objectives. The Corporate Governance Statement will be lodged with ASX at the same time that this Annual Report is lodged with ASX.

The Corporate Governance Statement includes details of the main corporate governance practices in place throughout the reporting period (unless otherwise stated) in relation to the corporate governance principles and recommendations published by the ASX Corporate Governance Council and are current as at 23 August 2017 and have been approved by the Board. The Board is comfortable that the practices are appropriate for a Company of Lovisa Holdings' size.

## SHAREHOLDINGS (AS AT 31 AUGUST 2017)

### SUBSTANTIAL SHAREHOLDERS

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number
BB Retail Capital Pty Ltd	43,207,500
Grahger Capital Securities Pty Ltd	12,301,000

### VOTING RIGHTS

#### Ordinary shares

Refer to Note C1 in the financial statements.

#### Options

There are no voting rights attached to options.

#### Rights

There are no voting rights attached to rights.

#### Redeemable preference shares

There are no voting rights attached to redeemable preference shares.

#### Non-redeemable preference shares

There are no voting rights attached to non-redeemable preference shares.

### Distribution of equity security holders

Range	Number of equity security holders	Units	% of Issued Capital
1 - 1,000	290	129,600	0.12
1,001 - 5,000	636	1,980,178	1.89
5,001 - 10,000	269	2,113,006	2.01
10,001 - 100,000	277	7,331,280	6.98
100,001 and over	41	93,461,936	89.00
<b>Total</b>	<b>1,513</b>	<b>105,016,000</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 68.

**Securities Exchange**

The Company is listed on the Australian Securities Exchange. The Home exchange is Sydney.

**Other information**

Lovisa Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

**Twenty largest shareholders**

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number of ordinary shares held	Percentage of capital held
BB Retail Capital Pty Ltd	43,207,500	41.14
HSBC Custody Nominees (Australia) Limited	7,622,648	7.26
Citicorp Nominees Pty Limited	4,840,337	4.61
Centreville Pty Ltd	4,490,000	4.28
National Nominees Limited	4,312,096	4.11
Grahger Retail Securities Pty Ltd	3,400,000	3.24
JP Morgan Nominees Australia Limited	3,101,518	2.95
Grahger Capital Securities Pty Ltd	2,425,750	2.31
Grahger Retail Securities Pty Ltd	2,100,000	2.00
Sandhurst Trustees Ltd	1,630,821	1.55
Grahger Capital Securities Pty Ltd	1,600,000	1.52
BNP Paribas Noms Pty Ltd	1,291,890	1.23
Mrs Vanessa Louise Speer	1,227,460	1.17
Coloskye Pty Limited	1,153,005	1.10
HSBC Custody Nominees (Australia) Limited - A/C 2	1,074,546	1.02
PBC Investments Pty Ltd <PBC Super Fund A/C>	1,000,000	0.95
Mr Robert Thomas & Mrs Kyrenia Thomas	970,000	0.92
UBS Nominees Pty Ltd	807,898	0.77
BNP Paribas Nominees Pty Ltd	806,471	0.77
RBC Investor Services Australia Nominees Pty Ltd	690,691	0.66
<b>Total</b>	<b>87,752,631</b>	<b>83.56</b>
<b>Balance of register</b>	<b>17,263,369</b>	<b>16.44</b>
<b>Grand total</b>	<b>105,016,000</b>	<b>100.00</b>

	Number on issue	Number of holders
Options and performance rights issued under the Lovisa Holdings Ltd Long Term Incentive Plan to take up ordinary shares	4,215,798	4

For personal use only

## CORPORATE DIRECTORY

### **Company Secretary**

Graeme Fallet, Chief Financial Officer and Company Secretary

### **Principal Registered Office**

Lovisa Holdings Limited  
41-45 Camberwell Road  
Hawthorn East VIC 3123  
+61 3 9831 1800

### **Location of Share Registry**

Link Market Services Limited  
Tower 4  
727 Collins Street  
Melbourne Victoria 3000  
+61 3 9615 9800

### **Stock Exchange Listing**

Lovisa Holdings Limited (LOV) shares are listed on the ASX.

### **Auditors**

KPMG  
Tower 2, Collins Square  
727 Collins Street  
Melbourne Victoria 3000

### **Website**

[www.lovisa.com](http://www.lovisa.com)