

LOVISA HOLDINGS LIMITED

PROSPECTUS

For the initial public offering of 51,037,035 ordinary shares at $2.00 each

Underwriters
CIMB Capital Markets (Australia) Limited and Morgans Corporate Limited

Lovisa Holdings Limited
ACN 602 304 503

LOVISA HOLDINGS LIMITED

SUPPLEMENTARY PROSPECTUS

SUPPLEMENTARY PROSPECTUS DATED 1 DECEMBER 2014 TO BE READ TOGETHER WITH THE PROSPECTUS DATED 21 NOVEMBER 2014 ISSUED BY LOVISA HOLDINGS LIMITED (ACN 602 304 503) OFFERING FULLY PAID ORDINARY SHARES IN LOVISA

This document is a supplementary prospectus. It supplements a prospectus dated 21 November 2014 issued by Lovisa Holdings Limited (ACN 602 304 503) (**Lovisa**) offering fully paid ordinary shares in Lovisa (**Prospectus**).

This supplementary prospectus must be read together with the Prospectus.

A term with a defined meaning in the Prospectus has the same meaning in this supplementary prospectus.

ADDITIONAL INFORMATION RELATING TO THE RESTRUCTURE

The Restructure will involve the Company acquiring all the issued share capital of Lovisa Pty Limited. As part of that acquisition, BB Retail Capital and Shane Fallscheer (through an entity controlled by him) will receive cash consideration and Shares for their Lovisa Pty Limited shares. BB Retail Capital will receive cash consideration of $86,324,070 for the disposal of its Lovisa Pty Limited shares. Shane Fallscheer (through an entity controlled by him) will receive cash consideration of $15,750,000 for the disposal of his Lovisa Pty Limited shares. The number of Shares BB Retail Capital and Shane Fallscheer will receive are set out in Section 2 on page 16 of the Prospectus and Section 9.4 on page 86 of the Prospectus.

As Existing Shareholders of Lovisa Pty Limited, Tracey Blundy (through an entity controlled by her) and Vanessa Speer will each acquire their respective Shares (as set out in Sections 2 and 9.4 of the Prospectus) through the Restructure.

CLARIFICATION OF DIRECTOR INTEREST IN BB RETAIL CAPITAL

As described in Section 6.1 of the Prospectus, Tracey Blundy is a director of BB Retail Capital Pty Limited. Tracey Blundy also owns 1 ordinary share (of 1,000 on issue) of BB Retail Capital Pty Limited.

APPLICATIONS

An Applicant wishing to apply for Shares should still use the Application Form for Shares included in the accompanying Prospectus.

IMPORTANT NOTICE

OFFER

The offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in Lovisa Holdings Limited (ACN 602 304 503) (the **Company**) (**Offer**). The Offer in Australia is made through this Prospectus.

This Prospectus is issued by the Company.

REFERENCES TO LOVISA AND THE RESTRUCTURE

The Company was incorporated on 6 November 2014 and does not currently own the business conducted by Lovisa. The business of Lovisa is currently being conducted by Lovisa Pty Limited and Lovisa International Pte. Ltd. In connection with the Offer, Lovisa will undertake the Restructure, under which Lovisa Holdings Limited will become the new parent company of the Lovisa group. Completion of the Restructure is subject to Listing. The Restructure will take effect on the day following Settlement, which is expected to occur on or about 17 December 2014. If the Restructure does not complete, the Offer will not proceed.

Further details about the Restructure are contained in Section 8.3 of the Prospectus.

Unless otherwise specified, this Prospectus is prepared as if the Restructure has occurred. For example, the Company Summary in Section 1, the Offer Summary in Section 2, the Company Overview in Section 3 and the Financial Information in Section 4 describe Lovisa after completion of the Restructure and the Financial Information represents the business operations of Lovisa after completion of the Restructure.

LODGEMENT AND LISTING

This Prospectus is dated 21 November 2014, and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date. None of ASIC, the Australian Securities Exchange (**ASX**) or their respective officers take any responsibility for the content of this Prospectus or the merits of the investment to which this Prospectus relates.

The Company will apply to the ASX for listing and quotation of its Shares on the ASX within seven days of the date of this Prospectus.

No securities will be issued on the basis of this Prospectus any later than 13 months after the date of this Prospectus.

NOTE TO APPLICANTS

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs of any prospective investor.

It is important that you read this Prospectus carefully and in full before deciding to invest in the Company. In particular, in considering this Prospectus, you should consider the risk factors that could affect the financial performance of the Company in light of your personal circumstances (including financial and taxation issues) and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding to invest. Some of the key risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, guarantees the performance of Lovisa, the repayment of capital or the payment of a return on the Shares.

As set out in Section 9.14, it is expected that the Shares will be quoted on the ASX initially on a deferred settlement basis. The Company disclaims all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement.

NO OFFERING WHERE OFFERING WOULD BE ILLEGAL

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

The Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (**the US Securities Act**) or any state securities law in the United States and may not be offered, sold, pledged or transferred in the United States unless the shares are registered under the US Securities Act or an exemption from the registration requirements of the US Securities Act and applicable US state securities law is available.

See Section 8.15 for more detail on selling restrictions that apply to the Offer and sale of Shares in jurisdictions outside of Australia.

OBTAINING A COPY OF THIS PROSPECTUS

A hard copy of this Prospectus is available free of charge to any Broker Firm Offer Applicant in Australia by calling Morgans, an Underwriter on 1800 777 946. This Prospectus is also available to Broker Firm Offer Applicants in Australia via the Company's website (http://investors.lovisa.com.au/prospectus/). This Prospectus is not available to persons in jurisdictions outside Australia (including the United States).

EXPOSURE PERIOD

The Corporations Act prohibits the Company from processing applications for Shares under this Prospectus (**Applications**) in the seven day period after the date of lodgement of this Prospectus (**Exposure Period**). This period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period.

PHOTOGRAPHS AND DIAGRAMS

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

DISCLAIMER AND FORWARD–LOOKING STATEMENTS

No person is authorised to give any information or make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company or the Directors.

This Prospectus contains forward-looking statements, including the Forecast Financial Information in Section 4, which may be identified by words such as "may", "could", "believes", "estimates", "expects", "plans", "intends", "will", "projects", "predicts", "anticipates" and other similar words.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company and its directors.

The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

The Company has no intention to update or revise forward-looking statements, or to publish prospective Financial Information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

These forward-looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 5.

STATEMENTS OF PAST PERFORMANCE

This Prospectus includes information regarding the past performance of Lovisa. Given this, and the inherent uncertain nature of forecasts, investors should be aware that past performance should not be relied upon as being indicative of future performance.

FINANCIAL INFORMATION PRESENTATION

The basis of preparation and presentation of the Financial Information in this Prospectus is set out in Section 4. The Financial Information should be read in conjunction with, and is qualified by reference to, the information contained in Section 7 including, in the case of the Forecast Financial Information, the general assumptions and specific assumptions, the sensitivity analysis and the risk factors in Section 5.

FINANCIAL AMOUNTS

Money as expressed in this Prospectus is in Australian dollars unless otherwise indicated.

GLOSSARY

Certain terms and abbreviations used in this Prospectus have defined meanings which are explained in the Glossary (see Section 11).

PRIVACY

By filling out an Application Form to apply for Shares, you are providing personal information to the Company through the Company's service provider, Link Market Services Limited (ABN 54 083 214 537) (**Share Registry**), which is contracted by the Company to manage Applications. The Company, and the Share Registry on its behalf, may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

If you do not provide the information requested in an Application Form, the Company and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company, which it considers may be of interest to you.

Your personal information may also be provided to the Company's members, agents and service providers on the basis that they deal with such information in accordance with the Company's privacy policy. The members, agents and service providers of the Company may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of members;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register of members. If you do not provide all the information requested, your Application Form may not be able to be processed.

The information contained in the Company's register of members must remain there even if that person ceases to be a Shareholder. Information contained in the Company's register of members is also used to facilitate dividend payments and corporate communications (including financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements. An Applicant has a right to gain access to the information that the Company and the Share Registry hold about that person, subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing or by telephone call to the Company's registered office or the Share Registry's office, details of which are disclosed in the Corporate Directory on the inside back cover of this Prospectus.

Applicants can obtain a copy of the Company's privacy policy by visiting the Company's website (http://investors.lovisa.com.au/privacy/).

You may request access to your personal information held by or on behalf of the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information in writing to the Share Registry as follows:

Address: Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Australia

QUESTIONS

If you have any questions about how to apply for Shares, call the Lovisa Share Offer Information Line on 1800 622 202 (within Australia) or +61 1800 622 202 (outside Australia) from 8.30am to 5.30pm (AEST) Monday to Friday during the Offer period.

If you have any questions about whether to invest in the Company you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser.

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KEY DATES

Prospectus Date	Friday 21 November 2014
Offer opens	Monday 1 December 2014
Offer closes	Tuesday 16 December 2014
Settlement of the Offer	Wednesday 17 December 2014
Issue of Shares under the Offer and completion of the Restructure	Thursday 18 December 2014
Shares expected to commence trading on a deferred settlement basis – ASX (code: LOV)	Thursday 18 December 2014
Expected despatch of holding statements	Friday 19 December 2014
Shares expected to commence trading on a normal settlement basis	Tuesday 23 December 2014

Note: All the above dates are indicative only. The Company, in agreement with the Underwriters, reserves the right to vary these dates, including closing the Offer early or withdrawing the Offer, to extend the Closing Date or to accept late Applications (either generally or in particular cases) without notifying any recipient of this Prospectus or any Applicants.

KEY OFFER STATISTICS

Offer Price	$2.00
Gross proceeds of the Offer	$102,074,070
Total number of Shares offered under the Offer	51,037,035
Total number of Shares on issue on Completion of the Offer	105,000,000
Market capitalisation at the Offer Price	$210,000,000
Enterprise value at the Offer Price[1]	$224,933,782
Enterprise value/pro forma FY2015 forecast EBITDA[2]	7.6x
Enterprise value/pro forma FY2015 forecast EBIT[3]	9.6x
Offer Price/pro forma FY2015 forecast NPAT per Share[4]	12.8x
Annualised FY2015 dividend yield[5]	5.4%

1. Enterprise value is calculated as the market capitalisation of $210,000,000, plus pro forma net debt of $14.9 million as at 29 June 2014 as set out in Section 4.
2. This ratio is commonly referred to as an EV/EBITDA ratio. The EV/EBITDA ratio is calculated as the enterprise value divided by FY2015 pro forma EBITDA of $29.6 million (refer to Section 4 for more details).
3. This ratio is commonly referred to as an EV/EBIT ratio. The EV/EBIT ratio is calculated as the enterprise value divided by FY2015 pro forma EBIT of $23.5 million (refer to Section 4 for more details).
4. This ratio is commonly referred to as a price earnings or PE ratio. The PE ratio is calculated as the price per Share divided by FY2015 pro forma NPAT per Share, being FY2015 pro forma NPAT of $16.4 million (refer to Section 4 for more details) divided by total Shares on issue immediately after Completion of the Offer.
5. The annualised dividend yield is the sum of the dividends payable for the forecast FY2015 half year and full year periods divided by the Offer Price per Share and is rounded to the nearest number and excludes the benefit of franking credits. For more information on Lovisa's dividend policy, see Section 4.

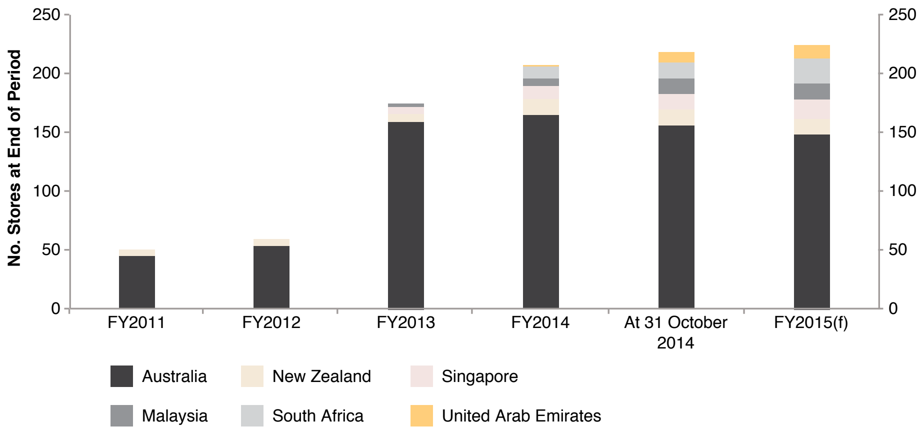
FINANCIAL INFORMATION SUMMARY

The table below is a summary of the Company's historical financial information for the financial years ended 2012, 2013 and 2014 and forecast financial information for the financial year ending 2015. This information is intended as a summary only. More detailed financial information can be found in Section 4.

	FY2012 (pro forma) $'000	FY2013 (pro forma) $'000	FY2014 (pro forma) $'000	FY2015 (pro forma) $'000
Sales revenue	39,789	70,286	105,677	134,677
EBITDA	8,207	9,866	15,640	29,594
EBIT	6,326	6,374	10,083	23,485
NPAT	5,942	5,272	7,253	16,397
Earnings per Share				15.62 cents
Dividend per Share[1]				10.74 cents fully franked
Market capitalisation at Offer Price				$210,000,000
Price earnings ratio				12.8 times
Annualised dividend yield[2]				5.37%
Lovisa store numbers	60	175	208	225

1. The forecast dividend per Share is payable with respect to the FY2015 half year and full year periods. These dividends will be fully franked to the extent possible. Further commentary on the availability of franking credits is set out in Section 4.
2. The annualised dividend yield is the sum of the dividends payable for the FY2015 half year and full year periods divided by the Offer Price per Share and is rounded to the nearest number and excludes the benefit of franking credits.
3. Refer to Section 4.3 for a reconciliation between the pro forma financial information presented above and the statutory equivalent financial information.

Store Numbers by Region – FY2011 to FY2015(f)



CHAIRMAN'S LETTER

21 November 2014

Dear Investor,

On behalf of the Board, I am pleased to offer you the opportunity to become a shareholder in Lovisa, a dynamic and established international retailer.

Lovisa's goal is to be the category leader in fast fashion jewellery in each of its markets. Our business model provides competitive advantages that have enabled rapid growth, underpinned high gross profit margins (averaging more than 75%) and ensured we are profitable in each of the 8 countries in which we operate across Australasia, South East Asia, and South Africa. Since inception in 2010, we have grown to 220 stores (of which 157 are in Australia), achieving compound annual revenue growth of 60.7% from FY2011 to FY2014.

The key to this success has been our vertically integrated business model that delivers quality, affordable and on-trend products from concept to shop floor in approximately 8 – 10 weeks and allows us to, on average, introduce more than 120 new lines of jewellery each week. This has required us to invest in our product team and inventory management systems, enabling us to develop and deliver attractive products to our customers efficiently, while effectively managing our inventory cycle.

Our ability to be highly responsive to fashion trends is consistent with other fast fashion retailers who source runway trends and make them available for mass consumption in short time frames, at affordable prices. This movement has been prompted by a rapidly changing retail environment that is becoming increasingly globalised with the impact of the internet, social media and online shopping. Unlike traditional retailers, fast fashion retailers do not release products on a seasonal basis, instead they respond to trends as they occur. This drives the number of store visits and significantly reduces the risk of obsolete stock. The fast fashion retail sub-segment in Australia has grown at approximately 8.7% per annum over the past five years to reach industry revenues of $1.1bn in 2013-14. This is expected to accelerate to 11.3% per annum, reaching $1.9bn by 2018-19 (IBISWorld, Fast Fashion in Australia May 2014).

At Lovisa we specialise in the affordable jewellery segment. We offer an extensive range of quality products within this focused category with our stores dedicated to showcasing on average 2,500+ jewellery lines, typically priced from A$6.99 up to A$49.99. This provides us with a number of advantages over our competitors who stock a diversified product range across the broader ladies' apparel and accessories segment. We strive to be the category leader in our niche segment and believe that in most of our key territories we have achieved this market position.

Our track record of rapid, profitable growth has also been driven by our low capital expenditure store roll-out strategy. Our fit-out costs are minimised by our small store format and homogenous store layout and we expect our new stores, both in Australia and internationally, to trade profitably from the day they open. With a strong and profitable international business foundation, Lovisa will leverage its experience and industry contacts to further pursue its international growth strategy with significant opportunity to grow its existing presence overseas and expand into new markets via either a wholly owned store model or through franchise partners.

Lovisa's growth is expected to continue with revenue growth of 27.4% forecast in FY2015. Our confidence in achieving this growth is underpinned by average "*like for like*" store sales growth of 11.7% and the opening of 13 new stores for the current financial year to 31 October 2014 (YTD FY2015). The strong "*like for like*" store sales growth is being achieved through our ongoing focus on business improvement and store optimisation initiatives.

Our culture is one of continuous improvement and this is typified by our co-founder, CEO and Managing Director, Shane Fallscheer. Shane brings 28 years of retail experience in the Australian, UK and US markets, including previous senior management roles with Sanity, Diva and Rip Curl. He is supported by a management team boasting experience with leading retail groups like Cotton On, Seed, K-Mart, Myer, Bunnings and global fashion brand Jimmy Choo.

The Offer is fully underwritten and provides investors with the opportunity to subscribe for 51,037,035 Shares at $2.00 each. On completion of the Offer, the major shareholder, BB Retail Capital, will retain a 41.15% shareholding and Shane Fallscheer (through a company directly controlled by him) will retain a 7.5% shareholding. The other Minority Shareholders, including Director Tracey Blundy, will retain their shareholding. Further information about the Offer and Lovisa are set out in this Prospectus and I encourage you to read it carefully.

As with any company, there are a number of risks associated with an investment in Lovisa and investors should consider these as part of their investment decision. Key risks include failure to successfully implement the Company's growth strategy, changes to the retail environment or economic environment, adverse changes to foreign exchange rates, increased competition and changes to prevailing fashions and consumer preferences.

I am excited to be joining Lovisa as Chairman, a business that I believe is embarking on a continued journey of rapid growth as reflected by our continued strong trading performance in this financial year to date. On behalf of my fellow Directors and the Lovisa team, we look forward to welcoming you as a Shareholder.

Yours Faithfully

David Carter
Chairman

1. COMPANY SUMMARY

1 COMPANY SUMMARY

This Section is intended to be a summary only and should be read in conjunction with the more detailed information appearing elsewhere in this Prospectus. Particular attention is drawn to the risk factors described in Section 5.

Topic	Summary	More Information
What is Lovisa's business?	Lovisa is a specialist fast fashion jewellery retailer with 220 stores (as at 31 October 2014) comprising 210 company owned stores and 10 franchised stores in 8 countries around the world.	Section 3.1
What is Lovisa's business model?	Lovisa has adopted a vertically integrated business model, which underpins high gross margins (averaging more than 75%) and enables it to stay on-trend by being highly responsive to customer demands. It develops, sources and merchandises all of its products, achieving an approximate 8 – 10 week turnaround for products to be developed, ordered, manufactured and in-store. This process can be repeated in approximately 4 – 6 weeks for products demonstrating strong early sales and allows Lovisa to introduce, on average, more than 120 new lines per week. Product innovation is a core component of Lovisa's competitive advantage. Lovisa utilises daily inventory monitoring software and primarily uses airfreight to move product to store locations from centrally located warehouses in Australia and Hong Kong, allowing the company to manage its large product range, which averages approximately 2,500 jewellery lines per store. Lovisa is strategically focused on the affordable jewellery segment. Its stores are dedicated to showcasing its extensive jewellery product range, typically priced from A$6.99 to A$49.99. This provides Lovisa with a number of advantages over its competitors who may stock a diversified product range across the broader ladies' apparel and accessories segment.	Section 3.7
What are Lovisa's key strengths?	• Dynamic fast fashion jewellery retailer with a brand that resonates with its customers • Exclusively developed, on-trend and affordable product range that appeals to fashion conscious target customers • Strategic focus on a niche retail segment • Leading fast fashion jewellery retailer in its key territories • Vertically integrated business model underpinning high gross margins and enabling speed to market • Established international store network with 220 stores in 8 countries (of which 157 are in Australia) • Track record of rapid, profitable growth driven by a low capital expenditure store roll-out strategy • Operational scale provides leverage in supply and leasing arrangements • Senior management team with extensive international retail experience • Engrained culture of continuous improvement • Strong profit generating capacity and operating cash flows with low debt	Section 3
What are the key risks associated with an investment in Lovisa?	• Competition may increase • Retail environment and general economic conditions could deteriorate • Failure to successfully implement Lovisa's growth strategy • Adverse movements in foreign exchange rates • Prevailing fashions and consumer preferences may change • Damage to Lovisa's reputation and related intellectual property rights • Product sourcing and supply chain disruptions • Issues with store leases and contravention of lease terms • Seasonal trading patterns may change • Loss of key personnel	Section 5

Topic	Summary	More Information
What is the growth history of Lovisa?	Lovisa has achieved rapid growth since it was founded, with revenue growing from $25.5 million in FY2011 to $105.7 million in FY2014 representing a compound annual growth rate of 60.7%. Lovisa forecasts revenues of $134.7 million in FY2015. This growth has been underpinned by a store roll-out strategy that has resulted in Lovisa's international store network growing to 220 stores, including 157 stores in Australia. Of this, approximately 88 stores are Diva stores that were converted to Lovisa (between November 2012 and June 2014) as part of a strategic decision by BB Retail Capital (also the major shareholder in the Diva business) to concentrate on the Lovisa brand, which was achieving higher returns on investment. Following this integration, there are no longer any Diva stores controlled by BB Retail Capital in any of Lovisa's operating territories.	Section 3 and 4
What are Lovisa's key drivers of future growth?	Lovisa's growth is forecast to continue with revenue growth of 27.4% in FY2015. Average "*like for like*" store sales growth for YTD FY2015 has been 11.7%. The strong "*like for like*" store sales growth is being achieved through Lovisa's ongoing focus on product innovation, business improvement and store optimisation initiatives. In addition to further business improvement initiatives, Lovisa's other key driver of growth is the continued international store roll-out and expansion of the franchise model. Lovisa has a proven track record of international expansion, with all of its territories operating profitably and a portfolio of 63 international stores now established. It aims to continue this with a medium term (1 – 3 years) target of 20-30 new stores per annum, with an initial focus on the Asian and South African markets.	Sections 3.9 and 4.6.1
Who are Lovisa's product suppliers?	All products in Lovisa stores are exclusive to Lovisa. The company develops and sources its own products, based on global trends, directly from third party owned factories and external suppliers with factories located in China, India and Thailand.	Section 3.7
Where are Lovisa's operating markets?	Lovisa operates in Australia, New Zealand, Singapore, Malaysia and South Africa through company owned stores, and Kuwait, the United Arab Emirates, and Saudi Arabia through franchised stores. It also has warehouses in Hong Kong (third party operated) and Melbourne, Australia (company operated on leased premises).	Section 3
Who are Lovisa's target customers?	While Lovisa's products are suitable across most female age groups, it targets fashion conscious females aged from 25 to 45 who are seeking jewellery for everyday wear and special occasions. Gifting is also a major source of customers for Lovisa.	Section 3.3
What are Lovisa's competitive advantages?	Lovisa's business model provides competitive advantages that have enabled rapid growth, underpinned high gross profit margins (averaging more than 75%) and ensured it is profitable in each of the 8 countries in which it operates. Key features of this business model include: • specialising in the affordable jewellery segment (as opposed to its competitors which mostly operate across the broader accessories and apparel segment); • a vertically integrated business model, which enables it to stay on trend all year round through product innovation, frequent inventory turnover and speed to market, and allows Lovisa to deliver competitively priced products while maintaining healthy profit margins; and • operational scale, which provides it with negotiating leverage with suppliers and assists with securing preferred store locations within high grade shopping centres and malls.	Section 3

Topic	Summary	More Information
Who are Lovisa's competitors?	There are few competitors of scale that specialise in the fast fashion jewellery segment, however there are a number of retailers that operate in the broader fashion jewellery segment. Lovisa's competitors include (but are not limited to): • specialty retailers selling various fashion accessories including jewellery; • department stores; • fashion apparel retailers that may have a smaller jewellery offering, alongside a broader apparel-led range; and • smaller retailers (i.e. less than five stores) that specialise in the affordable jewellery segment.	Section 3.8
Who are Lovisa's Directors?	The Board of Directors of the Company has been structured to ensure the Board has a high level of retail and commercial experience, coupled with financial, legal and corporate governance capabilities. The Directors of Lovisa are: • **David Carter**, Chairman – experienced company director and corporate lawyer and adviser who was previously a partner of the international law firm, Baker & McKenzie. He is a director of Genetic Technologies Limited (ASX Listed), Glutagen Pty Ltd and In:Capital Pty Ltd. David has held previous directorships with VENCorp Ltd and Diabetes Australia Victoria Limited and was Chairman of Azure Healthcare Limited (ASX Listed); • **Shane Fallscheer**, Chief Executive Officer and Managing Director – 28 years of international retail experience across the Australian, UK and US markets including previous senior management roles with Sanity, Diva (CEO 2004-2008) and Rip Curl (Global Retail Chairman and Chief Operating Officer USA); • **Tracey Blundy**, Non-Executive Director – 33 years of experience in retail operations and senior executive positions including CEO, Bras N Things and CEO, Sanity. Tracey is currently a director of BB Retail Capital, Bras N Things and BB Retail Property Pty Limited; and • **Paul Cave**, Independent Non-Executive Director – experienced company director. Paul is a Non-Executive Director of Domino's Pizza Enterprises Ltd 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 is a Director of Chris O'Brien Lifehouse at the Royal Prince Alfred Hospital, founding Director of InterRisk Australia Pty Ltd and Patron of Hunter Melanoma Foundation.	Section 6.1

Topic	Summary	More Information
Who are Lovisa's key members of senior management?	The Lovisa team is led by the CEO and Managing Director, Shane Fallscheer (see above). He is supported by an experienced senior management team: • **Iain Sadler**, Chief Financial Officer – previously with PwC in the UK and Australia, and held finance roles in various fast moving consumer goods companies, including: Group Finance Manager, Joval Group; Financial Controller, Valcorp Fine Foods (part of Casama Group); and Financial Controller, Eden Springs. Iain is a member of The Institute of Chartered Accountants in England and Wales and holds a degree in Economics from Durham University, UK; • **Paul Grosmann**, General Manager of Product, Merchandise and Marketing – previous roles with McKinsey & Company (Shanghai office), PwC Advisory (New York) and Harris Farm Markets; • **Damian Babic**, Chief Operating Officer – 18 years experience in retailing operations, including previous roles with Sanity Music Australia, Sanity Entertainment UK, Footlocker, Tarocash, Repco Automotive, Bunnings and Kmart; • **Travis Liddle**, National Retail Manager Australia and New Zealand – 6 years experience within the BB Retail Capital Group including COO, Honey Birdette and the COO, Dusk. Previously held the role of National Retail Manager with Giordano; • **Simone Ellis**, Country Manager Asia and South Africa – 9 years experience in retailing operations. Previous roles with Surf Dive n Ski, Duty Free Retail and Cotton On based in Singapore; and • **Andrea Haynes**, Head of Product – joined Lovisa at concept stage and has 16 years experience in retail buying and product roles, including Mollini and Evelyn Miles (both part of the Figgins Group), Diva, Seed Femme, as well as buying high end brands including Jimmy Choo, Christian Louboutin and Prada.	Section 6.2

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2 OFFER SUMMARY

2 OFFER SUMMARY

<table>
<tr><th>Topic</th><th>Summary</th><th>Where to Find More Information</th></tr>
<tr><td>What is the Offer?</td><td>The Offer is an initial public offering of $102,074,070 worth of Shares for issue by the Company.

The Offer is fully underwritten by the Underwriters.</td><td>Section 9</td></tr>
<tr><td>What is the Offer Price?</td><td>$2.00 per Share.</td><td>Section 9.1</td></tr>
<tr><td>What is the purpose of the Offer?</td><td>The purpose of the Offer is to:
achieve a listing on the ASX to broaden Lovisa’s shareholder base and provide a liquid market for its Shares;
improve Lovisa’s future access to capital markets; and
provide an opportunity for certain Existing Shareholders to realise part of their investment.
Lovisa expects to recognise a number of additional benefits as an ASX listed company, including:
improved credibility in dealings with international suppliers and landlords, which is expected to aid its continued international growth strategy;
increased corporate and public profile, which is expected to help grow the Lovisa brand; and
enhanced ability to attract quality management and leadership in the future.</td><td>Sections 9.2</td></tr>
<tr><td>Who will receive the proceeds of the Offer?</td><td>The proceeds of the Offer will be used to acquire Lovisa Pty Limited shares from BB Retail Capital and Shane Fallscheer (through an entity controlled by him). None of the proceeds of the Offer will be received by Lovisa.

On Completion of the Offer, the Directors believe Lovisa will have sufficient working capital to meet the business’ stated objectives.</td><td>Section 9.3</td></tr>
<tr><td>What will be the interest of Existing Shareholders post Completion of the Offer?</td><td>The ownership structure of Lovisa before and after Completion of the Offer is shown by the following:
<table>
<tr><th>Shares</th><th>Ownership of the Company immediately prior to the Offer, assuming Completion of the Restructure</th><th colspan="2">Ownership of the Company following Completion of the Offer</th></tr>
<tr><td></td><td>Percentage</td><td>Quantity</td><td>Percentage</td></tr>
<tr><td>BB Retail Capital</td><td>82.26%</td><td>43,207,500</td><td>41.15%</td></tr>
<tr><td>Shane Fallscheer</td><td>15.00%</td><td>7,875,000</td><td>7.50%</td></tr>
<tr><td>Tracey Blundy</td><td>1.10%</td><td>1,153,005</td><td>1.10%</td></tr>
<tr><td>Vanessa Speer</td><td>1.65%</td><td>1,727,460</td><td>1.65%</td></tr>
<tr><td>Investors in the Offer</td><td>Nil</td><td>51,037,035</td><td>48.61%</td></tr>
<tr><td>Total</td><td>100%</td><td>105,000,000</td><td>100%</td></tr>
</table></td><td>Section 9.4</td></tr>
</table>

Topic	Summary	Where to Find More Information
Who is BB Retail Capital and will it control the Company at Listing?	BB Retail Capital is a private investment company with a 34 year history. BB Retail Capital was founded by Brett Blundy and has significant retail experience, having invested in retail brands such as Bras N Things, Sanity Entertainment Group, Adairs, Dusk and Honey Birdette. Following Completion of the Offer, BB Retail Capital will hold 41.15% of the issued capital of the Company which, it is expected, will make BB Retail Capital the largest shareholder in the Company. In addition, following Listing, the Board will continue to have one director nominated by BB Retail Capital. Consequently, while the Company does not consider that BB Retail Capital will control the Company, it will have significant voting power. BB Retail Capital currently provides certain property management services to Lovisa including managing lease negotiations with landlords. It is intended that such services will continue to be provided following the Offer at Lovisa's request, which provides Lovisa with a strong potential negotiation partner when dealing with landlords. Lovisa can terminate this agreement with 3 months' notice and elect to administer this property management function internally.	Section 3.2
Will any Shares be subject to voluntary escrow arrangements?	Both BB Retail Capital and Shane Fallscheer (through an entity controlled by him) have entered into voluntary escrow deeds with Lovisa in relation to all Shares they will hold (either directly or through controlled entities) on Completion of the Offer. Under the voluntary escrow deeds, BB Retail Capital and Shane Fallscheer agree, subject to certain limited exceptions, not to deal in those Shares from the date the escrow deeds are entered into until the date of the release of Lovisa's full year results for FY15 (in about early September 2015). The Shares subject to these arrangements represent approximately 48.65% of the total Shares on issue on Completion of the Offer.	Section 8.10
How is the offer structured?	The Offer comprises: • the Broker Firm Offer; and • the Institutional Offer.	Section 9.1
What is the minimum Application amount?	Applications must be for a minimum of 1,000 Shares, which equates to a minimum Application amount of $2,000.	Section 9.5
How do I apply for Shares?	You may apply for Shares by submitting a valid Application Form accompanying this Prospectus in accordance with the instructions contained within.	Section 9.5
What is the allocation policy?	The allocation of Shares: • between the Institutional Offer and the Broker Firm Offer; and • to participants within the Institutional Offer, was determined by the Underwriters and the Company, having regard to the following factors: • desire to foster a stable, long-term Share register; • desire for a liquid and informed trading market for the Shares; • overall level of demand for Shares under the Offer; and • any other factors that the Underwriters or the Company considers appropriate.	Section 9.6
Is the Offer underwritten?	The Offer is underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement.	Section 8.6
Will the Shares be quoted on the ASX?	Yes. The Company will, within seven days of the date of this Prospectus, apply to ASX for its admission to the Official List of, and quotation of its Shares by, ASX (which is expected to be under the code LOV). Completion of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest, as soon as practicable in accordance with the requirements of the Corporations Act.	Section 9.12

Topic	Summary	Where to Find More Information
What is the dividend policy and when will I receive dividends?	Directors forecast a fully franked dividend of 6.67 cents per Share for the half year ending 31 December 2014 and a fully franked dividend of 4.07 cents per Share for the full year ending 28 June 2015. Beyond the 2015 financial year it is the Board's intention to distribute dividends of between 65% and 75% of NPAT to be paid in respect of each half year and full year and expect them to be franked to the extent possible subject to available profits, available franking credits and the financial position of the Company. As the Company's international store portfolio grows, and the proportion of its revenue from international operations increases, the availability of franking credits may determine that dividends are only partially franked. Any unfranked dividends declared to be 'Foreign conduit income' being dividends attributable to tax exempt or tax sheltered foreign profits will not be subject to Australian withholding tax upon payment to non-resident Shareholders.	Section 4.13 and 8.5.3
What is the Company's debt profile?	The Company has long term bank borrowings of approximately $9.8 million and pro forma net debt of $14.9 million as at 29 June 2014, reflecting a net debt to FY15 forecast pro forma EBITDA ratio of 0.5x.	Section 4
What are the costs of the Offer ?	The costs of the Offer are estimated to be approximately $4.4 million. The costs of the Offer will be paid by Lovisa.	Section 8.9
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on the acquisition of Shares under the Offer.	
What are the tax implications of investing in the Company?	Summaries of certain Australian tax consequences of participating in the Offer and investing in the Shares are set out at section 8.11. The tax consequences for investors will differ depending on their individual circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 8.11
What are the key dates of the Offer?* *dates are indicative and subject to change at the discretion of the Company and the Underwriters	The Offer opens on Monday 1 December 2014. The Offer closes on Tuesday 16 December 2014. The Shares are expected to be issued on Thursday 18 December 2014. The Shares are expected to commence trading on a deferred settlement basis on Thursday 18 December 2014. Holding statements are expected to be despatched on Friday 19 December 2014. The Shares are expected to commence trading on a normal settlement basis on Tuesday 23 December 2014.	Refer to "Key Dates" in the Key Information Section
When will I receive confirmation that my Application has been successful?	Holding statements confirming allocations under the Offer are expected to be dispatched to Shareholders on Friday 19 December 2014.	Refer to "Key Dates" in the Key Information Section
How can further information be obtained?	Further information can be obtained by reading this Prospectus in its entirety, by speaking to your accountant, stockbroker or other professional adviser, by calling the Underwriters on 1800 777 946 or the Information Line on 1800 622 202 or +61 1800 622 202 from outside Australia, or by visiting the Company website at http://investors.lovisa.com.au	Section 9.16

Topic	Summary	Where to Find More Information
Can the Offer be withdrawn?	The Company reserves the right not to proceed with the Offer at any time before the issue of Shares to successful Applicants. If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Section 9.15

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3 COMPANY OVERVIEW

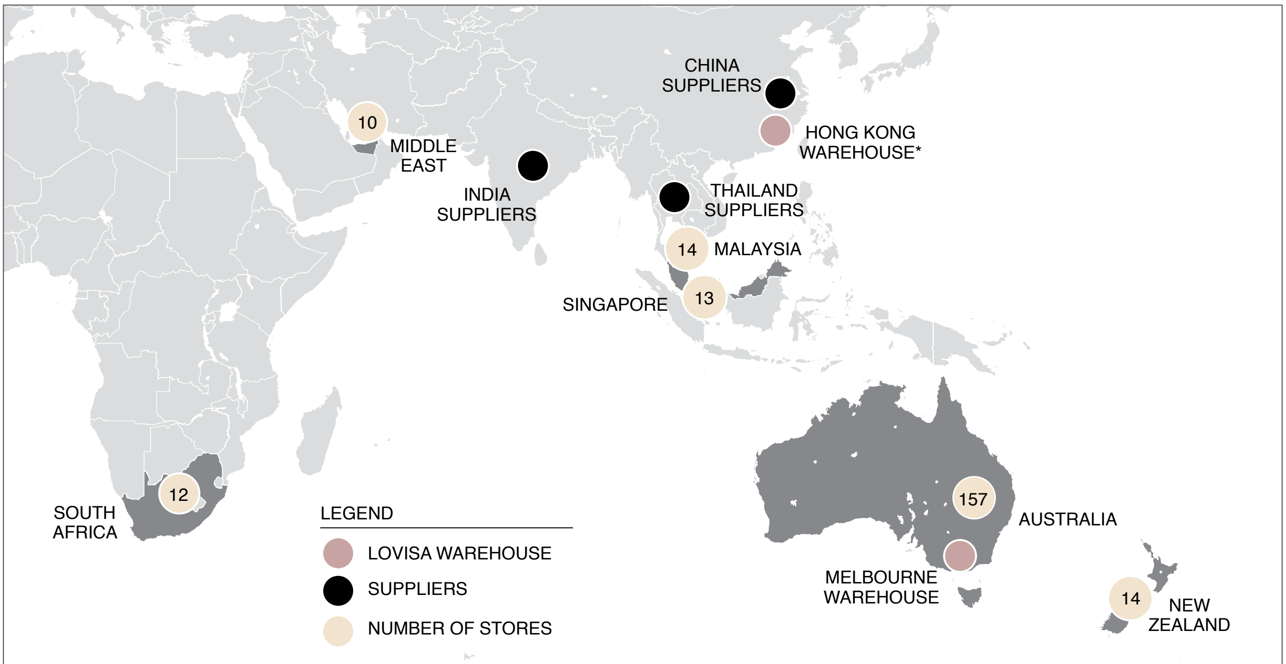
3 COMPANY OVERVIEW

3.1 INTRODUCTION

Lovisa was established in April 2010 and has quickly grown to be a leading specialist fast fashion jewellery retailer in a number of international markets. It has 220 stores (as at 31 October 2014), comprising 157 company owned stores in Australia, 53 company owned stores across New Zealand, Singapore, Malaysia and South Africa and approximately 10 franchised stores in the Middle East (Kuwait, the United Arab Emirates and Saudi Arabia). Lovisa strives to be at the forefront of the fast fashion retail industry and has developed a model that ensures fashion trends are quickly identified and its target customers (being fashion conscious females aged 25-45) are provided with a broad, quality product range.

Lovisa has developed a vertically integrated business model, through which it develops, sources and merchandises all of its Lovisa branded products. This operating model enables it to generate average gross margins of greater than 75%. Speed to market is critical in the fast fashion industry. Lovisa's supply chain requires approximately 8 – 10 weeks for products to be developed, ordered, manufactured and in-store and this process can be repeated in approximately 4 – 6 weeks for products demonstrating strong early sales. To stay ahead of trend, Lovisa utilises daily inventory monitoring software and primarily uses airfreight to move product to store locations typically within 48 hours from centrally located warehouses in Melbourne, Australia and Hong Kong. This allows the company to manage its broad product range (which averages approximately 2,500 jewellery lines per store) and to launch, on average, more than 120 new lines each week.

Lovisa's key drivers of future growth are its continuing international store roll-out and ongoing business improvement initiatives to drive like for like sales growth. Lovisa has a proven track record of international expansion, with all of its territories operating profitably and a portfolio of 63 international stores now established (including 10 franchised stores). It aims to continue this with a target of 20-30 new stores per annum for the medium term (1 – 3 years), with an initial focus on the Asian and South African markets. Lovisa also expects to grow earnings through product innovation, store enhancement and improvement initiatives and it will look to optimise its global supply chain and warehouse infrastructure, which should produce cost savings.



**HK warehouse is a third party operated facility*

WHAT IS FAST FASHION?

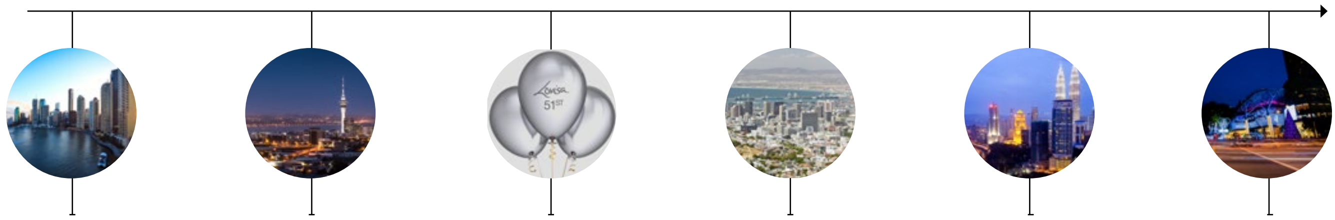
Lovisa operates in the fast fashion retail segment. Fast fashion has thrived recently as a result of consumer exposure to fashion trends through social media and online shopping. Fast fashion retailers typically source trends from runway shows and make them available for mass consumption in short time frames while maintaining affordable prices. Over the past five years, fast fashion industry revenues in Australia have grown by an estimated 8.7% annualised and are currently estimated to be worth $1.1 billion in FY2014 (IBISWorld, May 2014).

Traditional retailers usually commit to products well in advance, releasing them on a seasonal three month or six month cycle, leaving them exposed to large fluctuations in fashion trends if demand fails to meet supply (IBISWorld, May 2014).

Fast fashion retailers do not release new products on a seasonal basis, instead responding to changes in trends as they occur. Retailers in the segment typically have sophisticated, vertically integrated supply chains, allowing them to produce new products more frequently and in small batches. Scarcity generated by the smaller batches and high product turnover drives consumer demand and frequency of store visits and also allows the retailers to better manage inventory levels.

Fast fashion industry revenue in Australia is forecast to increase by an annualised 11.3% to reach $1.9 billion in 2018-19, outpacing the growth rate for the past five years. (IBISWorld, May 2014).

3.2 COMPANY HISTORY



April 2010: First store opens in Chermside in QLD

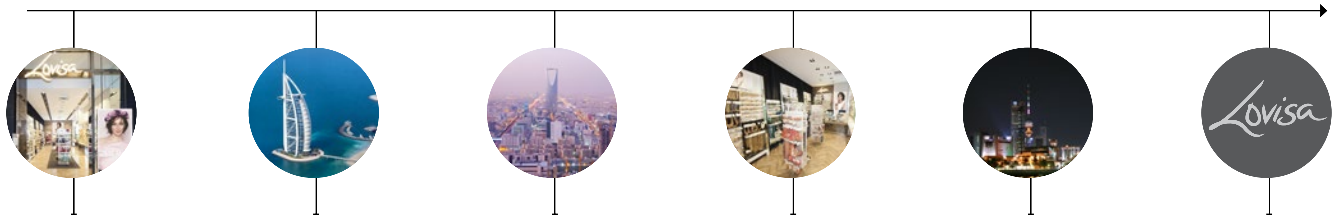
June 2010: First store opens in New Zealand

April 2011: 51st store opens on 1st anniversary

December 2011: First store opens in South Africa

July 2012: First store opens in Malaysia

July 2012: First store opens in Singapore



November 2012: Trial conversion of 21 Diva stores to Lovisa

November 2013: First stores opens in UAE

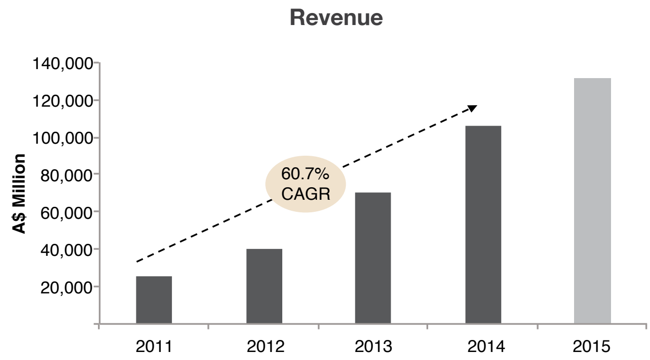
June 2014: First stores open in Saudi Arabia

June 2014: Final transition of Diva stores to Lovisa

July 2014: First stores open in Kuwait

31 October 2014: 210 company owned stores and 10 franchised stores in 8 countries

Lovisa was founded by its CEO and Managing Director, Shane Fallscheer, and BB Retail Capital, an investment company established by successful retail entrepreneur Brett Blundy. It opened its first store in Chermside, Queensland in April 2010 and soon after began its international expansion with the opening of its first store in New Zealand (June 2010). On the anniversary of its first year of operations, Lovisa opened its 51st store. It entered South Africa in December 2011 and Asia in July 2012, opening stores in Singapore and Malaysia. Lovisa began its expansion into the United Arab Emirates via a franchise agreement in November 2013 and opened its first stores in Saudi Arabia and Kuwait in June and July 2014 respectively.



Lovisa has achieved rapid growth since it was founded, with revenue growing from $25.5 million in FY2011 to $105.7 million in FY2014, representing a compound annual growth rate of 60.7%. As at 31 October 2014 it had a portfolio of 220 stores (including 10 franchised stores). The growth is forecast to continue with expected revenue growth of 27.4% in FY2015 on the back of "like for like" store sales growth of 11.7% in YTD FY2015 and continued store growth. This strong performance in the year to date underpins the Company's FY2015 forecast financials.

Lovisa's rapid store roll-out has been aided by the integration of approximately 114 Diva stores into the Lovisa portfolio between November 2012 and June 2014. There are currently 88 of these stores that continue to trade under the Lovisa brand.

Diva was a successful fashion jewellery and hair accessories retailer that was part of BB Retail Capital from 2004. It targeted a younger demographic to Lovisa. Shane Fallscheer (CEO and Managing Director of Lovisa), was the former CEO of Diva and performed this role from 2004 until 2008.

Notwithstanding that Diva was a profitable and growing enterprise, it became apparent in 2012, two years after Lovisa was established, that Lovisa was achieving higher returns on investment than Diva, largely due to its broader demographic and improved product capabilities. As a result, BB Retail Capital trialled the conversion of 21 Diva stores to Lovisa. This trial confirmed that higher returns could be achieved through the Lovisa brand.

BB Retail Capital continued to convert Diva stores to Lovisa throughout 2013 with a view to rapidly expanding the Lovisa network and maximising the return on the portfolio of leases that Diva had secured during its 10 years of operations. In early 2014, BB Retail Capital made the strategic decision to convert all remaining Diva stores in Australia and New Zealand to Lovisa.

Following this process of integration, there are no longer any Diva stores controlled by BB Retail Capital. BB Retail Capital is a 38% shareholder in an entity that continues to operate approximately 200 Diva stores in Eastern Europe. This entity has always operated separately to Diva's Australian and New Zealand operations with an independent management team and operating structure.

3.3 LOVISA'S CUSTOMERS, PRODUCT AND BRAND

Lovisa offers a large range of exclusive, affordable jewellery pieces to its customers who are typically fashion conscious females aged from 25 to 45. Lovisa customers spend on average approximately AUD$20.00 per transaction and the average number of units purchased per customer in a single transaction is 2.2.

REGIONAL PRICING STRUCTURE

	ENTRY	MEDIAN	MEDIAN	ELEVATED
HKD	$45	$65	$110	$330
SGD	$10	$13	$22	$65
MAL RM	RM 18.90	RM 28.90	RM 47.90	RM 149.90
AUD	$6.99	$9.99	$16.99	$49.99
SAF	R75	R100	R160	R450
UAE D	25 د.إ	39 د.إ	59 د.إ	179 د.إ

Lovisa's product range requires minimal adaption for international markets as a result of fashion trends becoming increasingly global, the reduced impact of seasonality and major consumer calendar events becoming more universal. Lovisa's product pricing is relatively consistent (adjusting for local currency) throughout its territories of operation.

November to January is a key trade period for Lovisa particularly around Spring Racing, the Christmas period and Boxing Day/New Years sales. To ensure Lovisa maximises the opportunity presented by these events, planning for the November to January period commences at the beginning of each calendar year and product ranges are trialled throughout the year to ensure they meet customer demands. Year on year the relative importance of this trading period is becoming less significant as other events around the world (e.g. Chinese New Year, Ramadan, Valentine's Day, Mother's Day and Easter) play a more significant role given the growing international store footprint.

Building the Lovisa Brand

Due to the demographic of its customer base, Lovisa's marketing strategy centres around engaging digitally with its customers through email and social media channels. Lovisa does not undertake large scale mass media advertising campaigns. Its approach is what is known as 'below-the-line' advertising, comprising targeted customer marketing and no commercial media advertising. Lovisa stores are located in high foot traffic retail precincts which increases brand awareness through store signage. Lovisa does not anticipate this level of marketing spend as a percentage of sales to increase in FY2015.

Lovisa's email database currently consists of more than 800,000 customers. It also has approximately 40,000 Facebook followers and approximately 29,000 Instagram followers. Email correspondence in relation to new products, trends and promotional offers is sent out regularly with the content and recipients tailored as appropriate. Lovisa uses social media to engage with customers through a variety of platforms including Facebook, Twitter, Instagram, Pinterest and Tumblr.

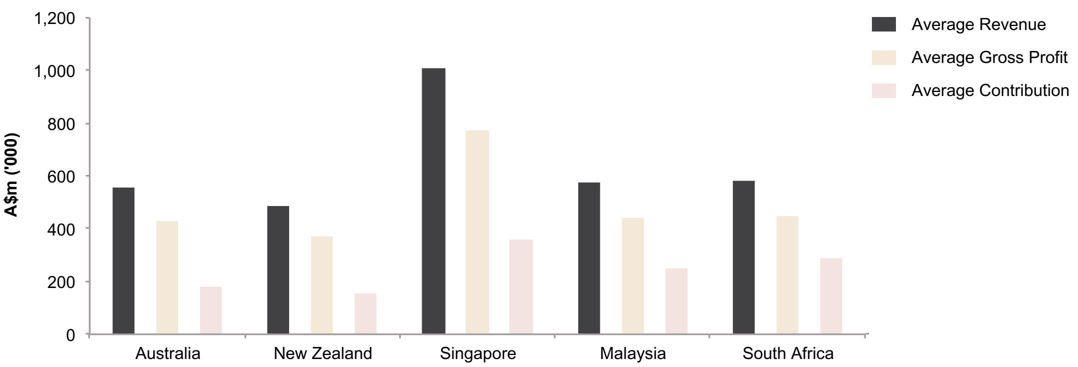
The Lovisa website is primarily used for promoting its products, stores and brand to its customers, linking to the company's social media pages and recruitment. Due to the high postage and handling costs relative to the average transaction value, Lovisa does not currently have an online store but does have the web infrastructure in place should the economics of selling affordable jewellery online improve.

3.4 LOVISA'S OPERATING TERRITORIES

Lovisa's store network comprises 210 company owned stores across Australia, New Zealand, Singapore, Malaysia and South Africa. In addition, it has developed a franchise network in the Middle East, with 10 stores currently operating in Kuwait, the United Arab Emirates, and Saudi Arabia.

Lovisa's International Footprint	
Australia	Lovisa was founded in Australia and it is the territory in which it has achieved significant scale, with a network of 157 company owned stores already established. While the Australian market has been a successful territory for Lovisa, it incurs relatively high occupancy and labour costs in comparison to some of its other markets. Lovisa anticipates earnings growth through the optimisation of its store portfolio through a combination of the closure of relatively poorer performing stores inherited through the Diva integration, re-locating stores within shopping centres to higher profile sites where possible and other business improvement measures that are expected to deliver "*like for like*" store sales growth. Through further optimisation of its store portfolio, Lovisa expects to have approximately 148 stores in Australia by the end of FY2015. Going forward, it aims to open 2 – 3 new stores each year for the foreseeable future.
New Zealand	Lovisa entered the New Zealand market within its first year of operations. These stores are aided by lower labour costs than the Australian market. Lovisa currently has 14 company owned stores in the territory and estimates capacity of approximately 18 – 20 stores for the region.
South Africa	South Africa benefits from low wages and low occupancy costs. Lovisa is looking to significantly expand its footprint of 12 company owned stores and intends to have approximately 21 company owned stores in the region before the end of FY2015. Lovisa estimates a minimum store capacity in the region of 30 stores.
Singapore	Singapore has the highest average store turnover of any region for Lovisa and the highest ranked store by turnover. Singapore is an environment of mid-level wages but relatively high occupancy costs with leases linked to turnover. Lovisa is intending to have approximately 16 company owned stores in the region before the end of FY2015. Lovisa estimates approximately 18-20 stores capacity for the region.
Malaysia	Malaysia is an environment of low wages and low occupancy costs. Lovisa currently trades from 14 company owned stores in Malaysia and estimates that approximately 20 stores is capacity for the region.
Middle East	Legislation does not permit company owned stores in the Middle East, so Lovisa has appointed a franchise partner who has opened 10 franchised stores across Kuwait, the United Arab Emirates, and Saudi Arabia. Based on the presence of other specialist retailers, Lovisa expects the Middle East to be an important franchise territory, estimating that capacity in the region is greater than 50 stores based on the store footprint of similar retailers operating in the territory. Further details on the franchise model are summarised below.

Average Store Revenue, Gross Profit and Contribution by Region – FY2014



Note: Contribution equals store gross margin less occupancy, labour, freight and miscellaneous (brand collateral) costs

Franchise Model

When entering new markets, Lovisa's priority is to establish a company owned operation. However, in certain regions, such as the United Arab Emirates, there are legal limitations restricting foreign companies from establishing wholly owned operations. To enable Lovisa to enter such regions and also other regions where the complexity of operating as a foreign owned entity is considered to be too high, Lovisa may appoint a master franchisee. This reduces the risk of entering these markets.

To assist with growing its franchise network, Lovisa has developed key criteria that must be met by franchise partners. This includes a proven track record of franchise operations in the relevant country, a demonstrated level of financial means and a commitment to grow the store network. Franchisees are required to meet minimum store roll out targets within agreed timeframes. To ensure consistency and professionalism across the franchise network, master franchisees are not permitted to sub-franchise the operation of the stores except in certain limited circumstances.

Franchisees are responsible for constructing and developing each franchised site. Written approval must be obtained for all store designs and these must comply with Lovisa's reasonable plans and specifications. Franchisees are expected to operate, manage, monitor and administer the Lovisa stores in the relevant territories and are only permitted to source inventory from

Lovisa or its nominated suppliers. All costs of the franchised stores (including fit-out and refurbishment, inventory, occupancy and labour costs) are typically the responsibility of the franchisee.

Lovisa can elect to use different franchise business models, which for example may include inventory being charged at wholesale cost (plus any handling charges) and a royalty being payable to Lovisa based on net sales for use of Lovisa's resources in relation to its business systems and operating procedures. As demonstrated with the current growth in the Middle East, Lovisa is able to adequately incentivise partners to grow their store networks while still providing a robust revenue model for Lovisa.

3.5 LOVISA'S STORES

One of the key attributes of Lovisa's success has been its 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.

Lovisa Store Metrics FY2014 – company owned stores

AUD	Australia	New Zealand	South Africa	Singapore	Malaysia
New store fitout cost	124,000	113,000	57,000	122,000	65,000
Existing store refurbishment cost	40,000	40,000	25,000	40,000	25,000
Inventory per store (including warehouse)	50,000	50,000	50,000	50,000	50,000
Average store payback period (months)	8.2	8.6	2.3	4.0	3.1

Notes: All costs outlined below are management estimates of average costs for FY2014, displayed in Australian Dollars.
No metrics have been provided for the Middle East as fit-out costs are met by the franchise partner in that territory.

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 currently provides certain property management services to Lovisa including managing negotiations with landlords for new leases and lease renewals. It is intended that such services will continue to be provided by BB Retail Capital following the Offer at Lovisa's request, with charges on an arm's length basis. This arrangement provides Lovisa with a strong potential negotiation partner when dealing with landlords, however the arrangement is also flexible as it can be cancelled at Lovisa's discretion with three months' notice.

Lovisa believes it will be able to grow sales and reduce occupancy costs through improvements to its store portfolio and operations. This includes the closure of approximately 18 company owned stores in sub-optimal locations in Australia during FY2015. All of these stores were inherited as part of the Diva integration or are in locations where Lovisa has a better performing store in close proximity as a result of the Diva integration. Lovisa has also achieved rent reductions with a number of leases that recently rolled over and it expects to continue to achieve this with 58 leases due to expire in CY2015.

The fit-out cost of a new store is relatively low, as reflected by the average payback period on initial capital investment of nine months for stores in Australia and New Zealand and 4 months for stores in Lovisa's other operating territories. This has allowed Lovisa to predominately use existing cash flow to fund its store roll-out program. The typical lease is 3 – 5 years across the operating territories, at the end of which Lovisa may refurbish the store. It seeks to renew the master design of stores approximately every two years, which is then rolled-out across the store portfolio as leases are renewed.

3.6 LOVISA'S EMPLOYEES

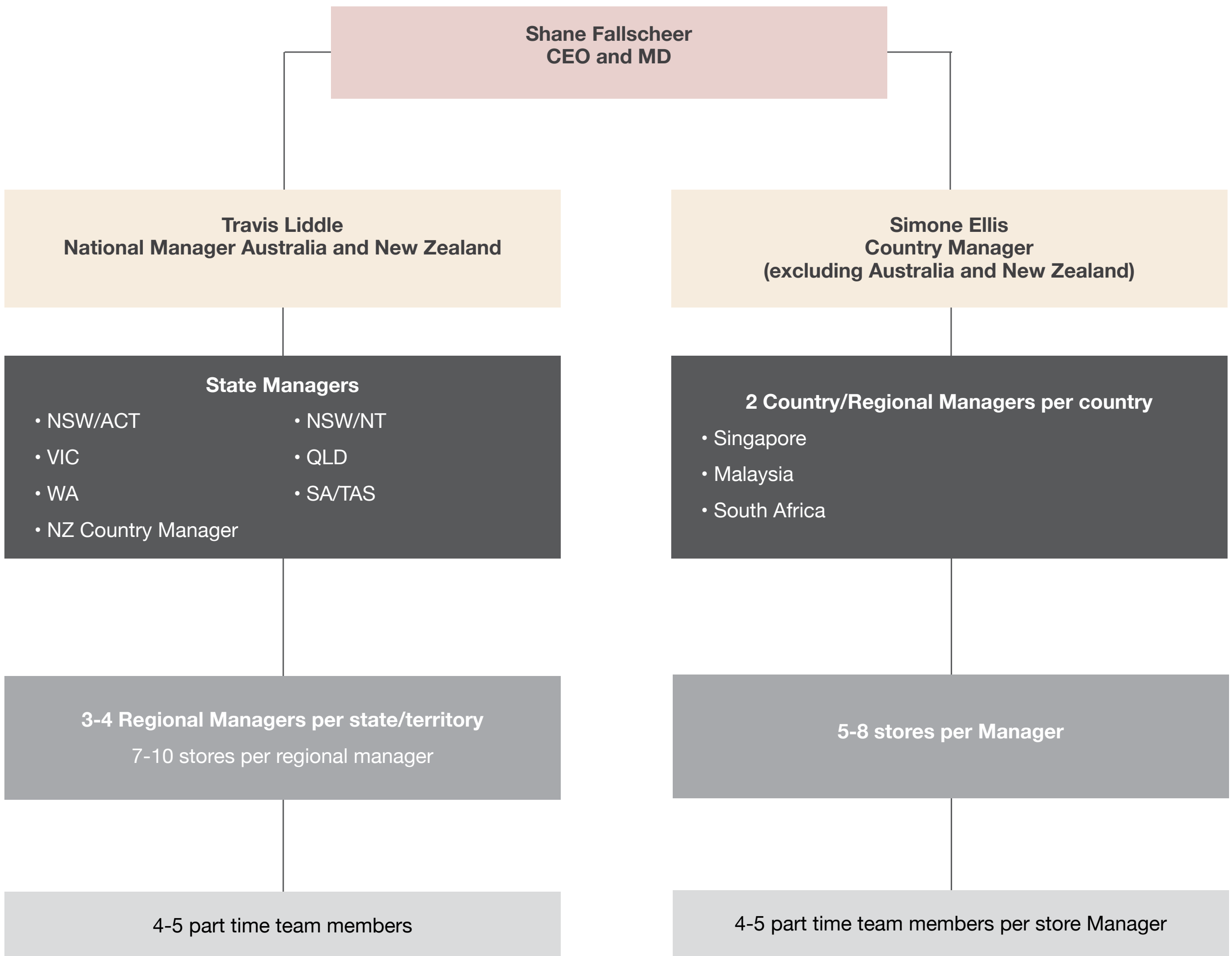
Lovisa aims to be an employer of choice and testament to this is its recognition as the 2014 Retail Employer of the Year by Retailworld Resourcing. Lovisa's culture supports team growth and development and is focused on continuous improvement.

> *"Lovisa is a dynamic, exciting company to work for. The culture supports team growth and development. The focus on continuous improvement, 'can do' attitudes and striving for excellence is infectious."*
>
> Anonymous quote from Lovisa employee who voted in the Retailworld Resourcing 2014 Retail Employer of the Year Award

Lovisa currently employs approximately 390 full time staff and approximately 930 part time staff across its international footprint of stores, support centres and warehouses.

While there is some variation across its territories, the typical Lovisa store employs approximately two to three full time equivalent staff, typically being one full time store manager and approximately five part time employees. In peak periods, Lovisa recruits casual staff and increases the hours of part time employees (who are subject to flexible employee arrangements). Lovisa has designed its business model to minimise the responsibilities and duties of in-store staff. These are largely limited to maintaining store appearance, product merchandising and servicing customers.

Regional managers oversee an average of eight stores and are incentivised to achieve sales targets and control store based costs. Individual store managers are incentivised with cash bonuses for achieving sales targets and KPIs. The vast majority of functions other than sales management are centralised out of Lovisa's Melbourne corporate office which has approximately 65 full time employees and provides support services to Lovisa's network of stores including back of house operations.



3.7 VERTICALLY INTEGRATED BUSINESS MODEL

Lovisa has a vertically integrated business model, which underpins high gross margins (averaging more than 75%) and enables it to stay on-trend by being highly responsive to customer demands. It develops, sources and merchandises all of its products, requiring approximately 8 – 10 weeks for products to be developed, ordered, manufactured and in-store. This process can be repeated in approximately 4 – 6 weeks for products demonstrating strong early sales and allows Lovisa to produce, on average, more than 120 new lines per week. Lovisa utilises daily inventory monitoring software and primarily uses airfreight to deliver product to store locations from centrally located warehouses in Australia and Hong Kong, allowing the company to manage its large product range which averages approximately 2,500 jewellery lines per store.

Lovisa is strategically focused on the affordable jewellery segment. Its stores are dedicated to showcasing its extensive jewellery product range, typically priced from A$6.99 to A$49.99. This provides Lovisa with a number of advantages over its competitors who stock a diversified product range across the broader ladies apparel and accessories segment.

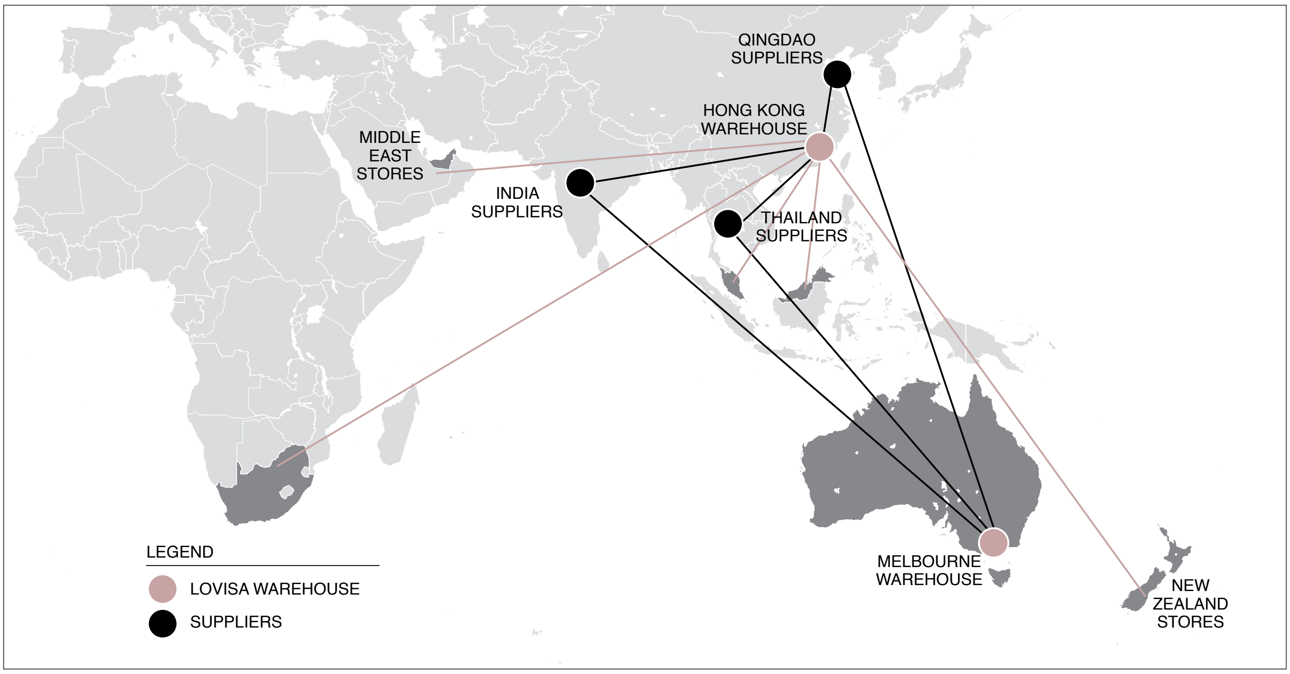
Product Innovation

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. While the product team is based in Melbourne, 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. The buying team is led by Andrea Haynes who has been with Lovisa since it was founded and has extensive fashion experience in product development, buying and brand management for leading fashion brands.

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.

Global Supply Chain

Lovisa's third party suppliers are predominately 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 stores) or its third party operated warehouse in Hong Kong (for stock to be sold in countries other than Australia). There is sufficient capacity in Lovisa's third party operated Hong Kong warehouse to handle further international growth.



Inventory Management

Store level stock monitoring is managed centrally from the Lovisa support office in Melbourne via Lovisa's electronic inventory management program which is linked to daily sales records across all stores. Lovisa uses Futura Retail Solutions to manage its operations in Australia and offshore, in particular point of sale and product management. Futura software is developed and maintained in Germany and is used by a number of global retailers.

Lovisa's IT systems significantly reduce the responsibility of the in-store team for inventory management allowing all stock replenishment decisions to be centrally controlled. Lovisa's inventory is relatively light in weight and compact. Goods from Lovisa's warehouse in Australia and third party operated warehouse in Hong Kong are able to be transported via airfreight to reach most Lovisa stores within 48 hours. This allows the company to replenish its stores with a "just-in-time" inventory management strategy model across its large product range which averages approximately 2,500 jewellery lines per store and influx of new product lines, which averages more than 120 lines per week.

3.8 COMPETITIVE LANDSCAPE

Lovisa operates in the fast fashion, affordable jewellery segment. There are few competitors that specialise in this segment, however there are a number of retailers that operate in the broader fashion jewellery segment. Lovisa's competitors include (but are not limited to):

- specialty retailers selling various fashion accessories including jewellery;
- department stores
- fashion apparel retailers that may have a jewellery offering, alongside a broader apparel-led range; and
- smaller retailers (i.e. less than five stores) that specialize in the affordable jewellery segment.

Lovisa's core focus on jewellery has enabled it to position itself as the "go to" destination for customers seeking fast fashion jewellery.

Barriers to Entry

The barriers to entry in the fashion jewellery retail segment primarily relate to the costs and time that would be required to develop a business model, establish brand recognition, product team, IT systems, relationships with suppliers, store network and warehouse facilities. Lovisa has developed a loyal following from its customer base, which has been achieved through quality products and the product innovation of its specialist product design team. Lovisa's scale provides it with negotiating leverage with suppliers, which assists in achieving average gross margins of over 75%. Lovisa believes it would take a number of years for a new entrant to establish a portfolio of leases comparable with Lovisa in premium store locations.

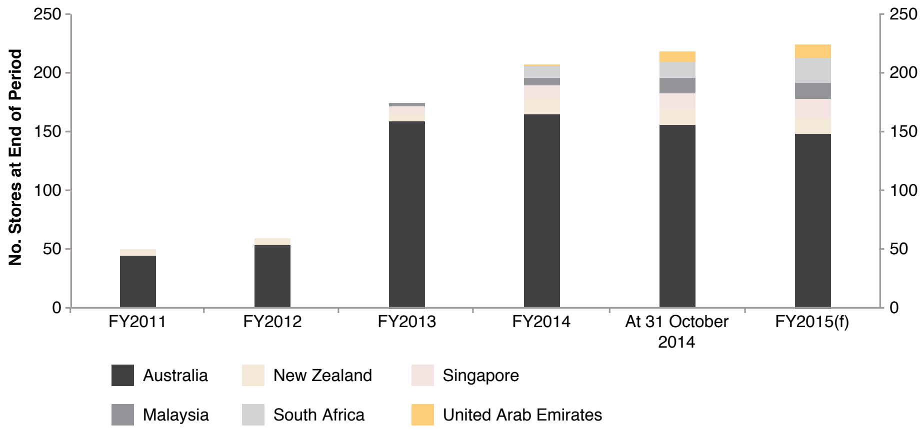
3.9 GROWTH STRATEGY

Lovisa has achieved rapid growth since it was founded, with revenue growing from $25.5 million in FY2011 to $105.7 million in FY2014, representing a compound annual growth rate of 60.7%. This historical growth has been driven by Lovisa's swift domestic store roll out and successful international expansion.

Lovisa's growth is forecast to continue with expected revenue growth of 27.4% in FY2015, supported by average "*like for like*" store sales growth of 11.7% for YTD FY2015. The strong "*like for like*" store sales growth is being achieved through Lovisa's ongoing focus on business improvement and store optimisation initiatives.

Lovisa's key driver of future growth is the continued international store roll-out. It has a proven track record of international expansion, with all of its territories operating profitably and a portfolio of 63 international stores now established (including 10 franchised stores). It aims to continue this with a target of 20-30 new stores per annum in the medium term (1 – 3 years), with an initial focus on the Asian and South African markets.

Store Numbers by Region – FY2011 to FY2015(f)



Lovisa's growth strategy centres around short term (forecast period), mid-term (1-3 years) and longer term (3-5 years) objectives. However, its success to date has been underpinned by its ability to remain nimble and opportunistic in expanding and moving into new markets. The intention is to continue this as a listed company, such that if opportunities arise, it 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 aren't presented at the relevant time.

Medium Term (1-3 years)	• Target 20 – 30 new stores per year • Remain opportunistic in markets with expected capacity of 15-30 stores • Build out current territories • Expand into new territories eg. Hong Kong • Continue to grow franchise territories
Longer Term (3-5 years +)	• Enter a major market in Northern Hemisphere; e.g. USA, UK or Europe • Upon achieving an initial footprint and achieving pre-determined KPIs then undertake a rapid store roll-out

International Expansion

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 and South Africa and supporting franchised stores in Kuwait, the United Arab Emirates, and Saudi Arabia. Its two best performing stores are located offshore and six of Lovisa's top 20 performing stores are located outside of Australia. All of Lovisa's international territories operate profitably and it will continue its store roll-out, initially focusing on the Asian and South African markets.

Lovisa's objective is to fully maximise its footprint in its current territories within the medium term (1-3 years). In addition to this it aims to identify and establish a presence in one new territory each year, thus positioning it to achieve its medium term goal of 20 – 30 new stores per annum. In the longer term, Lovisa believes there is potential for further international growth, with the opportunity to enter the major markets (eg UK, Europe and/or USA) once the Company is comfortable it has established a robust platform sufficient to service these much larger markets. The international experience of its CEO and Managing Director, as well as other members of senior management, will be key in this strategy.

Lovisa is currently exploring opening new stores in Hong Kong in the next 12 months. Whilst management cannot guarantee that Lovisa will open stores in Hong Kong, it believes it would be an attractive market for the Company, with potential capacity of approximately 20 stores. This is in-line with the Company's strategy of entering a new territory each year in the medium term. Given the relatively early stage of the Hong Kong expansion plans, this growth is not included in the FY15 forecast period. There are a number of other markets that have been identified as potentially successful territories for Lovisa over the medium and longer term.

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.

	FY2011	FY2012	FY2013	FY2014	FY2015 (current)	FY2015 (forecast)	Estimated Store Capacity
Australia	45	54	160	165	157	148	150
New Zealand	6	6	6	14	14	14	18-20
South Africa	0	0	0	10	12	21	30+
Singapore	0	0	6	10	13	16	18-20
Malaysia	0	0	3	7	14	14	20
Middle East*	0	0	0	2	10	12	50+
Total	**51**	**60**	**175**	**208**	**220**	**225**	

** The Middle East is a franchise territory*

The table above represents the total number of stores at the respective period end date.

Domestic Store Portfolio Optimisation and Business Improvement

Lovisa's rapid store roll-out in Australia is largely complete with 157 stores in operation as at the date of this Prospectus. Subject to the availability of attractive sites, Lovisa will still seek to open 2 – 3 new stores per year in Australia for the foreseeable future. This growth is expected to be supplemented by store optimisation and improvement initiatives.

Among these initiatives is the closure of 18 company owned stores in sub-optimal locations in Australia in FY2015. The stores Lovisa is intending to close were either inherited as part of the Diva integration or are in locations where Lovisa has a better performing store in close proximity as a result of the Diva integration.

Lovisa has also achieved rent reductions with a number of leases that recently rolled over and it expects to continue to achieve this with 58 leases due to expire in CY2015.

Streamline Global Supply Chain

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. Lovisa anticipates that a reduced supplier base will result in business efficiencies, settlement discounts and more flexible payment terms. It is also planning a trial of the use of sea freight for less trend sensitive lines with the aim of reducing freight costs.

FIVE PILLARS OF GROWTH

1. International expansion	• Continue store roll-out in established international markets • Continue to look for new markets where Lovisa can operate on a wholly owned basis targeting one new territory per annum • Find suitable partners for markets identified as franchise territories
2. Streamline global supply chain	• Consolidate and optimise supply base in Asia • Optimise sea freight for further cost savings whilst maintaining speed to market operating model • Investigate consolidation of warehouse logistics into Asia
3. Enhance existing store performance	• Optimise and improve existing store network via a strategic managerial focus on continuous improvement
4. Brand proliferation	• Continue to leverage online social media to connect with customers and increase brand recognition
5. Lead and pre-empt trends	• Stay on trend with shifts in jewellery and accessory market • Continue to provide a high quality and diverse product offering

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4 FINANCIAL INFORMATION

4 FINANCIAL INFORMATION

4.1 INTRODUCTION

This Section contains a summary of the following financial information:

- **Pro forma historical financial information** of Lovisa being the:
  - » Pro forma historical Statements of Profit or Loss and Other Comprehensive Income of Lovisa for the financial years ended 1 July 2012 (**FY2012**), 30 June 2013 (**FY2013**) and 29 June 2014 (**FY2014**)
  - » Pro forma historical Statements of Cash Flows of Lovisa for FY2012, FY2013 and FY2014
  - » Pro forma historical Statement of Financial Position of Lovisa as at 29 June 2014

    (together the Pro Forma Historical Financial Information)
- **Forecast financial information** of Lovisa being the:
  - » Pro forma forecast Statement of Profit or Loss and Other Comprehensive Income of Lovisa for the financial year ending 28 June 2015 (**FY2015**)
  - » Statutory forecast Statement of Profit or Loss and Other Comprehensive Income of Lovisa for FY2015
  - » Pro forma forecast Statement of Cash Flows of Lovisa for FY2015
  - » Statutory forecast Statement of Cash Flows of Lovisa for FY2015

    (together the Forecast Financial Information).

The Pro Forma Historical Financial Information and the Forecast Financial Information together form the Financial Information.

The Financial Information has been reviewed by KPMG Financial Advisory Services (Australia) Pty Ltd, whose Investigating Accountant's Report is contained in Section 7. Investors should note the scope and limitations of that report (refer to Section 7).

Also summarised in this Section are:

- the basis of preparation and presentation of the Financial Information (see Section 4.2);
- management's discussion and analysis on the Financial Information (see Section 4.6);
- the Directors' best estimate assumptions underlying the Forecast Financial Information (see Section 4.7);
- an analysis of the key sensitivities in respect of the Forecast Financial Information (see Section 4.8);
- a summary of the Company's debt finance facilities (see Section 4.9); and
- a summary of the Company's proposed dividend policy (see Section 4.13).

The information in this Section should also be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

4.2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

4.2.1 OVERVIEW

The Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Section 4 has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (AAS) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act, and the accounting policies of the Company. The Financial Information and accompanying commentary presented in this Section has also been disclosed with consideration to regulatory guidance issued by ASIC.

The Financial Information is presented in an abbreviated form and does not include all of the disclosures, statements or comparative information required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

In preparing the Financial Information, the accounting policies of Lovisa have been applied consistently throughout the periods presented. The significant accounting policies of Lovisa relevant to the Financial Information are set out in Section 10.

4.2.2 PREPARATION OF PRO FORMA HISTORICAL FINANCIAL INFORMATION

The Pro Forma Historical Financial Information of Lovisa has been derived from the statutory financial statements of Lovisa Pty Ltd for the years ended 1 July 2012, 30 June 2013 and 29 June 2014, and unaudited financial information of Lovisa International Pte. Ltd. for the period from 5 June 2013 to 30 June 2014. The statutory financial statements of Lovisa Pty Ltd have been audited by KPMG, who have issued unqualified audit opinions in respect of the years ended 1 July 2012, 30 June 2013 and 29 June 2014.

The Pro Forma Historical Financial Information has been prepared for the purposes of inclusion in this Prospectus, and has been adjusted to eliminate non-recurring items related to the Offer, and to reflect Lovisa's capital structure that will be in place following Completion of the Offer. Refer to Sections 4.3, 4.4 and 4.5 for reconciliations between the Pro Forma Historical Financial Information and the statutory equivalent information.

In preparation for Listing an internal restructure will take place resulting in a newly incorporated company, Lovisa Holdings Limited, becoming the legal parent of the group subject to the issue of Shares under the Offer.

The Directors have elected to account for the restructure as a capital re-organisation rather than a business combination. In the Directors' judgement, the continuation of existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been in a structure suitable to IPO and most appropriately reflects the substance of the internal restructure.

As such, the consolidated financial statements of Lovisa Holdings Limited will be presented as a continuation of the pre-existing accounting values of assets and liabilities in the Lovisa Pty Ltd and Lovisa International Pte. Ltd. financial statements with Lovisa Pty Limited deemed to be the acquirer for accounting purposes.

In adopting this approach the Directors note that there is an alternate view that such a restructure, which is conditional on the IPO completing, should be accounted for as a business combination, with Lovisa Holdings Limited being the acquirer. If this view is taken, the net assets of the group would have been uplifted to fair value by $213.6 million, based on an assumed market capitalisation at IPO of $210 million, with consequential impacts on the Statement of Profit or Loss and Other Comprehensive Income, and Statement of Financial Position. The Directors anticipate that the excess of the fair value compared to the book value of net assets would primarily be allocated to inventory (estimated to be $4.8 million based on the pro forma inventory position as at 29 June 2014) with the residual booked to goodwill. A fair value uplift to inventory under this approach, had it been adopted, would have resulted in reduced profitability in the FY2015 forecast period.

An IASB project on accounting for common control transactions is likely to address such restructures in the future. However, the precise nature of any new requirements and the timing of these are uncertain. In any event, history indicates that any potential changes are unlikely to require retrospective amendments to the financial statements.

4.2.3 PREPARATION OF FORECAST FINANCIAL INFORMATION

The Forecast Financial Information has been prepared by the Directors with due care and attention, and having regard to an assessment of present economic and operating conditions, and based on a number of best estimate general and specific assumptions regarding future events and actions. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

The Directors believe the best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus. However, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

Investors should note that past results are not a guarantee of future performance. Investors should also be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a materially positive or negative effect on the Company's actual financial performance or financial position. Accordingly, none of Lovisa, the Directors, the Company's management, or any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

Investors are advised to review the Forecast Financial Information in conjunction with the general and specific assumptions set out in Section 4.7, the sensitivity analysis set out in Section 4.8, the risk factors set out in Section 5 and other information set out in this Prospectus.

The Directors have no intention to update or revise the Forecast Financial Information or other forward-looking statements following the issue of this Prospectus, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

The Forecast Financial Information is presented on both a statutory and pro forma basis. The Statutory Forecast Statement of Profit or Loss and Other Comprehensive Income for FY2015 is the best estimate of the financial performance that the Directors expect to report in the Company's general purpose consolidated financial reports for FY2015. Specifically, the Statutory Forecast Statement of Profit or Loss and Other Comprehensive Income of the business for the full year ending 28 June 2015 represents the full year forecast results for Lovisa Pty Ltd and the forecast results for Lovisa International Pte. Ltd. for the period from the date of the internal restructure to 28 June 2015.

The Forecast Financial Information is also based on the actual results for the three month period to 28 September 2014 and the forecast results for the remaining nine months to 28 June 2015.

The Pro Forma Forecast Statement of Profit or Loss and Other Comprehensive Income, which is set out in Section 4.3, differs from the Statutory Forecast Statement of Profit or Loss and Other Comprehensive Income as the Pro Forma Forecast Statement of Profit or Loss and Other Comprehensive Income reflects the full year effect of the operating and capital structure that will be in place upon Completion of the Offer, excludes the costs of the Offer, and other non-recurring items related to the Offer which are not expected to occur in the future. See Sections 4.3 and 4.4 for reconciliations between the statutory and pro forma forecast financial information.

The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation of the Pro Forma Historical Financial Information.

4.2.4 EXPLANATION OF CERTAIN NON-IFRS AND OTHER FINANCIAL MEASURES

Lovisa uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are referred to as 'non-IFRS financial measures'. Non-IFRS financial measures are intended to supplement the measures calculated in accordance with the Australian Accounting Standards and not as a substitute for those measures. As non-IFRS financial measures are not defined by the recognised body of accounting standards, they do not have a prescribed meaning and the way that Lovisa calculates them may be different to the way that other companies calculate similarly titled measures. Readers should therefore not place undue reliance on non-IFRS financial information.

In the disclosures in this Prospectus, Lovisa uses the following non-IFRS measures of performance to assist prospective investors with understanding the trends in financial performance and profitability.

- **Gross profit** is calculated as the revenue earned less costs of production, inbound freight and direct expenses incurred to ensure goods are in a saleable condition;
- **Costs of Doing Business** represents the sum of salaries and employee benefits expense, property expenses, warehousing costs, outbound freight, marketing expenses and other administrative expenses;
- **EBITDA** is earnings before interest, tax, depreciation and amortisation expenses; and
- **EBIT** is earnings before interest and tax expenses.

4.3 PRO FORMA HISTORICAL AND FORECAST STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Set out below is a summary of Lovisa's Pro Forma historical Statements of Profit or Loss and Other Comprehensive Income for FY2012, FY2013 and FY2014, the Pro Forma forecast Statement of Profit or Loss and Other Comprehensive Income for FY2015 and the Statutory forecast Statement of Profit or Loss and Other Comprehensive Income for FY2015.

	Historical			Forecast	
A$'000	**FY2012 Pro forma**	**FY2013 Pro forma**	**FY2014 Pro forma**	**FY2015 Pro forma**	**FY2015 Statutory**
Revenue	39,789	70,286	105,677	134,677	121,475
Cost of goods sold	(8,252)	(14,871)	(24,610)	(31,273)	(28,904)
Gross profit	**31,537**	**55,416**	**81,067**	**103,404**	**92,571**
Other income[(c)]	–	–	61	–	17,326
Cost of doing business:					
Salaries and employee benefits expense	(11,955)	(22,404)	(31,021)	(35,470)	(33,879)
Property expenses	(6,895)	(13,356)	(20,756)	(24,713)	(21,518)
Other expenses	(4,480)	(9,789)	(13,710)	(13,626)	(14,427)
EBITDA	**8,207**	**9,866**	**15,640**	**29,594**	**40,073**
Depreciation and amortisation expense	(1,881)	(3,491)	(5,557)	(6,109)	(5,500)
EBIT	**6,326**	**6,374**	**10,083**	**23,485**	**34,573**
Net finance costs	(578)	(632)	(751)	(648)	(425)
Profit before tax	**5,748**	**5,743**	**9,332**	**22,837**	**34,147**
Income tax expense	194	(470)	(2,079)	(6,440)	(5,720)
Net profit after tax	**5,942**	**5,272**	**7,253**	**16,397**	**28,427**
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the period	**5,942**	**5,272**	**7,253**	**16,397**	**28,427**

	FY2012A Pro forma	**FY2013A Pro forma**	**FY2014A Pro forma**	**FY2015 Pro forma**
Lovisa store numbers	60	175	208	225
Gross profit margin (%)	79.3%	78.8%	76.7%	76.8%
Salaries and employee benefits expense as % of revenue	30.0%	31.9%	29.4%	26.3%
Property expenses as % of revenue	17.3%	19.0%	19.6%	18.4%
EBITDA margin (%)	20.6%	14.0%	14.8%	22.0%

Notes:

(a) All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest $1,000. Rounding in the Financial Information may result in some immaterial rounding differences between totals and sums of components and the total percentage calculations outlined within tables, figures and commentary.

(b) The Pro Forma historical Statements of Profit or Loss and Other Comprehensive Income for FY2012, FY2013 and FY2014 and the Pro Forma forecast Statement of Profit or Loss and Other Comprehensive Income for FY2015 are reconciled to the respective historical and forecast Statements of Profit or Loss and Other Comprehensive Income in the table below.

(c) Other income of $17.3 million in FY2015 comprises the reversal of a put option issued to Centerville Pty Ltd ($14.8 million), refer footnote (2) in the table below for further detail, and management fee income received by Lovisa Pty Ltd relating to services provided to Lovisa International Pte. Ltd. prior to IPO ($2.5 million).

Pro forma adjustments to statutory equivalent historical and forecast NPAT

The adjustments made to the Statement of Profit or Loss and Other Comprehensive Income in order to present the Pro Forma Statements of Profit or Loss and Other Comprehensive Income are summarised below.

			Historical		Forecast
A$'000	**Notes**	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Lovisa Pty Ltd statutory NPAT		**(4,995)**	**5,386**	**3,712**	
Lovisa International Pte. Ltd. NPAT	1	–	–	894	
Combined Company NPAT		**(4,995)**	**5,386**	**4,605**	**28,427**
Reversal of put option	2	11,388	300	3,068	(14,756)
Remove historical finance costs	3	2	40	34	
Replace with pro forma forecast finance costs	3	(454)	(454)	(454)	
Offer costs	4	–	–	–	1,527
Include incremental listed company costs for the pre-IPO period	5	–	–	–	(184)
Include new debt interest expense for the pre-IPO period	6	–	–	–	(156)
Include forecast results for Lovisa International Pte. Ltd. for the pre-IPO period	7	–	–	–	1,538
Pro forma NPAT		**5,942**	**5,272**	**7,253**	**16,397**

The pro forma adjustments presented above are tax effected.

For the purpose of preparing the Statutory forecast Statement of Profit or Loss and Other Comprehensive Income the IPO is assumed to occur at the end of November 2014.

Notes:

1. This adjustment reflects a group restructure to ensure the pro forma historical results for Lovisa are presented on a consistent basis each year.
2. Reversal of put option – the pro forma adjustments in FY2012, FY2013 and FY2014 relate to the initial recognition and subsequent fair value movements on a put option for Lovisa Pty Ltd to buy back shares previously issued to Centerville Pty Ltd, a private vehicle owned by the CEO, with the pro forma adjustment in FY2015 reflecting the release of the put option pre listing. This is treated as a pro forma adjustment as the reversal of the put option will occur prior to the Completion of the Offer and is reflective of a change in ownership structure.
3. Finance costs – this reflects the removal of the historical reported finance costs and replacement with the finance costs applicable to Lovisa under the terms of the debt facilities and the forecast debt profile of Lovisa upon IPO (detailed in Section 4.9).
4. Offer costs – Offer costs are estimated to total $4.4 million (pre-tax) of which $2.2 million ($1.5 million tax effected) will be expensed to the Statement of Profit or Loss and Other Comprehensive Income and the remaining $2.2 million ($1.5 million tax effected) will be capitalised into equity.
5. Include incremental listed company costs for the pre-IPO period – the FY2015 Statutory forecast has been adjusted to reflect the phasing of the incremental listed company costs.
6. Include new debt interest expense for the pre-IPO period – this reflects the phasing of the change in finance costs applicable to the Lovisa Group under the terms of the new banking facility and the forecast debt profile of Lovisa upon IPO.
7. Include forecast results for Lovisa International Pte. Ltd. for the pre-IPO period – relates to the actual trading results for Lovisa International Pte. Ltd. for the 3 months ended 28 September 2014 and the forecast trading results for Lovisa International Pte. Ltd. for the remaining periods through to the IPO date.

4.4 PRO FORMA HISTORICAL AND FORECAST STATEMENTS OF CASH FLOWS

Set out in the table below is a summary of Lovisa's Pro Forma historical Statements of Cash Flows for FY2012, FY2013 and FY2014, and the Pro Forma forecast and the Statutory forecast Statements of Cash Flows for FY2015.

	Historical			Forecast	
A$'000	FY2012 Pro forma	FY2013 Pro forma	FY2014 Pro forma	FY2015 Pro forma	FY2015 Statutory
EBITDA	**8,207**	**9,866**	**15,640**	**29,594**	**40,073**
Change in net working capital	(317)	(2,007)	2,712	1,398	822
Non–cash movements in EBITDA	196	1,322	1,115	–	(14,756)
Net cash flow from operating activities before investing activities, financing activities and tax	**8,086**	**9,181**	**19,467**	**30,992**	**26,138**
Purchase of property, plant and equipment	(1,349)	(10,052)	(6,646)	(3,723)	(2,269)
Acquisition of Controlled Entities	–	–	(793)	–	–
Net cash flow before financing activities and tax	**6,737**	**(870)**	**12,027**	**27,269**	**23,869**
Income tax payments				(5,453)	(5,333)
Net interest				(594)	(393)
Proceeds from borrowings				–	9,837
Repayment of borrowings				–	(5,524)
Cash acquired with Lovisa International Pte. Ltd.				–	3,102
Offer costs				–	(2,182)
Net cash flow before dividends				**21,223**	**23,376**
Dividends				(11,275)	(13,885)
Net cash flow				**9,947**	**9,490**

Notes:

The pro forma cash flow information has been constructed using the indirect method (i.e. reconciling EBITDA to operating cash flows).

Pro forma adjustments to the statutory historical Statements of Cash Flows

In presenting the pro forma statements of cash flows above, certain adjustments to the historical statements of cash flows have been made to eliminate non-recurring items related to the Offer, and to reflect Lovisa's operating and capital structure that will be in place following Completion of the Offer. These adjustments are summarised below.

A$'000	Notes	FY2012	FY2013	FY2014
Lovisa Pty Ltd statutory net cash flows before financing activities and tax		**6,737**	**(870)**	**9,341**
Lovisa International Pte. Ltd. net cash flows before financing activities and tax	1	–	–	1,984
Reclassification of advances to shareholders	2	–	–	702
Pro forma net cash flows before financing activities and tax		**6,737**	**(870)**	**12,027**

Reconciliation of Statutory forecast to Pro Forma forecast of Cash Flows

A$'000	Notes	FY2015F
Statutory net cash flows		**9,490**
Offer costs	3	4,364
Include incremental listed company costs for the pre-IPO period	4	(263)
Include new debt interest expense for the pre-IPO period	5	(200)
Include forecast net cash flows for Lovisa International Pte. Ltd. for the pre-IPO period	6	1,361
Debt refinancing	7	(4,313)
Dividends	8	2,610
Cash acquired with Lovisa International Pte. Ltd.	9	(3,102)
Pro Forma net cash flows		**9,947**

For the purpose of preparing the Statutory forecast Statement of Cash Flows the IPO is assumed to occur at the end of November 2014.

Notes:

1. This adjustment reflects a group restructure to ensure the pro forma historical results for Lovisa are presented on a consistent basis each year.
2. Reclassification of advances to shareholders – this relates to a reclassification of advances made to shareholders in FY2014 to remove the impact from operating cash flows given this relates to the current ownership structure of the group.
3. Offer costs – Offer costs are estimated to total $4.4 million (pre-tax).
4. Include incremental listed company costs for the pre-IPO period – the FY2015 forecast has been adjusted to reflect the phasing of the incremental listed company costs.
5. Include new debt interest expense for the pre-IPO period – this reflects the phasing of the change in finance costs applicable to Lovisa under the terms of the banking facility and the forecast debt profile of Lovisa upon IPO.
6. Include forecast net cash flows for Lovisa International Pte. Ltd. for the pre-IPO period – relates to the actual cash flows for Lovisa International Pte. Ltd. for the 3 months ended 28 September 2014 and the forecast cash flows for Lovisa International Pte. Ltd. for the remaining periods through to the IPO date.
7. Debt refinancing – proceeds from the Banking Facility relate to the facility drawdown pre-IPO of $10.0 million offset by an upfront establishment fee of $0.2 million, and the repayment of existing shareholder loans ($5.5 million).
8. Dividends – the statutory forecast cash flow includes a fully franked pre-Offer dividend payment of $6.9 million to the Existing Shareholders and a subsequent fully franked dividend of $7.0 million in April 2015. This compares to the forecast pro forma dividend of $11.3 million reflecting an assumed dividend pay-out ratio of 69% of Pro Forma forecast NPAT (subject to satisfaction of corporations law requirements governing the payment of dividends).
9. Cash acquired with Lovisa International Pte. Ltd. – forecast level of cash acquired with Lovisa International Pte. Ltd. when it is brought into the wider Lovisa group upon Completion of the Offer.

4.5 PRO FORMA HISTORICAL STATEMENT OF FINANCIAL POSITION AS AT 29 JUNE 2014

Set out in the table below are the adjustments that have been made to the statements of financial position of Lovisa Pty Ltd and Lovisa International Pte. Ltd. as at 29 June 2014 to present the pro forma statement of financial position of the Company. The adjustments include the impact of the change in capital structure that will be in place immediately following Completion of the Offer, as if the Offer had occurred as at 29 June 2014. These adjustments include assumptions relating to matters that are known as at the date of the Prospectus.

The Pro Forma Statement of Financial Position presents Lovisa in a net asset deficient position and with a negative cash balance, by reflecting the impact of the Offer as though the Offer had taken place as at 29 June 2014. Current year trading (and associated cash flows) between 30 June 2014 and the date of the Offer, which is not reflected in the Pro Forma historical Statement of Financial Position below, is forecast to result in the Company achieving a positive net asset and cash position immediately following Completion of the Offer.

Pro forma historical Statement of Financial Position as at 29 June 2014

A$'000	Notes	Lovisa Pty Ltd Statutory	Lovisa International Pte. Ltd.	Intragroup eliminations	Pro forma adjustments	Offer costs	Pro forma
Current assets							
Cash	1	1,080	1,781	–	(2,574)	(4,364)	(4,077)
Receivables	2,4	5,920	105	(4,548)	(702)	–	776
Prepayments		–	57	–	–	–	57
Inventories		6,114	2,239	–	–	–	8,352
Total current assets		**13,114**	**4,182**	**(4,548)**	**(3,275)**	**(4,364)**	**5,108**
Non–current assets							
Receivables		–	545	–	–	–	545
Goodwill		–	258	–	–	–	258
Property, plant and equipment		9,412	2,355	–	–	–	11,767
Deferred tax assets	3	1,189	22	–	–	1,309	2,520
Total non–current assets		**10,601**	**3,180**	**–**	**–**	**1,309**	**15,090**
Total assets		**23,715**	**7,362**	**(4,548)**	**(3,275)**	**(3,055)**	**20,199**
Current liabilities							
Bank overdraft		1,024	–	–	–	–	1,024
Payables	4	4,939	6,602	(4,548)	–	–	6,993
Employee benefits		1,400	–	–	–	–	1,400
Provisions		2,334	27	–	–	–	2,361
Loans and borrowings	2	5,524	–	–	(5,524)	–	–
Total current liabilities		**15,221**	**6,629**	**(4,548)**	**(5,524)**	**–**	**11,778**
Non–current liabilities							
Provisions		1,935	236	–	–	–	2,172
Put option	5	14,756	–	–	(14,756)	–	–
Payables		–	55	–	–	–	55
Loans and borrowings	6	–	–	–	9,836	–	9,836
Total non–current liabilities		**16,692**	**292**	**–**	**(4,920)**	**–**	**12,063**
Total liabilities		**31,913**	**6,921**	**(4,548)**	**(10,444)**	**–**	**23,841**
Net assets/ (deficiency)		**(8,198)**	**441**	**–**	**7,169**	**(3,055)**	**(3,642)**

A$'000	Notes	Lovisa Pty Ltd Statutory	Lovisa International Pte. Ltd.	Intragroup eliminations	Pro forma adjustments	Offer costs	Pro forma
Equity							
Issued capital	7	1,000	82	–	208,918	(1,527)	208,473
Merger and other reserves	7	(75)	(535)	–	(209,978)	–	(210,588)
Retained earnings	8	(9,123)	894	–	8,229	(1,527)	(1,527)
Total equity/ (deficiency)		**(8,198)**	**441**	**–**	**7,169**	**(3,055)**	**(3,642)**

Notes:

1. Cash (relating to cash and cash equivalents) – Reflects net effect of the drawdown on the Banking Facility ($10.0 million, offset by upfront debt establishment costs of $0.2 million), refinancing of shareholder loans as at 29 June 2014 ($5.5 million), pre-Offer dividend payment ($6.9 million), and payment of Offer costs ($4.4 million).

2. Receivables (relating to trade and other receivables) and Loans and Borrowings – Related party receivables are satisfied by netting off against pre-Offer dividends ($0.7 million) and refinancing of shareholder loans ($5.5 million).

3. Deferred tax asset – An additional deferred tax asset is expected to be recognised to reflect the combined income tax impact of certain costs associated with the Offer and as a result of Lovisa Holdings Limited forming a new tax consolidated group with Lovisa Pty Ltd on Completion of the Offer. A full assessment of the income tax consolidation impacts will be completed following the Offer.

4. Receivables (relating to trade and other receivables) and Payables (relating to trade and other payables) – Intra group balances between Lovisa Pty Limited and Lovisa International Pte. Ltd. have been eliminated.

5. Financial liability on put option – Relates to the release of the put option which was previously issued to Centerville Pty Ltd.

6. Loans and borrowings – Reflects combination of the drawdown on the Banking Facility ($10.0 million) offset by upfront debt establishment costs ($0.2 million).

7. Issued capital and Merger and other reserves – Adjustment to present the change in the book value of contributed equity relating to the value of Shares following the Offer ($210 million) (based on an Offer Price of $2.00) offset by the costs directly attributable to the Offer ($1.5 million tax effected), and the elimination of issued capital acquired as part of the Restructure. The acquisition of Lovisa International Pte. Ltd. by Lovisa Pty Limited and of Lovisa Pty Limited by Lovisa Holdings Limited, have been treated as a group re-organisation for accounting purposes and no fair value adjustments have been made. Consequently, the difference between issued capital and the book value of net assets is recorded within Merger and other reserves.

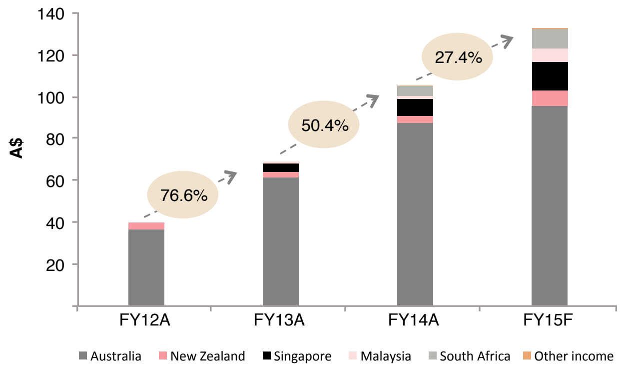
8. Retained earnings – Adjustments reflect the release of the put option ($14.8 million), pre-Offer dividend payment ($6.9 million), satisfaction of related party receivables by netting off against pre-Offer dividends ($0.7 million), and the after tax expensed portion of costs associated with the Offer ($1.5 million). This also reflects the elimination of existing reserves on accounting for the reorganisation.

4.6 MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL INFORMATION

Below is a brief discussion of the main factors which affected Lovisa's operating and financial performance between FY2012 and FY2014 and discusses the key factors and assumptions underpinning the FY2015 forecast. Comments relating to the FY2015 forecast should be read in conjunction with the key forecast assumptions set out in Section 4.7.

The factors described below are a summary only and do not represent everything that affected Lovisa's historical financial performance. The information in this Section should also be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

4.6.1 PRO FORMA REVENUE FY2012 – FY2015 (FORECAST)



Revenue is generated by Lovisa through the sale of jewellery products. The key drivers of revenue for Lovisa are:

- the number of stores; and
- sales per store, measured by the Like for Like (LFL) sales performance of its stores.

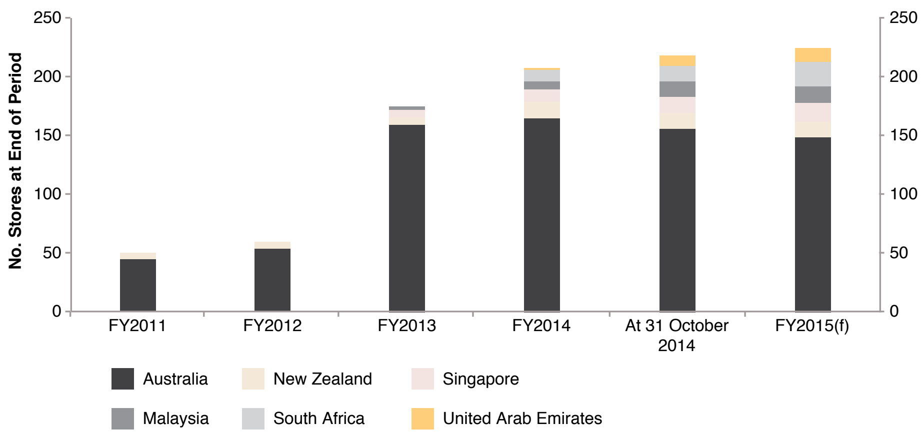
During the period from FY2012 to FY2014, pro forma revenue increased from $39.8 million to $105.7 million, representing compound growth of 63.0% per annum. Revenue growth from FY2012 to FY2014 was driven by Lovisa's new store roll-out strategy. The factors influencing historical results are discussed in more detail below.

In FY2015, Lovisa is forecasting pro forma revenue of $134.7 million, which is an increase of 27.4% on FY2014, driven by forecast average LFL sales growth across all territories of 10.9% and further store network expansion.

Store Growth FY2010 – FY2015 (forecast)

Lovisa has achieved rapid growth since opening its first store in April 2010, with 220 stores now in operation across eight countries. Lovisa has averaged approximately 50 new stores per annum, although this was accelerated through the integration of 101 Diva stores in the period from November 2012 to June 2014. There are currently 88 Diva converted stores operating in the network.

Store Numbers by Region – FY2011 to FY2015(f)



In FY2013, the store network expanded from 60 stores at June 2012 to 175 stores at June 2013. The weighted average number of stores trading in the year was 118. The majority of new stores were opened in the second half of the financial year, including the conversion of 73 Diva stores between February and March 2013. Store expansion in FY2013 was principally focussed on Australia, with 106 new stores in this territory. A further six new stores opened in Singapore and three in Malaysia in FY2013 as Lovisa began to implement its strategy to develop the network outside of Australia and New Zealand.

The store network expanded from 175 stores to 208 stores in FY2014 and the weighted average number of stores trading in the year was 189. 85% of these new stores in FY2014 were outside of Australia, as Lovisa opened a further four stores in Singapore, four in Malaysia, eight in New Zealand and two franchised stores in the Middle East (all net of store closures). In September 2013, the Company acquired a network of 10 Lovisa franchised stores from the existing Lovisa franchisee in South Africa.

Revenue growth from new company owned stores (including the full year benefit of stores opened in the prior financial period and net of store closures) was $32.5 million in FY2013 and $36.9 million in FY2014.

In FY2015, Lovisa is forecasting to open 25 new company owned stores, of which six are in Singapore, seven in Malaysia, 11 in South Africa and one in Australia, in addition to 10 new franchised stores in the Middle East. As at 31 October 2014, it had opened 21 of these stores (including 13 company owned stores), with a further four stores forecast to be open by the end of 2014 (calendar year), capturing the Christmas peak trading period. Lovisa is also forecasting the closure of approximately 18 company owned stores in sub-optimal locations in Australia over the next 8 months. The majority of these stores were inherited as part of the Diva integration and while there will be an impact on revenue, Lovisa is confident the closure of these stores will make a positive contribution to profitability.

Revenue growth from new company owned stores (including the full year benefit of stores opened in FY2014 and net of store closures) is forecast to be $18.8 million in FY2015, contributing 65% of forecast revenue growth.

Capital expenditure on new stores and refurbishments

Historical capital expenditure on new store roll-outs and the acquisition of the South African franchised stores portfolio totalled $13.1 million between FY2012 and FY2014. Lovisa's ability to roll out stores with relatively low capital expenditure has enabled it to expand primarily using internal cash flows generated by the business. The average fit out cost per new store for each territory is shown in the table in Section 3.5. Based on historical experience, new stores achieve payback on initial capital investment on average within nine months in Australia and New Zealand and within 4 months in Lovisa's other operating territories.

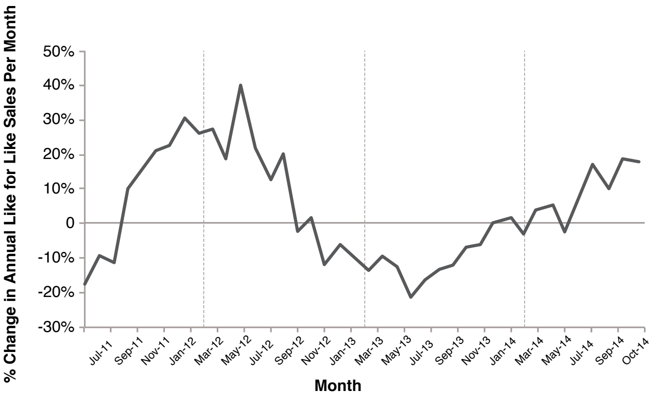
Forecast new store capex in FY2015 is $2.6 million and Lovisa has assumed forecast capital expenditure per new store is in line with average historical store fit out costs. It is assumed that Lovisa's focus on smaller store sizes with homogenous fit-outs will enable the Company to continue to fund expansion using cash generated from operations during FY2015.

Given the age of the network, Lovisa has not incurred significant upgrade or refurbish capital expenditure to date, with only one store refurbished mid-lease between FY2012 and FY2014. Six stores are forecast to be refurbished in FY2015, with related forecast capital expenditure of $0.2 million. Typically, the stores are refurbished after five years to coincide with lease renewal dates.

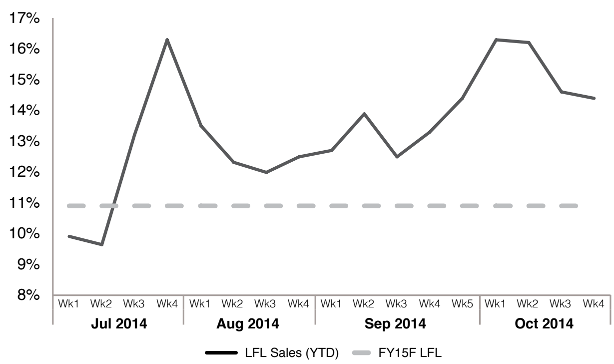
Like for Like Sales Performance FY2012 – FY2015 (forecast) - company owned stores

One of Lovisa's revenue performance measures is Like for Like (LFL) sales. This is the measurement of the sales for a store, compared to the sales for that store in the previous comparable period, subject to the store having traded for at least 12 months. Lovisa's LFL performance for the period from FY2012 until YTD FY2015 is shown in the graph below (the number of stores with 12 months trading history prior to FY2012 was relatively insignificant).

Like for Like Sales – July 2011 to October 2014



Like for Like Sales – FY2015 YTD



LFL sales growth was -5.2% in FY2013 (revenue impact -$2.2 million) and -2.0% in FY2014 (revenue impact -$1.7 million), which is primarily attributable to business disruption during a significant period of new store openings, including the conversion and integration of the 101 Diva stores into Lovisa's store portfolio. This led to challenges in operations, merchandise planning and warehouse management, and a reduced focus on individual store performance. As a result of purchasing decisions made ahead of the large store roll-out program of February and March 2013 (being the integration of 73 Diva stores), there was a relatively high level of product mark-downs, impacting both sales and gross margin performance in the period April 2013 to September 2013.

LFL sales growth has been very strong since July 2014, with YTD FY2015 LFL sales growth averaging 11.7%. This improvement has largely been achieved through an increased focus on product, in-store merchandising initiatives and optimisation of the store portfolio (closing stores in sub-optimal locations or where they are located near another Lovisa store).

In YTD FY2015, Lovisa has significantly reduced the amount of product mark-downs by delivering on-trend product and improved purchasing decisions based on sales data analytics. The higher proportion of full price pieces sold in FY2015 is forecast to significantly improve both revenue and gross margin.

LFL sales growth has been achieved in all territories in YTD FY2015. Management believes the factors outlined above are the key drivers of LFL sales performance in all territories, although the LFL sales performance in South Africa also reflects the broader operational improvements implemented in the South African store network since acquisition in September 2013.

Given that approximately 75% of company owned stores are currently based in Australia, the LFL sales performance in this territory has a significant impact on Lovisa's overall LFL sales performance. In YTD FY2015 LFL sales growth in Australia has been aided by the closure of 35 Diva stores in Australia throughout 2014 (calendar year), which has reduced competition for Lovisa stores in those centres.

For FY2015, Lovisa is assuming growth of 10.9% in LFL sales in light of the strong trend experienced so far in YTD FY2015 (being 11.7% YTD) and management's view that current growth rates and the operational improvements underpinning current growth rates are sustainable for the remainder of FY2015.

Seasonality

In FY2015, Lovisa expects a 1H/2H split in pro forma revenue of 54.1%/45.9% and pro forma NPAT of 73.2%/26.8%.

This is largely due to Christmas being a particularly strong period for Lovisa, with approximately 32% of FY2015 forecast revenue and 58% of FY2015 forecast NPAT expected to be achieved in the October – December period. As Lovisa grows internationally, the percentage of total sales in the Christmas period is expected to reduce, with a number of other significant events across international markets driving revenue (e.g. Chinese New Year and Ramadan).

Franchise income

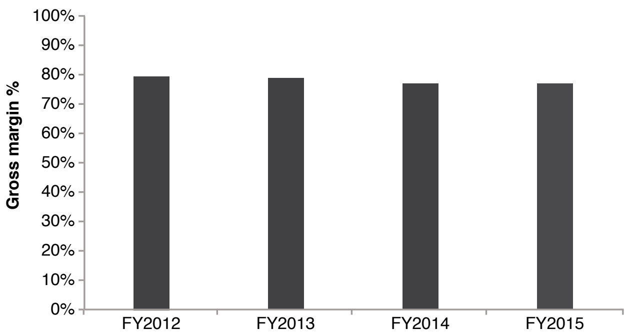
Revenue includes royalties from franchised stores in South Africa (up to June 2013) and the Middle East. Franchise income has increased from $294,000 in FY2012 to $657,000 in FY2013. It reduced to $89,000 in FY2014 with commencement of the Middle East franchised networks offset by discontinued income from South Africa.

Franchise income is forecast to be $1.0 million in FY2015, due to expansion of the network in the Middle East from two stores at the end of FY2014 to 12 stores by the end of FY2015.

4.6.2 GROSS PROFIT MARGIN FY2012 – FY2015 (FORECAST)

Lovisa has consistently achieved a gross profit margin in excess of 75% across the FY2012 to FY2014 period. The Gross Profit Margin in FY2015 is forecast to be 76.8%, representing a marginal increase from 76.7% in FY2014.

Gross Profit Margin – FY2012 to FY2015(f)



The key determinants of Lovisa's Gross Profit Margin are:

- Revenue – refer to commentary in Section 4.6.1; and
- Cost of goods sold – refer to commentary below.

The key factors that have influenced gross margin between FY2012 and FY2014 and the FY2015 forecast are set out below.

Gross margins decreased from 79.3% in FY2012 to 78.8% in FY2013, with key contributing factors being:

- average AUD:USD foreign exchange rate for the business declined from 1.03 to 1.02; and
- impact of mark-downs in FY2013 with relatively high levels of slow moving stock following procurement challenges in the first half of CY2013.

Gross margins decreased from 78.8% in FY2013 to 76.7% in FY2014, primarily reflecting:

- average AUD:USD foreign exchange rate for the business declined from 1.02 to 0.93; and
- additional discounting to clear slow moving inventory in the first quarter of FY2014.

Gross margins are forecast to remain relatively flat in FY2015 in light of:

- a weakening AUD:USD exchange rate (average forecast rate is 0.89 in FY2015, compared to 0.93 in FY2014), driving a forecast gross margin change of -1.2%, offset by:
- reduced discounting and a higher proportion of full priced sales; and
- improved foreign exchange rates for translation of overseas results into AUD for reporting purposes.

Cost of Goods Sold (COGS)

Costs of goods sold comprises purchase price from the supplier, cost of shipping product from supplier to warehouse, shrinkage and obsolescence.

Given the location of its product suppliers in China, India and Thailand, the majority of Lovisa's costs of goods sold are purchased in USD. As a result, movements in the AUD / USD exchange rate will impact Lovisa's cost of sales although Lovisa has a relatively low cost of goods sold as a percentage of revenue, which means the impact is potentially not as significant as it might be for other retail segments (refer to Sensitivities in section 4.8).

In order to manage its exposure to material foreign exchange rate movements, Lovisa has a foreign exchange policy which is discussed in further detail in Section 4.12.

With respect to the cost of shipping product from supplier to warehouse, Lovisa is currently trialling the use of sea freight for less trend sensitive product lines with the aim of reducing freight costs although no cost savings in relation to these activities are included in the FY2015 forecast.

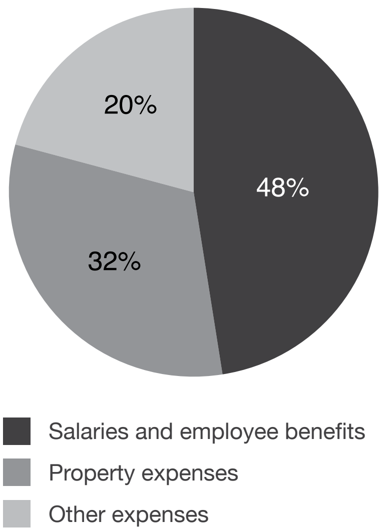
FY2014 COGS included royalty payments of $675,000 to an overseas jewellery wholesaler for access to product data and samples. This agreement was renegotiated at the start of FY2015 and the cost reduced to $300,000 in FY2015 with no reduction in product or data quality.

4.6.3 COSTS OF DOING BUSINESS FY2012 – FY2015 (FORECAST)

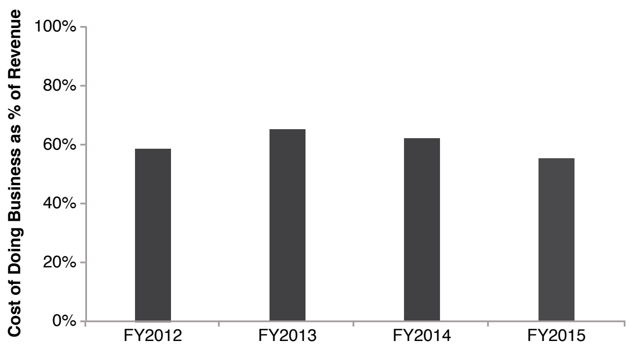
Lovisa's key costs of doing business ("CODB") are set out in the table below.

Salaries and employee benefits	Salaries, wages and other employment related costs of staff employed by Lovisa.
Property expenses	Lease costs for stores and the head office. The majority of leases are on three to five year terms (with options, in certain leases, for Lovisa to extend) and typically include annual consumer price index-driven price increases or agreed fixed rate increases.
Other expenses	Includes Warehouse and Distribution, Marketing expenses and administrative expenses (e.g. IT, communications, printing and insurance).

Costs of Doing Business FY2014



Costs of Doing Business as a % of Revenue FY2014 to FY2015(f)



Total cost of doing business as a percentage of sales increased from 58.6% in FY2012 to 64.8% in FY2013, driven by costs associated with the significant growth in store numbers and expanding the support centre to manage the enlarged business.

In FY2014, Lovisa was able to improve CODB as a percentage of sales to 62% as a result of achieving scale and streamlining operations. This is forecast to reduce further to 54.8% of sales in FY2015 as a result of increased sales without an associated increase in support centre costs, as well as the lower labour and occupancy costs related to the stores in foreign territories.

Salaries and Employee Benefits Expense

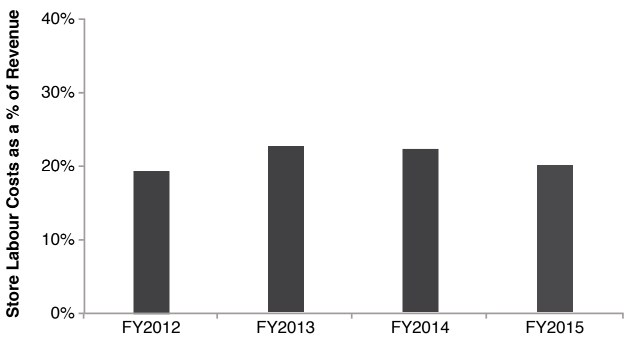
The largest component of Salaries and Employee Benefit Expense is Store Labour Costs. During FY2013, there was an increase in store labour costs as a percentage of sales from 18.0% to 21.2% as a result of the significant increase in store numbers, specifically by the addition of relatively lower revenue former Diva store locations, and the costs associated with recruiting and training a significant number of new employees.

Lovisa was able to reduce this ratio to 21.0% in FY2014 and is forecasting further improvement to 19.1% in FY2015 as a result of:

- improved management of store labour costs; and
- lower store labour rates in foreign territories, where the majority of forecast store growth is occurring.

Store labour costs are forecast to remain relatively constant as a percentage of revenue, however Lovisa should benefit from economies of scale and be able to increase revenue ahead of labour costs. FY2015 forecast labour costs are based on the current headcount and payroll costs of the business, plus an allowance for increased headcount for net new site openings and inflation linked salary increases which results in total salaries and employee benefits expenses increasing by 14.0% in FY2015.

Store Labour Costs as a % of Revenue FY2012 to FY2015(f)



Property costs

Property costs increased from $6.9 million in FY2012 to $13.4 million in FY2013 and $20.8 million in FY2014, primarily as a result of the increase in the size of the store network.

The FY2015 forecast assumes an increase in property costs to $24.7 million, based on the following assumptions:

- assumed year on year CPI increase on existing leases as per contractual agreements;
- reduced rent charges by 9.0% on 14 lease renewals (consistent with Lovisa's experience in YTD FY2015); and
- net increase in property costs of $3.2 million relating to new stores and the full year impact of stores opened in FY2014 (net of store closures).

Lovisa believes it will be able to reduce property costs as a percentage of revenue through improvements to its store portfolio and operations, including the closure of 18 company owned stores in sub-optimal locations in Australia over the next 8 months. The majority of the stores Lovisa is forecasting to close were either inherited as part of the Diva integration or are where Lovisa has upgraded to a superior location as a result of the Diva integration. Lovisa has also achieved rent reductions with a number of leases that recently rolled over and it expects to continue to achieve this with 58 leases due to expire in CY2015. Management has forecast a reduction in occupancy of $0.2 million in the forecast period as a result of lease renegotiations for 14 stores with rent renewals up to 31 March FY2015.

Other expenses

Marketing expenses

Lovisa spent approximately $1.9 million on marketing in FY2014 (being approximately 1.8% of FY2014 revenue) which primarily comprised brand collateral (such as customer bags and in-store imagery) and printing costs for point of sales imagery.

Warehousing and distribution

Lovisa's cost of warehousing and distribution was $1.4 million in FY2012, $2.8 million in FY2013 and $4.2 million in FY2014. Warehousing and distribution costs have remained relatively flat in the range of 3.4% to 4.1% of sales across this period.

The FY2015 forecast assumes an increase in warehousing and distribution costs to $5.8 million (corresponding to 4.3% of sales) based on the larger volumes of inventory to be moved and the increasing number of stores in South Africa (which are more expensive to ship to than other territories).

Lovisa primarily uses air freight to move product to store locations, typically delivering to stores within 48 hours from warehouses in Melbourne, Australia and Hong Kong. This allows the company to manage its broad product range (which at times can average 2,500 jewellery lines per store) and to launch, on average, more than 120 new lines each week.

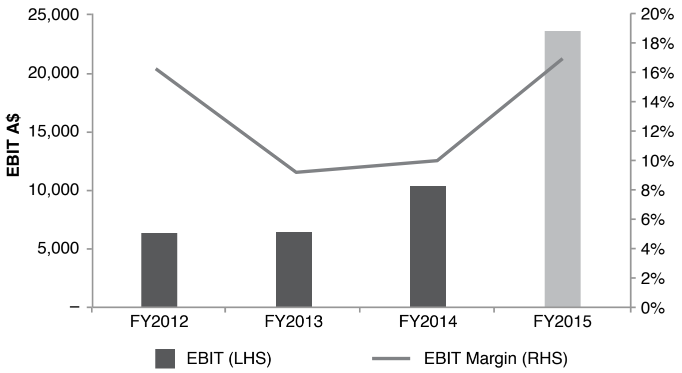
Administrative expenses

Administrative expenses are forecast to increase by approximately $1.0 million in FY2015 of which $0.6 million relates to Lovisa's estimate of the incremental annual costs it will incur as a listed public company. These incremental costs include audit and tax compliance, share registry fees, annual general meeting, annual report costs as well as other listed entity-related compliance costs.

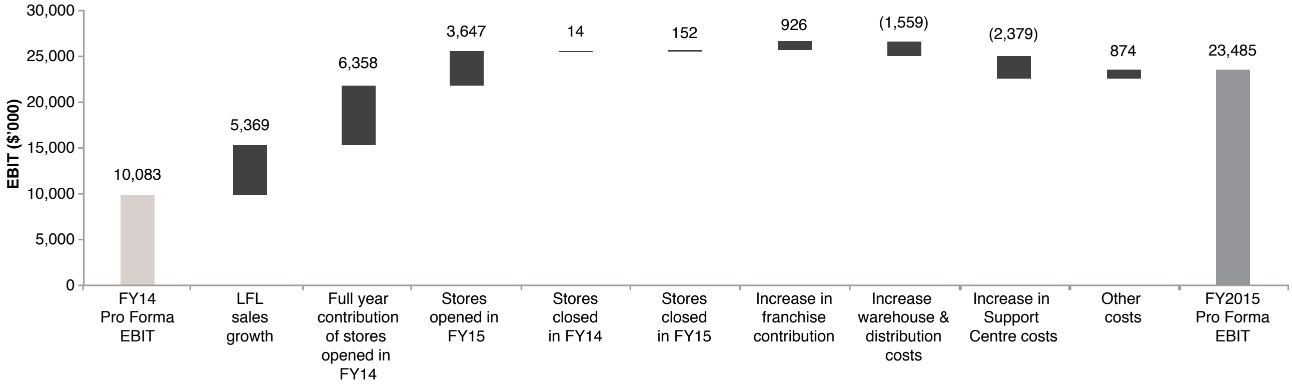
4.6.4 EBIT AND EBIT MARGINS FY2012 – FY2015 (FORECAST)

Pro forma EBIT increased from $6.3 million to $10.1 million in the period from FY2012 to FY2014, representing compound growth of 26.3% per annum. Pro forma EBIT margins reduced from 15.9% in FY12 to 9.1% in FY2013 and 9.5% in FY2014 as a result of the disruption to Lovisa's business operations due to the rapid increase in store numbers over the FY2013 and FY2014 periods.

EBIT and EBIT Margins FY2012 to FY2015(f)



In FY2015, Lovisa is forecasting EBIT of $23.5 million, which is an increase of $13.4 million on FY2014 (refer to EBIT bridge below). This results in an expected increase in EBIT margin to 17.4%, driven by LFL sales growth, operating scale efficiencies in the existing store network and the higher proportion of international stores (which typically have lower operating costs, in particular occupancy and labour).



4.7 ASSUMPTIONS USED TO PREPARE THE FORECAST FINANCIAL INFORMATION

In preparing the Forecast Financial Information, Lovisa has applied assumptions relating to the key factors influencing the financial performance of the Company. These assumptions are set out below as general assumptions and further specific assumptions relating to key revenue, costs and cashflows of the Company. These assumptions should be read in conjunction with the sensitivity analysis set out in Section 4.8, the risk factors set out in Section 5, the investigating Accountant's Report set out in Section 7 and the other information in this Prospectus.

4.7.1 GENERAL ASSUMPTIONS

The general assumptions adopted in preparing the FY2015 forecast are set out below:

- no material change in the competitive environment in which Lovisa operates;
- no significant deviation from current market expectations of global or local Australian economic conditions (including financial market stability) relevant to Lovisa;
- no material changes in Commonwealth, state or local government legislation (including tax legislation), regulatory requirements or government policy that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of Lovisa;
- no material changes in applicable Australian Accounting Standards or other mandatory professional reporting requirements or the Corporations Act, which have a material effect on the Company's financial performance, financial position, accounting policies, financial reporting or disclosure;
- no material business acquisitions or disposals;
- no material industrial or employee relations disputes, strikes, acts of terrorism or other disturbances, environmental costs or legal claims which have a material impact on Lovisa;

- key personnel, particularly the senior management team, are retained and Lovisa maintains its ability to recruit and retain required personnel;
- no material changes to the apparel and retail industry that would have a material impact on demand for, or prices of the Company's products;
- no change in the Company's capital structure other than as set out in, or contemplated by, this Prospectus;
- no material amendment to any material agreement or arrangement relating to the Company's businesses other than as set out in, or contemplated by, this Prospectus;
- no material adverse changes to the Company's offshore product sourcing capabilities and costs, including exchange rates;
- no material cash flow or income statement or financial position impact in relation to litigation (existing or otherwise);
- none of the risks listed in Section 5 have a material adverse impact on the operations of the Company; and
- the Offer proceeds to completion in accordance with the timetable set out in Key Dates on page 6 of this Prospectus.

4.7.2 SPECIFIC ASSUMPTIONS

The key specific assumptions adopted in preparing the FY2015 forecasts are set out below.

4.7.2.1 REVENUE ASSUMPTIONS

The Forecast Financial Information is based on the following key revenue assumptions:

- average LFL sales growth of 10.9% in FY2015;
- 25 new company owned store openings in FY2015, which are assumed to generate sales and operating profit comparable with similarly sized and located sites that are currently trading;
- sales related to the full year impact of prior period store openings is comparable to the current trading run rate of each store and seasonal patterns; and
- closure of approximately 18 company owned stores in sub-optimal locations in Australia over FY2015.

4.7.2.2 GROSS PROFIT MARGIN

The Forecast Financial Information is based on an assumed gross profit margin of 76.8%, which compares to a gross profit margin of 76.7% in FY2014.

4.7.2.3 COSTS OF DOING BUSINESS

The Forecast Financial Information is based on the following cost of doing business assumptions:

- salaries and employee benefits expense (store level) are forecast as a percentage of monthly revenue on a store by store basis consistent with the relationship between these items in FY2014. For new stores in either FY2014 or FY2015, the average monthly labour cost as a percentage of revenue for the relevant country has been applied;
- salaries and employee benefits expense (head office) are based on the current headcount and payroll costs of Lovisa, allowing for increased headcount for new positions during the year, and includes a provision for bonuses of $0.4 million;
- property expenses are based on the current property leases in place and related costs. New stores forecast to open in FY2015 have estimated rental costs for sites identified that either signed or are currently under negotiation;
- warehousing and distribution costs are based on the current freight and related costs, adjusted for the full year impact of the logistics costs, rent and rates associated with the Hong Kong warehouse which opened in June 2014;
- marketing expenses are based on the current promotional plans of Lovisa; and
- administration expenses are based on the current cost profile of Lovisa, and include incremental listed company costs of $0.6 million.

4.7.2.4 NET FINANCE COSTS

The Forecast Financial Information is based on the following net finance costs assumptions:

- cash advance facility balance of $10.0 million;
- multi option overdraft facility balance of $1.0 million;
- bank guarantee of $0.3 million; and
- various fees and interest charges as stipulated in related debt facility agreements.

4.7.2.5 INCOME TAX

The Forecast Financial Information is based on the following income tax assumptions:

- Australian corporate tax rate assumed to remain at 30%;
- no change to corporate tax rates in each overseas jurisdiction in which Lovisa operates; and
- an effective tax rate of 28.2%.

4.7.2.6 CHANGE IN WORKING CAPITAL

The Forecast Financial Information is based on the following working capital assumptions:

- trading terms in line with historic trading; and
- management's expectations on timing of orders and payments.

4.7.2.7 CAPITAL EXPENDITURE AND DEPRECIATION

The Forecast Financial Information is based on the following capital expenditure and depreciation assumptions:

- expenditure relating to the establishment of 25 new stores in FY2015 is consistent with historical average store fit-out costs;
- expenditure relating to store refurbishments is consistent with average historical refurbishment costs;
- expenditure relating to maintenance associated with the general purchase and replacement of operational assets such as IT hardware and other items is consistent with historical expenditure levels; and
- depreciation rates are applied in line with the Company's accounting policies (refer Section 10).

4.7.2.8 FOREIGN EXCHANGE

The Forecast Financial Information is based on the following exchange rate assumptions:

- for 1H FY2015, 1 AUD = 0.90 USD, based on the average exchange rate at which stock has been purchased up to the date of this Prospectus; and
- for 2H FY2015, 1 AUD = 0.873 USD, based on the average rate at which forward contracts have been purchased by Lovisa to hedge its currency exposure.

In order to hedge its exposure to USD costs, Lovisa has entered into forward foreign exchange contracts to buy USD at an average rate of 1 AUD = 0.873 USD. There is approximately US$2.3 million of forecast USD stock purchases in the second half of FY2015 exposed to a foreign exchange movement away from the forecast rate. The forecast assumes the applicable exchange rate for these unhedged purchases is 1 AUD = 0.873 USD. Lovisa enters forward exchange contracts regularly, consistent with the policy set out in Section 4.12.

4.8 SENSITIVITY ANALYSIS OF FORECAST FINANCIAL INFORMATION

The Forecast Financial Information included above is based on a number of estimates and assumptions as described in Section 4.7. These estimates and assumptions are subject to business, economic and competitive uncertainties, many of which are beyond the control of the Company, the Directors and management. These estimates are also based on assumptions in relation to future business developments, which are subject to change.

The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown.

For the purposes of this analysis, each sensitivity is presented in terms of the impact on a full year basis and on the FY2015 pro forma forecast NPAT, and is set out in the table below.

Forecast sensitivity analysis

Assumption	Increase / Decrease	Full year Pro Forma NPAT impact ($ million)	FY2015 Pro Forma forecast NPAT impact, October 2014 to June 2015 ($ million)	Percentage Change from FY2015 Pro Forma NPAT forecast
Sales Revenue	+/- 1%	0.55	0.38	3.4%
Gross profit margins	+/- 100 bps	0.95	0.65	5.8%
Store Labour Costs	+/- 1%	0.18	0.14	1.1%
Occupancy Costs	+/- 1%	0.17	0.13	1.0%
Change in AUD/USD exchange rate impact on COGS	+/- 1 cent	0.22	0.03	1.4%

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables in order to illustrate their likely impact on a full year basis and also on the FY2015 pro forma NPAT. In practice, changes in variables may offset each other or be additive, and it is likely that management would respond to any adverse change in one item to seek to minimise the net effect of the Company's EBITDA and cash flow. Differences between the full year impact and the FY2015 Pro forma forecast NPAT impact reflect the fact that the FY2015 Pro forma forecast NPAT represents 3 months of actual results and a 9 month forecast period. Further, the Company's exposure to AUD/USD exchange rate fluctuations in FY2015 is limited to US$2.3 million of FY2015 forecast cost of goods sold.

4.9 DEBT FACILITIES

Lovisa Pty Ltd has signed a facility agreement with Commonwealth Bank of Australia (CBA) under which (subject to satisfaction of conditions precedent to drawdown, which are customary for facilities of this nature) the following debt facilities are available:

A$'000	Facility size	Amount drawn before and after Completion of the Offer
Revolving cash advance facility	12,000	10,000
Multi option overdraft facility	2,250	1,000
Other facilities (including bank guarantee)	950	340
Total	**15,200**	**11,340**

The revolving cash advance facility has a 3 year term with interest payable on the last day of each interest period for the relevant drawdown and a commitment fee calculated on the daily balance of the undrawn commitment. The facilities have two key financial covenants:

- the gross leverage ratio of Lovisa for each testing date (being the ratio of 'Total Debt' at that testing date to 'EBITDA' for the 12 month period ending on that testing date) must be below 1.25 times on a rolling 12 month basis; and
- the fixed charge cover ratio of Lovisa for each testing date (being the ratio of 'EBITDA' plus 'Real Property Lease Expenses' for the 12 month period ending on that testing date to 'Interest Expense' plus 'Real Property Lease Expenses' for the 12 month period ending on that testing date) must be greater than 1.25 times on a rolling 12 month basis.

The revolving cash advance facility incurs interest calculated at a rate being the aggregate of the relevant BBSY rate plus the margin. Lovisa is forecasting a total interest cost of $0.6 million in FY2015.

The facility agreement includes representations, warranties, undertakings, review events, events of default and indemnities which are customary for financings of this nature or which are driven by the circumstances of this financing transaction. These include, but are not limited to, restrictions on paying dividends and other distributions, disposing of assets, granting security, incurring financial indebtedness, providing financial accommodation and change of control (in each case, subject to any applicable carve outs). The facilities will be capable of being terminated (with all amounts becoming due and payable) following the occurrence of an event of default.

The facilities are secured by security interests granted by Lovisa Pty Ltd over all of its assets in favour of CBA. In addition, Lovisa Pty Ltd must ensure that, after Listing, sufficient members of Lovisa are guarantors under the facility agreement so that the 'EBITDA' and 'Total Assets' of those members of Lovisa equal at least 80% of the 'EBITDA' and 'Total Assets' of Lovisa. Any such guarantor must grant security over all of their respective assets in favour of CBA.

4.10 LEASE COMMITMENTS

Lovisa has a number of lease commitments related to the operation of its retail stores, which are shown in the table below:

A$'000	As at 29 June 2014
Less than one year	17,281
Between one and five years	20,745
More than five years	333
Total	**38,358**

4.11 LIQUIDITY AND CAPITAL

Following Completion of the Offer, Lovisa's principal source of funds will be cash flow from operations. Lovisa expects that it will have sufficient cash flow from operations to meet its operational requirements and business needs during the forecast period. Lovisa expects that its operating cash flow together with borrowings, will position Lovisa to grow its business in accordance with the Forecast Financial Information.

4.12 FOREIGN EXCHANGE EXPOSURE POLICY

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 Company is authorised to enter into such contracts to provide cover of up to USD 15 million.

The following table defines the range of cover that has been authorised by the Board relating to purchases over a defined period (up to the set foreign exchange cover limit noted above):

Exposure	Minimum Hedge Position	Neutral Hedge Position	Maximum Hedge Position
Purchases 0 to 6 months	10%	25%	100%
Purchases 7 to 12 months	0%	25%	50%

4.13 DIVIDEND POLICY

The payment of a dividend by Lovisa is at the discretion of the Board and will be a function of a number of factors, including the general business environment, the operating results, cash flows and the financial condition of the Company, future funding requirements, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by the Company, and any other factors the Board may consider relevant.

It is the current intention of the Board to pay dividends in respect of half years ending in December and final dividends in respect of full years ending in June each year. It is anticipated that interim dividends will be paid in April and final dividends will be paid in October following the relevant financial period.

It is also the Board's current intention to target a payout ratio of between 65% and 75% of NPAT. However the level of payout ratio may vary between periods depending on the factors above. Given the larger proportion of NPAT is typically achieved in the first half of each financial year, interim dividends may be higher than final dividends for each respective financial year.

As the Company's international store portfolio grows, and the proportion of its revenue from international operations increases, the availability of franking credits may determine that dividends are only partially franked. However, dividends will be franked to the extent possible, and it is the Board's intention that both the dividend payments in FY2015 will be fully franked.

No assurances can be given by any person, including the Board, about the payment of any dividend and the level of franking on any such dividend.

5 RISK FACTORS

5 RISK FACTORS

5.1 GENERAL

There are a number of risk factors associated with the Company and a number of general risk factors associated with an investment in Shares. These risks may individually or in combination materially and adversely affect the future operating and financial performance of the Company and accordingly the value of Shares. Many of these risks are outside the control and influence of the Directors and management. There can be no guarantee that the Company will achieve its stated objectives or that any of the forward looking statements or projections will eventuate.

This Section describes the major risks associated with an investment in the Company. The risks have been separated into business risk factors specific to the Company and general risk factors associated with any investment in shares. All investors need to be aware that this is not an exhaustive list of risks associated with an investment in the Company and this information needs to be considered in conjunction with all the other information disclosed in the Prospectus. Before making any investment in Shares, you should seek professional guidance from your stockbroker, solicitor, accountant or other qualified professional adviser before deciding whether to invest.

Before deciding to invest in the Company, potential investors should read the entire Prospectus and, in particular, in considering the Prospectus, should consider the assumptions underlying the prospective financial information and the risk factors that could affect the future performance of the Company.

5.2 COMPANY SPECIFIC RISK FACTORS

Company specific risk factors are as follows:

Competition may increase

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. Any deterioration in Lovisa's competitive position may have an adverse effect on Lovisa's future financial performance.

Retail environment and general economic conditions in Lovisa's reference markets may worsen

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.

For example, the Australian retail environment has recently experienced challenging conditions due to soft consumer sentiment and retail demand. This has arisen as a result of factors such as general uncertainty about Australian and international economic conditions, political uncertainty and subdued consumer sentiment in the aftermath of the global financial crisis.

Economic conditions may worsen in the countries in which Lovisa operates which could cause the retail environment to deteriorate as consumers reduce their level of consumption of discretionary items. In addition, input prices may be impacted by any significant devaluation of the Australian dollar. Should any of these risks occur, they are likely to have an adverse impact on Lovisa's future financial performance.

Failure to successfully implement growth strategy

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.

It is possible that the impact from new store roll-outs on existing store sales will be greater than anticipated, which could have an adverse impact on Lovisa's future financial performance.

Foreign exchange rates

The majority of goods 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.

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 and could adversely impact the future financial performance of Lovisa. In addition, any unexpected change in prevailing fashions or customer preferences may lead to Lovisa carrying increased obsolete inventory.

Rising employment costs

Certain Lovisa employees are covered by enterprise bargaining agreements and other workplace agreements, which periodically require renegotiation and renewal. Any such renegotiation could result in increased labour costs for Lovisa. In times of low unemployment or shortage of skilled employees, there can be upward pressure on wages. If any of these events occur, they may adversely impact Lovisa's future financial performance.

Issues with leases for stores

Lovisa currently has 220 stores across Australia, New Zealand, Singapore, Malaysia, South Africa and Middle East. With the exception of stores in the Middle East, which are leased by its franchise partner, Lovisa leases these premises from a number of landlords. The leases have a range of terms and option periods, although they are generally leases which Lovisa cannot readily terminate.

Any failure to renew existing leases on acceptable terms, or an inability to negotiate alternative arrangements, could also materially adversely affect Lovisa's ability to operate stores in preferred locations, which may have an adverse effect on Lovisa's future financial performance. In addition, there is a risk that Lovisa may become subject to terms which are less favourable due to unanticipated changes in the property market or if one or more stores does not achieve the financial performance anticipated at the time of entering into the relevant leases.

Contravention of lease terms for stores

Lovisa operates from 210 leased premises. Of its store leases, 62 are currently in the name of a BB Retail Capital group entity other than a Lovisa entity and are yet to be formally assigned to a Lovisa entity. The relevant BB Retail Capital group entity has undertaken to facilitate the necessary assignment. In addition, a large number of the leases require the landlord's consent for the relevant Lovisa entity to continue as the tenant following a change of control in the tenant (which would occur upon the Completion of the Offer). The relevant Lovisa entities intend to seek consents from landlords as commercially appropriate following Completion of the Offer. If the relevant Lovisa entities do not satisfy their obligations under the relevant change of control provisions that may be triggered by virtue of the Offer, the relevant Lovisa entities may be in breach of their leases which may result in material adverse impacts on Lovisa.

Restructure

Following the IPO, Lovisa may be subject to regulatory review (including taxation and other compliance matters). To the extent the Restructure was to be considered as part of any such review, it may result in an adverse impact on the Company's financial position or financial performance.

Damage within the Lovisa portfolio

Lovisa's name and its related intellectual property rights are key assets of its business. The reputation and value associated with Lovisa and related intellectual property rights could be adversely impacted by a number of factors including failure to provide customers with the quality of product and service standards they expect, disputes or litigation with third parties such as employees, suppliers or customers, failure to adequately protect Lovisa's intellectual property rights or adverse media (including social media) coverage. Significant erosion in the reputation of, or value associated with, these could have an adverse impact on customer loyalty, relationships with key suppliers, employee retention rates and demand for the relevant products, all of which could adversely impact the future financial performance of Lovisa.

Loss of key personnel

Lovisa's success depends to a significant extent on its key personnel, in particular the management team discussed in Section 6. These individuals have extensive experience in, and knowledge of, the retail industry. The loss of key personnel and an inability to recruit or retain suitable replacements or additional personnel may adversely affect Lovisa's future financial performance.

Product sourcing and supply chain disruptions

Lovisa's products are manufactured directly in factories in China, India and Thailand. As a result, Lovisa is exposed to risks including political instability, increased security requirements for goods, costs and delays in international shipping arrangements, imposition of taxes and other charges as well as restrictions on imports, exchange rate and hedging risks. Lovisa is also exposed to risks related to labour practices, environmental matters, disruptions to production and ability to supply, and other issues in the foreign jurisdictions where suppliers operate. The key risks associated with Lovisa's supply chain include delays in product delivery or complete failure to receive products ordered. While Lovisa aims to mitigate such risks by continually reviewing business relationships with a number of suppliers in each market, it does not typically enter into long term arrangements with suppliers. The realisation of these identified risks may result in increased product sourcing costs for Lovisa, a deterioration of the terms on which Lovisa is able to source its products, a reduction in the available product range of Lovisa, or individual stores being insufficiently stocked. This may in turn adversely impact sales and margins, reduce overall profitability and adversely impact the future financial performance of Lovisa.

Seasonal trading patterns may change

Lovisa's revenue has historically been subject to seasonal patterns. Historically, a disproportionate amount of annual revenue has been generated over the period from November to January. Lovisa's working capital and inventory planning strategies reflect these seasonal patterns. Any significant decrease in customer demand during peak seasons, particularly during the Christmas period, could result in Lovisa being left with a substantial amount of unsold inventory, which may need to be sold at significant markdowns. This would have an adverse effect on Lovisa's financial performance.

Difficulty attracting and retaining staff

Lovisa's business is dependent on attracting and retaining a large number of quality employees. Many of these employees are in entry level positions with historically high rates of turnover common to the retail industry. Lovisa's ability to meet its labour needs while controlling costs associated with hiring and training new employees is subject to external factors such as unemployment rates, prevailing wage legislation and changing demographics. Changes that adversely impact Lovisa's ability to attract and retain quality employees could adversely affect Lovisa's future financial performance.

Privacy breaches

The protection of customer, employee and company data is critical to Lovisa. Lovisa has access to more than 800,000 email addresses through its customer email database.

The legal and regulatory environment surrounding information security and privacy is increasingly complex and demanding. A significant breach of customer, employee or company data could attract significant media attention, damage Lovisa's customer relationships and reputation and ultimately result in lost sales, fines or litigation, which could have a material adverse effect on Lovisa's future financial performance and financial position.

Litigation

Lovisa may from time to time be the subject of complaints, litigation, inquiries or audits initiated by customers, employees, landlords, government agencies, regulators or other third parties alleging matters such as incorrect product descriptions, injury, health, environmental, safety or operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations. Such matters, even if successfully disposed of without direct adverse financial effect, could have an adverse effect on Lovisa's reputation and divert its financial and management resources from more beneficial uses. If Lovisa were found to be liable under any such claims, this could have a material adverse effect on Lovisa's future financial performance.

Information technology failures

Lovisa is reliant on the capability and reliability of its information technology systems, and those of its external service providers such as communication carriers to process transactions, manage inventory, report financial results and manage its business. The key system on which Lovisa relies is Futura which is a retail management system which has inventory control and analysis functions. Significant and sustained failure of the information technology systems of Lovisa and its external service providers or a disruption in the relationship between Lovisa and its key information technology provider could have an adverse effect on Lovisa's future financial performance.

Workplace health and safety

Lovisa's employees are at risk of workplace accidents and incidents. In the event that an employee is injured in the course of their employment, Lovisa may be liable for penalties or damages.

5.3 GENERAL RISK FACTORS

General risks associated with any investment in listed securities are described below.

Price of Shares may fluctuate

There are pricing risks associated with any stock market investment on the ASX. The share prices on the ASX may rise or fall due to investor sentiment, general economic conditions and outlook, international and local stock markets, employment, inflation, interest rates, government policy, taxation and regulations.

Trading and liquidity in Shares

There is no guarantee that there will be an active market in Shares listed on the ASX. There may be few potential buyers and sellers of Shares at any point in time which will impact upon Share liquidity. This may increase the volatility of the market price of the Shares. This may also impact upon the ability of the Shareholders to be able to sell their Shares at a price that is more or less than that paid by the Shareholder.

Taxation changes

Any taxation changes (such as income tax) may impact upon Shareholder returns. In addition, personal tax changes may impact differently to Shareholders and may similarly impact upon Shareholder returns.

Regulatory matters

Lovisa complies with a wide range of laws and regulations. Regulatory areas which are of particular significance to Lovisa include fair trading and consumer protection, employment, property, customs and tariffs and taxation. Future changes to these laws and regulations from time to time could adversely affect Lovisa's future financial performance and position.

Force majeure events

Events could occur within or outside Australia which could impact upon the world economy, the Australian economy, the operations of Lovisa and the trading price of Shares. These events could include war, acts of terrorism, international hostilities, labour strikes, fires, floods, earthquakes and other natural events.

Shareholder dilution

In the future, Lovisa may elect to issue Shares or other securities. While Lovisa will be subject to the constraints of the ASX Listing Rules regarding the issue of Shares or other securities, Shareholders may be diluted as a result of such issues of Shares or other securities.

Accounting standards

Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of Lovisa or the Directors. Any changes to the accounting standards or to the interpretation of those standards may have an adverse impact on the reported financial performance and position of Lovisa.

General economic and financial market conditions

General economic conditions (both domestically and internationally) may adversely impact the price of Shares as well as Lovisa's ability to pay dividends. This includes an increase in unemployment rates, negative consumer and business sentiment, amongst other factors. As a result of the abovementioned factors, Lovisa is unable to forecast the market price for Shares, and they may trade on ASX at a price that is below their Offer Price.

Interest rate fluctuations

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.

Increases in interest rates may also affect consumer sentiment and the level of customer demand, potentially leading to a decrease in consumer spending. Accordingly, an increase in interest rates may have a material adverse impact on Lovisa's future financial performance.

Ability to refinance debt or access debt markets on attractive terms

Lovisa is subject to the risk that it may not be able to refinance its existing or future bank facilities as and when they fall due, or that the terms available to Lovisa on refinancing will not be as favourable as the terms of its existing or future bank facilities.

6 KEY PEOPLE, INTERESTS & BENEFITS

6 KEY PEOPLE, INTERESTS & BENEFITS

Set out below are details of the Directors and senior management of the Company.

6.1 BOARD OF DIRECTORS

DAVID CARTER

CHAIRMAN

NON-EXECUTIVE DIRECTOR

David is a director of Genetic Technologies Limited (Dual listed – ASX and NASDAQ), Glutagen Pty Ltd, a biotechnology company, and, In:Capital Pty Ltd, an investment manager. Other companies where he has previously acted as a director include VENCorp Ltd, which was responsible for managing the gas and electricity market and transmission grid in Victoria, Azure Healthcare Limited (Chairman) (ASX Listed), and Diabetes Australia Victoria Limited.

David has over 25 years experience as a corporate lawyer. His experience includes advising companies in relation to mergers and acquisitions, capital raisings, corporations law, ASX Listing Rules, the establishment of corporate governance policies and procedures and international transactions. He has also provided advice on dual listings on AIM London Stock Exchange. David also has significant practical corporate governance experience through his role as a director and his legal advisory roles.

In addition to his legal qualifications, David holds a Bachelor of Economics studying finance and accounting as part of that degree.

SHANE FALLSCHEER

CHIEF EXECUTIVE OFFICER & EXECUTIVE DIRECTOR

Shane Fallscheer is the Chief Executive Officer, Managing Director and founder of Lovisa. Shane has 28 years of experience in retailing operations across Australia, UK and US markets. Shane 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

Tracey joined BB Retail Capital in 1981 and is the nominated representative of BB Retail Capital on the Board of Lovisa. Over the past 33 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 Lovisa's management team. She is highly regarded within the Australian retail industry and has previous public markets board experience which she brings to Lovisa. Tracey is currently a director of BB Retail Capital Pty Limited, Bras N Things Pty Limited and BB Retail Property Pty Limited.

PAUL CAVE

INDEPENDENT NON-EXECUTIVE DIRECTOR

Independent Non-Executive Director – experienced Company Director. Paul is a Non-Executive Director of Domino's Pizza Enterprises Ltd 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 is a Director of Chris O'Brien Lifehouse at the Royal Prince Alfred Hospital, founding Director of InterRisk Australia Pty Ltd and Patron of Hunter Melanoma Foundation.

6.2 SENIOR MANAGEMENT

Profiles of key members of the Company's management team (excluding Shane Fallscheer) are set out below.

IAIN SADLER

CHIEF FINANCIAL OFFICER

Joined Lovisa 2010

Iain Sadler is responsible for the Finance and Payroll departments. His responsibilities include the development and implementation of business strategies.

Iain joined Lovisa as CFO in its first year, and has established the corporate and financial processes in all Lovisa's territories. Previous experience includes seven years with PwC in the UK and Australia, and leading finance roles in various fast moving consumer goods companies including: Group Finance Manager, Joval Group; Financial Controller, Valcorp Fine Foods (part of Casama Group); and Financial Controller, Eden Springs. Iain is a member of The Institute of Chartered Accountants in England and Wales and holds a degree in Economics from Durham University.

PAUL GROSMANN

GM OF PRODUCT, MERCHANDISE & MARKETING

Joined Lovisa 2011 (including time with BB Retail Capital)

Paul Grosmann is responsible for overseeing the product team. His responsibilities include buying, production, merchandise planning, store visual merchandise and marketing across all territories.

Previously Paul worked for 5 years in McKinsey & Company's Shanghai office, 4 years with PwC advisory in New York and started his retail career in his family's company – Harris Farm Markets.

DAMIAN BABIC

CHIEF OPERATING OFFICE

Joined Lovisa 2013

Damian Babic is responsible for all national and international supply chain and warehousing, store construction, loss prevention, human resources, IT and franchising.

Damian's previous experience includes Sanity Music Australia, Sanity Entertainment UK, Footlocker, Tarocash, Repco Automotive, Bunnings and Kmart.

TRAVIS LIDDLE

NATIONAL RETAIL MANAGER – AUSTRALIA AND NEW ZEALAND

Joined Lovisa 2014

Travis Liddle is responsible for the operation of the store network within Australia and New Zealand and is supported by a team of state and regional managers. Travis also oversees learning and development for the business.

Travis has worked within the BB Retail Capital Group for the past six years. During this time he was COO for Honey Birdette and the COO for Dusk. Prior to joining BB Retail Capital, Travis worked at Giordano for five years as the National Retail Manager.

ANDREA HAYNES

HEAD OF PRODUCT

Joined Lovisa 2010

Andrea Haynes joined Lovisa at concept stage and is responsible for building and developing product in line with fashion trends and customer demand through her team of buyers.

Andrea's experience covers product development, buying and brand management across all product groups within the fashion accessories category. This includes building and managing product for in house brands Mollini, Evelyn Miles (both part of the Figgins Group), Diva and Seed Femme, as well as buying high end brands including Jimmy Choo, Christian Louboutin and Prada.

SIMONE ELLIS

COUNTRY MANAGER – ASIA & SOUTH AFRICA

Joined Lovisa 2013

Simone Ellis is responsible for overseeing all retail stores across Asia and South Africa. This role includes both store operations as well as supporting store expansion throughout Lovisa's international markets.

Simone began her retail career at Surf Dive n Ski, moving to multi-site management for Duty Free Retail at Sydney International Airport. Simone has spent the past 4.5 years based in Singapore, originally with Cotton On.

6.3 INTERESTS AND BENEFITS

6.3.1 EXECUTIVE EMPLOYMENT ARRANGEMENTS

(a) Chief Executive Officer

Term	Description
Employer	Shane Fallscheer is employed by Lovisa Pty Limited.
Total fixed remuneration	Under the terms of his agreement, Shane is entitled to receive annual fixed remuneration of $700,000 (inclusive of superannuation). Shane may elect to work on a part time basis, by giving 3 months' notice in writing. Even if this election is made, Shane will continue in the role of Managing Director of Lovisa, driving the strategic leadership of the Company. His remuneration will be adjusted on an approximately pro rata basis. At this point in time, Lovisa would assess if additional support is required. Shane is required to participate in regular reviews of performance against the achievement of specific performance goals. Shane's fixed remuneration will be reviewed annually by the Company.
Short term incentive (STI)	It is not currently proposed that Shane will be entitled to an STI award as part of his remuneration.
Long term incentive (LTI)	Shane will be entitled to participate in equity LTI arrangements which will be granted under Lovisa's new Equity Incentive Plan and will receive a grant of options to acquire Shares in the Company (**Options**) at or around the time of Listing (see Section 6.3.2 for further details).
Termination	Shane's employment agreement is expressed to remain in force until 30 September 2018, unless terminated earlier or extended. Lovisa may terminate Shane's employment prior to 30 September 2018 in the following scenarios: • on 2 months notice – if Shane is prevented by illness or other incapacity from performing his duties for a period exceeding three months; or • without notice – for serious breach of the contract, including but not limited to dishonesty, fraud, wilful disobedience or misconduct. Shane's employment agreement does not include a provision which allows Shane to terminate the employment, or which allows Lovisa to terminate the employment, prior to 2018, except in the circumstances outlined above. This means that termination by Lovisa for any other reason could constitute a breach of contract and, subject to the termination benefits provisions in the Corporations Act, may trigger an entitlement to payment on termination up to the balance of the term.
Restraint	Shane's employment agreement also includes a restraint clause which operates for a maximum period of three years after his agreement terminates or expires. The restraint purports to prevent Shane from being involved in the importing of fashion jewellery, wholesaling of fashion jewellery or retailing of fashion jewellery. The enforceability of the restraint clause is subject to all usual legal requirements.

(b) Other Management

The other members of senior management are employed under individual employment agreements. Details regarding the terms of their employment, are set out below.

<table>
<tr><th>Term</th><th>Description</th></tr>
<tr><td>Employer</td><td>Senior management are employed by Lovisa Pty Limited.</td></tr>
<tr><td>Total fixed remuneration</td><td>Members of the senior management team are entitled to a total remuneration package consisting of a cash salary component, car allowance and superannuation.

Salary reviews are conducted on an annual basis, at the end of each financial year and are dependent on the individual senior management employee’s performance appraisal.

Lovisa contributes superannuation on the senior management employee’s behalf in accordance with superannuation guarantee legislation.</td></tr>
<tr><td>Existing STI</td><td>Eligible members of senior management, as determined by the Board or Remuneration and Nomination Committee in their absolute discretion, may be entitled to an STI award as part of their remuneration.

Currently, eligible members of senior management are entitled to a cash STI award up to a maximum fixed percentage of their annual fixed remuneration. The amount of the STI award that they are entitled to (if any) is determined by the Board or Remuneration and Nomination Committee based on the achievement of set performance targets which are based on Lovisa’s earnings and the relevant senior manager’s performance against individual key performance indicators. Performance is measured over a 12 month period ending 30 June and, for FY2015, performance will be measured for the 12 months ending 28 June 2015.</td></tr>
<tr><td>New STI for certain members of senior management</td><td>In conjunction with Listing, the Board has determined that for FY2015, the CFO, Head of Product and approximately six members of senior management will be able to elect to participate in a grant of equity for a portion of their STI.

The relevant members of senior management may receive their STI award entirely in cash or, at their election, as a mix of cash and equity as follows:
• 60% of the STI award will be paid in cash following the release of Lovisa’s FY2015 audited results to the ASX; and
• 40% of the STI award will be delivered as grant of rights to acquire Shares (Performance Rights), which will vest after a period of 12 months from the grant date (subject to a continuous service condition). The Performance Rights do not carry dividends or voting rights prior to vesting.

In future years, the CFO, Head of Product and other specified members of senior management will be required to receive their STI awards (if any) as a mix of cash and Performance Rights (as set out above).</td></tr>
<tr><td>LTI</td><td>Certain eligible members of senior management will also be entitled to participate in equity LTI arrangements that will be granted under Lovisa’s new Equity Incentive Plan (see Section 6.3.2 for further details).</td></tr>
<tr><td>Termination</td><td>Members of senior management are subject to a six month qualifying period. During this period, either the company or the employee may end the employment relationship by providing one month’s notice.

After the qualifying period, Lovisa may terminate the employee’s employment on three months’ notice (or one month or less in cases of serious misconduct), and the employee may resign from their employment with one month’s notice.

In all cases, Lovisa may provide payment in lieu of notice, calculated on base salary.</td></tr>
<tr><td>Restraint</td><td>For a period of 12 months after a member of senior management ceases employment with the company, the senior manager must not, anywhere in Australia, carry on or be engaged in a competing business or solicit, entice or induce from the company or its related bodies corporate any person who was an employee of the company or its related bodies corporate any time during the last 12 months of their employment. The senior manager also must not solicit or attempt to solicit business from any customer, client or supplier of the company or its related bodies corporate.

The enforceability of the restraint of clause is subject to all usual legal requirements.</td></tr>
</table>

6.3.2 EQUITY LONG TERM INCENTIVE ARRANGEMENTS

The Company will establish an Equity Incentive Plan (the **Plan**) to assist in the motivation, retention and reward of senior management. The Plan is designed to align the interests of employees with the interests of Shareholders by providing an opportunity for employees to receive an equity interest in Lovisa. The Plan provides flexibility for the Company to grant performance rights, options and/or restricted shares as incentives, subject to the terms of individual offers and the satisfaction of performance conditions determined by the Board from time to time.

The initial LTI grants which will be made at or around Listing will comprise of Options and Performance Rights.

Lovisa intends to make the following LTI awards under the Plan:

- a grant of 550,000 Options to the CEO and Managing Director with a face value of $210,000; and
- a grant of a combined total of 36,000 Performance Rights to the CFO and Head of Product with a face value of $72,000.

The key terms of the initial LTI grants which are anticipated to be made at or around Listing are set out in the table below:

<table>
<tr><td>Eligibility</td><td>Eligible members of senior management, as determined by the Board or Remuneration and Nomination Committee in their absolute discretion, may be entitled to an LTI award as part of their remuneration.</td></tr>
<tr><td>LTI offers</td><td>The Board may make LTI offers at its discretion, subject to any requirements for Shareholder approval. The Board or Remuneration Committee has the discretion to set the terms and conditions on which it will offer LTI grants in individual offer documents.

The initial LTI offer will be made at or around the time of Listing. Offers must be accepted by the employee and can be made on an opt-in or opt-out basis. The initial LTI grants will be made on an opt-out basis.</td></tr>
<tr><td>Grants of Options and Performance Rights</td><td>An 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.</td></tr>
<tr><td>Grant price</td><td>Options and Performance Rights will be granted under the initial LTI offer for nil consideration.</td></tr>
<tr><td>Exercise price</td><td>No exercise price is payable in respect of the Performance Rights.

An exercise price of $2.30 is payable on exercise of the Options.</td></tr>
<tr><td>Performance conditions, performance period and vesting</td><td>Options and Performance Rights granted as part of the initial LTI offer will vest, and in the case of Options become exercisable, subject to the satisfaction of performance conditions, as determined by the Board or Remuneration Committee and specified in the offer document.

The performance period of the LTI will generally be 3 years. The initial LTI grant will be subject to a performance period commencing on the date of the initial Listing of the Company and ending on 30 June 2017 (Performance Period).

Gateway

No Options or Performance Rights granted under the initial LTI offer will vest unless the Company’s EPS reaches the prospectus forecast level for the financial year ending 28 June 2015.

Performance conditions

Performance conditions must also be satisfied in order for the Options and Performance Rights to vest. The initial grant of Options and Performance Rights will be subject to a performance condition based on the Company’s EPS over the Performance Period.

The percentage of Options and Performance Rights that vest or become exercisable, if any, will be determined over the Performance Period by reference to the following vesting schedule:
<table>
<tr><th>Company’s EPS over the Performance Period</th><th>% of Performance Rights or Options that vest or become exercisable</th></tr>
<tr><td>Less than threshold</td><td>Nil</td></tr>
<tr><td>Threshold</td><td>50%</td></tr>
<tr><td>Between threshold and stretch</td><td>50-100%, on a straight line sliding scale</td></tr>
<tr><td>Stretch</td><td>100%</td></tr>
</table>
The threshold and stretch targets for the Company’s EPS over the Performance Period will be determined by the Board.

Any Options and Performance Rights that remain unvested at the end of the Performance Period will lapse immediately.</td></tr>
<tr><td>Exercise of Options</td><td>The participant must exercise any vested Options granted under the initial LTI offer within 5 years of the date of grant. After 5 years from the date of grant, any unexercised Options will lapse.

In order to exercise the Options, participants must submit an exercise notice and pay the exercise price.</td></tr>
</table>

Rights associated with Options and Performance Rights	The Options and Performance Rights granted under the initial LTI offer do not carry dividends or voting rights prior to vesting and, where applicable, exercise. Shares issued upon exercise of Options or vesting of performance Rights (as appropriate) will rank equally with all other Shares.
Restrictions on dealing	The participant must not sell, transfer, encumber, hedge or otherwise deal with Options or Performance Rights. The participant will be free to deal with the Shares allocated on exercise of the Options or vesting of Performance Rights (as appropriate), subject to the requirements of the Company's Policy for Dealing in Securities.
Cessation of employment	If the participant ceases employment for death, total and permanent disability or serious illness, the Options or Performance Rights will remain on foot and will be exercisable or vest (as the case may be) in the ordinary course as if the participant had not ceased employment with the Company. If the participant ceases employment in any other circumstances during the Performance Period, any unvested Options or Performance Rights will automatically lapse.
Clawback and preventing inappropriate benefits	The Plan rules provide the Board with broad 'clawback' powers if, amongst other things: • the participant has acted fraudulently or dishonestly, has wilfully breached their duties, or the Company is required or entitled under law or company policy to reclaim remuneration from the participant; or • the participant's entitlements vest as a result of the fraud, dishonesty or wilful breach of duty of any other person and the Board is of the opinion that the incentives would not have otherwise vested.
Change of control	The Board or Remuneration Committee may determine that some or all of the Options or Performance Rights will vest or become exercisable on a change of control in accordance with the Plan rules.

6.3.3 DIRECTOR REMUNERATION

(a) Non-Executive Directors

Under the Constitution, the Board may decide the remuneration from the Company to which each Non-Executive Director is entitled for his or her services as a Director. However, the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. This amount has been fixed at $600,000.

For its initial year of Listing, the annual base Non-Executive Director fees currently agreed to be paid by the Company are $120,000 to the Chairman, David Carter, and $80,000 to each other Non-Executive Director. The Director nominated by BB Retail Capital, Tracey Blundy, does not receive any remuneration from the Company for her role as Non-Executive Director of the Company. No additional fees will be paid to the Chair, or members of, the Audit, Business Risk and Compliance Committee and Nomination and Remuneration Committee. The fees paid to Directors may be amended in subsequent years.

(b) Other remuneration arrangements

Directors may be paid for travel and other expenses incurred in attending to the Company's affairs, including attending and returning from Board or committee meetings or general meetings. Any Director who devotes special attention to the business of the Company or who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company. There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

(c) Deeds of indemnity, insurance and access

The Company has entered into a deed of indemnity, insurance and access with each Director which confirms the Director's right of access to Board papers and requires the Company to indemnify the Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of the Company or of a related body corporate. Under the deeds of indemnity, insurance and access, the Company must maintain a D&O policy insuring a Director (among others) against liability as a Director and officer of the Company and its related bodies corporate.

(d) Directors' shareholdings

Directors are not required under the Constitution to hold any shares in the Company.

On Completion of the Offer, the Directors will hold the following Shares in the Company either directly or through beneficial interests or entities associated with the Director.

Director	Number of Shares on Completion of the Offer	Shareholding on Completion of the Offer (%)
Tracey Blundy	1,153,005	1.1%
Shane Fallscheer	7,875,000	7.5%
Other Directors	Nil	

The Directors are entitled to apply for Shares under the Offer. The above table is as at the Prospectus Date and does not take into account any Shares the Directors may acquire under the Offer.

Section 8.10 contains the details of the escrow arrangements for Shane Fallscheer, CEO and Managing Director and BB Retail Capital.

The following Directors (directly or indirectly) intend to apply for Shares as follows:

- Paul Cave as to 1,000,000 Shares; and
- David Carter as to 50,000 Shares.

6.4 CORPORATE GOVERNANCE

Section 6.4 explains the main policies and practices adopted by the Company. Details of the Company's key policies and practices and the charters for the Board and each of its committees are available at http://investors.lovisa.com.au/corporate-governance.

The Board monitors the operational and financial position and performance of the Company and oversees its business strategy including approving the strategic objectives, plans and budgets of the Company. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the success of the Company. In conducting the Company's business with these objectives, the Board seeks to ensure that the Company is properly managed to protect and enhance Shareholder interests, and that the Company, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing the Company, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for the Company's business and which are designed to promote the responsible management and conduct of the Company. The main policies and practices adopted by the Company, which will take effect from listing, are summarised below.

6.4.1 ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

The Company is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations 3rd edition (**ASX Recommendations**) for entities on the ASX in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, the Company will be required to provide a statement in its annual report or on its website disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where the Company does not follow an ASX Recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

The Company intends to comply with all of the ASX Recommendations from the time of its Listing, with the exception of ASX Recommendations 2.4 and 4.1:

- ASX Recommendation 2.4 provides that a majority of the board of a listed entity should be independent non-executive directors. On Listing, half of the Directors will be independent. Two of the four members of the Board (including the Chairman) will be independent Non-Executive Directors. There will be a further Non-Executive Director (Tracey Blundy) who is not considered to be independent and one Executive Director (the CEO). The Board considers that Tracey Blundy will add significant value given her considerable experience and skills. Further information regarding the independence of Directors and the composition of the Board is contained in Section 6.4.2 below.
- ASX Recommendation 4.1 provides that the board of a listed entity should have an audit committee which is chaired by an independent director, who is not the chair of the board. On Listing, David Carter will be the Chairman of the Board and also chair of the Audit, Business Risk and Compliance Committee. The Board feels that David's skills and experience make him suitable for the role and are confident that he will bring the independent judgement needed to oversee the corporate reporting process.

6.4.2 BOARD APPOINTMENT AND COMPOSITION

On Listing, the Board will be made up of four Directors, comprising of two independent Non-Executive Directors (including the Chairman), one Non-Executive Director and one Executive Director (the CEO and Managing Director).

The Board considers a Director to be independent where he or she is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with the exercise of their unfettered and independent judgment. The Board will consider the materiality of any given relationship on a case by case basis. The Board reviews the independence of each Director in light of interests disclosed to the Board.

The Board considers that each of David Carter and Paul Cave are free from any business or any other relationship that could materially interfere with the independent exercise of their judgement and are able to fulfil the role of an independent Director for the purposes of the ASX Recommendations.

Tracey Blundy is currently considered by the Board not to be independent because she is the nominee of a substantial shareholder of the Company, BB Retail Capital. Despite her role at BB Retail Capital, the Board considers that Ms Blundy will add significant value to Board deliberations given her extensive experience and skills in leading retail organisations.

Shane Fallscheer is an Executive Director and is considered not to be independent.

6.4.3 BOARD CHARTER

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the Board's composition;
- the Board's role and responsibilities;
- the relationship and interaction between the Board and management; and
- the authority delegated by the Board to management and Board committees.
- the Board's role is to:
    - » represent and serve the interests of Shareholders by overseeing and appraising the Company's strategies, policies and performance. This includes overseeing the financial and human resources the Company has in place to meet its objectives and reviewing management performance;
    - » protect and optimise the Company's performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
    - » set, review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards); and
    - » ensure that Shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

Matters which are specifically reserved for the Board or its committees include:

- appointment of a Chairman;
- appointment and removal of the Chief Executive Officer;
- appointment of Directors to fill a vacancy or as an additional Director;
- establishment of Board committees, their membership and delegated authorities;
- approval of dividends;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to management;

- calling of meetings of Shareholders; and
- any other specific matters nominated by the Board from time to time.

The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by officers to whom the management function is properly delegated by the CEO). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time they consider it appropriate.

The Board collectively, and individual Directors, may seek independent professional advice subject to the approval of the Chairman or the Board as a whole.

A copy of the Board Charter will be made available on the Company's website at http://investors.lovisa.com.au/corporate-governance/.

6.4.4 BOARD COMMITTEES

The Board may from time to time establish committees to streamline the discharge of its responsibilities. The Board has established the following committees:

- Audit, Business Risk and Compliance Committee; and
- Remuneration and Nomination Committee.

Audit, Business Risk and Compliance Committee

The Audit, Business Risk and Compliance Committee will assist the Board in carrying out its accounting, auditing, and financial reporting responsibilities including:

- overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the preparation of the financial statements and reports;
- overseeing the Company's financial controls and systems; and
- managing the process of identification and management of financial risk.

The committee's charter provides that the committee must comprise of only Non-Executive Directors and a minimum of three members of the Board. The Audit, Business Risk and Compliance Committee will comprise:

- David Carter (**chair**);
- Paul Cave; and
- Tracey Blundy.

Non-committee members, including members of management and the external auditor, may attend meetings of the committee by invitation of the committee chair.

A copy of the committee's charter will be made available on the Company's website at http://investors.lovisa.com.au/corporate-governance/.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for matters relating to succession planning, nomination and remuneration of the Directors and the CEO.

The responsibilities of the Remuneration and Nomination Committee include:

- assisting the Board in developing a board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership;
- reviewing and recommending to the Board the size and composition of the Board, including reviewing Board succession plans and the succession of the Chairman and CEO, having regard to the objective that the Board comprise Directors with a broad range of skills, expertise and experience from a broad range of backgrounds, including gender;
- reviewing and recommending to the Board the criteria for Board membership, including the necessary and desirable competencies of Board members and the time expected to be devoted by Non-Executive Directors in relation to the Company's affairs;
- reviewing and recommending to the Board the composition and membership of the Board, including making recommendations for the re-election of Directors and assisting the Board to identify individuals who are qualified to become Board members;
- assisting the Board as required in relation to the performance evaluation of the Board, its committees and individual Directors, and in developing and implementing plans for identifying, assessing and enhancing Director competencies;
- reviewing and making recommendations in relation to any corporate governance issues as requested by the Board from time to time;
- ensuring that an effective Director induction process is in place and regularly reviewing its effectiveness and providing appropriate professional development opportunities for Directors;
- on an annual basis, reviewing the effectiveness of the Board Diversity Policy by assessing the Company's progress towards the achievement of measurable objectives and any strategies aimed at achieving the objectives and reporting to the Board recommending any changes to the measurable objectives, strategies or the way in which they are implemented;
- in accordance with the Board Diversity Policy, on an annual basis, reviewing the relative proportion of women and men in the workforce at all levels of the Company, and submitting a report to the Board, which outlines the committee's findings or, if applicable, providing the Board with the Company's most recent indicators as required by the Workplace Gender Equality Act 2012;
- reviewing and recommending to the Board remuneration arrangements for the CEO and other members of senior management, including contract terms, annual remuneration, and participation in the Company's short and long term incentive plans; and
- approving the appointment of remuneration consultants for the purposes of the Corporations Act.

The committee's charter provides that the committee must consist of only Non-Executive Directors and a minimum of three Directors. The current members of the committee are:

- Paul Cave (**chair**);
- David Carter; and
- Tracey Blundy.

A copy of the committee's charter will be made available on the Company's website at http://investors.lovisa.com.au/corporate-governance/.

6.4.5 CORPORATE GOVERNANCE POLICIES

The Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which are available on the Company's website at http://investors.lovisa.com.au/corporate-governance.

Continuous Disclosure Policy

The Company places a high priority on communication with Shareholders and is aware of the obligations it will have, once listed, under the Corporations Act and the

ASX Listing Rules, to keep the market fully informed of any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Company's securities.

The Company has adopted a Continuous Disclosure Policy which establishes procedures to ensure that Directors and senior management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

Policy for Dealing in Securities

The Company has adopted a Policy for Dealing in Securities which is intended to explain the types of conduct in dealings in securities that are prohibited under the Corporations Act and establish a best practice procedure for the buying and selling of securities that protects the Company and Directors and employees against the misuse of unpublished information which could materially affect the value of securities. The Policy applies to all Directors, officers and senior executives of the Company and its related bodies corporate and their connected persons.

The Policy provides that relevant persons must not deal in the Company's securities:

- when they are in possession of material price-sensitive or 'inside' information;
- on a short-term trading basis; and
- during trading blackout periods (except in exceptional circumstances).

Otherwise trading will only be permitted in trading windows or in all other periods by:

- Directors with prior approval from the Chairman of the Board;
- the Chairman of the Board with prior approval from the Board or the chair of the Audit, Business Risk and Compliance Committee; and
- senior executives with prior approval from the Chief Executive Officer.

Code of Conduct

The Board is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal Code of Conduct which outlines how the Company expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards. All employees of the Company (including temporary employees, contractors and Directors) must comply with the Code of Conduct.

The Code is designed to:

- provide a benchmark for professional behaviour throughout the Company;
- support the Company's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the Policy.

Diversity Policy

The Board has formally approved a Diversity Policy in order to address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure. The Board will include in the Annual Report or on the Company's website each year a summary of the Company's progress towards achieving the measurable objectives set under the Diversity Policy for the year to which the Annual Report relates and details of the measurable objectives set under the Diversity Policy for the subsequent financial year.

Communications with Shareholders

The Company's aim is to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of the Company. In addition to the Company's continuous disclosure obligations, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time and the Company communicates this information regularly to Shareholders and other stakeholders through a range of forums and publications.

All ASX announcements made to the market, including annual and half year financial results, are posted on the Company's website at http://investors.lovisa.com.au/asx-announcements/ as soon as practicable following the release by the ASX. The full text of all notices of meetings and explanatory material, the Company's Annual Report and copies of all investor presentations made to analysts and media briefings are also posted on the Company's website. The website also contains a facility for the Shareholders to direct queries to the Company.

7 INVESTIGATING ACCOUNTANT'S REPORT

KPMG Transaction Services
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The Directors
Lovisa Holdings Limited
41-45 Camberwell Road
Hawthorn East VIC 3123

21 November 2014

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by Lovisa Holdings Limited ("Lovisa Holdings") to prepare this report for inclusion in the prospectus to be dated 21 November 2014 ("Prospectus"), and to be issued by Lovisa Holdings, in respect of the initial public offering of shares in Lovisa Holdings which will wholly own the Lovisa group of controlled entities ("Lovisa Group") ("Transaction").

Expressions defined in the Prospectus have the same meaning in this report.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the pro forma historical and forecast financial information described below and disclosed in the Prospectus.

The pro forma historical and forecast financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted outside of Australia and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Pro Forma Historical Financial Information

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the pro forma historical financial information of Lovisa Holdings (the responsible party) included in the Prospectus.

The pro forma historical financial information has been derived from the historical financial information of the controlled entities within the Lovisa Group, after adjusting for the effects of pro forma adjustments described in sections 4.3, 4.4 and 4.5 of the Prospectus. The pro forma financial information consists of Lovisa Holdings's pro forma historical Statement of Financial Position as at 29 June 2014, pro forma historical Statements of Profit or Loss and Other Comprehensive Income for the years ended 1 July 2012, 30 June 2013 and 29 June 2014 and pro forma historical Statements of Cash Flows for the years ended 1 July 2012, 30 June 2013 and 29 June 2014 and related notes as set out in sections 4.3, 4.4 and 4.5 of the Prospectus issued by Lovisa Holdings (collectively the "Pro Forma Historical Financial Information").

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 4.2 of the Prospectus. Due to its nature, the Pro Forma Historical Financial Information does not represent the company's actual or prospective financial position, financial performance, and/or cash flows.

The Pro Forma Historical Financial Information has been compiled by Lovisa Holdings to illustrate the impact of the event(s) or transaction(s) on Lovisa Holdings's financial position as at 29 June 2014 and Lovisa Holdings's financial performance and cash flows for the three years ended 1 July 2012, 30 June 2013 and 29 June 2014. As part of this process, information about Lovisa Holdings's financial position, financial performance and cash flows has been extracted by Lovisa Holdings from the financial statements of Lovisa Pty Limited for the three years ended 1 July 2012, 30 June 2013 and 29 June 2014 and unaudited financial information of Lovisa International Pte Limited (and its subsidiaries) for the period from 5 June 2013 to 30 June 2014.

The financial statements of Lovisa Pty Limited for the years ended 1 July 2012, 30 June 2013 and 29 June 2014 were audited by KPMG in accordance with Australian Auditing Standards. The audit opinions issued to the members of Lovisa Pty Limited relating to those financial statements were unqualified.

For the purposes of preparing this report we have performed limited assurance procedures in relation to Pro Forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Historical Financial Information is not prepared or presented fairly, in all material respects, by the directors in accordance with the stated basis of preparation. As stated in section 4.2 of the Prospectus, the stated basis of preparation is:

- the extraction of historical financial information from the audited financial statements of Lovisa Pty Limited for the years ended 1 July 2012, 30 June 2013 and 29 June 2014 and unaudited financial information of Lovisa International Pte Limited (and its subsidiaries) for the period from 5 June 2013 to 30 June 2014 ("Historical Financial Information");

- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards and Lovisa Holdings's accounting policies, to the Historical Financial Information of Lovisa Holdings to illustrate the effects of the proposed restructure of the Lovisa Group and initial public offering on Lovisa Holdings described in sections 4.3, 4.4 and 4.5 of the Prospectus.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures we performed were based on our professional judgement and included:

Historical financial information

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the Historical Financial Information of the controlled entities within the Lovisa Group from the relevant audited financial statements of Lovisa Pty Limited for the years ended 1 July 2012, 30 June 2013 and 29 June 2014, and unaudited financial information of Lovisa International Pte Limited (and its subsidiaries) for the period from 5 June 2013 to 30 June 2014;

Pro forma adjustments:

- consideration of the pro forma adjustments described in the Prospectus;

- enquiry of directors, management, personnel and advisors;

- the performance of analytical procedures applied to the Pro Forma Historical Financial Information; and

- a review of accounting policies for consistency of application in the preparation of the pro forma adjustments.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information is prepared, in all material respects, by the directors in accordance with the stated basis of preparation.

Forecast Financial Information and directors' best-estimate assumptions

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the summarised pro forma and statutory forecast Statement of Profit or Loss and Other Comprehensive Income and summarised pro forma and statutory forecast Statement of Cash Flows of Lovisa Holdings (the responsible party) for the period ending 28 June 2015, as described in sections 4.3 and 4.4 of the Prospectus (the "Forecast Financial Information"). The directors' best-estimate assumptions underlying the Forecast Financial Information are described in section 4.7 of the Prospectus. As stated in section 4.2 of the Prospectus, the basis of preparation of the Directors' Forecast is the recognition and measurement principles contained in Australian Accounting Standards and Lovisa Holdings's accounting policies.

We have performed limited assurance procedures in relation to the Forecast Financial Information, set out in sections 4.3 and 4.4 of the Prospectus, and the directors' best-estimate assumptions underlying it in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions do not provide reasonable grounds for the Forecast Financial Information;
- in all material respects the Forecast Financial Information is not:
  - prepared on the basis of the directors' best-estimate assumptions as described in the Prospectus; and
  - presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards and Lovisa Holdings's accounting policies;
- the Forecast Financial Information itself is unreasonable.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted primarily of:

- comparison and analytical review procedures;
- discussions with management and directors of Lovisa Holdings of the factors considered in determining their assumptions; and
- examination, on a test basis, of evidence supporting:
  - the assumptions and amounts in the Forecast Financial Information; and
  - the evaluation of accounting policies used in the Forecast Financial Information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The directors of Lovisa Holdings are responsible for the preparation of:

- the Pro Forma Historical Financial Information, including the selection and determination of the pro forma transactions and/or adjustments made to the historical financial information and included in the Pro Forma Historical Information; and

- the Forecast Financial Information, including the directors' best-estimate assumptions on which the Forecast Financial Information is based and the sensitivity of the Forecast Financial Information to changes in key assumptions.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Review statement on the Pro Forma Historical Financial Information

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as set out in sections 4.3, 4.4 and 4.5 of the Prospectus, comprising:

- the pro forma historical Statements of Profit or Loss and Other Comprehensive Income of Lovisa Holdings for the years ended 1 July 2012, 30 June 2013 and 29 June 2014;

- the pro forma historical Statements of Cash Flows of Lovisa Holdings for the years ended 1 July 2012, 30 June 2013 and 29 June 2014; and

- the pro forma historical Statement of Financial Position of Lovisa Holdings as at 29 June 2014,

is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in sections 4.3, 4.4 and 4.5 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and Lovisa Holdings's accounting policies.

Forecast Financial Information and the directors' best-estimate assumptions

Based on our procedures, which are not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Forecast Financial information for the year ending 28 June 2015 do not provide reasonable grounds for the Forecast Financial Information; and

- in all material respects, the Forecast Financial Information:

  - is not prepared on the basis of the directors' best-estimate assumptions as described in section 4.7 of the Prospectus; and

  - is not presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards, and Lovisa Holdings's accounting policies; and

- the Forecast Financial Information itself is unreasonable.

The Forecast Financial Information has been prepared by Lovisa Holdings management and adopted and disclosed by the directors in order to provide prospective investors with a guide to the potential financial performance of Lovisa Holdings for the year ending 28 June 2015.

There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Forecast Financial Information is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Lovisa Holdings. Evidence may be available to support the directors' best-estimate assumptions on which the Forecast Financial Information is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in Lovisa Holdings, which are detailed in the Prospectus, and the inherent uncertainty relating to the Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in sections 4 and 5 of the Prospectus. The sensitivity analysis described in section 4.8 of the Prospectus demonstrates the impact on the Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of Lovisa Holdings, that all material information concerning the prospects and proposed operations of Lovisa Holdings has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed initial public offering, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of Lovisa Holdings and Lovisa Group entities and from time to time, KPMG also provides Lovisa Holdings with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

Yours sincerely

James Hindle
Authorised Representative

KPMG Transaction Services
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
Australian Financial Services Licence No. 246901
147 Collins Street
Melbourne Vic 3000

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Melbourne Vic 3001
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DX: 30824 Melbourne
www.kpmg.com.au

Financial Services Guide
Dated 21 November 2014

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (**'KPMG Transaction Services'**), and James Hindle as an authorised representative of KPMG Transaction Services, authorised representative number 404268 **(Authorised Representative)**.

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by Lovisa Holdings Limited (Client) to provide general financial product advice in the form of a Report to be included in Prospectus (Document) prepared by Client in relation to the initial public offering of shares in the Lovisa group of controlled entities (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services $0.3 million for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client for which professional fees are received. Over the past two years professional fees of $0.2 million have been received from the Client. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
10 Shelley St
Sydney NSW 2000
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

James Hindle
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

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8 ADDITIONAL INFORMATION

8 ADDITIONAL INFORMATION

8.1 INCORPORATION

The Company was incorporated in Victoria on 6 November 2014 as a public company.

8.2 COMPANY TAX STATUS

The Company will be taxed in Australia as a public company. The Australian corporate tax rate is assumed to remain at 30%.

8.3 THE RESTRUCTURE

The business of Lovisa is currently conducted by Lovisa Pty Limited and Lovisa International Pte. Ltd. As at the Prospectus Date, Lovisa Pty Limited is the parent entity of the Lovisa group of companies in Australia and Lovisa International Pte. Ltd. is the parent entity of the Lovisa group of companies located in countries other than Australia. As at the Prospectus Date, the Existing Shareholders hold shares in Lovisa Pty Limited and/or Lovisa International Pte. Ltd. (and not the Company).

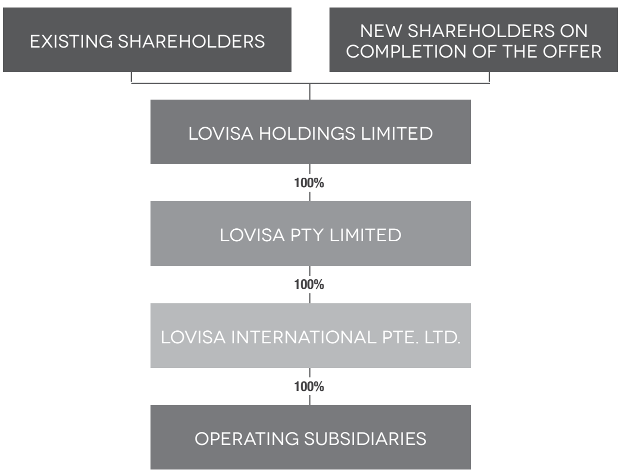
In connection with the Offer, Lovisa will undertake the Restructure under which:

1. Lovisa Pty Limited will acquire all the issued share capital of Lovisa International Pte. Ltd. in exchange for shares in Lovisa Pty Limited; and
2. the Company will acquire all the issued share capital of Lovisa Pty Limited. Lovisa Pty Limited shareholders will be offered cash or Shares (or a combination of the two) as consideration for the disposal of their Lovisa Pty Limited shares.

Completion of the Restructure will occur following the Issue of Shares under the Offer. The Restructure is scheduled to take effect on 18 December 2014. Following Completion of the Restructure, BB Retail Capital will retain an interest in the business of 41.15%, Director Shane Fallscheer (through an entity controlled by him) will retain an interest of 7.5% and Director Tracey Blundy (through an entity controlled by her) will retain an interest of 1.10%. Please see Section 6.3.3(d) and Section 9.4 for further details.

The corporate structure of the Lovisa group after Completion of the Restructure and other steps is contained in Section 8.4.

8.4 CORPORATE STRUCTURE ON COMPLETION OF THE RESTRUCTURE AND OTHER STEPS



8.5 CONSTITUTION AND RIGHTS ATTACHING TO SHARES

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the official list of the ASX.

8.5.1 RIGHTS ATTACHING TO SHARES

The rights attaching to the Shares are set out in the Constitution and are in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

The principal rights, liabilities and obligations of the Shareholders are summarised below.

8.5.2 VOTING

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (unless a Shareholder has appointed more than one proxy) and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

8.5.3 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.

8.5.4 ISSUE OF SHARES

The Board may (subject to the Constitution, the ASX Listing Rules and the Corporations Act) issue, allot or grant options for, or otherwise dispose of, Shares in the company on such terms as the Board decides.

8.5.5 VARIATION OF CLASS RIGHTS

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. Under that section, with the:

- consent in writing of the holders of at least 75% of the issued Shares in the particular class; or
- the sanction of a special resolution passed at a separate meeting of the holders of Shares in that class,

the rights attached to a class of Shares may be varied or cancelled, unless their terms of issue state otherwise.

8.5.6 TRANSFER OF SHARES

Subject to the Constitution and to any restrictions attached to a Shareholder's Shares, Shares may be transferred via a proper ASTC transfer (effected in accordance with the Corporations Regulations, ASX Listing Rules and the ASX Settlement Operating Rules) or via a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may refuse to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

8.5.7 GENERAL MEETING AND NOTICES

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. The Company must give at least 28 days written notice of a general meeting.

8.5.8 WINDING UP

Subject to the Constitution, the Corporations Act and any preferential rights attaching to any class or classes of Shares, Shareholders will be entitled in a winding up to a share in any surplus assets of the Company in proportion to the Shares held by them.

If the Company is wound up, the liquidator may with the sanction of a special resolution, divide the whole or part of the Company's property among Shareholders and decide how the division is to be carried out as between Shareholders or different classes of Shareholders.

8.5.9 NON MARKETABLE PARCELS

In accordance with the ASX Listing Rules, the Board may sell Shares which constitute less than a marketable parcel by following the procedures set out in the Constitution.

8.5.10 PROPORTIONAL TAKEOVER PROVISIONS

The Constitution requires Shareholder approval in relation to any proportional takeover bid. These provision will cease to apply unless they are renewed by Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

8.5.11 DIRECTORS – APPOINTMENT AND REMOVAL

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of six, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at annual general meetings of the Company.

No Director (excluding any Managing Director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint a Director in addition to the existing Directors or to fill a casual vacancy on the Board, and that Director (apart from the Managing Director) will then hold office until the conclusion of the next annual general meeting of the Company.

8.5.12 DIRECTORS – VOTING

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present at the meeting and entitled to vote on the matter. If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote, unless there are only two Directors present or entitled to vote (in which case the chairperson of the meeting does not have a second or casting vote and the proposed resolution is taken as lost).

8.5.13 DIRECTORS – REMUNERATION

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for his or her services as a Director. However, the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. The remuneration of a Director (who is not a Managing Director or an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue.

Directors may be paid for travel and other expenses incurred in attending to the Company's affairs, including attending and returning from meetings of Directors or committees or general meetings. Any Director who devotes special attention to the business of the Company or who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company.

Directors' remuneration is discussed in Section 6.3.3.

8.5.14 POWERS AND DUTIES OF DIRECTORS

The business and affairs of the Company are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within the Company's power and the powers that are not required by law or by the Constitution to be exercised by the Company in general meeting.

8.5.15 PREFERENCE SHARES

The Company may issue preference Shares including preference Shares which are, or at the option of the Company or holder are, liable to be redeemed or convertible to ordinary shares. The rights attaching to preference Shares are those set out in the Constitution unless other rights have been approved by special resolution of the Company.

8.5.16 OFFICER'S INDEMNITY

The Company, to the extent permitted by law, indemnifies each Director and executive officer of the Company on a full indemnity basis against all losses, liability, costs, charges and expenses incurred by that person as an officer of the Company or one of its related bodies.

The Company, to the extent permitted by law, may purchase and maintain insurance, or pay or agree to pay, a premium for insurance for each Director and executive officer of the Company against any liability incurred by that person as an officer of the Company or its related bodies corporate, including a liability for negligence or for reasonable costs and expenses incurred in defending or responding to proceedings (whether civil or criminal and whatever their outcome). The Company may enter into contracts with a Director or former Directors agreeing to provide continuing access to Board papers, books, records and documents of the Company which relate to the period during which the Director or former Director was a Director. The Company may procure that its subsidiaries provide similar access to board papers, books, records or documents.

8.5.17 AMENDMENT

The Constitution may be amended only by a special resolution passed by Shareholders.

8.5.18 SHARE CAPITAL

As at the date of this Prospectus, the only class of security on issue by the Company are fully paid ordinary Shares.

8.6 UNDERWRITING AGREEMENT

The Offer is being managed and underwritten by the Underwriters pursuant to an underwriting agreement dated 21 November 2014 between the Company and the Underwriters (**Underwriting Agreement**).

Under the Underwriting Agreement, the Underwriters have agreed to:

- underwrite the Offer on an exclusive basis;
- act as joint bookrunners and joint lead managers for, and arrange and lead manage, the Offer; and
- assist the Company in the conduct of the Offer.

8.6.1 FEES AND EXPENSES

Management and underwriting fee

In consideration of the Underwriters providing and performing the underwriting and other services under the Underwriting Agreement to the Company, the Company must pay a management and underwriting fee equal to 2.5% of the gross proceeds of the Offer.

Incentive fee

The Company may (at its discretion) pay an incentive fee of up to 0.5% of the gross proceeds of the Offer to the Underwriters based on the Company's consideration of certain agreed criteria.

Co-lead managers, co-managers and Broker fees

The Company has authorised the Underwriters to pay any commissions and fees due to the Brokers, any fees payable to the co-lead managers and any fees payable to the co-managers on behalf of the Company, by paying those fees out of the management and underwriting fees payable to the Underwriters at no additional cost to the Company.

Costs and expenses

The Company has also agreed to reimburse the Underwriters for all reasonable costs, expenses and disbursements incurred by the Underwriters in relation to the Offer.

8.6.2 REPRESENTATIONS AND WARRANTIES

The Underwriting Agreement contains representations, warranties and undertakings provided by Lovisa to the Underwriters.

The representations and warranties relate to matters such as:

- the nature and conduct of Lovisa, including its business, its status and power to enter into certain agreements, its compliance with constituent documents, applicable laws and the ASX Listing Rules;
- the accuracy and full disclosure of the information supplied by or on behalf of the Company to the Underwriters;
- the absence of proceedings involving Lovisa;
- the solvency of Lovisa; and
- the adequacy of Lovisa's insurance coverage.

The Company's undertakings include that is will not:

- for a period of 6 months after the day on which Shares are quoted on the Official List, without the prior written consent of the Underwriters, allot or issue or agree to allot any equity securities or any securities convertible or exchangeable for equity securities, except as contemplated in this Prospectus or under an employee share plan or option plan; or
- breach the Underwriting Agreement, its constituent documents, applicable laws or the ASX Listing Rules.

8.6.3 INDEMNITY

The Company agrees to keep the Underwriters, their officers, employees, agents and advisors indemnified from losses suffered in connection with the Offer, subject to customary exclusions (including fraud, wilful misconduct and negligence).

8.6.4 TERMINATION EVENTS

If any of the following events occurs at any time from the date of execution of the Underwriting Agreement to prior to 5:00pm on the date on which Shares are allotted under the Offer, any Underwriter may terminate the Underwriting Agreement:

- (**delay**) an event specified in the timetable of the Offer is delayed for more than 5 business days other than as a direct result of the actions of the Underwriters or where the Company takes action with the prior consent of the Underwriters;
- (**shortfall notice and certificate**) a shortfall notice or certificate is not furnished as required under the Underwriting Agreement or a statement in either of those documents is materially untrue or incorrect;
- (**repayment**) a circumstance arises where the Company repays any Application Monies or offers Applicants an opportunity to withdraw their Applications;
- (**ASX approval**) approval (or approval subject to customary conditions) by ASX for quotation of the Shares is refused, or is not granted before Settlement, or is withdrawn or qualified on or before the date on which a shortfall notice is required to be given;
- (**misleading statement in offer documents**) a statement contained in the pathfinder prospectus, Prospectus, any Application Form and any supplementary prospectus and any documents used for the marketing, roadshow presentation and/or ASX announcement(s) is materially misleading or deceptive, or there is a material omission from any such document;
- (**misleading statements generally**) any information supplied by or on behalf of the Company to the Underwriters in relation to Lovisa or the Offer is materially misleading or deceptive, or there is a material omission from it;
- (**corrective action**) there is, in the reasonable opinion of the Underwriters, the need to lodge a supplementary or replacement prospectus under section 719 of the Corporations Act and the Company fails to take that action to the reasonable satisfaction of the Underwriters;
- (**termination of material contracts**) a material contract (as described in Section 8 of this Prospectus) is terminated (whether by breach or otherwise), rescinded, altered or amended, without the prior consent of the Underwriters, or any such contract is found to be void, voidable or unenforceable;
- (**ASIC stop order, hearing or investigation**) ASIC:
  - » issues a stop order under section 739(1) or (3) of the Corporations Act;
  - » gives notice of intention to hold a hearing in relation to the Prospectus pursuant to section 739(2) of the Corporations Act;
  - » applies for an order under Part 9.5 of the Corporations Act in relation to the Prospectus or the Offer; or
  - » commences any investigation, examination or hearing or gathers information under Part 3 of the *Australian Securities and Investments Commission Act 2001* (Cth) in connection with the Prospectus or the Offer.
- (**notices concerning the Prospectus**) any person:
  - » gives a notice under sections 730 or 733(3) of the Corporations Act; or
  - » withdraws a consent previously given under section 720 of the Corporations Act, in relation to the Prospectus;
- (**unauthorised statement**) Lovisa issues a public statement concerning the Offer, which has not been approved by the Underwriters (such approval not to be unreasonably withheld);
- (**misrepresentation**) a representation or warranty made or given by the Company under the Underwriting Agreement

proves to have been untrue or incorrect in any material respect and the matters rendering the representation or warranty untrue in that respect are not remedied to the satisfaction of the Underwriters before the issue of the certificate under the Underwriting Agreement;

- (**breach**) the Company is in material breach or default of its obligations under the Underwriting Agreement and, if such breach or default is remediable, the Company has not remedied the breach or default to the satisfaction of the Underwriters within 3 business days of the Underwriters giving notice of the breach or default to the Company;
- (**prescribed occurrence**) an event specified in sub-section 652C(1) or sub-section 652C(2) of the Corporations Act occurs, as if the references to 'target' were references to 'the Company' in those sections;
- (**insolvency**) an insolvency event occurs in respect of Lovisa;
- (**change in control**) a change in control occurs in respect of Lovisa other than as a result of the Restructure;
- (**regulatory requirements**) Lovisa contravenes its constitution, the Corporations Act or any other applicable law, or the ASX Listing Rules or the ASX Operating Rules, and the contravention, if remediable, is not promptly and completely remedied to the reasonable satisfaction of the Underwriters;
- (**disqualification of officers**) a Director ceases to be a Director (other than due to their death or disablement) or is disqualified from managing a corporation, or a Director or other officer named in this Prospectus is charged with a criminal offence, or an offence which is punishable by imprisonment, in his or her capacity as an officer;
- (**proceedings**) material proceedings are commenced by a person other than the Underwriters against Lovisa or any Director in their capacity as a Director;
- (**regulatory action**) any government agency commences any public action against Lovisa or any of their officers or announces that it intends to take any such action and doesn't withdraw the action or notice of intended action within 3 business days;
- (**finance default**) an event of default or potential event of default occurs in any banking accommodation or financing facility of Lovisa;
- (**material adverse change**) an event occurs which causes a material adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of Lovisa from those disclosed in the Prospectus, or there is a change in the nature of the business of Lovisa from that disclosed in the Prospectus;
- (**new circumstance**) a new circumstance occurs in relation to Lovisa that would have been required to be included in the Prospectus if it had arisen before the Prospectus was lodged and is likely to have a material adverse effect on the Company or its ability to undertake its businesses;
- (**adverse publicity**) any adverse or negative publicity or findings of any kind against Lovisa or any of its officers which, in the Underwriters' reasonable opinion, is likely to have a material adverse effect on Lovisa, its reputation or its assets or liabilities, financial position or performance, profits or losses, or prospects;
- (**change in tax law**) any of the following occurs:
  - » any actual proposed or announced amendment, modification or replacement of the *Income Tax Assessment Act 1936* (Cth) or the *Income Tax Assessment Act 1997* (Cth) (**Tax Act**);
  - » any ruling or decision of a tribunal or court of competent jurisdiction; or
  - » any announcement by any of the Commissioners of Taxation or the Australian Taxation Office of, or any assessment or ruling from the Commissioner of Taxation disclosing, any change in the interpretation or administration of a Tax Act by the Commissioner of Taxation,

  which, in any such case, materially adversely affects or would be likely to materially adversely affect the tax position of Applicants solely in their capacity as a holder of Shares;
- (**hostilities**) there is an outbreak or escalation of hostilities in any part of the world, whether war has been declared or not, or an act or acts of terrorism, involving one or more of any one or more of Australia, the United States or United Kingdom, Indonesia, China, Japan, New Zealand, South Korea and any member country of the European Union;
- (**suspension of ASX trading**) there is a suspension or material limitation in trading in securities on ASX for more than 3 days on which that exchange is open for trading;
- (**banking moratorium**) a general moratorium on commercial banking activities in Indonesia, Australia, the United States or the United Kingdom is declared by the relevant central banking authority in any of those countries, or there is a material disruption in commercial banking or securities settlement or clearance services in any of those countries;
- (**disruption of markets**) any material adverse change or disruption to the existing financial markets, political or economic conditions of any of Indonesia, Australia, New Zealand, United Kingdom, Canada and United States, or to the international financial markets, or any change in national or international political, financial or economic conditions, the effect of which, in any such case, is to make it, in the reasonable opinion of the Underwriters, impracticable to market the Offer or to enforce contracts to issue the Shares offered under the Offer;
- (**interest rates**) the Reserve Bank of Australia makes any announcement proposing an imminent increase in interest rates for the issue of Australian Government or semi-government securities or the Reserve Bank of Australia increases effective interest rates available on those securities by more than 1.0% per annum above the rates being offered as at the close of trading on the last trading day before the date of the Underwriting Agreement;
- (**conviction of officers**) any officer of Lovisa is charged with or convicted of any criminal offence involving fraudulent or dishonest conduct;
- (**unapproved alteration of capital**) the Company alters, or announces an intention to alter, its capital structure or its constitution without the prior consent of the Underwriters (such consent not to be unreasonably withheld), which would, in the Underwriters' reasonable opinion, materially and adversely affect the Company or the Offer;
- (**unapproved security interests**) Lovisa grants a security interest (for example any mortgage, lien, charge and security interest as defined in the *Personal Property Securities Act 2009* (Cth)) in favour of any person who is not a security holder at the date of the Underwriting Agreement, which would, in the Underwriters' reasonable opinion, materially and adversely affect the Company or the Offer;
- (**due diligence report**) the due diligence report prepared in connection with the Offer is false or misleading in a material sense or there is a material omission from it;
- (**changes of law**) a government agency adopts or announces any change in any applicable law or governmental policies, which would, in the Underwriters reasonable opinion, materially and adversely affect Lovisa or the Offer;

- (**withdrawal of Prospectus**) the Company withdraws the Prospectus or has not lodged the Prospectus by 5:00pm on the Prospectus Date;
- (**significant change to management or board**) there is a significant change to the composition of the senior executives of the Company or of its Directors without the approval of the Underwriters (which approval may not be unreasonably withheld or delayed);
- (**movement in the All Ordinaries Index**) the All Ordinaries Index of ASX is at any time prior to allotment of the Shares 90% or less of the level that Index attained at the close of trading on the business day before the date of signing the Underwriting Agreement;
- (**ASIC application**) an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to the Prospectus, the deadline for the issuance of the shortfall notice under the Underwriting Agreement has arrived, and that application has not been dismissed or withdrawn; or
- (**authorisation**) any authorisation (for example, any licence, accreditation or approval), which is material to anything referred to in the Prospectus, is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriters (acting reasonably).

8.7 INTERESTS OF ASSOCIATED PARTIES

Other than as set out in this Prospectus, no person named in this Prospectus as providing professional or advisory services in connection with the preparation of this Prospectus or any firm in which any such person is a partner:

- has or had at any time during the two years preceding the date of the Prospectus, any interest in the formation or promotion of Lovisa, or in any property acquired or proposed to be acquired by Lovisa, or the Offer; or
- has been paid or agreed to be paid any amount or given or agreed to be given any other benefit for services rendered by them in connection with the formation or promotion of Lovisa or the Offer.

8.8 INTERESTS OF ADVISERS

The Company has engaged the following professional advisers:

KPMG Transaction Services has undertaken accounting and taxation due diligence in connection with the Offer. KPMG Transaction Services has also acted as the Investigating Accountant on the Financial Information in relation to the Offer, and has performed work in relation to its Investigating Accountant's Report in Section 7 on the Pro Forma Historical Financial Information and Forecast Financial Information. Lovisa has paid, or agreed to pay, approximately $0.3 million (excluding disbursements and GST) to KPMG Transaction Services for these services up to the date of this Prospectus. Further amounts may be paid to KPMG Transaction Services in accordance with its normal time-based charge out rates.

KPMG has acted as taxation adviser to the Company in connection with the Offer. Lovisa has paid or agreed to pay approximately $0.1 million (excluding disbursements and GST) for those services to the date of the Prospectus. Further amounts may be paid to KPMG in accordance with its normal time-based charge-out rates. KPMG takes no responsibility for any part of this Prospectus other than any reference to its name and the Investigating Accountant's Report.

KPMG is the auditor to Lovisa. They received fees of approximately $0.1 million (excluding disbursements and GST) with respect to the audit for the year ended 29 June 2014.

Herbert Smith Freehills has acted as Australian legal adviser to the Company in connection with the Offer (excluding in relation to taxation and stamp duty). Lovisa has paid or agreed to pay an amount of approximately $600,000 (excluding disbursements and GST) in respect of these services. Further amounts may be paid to Herbert Smith Freehills in accordance with time-based charges.

CIMB Capital Markets (Australia) Limited and Morgans Corporate Limited have acted as Underwriters and will receive a management fee and reimbursement of their costs and expenses as detailed in the summary of the Underwriting Agreement set out in Section 8.6.

8.9 COSTS OF THE OFFER

These amounts and other expenses of the Offer are expected to equal $4.4 million in total. This amount will be paid by Lovisa. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 9.3.

8.10 ESCROW ARRANGEMENTS

Both BB Retail Capital and Shane Fallscheer (through an entity controlled by him) have entered into voluntary escrow deeds with Lovisa in relation to all Shares they will hold (either directly or through controlled entities) on Completion of the Offer. Under the voluntary escrow deeds, BB Retail Capital and Shane Fallscheer agree, subject to certain limited exceptions, not to deal in those Shares from the date the voluntary escrow deeds are entered into and ending on the date of the release of Lovisa's full year results for FY15 (in about early September 2015). The Shares subject to these arrangements represent approximately 48.65% of the total Shares on issue following the Offer.

The escrow arrangements do not restrict the CEO and Managing Director and BB Retail Capital from accepting a successful takeover bid (being a takeover bid that is accepted by at least half of non-escrowed Shareholders) or transferring Shares under a scheme of arrangement.

8.11 AUSTRALIAN TAXATION IMPLICATIONS

The following comments are intended to provide a general summary of the Australian taxation implications that may arise for Australian resident Shareholders who acquire and hold the Shares in the Company on capital account for Australian income tax purposes (i.e. these comments do not apply to Shareholders who hold the shares on revenue account and non-Australian resident shareholders). They also do not apply to Shareholders that are companies, taxpayers that carry on a business of trading in shares or that are subject to the Taxation of Financial Arrangement rules contained in Division 230 of the Income Tax Assessment Act 1997.

As taxation laws are complex, the following comments are intended as a general guide to the Australian tax implications only. Shareholders should not rely on these comments as advice in relation to their own affairs but should consult their own tax adviser applicable to their own needs and circumstances.

The comments are based on the law and understanding of the practice of the tax authorities in Australia at the date of this document.

8.11.1 CAPITAL GAINS TAX IMPLICATIONS FOR AUSTRALIAN RESIDENT SHAREHOLDERS

Shareholders will derive a capital gain where the proceeds received on disposal of shares exceed the cost base of the Share for capital gains tax purposes. Any net capital gain (after recoupment of capital losses) is included in the Shareholder's assessable income. Similarly, a Shareholder will make a capital loss on the disposal of a Share where the disposal proceeds received are less than the reduced cost base of the Share for capital gains tax purposes. Capital losses can only be used to offset current year capital gains or carried forward to offset future capital gains. A capital gains discount may apply to reduce the amount of net capital gains that might otherwise be included in a Shareholder's assessable income.

For Shareholders that are individuals and trustees (other than trustees of complying superannuation funds) a 50% capital gains tax discount is available if the Shares are held for at least 12 months. This concession will result in only 50% of the capital gain (after recoupment of capital losses) being assessable. For complying superannuation funds a $33^{1}/_{3}$% capital gains discount is available if the Shares are held for at least 12 months. This concession will result in only $66^{2}/_{3}$% of the capital gain (after recoupment of capital losses) being assessable.

8.11.2 INCOME TAX TREATMENT OF DIVIDENDS RECEIVED BY AUSTRALIAN SHAREHOLDERS

Broadly, dividends paid on Shares may be "franked" or "unfranked". Franked dividends have franking credits attached. These credits represent underlying Australian corporate tax that has been paid on the profits distributed. To the extent a dividend is "unfranked" no franking credits are attached. Australian resident Shareholders will include dividends together with any attached franking credits in their assessable income. A tax offset will be allowed equal to the amount of franking credits attached to the dividend.

Generally, to be eligible for the franking credit and tax offset, Shareholders must have held the Shares at risk for at least 45 days. In addition, a Shareholder must not be obliged to make a "related payment" in respect of any dividend, unless they hold the Shares at risk for the required holding period around all dividend dates.

Where the tax offset exceeds the tax payable on the Shareholder's taxable income, the Shareholder may be entitled to a tax refund.

8.11.3 GOODS AND SERVICES TAX IMPLICATIONS

No GST should be payable by Shareholders in respect of the acquisition or disposal of their Shares in the Company.

The extent to which each Shareholder is entitled to recover any GST incurred on costs relating to the acquisition or disposal of Shares in the company will depend on the individual circumstances of each Shareholder.

No GST should be payable by Shareholders on receiving dividends distributed by the Company.

8.11.4 STAMP DUTY

No Australian stamp duty should be payable by Shareholders in respect of their investment in Shares. Individual shareholders should obtain their own independent advice depending on their individual circumstances.

8.12 LITIGATION

So far as the Directors are aware, there are no current or threatened legal proceedings or disputes which are likely to have a material adverse impact on the business or financial position of Lovisa.

8.13 CONSENTS

Each of the parties identified below:

- has given, and has not, before the issue of this Prospectus, withdrawn their written consent to being named in the Prospectus and to the inclusion of the following information in the form and context in which it is included;
- has not made any statement in the Prospectus or any statement on which a statement in the Prospectus is based, other than as specified below; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than the reference to its name in the form and context in which it is included and any statement or report included in this Prospectus with the consent of that party as described below:
  - Herbert Smith Freehills as Australian legal adviser to the Company in connection with the Offer (excluding in relation to taxation and stamp duty);
  - KPMG Transaction Services as Investigating Accountants, and to the inclusion of its Investigating Accountant's Report on the Pro Forma Historical Financial Information and Forecast Financial Information in Section 7 of the Prospectus;
  - KPMG as auditor to Lovisa and taxation advisor to the Company;
  - CIMB Capital Markets (Australia) Limited and Morgans Corporate Limited as Underwriters; and
  - Link Market Services Limited as the Share Registry.

8.14 OWNERSHIP RESTRICTIONS

The sale and purchase of Shares is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone, or in combination with others). This Section 8.14 contains a general description of these laws.

Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict the acquisition of shares in listed companies (and unlisted companies with more than 50 members), if the acquirer's voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the Company.

Foreign Acquisitions and Takeovers Act 1975

Generally, the Foreign Acquisitions and Takeovers Act applies to acquisitions of shares and voting power in a company of 15% or more by a single foreign person and its associates (substantial interest), or 40% or more by two or more unassociated foreign persons and their associates (aggregate substantial interest). Where an acquisition of a substantial interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Australian Federal Government's Foreign Investment Policy or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a substantial interest or an aggregate substantial interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

8.15 FOREIGN SELLING RESTRICTIONS

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia. In particular, the Shares have not been, and will not be, registered under the US Securities Act, and may not be offered or sold in the United States of America. The Prospectus may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction. This Offer does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an Offer or issue this Prospectus.

8.16 PRIVACY

If you apply for Shares, you will provide personal information to the Company and the Share Registry. The Company and the Share Registry collect, hold and use your personal information in order to assess your Application, service your needs as an investor, provide facilities and services that you request and carry out appropriate administration. Corporations and tax laws require some of the information to be collected. If you do not provide the information requested, your Application may not be able to be processed efficiently, or at all. The Company and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including those listed below or as otherwise authorised under the Privacy Act 1988 (Cth):

- the Underwriters in order to assess your Application;
- the Share Registry for on-going administration of the register; and
- the printers and the mailing house for the purposes of preparation and distribution of holding statements and for handling of mail.

Under the Privacy Act 1988 (Cth), you may request access to your personal information held by or on behalf of the Company or the Share Registry. You can request access to your personal information by telephoning the Offer Information Line or writing to the Company through the Share Registry.

8.17 ASIC/ASX RELIEF

8.17.1 ASIC EXEMPTION AND RELIEF

The Company has applied to ASIC for a declaration modifying Chapter 6 of the Corporations Act so that the Company does not have a relevant interest in its own Shares by virtue of entering into the voluntary escrow deeds described in Section 8.10.

8.17.2 ASX WAIVERS

The Company has applied to ASX for a waiver from the requirement in ASX Listing Rule 10.14 to obtain Shareholder approval in respect of the issue of Options to the CEO, which are issued under the long term incentive plan described in Section 6.3.2.

8.18 EXPOSURE PERIOD

This Prospectus will be made generally available to Australian residents without the Application Form, during the Exposure Period by being posted on the Company's internet site at http://investors.lovisa.com.au/prospectus/. The purpose of the Exposure Period is to enable examination of the Prospectus by market participants prior to the raising of funds. Applications under this Prospectus received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on Applications received during the Exposure Period.

8.19 APPLICATIONS

Applications may only be made on a printed copy of the Application Form attached to or accompanying this Prospectus. The Corporations Act prohibits any person from passing an Application Form to any other person unless it is attached to, or accompanied by a hard copy of the Prospectus or a complete and unaltered electronic copy of the Prospectus.

8.20 ELECTRONIC PROSPECTUS

The Offer of Shares in the Company constituted by this Prospectus is available electronically only to Australian residents downloading and printing the electronic version of the Prospectus within Australia. Australian investors may view the Prospectus online at http://investors.lovisa.com.au/prospectus/. The Offer constituted by this Prospectus in electronic form is not available to investors in any other jurisdiction. If you receive the electronic version of this Prospectus, then you should ensure you download and read the entire Prospectus. A paper copy of this Prospectus will be provided free of charge to any person in Australia who requests a copy by contacting the Offer Information Line. If you apply using the Application Form attached to the electronic version of this Prospectus, then you must be located in Australia. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to or accompanying either a paper copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

8.21 GOVERNING LAW

This Prospectus and the contracts that arise from the acceptance of the Applications and bids are governed by the law applicable in Victoria, and each Applicant for Shares under this Prospectus submits to the exclusive jurisdiction of the courts of Victoria.

8.22 AUTHORISATION

Each Director of the Company has authorised the issue of this Prospectus and has consented to the lodgement of this Prospectus with ASIC in accordance with section 720 of the Corporations Act.

9 DETAILS OF THE OFFER

9 DETAILS OF THE OFFER

9.1 DESCRIPTION OF THE OFFER

This Prospectus relates to an initial public offering of up to 51,037,035 Shares for issue by the Company at an Offer Price of $2.00 per Share. The total number of shares on issue on Completion of the Offer will be 105,000,000. All Shares will rank equally with each other.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

The Offer comprises:

- the Broker Firm Offer, which is open to Australian resident retail clients of Brokers who have received a firm allocation from their Broker; and
- the Institutional Offer, which consists of an invitation to bid for Shares made to Institutional Investors in Australia, New Zealand, Hong Kong and Singapore.

9.2 PURPOSE OF THE OFFER

The purpose of the Offer is to:

- achieve a listing on the ASX to broaden Lovisa's shareholder base and provide a liquid market for its Shares;
- improve Lovisa's future access to capital markets; and
- provide an opportunity for certain Existing Shareholders to realise part of their investment.

Lovisa expects to recognise a number of additional benefits as an ASX listed company, including:

- improved credibility in dealings with international suppliers and landlords, which is expected to aid its continued international growth strategy;
- increased corporate and public profile, which is expected to help grow the Lovisa brand; and
- enhanced ability to attract quality management and leadership in the future.

9.3 SOURCE AND USES OF FUNDS

The Offer is expected to raise up to $102,074,070. Proceeds received by the Company will be used to acquire Lovisa Pty Limited shares from BB Retail Capital and Centerville Pty Ltd.

Sources	$	%	Uses	$	%
Offer proceeds received by the Company for the issue of Shares	102,074,070	48.6	Purchase equity of certain Lovisa Holdings Pty Limited shareholders	102,074,070	48.6

9.4 SHAREHOLDING STRUCTURE

The ownership structure of Lovisa before and after the Completion of the Offer is shown by the following:

Shares	Ownership of the Company immediately prior to the Offer, assuming Completion of the Restructure	Ownership of the Company following Completion of the Offer	
	Percentage	Quantity	Percentage
BB Retail Capital	82.26%	43,207,500	41.15%
Shane Fallscheer	15.00%	7,875,000	7.50%
Tracey Blundy	1.10%	1,153,005	1.10%
Vanessa Speer	1.65%	1,727,460	1.65%
Investors in the Offer		51,037,035	48.61%
Total	100%	105,000,000	100%

On Completion of the Offer, BB Retail Capital will hold approximately $86,415,000 worth of Shares which equates to 41.15% of the Company's total issued share capital. BB Retail Capital will receive those Shares in exchange for some of its existing Lovisa Pty Limited shares under the Restructure.

On Completion of the Offer, Shane Fallscheer will, through a controlled entity, hold approximately $15,750,000 worth of Shares which equates to 7.5% of the Company's total issued share capital. Shane Fallscheer will receive those Shares in exchange for some of his existing Lovisa Pty Limited shares under the Restructure.

9.5 HOW TO APPLY

Applications for Shares can only be made by completing and submitting the Application Form attached to or accompanying this Prospectus in its paper copy form or downloaded in its entirety from http://investors.lovisa.com.au/prospectus/. Instructions on how to apply for Shares are printed on the reverse side of the Application Form. The Application Form must not be circulated unless accompanied by a copy of this Prospectus. The minimum subscription is for 1,000 Shares representing $2,000.

Applications for Shares must be accompanied by Application Monies in full. Complete a paper copy of the Application Form (the Company will not accept Application Forms electronically) and send it, with Application Monies in AUD, by the Closing Date to:

Post
Morgans Corporate Limited
GPO Box 202
Brisbane QLD 4001

Delivery
Morgans Corporate Limited
Level 29, Riverside Centre
123 Eagle Street
Brisbane QLD 4000

Cheques should be made payable to “Lovisa Share Offer” and crossed “not negotiable”. If you have received a firm allocation of Shares from your Broker, please follow the instructions set out in Section 9.7.

Applicants with questions on how to complete the Application Form, or who require additional copies of this Prospectus, can contact Morgans Corporate Limited on 1800 777 946, contact the Offer Information Line on 1800 622 202 (toll free within Australia) or +61 1800 622 202 (outside Australia) between 8:30am to 5:30pm (AEST) Monday to Friday or visit the website http://investors.lovisa.com.au/prospectus/ to download a copy of the Prospectus.

9.6 ALLOCATION POLICY

The allocation of Shares:

- between the Institutional Offer and the Broker Firm Offer; and
- to participants within the Institutional Offer,

was determined by the Underwriters and the Company, having regard to the following factors:

- desire to foster a stable, long-term Share register;
- desire for a liquid and informed trading market for the Shares;
- overall level of demand for Shares under the Offer; and
- any other factors that the Underwriters and the Company consider appropriate.

There is no assurance that any person will be allocated any Shares or the number of Shares for which they apply. It is intended that all Shares will be allocated via the Broker Firm and Institutional Offer. Where no allocation and issue is made to a particular Applicant or the number of Shares allocated and issued is less than the number applied for by an Applicant, surplus Application Monies will be returned to that Applicant (without interest) in accordance with the Corporations Act. Successful Applicants will be notified in writing of the number of Shares allocated to them as soon as possible after the Closing Date. It is the responsibility of Applicants to confirm the number of Shares allocated to them prior to trading in Shares. Applicants who sell Shares before they receive notice of the Shares to be allocated and issued to them do so at their own risk. If the Company’s application for admission to ASX is denied, or for any reason this Offer does not proceed, all Application Monies will be refunded in full (without interest) in accordance with the Corporations Act.

The following Directors (directly or indirectly) intend to apply for Shares as follows:

- Paul Cave as to 1,000,000 Shares; and
- David Carter as to 50,000 Shares.

9.7 BROKER FIRM OFFER

If you have received a ‘firm’ allocation of Shares from your Broker, your application and payment procedures will differ in two important respects from those described above:

- your application cheque must be made payable to the Broker (not to ‘Lovisa Share Offer’); and
- your completed Application Form and cheque must be delivered to the Broker directly (not to the Share Registry).

Applicants who receive a firm allocation of Shares must lodge their Application Form and Application Monies with the relevant Broker in accordance with the relevant Broker’s directions in order to receive their firm allocation. Your Broker will act as your agent in submitting your Application Form.

The Company, the Share Registry and Underwriters take no responsibility for any acts or omissions by your Broker in connection with your Application, Application Form or Application Monies.

If you have a firm allocation of Shares and are in any doubt about what action to take, you should immediately contact the Broker who has made you the firm offer.

9.8 INSTITUTIONAL OFFER

The Institutional Offer consists of an invitation prior to or after the Prospectus date to certain Institutional Investors in Australia, New Zealand, Singapore and Hong Kong to apply for Shares under this Prospectus. Application procedures for Institutional Investors have been, or will be, advised to the Institutional Investors by the Underwriters.

9.9 MANAGEMENT AND UNDERWRITING OF THE OFFER

The Offer is being managed by CIMB Capital Markets (Australia) Limited and Morgans Corporate Limited as Underwriters under the Underwriting Agreement. The Company and the Underwriters have entered into the Underwriting Agreement. Details of the Underwriting Agreement, including the termination provisions and the fees payable, are set out in Section 8.6.

9.10 BROKERAGE, COMMISSION AND STAMP DUTY

You do not have to pay brokerage, commission or stamp duty if you acquire Shares under the Offer. Various fees are payable by Lovisa in relation to the Offer to the Underwriters and certain advisers which are set out in Section 8.8.

9.11 VALIDITY OF APPLICATION FORMS

An Application Form may only be distributed with, attached to or accompany a complete and unaltered copy of this Prospectus. By completing and lodging an Application Form received with this Prospectus, the Applicant represents and warrants that the Applicant has personally received a complete and unaltered copy of this Prospectus prior to completing the Application Form.

The Company will not accept a completed Application Form if it has reason to believe the Applicant has not received a complete copy of the Prospectus or it has reason to believe that the Application Form has been altered or tampered with in any way. An Application Form is an irrevocable acceptance of the Offer.

9.12 ASX LISTING

The Company will, within seven days after the date of this Prospectus, apply for admission to the official list of ASX and for official quotation on ASX. The Company's ASX code is expected to be LOV.

The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

If permission is not granted for the official quotation of the Shares on the ASX within three months after the Prospectus Date (or any later date permitted by law), all Application Monies received by the Company will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by it from time to time.

9.13 CHESS AND HOLDING STATEMENTS

The Company intends to apply to participate in CHESS. In accordance with the ASX Listing Rules and the ASX Settlement Operating Rules, it will maintain an electronic issuer sponsored sub-register and an electronic CHESS sub-register.

If you are issued Shares, then you will be sent an initial statement of holding. It will set out the number of Shares that have been allocated to you in the Offer, and details of your HIN in the case of a holding on the CHESS sub-register, or SRN in the case of a holding on the issuer sponsored sub-register. You will need to quote your HIN or SRN, as appropriate, in all dealings with a stockbroker or the Share Registry.

Shareholders will receive holding statements during the first week of the month after any month in which there has been a change to their holding on the Register and as otherwise required under the ASX Listing Rules and the Corporations Act.

9.14 DEFERRED TRADING

It is expected that trading of the Shares on the ASX (on a deferred basis) will commence on or about 18 December 2014.

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If Shares are sold before receiving a holding statement, successful Applicants do so at their own risk. The Company, the Share Registry and the Underwriters disclaim all liability, whether in negligence or otherwise, if a Shareholder sells Shares before receiving a holding statement, even if the Shareholder obtained details of their holding from the Offer Information Line or confirmed their firm allocation through a Broker.

Shares are expected to commence trading on the ASX on a normal settlement basis on 23 December 2014.

9.15 WITHDRAWAL

The Company reserves the right to withdraw the Offer at any time before the issue of Shares to successful Applicants. If the Offer is withdrawn, then Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer or otherwise. The Company will retain any interest which accrues on Application Monies.

9.16 QUESTIONS/FURTHER INFORMATION

If you have queries in relation to this Prospectus, including how to complete the Application Form or how to obtain additional copies, then you can:

- contact Morgans Corporate Limited the Underwriter on 1800 777 946;
- contact Link Market Services Limited, the Share Registry, on the Offer Information Line – 1800 622 202 or +61 1800 622 202 from outside Australia. Call Centre operation hours are: 8.30am to 5.30pm Monday to Friday; or
- visit http://investors.lovisa.com.au/prospectus/ to download an electronic copy of this Prospectus.

If you are unclear in relation to any matter or are uncertain as to whether the Company is a suitable investment for you, then you should seek professional advice from your stockbroker, accountant, financial adviser, lawyer or other professional adviser.

10 SIGNIFICANT ACCOUNTING POLICIES

10 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently by Lovisa in the financial year periods disclosed in this Prospectus.

10.1 BASIS OF PREPARATION

10.1.1 STATEMENT OF COMPLIANCE

The consolidated financial information has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB). Although it is presented in an abbreviated form insofar as it does not include all the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

10.1.2 BASIS OF MEASUREMENT

The consolidated financial information has been prepared on a historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss, and available for sale financial assets which are measured at fair value.

Non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

10.1.3 FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial information is presented in Australian dollars which is the Company's functional currency and the functional currency of the majority of Lovisa.

10.1.4 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial information requires management to make 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

10.2 BASIS OF CONSOLIDATION

10.2.1 SUBSIDIARIES

Subsidiaries are entities controlled by Lovisa. Control exists when Lovisa has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, Lovisa takes into consideration potential voting rights that are currently exercisable.

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 Lovisa.

10.2.2 TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealised income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

10.3 FOREIGN CURRENCY

10.3.1 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. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

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 on 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.

10.3.2 FOREIGN OPERATIONS

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, 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 translation reserve in 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.

10.4 PROPERTY, PLANT AND EQUIPMENT

10.4.1 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.

10.4.2 SUBSEQUENT COSTS

The entity 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 income statement as an expense as incurred.

10.4.3 DEPRECIATION

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 estimated useful lives are as follows:

- Leasehold improvements: Life of lease
- Hardware and Software: 3 years
- Furniture and Fittings: 3 years

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

10.5 FINANCIAL INSTRUMENTS

10.5.1 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Lovisa holds derivative financial instruments to hedge its foreign currency risk exposures.

Derivatives 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, derivatives are measured at fair value, and changes therein are generally recognised in 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.

10.6 TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their amortised cost less impairment losses.

10.7 INVENTORIES

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.

10.8 CASH AND CASH EQUIVALENTS

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.

10.9 IMPAIRMENT

The carrying amounts of the entity's non-financial assets, other than inventories and deferred tax assets, 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.

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.

10.9.1 CALCULATION OF RECOVERABLE AMOUNT

The recoverable amount of the entity'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). Receivables with a short duration are not discounted.

Significant receivables are individually assessed for impairment. Impairment testing of receivables that are not assessed individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets or cash-generating units 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.

In respect of other assets, impairment losses recognised in prior periods 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.

10.10 LEASES

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.

10.10.1 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 is being offset against lease rental expense on a straight line basis over the lease terms (generally five years).

10.11 CONTRIBUTED EQUITY

Initially, share capital is recognised at the fair value of the consideration received by Lovisa. Where shares are issued in conjunction with a business combination involving the acquisition of an entity under common control, the amount of share capital recognised by Lovisa is equal to the amount previously recorded in share capital of the acquired entity.

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

10.12 EMPLOYEE BENEFITS

10.12.1 LONG-TERM SERVICE BENEFITS

The entity'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 the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the entity's obligations.

10.12.2 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 entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

10.13 PROVISIONS

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.

10.13.1 SITE RESTORATION PROVISION

In accordance with the entity's legal requirements, a provision for site restoration in respect of make good of leased premises is recognised when the premises are occupied.

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.

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.

10.14 TRADE AND OTHER PAYABLES

Liabilities for trade creditors 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.

10.15 REVENUE RECOGNITION

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.

10.15.1 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.

10.16 EXPENSES

10.16.1 NET FINANCING INCOME/COSTS

Interest income is recognised in the income statement as it accrues, using the effective interest method.

10.17 INCOME TAX

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement 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: changes to the valuation of the put option, 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.

10.18 DETERMINATION OF FAIR VALUES

A number of Lovisa'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.

10.18.1 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).

10.18.2 NON-DERIVATIVE FINANCIAL LIABILITIES

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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11 GLOSSARY

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Applicant	A person who submits an Application
Application	Application made to apply for Shares under the Offer
Application Form	The relevant form attached to or accompanying this Prospectus pursuant to which Applicants apply for Shares
Application Monies	The amount in AUD accompanying an Application Form submitted by an Applicant
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or the financial market operated by it, as the context requires
ASX Listing Rules	The official listing rules of ASX
ASX Recommendations	The third edition of the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council
ASX Settlement Operating Rules	The rules of ASX Settlement Pty Limited (ACN 008 504 532)
AUD, $	Australian dollars
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Group interpretations
BB Retail Capital and BB Retail Capital Group	BB Retail Capital Pty Limited (ACN 006 175 033) and its affiliates
Board	The board of Directors of the Company
Broker	Any ASX participating organisation selected by the Underwriters to participate in the Broker Firm Offer
Broker Firm Offer	The invitation to apply for Shares made under this Prospectus to Australian resident clients of Brokers who have received an invitation to participate from their Broker
CEO	Chief Executive Officer and Managing Director
CFO	Chief Financial Officer
CHESS	Clearing House Electronic Sub-register System operated in accordance with the Corporations Act
Centerville Pty Ltd	Centerville Pty Ltd (ACN 074 611 493) as trustee for The Fallscheer Family Trust
Closing Date	The date on which the Offer is expected to close, being Tuesday 16 December 2014 in respect of the Broker Firm Offer and Institutional Offer. This date may be varied without prior notice.
Coloskye Pty Limited	Coloskye Pty Limited (ACN 080 214 099)
Company	Lovisa Holdings Limited (ACN 602 304 503)
Completion of the Offer	Completion of the Restructure and the issue of Shares under this Prospectus
Constitution	The constitution of the Company
Corporations Act	*Corporations Act 2001* (Cth)
CY	Calendar year ending 31 December each year
Director	A member of the Board
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Equity Incentive Plan	The equity incentive plan described in section 6.3.2
EPS	Earnings per share
Escrow Period	The period commencing on the date the voluntary escrow deeds are entered into and ending on the date the Company releases its financial results for FY2015 to the ASX
Escrowed Shareholders	BB Retail Capital and Shane Fallscheer (through an entity controlled by him)
Escrowed Shares	The Shares held by the Escrowed Shareholders at Completion of the Offer
Existing Shareholders	A Lovisa International Pte. Ltd. Existing Shareholder and/or a Lovisa Pty Limited Existing Shareholder as at the Prospectus Date

Expiry Date	21 December 2015, being the date which is 13 months after the Prospectus Date, after which no Shares will be issued under this Prospectus
Exposure Period	The period specified in section 727(3) of the Corporations Act, being seven days from the Prospectus Date, which may be extended by ASIC by a further seven days, during which an Application must not be accepted
Financial Information	Has the meaning given in Section 4
Forecast Financial Information	Has the meaning given in Section 4
FY	Financial year ending 30 June each year
GST	Goods and services or similar tax imposed in Australia
HIN	Holder Identification Number
IFRS	International Financial Reporting Standards
Institutional Investors	An investor to whom offers or invitations of Shares can be made without the need for a lodged prospectus, including in Australia persons to whom offers or invitations of Shares can be made without the need for a lodged prospectus under Section 708 of the Corporations Act
Institutional Offer	The invitation to bid for Shares made to Institutional Investors under this Prospectus set out in Section 9.8
Investigating Accountant	KPMG Transaction Services
Investigating Accountant's Report	The Investigating Accountant's report set out in Section 7
IPO	The initial public offering of Shares in the Company
IT	Information technology
KPMG Transaction Services	KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Limited (ABN 43 007 363 215)
KPMG	KPMG (ABN 51 194 660 183)
LFL or "Like for Like"	Like for like. LFL growth represents a comparable measurement of the sales for a store, compared to the sales for that store in the previous comparable period, subject to the store having traded for at least 12 months.
Listing	The admission of the Company to the official list of the ASX
LOV	Expected ASX code of Lovisa
Lovisa	Means: • before Completion of the Restructure, Lovisa Pty Limited and Lovisa International Pte. Ltd. and their controlled entities, and the business carried on by them; and • after Completion of the Restructure, the Company and its controlled entities and the business carried on by them
Lovisa International Pte. Ltd. Existing Shareholder	BBRC International Pte. Ltd. (a BB Retail Capital company), Director Shane Fallscheer (through an entity controlled by him), Director Tracey Blundy (through an entity controlled by her) and Vanessa Speer
Lovisa Pty Limited Existing Shareholder	BB Retail Capital Pty Limited, Director Shane Fallscheer (through an entity controlled by him), Director Tracey Blundy (through an entity controlled by her) and Vanessa Speer
LTI	Long term incentive
Minority Shareholders	Director Tracey Blundy (through an entity controlled by her) and Vanessa Speer
NPAT	Net profit after tax
Offer	The invitation under this Prospectus to apply for Shares to be issued by the Company and includes the Institutional Offer and Broker Firm Offer
Offer Information Line	(within Australia) 1800 622 202 (outside Australia) +61 1800 622 202
Offer Price	$2.00 per Share
Official List	The official list of ASX
Pro Forma Historical Statement of Financial Position	Has the meaning given in Section 4

Pro Forma Historical Financial Information	Has the meaning given in Section 4
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document
Prospectus Date	The date on which a copy of the Prospectus was lodged with ASIC being 21 November 2014
Restructure	The restructure described in section 8.3
Settlement	Settlement in respect of the Shares the subject of the Offer, which is expected to occur on Wednesday, 17 December 2014
Share	A fully paid ordinary share in the Company
Shareholder	The registered holder of a Share
Share Registry	Link Market Services Limited (ACN 083 214 537)
SRN	Securityholder Reference Number
STI	Short term incentive
TFN	Tax file number
Underwriters	CIMB Capital Markets (Australia) Limited (ACN 000 757 111) and Morgans Corporate Limited (ACN 010 539 607) who have been appointed by the Company to act as joint lead manager, joint bookrunner and underwriter pursuant to the terms of the Underwriting Agreement
Underwriting Agreement	The underwriting agreement summarised in Section 8.6
US Securities Act	The United States Securities Act of 1933, as amended
USD, $	United States dollars
YTD	The period from 30 June 2014 to 31 October 2014

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CORPORATE DIRECTORY

Directors

David Carter (Non-Executive Chairman)
Tracey Blundy (Non-Executive Director)
Shane Fallscheer (CEO and Managing Director)
Paul Cave (Non-Executive Director)

Company Secretary

Iain Sadler

Registered Office

41-45 Camberwell Road
Hawthorn East VIC 3123

Underwriters

CIMB Capital Markets (Australia) Limited
Level 29, 88 Phillip Street
Sydney NSW 2000

Morgans Corporate Limited
Level 29, 123 Eagle Street
Brisbane QLD 4000

Website

Corporate site
http://investors.lovisa.com.au

Retail site
www.lovisa.com.au

Auditor

KPMG
147 Collins Street
Melbourne VIC 3000

Investigating Accountant

KPMG Transaction Services, a division of KPMG Financial Advisory Services (Australia) Pty Limited
147 Collins Street
Melbourne VIC 3000

Share Registry

Link Market Services Limited
Level 12 680 George Street
Sydney NSW 2000

Legal Adviser

Herbert Smith Freehills
Level 42, 101 Collins Street
Melbourne VIC 3000