

Lovisa Pty Ltd
and its controlled entities

ACN 120 675 890

Annual Report

1 July 2012

Lovisa Pty Limited and its controlled entities

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Directors' Report

The Directors present their report together with the financial report of the consolidated entity, being Lovisa Pty Ltd ("the Company") and its consolidated entities, for the 52 week period ended 1 July 2012.

DIRECTORS AND COMPANY SECRETARY

The names of the Director and Company Secretary in office during the financial period and until the date of this report are as follows. Directors and Company Secretary were in office for the entire period unless otherwise stated.

Mr Shane Fallscheer – CEO, Executive Director. Appointed Director 3 March 2010.

Mr Iain Sadler – CFO, Company Secretary. Appointed Company Secretary on 30 November 2010.

CORPORATE STRUCTURE

Lovisa Pty Limited is a company limited by shares, incorporated and domiciled in Australia.

PRINCIPAL ACTIVITIES

The principal activity of the Company and consolidated entity during the financial period was the retail sale of fashion cosmetic jewellery and accessories.

REVIEW AND RESULTS OF OPERATIONS

The loss after tax for the 52 week period ended 1 July 2012 was \$4,994,509 (2011: \$1,910,626). This result includes an expense of \$11,388,130 in relation to the provision for future share buy-backs by Lovisa Pty Ltd.

The business has 60 retail stores in operation.

DIVIDENDS

There were no dividends paid or declared by the Company during the financial year

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the business during the financial period under review.

EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations, or the state of affairs of the Company in future periods.

LIKELY DEVELOPMENTS

The consolidated entity expects growth in sales and profit in the business. More stores are expected to be opened in the 2013 financial year.

Further information about likely developments in the operations of the Company and the expected results of these operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Directors' Report

ENVIRONMENTAL REGULATION

The consolidated entity's operations are not subject to any significant environmental regulations. However, the board believes that the consolidated entity has adequate systems in place for the management of its environmental management requirements and is not aware of any breach of these environmental requirements as they apply to the consolidated entity.

INDEMNIFICATION

The Company has not, during or since the financial year, indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Company.

INSURANCE OF DIRECTORS

No insurance premiums have been paid during the financial year by the Company in respect of the director's and officers' liability and legal expenses insurance contracts for the year ended 1 July 2012.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the financial year ended 1 July 2012.

REGISTERED PLACE OF BUSINESS

41-45 Camberwell Road, Hawthorn East, VIC 3123, Australia

Signed in accordance with a resolution of the directors.



Shane Fallscheer
Director

Melbourne,
17 December 2012



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

To: the directors of Lovisa Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 1 July 2012 there have been:

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

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne

17 December 2012

Consolidated Statement of Comprehensive Income

For the 52 week period ended 1 July 2012			
	Notes	2012 \$	2011 \$
Revenues	2	39,789,296	25,450,270
Cost of goods sold		(11,725,467)	(8,503,942)
Salaries and employee benefits expense		(11,955,331)	(9,124,908)
Property expenses	3	(6,895,059)	(5,001,854)
Depreciation and amortisation expense	4	(1,881,425)	(1,698,118)
Loss on disposal		(196,454)	-
Other expenses		(809,787)	(3,047,390)
Change in value of put option liability		(11,388,130)	-
Results before financing costs		(5,062,357)	(1,925,942)
Finance income	5	70,520	24,993
Finance costs	5	(2,672)	(9,677)
Net financing income		67,848	15,316
Loss before income tax		(4,994,510)	(1,910,626)
Income tax expense		-	-
Loss for the period		(4,994,510)	(1,910,626)
Other comprehensive income		-	-
Total comprehensive profit/(loss) for period		(4,994,510)	(1,910,626)

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 10 to 24.

Consolidated Statement of Changes in Equity

For the financial year ended 1 July 2012			
	Issued capital	Retained earnings	Total
	\$	\$	\$
Opening balance at start of FY11	1,000,000	(11,762,612)	(10,762,612)
Total comprehensive income for the period			
Total other comprehensive income	-	-	-
Profit/(loss) for the period	-	(1,910,626)	(1,910,626)
Total comprehensive income for the period	-	(1,910,626)	(1,910,626)
Transactions with owners, recorded directly in equity			
Issue of shares	-	-	-
Balance at end of FY11	1,000,000	(13,673,238)	(12,673,238)
Opening balance at start of FY12	1,000,000	(13,673,238)	(12,673,238)
Total comprehensive income for the period			
Total other comprehensive income	-	-	-
Profit/(loss) for the period	-	(4,994,510)	(4,994,510)
Total comprehensive income for the period	-	(4,994,510)	(4,994,510)
Transactions with owners, recorded directly in equity			
Issue of shares	-	-	-
Balance as at end of FY12	1,000,000	(18,667,748)	(17,667,748)

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 10 to 24.

Consolidated Balance Sheet

As at 1 July 2012		2012	2011
	Notes	\$	\$
Assets			
Cash and cash equivalents	6	2,333,939	1,457,170
Trade and other receivables	7	1,196,923	647,145
Inventories	8	2,340,313	1,574,175
Other financial assets	9	-	27,845
Total current assets		5,871,175	3,706,335
Property, plant and equipment	10	5,801,804	6,544,413
Total non-current assets		5,801,804	6,544,413
Total Assets		11,672,979	10,250,747
Liabilities			
Trade and other payables	11	1,852,284	1,652,311
Employee benefits	12	731,485	265,320
Intercompany loans		-	-
Lease incentives		27,061	24,614
Loans and borrowings	13	14,410,469	20,338,314
Total current liabilities		17,021,299	22,280,560
Financial Liability on put option	14	11,388,130	-
Provisions - non current	15	851,976	557,544
Lease incentives - non current		79,321	85,882
Total non-current liabilities		12,319,427	643,426
Total liabilities		29,340,726	22,923,986
Net Assets		(17,667,747)	(12,673,238)
Equity			
Issued capital	16	1,000,000	1,000,000
Retained earnings		(18,667,748)	(13,673,238)
Total equity		(17,667,748)	(12,673,238)

The consolidated balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 10 to 24.

Consolidated Statement of Cash Flows

For the 52 week period ended 1 July 2012	Notes	2012 \$	2011 \$
Cash Flow from operating activities			
Cash receipts from customers		43,218,447	25,078,700
Cash paid to suppliers and employees		(35,132,230)	(24,125,848)
Cash generated from operations		8,086,217	952,852
Interest received		70,520	24,993
Interest paid		(2,672)	(9,677)
Net cash from / (used in) operating activities	20	8,154,065	968,168
Cash flows from investing activities			
Acquisition of fixed assets		(1,349,451)	(7,013,546)
Net cash used in investing activities		(1,349,451)	(7,013,546)
Cash flows from financing activities			
Proceeds from borrowings		(5,927,845)	6,698,112
Repayment of bank guarantees		-	-
Proceeds from issue of share capital		-	-
Net cash from financing activities		(5,927,845)	6,698,112
Net increase in cash and cash equivalents		876,769	652,734
Cash and cash equivalents at start		1,457,170	804,436
Cash and cash equivalents at end	6	2,333,940	1,457,170

The consolidated statement of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 10 to 24.

Notes to the Financial Statements

For the 52 week period ended 1 July 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

Lovisa Pty Limited (the "Company") is a company domiciled in Australia. The Company is a for-profit entity. The consolidated financial statements of the Company for the 52 weeks ended 1 July 2012 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity').

In the opinion of the directors, the Company and the consolidated entity are not reporting entities. This special purpose financial report has been prepared for distribution to the members to fulfil the directors' financial reporting requirements under the Corporations Act 2001.

The special purpose financial report has been prepared in accordance with the requirements of the Corporations Act 2001, the recognition and measurement aspects of all applicable Australian Accounting Standards (including the Australian Accounting Interpretations) (AASBs) adopted by the Australian Accounting Standards Board.

The financial report does not include the disclosure requirements of all AASBs except for the following minimum requirements:

AASB 101 Presentation of Financial Statements

AASB 107 Statement of Cash Flows

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors

AASB 1031 Materiality

AASB 1048 Interpretation and Application of Standards

AASB 1054 Australian Additional Disclosures

The financial periods of the Company end on the Sunday closest to 30 June of each year. The financial period of the Company ended on 1 July, representing a 52 week period (2011: 53 week period).

New standards and interpretation not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for AASB 9 Financial Instruments, which becomes mandatory for the Company's 2016 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

Going concern basis of accounting

The financial statements have been prepared on a going concern basis of accounting, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business. At the balance sheet date, the consolidated entity's total current liabilities exceeded total current assets by \$11,150,124. This is primarily due to related party loans amounting to \$14,410,469 (refer note 13). The shareholders of the Company, have agreed to provide a Letter of Undertaking to the Company not to call upon the Shareholder loan for at least 12 months from the date that the Company's Directors sign the Financial Report, if in doing so will cause the Company to be unable to meet its liabilities as and when they fall due. Accordingly, the going concern basis of preparation is considered appropriate by the Directors.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation

The financial report is prepared on the historical cost basis. Non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

These financial statements are presented in Australian dollars, which is the Company's functional currency.

The preparation of financial statements 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.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are reported in Note 14.

The accounting policies set out below have been applied consistently to all periods and by each entity presented in the consolidated financial report.

The consolidated entity has applied amendments to the Corporations Act (2001) that remove the requirement of the consolidated entity to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosure in Note 24.

(c) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition less impairment losses in the Company's financial statements.

Associates

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements includes the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation (continued)

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates' net profit' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates or, if not consumed or sold by the associate, when the consolidated entity's interest in such entities is disposed of.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the consolidated entity are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the previous consolidated entity's consolidated financial statements.

(d) Foreign currency

Translation of foreign currency transactions

Transactions in foreign currencies are converted to Australian dollars at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items and amounts receivable and payable in foreign currency at balance date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate of exchange ruling on that date.

Exchange differences arising are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

Translation of financial reports of overseas operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(e) Property, plant and equipment

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation. Cost included 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

Subsequent costs

The consolidated 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 consolidated 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.

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 in the current and comparative periods are as follows:

Major depreciation periods are:

Leasehold improvements, 5 years

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 reassessed at least annually.

(f) Trade and other receivables

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

(g) 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.

(h) Cash and cash equivalents

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

(i) Impairment

The carrying amounts of the consolidated 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Calculation of recoverable amount

The recoverable amount of the consolidated 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 (ie 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.

(k) 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.

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 5 years).

Finance leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the statement of financial performance.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Contributed equity

Initially, share capital is recognised at the fair value of the consideration received by the Company. Where shares are issued in conjunction with a business combination involving the acquisition of an entity under common control (refer to accounting policy Note 1(c)), the amount of share capital recognised by the Company 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.

(m) Interest-bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between costs and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(n) Employee benefits

Long-term service benefits

The consolidated 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 consolidated entity's obligations.

Short Term Benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick 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 consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(o) 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.

Site restoration provision

In accordance with the consolidated 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Provisions (continued)

The amount of the provision for future restoration costs is capitalised and is depreciated in accordance with the policy set out in note 1(e). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(p) 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.

(q) Revenue recognition

Revenue is recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority and to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue from the sale of fashion jewellery is recognised when the significant risks and rewards of ownership have been transferred to the buyer. For stock on consignment to franchisees, the significant risks and rewards of ownership are transferred to the buyer at the point of sale.

(r) Expenses

Net financing income/costs

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is ex-dividend date.

(s) 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income tax (continued)

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.

(t) Determination of fair values

A number of the Company'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.

Derivatives

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

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.

Notes to the Financial Statements

YEAR ENDED 1 July 2012

	Notes	2012 \$	2011 \$
2. Revenue			
Revenue from sale of goods		39,789,296	25,450,270
Total revenue		39,789,296	25,450,270
3. Property expenses			
Rent expense		6,542,639	4,711,274
Outgoings		352,420	290,580
Total property expenses		6,895,059	5,001,854
4. Depreciation and amortisation expense			
Depreciation of non-current assets	10	1,881,425	1,698,118
Total depreciation and amortisation		1,881,425	1,698,118
5. Net financing income / cost			
Interest income		70,520	24,993
Financial income		70,520	24,993
Borrowing costs		(2,672)	(9,677)
Financial expenses		(2,672)	(9,677)
Net finance income		67,848	15,316
6. Cash and cash equivalents			
Bank balances		1,909,255	1,191,161
Cash in transit		401,899	249,475
Cash floats		22,630	16,380
Petty Cash		155	154
Cash and cash equivalents in the statement of cash flows		2,333,939	1,457,170
7. Trade and other receivables			
Trade receivables		593,257	120,085
Other receivables		603,666	527,060
Total trade and other receivables		1,196,923	647,145

Notes to the Financial Statements

	\$	\$
8. Inventories		
Finished goods	2,340,313	1,574,175
9. Other financial assets		
Term deposits (Held as security – bank guarantees)	-	27,845
10. Property, plant and equipment		
<i>Leasehold improvements</i>		
Beginning balance at cost	7,317,385	813,109
Additions	1,134,818	6,504,276
Disposals	(272,735)	-
At cost balance	8,179,468	7,317,385
Beginning balance accumulated depreciation	(1,366,993)	(23,490)
Depreciation charge for the year	(1,524,986)	(1,343,503)
Disposals	73,416	-
Accumulated depreciation balance	(2,818,563)	(1,366,993)
Leasehold improvements carrying amount	5,360,905	5,950,392
<i>Hardware and Software</i>		
Beginning balance at cost	842,012	390,942
Additions	145,830	451,070
Disposals	-	-
At cost balance	987,842	842,012
Beginning balance accumulated depreciation	(306,641)	(21,432)
Depreciation charge for the year	(301,174)	(285,209)
Disposals	-	-
Accumulated depreciation balance	(607,815)	(306,641)
Hardware and Software carrying amount	380,027	535,371

Notes to the Financial Statements

	\$	\$
10. Property, plant and equipment (continued)		
<i>Furniture and fittings</i>		
Beginning balance at cost	117,008	77,442
Additions	61,523	39,566
Disposals	-	-
At cost balance	<u>178,531</u>	<u>117,008</u>
Beginning balance accumulated depreciation	(73,984)	(7,587)
Depreciation charge for the year	(50,098)	(66,397)
Disposals	-	-
Accumulated depreciation balance	<u>(124,082)</u>	<u>(73,984)</u>
Furniture and fittings carrying amount	<u>54,449</u>	<u>43,024</u>
<i>Office equipment</i>		
Beginning balance at cost	-	-
Additions	7,280	-
Disposals	-	-
At cost balance	<u>7,280</u>	<u>-</u>
Beginning balance accumulated depreciation	-	-
Depreciation charge for the year	(857)	-
Disposals	-	-
Accumulated depreciation balance	<u>(857)</u>	<u>-</u>
Furniture and fittings carrying amount	<u>6,423</u>	<u>-</u>
<i>Motor vehicles</i>		
Beginning balance at cost	18,634	-
Additions	-	18,634
Disposals	(15,000)	-
At cost balance	<u>3,634</u>	<u>18,634</u>
Beginning balance accumulated depreciation	(3,008)	-
Depreciation charge for the year	(4,310)	(3,008)
Disposals	3,684	-
Accumulated depreciation balance	<u>(3,634)</u>	<u>(3,008)</u>
Motor vehicles carrying amount	<u>0</u>	<u>15,626</u>
<i>Total Property, Plant and equipment</i>		
Beginning balance at cost	8,295,039	1,281,493
Additions	1,349,451	7,013,546
Disposals	(287,735)	-
At cost balance	<u>9,356,755</u>	<u>8,295,039</u>
Beginning balance accumulated depreciation	(1,750,626)	(52,509)
Depreciation charge for the year	(1,881,425)	(1,698,118)
Disposals	77,100	-
Accumulated depreciation balance	<u>(3,554,951)</u>	<u>(1,750,626)</u>
Total Property, Plant and equipment carrying amount	<u>5,801,804</u>	<u>6,544,413</u>

Notes to the Financial Statements

11. Trade and other payables		
Trade payables and accrued expenses	730,632	920,316
Non-trade payables and accrued expenses	1,121,652	731,995
Total trade and other payables	1,852,284	1,652,311
12. Employee benefits		
Management bonus accrual	230,000	-
Liability for annual leave	501,485	265,320
Total employee benefits - current	731,485	265,320
13. Loans and borrowings		
Shareholder loans	14,410,469	20,338,314

Shareholder loans are provided interest free and are repayable on demand.

14. Put option		
Opening balance – non-current	-	-
Provisions made during the year	11,388,130	-
Closing balance – non-current	11,388,130	-

Lovisa Pty Ltd has a liability for a share buy-back in FY15. The valuation of the liability is a multiple of FY 15 earnings before interest and tax, discounted at Lovisa Pty Ltd's weighted average cost of capital. The estimate is sensitive to assumptions around FY15 earnings, the exchange rate of the A\$ to the US\$ and the cost of equity.

15. Provisions		
<i>Site restoration (make good)</i>		
Opening balance – non-current	239,000	18,000
Provisions made during the year	30,000	221,000
Closing balance – non-current	269,000	239,000
<i>Straight line rent</i>		
Opening balance – non-current	318,544	-
Provisions made during the year	264,432	318,544
Closing balance – non-current	582,976	318,544
Total non-current provision	851,976	557,544

Notes to the Financial Statements

		2012	2011
		\$	\$
20. Reconciliation of cash flows from operating activities			
Cash flows from operating activities			
Profit / (loss) for the period		(4,994,510)	(1,910,626)
<i>Adjustments for:</i>			
Depreciation of non-current assets	4	1,881,425	1,698,118
Loss from disposal of fixed asset		196,454	-
Change in value of put option		11,388,130	-
Operating profit before changes in working capital and provisions		8,471,499	(212,508)
(Increase)/decrease in trade, other receivables and other financial assets	7 & 9	(521,933)	(371,570)
(Increase)/decrease in inventories	8	(766,138)	(43,720)
(Decrease)/increase in trade and other payables	11	199,973	725,267
Increase in provision, employee benefits and lease incentives	12 & 15	770,663	870,699
Net cash from operating activities		8,154,064	968,168

21. Controlled Entities

Controlled Entities	Country of incorporation	Ownership interest 2012	Ownership interest 2011
Lovisa (New Zealand) Pty Ltd	New Zealand	100%	100%
Lovisa Singapore Pte Ltd	Singapore	100%	-
Lovisa Malaysia Sdn Bhd	Malaysia	100%	-

Lovisa (New Zealand) Pty Ltd was incorporated on 5th March 2010. Share capital is NZ \$100.

Lovisa Singapore Pte Ltd was incorporated on 27th April 2012. Share capital is S\$ 300,000.

Lovisa Malaysia Sdn Bhd was incorporated on 11th May 2012. Share capital is RM 600,000.

Upon consolidation, amounts in NZ\$ were translated at a fixed rate of 1.25, amounts in S\$ were translated at 1.27 and amounts in MR were translated at 2.9. Differences between the rate used and the actual were not material to the accounts.

22. Commitments and contingencies

There are no capital commitments or contingent liabilities existing at balance date.

23. Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material nature likely to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in the subsequent financial year.

Notes to the Financial Statements

24. Parent Entity

As at, and throughout the financial year ending 1 July 2012, the parent entity of the Group was Lovisa Pty Limited.

Results of parent entity		
Loss for the year	5,097,162	1,461,156
Other comprehensive income		-
Total comprehensive loss for the year	5,097,162	1,461,156
Financial position of parent entity at year end		
Current assets	6,440,967	3,365,934
Total assets	11,775,858	9,447,055
Current liabilities	16,856,499	21,076,659
Total liabilities	29,116,779	21,670,904
Total equity of parent entity comprising of		
Share Capital	1,000,000	1,000,000
Retained Earnings/(losses)	(18,340,921)	(13,223,768)
	(17,340,921)	(12,223,768)

Directors' Declaration

In the opinion of the directors of Lovisa Pty Ltd ("the Company"),:

- (a) the Company is not a reporting entity;
- (b) the financial statements and notes set out on pages 6 to 24 of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 1 July 2012 and performance for the 52 week period ended on that date, as represented by the results of their operations and cashflows; and
 - (ii) complying with Accounting Standards other mandatory professional reporting requirements to the extent described in notes 1(a) and 1(b) and the Corporations Regulations 2001; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.



Shane Fallscheer
Director

Melbourne,

17 ^{September} November 2012



Independent audit report to the members of Lovisa Pty Ltd

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of Lovisa (the Company), which comprises the consolidated balance sheet as at 1 July 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 24 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the basis of accounting described in Note 1 to the financial statements so as to present a true and fair view which is consistent with our understanding of the Group's financial position, and of their performance.



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

Independence

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

Auditor's opinion

In our opinion the financial report of Lovisa Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 1 July 2012 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and the Corporations Regulations 2001.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne

17 December 2012