Lovisa Pty Limited

ACN 120 675 890

Annual Report

29 June 2014

CONTENTS

Directors' Report

The Directors present their report together with the financial report of the entity, being Lovisa Pty Limited ("the Company"), for the period ended 29 June 2014 and the Auditor's report thereon.

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. The Director 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

The Company is limited by shares, incorporated and domiciled in Australia.

PRINCIPAL ACTIVITIES

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

The business has 167 retail stores in operation.

REVIEW AND RESULTS OF OPERATIONS

The profit before tax for the period ended 29 June 2014 was $5,503,305 (2013: $6,033,317).

DIVIDENDS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company during the financial period.

EVENTS SUBSEQUENT TO REPORTING DATE

The directors are currently reviewing various options for a restructure, one of which includes the consideration of an initial public offering.

With the exception of the above, 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 nature likely to affect significantly the operations of the entity, the results of those operations, or the state of affairs of the entity in future years.

Directors' Report

LIKELY DEVELOPMENTS

The entity expects growth in sales and profit in the business.

ENVIRONMENTAL REGULATION

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Director believes that the Company 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 entity.

INDEMNIFICATION

Since the end of the previous financial period, the Company has not 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 29 June 2014.

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 29 June 2014.

Signed in accordance with a resolution of the Directors.

Shane Fallscheer
Director

Melbourne
20 November 2014

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

To: the directors of Lovisa Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 29 June 2014 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

20 November 2014

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 29 June 2014	Notes	2014 $	2013 $
Revenue		91,526,523	70,286,492
Cost of goods sold		(24,193,480)	(14,847,671)
Gross Profit		67,333,043	55,438,820
Other income		2,977,108	-
Salaries and employee benefits expense		(28,108,972)	(22,404,463)
Property expenses	2	(17,583,031)	(13,356,142)
Depreciation	3	(4,881,754)	(3,491,482)
Loss on disposal of Property, Plant and Equipment		(797,479)	(46,932)
Other expenses		(10,215,744)	(9,742,457)
Change in value of put option liability	12	(3,067,588)	(300,345)
Results from operating activities		5,655,583	6,097,000
Finance income	4	2,480	-
Finance costs	4	(154,758)	(63,683)
Net financing income		(152,278)	(63,683)
Profit before income tax		5,503,305	6,033,317
Income tax expense		(1,791,787)	(647,454)
Profit for the period		3,711,518	5,385,863
Other comprehensive income		-	-
Total comprehensive incomefor the period		3,711,518	5,385,863

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 10 to 20.

Statement of Changes in Equity

For the year ended 29 June 2014

	Issued capital $	Merger Reserve $	Retained Losses $	Profits Reserve $	Total $
Opening Balance at 2 July 2012	1,000,000	-	(18,667,748)	-	(17,667,748)
Total comprehensive income for the period	-	-	5,385,863	-	5,385,863
Transactions with owners, recorded directly in equity					
Disposal of controlled entities	-	(74,933)	447,754	-	372,821
Balance as at 30 June 2013	1,000,000	(74,933)	(12,834,131)	-	(11,909,064)
Opening Balance at 1 July 2013	1,000,000	(74,933)	(12,834,131)	-	(11,909,064)
Total comprehensive income for the period	-	-	-	3,711,518	3,711,518
Transactions with owners, recorded directly in equity	-	-	-	-	-
Balance as at 29 June 2014	1,000,000	(74,933)	(12,834,131)	3,711,518	(8,197,546)

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 10 to 20.

Statement of Financial Position

As at 29 June 2014	Notes	2014 $	2013 $
Assets			
Cash and cash equivalents	5	1,079,990	1,367,272
Trade and other receivables	6	5,920,277	2,726,901
Inventories	7	6,113,546	6,265,800
Total current assets		13,113,813	10,359,973
Property, plant and equipment	8	9,412,444	11,412,466
Deferred tax assets		1,188,702	-
Total non-current assets		10,601,146	11,412,466
Total assets		23,714,959	21,772,439
Liabilities			
Bank Overdraft	5	1,023,902	1,182,856
Trade and other payables	9	4,938,728	4,233,315
Employee benefits	10	1,399,772	1,055,565
Loans and borrowings	11	5,524,223	13,171,728
Provisions - current	13	2,334,340	736,763
Total current liabilities		15,220,965	20,380,228
Financial liability on put option	12	14,756,063	11,688,475
Provisions - non current	13	1,935,477	1,612,800
Total non-current liabilities		16,691,540	13,301,275
Total liabilities		31,912,505	33,681,503
Net assets/(deficiency)		(8,197,546)	(11,909,064)
Issued capital	14	1,000,000	1,000,000
Merger Reserve		(74,933)	(74,933)
Profits Reserve		3,711,518	-
Retained Losses		(12,834,131)	(12,834,131)
Total equity/(deficiency)		(8,197,546)	(11,909,064)

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 10 to 20.

Statement of Cash Flows

For the year ended 29 June 2014	Notes	2014 $	2013 $
Cash Flow from operating activities			
Cash receipts from customers		96,190,606	75,785,163
Cash paid to suppliers and employees		(84,859,714)	(66,603,836)
Cash generated from operations		11,330,892	9,181,327
Interest paid		(48,266)	(40,521)
Net cash from operating activities	17	11,282,626	9,140,805
Cash flows from investing activities			
Acquisition of fixed assets		(3,765,928)	(10,051,588)
Interest received		2,480	-
Net cash used in investing activities		(3,763,448)	(10,051,588)
Cash flows from financing activities			
Repayments of borrowings		(7,647,505)	(1,238,741)
Net cash used in financing activities		(7,647,505)	(1,238,741)
Net increase in cash and cash equivalents		(128,327)	(2,149,524)
Cash and cash equivalents at the beginning of the year		184,415	2,333,939
Cash and cash equivalents at the end of the year	5	56,088	184,415

The statement of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 10 to 20.

Notes to the Financial Statements

For the year ended 29 June 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity

Lovisa Pty Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 41 – 45 Camberwell Road, Hawthorn East, Victoria 3123. The Company is a for-profit entity and primarily involved in the retail sale of fashion jewellery and accessories.

In the opinion of the Directors, the Company is not a reporting entity. 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*.

(b) Statement of compliance

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

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 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 29 June, representing a 52 week period (2013: 52 week period).

The financial statements were approved by the board of Directors on 20 November 2014.

New accounting standards

It is assumed that none of the following new standards and amendments to standards, including any consequential amendments to other standards, has a material effect on the current or any prior period, or might have a material effect on future periods on the entity.

a) Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 7)

b) AASB 10 Consolidated Financial Statements (2011)

c) AASB 11 Joint Arrangements

d) AASB 12 Disclosure of Interests in Other Entities

e) AASB 13 Fair Value Measurement

f) AASB 119 Employee Benefits (2011)

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 entity's total liabilities exceeded total assets by $8,197,546 (2013: $11,909,064). This is partly due to related party loans amounting to $5,524,223 (2013: $13,171,728) (refer note 11) and to shareholder put option provision of $14,756,063 (refer note 12). The shareholders of the Company, have agreed to provide a Letter of Undertaking to the Company not to call upon the Shareholder loan and to provide funds to the entity in the event the put option is exercised 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.

(c) Basis of preparation

The financial statements have been prepared on a historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available for sale financial assets are measured at fair value.

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 12.

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

Numbers disclosed in the report, have been rounded to the nearest dollar.

(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 statements of Profit and loss and Other Comprehensive Income in the period in which the exchange rates change.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment

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 probably that such costs will be incurred.

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.

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:

	2014	2013
Leasehold improvements	Life of lease	Life of lease
Hardware and Software	3 years	3 years
Furniture and Fittings	3 years	3 years

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

(i) 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment (continued)

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.

(j) 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 (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 five years).

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Employee benefits

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.

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.

(n) 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 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 in note 1(e). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(o) 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.

(p) 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.

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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Expenses

Net financing income/costs

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

(r) 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.

(s) 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.

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

For the year ended 29 June 2014	Notes	2014	2013
		$	$
2. Property expenses			
Rent expense		16,659,106	12,659,062
Outgoings		923,925	697,080
Total property expenses		17,583,031	13,356,142
3. Depreciation			
Depreciation of property, plant and equipment	8	4,881,754	3,491,482
Total depreciation		4,881,754	3,491,482
4. Net financing cost			
Interest income		2,480	-
Financial income		2,480	-
Interest expense		48,266	40,655
Realised foreign exchange on inventory		106,492	23,028
Financial expenses		154,758	63,683
Net finance costs		152,278	63,683
5. Cash and cash equivalents			
Bank balances		1,016,973	1,306,013
Cash floats		63,017	61,259
Cash and cash equivalents		1,079,990	1,367,272
Bank overdraft used for cash management purposes		(1,023,902)	(1,182,857)
Cash and cash equivalents in the statement of cash flows		56,088	184,415
6. Trade and other receivables			
Trade receivables		538,232	331,671
Trade receivables due from related entities		5,249,650	2,260,534
Other receivables		132,395	134,696
Total trade and other receivables		5,920,277	2,726,901
7. Inventories			
Finished goods		6,113,546	6,265,800

At 29 June 2014 the write-down of inventories to net realisable value amounted to $1,294,920 (2013: $1,293,246). The write-down is included in cost of sales.

Notes to the Financial Statements

For the year ended 29 June 2014

8. Property, plant and equipment

in dollars	Leasehold improvements	Hardware and software	Fixtures and fittings	Office equipment	Motor vehicles	Total
Cost or deemed cost						
Balance at 30 June 2013	15,979,602	1,589,624	402,477	14,107	3,634	17,989,444
Additions	3,307,812	326,565	128,600	2,951	-	3,765,928
Disposals	(2,073,732)	(156,227)	(101,502)	-	(3,634)	(2,335,095)
Balance at 29 June 2014	17,213,682	1,759,962	429,575	17,058	-	19,420,277
Accumulated depreciation and impairment losses						
Balance at 30 June 2013	(5,408,105)	(994,671)	(166,256)	(4,312)	(3,634)	(6,576,978)
Depreciation for the year	(4,499,995)	(310,446)	(65,929)	(5,384)	-	(4,881,754)
Disposals	1,330,645	90,505	26,115	-	3,634	1,450,899
Balance at 29 June 2014	(8,577,455)	(1,214,612)	(206,070)	(9,696)	-	(10,007,833)
Carrying amounts						
at 30 June 2013	10,571,497	594,953	236,221	9,795	-	11,412,466
at 29 June 2014	8,636,227	545,350	223,505	7,362	-	9,412,444

Notes to the Financial Statements

For the year ended 29 June 2014	2014 $	2013 $
9. Trade and other payables		
Trade payables	2,863,471	2,623,487
Non-trade payables and accrued expenses	2,075,257	1,609,828
Total trade and other payables	4,938,728	4,233,315
10. Employee benefits		
Liability for annual leave	1,210,700	972,079
Liability for long service leave	189,072	83,486
Total employee benefits - current	1,399,772	1,055,565
11. Loans and borrowings		
Shareholder loans	5,524,223	13,171,728

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

12. Put option		
Opening balance – non-current	11,688,475	11,388,130
Change in value during the year	3,067,588	300,345
Closing balance – non-current	14,756,063	11,688,475

Lovisa Pty Ltd has a liability for a share buy-back in FY15 and FY20. The valuation of the liability is a multiple of FY15 and FY20 earnings before interest and tax, discounted at Lovisa Pty Ltd's weighted average cost of capital. The estimate is sensitive to assumptions around FY15 and FY20 earnings, the exchange rate of the Australian dollar to the United States dollar and the cost of equity.

13. Provisions

Current

Site restoration (make good)		
Opening balance – current	60,000	10,000
Provisions made during the year	288,000	70,000
Provisions utilised during the year	(60,000)	(20,000)
Closing balance – current	288,000	60,000
Straight line rent and lease incentive		
Opening balance – current	29,309	26,112
Provisions made during the year	63,729	3,329
Provisions utilised during the year	(4,629)	(132)
Closing balance – current	88,409	29,309
Income Tax Provision		
Opening balance – current	647,454	-
Provisions made during the year	2,805,885	647,454
Provisions utilised during the year	(1,495,408)	-
Closing balance – current	1,957,931	647,454
Total current provision	2,334,340	736,763

For the year ended 29 June 2014	2014 $	2013 $
13. Provisions (continued)		
Non-Current		
Site restoration (make good)		
Opening balance – non-current	725,331	259,000
Provisions made during the year	357,669	466,331
Provisions utilised during the year	(70,000)	-
Closing balance – non-current	1,013,000	725,331
Straight line rent and lease incentive		
Opening balance – non-current	887,469	656,192
Provisions made during the year	39,450	231,277
Provisions utilised during the year	(4,442)	-
Closing balance – non-current	922,477	887,469
Total non-current provision	1,935,477	1,612,800
14. Share Capital		
Ordinary shares		
On issue at the beginning of the period	822,567	822,567
Issued for cash	-	-
Converted to B class shares	-	-
On issue at the end of the period	822,567	822,567
B Class shares		
On issue at the beginning of the period	177,433	177,433
Converted from ordinary shares	-	-
On issue at the end of the period	177,433	177,433
Total	1,000,000	1,000,000

All issued shares are fully paid.

B class shares have no right to vote in any circumstances. B class shares have the same rights as the holder of an ordinary share to receive payment out of profits of the Company of a dividend, and the same rights as the holder of an ordinary share in the winding up of the Company.

15. Leases

Non-cancellable operating lease rentals are payable as follows:

Less than one year	13,953,068	7,653,699
Between one and five years	16,913,873	15,344,955
More than five years	332,533	245,228
	31,199,474	23,243,882

During the year an amount of $16,659,106 (2013: $12,659,062) was recognised as an expense in the statement of profit or loss in respect of operating leases.

Notes to the Financial Statements

For the year ended 29 June 2014	Notes	2014 $	2013 $
16. Auditors' remuneration			
Audit services			
Auditors of the Company : KPMG Australia			
Audit of financial reports		**52,500**	**43,000**
Other services provided by KPMG:			
Taxation services		**25,000**	**20,000**
17. Reconciliation of cash flows from operating activities			
Cash flows from operating activities			
Profit / (loss) for the period		**3,711,518**	**5,385,863**
Adjustments for:			
Depreciation of non-current assets	3	**4,881,754**	**3,491,482**
Loss from disposal of property, plant and equipment		**884,196**	**949,443**
Disposal of controlled entities		**-**	**372,821**
Change in value of put option		**3,067,588**	**300,345**
Interest received		**(2,480)**	**-**
Operating profit before changes in working capital and provisions		**12,542,576**	**10,499,954**
(Increase)/decrease in trade, other receivables and other financial assets	6	**(3,193,376)**	**(1,529,978)**
(Increase)/decrease in deferred tax assets		**(1,188,702)**	**-**
(Increase)/decrease in inventories	7	**152,254**	**(3,925,487)**
(Decrease)/increase in trade and other payables	9	**705,413**	**2,381,031**
Increase in provision, employee benefits and lease incentives	10 & 13	**2,264,461**	**1,715,285**
Net cash from operating activities		**11,282,626**	**9,140,805**

18. Former Controlled Entities

Controlled Entities	Country of incorporation	Ownership interest 2014	Ownership interest 2013	Ownership interest 2012
Lovisa (New Zealand) Pty Ltd	New Zealand	0%	0%	100%
Lovisa Singapore Pte Ltd	Singapore	0%	0%	100%
Lovisa Malaysia Sdn Bhd	Malaysia	0%	0%	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 RM1,300,000.

The above controlled entities were sold to Lovisa International Pte Ltd on 30 June 2013.

19. Commitments and contingencies

There are no capital commitments or contingent liabilities that exist at 29 June 2014 (2013: Nil).

20. Subsequent events

The directors are currently reviewing various options for a restructure, one of which includes the consideration of an initial public offering.

With the exception of the above, 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 nature likely to affect significantly the operations of the entity, the results of those operations, or the state of affairs of the entity in future years.

Directors' Declaration

In the opinion of the Directors of Lovisa Pty Limited ("the Company"):

(a) the Company is not publicly accountable nor a reporting entity;

(b) the financial statements and notes, set out on pages 6 to 20, are in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the financial position of the Company as at 29 June 2013 and of its performance for the financial year ended on that date in accordance with the basis of preparation described in Note 1; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Note 1, 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
20 November 2014

Independent audit report to the members of Lovisa Pty Limited

Report on the financial report

We have audited the accompanying financial report, being a special purpose financial report, of Lovisa Pty Limited (the Company), which comprises the statement of financial position as at 29 June 2014, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, Notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the special purpose financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial statements 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 gives a true and fair view and 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of the 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 Company's financial position, and of its 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 Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 29 June 2014 and of its 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 statements, 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

Maurice Bisetto
Partner

Melbourne

20 November 2014