



Lovisa International Pte. Ltd. and its Subsidiaries

Registration Number: 201315180K

Annual Report

**Period from 5 June 2013 (date of incorporation) to
30 June 2014**

Directors' Report

We are pleased to submit this annual report to the member of the Company together with the audited financial statements for the period from 5 June 2013 (date of incorporation) to 30 June 2014.

Directors

The directors in office at the date of this report are as follows:

Shane Roland Fallscheer	(Appointed on 5 June 2013)
Brett Blundy	(Appointed on 5 June 2013)
Iain William Sadler	(Appointed on 3 July 2013)
Vanessa Louise Speer	(Appointed on 3 July 2013)

Directors' interests

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the Act), particulars of interest of directors who held office at the end of the financial period (including those held by their spouses and infant children) in shares, debentures, warrants and the share options in the Company and in related corporations are as follows:

Name of director and corporation in which interest are held	Holdings in the name of the director	
	At date of incorporation/ date of appointment	At end of the period
Ordinary shares of the Company		
Vanessa Louise Speer	1	1,645

Except as disclosed in this report, no director who held office at the end of the financial period had interests in shares, debentures or share options of the Company, or of related corporations, either at the date of incorporation or date of appointment, if later, or at the end of the financial period.

Neither at the end of, nor at any time during the financial period, was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the date of incorporation, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member or with a company in which he has a substantial financial interest.

Share options

During the financial period, there were:

- (i) no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries; and
- (ii) no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries.

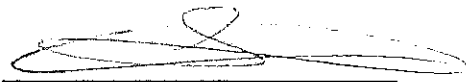
As at the end of the financial period, there were no unissued shares of the Company or its subsidiaries under option.

Auditors

By a Directors' Resolution in writing dated 05 June 2013, KPMG LLP were appointed as auditors of the Company until the conclusion of the first Annual General Meeting of the Company.

The auditors, KPMG LLP, have indicated their willingness to accept re-appointment.

On behalf of the Board of Directors



Shane Roland Fallscheer
Director



Iain William Sadler
Director

20 November 2014


Statement by Directors

In our opinion:

- (a) the financial statements set out on pages FS1 to FS25 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2014 and the results, changes in equity and cash flows of the Group for the period from 5 June 2013 (date of incorporation) to 30 June 2014 in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors



Shane Roland Fallscheer
Director



Iain William Sadler
Director

20 November 2014



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Independent auditors' report

Member of the Company
Lovisa International Pte. Ltd.

Report on the financial statements

We have audited the accompanying financial statements of Lovisa International Pte. Ltd. (the Company) and its subsidiaries (the Group), which comprise the statements of financial position of the Group and the Company as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the period from 5 June 2013 (date of incorporation) to 30 June 2014, and a summary of significant accounting policies and other explanatory information, as set out on pages FS1 to FS25.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give 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 management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2014 and the results, changes in equity and cash flows of the Group for the period from 5 June 2013 (date of incorporation) to 30 June 2014.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

KPMG LLP

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
20 November 2014

Statement of financial position
As at 30 June 2014

	Note	2014 Group \$	2014 Company \$
Non-current assets			
Plant and equipment	4	2,780,120	—
Investments in subsidiaries	5	—	838,931
Intangibles	6	304,613	—
Deferred tax asset	7	26,107	—
Trade and other receivables	9	643,436	—
Total non-current assets		3,754,276	838,931
Current assets			
Inventories	8	2,642,733	—
Trade and other receivables	9	124,230	44,115
Prepayments		67,380	4,381
Cash and cash equivalents	10	2,102,155	91,543
Total current assets		4,936,498	140,039
Total asset		8,690,774	978,970
Equity			
Share capital	11	100,000	100,000
Reserves	12	420,786	(31,407)
Total equity		520,786	68,593
Non-current liabilities			
Trade and other payables	13	65,330	—
Provision	14	278,905	—
Total non-current liabilities		344,235	—
Current liabilities			
Trade and other payables	13	7,523,421	910,377
Provision	14	31,888	—
Current tax liabilities		270,444	—
Total current liabilities		7,825,753	910,377
Total liabilities		8,169,988	910,377
Total equity and liabilities		8,690,774	978,970

The accompanying notes form an integral part of these financial statements.

Consolidated statement of comprehensive income
Period from 5 June 2013 (date of incorporation) to 30 June 2014

	Note	Period from 5 June 2013 (date of incorporation) to 30 June 2014 \$
Revenue	15	20,443,692
Cost of goods		<u>(4,537,017)</u>
Gross profit		15,906,675
Other income		70,694
Selling and marketing expenses		(178,486)
Administrative expenses		<u>(14,223,838)</u>
Results from operating activities		1,575,045
Finance income		<u>1,007</u>
Profit before tax	16	1,576,052
Tax expense	17	<u>(541,141)</u>
Profit for the period		1,034,911
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences - Foreign operations		<u>(133,571)</u>
Total comprehensive income for the period		<u>901,340</u>

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity
Period from 5 June 2013 (date of incorporation) to 30 June 2014

Group	Share capital \$	Merger reserve \$	Foreign currency translation reserve \$	Retained earnings \$	Total \$
At 5 June 2013 (date of incorporation)	–	–	–	–	–
Total comprehensive income for the period					
Profit for the period	–	–	–	1,034,911	1,034,911
Other comprehensive income					
Foreign currency translation differences - Foreign operations	–	–	(133,571)	–	(133,571)
Total comprehensive income for the period	–	–	(133,571)	1,034,911	901,340
Transaction with owners, recorded directly in equity					
<i>Contribution by owner</i>					
Issue of ordinary shares (note 10)	100,000	–	–	–	100,000
Acquisition of subsidiaries through common control (note 18)	–	95,046	–	(575,600)	(480,554)
Total transaction with owner	100,000	95,046	–	(575,600)	(380,554)
At 30 June 2014	100,000	95,046	(133,571)	459,311	520,786

The accompanying notes form an integral part of these financial statements.

Consolidated statement of cash flows
Period from 5 June 2013 (date of incorporation) to 30 June 2014

	Note	Period from 5 June 2013 (date of incorporation) to 30 June 2014 \$
Cash flows from operating activities		
Profit before tax		1,576,052
Adjustments for:		
Depreciation of plant and equipment		782,350
Plant and equipment write-off		84,439
Write-down of inventories to net realisable value		182,415
		<u>2,625,256</u>
Changes in:		
- inventories		(1,950,171)
- trade and other receivables		(186,767)
- prepayment		(65,180)
- trade and other payables		4,627,855
Cash generated from operations		<u>5,050,993</u>
Income tax paid		(296,804)
Net cash from operating activities		<u>4,754,189</u>
Cash flows from investing activities		
Acquisition of plant and equipment		(1,833,296)
Acquisition of subsidiaries, net of cash acquired	18	(918,738)
Net cash used in investing activities		<u>(2,752,034)</u>
Cash flows from financing activity		
Proceeds from issuance of shares		100,000
Net cash from financing activity		<u>100,000</u>
Net increase in cash and cash equivalents		2,102,155
Cash and cash equivalents at date of incorporation		-
Cash and cash equivalents at end of the period	10	<u>2,102,155</u>

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 20 November 2014.

1 Domicile and activities

Lovisa International Pte. Ltd. (the “Company”) is a limited exempt private company incorporated in the Republic of Singapore and has its registered office at 18 Cross Street #07-06/07, Singapore 048423.

The financial statements of the Company as at and for the period from 5 June 2013 (date of incorporation) to 30 June 2014 comprise the Company and its subsidiary (together referred to as “Group” or individually as “Group entities”).

The principal activities of the Group are those of investment holding companies, wholesale and retail of women’s jewellery and accessories. The principal activities of the subsidiaries are disclosed in note 5 to the financial statements.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (FRS).

2.2 Basis of measurement

They have been prepared on the historical cost basis except for certain financial assets and financial liabilities which are measured at fair value.

2.3 Functional and presentation currency

The financial statements are presented in Singapore dollars, which is the Company’s functional currency.

2.4 Use of estimation and judgement

The preparation of financial statements in conformity with FRS 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 estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in note 6 – Key assumptions used in discounted cash flow projections.

3 Significant accounting policies

The accounting policies set out below have been applied consistently for the period presented in these financial statements, and have been applied consistently by the Group entities.

3.1 Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method in accordance with FRS 103 *Business Combination* as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree,

over the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Goodwill is included in intangible assets, and is measured at cost less accumulated impairment losses.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

Acquisition 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 Group are accounted for as if the acquisition had occurred at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of the acquired entities are added to the same components within Group equity and any gain or loss arising is recognised directly in equity.

Subsidiaries

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

Transactions eliminated on consolidation

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

Subsidiaries in the separate financial statements

Investments in subsidiaries are stated in the Company's statement of financial position at cost less accumulated impairment losses.

3.2 Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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.

(ii) Foreign operations

The assets and liabilities of foreign operations, excluding goodwill and fair value adjustments arising on acquisition, are translated to Singapore dollars at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to Singapore 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 (translation reserve) in equity. However, if the foreign operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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.

3.3 Plant and equipment

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment, unless it is included in the carrying amount of another asset.

Depreciation is recognised from the date that the plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current period are as follows:

- | | |
|-------------------------|---------|
| • Leased improvements | 5 years |
| • Fixtures and fittings | 3 years |
| • Computer equipment | 3 years |

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.4 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.5 Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the loans and receivables category.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and bank deposit.

Non-derivative financial liabilities

Financial liabilities are recognised initially on the date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

3.6 Impairment

Non derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group'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 assets' recoverable amounts are estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. 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 or amortisation, if no impairment loss had been recognised.

3.7 Provisions

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

Reinstatement costs

Provision for reinstatement costs is recognised at the commencement of leases for which the Group has a present legal obligation to reinstate the premises to its original condition upon termination of such leases.

3.8 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.9 Revenue

Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when 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. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

3.10 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3.11 Tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.12 New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 5 June 2013, 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 Group.

4 Plant and equipment

Group	Leasehold improvements \$	Fixtures and fittings \$	Computer equipment \$	Total \$
Cost				
At 5 June 2013 (date of incorporation)	–	–	–	–
Additions	1,971,619	349	54,546	2,026,514
Acquisition of subsidiaries (note 18)	1,537,939	1,182	81,274	1,620,395
Write-off	(99,467)	–	(3,115)	(102,582)
Effect of movements in exchange rates	561	–	–	561
At 30 June 2014	3,410,652	1,531	132,705	3,544,888
Accumulated depreciation				
At 5 June 2013 (date of incorporation)	–	–	–	–
Depreciation charge for the period	744,786	627	36,937	782,350
Write-off	(17,460)	–	(683)	(18,143)
Effect of movements in exchange rates	550	–	11	561
At 30 June 2014	727,876	627	36,265	764,768
Carrying amounts				
At 5 June 2013 (date of incorporation)	–	–	–	–
At 30 June 2014	2,682,776	904	96,440	2,780,120

5 Investments in subsidiaries

	Company 2014 \$
Unquoted shares, at cost	838,931

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation	Equity interest held by the Company 2014
Lovisa Singapore Pte Ltd	Retail of women's jewellery and accessories	Singapore	100%
Lovisa Malaysia Sdn Bhd	Retail of women's jewellery and accessories	Malaysia	100%
Lovisa New Zealand Pty Ltd	Retail of women's jewellery and accessories	New Zealand	100%
Lovisa Accessories (Proprietary) Limited	Retail of women's jewellery and accessories	South Africa	100%
Lovisa Global Pte. Ltd.	Wholesale of women's jewellery and accessories	Singapore	100%

6 Intangibles

On 4 September 2014, the Group acquired Lovisa Accessories (Proprietary) Limited through the exercise of the buy-out option included in the franchise agreement.

	Group Goodwill 2014 \$
Cost	
At 5 June 2013 (date of incorporation)	—
Acquisitions through business combination (note 18)	304,613
At 30 June 2014	304,613
Carrying amounts	
At 5 June 2013 (date of incorporation)	—
At 30 June 2014	304,613

Impairment testing for cash-generating units containing goodwill

Impairment testing at 30 June 2014 did not result in impairment charges being recognised.

The recoverable amount of goodwill with indefinite lives is assessed based on value in use. The value in use calculations are computed using cash flow projections based on actual operating results and the operating budget approved by the Board of Directors. Cash flow projections are calculated using the 2015 budgeted cash flows and industry growth rates going forward.

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

	2014 \$
Discount rate	12% - 13%

Discount rate

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

7 **Deferred tax assets**

Movements in deferred tax assets and liabilities of the Group (prior to offsetting the balances) during the period are as follows:

	At 5 June 2013 (date of incorporation)	Recognised in profit or loss (note 17)	At 30 June 2014
	\$	\$	\$
Group			
Deferred tax assets			
Plant and equipment	–	(6,478)	(6,478)
Provisions	–	28,695	28,695
Others	–	3,890	3,890
Total	–	26,107	26,107

8 **Inventories**

	Group 2014 \$
Inventories, at net realisable value	2,642,733

As at 30 June 2014, inventories recognised as cost of sales amounted to \$4,537,017. During the period, the write down of inventories to net realisable value by the Group amounted to \$182,415. The write-down is included in the cost of goods.

9 Trade and other receivables

	2014	
	Group \$	Company \$
Trade receivables		
Amounts due from related corporations		
- Trade	–	44,115
- Non-trade	16,372	–
Other receivables	107,858	–
Deposits	643,436	–
	767,666	44,115
Current	124,230	44,115
Non-current	643,436	–
	767,666	44,115

The non-trade amounts due from related corporations are unsecured, interest free and repayable on demand. There is no allowance for doubtful debts arising from the outstanding balance.

As at 30 June 2014, loans and receivables are not past due. The Group and Company believes that no impairment allowance is necessary in respect of loans and receivables not past due.

10 Cash and cash equivalents

	2014	
	Group \$	Company \$
Cash at bank	2,102,155	91,543

11 Share capital

	Company 2014 Number of shares
Fully paid ordinary shares, with no par value:	
At date of incorporation	1
Issued for cash	99,999
At 30 June 2014	100,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Issue of ordinary shares

On the date of incorporation, the Company issued 1 ordinary share for cash consideration of \$1 per share. During the period, the Company issued additional 99,999 ordinary shares for cash consideration of \$1 per share.

Capital management

Capital consists of share capital and retained earnings. There is no change in capital management during the period.

The Company is not subject to externally imposed capital requirements.

12 Reserves

The reserves of the Group and the Company comprise the following balances:

	2014	
	Group	Company
	\$	\$
Translation reserve	(133,571)	–
Merger reserve	95,046	–
Retained earnings/(Accumulated losses)	459,311	(31,407)
	420,786	(31,407)

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Merger reserve

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

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

13 Provision

	Group Provision for reinstatement costs 2014 \$
At 5 June 2013 (date of incorporation)	–
Acquisition of subsidiaries (Note 18)	117,575
Provision made during the period	193,218
At 30 June 2014	310,793
Group Provision for reinstatement costs 2014 \$	
<i>Classified as:</i>	
Non current	278,905
Current	31,888
	310,793

The provision for reinstatement costs relates to the Group's obligation to reinstate its retail stores to their original condition upon termination. The Group expects to incur the liability upon termination of the leases.

14 Trade and other payables

	2014	
	Group \$	Company \$
Trade payables	828,712	–
Amount payable to related corporations		
- Non-trade	5,761,633	875,377
Accrued operating expenses	397,454	35,000
Other payables	600,952	–
	7,588,751	910,377
<i>Classified as:</i>		
Non current	65,330	–
Current	7,523,421	910,377
	7,588,751	910,377

The non-trade amounts payable to related corporations are unsecured, interest free and repayable on demand.

15 Revenue

**Group
Period from
5 June 2013
(date of
incorporation)
to 30 June
2014
\$**

Sale of goods	<u>20,443,692</u>
---------------	-------------------

16 Profit before tax

The following items have been included in arriving in profit before tax:

**Group
Period from
5 June 2013
(date of
incorporation)
to 30 June
2014
\$**

Depreciation of plant and equipment	782,350
Plant and equipment write-off	84,439
Operating lease expenses	3,478,273
Staff costs	3,466,198
Contributions to defined contribution plans, included in staff costs	<u>500,657</u>

17 Tax expense

**Group
Period from
5 June 2013
(date of
incorporation)
to 30 June
2014
\$**

Current tax expense	
Current period	<u>567,248</u>
	<u>567,248</u>
Deferred tax expense	
Origination and reversal of temporary differences (note 7)	<u>(26,107)</u>
	<u>(26,107)</u>
Total tax expense	<u>541,141</u>

Reconciliation of effective tax rate

Profit before tax	1,576,052
Tax calculated using Singapore tax rate of 17%	267,928
Effect of tax rates in foreign jurisdictions	115,360
Non-deductible expenses	413,643
Tax exempt income	(224,225)
Tax rebate	(30,000)
Others	(1,565)
	541,141

18 Acquisition of subsidiaries

(i) Acquisition of subsidiaries through common control

On 30 June 2013, the Group acquired the following subsidiaries from a related corporation, Lovisa Pty Ltd, for a purchase consideration of \$547,516:

Name of Subsidiaries	Effective Equity Interest Acquired %
Lovisa Singapore Pte Ltd	100.0
Lovisa Malaysia Sdn Bhd	100.0
Lovisa New Zealand Pty Ltd	100.0

As at 30 June 2014, the cash flows and the net assets of subsidiaries acquired are provided below:

	Note	Group 2014 \$
Plant and equipment	4	1,099,091
Inventories		884,113
Trade and other receivables		465,338
Cash and cash equivalents		495,673
Trade and other payables		(2,759,678)
Provisions		(117,575)
Identifiable net assets		66,962
Accumulated losses arising from common control transactions		575,600
Merger reserve		(95,046)
Purchase consideration		547,516
Less:		
Cash of subsidiaries acquired		(495,673)
Net cash outflow on acquisition of subsidiaries		51,843

(ii) Acquisition of subsidiary through business combination

On 4 September 2013, the Company exercised its option to acquire 100% in Lovisa Accessories (Proprietary) Limited, a company incorporated in South Africa, which runs the Lovisa outlets in South Africa.

From 5 June 2013 to 30 June 2014, the subsidiary contributed revenue of approximately \$5,449,000 and profit after tax of approximately \$441,000.

As at 30 June 2014, the cash flows and the net assets of the subsidiary acquired are provided below:

	Note	Group 2014 \$
Plant and equipment	4	521,304
Inventories		124,435
Trade and other receivables		117,761
Cash and cash equivalents		80,416
Trade and other payables		<u>(1,148,528)</u>
Identifiable net liabilities		(304,612)
Goodwill		<u>304,613</u>
Total consideration transferred		1
Proceeds from shareholder's loan		<u>947,310</u>
		947,311
Less:		
Cash acquired		<u>(80,416)</u>
Net cash outflow on acquisition of a subsidiary		<u><u>866,895</u></u>

The goodwill is attributable mainly to the synergy expected to be derived from integrating the company into the Group's wholesale and retail of women's jewellery and accessories' business. None of the goodwill is expected to be deductible for tax purpose.

(iii) Net effects on acquisition of subsidiaries

	Group 2014 \$
Net cash outflow on acquisition of subsidiaries	<u><u>918,738</u></u>

19 Commitments

Operating lease commitments

The Group leases a number of outlets under operating leases. The lease runs for a period of three years with a renewal option of three years. There are no restrictions placed upon the Group by entering into the lease. Future minimum lease payments payable under non-cancellable operating leases as at 30 June are as follows:

	Group 2014 \$
Payables	
- within 1 year	4,418,114
- between 2 to 5 years	4,883,107
	9,301,221

20 Related parties

Key management personnel compensation

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling activities of the Group. The directors are considered as key management personnel of the Group.

The directors are either employees of the holding companies or related corporations. The Group does not reimburse the holding company or related corporations for their services rendered to the Group.

Other related party transactions

During the financial period, other than as disclosed elsewhere in the financial statements, there were the following related party transactions:

	Group 2014 \$
Purchase of goods from related corporation	5,664,853
Management fees paid/payable to related corporation	3,440,956
	9,105,809

21 Financial risk management

Overview

Risk management is integral to the whole business of the Group. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of any parties to settle their financial and contractual obligations to the Group as and when they fall due, and arises principally from the Group's receivables from customers and deposits placed for its leased outlets.

Exposure to credit risk is monitored on an ongoing basis. The Group does not require collateral in respect of financial assets. Cash is placed with financial institutions with good credit ratings. At the reporting date, there were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The carrying amount of trade and other payables reflect the expected contractual undiscounted cash flows, which are expected to be repaid within one year.

Market risk

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

Foreign currency risk

The Group incurs foreign currency risk mainly on sales, purchases, receivables and payables that are denominated in currencies other than the respective functional currencies of the Group entities. The currencies giving rise to this risk is primarily the Australian dollar.

There is no formal hedging policy with respect to foreign exchange exposures. Exposures to currency risk are monitored on an ongoing basis and the Group endeavours to keep the net exposures at an acceptable level.

The Group's exposure to foreign currencies is as follows:

	Australian Dollar \$
2014	
Trade and other receivables	46,309
Trade and other payables	<u>4,002,387</u>

Sensitivity analysis

A 10% strengthening of Singapore dollar against the above currencies at the reporting date would increase/(decrease) profit or loss before any tax effect by the amounts shown below.

	Profit or loss \$
2014	
AUD (10% strengthening)	4,631
AUD (10% strengthening)	400,238

Similarly, a 10% weakening would have had the equal but opposite effect. This analysis assumes that all other variables, in particular interest rates, remain constant.

There is no exposure to foreign currencies at Company level.

Interest rate risk

The Group is not subject to significant exposure to interest rate risk.

Accounting classifications and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

		Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
2014	Note	\$	\$	\$	\$
Group					
Financial assets					
Trade and other receivables*	9	124,230	–	124,230	124,230
Deposits	9	643,436	–	643,436	638,252
Cash and cash equivalents	10	2,102,155	–	2,102,155	2,102,155
		2,869,821	–	2,869,821	2,869,821
Financial liabilities					
Trade and other payables	14	–	(7,588,751)	(7,588,751)	(7,588,751)
Company					
Financial assets					
Trade and other receivables*	9	44,115	–	44,115	44,115
Deposits	9	–	–	–	–
Cash and cash equivalents	10	91,543	–	91,543	91,543
		135,658	–	135,658	135,658
Financial liabilities					
Trade and other payables	14	–	(910,377)	(910,377)	(910,377)

* - Excludes deposits (presented separately)

Fair value hierarchy

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: input for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets carried at amortised cost, for which fair value is disclosed

	Level 3
	\$
2014	
Financial assets	
Deposits	638,252

Estimation of fair values

Deposits

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.

Interest rate used in determining fair value

The interest rate used to discount estimated cash flows at the reporting date was as follows:

	Group
	2014
	%
Deposits	0.27

Other financial assets and liabilities

The carrying amount of the financial asset and liabilities with maturity of less than one year (including trade and other receivables, cash and cash equivalents and trade and other payables) are assumed to approximate their fair values because of the short period to maturity.

22 Comparative information

No comparative figures are provided as this is the first set of financial statements prepared for the Group and the Company since the date of its incorporation.