LOVISA HOLDINGS LIMITED

ANNUAL REPORT
2018

ACN 602 304 503

CONTENTS

OUR BRAND

MOVING GLOBALLY

- 326 Stores in 15 Countries
- First USA store opened in November 2017
- First French Store Opened in February 2018
- 120 new products arriving weekly

HIGHLIGHTS

EBIT up 26%

$51.1m

$36.0m

NPAT
up 24%

Like For Like sales

+6.8%

Revenue up 21.4%

$217m

Total Stores

326

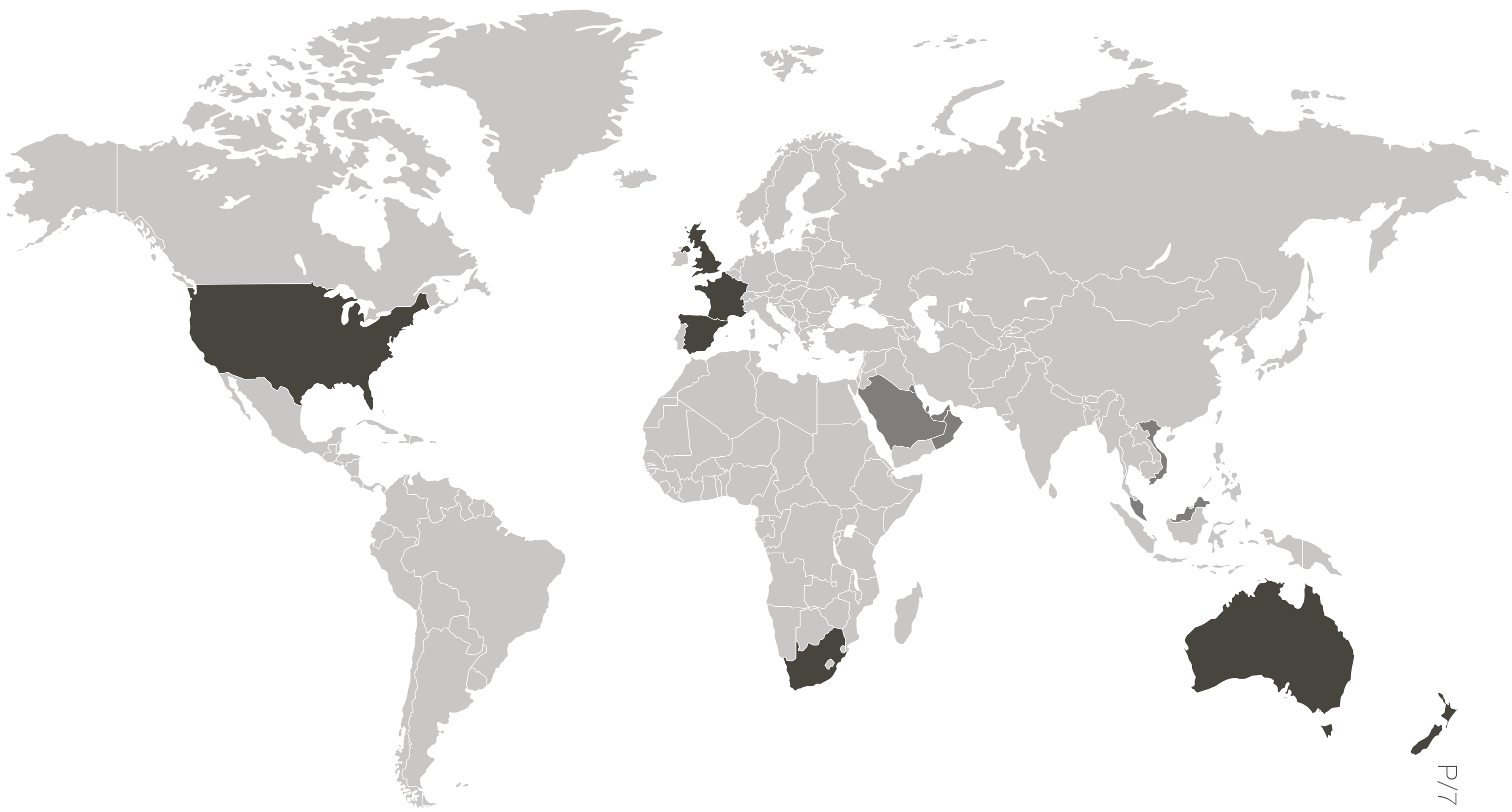
Net increase of 38 stores

Final Dividend

14.0 CPS

Fully Franked

GLOBAL REACH



KEY

Owned Stores

Franchise

STORE NUMBERS

Owned		FY18	FY17
Aus/NZ	Australia	151	145
	New Zealand	20	18
Asia	Singapore	22	21
	Malaysia	21	19
Africa	South Africa	56	50
Europe/Americas	UK	24	11
	Spain	5	1
	France	2	-
	USA	1	-
Total Owned		**302**	**265**

Franchise	FY18	FY17
Asia	6	4
Middle East	18	19
Total Franchise	**24**	**23**
TOTAL STORES	**326**	**288**

ABOUT LOVISA

Lovisa was born from a desire to fill the void for fashion forward and directional jewellery that is brilliantly affordable.

Now trading from 326 stores in 15 Countries. To stay ahead of trend, Lovisa utilises daily inventory monitoring software and airfreight to move product to store locations within 48 hours from our centrally located warehouses in Melbourne and Hong Kong.

CHAIRMAN'S & MANAGING DIRECTOR'S REPORT

Strong earnings growth in 2018, with global rollout continuing.

OVERVIEW

It is very pleasing to report that Lovisa Holdings Limited (Lovisa) has delivered another record result for the year ended 1 July 2018 with sales, profits, cash flow and dividends all significantly up on the prior year. This result was driven by a combination of sales growth, margin improvement and cost of doing business management underpinned by emphasis on ensuring our retail offer resonates with our customers.

The company continued its international expansion with a net increase of 38 stores which included entry into two new markets, and closed the financial year with 54% of the store network in markets outside Australia. Following another year of strong operating cash flows, the company is well positioned to accelerate its international growth plans.

FINANCIALS

Revenue for the year was $217m being a 21.4% increase on the prior year. Sales momentum was again strong throughout the year with comparable store sales growth of 6.8% driven by growth across all regions, with a strong Christmas and Boxing Day period and continued delivery on key trends in the fashion jewellery sector.

Trading margins increased to 80.0% from 78.8% in the prior year as a result of continuing to deliver on-trend product, strong inventory management and favourable foreign exchange rates. We estimate that on a constant currency basis, gross margin was 79.1%, a 30 basis point improvement on FY17.

The Company's Cost of Doing Business (CODB) margin was consistent with FY17 at 53% of sales, despite the continued investment in the structures to support the global growth of the business, and the opening of 38 net new stores.

Earnings before interest and tax (EBIT) was $51.1m being a 26% increase on EBIT from the prior year resulting in the delivery of Net profit after tax of $36.0m, a 24% increase on FY17, and earnings per share of 34.2 cents.

The Company's cash flow was again strong with operating cash conversion at 104% resulting in cashflow from operating activities lifting $10.2m to $60.6m. Capital expenditure predominantly from new stores and existing store refurbishments was $15.3m. Free cash flow after dividends was $9.9m.

CAPITAL MANAGEMENT

The balance sheet was further strengthened during the year with strong cash generation delivering net cash reserves at year-end of $21.1m, and enabling the Directors to announce a final dividend of 14 cents per share, an increase of 6.4 cents on the prior year.

INTERNATIONAL STORE EXPANSION

During the year the company increased its store network to 326 stores. The company's international expansion continued with store openings across all existing markets, the United Kingdom store rollout gaining momentum with 13 new stores for the year, and importantly the company now has stores operating in Spain, the USA, and France as we test our model in those markets with a view to them becoming important parts of our global rollout strategy. We continue to be diligent in ensuring store location and rent economics meet our internal hurdles before signing long term leases. We are engaged with Landlords across all markets ensuring Landlords are familiar with the Lovisa Brand and the company's financial strength.

DIVIDENDS

Following the strong earnings and cash flow performance, the Directors declared a final dividend of 14.0 cents per share fully franked for the year ended 1 July 2018, taking the total dividends for the year to 27.0 cents, a 53% increase on FY17. The final dividend will be paid on 25 October 2018.

BOARD RENEWAL

We are pleased to announce that Mr John Armstrong has agreed to join the Board as an Independent Non-Executive Director, effective from 25 September 2018. Mr Armstrong has more than 30 years' experience in various financial and commercial management roles and brings significant financial experience to the Board. His most recent executive role was at SEEK Limited, an ASX 50 listed leading recruitment and education provider, where he was the Chief Financial Officer for over 12 years.

After completing an agreed term of two years, the Chairman has decided to stand down and retire from the Board at the Annual General Meeting on 30 October 2018. Mr Kay agreed to join the board to bring his experience in public markets to the then recently listed Lovisa. Lovisa is now well established with the investment community and the task now is to accelerate the roll out of stores and the online sales channel in suitable countries around the world.

With this in mind, we are delighted Mr Brett Blundy has agreed to join the board as a full-time director (he is currently alternate to Ms Tracey Blundy) from 1 November 2018. Mr Blundy will assume the role of Chairman on that date.

OUTLOOK

We continue to cycle particularly strong comparable store sales delivered over recent years, with growth above our target range delivered in each of the past 4 years, which will make continuation of the comparable store sales momentum delivered in FY18 more challenging. Whilst we continue to maintain positive comparable store sales growth as we begin FY19, we are currently trading below our long-term target range of 3-5%.

Subject to being able to source suitable sites, we expect to accelerate the store rollout in the coming year, with the increase in number of stores for FY19 to be higher than FY18. We will continue to invest in our support structures ahead of the growth curve to drive store network expansion. We forecast to go into Christmas trading with at least 7 stores in each of the US, France, and Spain markets as we continue to build our presence.

The key drivers of success for Lovisa continue to be a dedicated fast fashion jewellery offer to it its customers supported by a talented and enthusiastic team. Your Board and Management team remain committed to maintaining this and we look forward to another exciting and successful year.

Michael Kay
Non-Executive Chairman

Shane Fallscheer
Managing Director

THE DIRECTORS REPORT

THE DIRECTORS

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


Michael Kay


Shane Fallscheer


Tracey Blundy


James King


Brett Blundy

Michael Kay
Independent Non-Executive Director & Chairman
Appointed 13 April 2016

Chairman of the Board
Chairman of the Remuneration & Nomination Committee
Member of the Audit, Business Risk & Compliance Committee.

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

Shane Fallscheer
Managing Director
Appointed 6 November 2014

Shane Fallscheer is the Managing Director and founder of Lovisa. He has 31 years of experience in retailing operations across Australia, UK and US markets. He was previously in senior management roles with retailers including: General Manager, Sanity Australia; Chief Executive Officer, Sanity UK; Chief Executive Officer, Diva; and Global Retail Chairman and Chief Operating Officer, Rip Curl USA.

Tracey Blundy
Non-Executive Director
Appointed 6 November 2014
Member of the Audit, Business Risk & Compliance Committee
Member of the Remuneration & Nomination Committee.

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

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

James King
Independent Non-Executive Director
Appointed 17 May 2016

Chairman of the Audit, Business Risk & Compliance Committee

Member of the Remuneration & Nomination Committee

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

Brett Blundy
Alternate Director for Tracey Blundy
Appointed 16 April 2018

Along with being co-founder and substantial shareholder, Brett is also the Chairman and Founder of BB Retail Capital ("BBRC"), a private investment group with diverse global interests across retail, capital management, retail property, beef, and other innovative ventures.

Brett is one of Australia's most succesful retailers, with BBRC's retail presence extending to over 800 stores across more than 15 countries. Brett is currently a non-executive director of Accent Group Limited (ASX: AX1) and Aventus Retail Property Fund (ASX: AVN). Brett also sits on the Board of Directors of Human Longevity Inc.

1. DIRECTORS

The Directors of Lovisa Holdings Limited (the 'Company') present their report together with the Consolidated Financial Statements of the Company and its controlled entities (the 'Group' or 'Consolidated Entity') for the financial year ended 1 July 2018.

	Board		Audit and Risk		Remuneration & Nomination	
Director	Number attended	Number held	Number attended	Number held	Number attended	Number held
M Kay	10	10	4	4	6	6
T Blundy	9	10	3	4	5	6
P Cave	3	3	1	1	1	1
S Fallscheer	10	10	-	-	-	-
J King	10	10	4	4	6	6
B Blundy	1	3	-	-	-	-

Paul Cave was a Director of Lovisa Holdings Limited during the year until his resignation on 31 October 2017.

1.1 Company Secretary

Chris Lauder was appointed Company Secretary on 15 September 2017. He is also the company's Chief Financial Officer. Mr Lauder is a Chartered Accountant. Graeme Fallet resigned as Company Secretary on 15 September 2017.

1.2 Directors Interests in Shares

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

Director	Ordinary Shares in the Company
M Kay (1)	250,000
T Blundy (2)	1,153,005
S Fallscheer (3)	4,490,000
J King (4)	34,000
B Blundy (5)	43,207,500

(1) Shares held by Doveton Kay Investments Pty Ltd ATF Doveton Kay Investments Trust and M&S Kay Superannuation Fund Pty Ltd ATF M&S Kay Superannuation Fund
(2) Shares held by Coloskye Pty Ltd
(3) Shares held by Centerville Pty Ltd
(4) Shares held by King Family Super Fund
(5) Shares held by BB Retail Capital Pty Ltd

2. PRINCIPAL ACTIVITIES

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

The business has 326 retail stores in operation at 1 July 2018 including 24 franchise stores.

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

3. DIVIDENDS

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

	2018	2017
	$000's	$000's
Final ordinary dividend for the year ended 30 June 2017 of 7.6 cents (2016: 2.0 cents) per fully paid share fully franked paid on 26 October 2017	7,980	2,100
Interim ordinary dividend for the year ended 30 June 2018 of 13.0 cents (2017: 10.0 cents) per fully paid share fully franked paid on 27 April 2018	13,652	10,500
Total dividends paid	21,632	12,600

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final dividend of $14,702,000 (14.0 cents per fully paid share) expected to be paid on 25 October 2018. The dividend will be fully franked.

4. REVIEW OF OPERATIONS

The following summary of operating results and operating metrics reflects the Group's performance for the year ended 1 July 2018:

Consolidated	2018	2017
Gross Margin %	80%	79%
EBITDA ($000)	58,200	46,243
NPAT ($000)	35,954	29,046
Basic Earnings per share	34.24c	27.66c

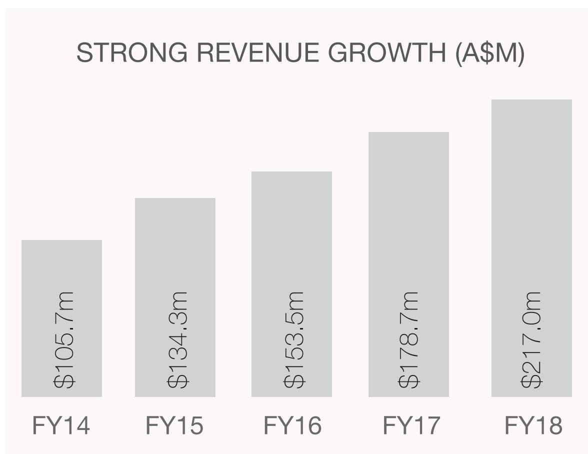
4.1 Financial Performance

For the year ended 1 July 2018 the Group reported a net profit after tax of $36.0 million following continued strong same store sales growth of 6.8% and the addition of a further net 38 stores across the globe. This was also assisted by an increase in gross margin on the back of strong range performance, tight inventory management and the stronger Australian dollar.

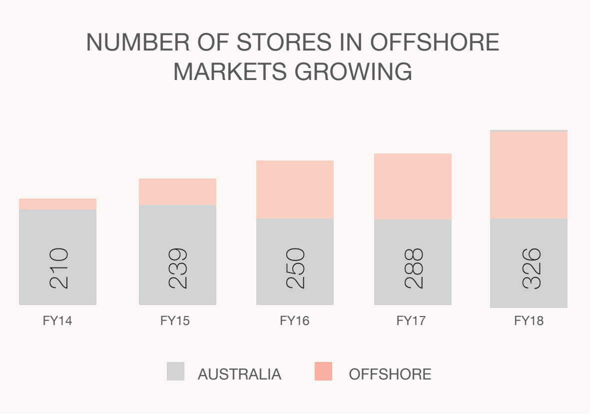
This result reflects an increase of 23.8% on the Group's 2017 net profit.

Consolidated $'000	FY2018	FY2017	Change
Sales	217,010	178,746	21.4%
Gross profit	173,637	140,822	23.3%
Operating expenses	115,437	94,579	22.1%
EBITDA	58,200	46,243	25.9%
EBIT	51,074	40,704	25.5%
Net profit after tax (NPAT)	35,954	29,046	23.8%

4.1.1 Sales



4.1.1 Sales (continued)



The Group's reported revenue was $217.0m, being a 21.4% increase on the prior year with comparable sales growth of 6.8% across the Group. Total Company sales were $215.5m being 21.3% up on last year. Franchise income increased by 37.6% to $1.5m.

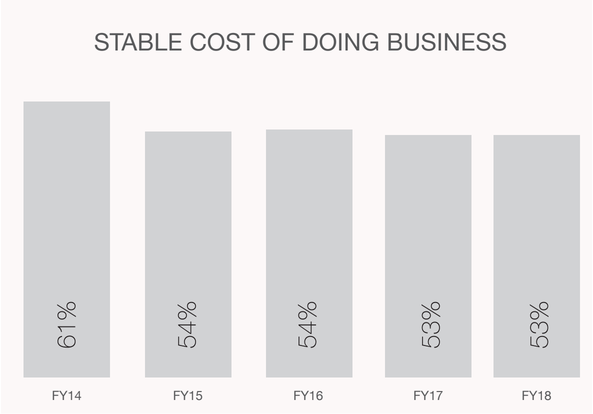
The offshore expansion continued during the year with the addition of a net 38 stores across the Group, comprising of 52 new stores including new stores in France and the USA, offset by 14 stores closed.

4.1.2 Gross Profit Margin

The Group's Gross Profit increased by 23.3% to $173.6m. Gross Margin increased to 80.0% from 78.8% in the prior year on the back of strong range performance, tight inventory management and the stronger Australian dollar.

This Margin increase benefited from currency tailwinds associated with the Australian Dollar. We estimate 90bps of the 120bps improvement in gross margin was a result of the impact of the stronger Australian dollar on stock purchases.

4.1.3 Cost Of Doing Business



The Group's Cost of Doing Business (CODB) remained steady during the year despite the continued investment in new territory infastructure, management bench strength and the net opening of 38 new stores. The Group continues to invest in its international operating structure ahead of the curve.

4.1.4 Earnings

Earnings before interest and tax (EBIT) was $51.1m being a 25.5% increase on EBIT from the prior year. Financing costs were positive during the year following strong cash flow and debt facilities remaining undrawn.

Net profit after tax increased 23.8% to $36.0m with EPS lifting to 34.2 cents.

4.1.5 Cash Flow

The Group's net cash flow from operating activities increased $7.2m during the year to $46.8m. The Group's cash flow before tax and financing costs was $60.6m. Capital expenditure of $14.2m relates predominately to new store openings and refurbishments of current stores upon lease renewal. The Group has net cash of $21.1m on hand at year end.

4.2 Financial Position

Consolidated	Actual FY2018 $'000	Actual FY2017 $'000	Change FY17/FY18 %
Trade receivables and prepayments	4,881	3,615	35.0%
Inventories	14,945	13,127	13.8%
Trade payables and provisions	(27,579)	(19,996)	37.9%
Net working capital	(7,753)	(3,254)	138.3%
Property, plant & equipment	22,411	15,658	43.1%
Intangible assets and goodwill	3,563	2,276	56.5%
Total funds employed	18,221	14,680	24.1%
Net cash	21,057	11,039	90.8%
Net derivative asset/(liability)	1,429	(805)	(277.5%)
Net deferred tax balances	4,535	3,275	38.5%
Net assets/equity	45,242	28,189	60.5%

Net working capital

The Group's net working capital strengthened during the year predominately from improved inventory management. Inventory levels increased from $13.1m to $14.9m during the year due to an increase of 37 company owned stores and 1 Franchise store.

Property, plant and equipment

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

Debt facilities

The Group maintains its debt facilities at $25m along with a $5m contingent liability facility predominately for issuance of Bank Guarantees and Letters of Credit to international landlords. Following the strong cash flow during the year the Group possesses net cash reserves of $21.1m at year end.

5. BUSINESS STRATEGIES

Lovisa has achieved rapid growth since it was founded, with revenue growing from $25.5 million in FY2011 to $217.0 million in FY2018. The Group continues to focus on its key drivers to deliver growth in sales and profit growth.

Growth pillar	Business Strategy Section	Strategy	Risks	Achievements
International expansion	5.2	• Continue to leverage current international territories • Leverage the Company's capital in large international markets • Roll out UK territory and investigate other Northern Hemisphere markets • Consider franchise partners for selected territories • Expand into new international markets, targeting one new trial territory per annum	• Competition (6.2) • Retail environment and general economic conditions (6.3) • Failure to successfully implement growth strategies (6.4)	• Net 32 stores opened outside of Australia during the year including 13 stores in the United Kingdom and 4 new stores in Spain. Two new territories were entered during the year with 2 stores in France and a new store in the USA. Two franchise stores were opened during the year, with one closed.
Streamline global supply chain	5.3	• Streamline and optimise supply base in Asia • Optimise air and sea freight whilst maintaining speed to market operating model • Consider Northern Hemisphere distribution centre	• Exchange rates (6.5) • Product sourcing or supply chain disruptions	• Over 45% of product was moved through the HK warehouse (FY17: 36%) • Planned move of Asian distribution hub from HK to China
Enhance existing store performance	5.4	• Optimise and improve existing store network • Continue to target high traffic shopping precincts • Judicious pricing	• Competition (6.2) • Retail environment and general economic conditions (6.3) • Prevailing fashions and consumer preferences may change (6.6)	• FY18 LFL sales growth of 6.8% • We continue to close stores in sub-optimal locations
Brand proliferation	5.5	• Continue to leverage online social media to connect with customers and increase brand loyalty	• Prevailing fashions and consumer preferences may change (6.6) • Privacy breaches	• Increased social media engagement
Lead and pre-empt trends	5.1	• Stay on trend with shifts in jewellery and accessory market • Continue to provide a high quality and diverse product offering	• Prevailing fashions and consumer preferences may change (6.6)	• Continued strong LFL growth being testament to an ability to identify trends

5.1 Lead and Pre-Empt Trends

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

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

5.2 New Store Rollouts & International Expansion

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

The key driver of future growth for Lovisa is the continued international store roll-out. Lovisa has proven it is capable of successfully operating profitably in international territories, having established a portfolio of company owned stores in Australia, New Zealand, Singapore, Malaysia, South Africa, the United Kingdom, Spain, France and the United States of America and supporting franchised stores in Kuwait, the United Arab Emirates, Oman, Bahrain , Saudi Arabia and Vietnam. Lovisa will continue to explore other markets through pilot programs and will advise shareholders upon successful completion of those pilot programs in order to capitalise on the opportunities presented and obtain scale in these markets.

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

The history of Lovisa stores is as follows:

	FY2014	FY2015	FY2016	FY2017	FY2018
Australia	166	146	144	145	151
New Zealand	14	14	18	18	20
Singapore	10	15	19	21	22
South Africa	11	36	36	50	56
Malaysia	7	15	14	19	21
United Kingdom	-	-	3	11	24
Spain	-	-	-	1	5
France	-	-	-	-	2
USA	-	-	-	-	1
Middle East*	2	13	16	19	18
Vietnam*	-	-	-	4	6
Total	**210**	**239**	**250**	**288**	**326**

* Franchise Stores

5.3 Streamline Global Supply Chain

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

Lovisa constantly reviews its supply chain process for potential efficiency gains and cost reductions in order to generate higher gross margins. This includes improvements in its global warehouse and logistics program and the consolidation and rationalisation of its supplier base. In August 2018, the Group successfully transitioned the HK third party warehouse to a new third party warehouse in Qingdao, China to ensure we are better placed to efficiently support the global expansion of the business.

5.4 Enhance Existing Store Performance

Lovisa is constantly reviewing the efficiency of its existing store network to ensure that stores are run as profitably as possible, with stores closed if they are not performing to expectations and new sites continuing to be identified. Whilst some of the markets Lovisa operates in are mature and have less opportunities for new store openings, our leasing team continue to assess new sites as they arise.

5.5 Brand Proliferation

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

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

6. MATERIAL BUSINESS RISKS

6.1 Business Risks

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

6.2 Competition

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

Lovisa's current competitors include:

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

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

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

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

6.3 Retail Environment and General Economic Conditions

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

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

6.4 Failure to Successfully Implement Growth Strategies

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

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

The following risks apply to the roll out program:

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

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

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

6.5 Exchange Rates

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

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

6.6 Prevailing Fashions and Consumer Preferences May Change

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

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

7. EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial year the Directors have recommended the payment of a final dividend of $14,702,000 (14.0 cents per fully paid share) expected to be paid on 25 October 2018. The dividend will be fully franked.

No other matters or circumstance has arisen since 1 July 2018 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

8. LIKELY DEVELOPMENTS

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

9. REMUNERATION REPORT - AUDITED

9.1 Remuneration Overview

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

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

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

9.2 Principles Used to Determine the Nature and Amount of Remuneration

Key Management Personnel

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

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

Non-Executive Director KMP

Michael Kay	Chairman
James King	Director
Tracey Blundy	Director
Brett Blundy	Alternate Director
Paul Cave	Director (Resigned 31 October 2017)

Executive KMP

Shane Fallscheer	Managing Director
Steven Doyle	Chief Executive Officer (Resigned 20 April 2018)
Chris Lauder	Chief Financial Officer (Appointed 13 September 2017)
Graeme Fallet	Chief Financial Officer (Resigned 15 September 2017)

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

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

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

(a) Non-Executive Directors KMP Remuneration

Non-executive Directors' fees are determined within an aggregate Non-executive Directors' pool limit of $600,000. Total Non-executive Directors' remuneration including non-monetary benefits and superannuation paid at the statutory prescribed rate for the year ended 1 July 2018 was $336,667.

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

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

(b) Executive remuneration

Lovisa's remuneration strategy is to:

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

Remuneration will incorporate at risk elements to:

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

B. Remuneration Structure

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

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

The mix of fixed and at risk components for each Senior Executive as a percentage of total target remuneration for the 2018 financial year is as follows:

Senior Executive	Fixed remuneration	At risk remuneration
Shane Fallscheer	64%	36%
Steven Doyle	50%	50%
Chris Lauder	69%	31%

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

Base Salary and Benefits

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

Short Term Incentive plan

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

Long Term Incentive plan

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

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

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

Performance Conditions

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

Initial Public Offering Grant - Options

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

The key terms associated with these options are:

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

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

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

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

FY2017 LTI – Performance Options

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

- The performance period commences 4 July 2016 and ends 30 June 2019.
- The exercise price of the Performance Options is $2.10 for the May granted options, and $2.63 for the August granted options, which represents the 30 day VWAP to the date of grant.
- A total of 3,459,916 Performance Options were granted in the May grant and 411,764 in the August grant. 1,687,764 of these options were subject to shareholder approval.
- The expiry of the Performance Options is 12 months following the end of the performance period.
- The grant of Performance Options are subject to performance conditions based on delivering the Company's EPS target growth over the performance period, as set out below.
- The Performance Options granted to the Managing Director were approved at the 2016 AGM.
- 1,772,152 options were forfeited during the year.

FY2018 LTI – Performance Options

In July 2017, October 2017 and November 2017 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2018 LTI. The key terms associated with the 2017 Grant are:

- The performance period commences 3 July 2017 and ends 28 June 2020.
- The exercise price of the Performance Options is $3.79 for the July 2017 granted options, $4.00 for the October 2017 granted options and $5.94 for the November 2017 granted options, which represents the 30 day VWAP to the date of grant.
- A total of 2,959,660 Performance Options were granted in the July 2017 grant, 377,171 in the October 2017 grant and 337,553 in the November 2017 grant. 1,308,901 of these options were subject to shareholder approval.
- The expiry of the Performance Options is 12 months following the end of the performance period.
- The grant of Performance Options are subject to performance conditions based on delivering the Company's EPS target over the performance period, as set out below.
- The Performance Options granted to the Managing Director were approved at the 2017 AGM.
- 1,072,225 options were forfeited during the year.

The Board has determined the EPS Target growth hurdles applicable to both the FY2017 and FY2018 grants are as follows:

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

9.3 Details of Remuneration

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

	Year	Short Term Employment Benefits			Post-Employment Benefits	Long Term Benefits	Share Based Payments	Other Benefits	
		Salary & Fees ($)	Non-monetary benefits ($)	Performance based payment ($)	Super Contributions ($)	Annual & Long Service Leave ($)	Options/ Rights ($)		Total ($)
NON-EXEC DIRECTORS									
M Kay	**2018**	**136,986**	**-**	**-**	**13,014**	**-**	**-**	**-**	**150,000**
	2017	136,986	-	-	13,014	-	-	-	150,000
P Cave (1)	**2018**	**23,197**	**-**	**-**	**3,470**	**-**	**-**	**-**	**26,667**
	2017	73,059	-	-	6,941	-	-	-	80,000
T Blundy	**2018**	**69,794**	**-**	**-**	**10,206**	**-**	**-**	**-**	**80,000**
	2017	60,000	-	-	20,000	-	-	-	80,000
J King	**2018**	**73,059**	**-**	**-**	**6,941**	**-**	**-**	**-**	**80,000**
	2017	73,059	-	-	6,941	-	-	-	80,000
B Blundy (2)	**2018**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2017	-	-	-	-	-	-	-	-
TOTAL NON-EXEC DIRECTORS	**2018**	**303,036**	**-**	**-**	**33,631**	**-**	**-**	**-**	**336,667**
	2017	343,104	-	-	46,896	-	-	-	390,000
EXEC DIRECTORS									
S Fallscheer	**2018**	**636,063**	**27,841**	**-**	**30,000**	**85,397**	**299,987**	**-**	**1,079,288**
	2017	607,025	22,023	-	30,000	65,891	245,144	-	970,083
OTHER KMP									
S Doyle (3)	**2018**	**430,289**	**-**	**245,760**	**20,048**	**34,355**	**(100,000)**	**261,559**	**892,011**
	2017	546,118	-	225,000	19,616	47,787	100,000	-	938,521
C Lauder (4)	**2018**	**264,578**	**-**	**20,000**	**21,174**	**28,428**	**32,000**	**-**	**366,180**
	2017	-	-	-	-	-	-	-	-
G Fallet (5)	**2018**	**73,136**	**-**	**-**	**3,341**	**5,064**	**(40,000)**	**189,980**	**231,521**
	2017	367,217	-	60,000	21,250	30,299	40,000	-	518,766
TOTAL EXEC	**2018**	**1,404,066**	**27,841**	**265,760**	**74,563**	**153,244**	**191,987**	**451,539**	**2,569,000**
	2017	1,520,360	22,023	285,000	70,866	143,978	385,144	-	2,427,370

(1) Resigned as a Director on 31 October 2017
(2) Appointed as Alternate Director of Lovisa Holdings on 16 April 2018
(3) Resigned on 20 April 2018
(4) Appointed on 13 September 2017
(5) Resigned on 15 September 2017

9.4 STI Remuneration Analysis

Analysis of STI included in remuneration

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

	Grant Date	STI awarded ($)	STI awarded as % of maximum STI	% of STI award forfeited
S Doyle	May 2018	245,760	100%	0%
C Lauder	August 2018	20,000	100%	0%

9.5 Equity Remuneration Analysis

Analysis of Options and Performance Rights over Equity Instruments Granted as Compensation

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

	Performance Rights/Options granted			Included in Remuneration $	% vested in the period	% forfeited in the period	Financial period in which grant vests
	Number	Value $	Performance period commences				
S Fallscheer							
IPO LTIP	550,000	210,000	18 December 2014	-	100	-	2 July 2017
FY17 LTIP	1,687,764	400,000	4 July 2016	133,320	-	-	30 June 2019
FY18 LTIP	1,308,901	500,000	3 July 2017	166,667	-	-	28 June 2020
S Doyle							
FY17 LTIP	1,265,823	300,000	4 July 2016	(100,000)	-	100	30 June 2019
FY18 LTIP	1,072,225	409,950	3 July 2017	-	-	100	28 June 2020
G Fallet							
FY17 LTIP	506,329	120,000	4 July 2016	(40,000)	-	100	30 June 2019
C Lauder							
FY18 LTIP	337,553	160,000	3 July 2017	32,000	-	-	28 June 2020

9.6 Options and Performance Rights Over Equity Instruments

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

	Held at 3 July 2017	Granted	Exercised	Forfeited	Held at 1 July 2018	Vested during the year %	Vested and exercisable at 1 July 2018
Directors							
S Fallscheer							
- IPO LTIP	550,000	-	-	-	550,000	-	550,000
- FY17 LTIP	1,687,764	-	-	-	1,687,764	-	-
- FY18 LTIP	-	1,308,901	-	-	1,308,901	-	-
Executives							
S Doyle							
- FY17 LTIP	1,265,823	-	-	(1,265,823)	-	-	-
- FY18 LTIP	-	1,072,225	-	(1,072,225)	-	-	-
C Lauder							
- FY18 LTIP	-	337,553	-	-	337,553	-	-
G Fallet							
- FY17 LTIP	506,329	-	-	(506,329)	-	-	-

9.7 Consequences of Performance on Shareholder Wealth

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

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

	FY 2018	FY 2017	FY2016
Net profit after tax ($000)	35,954	29,046	16,553
Dividends paid ($000)	21,632	12,600	11,277
Share Price	$11.70	$3.69	$2.28
Earnings per share (cents)	34.24	27.66	15.76

KMP Shareholdings

The following table details the ordinary shareholdings and the movements in the shareholdings of KMP (including their personally related entities) for FY2018.

No. of shares	Held at 3 July 2017	Shares Purchased	Held at 1 July 2018
Non-executive Directors			
M Kay	250,000	-	250,000
T Blundy	1,153,005	-	1,153,005
J King	34,000	-	34,000
B Blundy (alternate)	43,207,500	-	43,207,500
Executive Directors			
S Fallscheer	4,490,000	-	4,490,000
Executive			
C Lauder	-	-	-

10. INSURANCE OF OFFICERS AND INDEMNITIES

During the financial year, Lovisa Holdings Limited paid a premium of $160,000 (2017: $43,000) to insure the Directors and officers of the Group.

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

11. AUDIT SERVICES

11.1 Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 81 and forms part of this Directors' Report.

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

During the financial year ended 1 July 2018, the following fees were paid or were due and payable for services provided by the external auditor, KPMG, of the Consolidated Entity:

Consolidated Entity	2018 $000	2017 $000
Audit and assurance services		
Audit and review of financial statements	240	230
Other services		
Tax compliance services	103	129
Other accounting services	113	86
	456	445

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

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

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

12. PROCEEDINGS ON BEHALF OF COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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

13. ENVIRONMENTAL REGULATION

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

14. ROUNDING OF AMOUNTS

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

Signed in accordance with a resolution of the Directors

Michael Kay
Non-Executive Chairman

Shane Fallscheer
Managing Director

Melbourne, 21 August 2018

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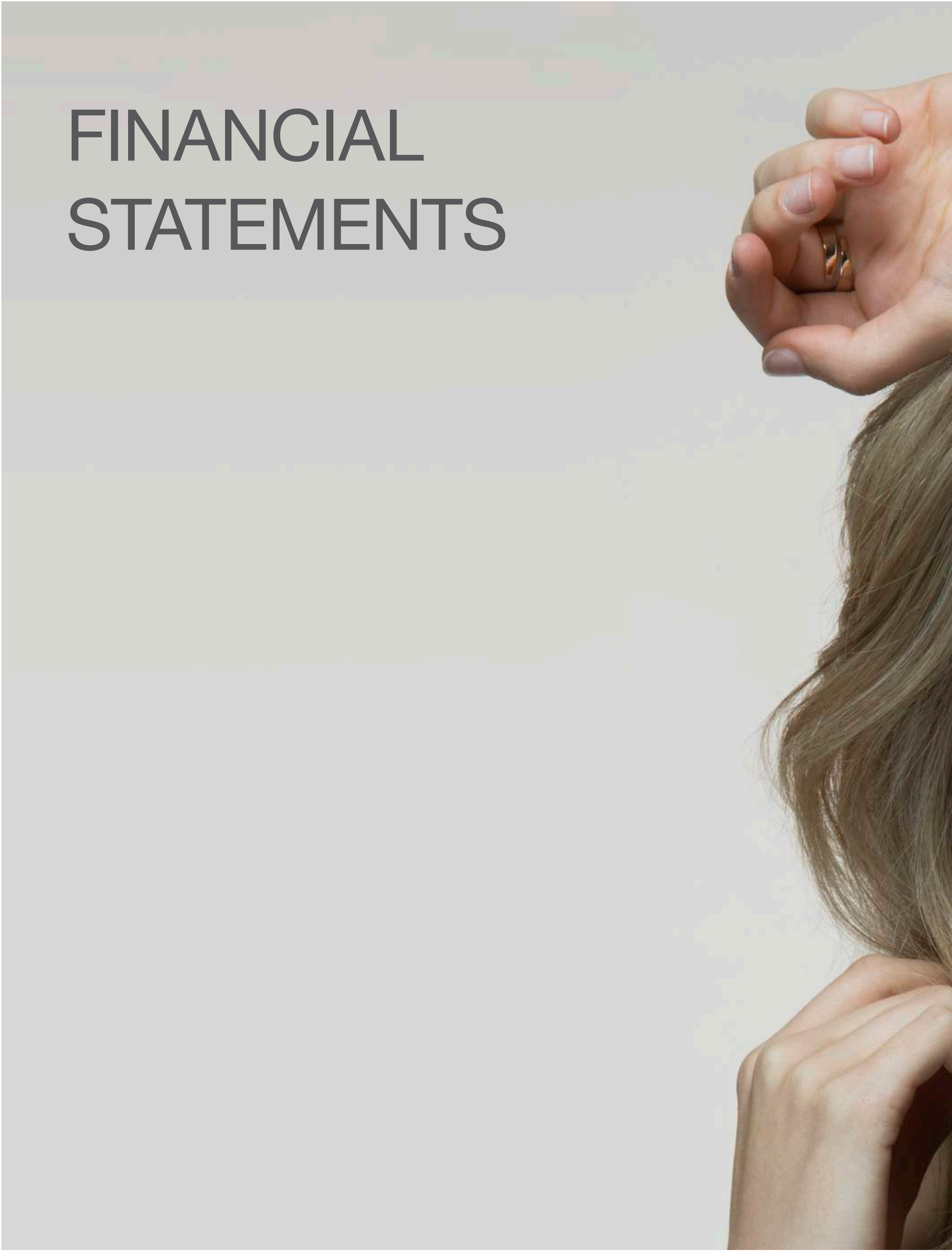
FINANCIAL STATEMENTS



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 1 July 2018

	Note	1 July	3 July
Consolidated ($000s)		**2018**	**2017**
Assets			
Cash and cash equivalents	C5	21,057	12,744
Trade and other receivables	B1	4,881	3,615
Inventories	B2	14,945	13,127
Derivatives		1,429	-
Total current assets		42,312	29,486
Deferred tax assets	A6	4,535	3,275
Property, plant and equipment	B3	22,411	15,658
Intangible assets and goodwill	B4	3,563	2,276
Total non-current assets		30,509	21,209
Total assets		72,821	50,695
Liabilities			
Bank overdraft	C5	-	1,705
Trade and other payables	B6	11,747	10,001
Employee benefits - current	B8	2,416	2,075
Derivatives	C4	-	805
Provisions - current	B7	1,117	1,042
Current tax liabilities		6,534	3,819
Total current liabilities		21,814	19,447
Employee benefits - non current	B8	780	608
Provisions - non current	B7	4,985	2,451
Total non-current liabilities		5,765	3,059
Total liabilities		27,579	22,506
Net assets		45,242	28,189
Equity			
Issued capital	C1	208,526	208,526
Common control reserve		(208,906)	(208,906)
Other reserves		2,270	(461)
Retained earnings		43,352	29,030
Total equity		45,242	28,189

The Notes on pages 38 to 73 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the financial year ended 1 July 2018

Consolidated ($000s)	Note	2018	2017
Revenue	A2	217,010	178,746
Cost of sales		(43,373)	(37,924)
Gross profit		173,637	140,822
Salaries and employee benefits expense	A3	(55,514)	(45,276)
Property expenses		(34,713)	(28,683)
Distribution costs		(7,213)	(4,464)
Depreciation and amortisation expense		(7,126)	(5,539)
Loss on disposal of property, plant and equipment		(463)	(785)
Other expenses		(17,534)	(15,371)
Operating profit		51,074	40,704
Finance income		192	142
Finance costs		(111)	(404)
Net finance costs		81	(262)
Profit before tax		51,155	40,442
Income tax expense	A6	(15,201)	(11,396)
Profit after tax		35,954	29,046
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Cash flow hedges		1,981	41
Foreign operations - foreign currency translation differences		410	90
		2,391	131
Other comprehensive income, net of tax		2,391	131
Total comprehensive income		38,345	29,177
Profit attributable to:			
Owners of the Company		35,954	29,046
		35,954	29,046
Total comprehensive income attributable to:			
Owners of the Company		38,345	29,177
Total comprehensive income for the year		38,345	29,177
Earnings per share			
Basic earnings per share (cents)	A4	34.24	27.66
Diluted earnings per share (cents)	A4	33.33	27.25

The Notes on pages 38 to 73 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 1 July 2018

		Attributable to Equity Holders of the Company						
Consolidated ($000s)	**Note**	**Share Capital**	**Common Control Reserve**	**Retained Earnings**	**Share Based Payments Reserve**	**Cash Flow Hedge Reserve**	**Foreign Currency Translation Reserve**	**Total Equity**
Balance at 4 July 2016		208,526	(208,906)	12,584	116	(772)	(376)	11,172
Total comprehensive income for the year								
Profit		-	-	29,046	-	-	-	29,046
Cash flow hedges		-	-	-	-	41	-	41
Foreign operations - foreign currency translation differences		-	-	-	-	-	90	90
Total comprehensive income for the year		-	-	29,046	-	41	90	29,177
Transactions with owners of the Company								
Employee share schemes	D4	-	-	-	440	-	-	440
Dividends	A5	-	-	(12,600)	-	-	-	(12,600)
Total transactions with owners of the Company		-	-	(12,600)	440	-	-	(12,160)
Balance at 2 July 2017		208,526	(208,906)	29,030	556	(731)	(286)	28,189
Balance at 3 July 2017		208,526	(208,906)	29,030	556	(731)	(286)	28,189
Total comprehensive income for the year								
Profit		-	-	35,954	-	-	-	35,954
Cash flow hedges		-	-	-	-	1,981	-	1,981
Foreign operations - foreign currency translation differences		-	-	-	-	-	410	410
Total comprehensive income for the year		-	-	35,954	-	1,981	410	38,345
Transactions with owners of the Company								
Employee share schemes	D4	-	-	-	340	-	-	340
Dividends	A5	-	-	(21,632)	-	-	-	(21,632)
Total transactions with owners of the Company		-	-	(21,632)	340	-	-	(21,292)
Balance at 1 July 2018		208,526	(208,906)	43,352	896	1,250	124	45,242

The Notes on pages 38 to 73 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 1 July 2018

Consolidated ($000s)	Note	2018	2017
Cash flows from operating activities			
Cash receipts from customers		243,407	197,296
Cash paid to suppliers and employees		(182,802)	(146,931)
Cash generated from operating activities		60,605	50,365
Interest received		192	142
Interest paid		(111)	(404)
Income taxes paid		(13,895)	(10,471)
Net cash from operating activities	C5	46,791	39,632
Cash flows from investing activities			
Acquisition of fixed assets	B3	(14,183)	(8,800)
Proceeds from sale of property, plant and equipment		67	-
Acquisition of key money intangibles	B4	(1,162)	-
Net cash used in investing activities		(15,278)	(8,800)
Cash flows from financing activities			
Repayment of cash advance facility		-	(12,000)
Dividends paid	A5	(21,632)	(12,600)
Net cash used in financing activities		(21,632)	(24,600)
Net increase in cash and cash equivalents		9,881	6,231
Cash and cash equivalents at the beginning of the year	C5	11,039	4,729
Effect of movement in exchange rates on cash held		137	79
Cash and cash equivalents at the end of the year	C5	21,057	11,039

The Notes on pages 38 to 73 are an integral part of these consolidated financial statements.

SETTING THE SCENE

Lovisa Holdings Limited (the "Company") is a for-profit company incorporated and domiciled in Australia with its registered office at Level 1, 818-820 Glenferrie Road, Hawthorn, Victoria 3122. The consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" and individually the "Group companies"). The Group is primarily involved in the retail sale of fashion jewellery and accessories.

Lovisa Holdings Limited reports within a retail financial period. The current financial year represents a 52 week period ended on 1 July 2018 (2017: 52 week period ended 2 July 2017). This treatment is consistent with section 323D of Corporations Act 2001.

The consolidated financial statements of the Group for the financial year ended 1 July 2018 were authorised for issue by the Board of Directors on 21 August 2018.

Basis of accounting

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

- Has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards (AASBs) including Australian Accounting Interpretations, adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) and Interpretations as issued by the International Accounting Standards Board;
- Has been prepared on a historical cost basis except for derivative financial instruments which are measured at fair value. Non-current assets are stated at the lower of carrying amount and fair value less costs to sell;
- Presents reclassified comparative information where required for consistency with the current year's presentation;
- Adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2017. Refer to note D9 for further details; and
- Does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective except as disclosed in note D10.

Use of judgements and estimates

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

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the financial year ended 1 July 2018 are included in the following notes:

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

Basis of consolidation

Business combinations

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

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

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

Subsidiaries

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

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

Transactions eliminated on consolidation

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

Foreign currency

Functional and presentation currency

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

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

Translation of foreign currency transactions

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

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

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

Foreign operations

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

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

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of a net investment in a foreign operation are recognised in other comprehensive income, and are presented in the translation reserve in equity.

About the Notes to the financial statements

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

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

Subsequent events

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

BUSINESS PERFORMANCE

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

A1 OPERATING SEGMENTS

(a) Basis for segmentation

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

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

a. Consistent products are offered throughout the company's stores worldwide;

b. All stock sold throughout the world utilises common design processes and products are sourced from the same supplier base;

c. Customer base is similar throughout the world;

d. All stores are serviced from two delivery centres;

e. No major regulatory environment differences exist between operating territories.

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

(b) Geographic information

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

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

	2018	2017
($000s)	**Non-current assets (i)**	**Non-current assets (i)**
a) Australia / New Zealand	10,473	8,499
b) Asia	1,723	1,763
c) Africa	3,689	3,186
d) Europe / Americas	6,526	2,210
Total	22,411	15,658

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

A2 REVENUE

Revenue by nature and geography

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

($000s)	2018	2017
Sale of Goods		
Australia / New Zealand	132,013	122,577
Asia	34,558	28,320
Africa	30,499	21,895
Europe / Americas	18,393	4,830
Total Sale of Goods	215,463	177,622
Franchise Revenue		
Middle East	1,153	891
Asia	394	233
Total Franchise Revenue	1,547	1,124
Total Revenue	217,010	178,746

a) Revenue recognition and measurement

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

Sale of Goods

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

Franchise income

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

A3 EXPENSES

Expenses by nature

Consolidated ($000s)	2018	2017
Lease expense	26,864	23,861
Salaries and employee benefits expense		
Wages and salaries	50,824	41,047
Compulsory social security contributions	4,178	3,677
Increase in liability for long-service leave	172	112
Share-based payment expense	340	440
Total salaries and employee benefits expense	55,514	45,276

A4 EARNINGS PER SHARE (EPS)

Calculation methodology

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

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

EPS for profit attributable to ordinary shareholders of Lovisa Holdings Limited

	2018	2017
Basic EPS (cents)	34.24	27.66
Diluted EPS (cents)	33.33	27.25
Profit attributable to ordinary shareholders ($000s)	35,954	29,046
Weighted average number of ordinary shares for basic EPS (shares)	105,016,000	105,000,000
Weighted average number of ordinary shares and potential ordinary shares for diluted EPS (shares)	107,863,473	106,581,406

	2018	2017
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	105,016,000	105,000,000
Adjustments for calculation of diluted earnings per share:		
Options	2,847,473	1,565,406
Performance Rights	-	16,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	107,863,473	106,581,406

Information concerning the classification of securities

i) Options and performance rights

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

A5 DIVIDENDS

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

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

Consolidated ($000s)	**2018**	**2017**
7.6 cents per qualifying ordinary share (2017: 2.0 cents)	7,980	2,100
13.0 cents per qualifying ordinary share (2017: 10.0 cents)	13,652	10,500
	21,632	12,600

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

Consolidated ($000s)	**2018**	**2017**
14.0 cents per qualifying ordinary share (2017: 7.6 cents)	14,702	7,980
	14,702	7,980

Consolidated ($000s)	**2018**	**2017**
Dividend franking account		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2017: 30%)	8,623	5,363

A6 INCOME TAXES

Recognition and measurement

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

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

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

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

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

(a) Amounts recognised in profit or loss

Consolidated ($000s)	**2018**	**2017**
Current tax expense		
Current period	16,372	12,933
Changes in estimates related to prior years	171	(79)
	16,543	12,854
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(1,342)	(1,148)
Changes in temporary differences related to prior years	-	(310)
	(1,342)	(1,458)
Total income tax expense	15,201	11,396

A6 INCOME TAXES (CONTINUED)

(b) Reconciliation of effective tax rate

Consolidated ($000s)	**2018**	**2017**
Profit before tax from continuing operations	51,155	40,442
Tax at the Australian tax rate of 30% (2017: 30%)	15,347	12,133
Effect of tax rates in foreign jurisdictions	(532)	(674)
Non-deductible expenses	531	318
Tax exempt income	(28)	(52)
Utilisation of carried-forward tax losses	(450)	(201)
Recognition of tax effect of previously unrecognised tax losses	(483)	-
Current year losses for which no deferred tax asset is recognised	645	262
Changes in estimate related to prior years	171	(390)
Total non temporary differences	15,201	11,396
Temporary differences		
Amounts recognised in OCI	149	(51)
Net movement in deferred tax balances	1,260	1,458
Total temporary differences	1,409	1,407
Income taxes payable for the current financial year	16,610	12,803
Income taxes payable at the beginning of the year	3,819	1,487
Less: tax paid during the year	(13,895)	(10,471)
Income taxes payable as at year end	6,534	3,819
Represented in the Statement of financial position by:		
Current tax liabilities	6,534	3,819
Current tax assets	-	-
	6,534	3,819

Effective tax rates (ETR)

Bases of calculation of each ETR

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

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

Percentage	**2018**	**2017**
ETR		
Global operations – Total consolidated tax expense	29.7%	28.2%
Australian operations – Australian company income tax expense	30.4%	29.9%

A6 INCOME TAXES (CONTINUED)

(c) Deferred tax assets and liabilities reconciliation

	Statement of financial position		Statement of profit or loss	
Consolidated ($000s)	**2018**	**2017**	**2018**	**2017**
Property, plant and equipment	653	357	(294)	(760)
Employee benefits	1,162	967	(194)	(248)
Provisions	1,151	1,084	(66)	(332)
Other items	595	397	(303)	(353)
Transaction costs	235	469	235	235
Carry forward tax losses	739	-	(720)	-
Deferred tax expense	-	-	(1,342)	(1,458)
Net deferred tax assets	4,535	3,275		
Presented in the Statement of financial position as follows:				
Deferred tax assets	4,535	3,275		

Unused tax losses for which no deferred tax asset has been recognised total $652,000 (2017: $913,000).

(d) Expected settlement of deferred tax balances

Consolidated ($000s)	**2018**	**2017**
Deferred tax assets expected to be settled within 12 months	3,187	2,454
Deferred tax assets expected to be settled after 12 months	1,531	1,169
	4,718	3,623
Deferred tax liabilities expected to be settled within 12 months	183	178
Deferred tax liabilities expected to be settled after 12 months	-	171
	183	348
Net deferred tax assets	4,535	3,275

ASSET PLATFORM

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

B1 TRADE AND OTHER RECEIVABLES

Recognition and measurement

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

Consolidated ($000s)	Note	2018	2017
Trade receivables		959	1,001
Deposits		967	1,954
Prepayments		2,891	620
Other receivables		64	40
		4,881	3,615

Impairment of receivables

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

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

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

B2 INVENTORIES

Recognition and measurement

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

Costs of goods sold comprises purchase price from the supplier, cost of shipping product from supplier to warehouse, shrinkage and obsolescence. Warehouse and outbound freight costs are reported as distribution expenses. Inventories recognised as expenses during 2018 and included in cost of sales amount to $38,512,000 (2017: $32,508,000).

During 2018 inventories of $4,571,000 (2017: $5,180,000) were written down to net realisable value and included in cost of sales.

B3 PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Owned Assets

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

Subsequent costs

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

Depreciation and amortisation

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

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

Derecognition

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

B3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliation of carrying amount

Consolidated ($000s)	Note	Leasehold improvements	Hardware and software	Fixtures and fittings	Total
Depreciation policy		Lease term	3 years	3 years	
Cost					
Balance at 4 July 2016		28,153	2,987	772	31,912
Additions		7,962	684	154	8,800
Disposals		(3,495)	(2,124)	(732)	(6,351)
Effect of movements in exchange rates		(89)	8	-	(81)
Balance at 2 July 2017		32,532	1,555	194	34,281
Balance at 3 July 2017		32,532	1,555	194	34,281
Additions		10,533	2,130	1,520	14,183
Disposals		(2,892)	(96)	(1)	(2,989)
Effect of movements in exchange rates		497	25	3	525
Balance at 1 July 2018		40,670	3,614	1,716	46,000

Consolidated ($000s)	Note	Leasehold improvements	Hardware and software	Fixtures and fittings	Total
Accumulated depreciation and impairment losses					
Balance at 4 July 2016		(16,245)	(2,104)	(439)	(18,789)
Depreciation		(4,861)	(522)	(156)	(5,539)
Disposals		3,089	1,920	556	5,566
Effect of movements in exchange rates		137	2	1	140
Balance at 2 July 2017		(17,881)	(704)	(38)	(18,623)
Balance at 3 July 2017		(17,881)	(704)	(38)	(18,623)
Depreciation		(6,065)	(789)	(271)	(7,126)
Disposals		2,403	55	1	2,459
Effect of movements in exchange rates		(288)	(10)	(1)	(299)
Balance at 1 July 2018		(21,831)	(1,448)	(309)	(23,589)
Carrying amounts					
At 3 July 2016		11,908	883	333	13,123
At 2 July 2017		14,651	851	156	15,658
At 1 July 2018		18,839	2,166	1,407	22,411

B4 INTANGIBLE ASSETS AND GOODWILL

Recognition and measurement

Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortised.

Key Money

Key money represents expenditure associated with acquiring existing operating lease agreements for company-operated stores in countries where there is an active market for key money (e.g. regularly published transaction prices), also referred to as 'rights of use'. Key money is not amortised but annually tested for impairment. Key money in countries where there is not an active market for key money is amortised over the contractual lease period.

(a) Reconciliation of carrying amount

Consolidated ($000s)	Note	Key Money	Goodwill
Cost			
Balance at 4 July 2016		-	2,073
Effect of movements in exchange rates		-	203
Balance at 2 July 2017		-	2,276
Balance at 3 July 2017		-	2,276
Additions		1,162	-
Amortisation		(11)	-
Effect of movements in exchange rates		30	106
Balance at 1 July 2018		1,181	2,382

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

Recognition and measurement

Impairment

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

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

Calculation of recoverable amount

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

Impairment test

Impairment testing for CGUs containing goodwill and indefinite-lived key money

For the purpose of impairment testing, goodwill and key money are allocated to the Group's CGUs identified by country.

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

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

In Percent	2018	2017
Discount rate	15.0%	15.0%
EBITDA growth rate (average of next five years)	3.0%	3.0%

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

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

Impairment test (continued)

Impairment testing for CGUs containing goodwill and key money (continued)

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

EBITDA for the purposes of impairment testing was based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth with FY19 balances based on budgeted results. Beyond this period, revenue growth was projected taking into account the growth levels experienced over the past five years and the estimated sales volume and price growth for the next five years.

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

Reversals of impairment

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

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

B6 TRADE AND OTHER PAYABLES

Recognition and measurement

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

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

Consolidated ($000s)	**2018**	**2017**
Trade payables	5,203	4,568
Accrued expenses	6,544	5,433
	11,747	10,001

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

B7 PROVISIONS

Recognition and measurement

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

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

Consolidated ($000s)	**Site restoration**	**Straight line rent and lease incentive**	**Onerous lease**	**Total**
Balance at 3 July 2017	1,956	1,126	411	3,493
Provisions made during the year	1,195	3,292	13	4,500
Provisions used during the year	(722)	(908)	(414)	(2,044)
Effect of movement in exchange rates	103	50	-	153
Balance at 1 July 2018	2,532	3,560	10	6,102
Current	656	458	3	1,117
Non-current	1,876	3,102	7	4,985
	2,532	3,560	10	6,102

B7 PROVISIONS (CONTINUED)

Recognition and measurement (continued)

(a) Site restoration

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

(b) Straight line rent and lease incentive

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

c) Onerous leases

Description	Key Estimates
Onerous leases arise when the cost of exiting an existing lease is greater than the loss on the sub-lease arrangement. In these circumstances, the best estimate is made of the expenditure required to settle the present obligation at the end of the reporting period with a provision made based on the least net cost alternative of exiting the lease. Provisions are based on the excess of the cash flows for the unavoidable costs in meeting the obligations under the lease over the unrecognised estimated future economic benefits from the lease. Where the Group has agreed to exit an existing lease early, these balances have been accrued for at year-end.	• Sub-lease party to undertake rental in line with agreements • Expenditure to settle the lease at the end of the lease term is based on the Group's best estimate

B8 EMPLOYEE BENEFITS

Recognition and measurement

Long-term service benefits

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

Short-term benefits

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

B8 EMPLOYEE BENEFITS (CONTINUED)

Recognition and measurement (continued)

Consolidated ($000s)	2018	2017
Current		
Liability for annual leave	2,416	2,075
Total employee benefit liabilities	2,416	2,075

Consolidated ($000s)	2018	2017
Non-Current		
Liability for long-service leave	780	608
Total employee benefit liabilities	780	608

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

Defined contribution plans

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

RISK AND CAPITAL MANAGEMENT

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

C1 CAPITAL AND RESERVES

Recognition and measurement

Ordinary shares

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

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

(a) Share capital

	No. of Ordinary Shares		Value of Ordinary Shares	
	2018	**2017**	**2018**	**2017**
	'000's	**'000's**	**'000's**	**'000's**
On issue at beginning of year	105,000	105,000	208,526	208,526
Exercise of performance rights	16	-	-	-
On issue at end of year	105,016	105,000	208,526	208,526

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

(i) Ordinary shares

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

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

(b) Nature and purpose of reserves

(i) Common control reserve

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

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

(ii) Translation reserve

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

(iii) Hedging Reserve

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

Cash flow hedges

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

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

C1 CAPITAL AND RESERVES (CONTINUED)

(b) Nature and purpose of reserves (continued)

(iii) Hedging Reserve (continued)

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

(iv) Share-based payments reserve

The share-based payments reserve is used to recognise:

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

C2 CAPITAL MANAGEMENT

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

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

C3 LOANS AND BORROWINGS

Recognition and measurement

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

Consolidated ($000s)	Note	2018	2017
Current liabilities			
Bank overdraft		-	1,705

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

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

				1 July 2018		2 July 2017	
Consolidated ($000s)	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Cash advance facility	AUD	4.01%	2020	-	-	-	-
Multi-option facility	AUD	6.73%	2018	-	-	1,705	1,705
Contingent liability facility	AUD	2.30%	2018	-	-	-	-
Corporate card facility	AUD	17.99%	2018	-	-	54	54
Total interest-bearing liabilities				-	-	1,759	1,759

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

C4 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

(a) Fair values

Recognition and measurement

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

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

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

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

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

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

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

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

1 July 2018		**Carrying Amount**				**Fair Value**			
Consolidated ($000s)	**Note**	**Hedging instruments**	**Loans and receivables**	**Other financial assets/ liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value									
Derivatives		1,429	-	-	1,429	-	1,429	-	1,429
		1,429	-	-	1,429	-	1,429	-	1,429
Financial assets not measured at fair value									
Trade and other receivables	B1	-	4,881	-	4,881	-	-	-	-
Cash and cash equivalents	C5	-	21,057	-	21,057	-	-	-	-
		-	25,938	-	25,938	-	-	-	-
Financial liabilities not measured at fair value									
Trade and other payables	B6	-	-	11,747	11,747	-	-	-	-
		-	-	11,747	11,747	-	-	-	-

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

(a) Fair values (continued)

Recognition and measurement (continued)

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

(i) Valuation technique and significant unobservable inputs

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

Financial instruments measured at fair value

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

Financial instruments not measured at fair value

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

(ii) Transfers between Level 1 and 2

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

(iii) Level 3 fair values

Transfer out of Level 3

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

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

(b) Financial risk management

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

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

(i) Risk Management framework

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

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

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

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

a) the Group's ongoing risk management program effectively identifies all areas of potential risk;

b) adequate policies and procedures have been designed and implemented to manage identified risks;

c) a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and

d) proper remedial action is undertaken to redress areas of weakness.

(ii) Credit risk

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

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

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

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

Past due but not impaired

As at 1 July 2018, no trade receivables were past due but not impaired (2017: nil). The other classes within trade and other receivables do not contain impaired assets and are not past due.

(iii) Liquidity risk

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

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

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

Exposure to liquidity risk

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

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

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

1 July 2018			**Contractual cash flows**				
Consolidated ($000s)	**Carrying amount**	**Total**	**2 mths or less**	**2-12 mths**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial liabilities							
Trade payables	5,203	5,203	5,203	-	-	-	-
	5,203	5,203	5,203	-	-	-	-
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
- Outflow	-	29,047	5,777	23,270	-	-	-
- Inflow	-	(30,476)	(6,105)	(24,371)	-	-	-
Total	(1,429)	(1,429)	(328)	(1,101)	-	-	-

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

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

The future cash flows on trade payables may be different from the amount in the above table as exchange rates change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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

(b) Financial risk management (continued)

(iv) Market risk

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

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

Currency risk

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

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

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

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

Exposure to currency risk

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

	1 July 2018				2 July 2017			
In thousands of	**SGD**	**USD**	**GBP**	**ZAR**	**SGD**	**USD**	**GBP**	**ZAR**
Cash and cash equivalents	1,411	90	563	7,746	1,174	-	1,108	7,404
Trade receivables	-	523	-	249	-	406	-	-
Trade payables	(230)	(3,124)	(962)	(199)	(28)	(3,491)	(117)	(136)
Net statement of financial position exposure	1,181	(2,511)	(399)	7,796	1,146	(3,085)	991	7,268

Sensitivity analysis

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

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

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

(b) Financial risk management (continued)

(iv) Market risk (continued)

Sensitivity Analysis (continued)

	Profit or loss	
Effect in thousands of dollars	**Strengthening**	**Weakening**
1 July 2018		
SGD (5 percent movement)	(56)	62
USD (5 percent movement)	120	(132)
GBP (5 percent movement)	19	(21)
ZAR (5 percent movement)	(371)	410
2 July 2017		
SGD (5 percent movement)	(55)	60
USD (5 percent movement)	147	(162)
GBP (5 percent movement)	(54)	59
ZAR (5 percent movement)	(346)	383

Interest rate risk

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

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

Exposure to interest rate risk

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

	Nominal amount	
Consolidated ($000s)	**2018**	**2017**
Variable-rate instruments		
Financial liabilities	-	1,705
	-	1,705

Cash flow sensitivity analysis for variable rate instruments

At 1 July 2018, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, there would have been no impact on pre tax profit for the year (2 July 2017 - $114,000 lower/higher), as a result of higher/lower interest expense from variable rate borrowings. There is no impact on equity.

(c) Derivative assets and liabilities

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

Recognition and measurement

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

Determination of fair values

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

Forward rate contracts

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

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

(c) Derivative assets and liabilities (continued)

Forward rate contracts (continued)

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

Consolidated ($000s)	2018	2017
Derivatives		
Forward exchange contracts	1,429	(805)
	1,429	(805)

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

		2018				2017		
		Expected Cash Flows				Expected Cash Flows		
Consolidated ($000s)	Carrying Amount	Total	12 mths of less	More than 1 year	Carrying Amount	Total	12 mths of less	More than 1 year
Forward exchange contracts:								
Assets	1,429	1,429	1,429	-	-	-	-	-
Liabilities	-	-	-	-	(805)	(805)	(805)	-
	1,429	1,429	1,429	-	(805)	(805)	(805)	-

A gain of $109,000 was included in other expenses on foreign currency derivatives not qualifying as hedges (2017: loss of $64,000).

C5 CASH FLOWS

Recognition and measurement

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

Consolidated ($000s)	2018	2017
Bank balances		
Cash and cash equivalents in the statement of financial position	21,057	12,744
Bank overdrafts used for cash management purposes	-	(1,705)
Cash and cash equivalents in the statement of cash flows	21,057	11,039

C5 CASH FLOWS (CONTINUED)

Reconciliation of cash flows from operating activities

Consolidated ($000s)	**Note**	**2018**	**2017**
Cash flows from operating activities			
Profit		35,954	29,046
Adjustments for:			
Depreciation		7,126	5,539
Loss on sale of property, plant and equipment		463	785
Share based payments		340	440
Fair value adjustment to derivatives	C4	(109)	64
Exchange differences		(222)	(376)
		43,552	35,498
Change in inventories		(1,266)	1,907
Change in trade and other receivables		(1,818)	(1,322)
Change in deferred tax assets		(1,260)	(1,452)
Change in trade and other payables		1,746	1,651
Change in current tax liabilities		2,715	2,332
Change in provisions and employee benefits		3,122	1,018
Net cash from operating activities		46,791	39,632

OTHER INFORMATION

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

D1 LIST OF SUBSIDIARIES

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

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

D2 OPERATING LEASES

Recognition and measurement

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

Operating leases

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

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

(a) Leases as lessee

The Group has a number of lease commitments related to the operation of its retail stores. The leases typically run for a period of 3 to 10 years. Leases typically have an annual rental increase linked to CPI or a fixed annual increase.

(i) Future minimum lease payments

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

Consolidated ($000s)	**2018**	**2017**
Less than one year	23,988	17,930
Between one and five years	54,585	36,062
More than five years	10,954	5,552
	89,527	59,544

D3 COMMITMENTS AND CONTINGENCIES

(a) Guarantees

The Group has guarantees outstanding to landlords and other parties to the value of $3,648,000 at 1 July 2018 (2017: $1,810,000).

(b) Capital commitments and contingent liabilities

The Group is committed to incur capital expenditure of $510,000 (2017: $557,000). There are no contingent liabilities that exist at 1 July 2018 (2 July 2017: none).

D4 SHARE-BASED PAYMENT ARRANGEMENTS

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

(a) Descriptions of the share-based payment arrangements

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

All options are to be settled by physical delivery of shares.

At 1 July 2018 the Group has the following share-based payment arrangements:

(i) Share option programmes (equity-settled)

Long Term Incentives - Annual Programmes

Share Option Programme	*Grant date/employee entitled*	**Number of instruments (000's)**	**Contractual life of options**	**Vesting conditions**
Options granted				
FY 2017 LTI (1)	May 2016	3,460	3 years	20% compound increase in EPS over 3 years,with a decrease in the number of options vesting down to a minimum of 10% compound EPS growth over the 3 year period in line with the table below.
FY 2017 LTI (2)	August 2016	412	3 years	
FY 2018 LTI (1)	July 2017	2,960	3 years	
FY2018 LTI (2)	October 2017	377	3 years	
FY2018 LTI (3)	November 2017	338	3 years	
		7,547		

1,308,901 of the FY2018 LTI (1) options were approved at the Company's AGM on 31 October 2017.

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

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

D4 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

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

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

Initial Public Offering - Performance Options

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

The achievement of forecast EPS for FY15 (15.62c) resulted in the award of one third of the options. The remaining two thirds of Options were subject to a performance condition based on the Company's EPS over FY16 and FY17 (EPS Hurdle). Following completion of the FY2017 financial year, the Board determined that these hurdles had been met and therefore all 550,000 of these options have vested.

(b) Measurement of fair values

(i) Equity-settled share-based payment arrangements

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

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

	Share option programme					
	IPO LTI	**FY2017 LTI (1)**	**FY2017 LTI (2)**	**FY2018 LTI (1)**	**FY2018 LTI (2)**	**FY2018 LTI (3)**
Fair value at grant date	$0.39	$0.24	$0.34	$0.38	$0.40	$0.47
30 day VWAP share price at grant date	N/A	$2.10	$2.63	$3.79	$4.00	$5.94
Exercise price	$2.30	$2.10	$2.63	$3.79	$4.00	$5.94
Expected volatility (weighted-average)	34%	24.70%	25.88%	23.70%	23.70%	20.50%
Expected life (weighted-average)	2.5 years	3 years	3 years	3 years	3 years	2.5 years
Expected dividends	4.67%	5.11%	4.08%	5.60%	5.60%	5.60%
Risk-free interest rate (based on government bonds)	2.23%	1.86%	1.44%	1.87%	1.87%	1.89%

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

D4 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

(c) Reconciliation of outstanding share options

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

	Number of options	Weighted average exercise price	Number of performance rights
	2018	2018	2018
	000's	$	000's
Outstanding at 3 July	4,216	$2.15	16
Granted during the year	3,674	$4.01	-
Forfeited during the year	(2,844)	$2.74	-
Exercised during the year	-	-	(16)
Outstanding at 1 July	5,046	$3.17	-
Exercisable at 1 July	550	$2.30	-

(d) Expenses recognised in profit or loss

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

D5 RELATED PARTIES

(a) Parent and ultimate controlling party

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

(b) Transactions with key management personnel

(i) Key management personnel compensation

The key management personnel compensation comprised the following:

Consolidated ($000s)	2018	2017
Short-term employee benefits	2,001	2,170
Post-employment benefits	108	118
Share based payment	192	385
Termination benefits	452	-
Other long term benefits	153	144
	2,906	2,817

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

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

(ii) Key management personnel and Director transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or joint control over these companies. There were no transactions or balances outstanding from these related parties during the period or at 1 July 2018 (2 July 2017: nil).

D5 RELATED PARTIES (CONTINUED)

(c) Other related party transactions

	Transaction values for the year ended		Balance outstanding as at	
Consolidated ($000s)	**1 July 2018**	**2 July 2017**	**1 July 2018**	**2 July 2017**
a) Expenses				
Expense recharges	44	752	(11)	-
b) Sales				
Recharges	-	121	-	32

Transactions between the Lovisa Group and BB Retail Capital and its related parties have been disclosed above due to BB Retail Capital continuing to be in a position of holding significant influence in relation to the Group, with representation on the Board of Directors. Lovisa has, and will continue to benefit from the relationships that its management team and BB Retail Capital have developed over many years of retail operating experience. In the prior period, BB Retail Capital provided certain property management services to Lovisa on an arm's length basis including managing negotiations with landlords for new leases and lease renewals. This arrangement ceased as at 2 July 2017 with property management services now provided in-house. The company was reimbursed $161,000 to take on the employee benefits of team who transferred to the company. Non property management related expense recharges are also priced on an arms length basis. The Group will continue to utilise BBRC Retail Capital's retail operating experience on an arms length basis.

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

D6 AUDITOR'S REMUNERATION

Consolidated ($)	**2018**	**2017**
a) KPMG		
Audit and review services		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	181,000	186,787
Network firms of KPMG Australia		
Audit and review of financial statements	59,000	43,213
Total remuneration for audit and review services	240,000	230,000
Other services		
Auditors of the Company - KPMG Australia		
In relation to other assurance, taxation and due diligence services	182,757	193,430
Network firms of KPMG Australia		
In relation to other assurance, taxation and due diligence services	33,729	21,402
Total remuneration for other services	216,486	214,832
Total remuneration of KPMG	456,486	444,832
b) Non-KPMG audit firms		
Audit and review services		
Audit and review of financial statements	21,601	9,972
Total remuneration for audit and review services	21,601	9,972
Other services		
In relation to other assurance, taxation and due diligence services	43,846	46,803
Total remuneration for other services	43,846	46,803
Total remuneration of non-KPMG audit firms	65,447	56,775
Total auditors remuneration	521,933	501,607

D7 DEED OF CROSS GUARANTEE

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

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

The subsidiaries subject to the Deed are:

- Lovisa Australia Pty Ltd
- Lovisa Pty Ltd

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

A consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 1 July 2018 is set out as follows.

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

Consolidated ($000s)	**2018**	**2017**
Revenue	129,265	112,825
Cost of sales	(24,847)	(26,298)
Gross profit	104,418	86,527
Salaries and employee benefits expense	(40,041)	(35,081)
Property expenses	(18,100)	(18,167)
Distribution costs	(1,776)	(1,183)
Depreciation	(3,020)	(2,995)
Loss on disposal of property, plant and equipment	12	(666)
Other expenses	(1,367)	(3,899)
Dividend income	25,242	4,750
Finance income	72	7
Finance costs	(105)	(403)
Profit before tax	65,335	28,890
Tax expense	(12,138)	(7,225)
Profit after tax	53,197	21,665
Other comprehensive income for the year, net of tax	-	41
Total comprehensive income for the year, net of tax	53,197	21,705
Retained earnings at beginning of year	9,491	426
Dividends recognised during the year	(21,632)	(12,600)
Retained earnings at end of year	41,056	9,491

D7 DEED OF CROSS GUARANTEE (CONTINUED)

Statement of financial position

Consolidated ($000s)	**1 July 2018**	**2 July 2017**
Assets		
Cash and cash equivalents	8,303	1,770
Trade and other receivables	33,340	27,311
Inventories	6,615	6,224
Derivatives	1,429	-
Total current assets	49,687	35,305
Deferred tax assets	3,165	2,806
Property, plant and equipment	9,447	7,421
Investments	210,000	210,000
Total non-current assets	222,612	220,227
Total assets	272,299	255,532
Liabilities		
Bank overdraft	-	1,705
Trade and other payables	8,879	26,870
Employee benefits - current	1,861	1,660
Current tax liabilities	5,654	2,774
Derivatives	-	805
Provisions - current	677	886
Total current liabilities	17,071	34,700
Employee benefits - non-current	780	608
Provisions - non current	1,794	1,457
Total non-current liabilities	2,574	2,065
Total liabilities	19,645	36,765
Net assets	252,653	218,767
Equity		
Issued capital	208,526	208,526
Common control reserve	925	925
Share based payments reserve	896	556
Cash flow hedge reserve	1,250	(731)
Retained earnings	41,056	9,491
Total equity	252,653	218,767

D8 PARENT ENTITY DISCLOSURES

($000s)	2018	2017
Result of parent entity		
Profit for the year	25,041	17,194
Other comprehensive income	-	-
Total comprehensive income for the year	25,041	17,194
Financial position of parent entity at year end		
Current assets	12,057	5,535
Total assets	223,188	216,560
Current liabilities	5,654	2,774
Total liabilities	5,654	2,774
Total equity of parent entity comprising of:		
Share capital	208,526	208,526
Share based payments reserve	896	556
Accumulated profits	8,113	4,704
Total equity	217,535	213,786

(a) Parent entity accounting policies

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

Investments in subsidiaries
Investments in subsidiaries are accounted for at cost.

(b) Parent entity contingent liabilities

The parent entity did not have any contingent liabilities as at 1 July 2018.

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

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

D9 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP

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

- AASB 2016-1 AASB112: Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 AASB107: Statement of Cashflows: Disclosure Initiative

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

D10 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2017; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

(a) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

D10 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

(a) IFRS 9 Financial Instruments (continued)

i. Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

• 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

• lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables without a significant financing component; the Group has chosen to apply this policy also for trade receivables with a significant financing component.

The cash and cash equivalents are held with bank and financial institution counterparties, with a minimum 'A' rating. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

• the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

• the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 July 2018.

iv. Hedge accounting

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. The Group does not currently undertake hedges of such risk components.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to inventory purchases.

The types of hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the entity's risk management strategy and objective.

The estimated impact on reserves and retained earnings at 2 July 2018 as a result of the application of the IFRS 9 hedge accounting requirements is not expected to be material.

D10 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

(a) IFRS 9 Financial Instruments (continued)

v. Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

vi. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

• The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 2 July 2018.

• The new hedge accounting requirements are expected to be applied prospectively.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

i) Sales of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. This is not expected to change the timing of the company's recognition of revenue.

Revenue is measured net of returns. Under IFRS 15, revenue will be recognised to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The estimated impact on retained earnings at 2 July 2018 as a result of changes in the timing of accounting for these returns is not expected to be material. The impact of these changes on other items in the consolidated statement of financial position is the recognition of a refund liability and a new asset for the right to recover returned goods.

ii) Transition

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 2 July 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

(c) IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 July 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of retail premises, offices and warehouse facilities. As at 1 July 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to $89,527,000 on an undiscounted basis (see Note D2).

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Group does not expect the adoption of IFRS 16 to impact its ability to comply with its banking covenants due to a "frozen GAAP" clause existing in our facility agreement.

D10 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

(c) IFRS 16 Leases (continued)

i) Transition

As a lessee, the Group can either apply the standard using a:

• retrospective approach; or

• modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 July 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

SIGNED REPORTS

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Lovisa Holdings Limited ('the Company'):

   (a) the consolidated financial statements and notes that are set out on pages 34 to 73 and the Remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 1 July 2018 and of its performance, for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the group entities identified in Note D7 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785

3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 1 July 2018.

4. The Directors draw attention to the Basis of Accounting for the consolidated financial statements set out on page 38, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.

Shane Fallscheer

Director

Melbourne

21 August 2018

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED

KPMG

Independent Auditor's Report

To the shareholders of Lovisa Holdings Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Group***'s financial position as at 1 July 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated Statement of financial position as at 1 July 2018.
- Consolidated Statement of profit or loss and other comprehensive income, Consolidated Statement of changes in equity, and Consolidated Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

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

Basis for opinion

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

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

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

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

Key Audit Matters

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

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

Valuation of Inventories ($14.9m)	
Refer to Note B2 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
A key audit matter for us was the Group s valuation of inventories, given the relative size of the balance (being 21% of total assets within the Group s consolidated statement of financial position) and the judgement we apply to assess the Group s estimates specific to the value of obsolete inventory. The Group sells fashion jewellery and is therefore subject to changing consumer demands and fashion trends. This increases the risk that, as trends change, products may either need to be sold at a discount below their recorded cost, or ultimately disposed of for zero value. Estimating the level of provisioning for obsolete inventory requires consideration of the ageing and condition of products on hand, historic trends in write-offs and inventory turnover and anticipated future sales. Such judgements may have a significant impact on the calculation of the inventory provision, and therefore the overall carrying value of inventories, necessitating our audit effort thereon.	Our procedures included: • Assessing the historical accuracy of the Group s inventory provision against actual outcomes, to inform our evaluation of the current year provision and assumptions; • Challenging the Group s assumptions within their provision, particularly the extent to which aged and seasonal inventory can be sold, taking into account our knowledge of the industry and past Group performance; • Analysing current and historic trends in inventory holdings and ageing to identify indicators of slow-moving or obsolete inventory. We compared this to the Group s listing of obsolete inventory; • Checking the integrity of the inventory ageing report at 1 July 2018, as a key input used in the provision calculation, by comparing on a sample basis inventory age per the report to purchase invoices; • Attending a sample of inventory counts across the store and warehouse locations to observe the existence and condition of products held; and • Comparing a statistical sample of inventory carrying values to post year-end sales prices, and against amounts recorded in the provision.

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

KPMG

Other Information

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor’s Report.

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

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Lovisa Holdings Limited for the year ended 1 July 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in section 9 of the Directors' report for the year ended 1 July 2018.

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

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne
21 August 2018

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

KPMG

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

To the Directors of Lovisa Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Lovisa Holdings Limited for the financial year ended 1 July 2018 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

M. Bisetto

KPMG

Maurice Bisetto
Partner

Melbourne
21 August 2018

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KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

ASX INFORMATION

ASX ADDITIONAL INFORMATION

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

CORPORATE GOVERNANCE STATEMENT

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

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

The Corporate Governance Statement includes details of the main corporate governance practices in place throughout the reporting period (unless otherwise stated) in relation to the corporate governance principles and recommendations published by the ASX Corporate Governance Council and are current as at 21 August 2018 and have been approved by the Board. The Board is comfortable that the practices are appropriate for a Company of Lovisa Holdings' size.

SHAREHOLDINGS (AS AT 31 AUGUST 2018)

SUBSTANTIAL SHAREHOLDERS

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

Shareholder	Number
BB Retail Capital Pty Ltd	43,207,500
Grahger Retail Securities Pty Ltd	6,340,000
Vinva Investment Management	5,253,902

VOTING RIGHTS

Ordinary shares

Refer to Note C1 in the financial statements.

Options

There are no voting rights attached to options.

Rights

There are no voting rights attached to rights.

Redeemable preference shares

There are no voting rights attached to redeemable preference shares.

Non-redeemable preference shares

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

Distribution of equity security holders

Range	Number of equity security holders	Units	% of Issued Capital
1 - 1,000	1,108	510,822	0.48
1,001 - 5,000	1,061	2,759,435	2.61
5,001 - 10,000	268	2,057,345	1.95
10,001 - 100,000	236	6,150,552	5.83
100,001 and over	38	94,087,846	89.13
Total	2,711	105,566,000	100.00

The number of shareholders holding less than a marketable parcel of ordinary shares is 95.

Securities Exchange

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

Other information

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

Twenty largest shareholders

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

Name	Number of ordinary shares held	Percentage of capital held
BB Retail Capital Pty Ltd	43,207,500	40.93
J P Morgan Nominees Australia Limited	10,444,694	9.89
HSBC Custody Nominees (Australia) Limited	7,813,320	7.40
Citicorp Nominees Pty Limited	5,796,794	5.49
Centreville Pty Ltd	4,490,000	4.25
Grahger Retail Securities Pty Ltd	4,000,000	3.79
National Nominees Limited	3,351,614	3.17
BNP Paribas Noms Pty Ltd	2,075,909	1.97
Coloskye Pty Limited	1,153,005	1.09
BNP Paribas Nominees Pty Ltd	1,020,312	0.97
PBC Investments Pty Limited <PBC Super Fund A/C>	1,000,000	0.95
Mrs Vanessa Louise Speer	927,460	0.88
HSBC Custody Nominees (Australia) Limited - A/C 2	925,796	0.88
Grahger Capital Securities Pty Ltd	675,000	0.64
UBS Nominees Pty Ltd	597,977	0.57
CS Third Nominees Pty Limited	593,437	0.56
Stornoway Nominees Pty Ltd	555,000	0.53
Shane Roland Fallscheer	550,000	0.52
Warbont Nominees Pty Ltd	516,751	0.49
Sandhurst Trustees Ltd	495,426	0.47
Total	**90,189,995**	**85.43**
Balance of register	**15,376,005**	**14.57**
Grand total	**105,566,000**	**100.00**

	Number on issue	Number of holders
Options and performance rights issued under the Lovisa Holdings Ltd Long Term Incentive Plan to take up ordinary shares	4,495,805	6

CORPORATE DIRECTORY

Company Secretary

Chris Lauder, Chief Financial Officer and Company Secretary

Principal Registered Office

Lovisa Holdings Limited
Level 1, 818-820 Glenferrie Road
Hawthorn VIC 3122
+61 3 9831 1800

Location of Share Registry

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

Stock Exchange Listing

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

Auditors

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

Website

www.lovisa.com