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LOVISA HOLDINGS LIMITED

ANNUAL REPORT  
2020

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OUR BRAND

# MOVING GLOBALLY



- **435 STORES IN 15 COUNTRIES**
- CONTINUED EXPANSION OF **US + FRANCE STORE FOOTPRINT**
- **ONLINE STORES** NOW SERVICING ALL COMPANY OWNED MARKETS
- OVER **100 NEW LINES** ARRIVING WEEKLY
- NOW REPRESENTED IN **13 US STATES**

# HIGHLIGHTS

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REVENUE  
**\$242.2M**



TOTAL STORES  
**435**  
NET INCREASE OF  
45 STORES



NET CASH  
**\$20.4M**



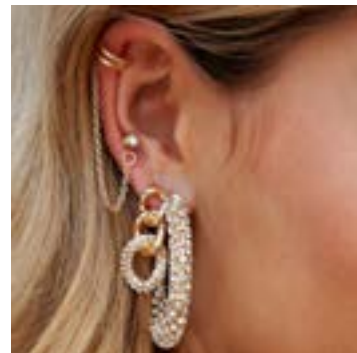
EBIT  
**\$30.6M**



NPAT  
**\$19.3M**



ONLINE SALES  
GROWTH  
**+311%**



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# GLOBAL REACH



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## KEY

- Owned Stores
- Franchise

## STORE NUMBERS

Owned		FY20	FY19
Aus/NZ	Australia	152	154
	New Zealand	23	22
Asia	Singapore	19	18
	Malaysia	27	25
Africa	South Africa	62	61
Europe/Americas	UK	42	38
	Spain	-	9
	France	21	8
USA		48	19
<b>Total Owned</b>		<b>394</b>	<b>354</b>

Franchise	FY20	FY19
Asia	7	8
Middle East	34	28
<b>Total Franchise</b>	<b>41</b>	<b>36</b>
<b>TOTAL STORES</b>	<b>435</b>	<b>390</b>

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# 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 435 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 China.







# CHAIRMAN'S REPORT



What a year, notable for many reasons:

- The Covid-19 pandemic caused severe disruption to our team, our customers, our business and our suppliers;
- The collective stellar response of our entire team globally. I was proud to witness our team instantly accept, adjust, and accelerate in their response to the ever-changing and challenging situation. In particular, our Managing Director, Shane Fallscheer, who has shown great clarity of thought and decision-making in navigating Lovisa through the pandemic; and
- On a more upbeat note, Lovisa celebrated its 10th anniversary!

Much has changed since that first sale was made 10 short years ago. What has not changed is the total commitment and focus on our customer and ensuring we deliver the most exciting and relevant fashion jewellery to our customers around the world. Our product innovation continues to be the origin of the energy that surrounds our customer experience.

In this particularly tough year, our strong balance sheet, winning culture, and excellent leadership has proven its worth. Lovisa remains committed, ready, and able to seize the incredible growth opportunities that are and will be available to us.

Lovisa will continue to pursue its efforts in:

- Expanding and building on our past success;
- Building our capabilities in digital channels;
- Growing our existing markets and opening new markets;
- Globalising our world-class operations, products, marketing initiatives and talents; and
- Ensuring we are the leading piercing company in the world.

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The challenge ahead of us is keeping up the sense of urgency in all we do. This is needed to accomplish our bigger goals. We cannot allow 'ordinary' or 'average' to set in. The Board, the leadership and the entire team are continuously focused on the need to improve, reload, innovate, and refresh. These things are essential to our future success.

Lovisa continues to be the place that offers our ambitious team ever-increasing opportunities to grow and develop their careers. These career opportunities are only limited by the individuals' ambition, drive, and commitment to their development. Lovisa cannot achieve its ambitions without these exemplary individuals, we are thankful to all of them. This year I would like to highlight:

**Zoe Mouton**

Zoe is a true leader from South Africa where she started with Lovisa in 2012. She is best known for her time as country manager South Africa where she led Lovisa South Africa from 5 stores to 62 stores. In January, Zoe moved to the United Kingdom to take on the leadership of both Europe and South Africa. Her leadership and expertise have been relied upon heavily during these past few months, and I know she will continue to excel in her role.

**Lida Tajvar**

Lida is a globally respected member of the Lovisa team, commencing with us in 2013 as Store Manager in Melbourne and was soon promoted to Regional Manager. Lida's passion, drive and hard work has been the key to her success. Within 3 years Lida progressed through the field into a senior regional role and was then offered a secondment to Malaysia in 2016. Lida continues to reside in Malaysia and continues to excel in her role as Country Manager.

**Danielle Sciberras**

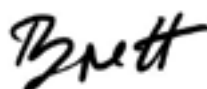
Danielle is a great example of the opportunities that are within Lovisa. Danielle commenced in our Plenty Valley store in Melbourne in 2015 and continued to show her passion and results-driven ethic. Within her first year Danielle was promoted to Store Manager of our global flagship store, Chadstone, where she continued to shine. Danielle was soon promoted to Regional Manager Victoria and within that year was offered her dream of a secondment in the USA, where Danielle continues to spread the Lovisa brand in her role as East Coast Regional Manager – USA. She now resides in Brooklyn, New York.

To all the Lovisa team around the world, thank you for adjusting and coping with the ever-changing and challenging situation in the last nine months. Many of you have made personal sacrifices throughout this period, on behalf of the shareholders you deserve our thanks and applause.

Our growth has been slightly disrupted in 2020, the challenge ahead of us is to accelerate our global growth through the rollout of digital and physical stores, while we continue to deliver exceptional customer experiences, product, and marketing. We are confident in the year ahead.

All our customers, team and shareholders should rest assured that Lovisa is in excellent shape to achieve these outcomes. Again, my thanks to you our customers and shareholders for your continuous support.

It's about the customer, always.



Brett Blundy  
Non-Executive Chairman

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# THE DIRECTORS' REPORT



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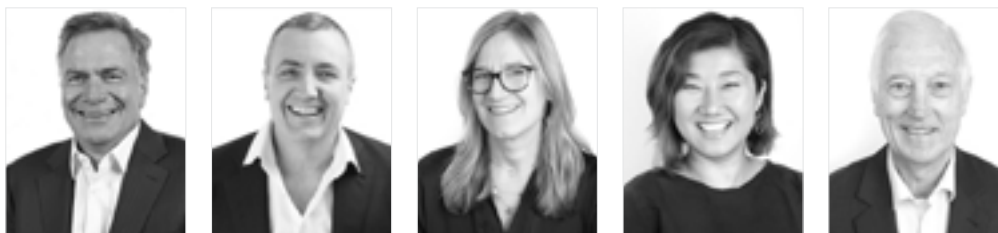
# THE DIRECTORS' REPORT

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



Brett Blundy

Shane Fallscheer

Tracey Blundy

Sei Jin Alt

James King

Brett Blundy

**Non-Executive Director & Chairman**

*Appointed 1 November 2018*

*Chairman of the Board*

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 successful retailers, with BBRC's retail presence extending to over 800 stores across more than 15 countries.

Shane Fallscheer

**Managing Director**

*Appointed 6 November 2014*

Shane Fallscheer is the Managing Director and founder of Lovisa. He has 32 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*

*Chair of the Remuneration & Nomination Committee*

Tracey joined BB Retail Capital in 1981 and is a 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.

Sei Jin Alt

**Independent Non-Executive Director**

*Appointed 19 February 2019*

Sei Jin brings to the Board broad merchandising, managerial, financial, and operational experience in multiple fashion categories as well as business leadership expertise gained over 20 years in the industry across a number of major US retailers including Francesca's, JC Penny, Nordstrom and Macy's along with advisory role experience for wholesale and retail brands.

James King

**Independent Non-Executive Director**

*Appointed 17 May 2016*

*Member of the Remuneration & Nomination Committee*

*Chairman of the Audit, Business Risk & Compliance Committee*

James King has over 30 years' experience as a Director and a Senior Executive in major multinational corporations in Australia and internationally. His previous executive roles included 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 a non-executive director of Schrole Ltd and is a member of Global Coaching Partnership. His ASX non-executive experience includes JB Hi-Fi, Trust Company, Navitas, Pacific Brands and Tattersalls. He has also served as a Director and Advisor to a number of private companies.

He was a long term 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.

Nico van der Merwe

**Alternate Director to Brett Blundy**

*Appointed 19 February 2019*

Nico van der Merwe has over 30 years' experience in commercial roles across the retail, real estate and cattle industry sectors. Nico has held a number of senior financial roles in BBRC from 1997 to 2020 including 12 years as Group Chief Financial Officer and is currently an Advisor to the Group. He holds Bachelor of Accounting Science (Hons) and Bachelor of Commerce degrees and is a member of the Institute of Chartered Accountants in Australia. Nico was appointed alternate director for Brett Blundy on 19 February 2019.

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## 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 28 June 2020.

Director	Board		Audit and Risk		Remuneration & Nomination	
	Number attended	Number held	Number attended	Number held	Number attended	Number held
T Blundy	8	8	4	4	3	3
S Fallscheer	8	8	1	4	2	3
J King	8	8	4	4	3	3
B Blundy	7	8	-	4	3	3
J Armstrong	8	8	4	4	3	3
S J Alt	8	8	3	4	3	3
N van der Merwe	-	8	3	4	-	3

John Armstrong was a Director of Lovisa Holdings Limited during the year until his resignation on 3 July 2020.



### 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.

### 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
B Blundy (1)	43,207,500
T Blundy (2)	1,153,005
S Fallscheer (3)	5,827,764
J King (4)	34,000
J Armstrong	-
S J Alt	-
N van der Merwe	-

(1) Shares held by BB Retail Capital Pty Ltd

(2) Shares held by Coloskye Pty Ltd

(3) Shares held by Centerville Pty Ltd

(4) Shares held by King Family Super Fund

## 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 435 retail stores in operation at 28 June 2020 including 41 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:

	2020	2019
	\$000's	\$000's
Final ordinary dividend for the year ended 30 June 2019 of 15.0 cents (2018: 14.0 cents) per fully paid share fully franked paid on 24 October 2019	15,866	14,779
Interim ordinary dividend for the year ended 30 June 2019 of 18.0 cents	-	19,002
Total dividends paid	15,866	33,781

In addition to the above dividends, on 19 February 2020 the Company announced an interim fully franked dividend of 15.0 cents per fully paid share payable on 23rd April 2020. As a result of the impact of COVID-19 on the business and the associated temporary closure of part of the store network during the final quarter of FY20, the payment date of this dividend was deferred for a period of 6 months to a revised payment date of 30 September 2020. This dividend will be paid on that date with a reduction in the franking percentage to 50%.

## 4. REVIEW OF OPERATIONS

The following summary of operating results and operating metrics reflects the Group's performance for the year ended 28 June 2020:

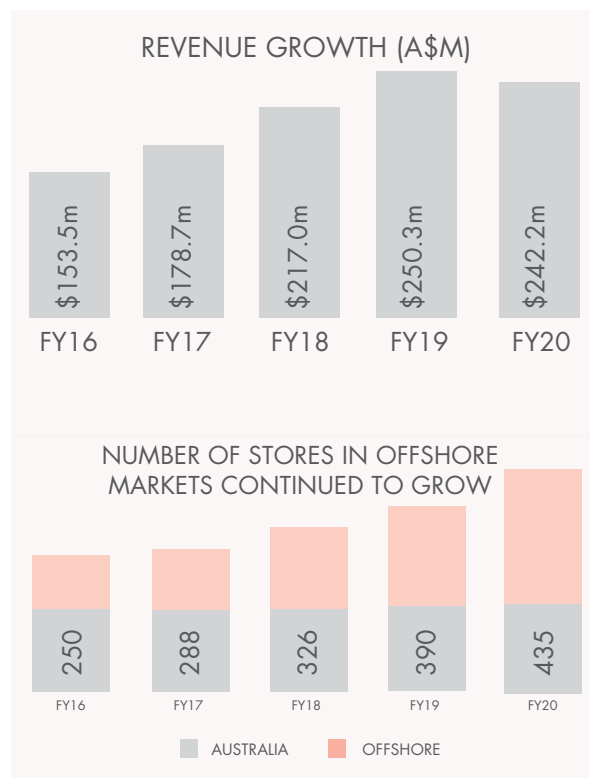
### 4.1 Financial Performance

Revenue for the year ended 28 June 2020 was down 3.2% on FY19 following the disruption to the business through the second half of the financial year as a result of government restrictions implemented in response to COVID-19. This resulted in Earnings Before Interest and Tax (and before the impact of AASB 16 and Impairment Expenses associated with the exit of our Spanish business as well as other non-cash store level impairments) of \$30.6m. Pleasingly, the business was able to deliver good growth in the store network for the financial year with a net 45 new stores and solid growth in earnings in the period prior to the COVID-19 lockdown impacting Q4.

Consolidated \$'000	2020	2019	Change
Sales	242,176	250,282	(3.2%)
Gross profit	187,269	201,409	(7%)
Gross Margin	77.3%	80.5%	(3.2%)
EBIT	30,639	52,484	(41.6%)
Net profit after tax (NPAT)	19,324	37,043	(47.8%)
Basic Earnings per share	18.2c	35.1c	(16.9c)

\* Financial metrics noted above include non-IFRS information and represent the financial performance of the company excluding the impact of the new lease accounting standard AASB 16 and excluding Impairment Expenses to ensure comparability with FY19 comparatives, which have not been restated. For further information please refer to page 29 of the Directors' Report.

### 4.1.1 Sales

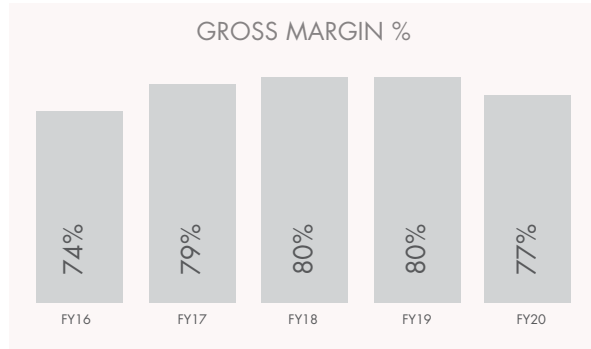


**4.1.1 Sales (continued)**

The disruption to normal trading conditions throughout Q4 resulted in a significant reduction in sales for that period, with Sales Revenue (excluding Franchise Revenue) for the full year ended 28 June 2020 of \$240 million, compared to \$248m in FY19. This offset the strong performance in the first half, where total sales were up 22% as a result of the continued store rollout. Comparable store sales were up 2.1% for that period, however as a result of temporary closures in response to COVID-19 the second half saw a significant fall in sales levels, with sales since stores re-opened through to the end of the financial year down 32.5% on last year. Performance has been strongest in Australia and New Zealand as the markets that have been trading longest post re-opening and with the least restrictions in place.

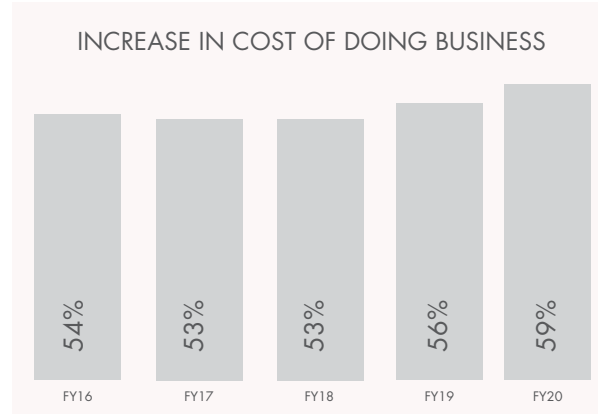
The Company's online business was able to deliver 382% growth on prior year during Q4, with trading websites now operational across most markets that Lovisa is represented in.

**4.1.2 Gross Profit Margin**



The Group's Gross Profit decreased by 7.0% to \$187.3m. Gross Margin decreased during the year to 77.3% impacted by stores re-opening into June sale post COVID-19 lock-downs, as well as the impact during the year of a weaker Australian Dollar. Gross Margin on a constant currency basis was 79% for the year.

**4.1.3 Cost Of Doing Business**



\* COOB % has been adjusted to remove the effect of AASB 16 on FY2020 to ensure comparability with prior years.

The Group's Cost of Doing Business (COOB) was impacted during the year by a combination of investment in the store rollout program in the first half of the financial year, as well as the impact of the temporary closure of all stores globally during Q4. Whilst significant actions were taken during and since the closure period to manage the cost structure of the business and take advantage of government wage subsidies, this was not enough to offset the impact of the lower sales levels resulting in growth in COOB %.

**4.1.4 Earnings**

Statutory earnings before interest and tax (EBIT) was \$25.7m being a 51.1% decrease on EBIT from the prior year.

Statutory net profit after tax decreased 69.7% to \$11.2m with EPS at 10.6 cents. Excluding the impact of the implementation of AASB 16 and impairment charges during the period from the exit of the Spanish market and other store impairments, earnings before interest and tax would have been \$30.6m, down 41.6% on last year and net profit after tax would have been \$19.3m.

**4.1.5 Cash Flow**

The Group's net cash flow from operating activities, adjusted to remove the impact of AASB 16 was \$48.1m. Capital expenditure of \$25.6m relates predominately to new store openings and refurbishments of current stores upon lease renewal. In spite of the impact of COVID-19 on the operating cash flows of the business during the final quarter of the financial year, the Group was able to close the financial year with \$20.4m in net cash, a \$9.2m increase on prior year.



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## 4.2 Financial Position

Consolidated	Actual 2020 \$'000	Actual 2019 \$'000	Change 2019/2020 %
Trade receivables and prepayments	7,876	7,413	6.2%
Inventories	21,714	22,769	(4.6%)
Trade payables and provisions	(26,518)	(37,576)	(29.4%)
Net working capital	3,072	(7,394)	(141.5%)
Net lease liabilities	(16,689)	-	100%
Property, plant & equipment	46,099	38,418	20.0%
Intangible assets and goodwill	3,882	4,418	(12.1%)
Total funds employed	36,364	35,442	2.6%
Net cash	20,434	11,192	82.6%
Net derivative asset/(liability)	207	645	(67.9%)
Net deferred tax balances	9,344	6,372	46.6%
Net assets/equity	58,368	53,651	8.8%

### Net working capital

The Group's net working capital position improved during the year with inventory levels decreasing from \$22.8m to \$21.7m in spite of the net increase of 40 company owned stores and 5 franchise stores, with inventory flow well managed through the store closure period in the final quarter of the financial year.

### 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 refinanced its existing debt facilities during the financial year, with an increase in total facilities to \$50m and an extension in the maturity of the \$30m term debt component for a further 3 years. The Group possesses net cash reserves of \$20.4m at year end.



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## 5. BUSINESS STRATEGIES

Lovisa has achieved rapid growth since it was founded, with revenue growing from \$25.5 million in FY2011 to \$242.2 million in FY2020. Whilst FY20 was impacted by COVID-19, 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
<b>International expansion</b>	5.2	<ul style="list-style-type: none"> <li>Continue to leverage current international territories</li> <li>Leverage the Company's capital in large international markets</li> <li>Roll out USA, France and UK territory and investigate other Northern Hemisphere markets</li> <li>Consider franchise partners for selected territories</li> <li>Expand into new international markets, targeting one new trial territory per annum</li> </ul>	<ul style="list-style-type: none"> <li>Competition (6.2)</li> <li>Retail environment and general economic conditions (6.3)</li> <li>Failure to successfully implement growth strategies (6.4)</li> <li>Availability of appropriately sized sites in good locations</li> </ul>	<ul style="list-style-type: none"> <li>Net 47 stores opened outside of Australia during the year including 4 stores in the United Kingdom, 13 stores were opened in France and 29 new stores in the USA. 5 franchise stores were opened during the year</li> </ul>
<b>Streamline global supply chain</b>	5.3	<ul style="list-style-type: none"> <li>Streamline and optimise supply base in Asia</li> <li>Optimise air and sea freight whilst maintaining speed to market operating model</li> <li>Consider alternative Northern Hemisphere distribution model</li> </ul>	<ul style="list-style-type: none"> <li>Exchange rates (6.5)</li> <li>Product sourcing or supply chain disruptions</li> </ul>	<ul style="list-style-type: none"> <li>Over 56% of product was moved through the China warehouse (FY19: 51% through the China and HK warehouses)</li> </ul>
<b>Enhance existing store performance</b>	5.4	<ul style="list-style-type: none"> <li>Optimise and improve existing store network</li> <li>Continue to target high traffic shopping precincts</li> <li>Judicious pricing</li> </ul>	<ul style="list-style-type: none"> <li>Competition (6.2)</li> <li>Retail environment and general economic conditions (6.3)</li> <li>Prevailing fashions and consumer preferences may change (6.6)</li> </ul>	<ul style="list-style-type: none"> <li>Global roll-out of in store piercing service underway</li> <li>We continue to close stores in sub-optimal locations</li> </ul>
<b>Brand proliferation</b>	5.5	<ul style="list-style-type: none"> <li>Continue to leverage online social media to connect with customers and increase brand loyalty</li> </ul>	<ul style="list-style-type: none"> <li>Prevailing fashions and consumer preferences may change (6.6)</li> <li>Privacy breaches</li> </ul>	<ul style="list-style-type: none"> <li>Growth in online store for Australia/NZ and opening of online stores in United Kingdom/ Europe, South Africa, USA and Singapore</li> <li>Increased social media engagement</li> </ul>
<b>Lead and pre-empt trends</b>	5.1	<ul style="list-style-type: none"> <li>Stay on trend with shifts in jewellery and accessory market</li> <li>Continue to provide a high quality and diverse product offering</li> </ul>	<ul style="list-style-type: none"> <li>Prevailing fashions and consumer preferences may change (6.6)</li> </ul>	<ul style="list-style-type: none"> <li>Continued strong performance being testament to an ability to identify trends</li> </ul>

### 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 the product team is primarily based in Melbourne, its team members travel the world to identify global trends. In addition, its product teams meet with suppliers in China, India, Thailand and other parts of Asia frequently. Whilst this has been temporarily impacted by travel restrictions in place globally, alternative processes have been implemented to ensure product flow and quality do not suffer.

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, France and the United States of America and supporting franchised stores in Kuwait, the United Arab Emirates, Oman, Bahrain, Saudi Arabia, Qatar 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:

	2016	2017	2018	2019	2020
<b>Australia</b>	144	145	151	154	152
<b>New Zealand</b>	18	18	20	22	23
<b>Singapore</b>	19	21	22	18	19
<b>South Africa</b>	36	50	56	61	62
<b>Malaysia</b>	14	19	21	25	27
<b>United Kingdom</b>	3	11	24	38	42
<b>Spain</b>	-	1	5	9	-
<b>France</b>	-	-	2	8	21
<b>USA</b>	-	-	1	19	48
<b>Middle East*</b>	16	19	18	28	34
<b>Vietnam*</b>	-	4	6	8	7
<b>Total</b>	<b>250</b>	<b>288</b>	<b>326</b>	<b>390</b>	<b>435</b>

\* 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 Australia and New Zealand) or its third party operated warehouse in China (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.

## 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. The global roll-out of piercing services into stores was completed during FY20 with a focus on enhancing customer loyalty.

## 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 focused 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, focused imagery, and the store "look and feel". Stores are located in high foot traffic areas, in high performing centres.

The company's online store is now operational servicing all markets in which the Group operates company owned stores.

## 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. The current global situation in relation to the COVID-19 pandemic has had a larger impact on the business than normally seen as a result of macro market conditions, with the unprecedented scale of its impact on all aspects of people's lives, and in particular the inability for people to socialise in normal ways, having a continued impact on trading conditions.

### 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. Current conditions in the global retail leasing market as a result of the impact of COVID-19 are being monitored closely by management to ensure that opportunities are identified and taken advantage of as they arise.

### 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.

## 6.6 Prevailing Fashions and Consumer Preferences May Change (continued)

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

As a result of the Victorian government's decision to move to stage 4 restrictions in metropolitan Melbourne for a period of 6 weeks in response to the ongoing COVID-19 situation, 30 Lovisa stores across Melbourne temporarily closed effective 6 August. Following the New Zealand government's re-introduction of alert level 3 restrictions in Auckland, 8 Lovisa stores were temporarily closed effective 12 August for a minimum period of 2 weeks.

In addition, government closure orders have resulted in 19 stores in California being temporarily closed since 14 July, and 2 stores in New York have yet to be allowed to re-open from the original temporary closure in March.

All other stores globally remain open and trading, and our online stores around the world continue to trade. Our Global Support Centre and our Australian Distribution Centre are both located in Melbourne and both will continue to function whilst monitoring and following all government guidelines, as does our distribution centre in China.

No other matter or circumstance has arisen since 28 June 2020 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- 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.

### 9.1 Remuneration Overview (continued)

The Board has appointed the People, 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 in the global market that Lovisa operates in.

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:

- Non-Executive Directors
- Managing Director
- Chief Executive Officer
- Chief Financial Officer

#### Non-Executive Director KMP

Brett Blundy	Chairman
James King	Director
Tracey Blundy	Director
John Armstrong	Director (Resigned 3 July 2020)
Sei Jin Alt	Director
Nico van der Merwe	Alternate Director

#### Executive KMP

Shane Fallscheer	Managing Director
Chris Lauder	Chief Financial Officer

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 28 June 2020 was \$453,333. Brett Blundy, 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 between \$60,000 to \$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.

## 9.2 Principles Used to Determine the Nature and Amount of Remuneration (continued)

### (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 (in the context of the Group operating in a global marketplace) 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.

The Board strongly believes that the remuneration structures in place for the executive team, and in particular the Managing Director, Shane Fallscheer, are appropriate. The Board were therefore disappointed to receive votes against the Remuneration Report at the 2019 Annual General Meeting totalling 32.5% of votes cast. It is the Board's understanding that the primary concern of shareholders in relation to the remuneration practices of the Group is in relation to the quantum of the Managing Director's fixed remuneration, with concerns raised in relation to relativity to other similar sized Australian ASX listed retailers.

The Board are of the view that the structure and quantum of Shane's remuneration package is appropriate, with a mix of fixed base remuneration and long-term incentive with challenging hurdles to provide a strong linkage between the creation of shareholder value and remuneration.

It is also important to remember that as a successful global retailer, the company needs to be sourcing and remunerating executives with reference to appropriate global benchmarks, not just other Australian listed companies. As a result, the Board have maintained the same remuneration package for Shane for the 2020 financial year, with the only change being the additional LTI grant made during the year as detailed below. No change has been made to the level of his fixed base remuneration of \$1,500,000.

### 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 2020 financial year is as follows:

Senior Executive	Fixed remuneration	At risk remuneration
Shane Fallscheer	33%	67%
Chris Lauder	67%	33%

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. The Company's remuneration policy for KMP is currently focused on long term incentives only, and as a result no short term incentives are included within remuneration for KMP.

### Long Term Incentive plan

The Company operates a long term incentive plan. The plan is designed to align the interests of the executives with the interest of the shareholders by providing an opportunity for the executives 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 profit based performance measures such as EPS and EBIT to be the most appropriate performance conditions as they align the interests of shareholders with management.

### 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.



**FY2018 LTI – Performance Options (continued)**

- The expiry of the Performance Options is 12 months following the end of the performance period.
- The Performance Options granted to the Managing Director were approved at the 2017 AGM.
- The actual compound annual growth rate in EPS over the performance period ended 28 June 2020 was (13%). As a result, none of the Options granted in this tranche have met the vesting hurdle and have therefore now lapsed unvested.

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

**FY2019 LTI – Performance Options**

In October 2018 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2019 LTI. The key terms associated with the 2019 Grant are:

- The performance period commences 2 July 2018 and ends 27 June 2021.
- The exercise price of the Performance Options is \$10.95, which represents the 30 day VWAP to the date of grant.
- A total of 2,758,608 Performance Options were granted, with 2,564,103 of these options subject to shareholder approval.
- The grant of Performance Options are subject to performance conditions based on delivering the Company's EBIT target over the performance period, as set out below.
- For Performance Options granted to the Managing Director, the Performance Options will be tested at the end of the performance period, and if they are determined to have vested they will then be subject to a further 2 year holding restriction period ending 2 July 2023, after which time they may be exercised up to their expiry date being 12 months following the end of the restriction period.
- For executives other than the Managing Director, the expiry of the Performance Options is 12 months following the end of the performance period.
- The Performance Options granted to the Managing Director were approved at the 2018 AGM.
- 18,315 options were forfeited during the year.

The Board has determined the EBIT Target growth hurdles applicable to both the FY2019 grants are as follows:  
*Performance Options granted to the Managing Director:*

EBIT* over the Performance Period	% Exercisable
Less than threshold	Nil
24% compound growth	10% awarded
25% compound growth	20% awarded
26% compound growth	100% awarded

*Performance Options granted to other Executives:*

EBIT* over the Performance Period	% Exercisable
Less than threshold	Nil
17.5% compound growth	40% awarded
20% compound growth	60% awarded
22.5% compound growth	80% awarded
25% compound growth	100% awarded

\* EBIT is defined as Earnings before Interest and Tax before Share Based Payments expense for the purposes of testing the performance conditions above. Certain executives (other than KMP) are also subject to personal performance hurdles in addition to the EBIT hurdle noted above.

**FY2020 LTI – Performance Options**

In October 2019 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2020 LTI. The key terms associated with the 2020 Grant are:

- The performance period commences 1 July 2019 and ends 3 July 2022.
- The exercise price of the Performance Options is \$10.60, which represents the 30 day VWAP to the date of grant.
- A total of 1,174,531 Performance Options were granted. 956,328 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 is subject to performance conditions based on delivering the Company's EPS target over the performance period, as set out below:

Company's diluted Earnings Per Share over the Performance Period	% Exercisable
Less than threshold	Nil
15% compound growth	20% awarded
17.5% compound growth	35% awarded
20% compound growth	50% awarded
22.5% compound growth	75% awarded
25% compound growth	100% awarded

### 9.3 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				
<b>S Fallscheer</b>							
FY18 LTIP	1,308,901	500,000	3 July 2017	(333,333)	-	100%	28 June 2020
FY19 LTIP	2,564,103	8,000,000	2 July 2018	(133,333)	-	-	27 June 2021
FY20 LTIP	956,328	3,000,000	1 July 2019	150,000	-	-	3 July 2022
<b>C Lauder</b>							
FY18 LTIP	337,553	160,000	3 July 2017	(96,000)	-	100%	28 June 2020
FY19 LTIP	76,923	210,000	2 July 2018	(17,500)	-	-	27 June 2021
FY20 LTIP	70,131	220,000	1 July 2019	11,000	-	-	3 July 2022

### 9.4 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 1 July 2019	Granted	Exercised	Forfeited	Held at 28 June 2020	Vested during the year %	Vested and exercisable at 28 June 2020
<b>Directors</b>							
S Fallscheer							
- FY18 LTIP	1,308,901	-	-	1,308,901	-	-	-
- FY19 LTIP	2,564,103	-	-	-	2,564,103	-	-
- FY20 LTIP	-	956,328	-	-	956,328	-	-
<b>Executives</b>							
C Lauder							
- FY18 LTIP	337,553	-	-	337,553	-	-	-
- FY19 LTIP	76,923	-	-	-	76,923	-	-
- FY20 LTIP	-	70,131	-	-	70,131	-	-



### 9.5 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	Total (\$)
		Salary & Fees (\$)	Non-monetary benefits (\$)	Performance based payment (\$)	Super Contributions (\$)	Annual & Long Service Leave (\$)	Options/Rights (\$)	Termination Benefits (\$)	
<b>NON-EXEC DIRECTORS</b>									
B Blundy	2020	150,000	-	-	-	-	-	-	150,000
	2019	100,000	-	-	-	-	-	-	100,000
M Kay (1)	2020	-	-	-	-	-	-	-	-
	2019	45,662	-	-	4,338	-	-	-	50,000
T Blundy	2020	54,499	-	-	25,501	-	-	-	80,000
	2019	54,795	-	-	25,205	-	-	-	80,000
J King	2020	73,246	-	-	6,754	-	-	-	80,000
	2019	73,059	-	-	6,941	-	-	-	80,000
J Armstrong (2)	2020	73,246	-	-	6,754	-	-	-	80,000
	2019	56,012	-	-	5,321	-	-	-	61,333
S J Alt	2020	63,333	-	-	-	-	-	-	63,333
	2019	20,000	-	-	-	-	-	-	20,000
N van der Merwe	2020	-	-	-	-	-	-	-	-
	2019	-	-	-	-	-	-	-	-
<b>TOTAL NON-EXEC DIRECTORS</b>	2020	<b>414,324</b>	-	-	<b>39,009</b>	-	-	-	<b>453,333</b>
	2019	349,528	-	-	41,805	-	-	-	391,333
<b>EXEC DIRECTORS</b>									
S Fallscheer	2020	1,341,286	27,091	-	24,327	146,396	(316,667)	-	1,222,433
	2019	1,282,749	27,841	-	25,000	190,923	433,360	-	1,959,873
<b>OTHER KMP</b>									
C Lauder	2020	379,723	-	-	24,257	42,834	(102,500)	-	344,314
	2019	376,831	-	-	24,731	38,328	81,500	-	521,390
<b>TOTAL EXEC</b>	2020	<b>1,721,009</b>	<b>27,091</b>	-	<b>48,584</b>	<b>189,230</b>	<b>(419,167)</b>	-	<b>1,566,747</b>
	2019	1,659,580	27,841	-	49,731	229,251	514,860	-	2,481,263

(1) Resigned as Chairman and a Director on 30 October 2018

(2) Resigned on 3 July 2020



## 9.6 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:

	2020	2019	2018
Earnings before interest and tax (\$'000)	25,667	52,484	51,074
Net profit after tax (\$'000)	11,221	37,043	35,954
Dividends paid (\$'000)	15,866	33,781	21,632
Share Price	\$8.08	\$11.36	\$11.70
Earnings per share (cents)	10.6	35.1	34.2

### KMP Shareholdings

The following table details the ordinary shareholdings and the movements in the shareholdings of KMP (including their personally related entities) for the financial year ended 28 June 2020.

No. of shares	Held at 1 July 2019	Shares Purchased	Shares Sold	Held at 28 June 2020
<b>Non-executive Directors</b>				
B Blundy	43,207,500	-	-	43,207,500
T Blundy	1,153,005	-	-	1,153,005
J King	34,000	-	-	34,000
J Armstrong	-	-	-	-
S J Alt	-	-	-	-
N van der Merwe (alternate)	-	-	-	-
<b>Executive Directors</b>				
S Fallscheer	4,140,000	1,687,764	-	5,827,764
<b>Executive</b>				
C Lauder	3,000	-	-	3,000

## 10. INSURANCE OF OFFICERS AND INDEMNITIES

During the financial year, Lovisa Holdings Limited paid a premium of \$309,000 (2019: \$303,000) 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 83 and forms part of this Directors' Report.

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

During the financial year ended 28 June 2020, the following fees were paid or were due and payable for services provided by the external auditor, KPMG, of the Consolidated Entity:

Consolidated Entity	2020 \$000	2019 \$000
<b>Audit and assurance services</b>		
Audit and review of financial statements	280	270
<b>Other services</b>		
Tax compliance services	92	60
Other accounting services	63	132
	435	462

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. NON-IFRS FINANCIAL INFORMATION

This report contains certain non-IFRS financial measures of historical financial performance. The measures are used by management and the Directors for the purpose of assessing the financial performance of the Group and individual segments. The measures are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or controllable factors which affect IFRS measures, to aid the user in understanding the Group's performance. These measures are not subject to audit.

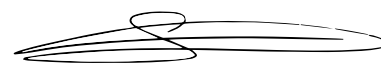
## 15. ROUNDING OF AMOUNTS

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



Brett Blundy  
Non-Executive Chairman



Shane Fallscheer  
Managing Director

Melbourne, 25 August 2020



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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 28 June 2020

	Note	28 June	30 June
<i>Consolidated (\$'000s)</i>		2020	2019
<b>Assets</b>			
Cash and cash equivalents	C5	20,434	19,180
Trade and other receivables	B1	7,876	7,413
Inventories	B2	21,714	22,769
Derivatives	C4	207	645
<b>Total current assets</b>		<b>50,231</b>	<b>50,007</b>
Deferred tax assets	A8	9,344	6,372
Property, plant and equipment	B3	46,099	38,418
Right-of-use asset	B4	150,464	-
Intangible assets and goodwill	B5	3,882	4,418
<b>Total non-current assets</b>		<b>209,789</b>	<b>49,208</b>
<b>Total assets</b>		<b>260,020</b>	<b>99,215</b>
<b>Liabilities</b>			
Bank overdraft	C5	-	7,988
Trade and other payables	B7	22,231	23,659
Employee benefits - current	B9	3,685	3,695
Provisions - current	B8	1,516	2,212
Lease liability - current	B10	36,019	-
Current tax liabilities	A8	3,893	1,261
<b>Total current liabilities</b>		<b>67,344</b>	<b>38,815</b>
Employee benefits - non current	B9	407	359
Lease liability - non current	B10	131,135	-
Provisions - non current	B8	2,766	6,390
<b>Total non-current liabilities</b>		<b>134,308</b>	<b>6,749</b>
<b>Total liabilities</b>		<b>201,652</b>	<b>45,564</b>
<b>Net assets</b>		<b>58,368</b>	<b>53,651</b>
<b>Equity</b>			
Issued capital	C1	213,877	209,791
Common control reserve		(208,906)	(208,906)
Other reserves		11,578	6,302
Retained earnings		41,819	46,464
<b>Total equity</b>		<b>58,368</b>	<b>53,651</b>

The Group has initially applied AASB 16 at 1 July 2019. Under the transition method chosen comparative information is not restated.

The Notes on pages 38 to 75 are an integral part of these consolidated financial statements.

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the financial year ended 28 June 2020

Consolidated (\$'000s)	Note	2020	2019
Revenue	A2	242,176	250,282
Cost of sales		(54,907)	(48,873)
<b>Gross profit</b>		187,269	201,409
Salaries and employee benefits expense	A3	(61,359)	(66,352)
Property expenses	A3	(11,546)	(42,579)
Distribution costs		(10,291)	(8,796)
Depreciation and amortisation expense		(50,441)	(9,838)
Loss on disposal of property, plant and equipment		(241)	(241)
Impairment expenses	A5	(6,117)	-
Other income		517	-
Other expenses	A3	(22,124)	(21,119)
<b>Operating profit</b>		25,667	52,484
Finance income		250	436
Finance costs		(5,055)	(302)
<b>Net finance costs</b>		(4,805)	134
<b>Profit before tax</b>		20,862	52,618
Income tax expense	A8	(9,641)	(15,575)
<b>Profit after tax</b>		11,221	37,043
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Cash flow hedges		(352)	(697)
Foreign operations - foreign currency translation differences		327	2,329
		(25)	1,632
<b>Other comprehensive income, net of tax</b>		(25)	1,632
<b>Total comprehensive income</b>		11,196	38,675
<b>Profit attributable to:</b>			
Owners of the Company		11,221	37,043
		11,221	37,043
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		11,196	38,675
<b>Total comprehensive income for the year</b>		11,196	38,675
<b>Earnings per share</b>			
Basic earnings per share (cents)	A6	10.6	35.1
Diluted earnings per share (cents)	A6	10.6	34.2

The Group has initially applied AASB 16 at 1 July 2019. Under the transition method chosen comparative information is not restated.

The Notes on pages 38 to 75 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 28 June 2020

## Attributable to Equity Holders of the Company

<i>Consolidated (\$'000s)</i>	Note	Share Capital	Common Control Reserve	Retained Earnings	Share Based Payments Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Total Equity
<b>Balance at 2 July 2018</b>		208,526	(208,906)	43,352	896	1,250	124	45,242
<b>Impact of change in accounting policy</b>		-	-	(150)	-	-	-	(150)
<b>Total comprehensive income for the year</b>								
Profit		-	-	37,043	-	-	-	37,043
Cash flow hedges		-	-	-	-	(697)	-	(697)
Foreign operations - foreign currency translation differences		-	-	-	-	-	2,329	2,329
<b>Total comprehensive income for the year</b>		<b>208,526</b>	<b>(208,906)</b>	<b>80,245</b>	<b>896</b>	<b>553</b>	<b>2,453</b>	<b>83,767</b>
<b>Capital contributions</b>	C1	1,265	-	-	-	-	-	1,265
Employee share schemes	D3	-	-	-	2,400	-	-	2,400
Dividends	A7	-	-	(33,781)	-	-	-	(33,781)
<b>Total transactions with owners of the Company</b>		<b>1,265</b>	<b>-</b>	<b>(33,781)</b>	<b>2,400</b>	<b>-</b>	<b>-</b>	<b>(30,116)</b>
<b>Balance at 30 June 2019</b>		<b>209,791</b>	<b>(208,906)</b>	<b>46,464</b>	<b>3,296</b>	<b>553</b>	<b>2,453</b>	<b>53,651</b>
<b>Balance at 1 July 2019</b>		<b>209,791</b>	<b>(208,906)</b>	<b>46,464</b>	<b>3,296</b>	<b>553</b>	<b>2,453</b>	<b>53,651</b>
<b>Total comprehensive income for the year</b>								
Profit		-	-	11,221	-	-	-	11,221
Cash flow hedges		-	-	-	-	(352)	-	(352)
Foreign operations - foreign currency translation differences		-	-	-	-	-	327	327
<b>Total comprehensive income for the year</b>		<b>209,791</b>	<b>(208,906)</b>	<b>57,685</b>	<b>3,296</b>	<b>201</b>	<b>2,780</b>	<b>64,847</b>
<b>Capital contributions</b>	C1	4,086	-	-	-	-	-	4,086
Employee share schemes	D3	-	-	-	5,301	-	-	5,301
Dividends	A7	-	-	(15,866)	-	-	-	(15,866)
<b>Total transactions with owners of the Company</b>		<b>4,086</b>	<b>-</b>	<b>(15,866)</b>	<b>5,301</b>	<b>-</b>	<b>-</b>	<b>(6,479)</b>
<b>Balance at 28 June 2020</b>		<b>213,877</b>	<b>(208,906)</b>	<b>41,819</b>	<b>8,597</b>	<b>201</b>	<b>2,780</b>	<b>58,368</b>

The Group has initially applied AASB 16 at 1 July 2019. Under the transition method chosen comparative information is not restated.

The Notes on pages 38 to 75 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 28 June 2020

Consolidated (\$'000s)	Note	2020	2019
<b>Cash flows from operating activities</b>			
Cash receipts from customers		272,763	278,004
Cash paid to suppliers and employees		(189,710)	(211,277)
Cash generated from operating activities		83,053	66,727
Interest received		250	436
Other income received		517	-
Interest paid		(349)	(302)
Income taxes paid		(3,471)	(20,633)
<b>Net cash from operating activities</b>	C5	80,000	46,228
<b>Cash flows from investing activities</b>			
Acquisition of fixed assets		(26,402)	(23,359)
Proceeds from fit out contributions		1,599	-
Proceeds from sale of property, plant and equipment		-	55
Acquisition of key money intangibles	B5	(759)	(831)
<b>Net cash used in investing activities</b>		(25,562)	(24,135)
<b>Cash flows from financing activities</b>			
Share options exercised		4,086	1,265
Payment of lease liabilities	B10	(31,886)	-
Dividends paid	A7	(15,866)	(33,781)
<b>Net cash used in financing activities</b>		(43,666)	(32,516)
<b>Net increase in cash and cash equivalents</b>		10,772	(10,423)
Cash and cash equivalents at the beginning of the year	C5	11,192	21,057
Effect of movement in exchange rates on cash held		(1,530)	558
<b>Cash and cash equivalents at the end of the year</b>	C5	20,434	11,192

The Group has initially applied AASB 16 at 1 July 2019. Under the transition method chosen comparative information is not restated.

The Notes on pages 38 to 75 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 28 June 2020 (2019: 52 week period ended 30 June 2019). This treatment is consistent with section 323D of Corporations Act 2001.

The consolidated financial statements of the Group for the financial year ended 28 June 2020 were authorised for issue by the Board of Directors on 25 August 2020.

## 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. Intangible assets and goodwill 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 2019. This is the first set of the Group's annual financial statements in which AASB 16 *Leases* has been applied. Refer to note D8 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 D9.

## 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

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of financial statements. During FY20, the Group's operations and financial statements were impacted as a result of:

- Disruption to normal trading conditions (temporary shut-downs of stores in Q4)
- Reduced demand for goods caused by uncertainty surrounding the length of current or future restrictions.

In respect of these financial statements, the impact of COVID-19 is primarily relevant to estimates of future performance which is in turn relevant to the areas of net realisable value of inventory, impairment of non-financial assets and going concern.

In making estimates of future performance, the following assumptions and judgements in relation to the potential impact of COVID-19 have been applied by the Group:

- Stores assumed to remain open
- Government fiscal and economic stimulus packages are expected to phase out as economies return.

Key assumptions and judgements have been stress tested for the impacts of COVID-19. The assumptions modelled are based on the estimated potential impact of COVID-19 restrictions and regulations, along with the Group's proposed responses. The Group refinanced its existing debt facilities during the financial year, with an increase in total facilities to \$50m and an extension in the maturity of the \$30m term debt component for a further 3 years. In all scenarios modelled, the liquidity requirements of the Group are within the available facilities and are forecast to meet financial covenants.

**Assumptions and estimation uncertainties (continued)**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the financial year ended 28 June 2020 are included in the following notes:

- Note A8 – recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used;
- Note B2 - inventories: recognition and measurement of stock provisioning;
- Note B6 – impairment test: key assumptions underlying recoverable amounts, including the recoverability of goodwill and key money;
- Notes B8 and D2 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and
- Note B10 - recognition and measurement of lease liabilities: key assumptions underlying the lease term including the exercise or not of options or break clauses.

**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 B6). 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.

**Functional and presentation currency (continued)**

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**

As a result of the Victorian government's decision to move to stage 4 restrictions in metropolitan Melbourne for a period of 6 weeks in response to the ongoing COVID-19 situation, 30 Lovisa stores across Melbourne temporarily closed effective 6 August. Following the New Zealand government's re-introduction of alert level 3 restrictions in Auckland, 8 Lovisa stores were temporarily closed effective 12 August for a minimum period of 2 weeks.

In addition, government closure orders have resulted in 19 stores in California being temporarily closed since 14 July, and 2 stores in New York have yet to be allowed to re-open from the original temporary closure in March.

All other stores globally remain open and trading, and our online stores around the world continue to trade. Our Global Support Centre and our Australian Distribution Centre are both located in Melbourne and both will continue to function whilst monitoring and following all government guidelines, as does our distribution centre in China.

There are no other 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 regional management, 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; and
- 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), Americas (United States of America) and Europe (United Kingdom, Spain and France 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.

(\$000s)	2020	2019
	Non-current assets (i)	Non-current assets (i)
a) Australia / New Zealand	71,591	15,305
b) Asia	13,371	1,642
c) Africa	7,068	3,497
d) Europe	56,881	10,748
e) Americas	47,925	7,226
Total	196,836	38,418

(i) Excluding, financial instruments, deferred tax assets, employee benefit assets and intangible assets. Following the Group's transition to AASB 16 at 1 July 2019, the comparative information excludes right-of-use 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)	2020	2019
<b>Sale of Goods</b>		
Australia / New Zealand	124,081	137,684
Asia	25,466	34,393
Africa	28,364	33,417
Europe	42,078	36,672
Americas	20,532	6,346
<b>Total Sale of Goods</b>	<b>240,521</b>	<b>248,512</b>
<b>Franchise Revenue</b>		
Middle East	1,460	1,385
Asia	195	385
<b>Total Franchise Revenue</b>	<b>1,655</b>	<b>1,770</b>
<b>Total Revenue</b>	<b>242,176</b>	<b>250,282</b>

**a) Revenue recognition and measurement**

Revenue is recognised when the customer obtains control of the goods, 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 customer obtains control of the goods. A right of return provision has been recognised in line with the Group's returns policy in line with the requirements of IFRS 15 along with a right to recover returned goods asset.

**Franchise income**

Franchise income, which is generally earned based upon a percentage of sales is recognised on an accrual basis. There is no material impact from the introduction of IFRS 15 on franchise income.

## A3 EXPENSES

### Expenses by nature

Consolidated (\$'000s)	2020	2019
Property expenses		
Variable lease expenses	404	32,113
Outgoings	11,142	10,466
Total property expenses	11,546	42,579
Salaries and employee benefits expense		
Wages and salaries	56,382	60,361
Compulsory social security contributions	5,334	5,123
Increase in liability for long-service leave	220	282
Share-based payment expense	(577)	586
Total salaries and employee benefits expense	61,359	66,352
Other expenses		
Administrative expenses	18,934	14,429
Other expenses	3,190	6,690
Total other expenses	22,124	21,119

## A4 GOVERNMENT GRANTS

The Group has benefited from various financial support measures offered by federal, state and local governments to provide financial relief to businesses during the COVID-19 pandemic.

These measures include the deferral of GST and VAT payments, the deferral of provisional income tax instalments, the refund of tax instalments that had been paid towards current year income tax, the deferral of employee withholding payments and the refund and deferral of state payroll tax payments. The Group has not obtained any relief whereby its GST, VAT, income tax, employee withholding payments and payroll tax obligations have been waived. The unpaid deferred balances remaining at 28 June 2020 are recorded in "trade and other payables" and "current tax liabilities".

A business rates holiday has been granted to our UK stores for the year from 1 April 2020 to 31 March 2021. This waiver of business rates will be recognised as income in the same period as the related charge is recognised and so there is no net impact on profit or loss for the period.

The Group has qualified for, and complied with the conditions to receive, wage subsidy grants in most of the territories in which it operates. The payments received have been recognised as a government grant because the wage subsidy has been provided with the objective of keeping our employees connected to the Group during the COVID-19 crisis period. The grant income has been presented net of the related salaries and wages expense. During 2020 the Group has recognised \$11,832,000 (2019: nil) of wage subsidy grants in "salaries and employee benefits expense", which for some employees includes a component of "top-up pay" as a result of certain wage subsidies being higher than their ordinary weekly pay. Refer to note A3.

Dependent on the rateable value of the property, some of our UK stores qualified for local business council grants. These grants amounted to \$517,000 (2019: nil) and were unconditional and so were included in "Other income" when they became receivable.

## A5 IMPAIRMENT

### Amounts recognised in profit or loss

Consolidated (\$'000s)	2020	2019
Impairment charges pertaining to exit from Spanish market	3,360	-
Other store impairment charges	2,757	-
	6,117	-

During the year ended 28 June 2020, impairment charges of \$6,117,000 (\$5,434,000 after tax) were included within the consolidated statement of profit or loss and other comprehensive income. This relates to the decision to exit the Spanish market and a write-down of fixed assets, key money and lease right-of-use assets within the store network. In 2019 there were no impairment charges recognised.

## A6 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

	2020	2019
Basic EPS (cents)	10.6	35.1
Diluted EPS (cents)	10.6	34.2
Profit attributable to ordinary shareholders (\$'000s)	11,221	37,043
Weighted average number of ordinary shares for basic EPS (shares)	106,254,265	105,566,000
Weighted average number of ordinary shares and potential ordinary shares for diluted EPS (shares)	106,254,265	108,272,778
	2020	2019
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	106,254,265	105,566,000
Adjustments for calculation of diluted earnings per share:		
Options	-	2,706,778
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	106,254,265	108,272,778

### Information concerning the classification of securities

#### i) Options

Options 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 have not been included in the determination of basic earnings per share. Details relating to the options are set out in note D3.

At 28 June 2020, 3,914,825 options (2019: 461,484) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

## A7 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)	2020	2019
15.0 cents per qualifying ordinary share (2019: 14.0 cents)	15,866	14,779
2019: 18.0 cents per qualifying ordinary share	-	19,002
	15,866	33,781

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)	2020	2019
Nil (2019: 15.0 cents per qualifying ordinary share)	-	15,835
	-	15,835

Consolidated (\$000s)	2020	2019
<b>Dividend franking account</b>		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2019: 30%)	641	4,620

On 19 February 2020, the Company announced a fully franked interim dividend of 15.0 cents per fully paid share payable on 23 April 2020. As a result of the impact of COVID-19 on the business and the associated temporary closure of part of the store network during the final quarter of FY20, the payment date of this dividend was deferred for a period of 6 months to a revised payment date of 30 September 2020. This dividend is still expected to be paid on that date, however as a result of lower tax payments during the financial year the franking percentage has been reduced to 50%.

## A8 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.

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## A8 INCOME TAXES (CONTINUED)

## (a) Amounts recognised in profit or loss

Consolidated (\$'000s)	2020	2019
<b>Current tax expense</b>		
Current period	8,775	17,264
Changes in estimates related to prior years	473	103
	9,248	17,367
<b>Deferred tax (benefit)/expense</b>		
Origination and reversal of temporary differences	393	(1,791)
Changes in temporary differences related to prior years	-	(1)
	393	(1,792)
<b>Total income tax expense</b>	<b>9,641</b>	<b>15,575</b>

## (b) Reconciliation of effective tax rate

Consolidated (\$'000s)	2020	2019
Profit before tax from continuing operations	20,862	52,618
Tax at the Australian tax rate of 30% (2019: 30%)	6,259	15,785
Effect of tax rates in foreign jurisdictions	40	(515)
Non-deductible expenses	21	379
Tax exempt income	(64)	(34)
Utilisation of carried-forward tax losses	-	-
Recognition of tax effect of previously unrecognised tax losses	(423)	(313)
Current year losses for which no deferred tax asset is recognised	2,435	761
Other movements	900	(590)
Changes in estimate related to prior years	473	102
<b>Total non temporary differences</b>	<b>9,641</b>	<b>15,575</b>
<b>Temporary differences</b>		
Amounts recognised in OCI	(6,510)	(2,052)
Net movement in deferred tax balances	2,972	1,837
<b>Total temporary differences</b>	<b>(3,538)</b>	<b>(215)</b>
Income taxes payable for the current financial year	6,103	15,360
Income taxes payable at the beginning of the year	1,261	6,534
Less: tax paid during the year	(3,471)	(20,633)
<b>Income taxes payable as at year end</b>	<b>3,893</b>	<b>1,261</b>
Represented in the Statement of financial position by:		
Current tax liabilities	3,893	1,261
Current tax assets	-	-
	3,893	1,261

## A8 INCOME TAXES (CONTINUED)

## (b) Reconciliation of effective tax rate (continued)

## 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	2020	2019
<b>ETR</b>		
Global operations – Total consolidated tax expense	46.2%	29.6%
Australian operations – Australian company income tax expense	31.4%	27.8%

## (c) Deferred tax assets and liabilities reconciliation

Consolidated (\$'000s)	Statement of financial position		Statement of profit or loss	
	2020	2019	2020	2019
Property, plant and equipment	831	1,681	453	(1,024)
Employee benefits	1,216	1,485	281	(322)
Provisions	1,254	902	(326)	259
Other items	1,664	505	571	90
Transaction costs	-	-	-	235
Carry forward tax losses	4,379	1,799	(586)	(1,030)
<b>Deferred tax expense</b>	-	-	393	(1,792)
<b>Net deferred tax assets</b>	<b>9,344</b>	<b>6,372</b>		
Presented in the Statement of financial position as follows:				
Deferred tax assets	9,344	6,372		

Unused tax losses for which no deferred tax asset has been recognised total \$2,693,000 (2019: \$1,063,000).

## (d) Expected settlement of deferred tax balances

Consolidated (\$'000s)	2020	2019
Deferred tax assets expected to be settled within 12 months	2,916	2,774
Deferred tax assets expected to be settled after 12 months	6,533	3,617
	9,449	6,391
Deferred tax liabilities expected to be settled within 12 months	105	19
Deferred tax liabilities expected to be settled after 12 months	-	-
	105	19
<b>Net deferred tax assets</b>	<b>9,344</b>	<b>6,372</b>

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# 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	2020	2019
Trade receivables		2,138	3,147
Deposits		772	1,120
Prepayments		940	3,052
Other receivables		4,026	94
		7,876	7,413

### 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 2020 and included in cost of sales amount to \$46,595,000 (2019: \$44,609,000).

During 2020 inventories of \$6,860,000 (2019: \$3,503,000) 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

<i>Consolidated (\$'000s)</i>	<b>Note</b>	<b>Leasehold improvements</b>	<b>Hardware and software</b>	<b>Fixtures and fittings</b>	<b>Total</b>
<b>Depreciation policy</b>		Lease term	3 years	3 years	
<b>Cost</b>					
Balance at 2 July 2018		40,670	3,614	1,716	46,000
Additions		22,308	2,597	610	25,515
Disposals		(2,610)	(174)	-	(2,784)
Effect of movements in exchange rates		884	56	2	942
<b>Balance at 30 June 2019</b>		<b>61,252</b>	<b>6,093</b>	<b>2,328</b>	<b>69,673</b>
Balance at 1 July 2019		61,252	6,093	2,328	69,673
Additions		23,139	1,074	242	24,455
Disposals		(4,052)	(273)	-	(4,325)
Effect of movements in exchange rates		(1,529)	(135)	(2)	(1,666)
<b>Balance at 28 June 2020</b>		<b>78,810</b>	<b>6,759</b>	<b>2,568</b>	<b>88,137</b>

<i>Consolidated (\$'000s)</i>	<b>Note</b>	<b>Leasehold improvements</b>	<b>Hardware and software</b>	<b>Fixtures and fittings</b>	<b>Total</b>
<b>Accumulated depreciation and impairment losses</b>					
Balance at 2 July 2018		(21,831)	(1,448)	(309)	(23,588)
Depreciation		(7,668)	(1,645)	(445)	(9,758)
Disposals		2,376	111	-	2,487
Effect of movements in exchange rates		(366)	(29)	(1)	(396)
<b>Balance at 30 June 2019</b>		<b>(27,489)</b>	<b>(3,011)</b>	<b>(755)</b>	<b>(31,255)</b>
Balance at 1 July 2019		(27,489)	(3,011)	(755)	(31,255)
Depreciation		(11,312)	(1,825)	(481)	(13,618)
Impairment		(1,152)	-	-	(1,152)
Disposals		1,412	142	-	1,554
Effect of movements in exchange rates		2,238	193	2	2,433
<b>Balance at 28 June 2020</b>		<b>(36,303)</b>	<b>(4,501)</b>	<b>(1,234)</b>	<b>(42,038)</b>
<b>Carrying amounts</b>					
At 1 July 2018		18,839	2,166	1,407	22,411
At 30 June 2019		33,763	3,082	1,573	38,418
<b>At 28 June 2020</b>		<b>42,507</b>	<b>2,258</b>	<b>1,334</b>	<b>46,099</b>

## B4 RIGHT-OF-USE ASSET

## Recognition and measurement

Consolidated (\$'000s)	Note	2020
<b>Cost</b>		
Balance at 1 July 2019		-
Recognition of right-of-use asset on initial application of AASB 16		138,403
Adjusted balance at 1 July 2019		138,403
Additions		48,793
Re-measurement of lease liabilities		1,698
Disposals		-
Effect of movements in exchange rates		(1,755)
<b>Balance at 28 June 2020</b>		<b>187,139</b>
Consolidated (\$'000s)	Note	2020
<b>Accumulated depreciation and impairment losses</b>		
Balance at 1 July 2019		-
Recognition of right-of-use asset on initial application of AASB 16		-
Adjusted balance at 1 July 2019		-
Depreciation and impairment charges for the year		(37,454)
Disposals		-
Effect of movements in exchange rates		779
<b>Balance at 28 June 2020</b>		<b>(36,675)</b>
<b>Carrying amounts</b>		
At 1 July 2019		138,403
<b>At 28 June 2020</b>		<b>150,464</b>

The Group has adopted AASB 16 *Leases* from 1 July 2019 using the modified retrospective approach. Refer to note D8 for details about the change in accounting policy and the impact on transition.

Additions to right-of-use assets represent leases for new stores and new leases for existing stores which had been on holdover as of the date of transition 1 July 2019. Right-of-use assets have been adjusted for the re-measurement of lease liabilities due to changes to existing lease terms, including extensions to existing lease terms.

The Group has applied the IFRIC agenda decision, released in November 2019, clarifying how the lease term should be determined for arrangements that automatically renew until one of the parties gives notice to terminate. If a lease renewal is being actively sought and the lease renewal terms are reasonably known, the lease term has been adjusted to include the expected renewal term. If a lease renewal is not being sought, for example because the store will be relocated to a new location, the lease term has not been adjusted and the lease has not been recognised on the balance sheet.

At 28 June 2020, the Group has executed leases for which the lease commencement date has not yet occurred. These leases have a duration of up to 10 years and once commenced will result in an increase in lease liabilities and right-of-use assets, on a total basis, of approximately \$9,000,000.

The Group has elected to apply the practical expedient issued by the International Accounting Standards Board whereby it has not accounted for rent concessions that are a direct consequence of the COVID-19 pandemic as lease modifications. Rent concessions occur as a direct consequence of the COVID-19 pandemic if all the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- There is no substantive change to other terms and conditions of the lease.

The Group has recognised rent concessions that are a direct consequence of the COVID-19 pandemic of \$1,844,000 in the statement of profit or loss and other comprehensive income for the year ended 28 June 2020 (2019: nil).

Expenses relating to variable lease payments not included in lease liabilities of \$2,248,000 have been recognised in the statement of profit or loss and other comprehensive income for the year ended 28 June 2020 (2019: nil).

## B5 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
Balance at 2 July 2018		1,181	2,382
Additions		831	-
Amortisation		(80)	-
Effect of movements in exchange rates		42	62
<b>Balance at 30 June 2019</b>		<b>1,974</b>	<b>2,444</b>
Balance at 1 July 2019		1,974	2,444
Additions		759	-
Impairment		(844)	-
Amortisation		(93)	-
Effect of movements in exchange rates		20	(378)
<b>Balance at 28 June 2020</b>		<b>1,816</b>	<b>2,066</b>

## B6 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AND GOODWILL

### Recognition and measurement

#### Impairment

The carrying amounts of the Group's goodwill and indefinite life intangibles are impairment tested at each reporting period. Property, plant and equipment is 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.

#### Cash-generating units

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. For the purpose of impairment testing, goodwill is tested at the level at which it is monitored, identified by the Group as the country level. Key money is tested at the store level annually and PPE is tested at the store level when there is an indication of impairment.

#### 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 or CGU.

#### Cash flow forecasts

Cash flow forecasts are based on the Group's most recent plans. EBITDA for the purposes of impairment testing was based on expectations of future outcomes having regard to market demand and past experience. For store level tests, cash flow forecasts are modelled for the length of the lease, identified as the essential asset for store CGUs.

#### Discount rates

The Group applies a pre-tax discount rate to pre-tax cash flows. The pre-tax discount rates incorporate a risk-adjustment relative to the risks associated with the specific CGU (geographic position or otherwise).

Key assumptions at the Lovisa Group level were as follows:

- Discount rate 14% (2019: 15%)
- Growth rate based on expected post-COVID recovery sales profile by market, with longer term growth rate assumption 3%

## B6 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

### 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.

## B7 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)	2020	2019
Trade payables	12,032	9,138
Accrued expenses	10,199	14,521
	22,231	23,659

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.

## B8 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	Return provision	Onerous lease	Total
Balance at 1 July 2019	3,138	5,210	246	8	8,602
Derecognition of balances on initial application of AASB 16	-	(5,210)	-	(8)	(5,218)
Adjusted balance at 1 July 2019	3,138	-	246	-	3,384
Provisions made during the year	733	-	588	-	1,321
Provisions used during the year	-	-	(511)	-	(511)
Effect of movement in exchange rates	(208)	-	296	-	88
Balance at 28 June 2020	3,663	-	619	-	4,282
Current	897	-	619	-	1,516
Non-current	2,766	-	-	-	2,766
	3,663	-	619	-	4,282

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**B8 PROVISIONS (CONTINUED)****Recognition and measurement (continued)****(a) Site restoration**

Description	Key Estimates
<p>Effective 1 July 2019</p> <p>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.</p> <p>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.</p> <p>Since the adoption of AASB 16 <i>Leases</i> from 1 July 2019, site restoration is now capitalised as part of the lease right-of-use asset and depreciated over the life of the lease term. For prior periods the amount of the provision for future restoration costs was capitalised as part of leasehold improvements and depreciated over the estimated useful life of the leasehold improvements. The unwinding of the effect of discounting on the provision was recognised as a finance cost.</p>	<p>Expenditure to settle the restoration obligation at the end of the lease term is based on the Group's best estimate.</p>

**(b) Straight line rent and lease incentive**

Description	Key Estimates
<p>Effective 1 July 2019</p> <p>On transition to AASB 16 <i>Leases</i>, the straight-lining prepaid rent account is capitalised as part of the right-of-use asset on transition. The Group no longer recognises provisions for straight line rent and lease incentives. Instead, the Group will include the payments due under the lease in its lease liability. Refer to note B10 for further detail.</p> <p>At 30 June 2019</p> <p>Lease payments are recognised on a straight-line basis over the lease term.</p> <p>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).</p>	<p>No major estimation required in the calculation of these provisions.</p>

**(c) Onerous leases**

Description	Key Estimates
<p>Effective 1 July 2019</p> <p>The Group no longer recognises provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability. Refer to note B10 for further detail.</p> <p>At 30 June 2019</p> <p>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.</p> <p>Where the Group has agreed to exit an existing lease early, these balances have been accrued for at year-end.</p>	<ul style="list-style-type: none"> <li>• Sub-lease party to undertake rental in line with agreements</li> <li>• Expenditure to settle the lease at the end of the lease term is based on the Group's best estimate</li> </ul>

**B9 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.

**B9 EMPLOYEE BENEFITS (CONTINUED)****Recognition and measurement (continued)***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.

Consolidated (\$000s)	2020	2019
<b>Current</b>		
Liability for annual leave	2,848	2,992
Liability for long-service leave	837	703
<b>Non-Current</b>		
Liability for long-service leave	407	359
<b>Total employee benefit liabilities</b>	<b>4,092</b>	<b>4,054</b>

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.

**B10 LEASE LIABILITIES****Recognition and measurement**

Consolidated (\$000s)	2020
Balance at 1 July 2019	-
Recognition of lease liability on initial application of AASB 16	143,621
Adjusted balance at 1 July 2019	143,621
Liability recognised during the period	50,245
Re-measurement of lease liabilities	1,559
Lease payments	(31,886)
Interest	4,707
Effect of movement in exchange rates	(1,092)
<b>Balance at 28 June 2020</b>	<b>167,154</b>
Current lease liability	36,019
Non-current lease liability	131,135
	<b>167,154</b>

The Group has adopted AASB 16 Leases from 1 July 2019 using the modified retrospective approach. Refer to note D8 for details about the change in accounting policy and the impact on transition.

Additions to lease liabilities represent leases for new stores. Lease liabilities have been re-measured due to changes to existing lease terms, including extensions to existing lease terms.

The Group has applied the practical expedient whereby lease liabilities have not been re-measured for rent concessions that are a direct consequence of the COVID-19 pandemic, refer to note B4.

The timing of the contractual cash flows for the lease liabilities are disclosed in note C4(b).

# 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	
	2020	2019	2020	2019
	'000's	'000's	'000's	'000's
Share Capital				
On issue at beginning of year	105,566	105,016	214,571	208,526
Exercise of performance rights	-	-	-	-
Share issue to Employee Share Trust	1,894	550	19,594	6,045
On issue at end of year	107,460	105,566	234,165	214,571
Treasury Shares				
On issue at beginning of year	-	-	(4,780)	-
Shares issued to trust	(1,894)	(550)	(19,594)	(6,045)
Shares allocated on option exercise	1,894	550	4,086	1,265
	-	-	(20,288)	(4,780)
Share Capital After Treasury Shares	107,460	105,566	213,877	209,791

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.

#### (ii) Treasury shares

Treasury shares are shares in Lovisa Holdings Limited that are held by the Lovisa Holdings Limited Share Trust for the purposes of issuing shares under the Long Term Incentive Plans. When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share capital.

### (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.

## C1 CAPITAL AND RESERVES (CONTINUED)

### (b) Nature and purpose of reserves (continued)

#### (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.

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	2020	2019
<b>Current liabilities</b>			
Bank overdraft		-	7,988

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:

Consolidated (\$'000s)	Currency	Nominal interest rate	Year of maturity	28 June 2020		30 June 2019	
				Face value	Carrying amount	Face value	Carrying amount
Cash advance facility	AUD	0.00%	2023	-	-	-	-
Multi-option facility	AUD	0.00%	-	-	-	7,988	7,988
<b>Total interest-bearing liabilities</b>				-	-	7,988	7,988

The Group maintains the following lines of credit:

- \$30 million revolving cash advance facility (2019: \$15 million)
- \$20 million multi option facility available for overdraft, trade finance and a contingent liability facility for global letters of credit and bank guarantees (2019: \$10 million multi option facility for overdraft and trade finance and \$7 million contingent liability facility).



### C3 LOANS AND BORROWINGS (CONTINUED)

#### (a) Terms and debt repayment schedule (continued)

These lending facilities are held with the Commonwealth Bank of Australia (CBA). The facilities were renewed during the year, extending the maturity date of the facilities to 23 May 2023 (notwithstanding that individual products by virtue of their nature have their own maturity dates) and increasing the available credit limit as outlined above.

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). Under the facility the Group has financial covenants and has been in compliance with these through the year ended 28 June 2020.

Refer to note D2(a) for guarantees outstanding at 28 June 2020.



## 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.

28 June 2020		Carrying Amount				Fair Value			
Consolidated (\$'000s)	Note	Hedging instruments	Loans and receivables	Other financial assets/liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>									
Derivatives		207	-	-	207	-	207	-	207
		207	-	-	207	-	207	-	207
<b>Financial assets not measured at fair value</b>									
Trade and other receivables	B1	-	7,876	-	7,876	-	-	-	-
Cash and cash equivalents	C5	-	20,434	-	20,434	-	-	-	-
		-	28,310	-	28,310	-	-	-	-
<b>Financial liabilities not measured at fair value</b>									
Bank overdrafts	C5	-	-	-	-	-	-	-	-
Trade and other payables	B7	-	-	22,231	22,231	-	-	-	-
		-	-	22,231	22,231	-	-	-	-

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

## (a) Fair values (continued)

## Recognition and measurement (continued)

30 June 2019		Carrying Amount				Fair Value			
Consolidated (\$'000s)	Note	Hedging instruments	Loans and receivables	Other financial assets/liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>									
Derivatives		645	-	-	645	-	645	-	645
		645	-	-	645	-	645	-	645
<b>Financial assets not measured at fair value</b>									
Trade and other receivables	B1	-	7,413	-	7,413	-	-	-	-
Cash and cash equivalents	C5	-	19,180	-	19,180	-	-	-	-
		-	26,593	-	26,593	-	-	-	-
<b>Financial liabilities not measured at fair value</b>									
Bank overdrafts	C5	-	-	7,988	7,988	-	-	-	-
Trade and other payables	B7	-	-	23,659	23,659	-	-	-	-
		-	-	31,647	31,647	-	-	-	-

## (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 28 June 2020, no trade receivables were past due but not impaired (2019: 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 certain of its subsidiaries over all of their assets in favour of the Commonwealth Bank of Australia (CBA):

- \$30 million revolving cash advance facility; and
- \$20 million multi option facility available for overdraft, trade finance and a 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.

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

## (b) Financial risk management (continued)

## (iii) Liquidity risk (continued)

28 June 2020	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
<b>Non-derivative financial liabilities</b>							
Trade payables	12,032	12,032	12,032	-	-	-	-
Lease liabilities	167,154	186,098	11,998	29,084	31,160	68,171	45,685
Bank overdrafts	-	-	-	-	-	-	-
	179,186	198,130	24,030	29,084	31,160	68,171	45,685
<b>Derivative financial assets</b>							
Forward exchange contracts used for hedging:							
- Outflow	-	29,748	6,987	22,761			
- Inflow	-	(29,955)	(7,005)	(22,950)			
Total	(207)	(207)	(18)	(189)			

30 June 2019	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
<b>Non-derivative financial liabilities</b>							
Trade payables	9,138	9,138	9,138	-	-	-	-
Bank overdrafts	7,988	7,988	7,988	-	-	-	-
	17,126	17,126	17,126	-	-	-	-
<b>Derivative financial assets</b>							
Forward exchange contracts used for hedging:							
- Outflow	-	32,360	7,696	24,664	-	-	-
- Inflow	-	(33,005)	(7,882)	(25,123)	-	-	-
Total	(645)	(645)	(186)	(459)	-	-	-

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:

In thousands of	28 June 2020				30 June 2019			
	SGD	USD	GBP	ZAR	SGD	USD	GBP	ZAR
Cash and cash equivalents	701	1,877	2,895	3,504	935	1,072	947	14,801
Trade receivables	256	1,329	108	212	67	1,969	-	282
Trade payables	(144)	(358)	(2,473)	(64)	-	(3,214)	(2,014)	-
<b>Net statement of financial position exposure</b>	<b>813</b>	<b>2,848</b>	<b>530</b>	<b>3,652</b>	<b>1,002</b>	<b>(173)</b>	<b>(1,067)</b>	<b>15,083</b>

#### 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.

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

### (b) Financial risk management (continued)

(iv) Market risk (continued)

Sensitivity Analysis (continued)

Effect in thousands of dollars	Profit or loss	
	Strengthening	Weakening
<b>28 June 2020</b>		
SGD (5 percent movement)	(27)	58
USD (5 percent movement)	(170)	188
GBP (5 percent movement)	(261)	288
ZAR (5 percent movement)	(180)	199
<b>30 June 2019</b>		
SGD (5 percent movement)	(42)	53
USD (5 percent movement)	8	(9)
GBP (5 percent movement)	51	(56)
ZAR (5 percent movement)	(718)	794

#### 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:

Consolidated (\$'000s)	Nominal amount	
	2020	2019
<b>Variable-rate instruments</b>		
Financial liabilities	-	7,988
	-	7,988

#### Cash flow sensitivity analysis for variable rate instruments

At 28 June 2020, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, there would have been nil impact on pre tax profit for the year (30 June 2019: \$41,000 impact), 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).

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## 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)	2020	2019
<b>Derivatives</b>		
Forward exchange contracts	207	645
	207	645

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.

Consolidated (\$'000s)	2020				2019			
	Carrying Amount	Expected Cash Flows			Carrying Amount	Expected Cash Flows		
		Total	12 mths of less	More than 1 year		Total	12 mths of less	More than 1 year
<b>Forward exchange contracts:</b>								
Assets	207	207	207	-	645	645	645	-
Liabilities	-	-	-	-	-	-	-	-
	207	207	207	-	645	645	645	-

A gain of \$38,000 was included in other expenses on foreign currency derivatives not qualifying as hedges (2019: loss of \$89,000).

## 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)	2020	2019
<b>Bank balances</b>		
Cash and cash equivalents in the statement of financial position	20,434	19,180
Bank overdrafts used for cash management purposes	-	(7,988)
Cash and cash equivalents in the statement of cash flows	20,434	11,192



## C5 CASH FLOWS (CONTINUED)

**Reconciliation of cash flows from operating activities**

Consolidated (\$'000s)	Note	2020	2019
<b>Cash flows from operating activities</b>			
Profit		11,221	37,042
Adjustments for:			
Depreciation		50,441	9,838
Impairment charges		6,117	-
Loss on sale of property, plant and equipment		241	241
Share based payments		(577)	586
Fair value adjustment to derivatives	C4	(38)	89
Net finance costs		4,707	-
Exchange differences		2,968	628
		75,080	48,424
Change in inventories		1,055	(7,824)
Change in trade and other receivables		(463)	(2,532)
Change in deferred tax assets		(2,972)	(1,837)
Change in trade and other payables		(1,428)	11,912
Change in current tax liabilities		2,632	(5,273)
Change in provisions and employee benefits		935	3,358
Change in make-good provision		(717)	-
Change in deferred tax asset on share trust consolidation entries		5,878	-
<b>Net cash from operating activities</b>		<b>80,000</b>	<b>46,228</b>

# 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 COMMITMENTS AND CONTINGENCIES

### (a) Guarantees

The Group has guarantees outstanding to landlords and other parties to the value of \$5,229,000 at 28 June 2020 (2019: \$5,432,000).

### (b) Capital commitments and contingent liabilities

The Group is committed to incur capital expenditure of \$1,524,000 (2019: \$1,006,000). There are no contingent liabilities that exist at 28 June 2020 (30 June 2019: none).

## D3 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.

## D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

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

At 28 June 2020 the Group has the following share-based payment arrangements:

(i) Share option programmes (equity-settled)

## Long Term Incentives - Annual Programmes (FY 2018)

Share Option Programme	Grant date/employee entitled	Number of instruments (000's)	Contractual life of options	Vesting conditions
<b>Options granted</b>				
FY 2018 LTI (1)	July 2017	2,960	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 2018 LTI (3)	November 2017	338	3 years	
		3,298		

The Board 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

The actual compound annual growth rate in EPS over the performance period ended 28 June 2020 was (13%). As a result, none of the Options granted in this tranche have met the vesting hurdle and have therefore now lapsed unvested.

## Long Term Incentives - Annual Programmes (FY 2019)

Share Option Programme	Grant date/employee entitled	Number of instruments (000's)	Contractual life of options	Vesting conditions
<b>Options granted</b>				
FY 2019 LTI	October 2018	2,564	3 years	Refer Performance Options granted to Managing Director table below
FY 2019 LTI	October 2018	195	3 years	Refer Performance Options granted to other Executives table below
		2,759		

2,564,103 of the FY2019 LTI (1) options were approved at the Company's AGM on 30 October 2018. During the performance period ended 28 June 2020, 18,315 Options were forfeited.

The Board has determined the EBIT Target growth hurdles applicable to both the FY2019 grants are as follows.

## Performance Options granted to Managing Director

Company's EBIT* over the Performance Period	% of Performance Options that become exercisable
Less than threshold	Nil
Equal to threshold	24% compound growth - 10% awarded
Between threshold and stretch	25% compound growth - 20% awarded
Stretch	26% compound growth - 100% awarded

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## D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

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

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

## Long Term Incentives - Annual Programmes (FY 2019) (continued)

## Performance Options granted to other Executives

Company's EBIT* over the Performance Period	% of Performance Options that become exercisable
Less than threshold	Nil
Equal to threshold	17.5% compound growth - 40% awarded
Between threshold and stretch	20% compound growth - 60% awarded 22.5% compound growth - 80% awarded
Stretch	25% compound growth - 100% awarded

\* EBIT is defined as Earnings before Interest and Tax before Share Based Payments expense for the purposes of testing the performance conditions above.

## Long Term Incentives - Annual Programmes (FY 2020)

Share Option Programme	Grant date/employee entitled	Number of instruments (000's)	Contractual life of options	Vesting conditions
<b>Options granted</b>				
FY 2020 LTI	October 2019	1,175	3.5 years	Refer Performance Options granted table below
		1,175		

## Performance Options granted to other Executives

Company's diluted EPS over the Performance Period	% of Performance Options that become exercisable
Less than threshold	Nil
Equal to threshold	15% compound growth - 20% awarded
Between threshold and stretch	17.5% compound growth - 35% awarded 20% compound growth - 50% awarded 22.5% compound growth - 75% awarded
Stretch	25% compound growth - 100% awarded

## (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				
	FY2018 LTI (1)	FY2018 LTI (3)	FY2019 LTI (MD)	FY2019 LTI (EXEC)	FY2020 LTI
Fair value at grant date	\$0.38	\$0.47	\$3.12	\$2.73	\$3.14
30 day VWAP share price at grant date	\$3.79	\$5.94	\$10.95	\$10.95	\$10.60
Exercise price	\$3.79	\$5.94	\$10.95	\$10.95	\$10.60
Expected volatility (weighted-average)	23.70%	20.50%	40.90%	40.90%	50.10%
Expected life (weighted-average)	3 years	2.5 years	3 years	3 years	3.5 years
Expected dividends	5.60%	5.60%	3.50%	3.50%	3.50%
Risk-free interest rate (based on government bonds)	1.87%	1.89%	2.15%	2.15%	1.00%

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

## D3 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 were as follows.

	Number of options 000's	Weighted average exercise price \$
<b>Outstanding at 1 July 2019</b>	6,878	\$6.32
Granted during the year	1,175	\$10.60
Forfeited during the year	(2,243)	\$4.17
Exercised during the year	(1,894)	\$2.16
<b>Outstanding at 28 June 2020</b>	3,916	\$10.84
Exercisable at 28 June 2020	-	-
Outstanding at 2 July 2018	5,046	\$3.17
Granted during the year	2,759	\$10.95
Forfeited during the year	(377)	\$4.00
Exercised during the year	(550)	\$2.30
<b>Outstanding at 30 June 2019</b>	6,878	\$6.32
Exercisable at 30 June 2019	1,894	\$2.16

**(d) Expenses recognised in profit or loss**

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

## D4 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)	2020	2019
Short-term employee benefits	2,162	2,037
Post-employment benefits	88	92
Share based payment	(419)	515
Termination benefits	-	-
Other long term benefits	189	229
	2,020	2,873

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 23 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 28 June 2020 except for those disclosed in note D4 (c) (30 June 2019: nil).

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## D4 RELATED PARTIES (CONTINUED)

## (c) Other related party transactions

Consolidated (\$'000s)	Transaction values for the year ended		Balance outstanding as at	
	28 June 2020	30 June 2019	28 June 2020	30 June 2019
<b>a) Expenses</b>				
Expense recharges	259	101	-	-
<b>b) Sales</b>				
Recharges	-	-	-	-

Included in expenses in the period is \$150,000 relating to Directors fees for Brett Blundy in his capacity as Director and Chairman of the Company. 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. 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.

## D5 AUDITOR'S REMUNERATION

Consolidated (\$)	2020	2019
<b>a) KPMG</b>		
<b>Audit and review services</b>		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	216,000	208,000
Network firms of KPMG Australia		
Audit and review of financial statements	64,000	62,000
<b>Total remuneration for audit and review services</b>	<b>280,000</b>	<b>270,000</b>
<b>Other services</b>		
Auditors of the Company - KPMG Australia		
In relation to other assurance, taxation and due diligence services	98,228	166,710
Network firms of KPMG Australia		
In relation to other assurance, taxation and due diligence services	56,598	24,965
<b>Total remuneration for other services</b>	<b>154,826</b>	<b>191,675</b>
<b>Total remuneration of KPMG</b>	<b>434,826</b>	<b>461,675</b>
<b>b) Non-KPMG audit firms</b>		
<b>Audit and review services</b>		
Audit and review of financial statements	20,695	25,125
<b>Total remuneration for audit and review services</b>	<b>20,695</b>	<b>25,125</b>
<b>Other services</b>		
In relation to other assurance, taxation and due diligence services	44,518	39,247
<b>Total remuneration for other services</b>	<b>44,518</b>	<b>39,247</b>
<b>Total remuneration of non-KPMG audit firms</b>	<b>65,213</b>	<b>64,372</b>
<b>Total auditors remuneration</b>	<b>500,039</b>	<b>526,047</b>

## D6 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 28 June 2020 is set out as follows.

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

Consolidated (\$'000s)	2020	2019
Revenue	136,473	154,849
Cost of sales	(52,494)	(46,836)
<b>Gross profit</b>	<b>83,979</b>	<b>108,013</b>
Salaries and employee benefits expense	(34,794)	(42,170)
Property expenses	(4,176)	(19,081)
Distribution costs	(872)	(1,556)
Depreciation	(18,789)	(3,765)
Loss on disposal of property, plant and equipment	(64)	(6)
Other income/(expenses)	2,098	1,763
Dividend income	7,340	3,454
Finance income	5	21
Finance costs	(1,521)	(297)
<b>Profit before tax</b>	<b>33,206</b>	<b>46,376</b>
Tax expense	(8,127)	(12,024)
<b>Profit after tax</b>	<b>25,079</b>	<b>34,352</b>
Other comprehensive income for the year, net of tax	-	-
<b>Total comprehensive income for the year, net of tax</b>	<b>25,079</b>	<b>34,352</b>
Retained earnings at beginning of year	41,555	41,056
Impact of change in accounting policy	-	(72)
Dividends recognised during the year	(15,866)	(33,781)
<b>Retained earnings at end of year</b>	<b>50,768</b>	<b>41,555</b>

## D6 DEED OF CROSS GUARANTEE (CONTINUED)

*Statement of financial position*

Consolidated (\$'000s)	28 June 2020	30 June 2019
<b>Assets</b>		
Cash and cash equivalents	8,296	979
Trade and other receivables	53,964	39,577
Inventories	9,694	12,123
Current tax receivables	-	356
Derivatives	207	645
<b>Total current assets</b>	<b>72,161</b>	<b>53,680</b>
Deferred tax assets	3,424	3,265
Property, plant and equipment	13,984	14,174
Right-of-use asset	49,940	-
Investments	210,000	210,000
<b>Total non-current assets</b>	<b>277,348</b>	<b>227,439</b>
<b>Total assets</b>	<b>349,509</b>	<b>281,119</b>
<b>Liabilities</b>		
Bank overdraft	-	7,988
Trade and other payables	13,225	11,506
Employee benefits - current	1,991	2,109
Lease liability - current	15,941	-
Current tax liabilities	2,167	-
Provisions - current	452	696
<b>Total current liabilities</b>	<b>33,776</b>	<b>22,299</b>
Employee benefits - non-current	1,244	1,062
Lease liability - non-current	39,137	-
Provisions - non current	984	1,638
<b>Total non-current liabilities</b>	<b>41,365</b>	<b>2,700</b>
<b>Total liabilities</b>	<b>75,141</b>	<b>24,999</b>
<b>Net assets</b>	<b>274,368</b>	<b>256,120</b>
<b>Equity</b>		
Issued capital	213,877	209,791
Common control reserve	925	925
Share based payments reserve	8,597	3,296
Cash flow hedge reserve	201	553
Retained earnings	50,768	41,555
<b>Total equity</b>	<b>274,368</b>	<b>256,120</b>



## D7 PARENT ENTITY DISCLOSURES

(\$000s)	2020	2019
<b>Result of parent entity</b>		
Profit for the year	7,341	33,220
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>7,341</b>	<b>33,220</b>
<b>Financial position of parent entity at year end</b>		
Current assets	18,768	30,356
Total assets	229,674	219,203
Current liabilities	-	-
Total liabilities	-	-
Net assets	229,674	219,203
<b>Total equity of parent entity comprising of:</b>		
Share capital	215,351	209,791
Share based payments reserve	905	1,861
Accumulated profits	13,418	7,551
<b>Total equity</b>	<b>229,674</b>	<b>219,203</b>

**(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 28 June 2020.

**(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 D6.

## D8 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 28 June 2020:

- AASB 16 : *Leases*

**AASB 16 Leases**

AASB 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised a right-of-use asset representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated - i.e. it is presented, as previously reported, under AASB 117 *Leases* and related interpretations.

Details of the changes in accounting policies are disclosed below.

## D8 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP (CONTINUED)

### AASB 16 Leases (continued)

#### A Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under AASB 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to AASB 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under AASB 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

#### B As a lessee

The Group leases retail stores, offices and warehouse facilities. As a lessee, the Group previously classified these leases as operating leases and recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. Under AASB 16, the Group recognises right-of-use assets and liabilities for these leases - i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The carrying amounts of right-of-use assets are as below:

(\$000s)	Right-of-use asset
Balance at 1 July 2019	138,403
Balance at 28 June 2020	150,464

#### i) Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

#### ii) Transition

Previously, the Group classified property leases as operating leases under AASB 117. These include retail stores, offices and warehouse facilities. The leases run for a period of 3 to 10 years. Some leases include an option to renew the lease for an additional period after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases, under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. A single discount rate was applied to a portfolio of leases with reasonably similar characteristics. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

In addition, the Group no longer recognises provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

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## D8 NEW STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP (CONTINUED)

### AASB 16 Leases (continued)

#### C Impacts on financial statements

##### i) Impacts on transition

On transition to AASB 16, the Group recognised right-of-use assets and lease liabilities for property leases. The impact on transition is summarised below.

(\$000s)	1 July 2019	(\$000s)	1 July 2019
Right-of-use assets	138,403	Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	147,662
Lease liabilities - current	30,351	Discounted using the incremental borrowing rate at 1 July 2019	137,485
Lease liabilities - non-current	113,270	Extension or early termination options reasonably certain to be exercised	6,136
Derecognition of provision - straight line rent and lease incentive	5,210	Lease liabilities recognised at 1 July 2019	143,621
Derecognition of provision - onerous lease	8		

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. A single discount rate was applied to a portfolio of leases with reasonably similar characteristics. The weighted-average rate applied is 3.0%.

##### ii) Impacts for the period

As a result of initially applying AASB 16, in relation to the leases that were previously classified as operating leases, the Group recognised \$150,464,000 of right-of-use assets and \$167,154,000 of lease liabilities as at 28 June 2020.

Also in relation to those leases under AASB 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 28 June 2020, the Group recognised \$37,454,000 of depreciation charges and \$4,707,000 of interest costs from these leases. Refer to notes B4 Right-of-use Assets and B10 Lease Liabilities for further details.

## D9 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 July 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- AASB 2019-1 Amendments to Australian Accounting Standards - References to Conceptual Framework;
- AASB 2018-6 Amendments to Australian Accounting Standards - Definition of a Business;
- AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material; and
- AASB 17 *Insurance Contracts*.

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# SIGNED REPORTS

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# 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 75 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 28 June 2020 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 D6 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 28 June 2020.
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.



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Shane Fallscheer  
Director  
Melbourne  
25 August 2020

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF LOVISA HOLDINGS LIMITED



## 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 28 June 2020 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 28 June 2020
- 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 (including Independence Standards)* (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.

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# 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.

This matter was 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 this matter.

### Valuation of Inventories (\$21.7m)

Refer to Note B2 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's valuation of inventories due to the:</p> <ul style="list-style-type: none"> <li>relative size of inventories (being 8.3% of total assets within the Group's consolidated statement of financial position).</li> <li>judgement we applied to assess the Group's provisioning for 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 by the Group at product level, and therefore the value of inventories, requires consideration of the ageing and condition of products on hand, historic trends in write-offs, inventory turnover, seasonality of inventory and anticipated future sales. Such judgements may have a significant impact on the Group's provisioning, and therefore the overall carrying value of inventories, necessitating our audit effort thereon.</li> <li>Group's policy for the shrinkage provision is calculated based on the inventory counts performed and expected misappropriation of inventories as a percentage of sales. We focus on the shrinkage provisioning calculation which is largely manual and is therefore at greater risk of error.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>Evaluating the appropriateness of the Group's inventory provisioning policies against the requirements of the accounting standards.</li> <li>Assessing the historical accuracy of the Group's inventory provision against actual outcomes, to inform our evaluation of the current year provisioning and key judgements;</li> <li>Challenging the Group's judgements within their obsolete inventory provisioning, particularly the extent to which aged and seasonal inventory can be sold, taking into account our knowledge of the industry and past Group performance;</li> <li>Analysing current and historic trends in inventory turnover and ageing to identify indicators of slow-moving or obsolete inventory and therefore those inventory items at higher risk of obsolescence. We compared this to the Group's inventory ageing report.</li> <li>Checking the integrity of the Group's inventory ageing report at 28 June 2020, as a key input used in the obsolete inventory provisioning, by comparing on a sample basis inventory age per the report to purchase invoices.</li> <li>Attending a sample of inventory counts across the Group's store and warehouse locations <ul style="list-style-type: none"> <li>- to observe the condition of a sample of products held. We did this to check the condition of products assumed in their recorded inventory value.</li> <li>- to observe the Group's shrinkage process.</li> </ul> </li> <li>Analysing the inventory shrinkage provision levels by region against sales, including against historical trends.</li> <li>Assessing the integrity of the provisioning calculations. This included checking the accuracy of the formulas within the calculations.</li> <li>Comparing a statistical sample of inventory product values recorded by the Group at year-end, to the Group's post year-end recommended retail selling prices to identify products at risk of selling below cost.</li> </ul>



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



## 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.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report. The Chairman and Managing Director's Report and the ASX 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 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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 and Company 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: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our Auditor's Report.

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



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Lovisa Holdings Limited for the year ended 28 June 2020, 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 28 June 2020.

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

KPMG

Rachel Milum

*Partner*

Melbourne

25 August 2020

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



## 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 audit of Lovisa Holdings Limited for the financial year ended 28 June 2020 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

Rachel Milum

*Partner*

Melbourne

25 August 2020

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# ASX INFORMATION

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# 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 25 August 2020 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 1 SEPTEMBER 2020)

### 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
FIL Limited	8,928,405
Challenger Limited	6,475,405
Mr Shane Fallscheer	5,827,764

### 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	2,869	1,195,432	1.11
1,001 - 5,000	1,847	4,476,333	4.17
5,001 - 10,000	323	2,440,931	2.27
10,001 - 100,000	228	5,888,161	5.48
100,001 and over	30	93,458,789	86.97
<b>Total</b>	<b>5,297</b>	<b>107,459,646</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 255.

**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 Limited	43,207,500	40.21
HSBC Custody Nominees (Australia) Limited	14,219,296	13.23
J P Morgan Nominees Australia Pty Limited	8,857,585	8.24
Centreville Pty Limited	4,140,000	3.85
National Nominees Limited	3,901,616	3.63
Citicorp Nominees Pty Limited	3,049,752	2.84
BNP Paribas Nominees Pty Limited	2,086,504	1.94
CS Third Nominees Pty Limited	1,803,492	1.68
Shane Roland Fallscheer	1,687,764	1.57
BNP Paribas Noms Pty Limited	1,341,753	1.25
Coloskye Pty Limited	1,153,005	1.07
PBC Investments Pty Limited	1,000,000	0.93
Truebell Capital Pty Limited	980,200	0.91
Mrs Vanessa Louise Speer	927,460	0.86
Sandhurst Trustees Limited	891,339	0.83
BNP Paribas Nominees Pty Limited Hub24 Custodial Serv Limited	841,533	0.78
UBS Nominees Pty Ltd	645,685	0.60
HSBC Custody Nominees (Australia) Limited - A/C 2	471,242	0.44
BNP Paribas Noms(NZ) Limited	343,894	0.32
Clyde Bank Holdings (Aust) Pty Limited	316,681	0.29
<b>Total</b>	<b>91,866,301</b>	<b>85.49</b>
<b>Balance of register</b>	<b>15,593,345</b>	<b>14.51</b>
<b>Grand total</b>	<b>107,459,646</b>	<b>100.00</b>

	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	3,914,825	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](http://www.lovisa.com)