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LOVISA

LOVISA HOLDINGS LIMITED

APPENDIX 4E

PRELIMINARY FINAL

REPORT 2022

APPENDIX 4E



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Lovisa Holdings Limited
ACN 602 304 503
Level 1, 818 Glenferrie Road
Hawthorn VIC 3122

t +61 3 9831 1800
f +61 3 9804 0060
e info@lovisa.com

lovisa.com

Lovisa Holdings Limited
Appendix 4E
Preliminary Final Report
For the year ended 3 July 2022

The following sets out the requirements of Appendix 4E with the stipulated information either provided here or cross referenced to the 2022 Preliminary Final Report which is attached.

1. Company details

Company Name	Lovisa Holdings Limited
ACN	602 304 503
Reporting Period	53 weeks ended 3 July 2022
Prior Period	52 weeks ended 27 June 2021

2. Results for announcement to the market

Comparison to the prior period (Appendix 4E items 2.1 to 2.3)	Increase/ Decrease	Change %	To A\$'000s
Revenue from ordinary activities	Increase	59.3%	458,712
Earnings before Interest and Tax (EBIT) ¹	Increase	86.6%	79,666
Profit before tax	Increase	100.1%	76,657
Profit after tax attributable to the members	Increase	135.2%	58,387

¹EBIT is Non-IFRS information and is unaudited and represents Earnings before Interest and Tax excluding the impact of the lease accounting standard AASB 16 to ensure comparability between the periods. For further information please refer to page 27 of the Directors' Report.

Dividends / distributions (Appendix 4E item 2.4)	Amount per security	Franked amount per security
Final dividend for the year ended 3 July 2022 to be paid on 20 th October 2022	37.0 cents	11.1 cents

Record date for determining entitlement to the dividend (Appendix 4E item 2.5)	15 th September 2022
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Brief explanation of the figures reported above necessary to enable the figures to be understood (Appendix 4E item 2.6)

For the year ended 3 July 2022 the Group reported a statutory net profit after tax of \$58.4 million. In the first half of the year the business was impacted by the temporary closure of stores in Australia, New Zealand and Malaysia. These impacts were offset by the continued growth of the store network as the store rollout continued, with a net increase of 85 stores for the financial year.

3. Income statement with notes to the statement

Please refer to the attached preliminary final report for the income statement for the 53 weeks ended 3 July 2022.

4. Balance sheet with notes to the statement

Please refer to the attached preliminary final report for the balance sheet as at 3 July 2022.

5. Cash flow statement with notes to the statement

Please refer to the attached preliminary final report for the cash flow statement for the 53 weeks ended 3 July 2022.

6. Dividends

Please refer to note A7 of the attached preliminary final report for details of dividends paid in the reporting period and prior period.

7. Dividend reinvestment plans

Not applicable.

8. Statement of changes in equity

Please refer to the attached preliminary final report for the statement of retained earnings for the period ended 3 July 2022.

9. Net tangible asset per security

	Current period	Previous period
Net tangible asset backing per ordinary share	\$0.56	\$0.38

10. Entities over which control has been gained or lost during the period

Not applicable.

11. Details of associates and joint ventures

Not applicable.

12. Other significant information

All significant information has been included within this Appendix, or the preliminary final report which should be read in conjunction with this document.

13. For foreign entities, which set of accounting standards has been used in compiling the report

The results of all foreign entities have been compiled using International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

14. Commentary on the results

Please refer to the Directors' Report in the preliminary final report for commentary on the results for the period.

15. Status of the audit

This report should be read in conjunction with the preliminary final report. The financial statements in the preliminary final report have been audited and an unqualified audit opinion has been issued.

16. Dispute or qualification arising from audit

Not applicable.

Signed on behalf of Lovisa Holdings Limited, on 28 August 2022



Chris Lauder
Company Secretary

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Directors' Report

P/6

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



Brett Blundy



Victor Herrero



Tracey Blundy



Sei Jin Alt



James King



John Charlton

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 20 countries. Brett is currently a non-executive Director of Accent Group Limited (ASX:AX1).

Victor Herrero

Chief Executive officer

Appointed 14 October 2021

Victor joined Lovisa during the financial year as CEO and brings vast global experience having spent 13 years with the Inditex Group, one of the world's largest fashion retailers with 8 store formats such as Zara, Pull & Bear and Massimo Dutti. The Inditex group with over 6,000 stores in 80 markets and sales over US\$25 billion pioneered fast fashion retailing growing numerous brands, including Zara, around the world. During Victor's time at Inditex, he held numerous roles including Head of Asia Pacific and Managing Director Greater China and led the company's expansion through this region rolling out 800 stores across multiple countries including China and India.

Victor also spent four years as CEO of global retail brand Guess based in California, and was most recently Chairman and CEO of international shoe manufacturer and retailer Clarks and is also a Director of G-III Apparel Group (Nasdaq listed), Global Fashion Group (listed on the Frankfurt Stock Exchange), Bossini International Holdings Limited and Viva China Holdings Limited (both listed on the Hong Kong Stock Exchange).

Shane Fallscheer

Managing Director

Appointed 6 November 2014 and ceased as an Executive on 22 November 2021, resigned as a Director 14 October 2021

Shane Fallscheer was the Managing Director and founder of Lovisa until his resignation during the financial year. He has 23 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.

John Charlton

Independent Non-Executive Director

Appointed 26 August 2020

Member of the Audit, Business Risk & Compliance Committee

Member of the People, Leadership, Remuneration & Nomination Committee

John is a career retailer and brings over 38 years' experience in retailing operations in Australia. He was previously the founder and owner of Spendless Shoes Pty Ltd, a company he grew to 248 stores as well as a successful online site before selling to The Shoe Group in July 2019. He has served as a member of the Council of Wilderness School for 12 years (7 years as Chair), Saint Peter's College for 5 years, is currently a member of the Finance and Infrastructure Committee of the University of Adelaide, and is a Non-Executive Director of the Detmold Group Advisory Board.

Tracey Blundy

Non-Executive Director

Appointed 6 November 2014

*Member of the Audit, Business Risk & Compliance Committee
Chair of the People, Leadership, 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 People, Leadership, 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 3 July 2022.

Director	Board		Audit and Risk		Remuneration & Nomination	
	Number attended	Number held	Number attended	Number held	Number attended	Number held
T Blundy	7	7	4	4	5	5
S Fallscheer	4	7	1	4	2	5
V Herrero	4	7	3	4	3	5
J King	7	7	4	4	5	5
B Blundy	7	7	2	4	5	5
J Charlton	7	7	4	4	5	5
S J Alt	7	7	4	4	5	5
N van der Merwe	-	7	4	4	5	5

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
V Herrero	49,800
J King (3)	34,000
J Charlton	25,000
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 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 629 retail stores in operation at 3 July 2022 including 44 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:

	2022	2021
	\$000's	\$000's
Final ordinary dividend for the year ended 27 June 2021 of 18.0 cents (2020: 15.0 cents deferred interim dividend) per fully paid share 50% franked paid on 21 October 2021	19,343	16,119
Interim ordinary dividend for the year ended 3 July 2022 of 37.0 cents (2021: 20.0 cents) per fully paid share 30% franked paid on 19 April 2022	39,760	21,492
Total dividends paid	59,103	37,611

4. REVIEW OF OPERATIONS

The following summary of operating results and operating metrics reflects the Group's performance for the year ended 3 July 2022:

4.1 Financial Performance

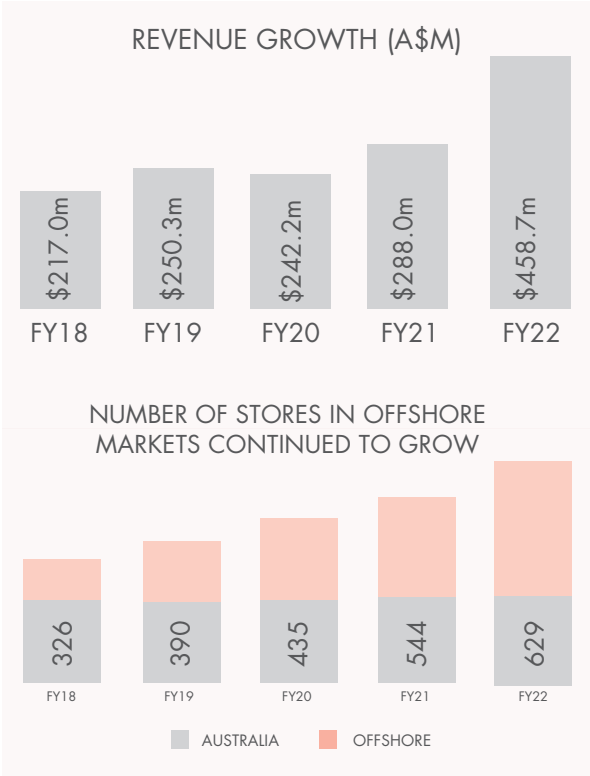
Revenue for the year ended 3 July 2022 was up 59.3% on FY21 with improved performance across all markets following the significant disruption to the business through the prior two financial years, and the continued expansion of the global store network. Whilst COVID-19 related economic lockdowns and disruptions continued to be a challenge throughout the first half of the financial year and in particular the first quarter with lockdowns in Australia, New Zealand, and Malaysia, we saw strong sales performance subsequent to this. This resulted in Earnings Before Interest and Tax (and before the impact of AASB 16) of \$79m, up 86.6% on FY21.

The business was able to deliver good growth in the store network for the financial year, with 629 stores now trading globally across 24 countries at financial year end.

Consolidated \$'000	2022	2021	Change
Sales	458,712	288,034	59.3%
Gross profit	361,828	220,964	63.7%
Gross Margin	78.9%	76.7%	2.2%
EBIT	79,662	42,697	86.6%
Net profit after tax (NPAT)	59,897	27,696	116.3%
Basic Earnings per share	55.7c	25.8c	29.9c

* 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. For further information please refer to page 27 of the Directors' Report.

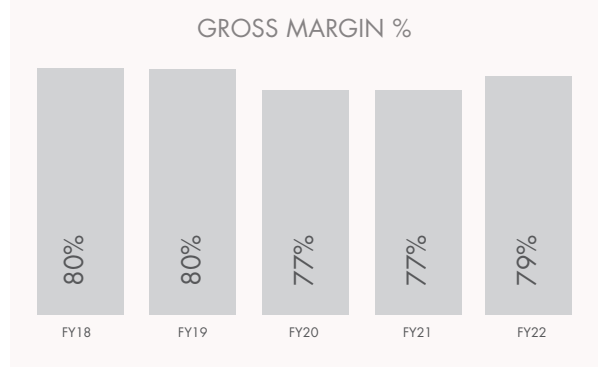
4.1.1 Sales



After the disruption that impacted the prior two financial years as a result of COVID-19, total sales have returned to strong growth with revenue up 59.3% on FY21. The first half of the financial year saw a continuation of disruption across a number of markets, with stores in Australia, New Zealand and Malaysia closed temporarily due to government lockdowns for a large part of quarter 1, and other markets experiencing general trading disruption throughout the first half. Once restrictions were lifted most markets were able to trade strongly as our customers were again able to get back to more normal activities. The continued increase in the store network also helped drive the increase in sales, with an increase of 85 stores in the global store network during the year. Comparable store sales were up 19.9% compared to FY21, with performance strong across all markets.

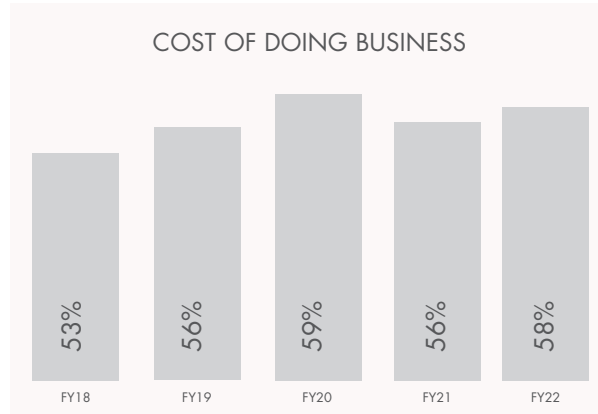
The Group’s online business delivered sales growth of 30% on FY21, despite cycling very strong growth in prior year with trading websites now operational across all markets that Lovisa is represented in and an ongoing business focus on improving our online customer experience.

4.1.2 Gross Profit Margin



The Group’s Gross Profit increased by 63.8% to \$361.8m. Gross Margin was higher at 78.9%, an increase of 220bps on prior year, with the impact of higher freight costs offset by the benefit of increases to selling prices implemented in the second half of the financial year, with limited visible impacts on sales volumes from the price increases. Gross Margin on a constant currency basis was 78.1% for the year.

4.1.3 Cost Of Doing Business



* COBD % has been adjusted to remove the effect of AASB 16 on FY2020, FY2021 and FY2022 to ensure comparability with prior years.

The Group’s control of Cost of Doing Business (COBD) was again effective, benefiting from strong comparable store sales growth and tight control of store wages and was achieved despite facing significantly higher logistics costs and continuing investment in support structures to drive future store network growth and expansion into new markets.

4.1.4 Earnings

Statutory earnings before interest and tax (EBIT) was \$82.7m being a 90% increase on EBIT from the prior year. Statutory net profit after tax increased 135.2% to \$58.4m with EPS at 54.3 cents. Excluding the impact of the implementation of AASB 16, earnings before interest and tax would have been \$79.7m, up 86.6% on last year and net profit after tax would have been \$59.9m, up 116.3%.

4.1.5 Cash Flow

The Group's net cash flow from operating activities, adjusted to remove the impact of AASB 16 was \$96.7m. Capital expenditure of \$34.5m relates predominately to new store openings and refurbishments of current stores upon lease renewal. The Group was able to close the financial year with \$24.2m in net cash, an \$11.4m decrease on prior year, impacted by the significant increase in dividends paid during the financial year and the ongoing investment into the global store rollout.

4.2 Financial Position

Consolidated	Actual 2022 \$'000	Actual 2021 \$'000	Change 2021/2022 %
Net cash	24,153	35,552	(32.1%)
Trade receivables and prepayments	21,587	11,325	90.6%
Inventories	50,215	34,211	46.8%
Trade payables and provisions	(62,505)	(46,937)	33.2%
Net lease liabilities	(46,335)	(42,606)	8.8%
Property, plant & equipment	67,255	42,112	59.7%
Intangible assets and goodwill	4,234	4,378	(3.3%)
Net derivative asset/(liability)	1,682	(144)	(1268.1%)
Net current tax liability	(13,288)	(4,767)	178.7%
Net deferred tax balances	17,326	12,591	37.6%
Net assets/equity	64,323	45,715	40.7%

Working capital

The Group's net working capital position remained stable during the year with inventory levels increasing from \$34.2m to \$50.2m, offset by a corresponding increase in payables and provisions, with inventory higher as a result of the significant increase in store numbers over the period.

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 currently has total debt facilities of \$50.0m, with an additional \$21.8m in bank guarantee facilities in place. As at the end of the financial year, \$10.0m remained drawn on the term debt facility, which has been classified as a current liability due to the maturity date of the facility being within the next 12 months. The Group possesses net cash reserves of \$24.2m at year end.

5. BUSINESS STRATEGIES

Lovisa has achieved rapid growth since it was founded, with revenue growing from \$25.5 million in FY2011 to \$458.7 million in FY2022. Despite the challenges of the past 3 financial years as a result of the COVID-19 pandemic and its ongoing impact, the Group continues to focus on its key drivers to deliver growth in sales and profit.

Growth pillar	Business Strategy Section	Strategy	Risks	Achievements
Global expansion	5.2	<ul style="list-style-type: none"> Continue to leverage current global territories including continued rollout in USA, Europe and UK and filling remaining gaps in other existing markets Expansion into new global markets Leverage the Company's capital in large international markets Consider franchise partners for selected territories Continue to develop our digital capability and ensure that all markets we trade in have access to a digital sales channel 	<ul style="list-style-type: none"> Competition (6.2) Retail environment and general economic conditions (6.3) Failure to successfully implement growth strategies (6.4) Availability of appropriately sized sites in good locations with satisfactory cost structures 	<ul style="list-style-type: none"> Whilst COVID-19 made new store openings challenging during prior periods, we were able to accelerate the store opening program during the financial year with net 85 new Lovisa stores (including 104 new and 19 closed stores). This included 56 new stores in the Americas region during the period, including our first store in Canada, and 20 new stores in Europe including our first store in Poland, with over 75% of the store network now outside Australia We now have dedicated e-commerce sites across all markets in which we operate
Streamline global supply chain	5.3	<ul style="list-style-type: none"> Streamline and optimise supply base in Asia Optimise air and sea freight whilst maintaining speed to market operating model Ongoing review of size, location and number of warehouses globally to ensure most efficient movement of products to our stores 	<ul style="list-style-type: none"> Exchange rates (6.5) Product sourcing or supply chain disruptions Escalated global freight costs as a result of COVID-19 disruptions being experienced by Logistics providers and the impacts of conflict in Ukraine 	<ul style="list-style-type: none"> Chinese warehouse operates to support our Asian, USA and South African stores, Australian warehouse to support Australia/New Zealand, and Poland warehouse operational to support Europe. Dedicated 3PL warehouses now operational in the UK, South Africa and the USA to support e-commerce sales
Enhance existing store performance	5.4	<ul style="list-style-type: none"> Optimise and improve existing store network Continue to target high traffic shopping precincts Judicious pricing 	<ul style="list-style-type: none"> Competition (6.2) Retail environment and general economic conditions (6.3) Prevailing fashions and consumer preferences may change (6.6) 	<ul style="list-style-type: none"> Global roll-out of in-store piercing service, now including nose piercing We continue to close stores in sub-optimal locations
Brand proliferation	5.5	<ul style="list-style-type: none"> Continue to leverage social media to connect with customers and increase brand loyalty 	<ul style="list-style-type: none"> Prevailing fashions and consumer preferences may change (6.6) Privacy breaches 	<ul style="list-style-type: none"> Growth in online stores across all existing markets Increased social media engagement
Lead and pre-empt trends	5.1	<ul style="list-style-type: none"> Stay on trend with shifts in jewellery and accessory market Continue to provide a high quality and diverse product offering 	<ul style="list-style-type: none"> Prevailing fashions and consumer preferences may change (6.6) 	<ul style="list-style-type: none"> Continued strong performance being testament to an ability to identify trends

5.1 Lead and Pre-empt Trends

Product innovation is a core component of Lovisa's competitive advantage. Our 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 large and experienced product team 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 subject to ongoing 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 50-80 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 between 2-4 weeks to fit out a new Lovisa store depending on local conditions.

The key driver of future growth for Lovisa is the continued global store roll-out. Lovisa has proven it is capable of successfully operating profitably globally, having established a portfolio of company owned stores in 16 countries and supporting franchised stores across 8 additional countries in the middle east, bringing the total countries Lovisa is represented in to 24. Lovisa will continue to explore other markets, with the store network at the end of the financial year including our first stores in new markets Canada and Poland, and further new markets opened since the end of the financial year.

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:

	2018	2019	2020	2021	2022
Australia	151	154	152	153	154
New Zealand	20	22	23	24	25
Singapore	22	18	19	18	17
South Africa	56	61	62	64	69
Malaysia	21	25	27	28	32
United Kingdom	24	38	42	41	42
Spain	5	9	-	-	-
France (i)	2	8	21	52	59
Germany (ii)	-	-	-	38	40
Belgium (ii)	-	-	-	8	11
Netherlands (ii)	-	-	-	6	5
Austria (ii)	-	-	-	3	3
Luxembourg (ii)	-	-	-	2	2
Switzerland (ii)	-	-	-	8	6
Poland	-	-	-	-	1
USA	1	19	48	63	118
Canada	-	-	-	-	1
Middle East (iii)	18	28	34	36	44
Vietnam (iii)	6	8	7	-	-
Total	326	390	435	544	629

(i) Of these stores, 22 were acquired as a result of the acquisition of the retail assets of beeline GmbH during 2021

(ii) These stores were acquired as a result of the acquisition of the retail assets of beeline GmbH during 2021

(iii) 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 warehouses in Poland (for stock to be sold in Europe), and 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. As a result of this constant review the company has implemented 3PL warehouses in the USA, South Africa and the UK to better support our online customers in these markets.

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 has been successful in driving enhanced customer loyalty and providing new customers an additional reason to choose to shop at Lovisa.

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 Group's online stores operate to service all markets in which the Group operates company-owned stores.



6. MATERIAL 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.

6.1 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, online presence and execution, 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 or a failure by Lovisa to successfully respond to changes in the industry.

To mitigate this risk, Lovisa employs a large product team to meet market demands as described in section 5.1. Management believes 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.

6.2 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 is less likely to have a material impact on our business compared to other discretionary categories.

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 had a continued impact on trading conditions over recent years. As our customers' lives have returned to a more normal state over the past year we have seen a return to prior performance of our business.

6.3 Public health crises, political crises and other catastrophic events outside of our control affect our sales or supply of inventory

Natural disasters, such as hurricanes, earthquakes, tsunamis, power shortages or outages, or floods; public health crises, such as pandemics and epidemics (including the ongoing COVID-19 pandemic); social unrest; political crises, such as terrorism, war, political instability or other conflict; or other events outside of our control, could damage or destroy our stores or our products, make it difficult for our employees or customers to travel to our stores, result in delays or disruptions in the production and/or delivery of merchandise to our distribution centers or our stores or in the fulfillment of e-commerce orders to our consumers, or require us to incur substantial additional costs to ensure timely delivery.

Moreover, these types of events could negatively impact consumer spending in the impacted regions or, depending upon the severity, globally, which could adversely impact our operating results.

Factors mitigating these risks include the significant geographical diversity of our operations, continued investment in e-commerce channels to offset temporary inability to trade from physical stores, and business continuity plans and experience developed during the COVID-19 pandemic.

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.

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 global network of industry contacts as well as our significantly globally experienced senior leadership team, 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 made by Lovisa are priced in USD. 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 and overall profitability of non-AUD denominated markets.

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 and piercing services, which is subject to changes in prevailing fashions and consumer preferences. Failure by Lovisa to predict or respond to such changes could adversely impact the future financial performance of Lovisa. In addition, any failure by Lovisa to correctly judge customer preferences, or to convert market trends into appealing product offerings on a timely basis, may result in lower revenue and margins.

In addition, any unexpected change in prevailing fashions or customer preferences may lead to Lovisa carrying increased obsolete inventory.

To mitigate this risk, Lovisa employs an experienced global product team 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

No matter or circumstance has arisen since 3 July 2022 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 around the world.

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.

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 People, Leadership, 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 Charlton	Director
John Armstrong	Director (Resigned 3 July 2020)
Sei Jin Alt	Director
Nico van der Merwe	Alternate Director

Executive KMP

Victor Herrero	Chief Executive Officer (appointed as a Director 14 October 2021) (commenced as CEO 9 November 2021)
Shane Fallscheer	Managing Director (until 22 November 2021)
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 People, Leadership, 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 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 3 July 2022 was \$461,095. Brett Blundy, the Non-executive Chairman, is entitled to receive annual fees of \$150,000. Other Non-executive Directors are entitled to receive annual fees of between \$70,000 to \$81,000 inclusive of superannuation.

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

(b) Executive remuneration

Lovisa's remuneration strategy is to:

- Offer a remuneration structure that will attract, focus, retain and reward highly capable people;
- Have a clear and transparent link between performance and remuneration;
- Build employee engagement and align management and shareholder interest; and
- Ensure executive remuneration is set with regard to the size and nature of the position with reference to global 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; and
- 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 Chief Executive Officer, Victor Herrero, and prior to his commencement the Managing Director, Shane Fallscheer, are appropriate. The Board were therefore disappointed to receive votes against the Remuneration Report at the 2021 Annual General Meeting totalling 47.8% of votes cast.

Whilst the Board understands the concerns of some shareholders in relation to the above matters, it is of the view that the structure and quantum of remuneration in place for the leadership of the Group is appropriate for the situation of the business.

Lovisa is a global business competing for talent in the global market with significant global growth potential, which requires compensation packages competitive in this context to attract and retain the appropriate calibre of executive to deliver this for shareholders. We are delighted that our remuneration structures have been able to attract exceptional global executive talent, evidenced by the appointment of Victor Herrero as CEO and the continuing outstanding performance of the business.

B. Remuneration Structure

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

- Base salary and benefits including superannuation
- Short-term incentive scheme comprising cash
- Long-term incentive scheme comprising cash and options or performance rights

The mix of fixed and at risk components for each Senior Executive as a percentage of total target remuneration for the 2022 financial year is as follows:

Senior Executive	Fixed remuneration	At risk remuneration
Victor Herrero	3%	97%
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 %.



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

B. Remuneration Structure (continued)

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 where relevant. The Group has no interest or ongoing liability to the fund or the employee in respect of retirement benefits.

Short Term Incentive plan

The Group 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 STI plan structure in place for FY22 was as follows:

KMP	Opportunity	Performance Period	Performance Measures	FY22 Outcome
Victor Herrero Chief Executive Officer	nil	n/a	n/a	n/a
Shane Fallscheer Managing Director	nil	n/a	n/a	n/a
Chris Lauder Chief Financial Officer	\$125,000	12 months, subject to continued employment until the date of payment	Discretionary based on the Board's assessment of performance with reference to: Delivery of 38% growth in EBIT on FY21 to \$60m in FY22 (actual outcome 90% growth) Personal KPI's in relation to the performance of the Finance team in meeting internal and external reporting timelines	100%

No STI was implemented for Shane Fallscheer, Managing Director, prior to his resignation during the financial year. Victor Herrero, Chief Executive Officer was also not eligible to participate in the annual STI program, with his at-risk remuneration comprised entirely of his LTI.

The award of 100% of the Chief Financial Officer's STI was based on the Board's assessment of his performance against the criteria noted above, with both criteria delivered and therefore 100% of the STI opportunity of \$125,000 to be paid.

Long Term Incentive plan

The Company operates a long-term incentive (LTI) 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 and in some cases a cash payment. 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 LTI 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.
- Options will be granted for nil consideration.

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.

FY2022 Chief Executive Officer LTI Plan

Following his appointment as Chief Executive Officer of the Group in November 2021, Victor Herrero was granted a 3-year LTI Grant vesting annually over its 3 year term including a Cash Award and a Performance Rights component, with the number of Performance Rights to be granted under the award determined at the date set out in the table below (Grant Date). The table below sets out the maximum LTI opportunity for each performance period, split between a Cash Award and Performance Rights. The number of Performance Rights to be granted to Victor will be determined on the Grant Dates specified below and are determined by dividing the grant value by the 30-day volume weighted average price (VWAP) of the Company's Shares at the relevant Grant Date specified below (Fair Value).

Tranche	End of Performance Period	Date number of Performance Rights determined and Grant Date	Maximum Value of Performance Rights to be Granted (AUD)	Maximum Cash Award Opportunity (AUD)	Total Maximum LTI Opportunity (AUD)	Number of Performance Rights Granted at Grant Date
Tranche 1	3 July 2022	23 November 2021	8,400,000	3,600,000	12,000,000	400,000
Tranche 2	2 July 2023	4 July 2022	24,400,000	3,600,000	28,000,000	1,742,857
Tranche 3	30 June 2024	3 July 2023	24,400,000	3,600,000	28,000,000	To be determined

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The Fair Value of each Performance Right for the purpose of determining the number of Performance Rights granted under Tranche 1 above was \$21.00, and \$14.00 for Tranche 2. The grant of the Chief Executive Officer LTI Plan noted above was approved by shareholders at the 2021 Annual General Meeting, including the 400,000 Performance Rights granted on 23 November 2021 and the 1,742,857 Performance Rights granted on 4 July 2022.

The performance hurdles for each LTI tranche are set out below, with performance against the EBIT hurdles to be tested at the end of each Performance Period and based on EBIT before the share-based payments expense recognised in the period associated with the LTI grants made to the CEO as set out above.

Tranche	EBIT Hurdle (pre LTI) (A\$m)	Cash Award Amount (A\$m)	Value of Performance Rights that Vest (based on value per right at Grant Date) (\$Am)	Total LTI Award value (based on value of Performance Rights at Grant Date) (\$Am)
Tranche 1 (vesting based on performance against EBIT Hurdle for FY22)	less than 65.0	0.0	0.0	0.0
	65.0	1.5	1.5	3.0
	70.0	1.75	1.75	3.5
	80.0	2.5	2.5	5.0
	95.0	3.6	5.4	9.0
	105+	3.6	8.4	12.0
Tranche 2 (vesting based on performance against EBIT Hurdle for FY23)	less than 90.0	0.0	0.0	0.0
	90.0	1.0	1.0	2.0
	95.0	1.5	1.5	3.0
	100.0	2.5	2.5	5.0
	110.0	3.6	4.4	8.0
	115.0	3.6	8.4	12.0
	120.0	3.6	14.4	18.0
	130+	3.6	24.4	28.0
Tranche 3 (vesting based on performance against EBIT Hurdle for FY24)	less than 95.0	0.0	0.0	0.0
	95.0	2.0	2.0	4.0
	100.0	3.0	3.0	6.0
	110.0	3.6	5.4	9.0
	125.0	3.6	10.4	14.0
	140.0	3.6	18.4	22.0
	155+	3.6	24.4	28.0

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Calculation of the EBIT Hurdle and achievement against the EBIT Hurdle will be determined by the Board (or a committee of the Board) in its reasonable good faith discretion, having regard to any matters that it considers relevant. The number of Performance Rights that vest will be calculated by dividing the value of the Performance Rights that vest as specified above by the Fair Value of each Performance Right for that Tranche as calculated at the Grant Date.

Upon Vesting of the Performance Rights and conversion to shares, the shares will be subject to a 12-month holding restriction period (this does not apply to the Cash component).

The actual vesting outcome for the Tranche 1 Performance Rights described above was determined by the Board based on the financial performance for the 2022 financial year as follows:

Tranche	Performance Outcome (EBIT pre share-based payments expense)	% of total opportunity vested	Total LTI Opportunity (\$)	LTI Vested (\$)	Vested LTI Cash (\$)	Vested LTI – Performance Rights (\$)	Vested Performance Rights (Number)
Tranche 1	\$101.3m	90.8%	\$12,000,000	\$10,901,100	\$3,600,000	\$7,301,100	347,671

FY2022 Executive LTI Plan

In September 2021 a grant of Performance Options was made to certain Executives as part of the FY2022 LTI. The key terms associated with the FY2022 Executive LTI Grant are:

- The performance period commences 28 June 2021 and ends 30 June 2024.
- The exercise price of the Performance Options is \$14.37, which represents the 30 day VWAP to the date of grant.
- A total of 150,000 Performance Options were granted.
- The grant of Performance Options is subject to performance conditions based on delivering the Group's EBIT target over the performance period, as set out below.
- The expiry of the Performance Options is 12 months following the end of the performance period.
- 90,000 options were forfeited during the year.

The Board has determined the EBIT Target growth hurdles applicable to the FY2022 grant is as follows:

Group's EBIT for the financial year ending 30 June 2024	% of LTI Options that vest and become exercisable
Less than \$90m	Nil
\$90m - \$95m	20% awarded
\$95m - \$100m	35% awarded
\$100m - \$110m	50% awarded
\$110m - \$120m	75% awarded
>\$120m	100% awarded

FY2021 LTI – Performance Options

In October 2020 a grant of Performance Options was made to the Managing Director, Executives and Management as part of the FY2021 LTI. The key terms associated with the 2021 Grant are:

- The performance period commences 29 June 2020 and ends 2 July 2023.
- The exercise price of the Performance Options is \$7.15, which represents the 30 day VWAP to the date of grant.
- A total of 1,500,000 Performance Options were granted. 1,000,000 of these options were subject to shareholder approval.

- The Managing Director was also granted a cash settled LTI as part of his FY21 LTI grant in addition to the performance options granted. The cash LTI opportunity amounts to \$3,500,000 and is payable subject to the same performance hurdles as the performance options granted. Testing of the performance hurdles will occur shortly after the end of the performance period, and the amount of the Cash LTI and the number of LTI Options that may vest and become exercisable (if any) will be determined. The total amount of Cash LTI and LTI Options that may vest will be subject to a cap of \$15 million. If the total vested value of the LTI (less the exercise price payable) as determined by the Board would be higher than \$15 million, the number of options to vest will be reduced until the total value of the vested LTI will be equal to \$15 million. Shares acquired by the Managing Director upon exercise of vested LTI Options will then be subject to a 12 month holding restriction period under which he will be unable to trade in these shares until the date which is 12 months after the date on which the LTI Options vest. Any vested options not exercised by this date will expire unexercised.
- For executives other than the Managing Director, the expiry of the Performance Options is 12 months following the vesting date.
- 1,180,000 options were forfeited during the year.

The grant of Performance Options is subject to performance conditions based on delivering the Group's EBIT target over the performance period, as set out below:

Group's EBIT for the financial year ending 2 July 2023	% of Cash LTI that vests and becomes payable	% of LTI Options that vest and become exercisable
Less than \$85m	Nil	Nil
\$85m - \$90m	20% awarded	20% awarded
\$90m - \$95m	35% awarded	35% awarded
\$95m - \$100m	50% awarded	50% awarded
\$100m - \$105m	75% awarded	75% awarded
\$105m +	100% awarded	100% awarded

As a result of the resignation of the Managing Director, his entire FY21 LTI lapsed during the financial year, including the Performance Options and Cash component.

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.
- 1,105,515 options were forfeited during the year.

The grant of Performance Options is subject to performance conditions based on delivering the Group's diluted EPS target over the performance period, as set out below.

Group's diluted Earnings Per Share over the Performance Period	% of LTI Options that vest and become 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

The actual compound annual growth rate in diluted earnings per share over the performance period ended 3 July 2022 was +17.6%. As a result, subsequent to the end of the financial year the Board have determined that 24,546 of the Performance Options granted under this Tranche have vested, with the remainder of the Performance Options lapsing unvested.



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				
V Herrero							
FY22 LTIP Tranche 1 (FY22 vesting)(i)	400,000	8,400,000	20 November 2021	5,858,715	87%	13%	3 July 2022
FY22 LTIP Tranche 2 (FY23 vesting)(i)	1,742,857	24,400,000	4 July 2022	4,992,296	-	-	2 July 2023
FY22 LTIP Tranche 3 (FY24 vesting)(i)	n/a	24,400,000	3 July 2023	2,903,941	-	-	30 June 2024
S Fallscheer							
FY20 LTIP	956,328	3,000,000	1 July 2019	(375,000)	-	100%	3 July 2022
FY21 LTIP	1,000,000	1,250,000	29 June 2020	(312,500)	-	100%	2 July 2023
C Lauder							
FY20 LTIP	70,131	220,000	1 July 2019	76,131	35%	65%	3 July 2022
FY21 LTIP	100,000	125,000	29 June 2020	41,687	-	-	2 July 2023
FY22 LTIP	60,000	150,000	28 June 2021	19,678	-	-	30 June 2024

(i) During the financial year, Mr Herrero was granted long term incentives as set out at 9.2 above, including performance rights vesting over the financial years 2022, 2023 and 2024. Whilst the value of the performance rights have been granted as at November 2021, the number of performance rights granted under each tranche of the grant is determined at the start of each performance period, with tranche 1 determined at 23 November 2021, tranche 2 determined on 4 July 2022, and tranche 3 to be determined on 3 July 2023 based on the 30 day VWAP of Lovisa shares at that date. The total potential value of the long term incentive at inception across the 3 year term was \$68 million, including \$57.2 million performance rights (as set out above) and \$10.8m in cash settled incentives.

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 28 June 2021	Granted	Exercised	Forfeited	Held at 3 July 2022	Vested during the year	Vested and exercisable at 3 July 2022
Directors							
V Herrero							
- FY22 LTIP (Tranche 1)	-	400,000	-	(52,329)	347,671	87%	347,671
S Fallscheer							
- FY20 LTIP	956,328	-	-	(956,328)	-	-	-
- FY21 LTIP	1,000,000	-	-	(1,000,000)	-	-	-
Executives							
C Lauder							
- FY20 LTIP	70,131	-	-	(45,585)	24,546	35%	24,546
- FY21 LTIP	100,000	-	-	-	100,000	-	-
- FY22 LTIP	-	60,000	-	-	60,000	-	-

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	Total (\$)
		Salary & Fees (\$)	Other monetary benefits (\$)	Performance based payment (\$)	Super Contributions (\$)	Annual & Long Service Leave (\$)	Performance based payment (\$) ⁽³⁾	Options / Rights (\$)	
NON-EXEC DIRECTORS									
B Blundy	2022	152,885	-	-	-	-	-	-	152,885
	2021	150,000	-	-	-	-	-	-	150,000
T Blundy	2022	74,464	-	-	7,461	-	-	-	81,925
	2021	73,059	-	-	6,941	-	-	-	80,000
J King	2022	74,464	-	-	7,461	-	-	-	81,925
	2021	73,059	-	-	6,941	-	-	-	80,000
J Armstrong (1)	2022	-	-	-	-	-	-	-	-
	2021	2,810	-	-	267	-	-	-	3,077
J Charlton (2)	2022	74,464	-	-	7,461	-	-	-	81,925
	2021	59,841	-	-	5,685	-	-	-	65,526
S J Alt	2022	71,346	-	-	-	-	-	-	71,346
	2021	70,000	-	-	-	-	-	-	70,000
N van der Merwe	2022	-	-	-	-	-	-	-	-
	2021	-	-	-	-	-	-	-	-
TOTAL NON-EXEC DIRECTORS	2022	439,177	-	-	21,918	-	-	-	461,095
	2021	428,769	-	-	19,834	-	-	-	448,603
EXEC DIRECTORS									
S Fallscheer (3)	2022	626,459	-	-	10,062	40,234	(875,000)	(687,500)	(885,745)
	2021	1,392,271	-	1,575,000	21,694	157,277	875,000	537,500	4,558,742
V Herrero (4)	2022	1,157,784	1,041,232	-	-	88,586	4,898,216	13,754,952	20,940,770
	2021	-	-	-	-	-	-	-	-
OTHER KMP									
C Lauder (5)	2022	515,706	-	125,000	24,088	69,786	66,667	137,496	938,742
	2021	457,327	-	125,000	21,694	69,907	-	47,750	721,678
TOTAL EXEC	2022	2,299,949	1,041,232	125,000	34,150	198,606	4,089,883	13,204,948	20,993,767
	2021	1,849,598	-	1,700,000	43,388	227,184	875,000	585,250	5,280,420

(1) Resigned on 3 July 2020.

(2) Appointed on 26 August 2020.

(3) Mr Fallscheer resigned from his position as Managing Director and therefore ceased to be a KMP effective from 22 November 2021. No termination benefits were payable, and all remaining unvested LTI's lapsed at that date (both cash and equity-based components), with the reversal of prior year LTI expense reflected as negative remuneration in the table above. Mr Fallscheer was paid his outstanding leave balances totalling \$314,459 on exit.

(4) Victor Herrero was appointed as Director of the Company on 14 October 2021 and commenced as Chief Executive Officer on 9 November 2021. Mr Herrero was paid a \$1,000,000 sign-on bonus during the period, under the terms of which he was required to purchase an equivalent number of Lovisa shares, which was completed in November 2021. This sign-on bonus is subject to claw-back provisions in certain circumstances should he cease to be employed by the company prior to 14 October 2022. The cash amount paid of \$1,000,000 is included in Other Monetary Benefits above. Also included in this item is remuneration related to car allowance and reimbursement of personal costs related to relocation, life insurance and tax advice. Mr Herrero's LTI award described above includes both cash and equity settled components subject to performance conditions over the performance periods ending 3 July 2022, 2 July 2023 and 30 June 2024, with the associated expense recognised over the relevant performance period.

(5) Chris Lauder was granted a cash retention incentive of \$300,000 in March 2022 payable in August 2023 based on continued employment at that date, with the associated expense included in remuneration over that period in the table above.



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:

	2022	2021	2020	2019	2018
Earnings before interest and tax (\$'000)	82,684	43,527	25,667	52,484	51,074
Net profit after tax (\$'000)	58,387	24,829	11,221	37,043	35,954
Dividends paid	59,103	37,611	15,866	33,781	21,632
Share Price	\$14.26	\$14.45	\$8.08	\$11.36	\$11.70
Earnings per share	54.3	23.1	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 3 July 2022.

No. of shares	Held at 27 June 2021	Shares Purchased	Shares Sold	Other Movements	Held at 3 July 2022
Non-executive Directors					
B Blundy	43,207,500	-	-	-	43,207,500
T Blundy	1,153,005	-	-	-	1,153,005
J King	34,000	-	-	-	34,000
J Charlton	5,000	20,000	-	-	25,000
S J Alt	-	-	-	-	-
N van der Merwe (alternate)	-	-	-	-	-
Executive Directors					
V Herrero	-	49,800	-	-	49,800
S Fallscheer (1)	2,240,000	-	-	(2,240,000)	-
Executive					
C Lauder	3,000	-	-	-	3,000

(1) Shane Fallscheer ceased to be a KMP during the financial year.

10. INSURANCE OF OFFICERS AND INDEMNITIES

During the financial year, Lovisa Holdings Limited paid a premium of \$503,000 (2021: \$402,000) 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 79 and forms part of this Directors' Report.

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

During the financial year ended 3 July 2022 the following fees were paid or were due and payable for services provided by the external auditor, KPMG, of the Consolidated Entity:

Consolidated Entity	2022 \$000	2021 \$000
Audit and assurance services		
Audit and review of financial statements	540	375
Other services		
Tax compliance services	196	230
Other accounting services	211	94
	947	699

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



Victor Herrero
Chief Executive Officer

Melbourne, 28 August 2022

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 3 July 2022

	Note	3 July	27 June
<i>Consolidated (\$'000s)</i>		2022	2021
Assets			
Cash and cash equivalents	C5	34,153	35,552
Trade and other receivables	B1	21,587	11,325
Current tax receivables		796	-
Inventories	B2	50,215	34,211
Derivatives	C4	1,682	-
Total current assets		108,433	81,088
Deferred tax assets	A8	17,326	12,591
Property, plant and equipment	B3	67,255	42,112
Right-of-use asset	B4	172,037	158,081
Intangible assets and goodwill	B5	4,234	4,378
Total non-current assets		260,852	217,162
Total assets		369,285	298,250
Liabilities			
Derivatives	C4	-	144
Trade and other payables	B7	47,397	33,693
Employee benefits - current	B9	6,439	5,963
Provisions - current	B8	3,562	2,788
Lease liability - current	B10	50,403	54,484
Loans and borrowings - current		10,000	-
Current tax liabilities	A8	14,084	4,767
Total current liabilities		131,885	101,839
Employee benefits - non current	B9	287	344
Lease liability - non current	B10	167,969	146,203
Provisions - non current	B8	4,821	4,149
Total non-current liabilities		173,077	150,696
Total liabilities		304,962	252,535
Net assets		64,323	45,715
Equity			
Issued capital	C1	213,877	213,877
Common control reserve		(208,906)	(208,906)
Other reserves		31,031	11,707
Retained earnings		28,321	29,037
Total equity		64,323	45,715

The Notes on pages 34 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the financial year ended 3 July 2022

Consolidated (\$'000s)	Note	2022	2021
Revenue	A2	458,712	288,034
Cost of sales		(96,884)	(67,070)
Gross profit		361,828	220,964
Salaries and employee benefits expense	A3	(133,825)	(74,710)
Property expenses	A3	(23,018)	(9,428)
Distribution costs		(21,291)	(14,352)
Depreciation and amortisation expense		(59,779)	(54,136)
Gain / (loss) on disposal of property, plant and equipment		(1,169)	(25)
Impairment expenses	A5	(905)	(246)
Other income		2,367	1,479
Other expenses	A3	(41,524)	(26,019)
Operating profit		82,684	43,527
Finance income		268	41
Finance costs		(6,295)	(5,251)
Net finance costs		(6,027)	(5,210)
Profit before tax		76,657	38,317
Income tax expense	A8	(18,270)	(13,488)
Profit after tax		58,387	24,829
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Cash flow hedges		1,577	(234)
Foreign operations - foreign currency translation differences		4,440	(303)
		6,017	(537)
Other comprehensive income, net of tax		6,017	(537)
Total comprehensive income		64,404	24,292
Profit attributable to:			
Owners of the Company		58,387	24,829
		58,387	24,829
Total comprehensive income attributable to:			
Owners of the Company		64,404	24,292
Total comprehensive income for the year		64,404	24,292
Earnings per share			
Basic earnings per share (cents)	A6	54.33	23.1
Diluted earnings per share (cents)	A6	54.07	23.0

The Notes on pages 34 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 3 July 2022

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
Balance at 29 June 2020		213,877	(208,906)	41,819	8,597	201	2,780	58,368
Total comprehensive income for the year								
Profit		-	-	24,829	-	-	-	24,829
Cash flow hedges		-	-	-	-	(234)	-	(234)
Foreign operations - foreign currency translation differences		-	-	-	-	-	(303)	(303)
Total comprehensive income for the year		-	-	24,829	-	(234)	(303)	24,292
Capital contributions	C1	-	-	-	-	-	-	-
Employee share schemes	D3	-	-	-	666	-	-	666
Dividends	A7	-	-	(37,611)	-	-	-	(37,611)
Total transactions with owners of the company		-	-	(37,611)	666	-	-	(36,945)
Balance at 27 June 2021		213,877	(208,906)	29,037	9,263	(33)	2,477	45,715
Balance at 28 June 2021		213,877	(208,906)	29,037	9,263	(33)	2,477	45,715
Total comprehensive income for the year								
Profit		-	-	58,387	-	-	-	58,387
Cash flow hedges		-	-	-	-	1,577	-	1,577
Foreign operations - foreign currency translation differences		-	-	-	-	-	4,440	4,440
Total comprehensive income for the year		-	-	58,387	-	1,577	4,440	64,404
Capital contributions	C1	-	-	-	-	-	-	-
Employee share schemes	D3	-	-	-	13,307	-	-	13,307
Dividends	A7	-	-	(59,103)	-	-	-	(59,103)
Total transactions with owners of the company		-	-	(59,103)	13,307	-	-	(45,796)
Balance at 3 July 2022		213,877	(208,906)	28,321	22,570	1,544	6,917	64,323

The Notes on pages 34 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 3 July 2022

Consolidated (\$'000s)	Note	2022	2021
Cash flows from operating activities			
Cash receipts from customers		515,806	319,882
Cash paid to suppliers and employees		(365,855)	(219,075)
Cash generated from operating activities		149,951	100,807
Interest received		268	41
Other income received		671	1,043
Interest paid		(6,295)	(5,251)
Income taxes paid		(14,036)	(15,968)
Net cash from operating activities	C5	130,559	80,672
Cash flows from investing activities			
Acquisition of fixed assets		(37,378)	(14,722)
Cash acquired net of cash paid for acquisitions (i)		(153)	16,219
Proceeds from fit out contributions		2,927	1,378
Acquisition of key money intangibles	B5	-	(615)
Net cash used in investing activities		(34,604)	2,260
Cash flows from financing activities			
Share options exercised		-	-
Facility proceeds	C3	10,000	-
Payment of lease liabilities	B10	(48,366)	(30,845)
Dividends paid	A7	(59,103)	(37,611)
Net cash used in financing activities		(97,469)	(68,456)
Net increase in cash and cash equivalents		(1,514)	14,476
Cash and cash equivalents at the beginning of the year	C5	35,552	20,434
Effect of movement in exchange rates on cash held		115	642
Cash and cash equivalents at the end of the year	C5	34,153	35,552

(i) During 2021, the Group acquired the retail assets of beeline GmbH, which included cash acquired of \$16,219,000 subject to final purchase price adjustment. Refer to Basis of Consolidation on page 35.

The Notes on pages 34 to 71 are an integral part of these consolidated financial statements.



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 53 week period ended on 3 July 2022 (2021: 52 week period ended 27 June 2021). This treatment is consistent with section 323D of Corporations Act 2001.

The consolidated financial statements of the Group for the financial year ended 3 July 2022 were authorised for issue by the Board of Directors on 28 August 2022.

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 2020;
- 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; and
- Has been prepared on a going concern basis of accounting. At 3 July 2022, the Group's statement of financial position is in a net current liability position of

\$23.5m which has arisen as a result of AASB 16, with net assets of \$64.3m. The Group's approach to managing liquidity risk is detailed in Note C4 and the Group's undrawn credit facilities are detailed in Note C3. The Group continues to be able to meet its financial obligations as and when they fall due and remains a going concern.

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 FY22, the Group's operations and financial statements were impacted as a result of:

- Disruption to normal trading conditions (temporary shutdowns of stores)
- 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, 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 following assumptions and judgements in relation to the potential impact of COVID-19 have been applied by the Group:

- Sales forecasts have been estimated factoring in known lockdowns where stores are temporarily unable to trade, as well as expectations of ongoing impacts where stores are able to trade but are impacted by reduced foot traffic and/or demand. These estimates have been made based on expectations of market demand and using actual experience to date of the trading impacts of COVID-19.

Assumptions and estimation uncertainties (continued)

- Gross margin and cost assumptions are based on experience to date during the COVID-19 disruption period and the Group's response and ability to manage costs structures.

In all scenarios modelled, the liquidity requirements of the Group are within the available facilities and are forecast to meet financial covenants.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the financial year ended 3 July 2022 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.

Acquisition of assets

The Group accounts for asset purchases by allocating the transaction price to the individual assets and liabilities acquired based on their relative fair values at the date of purchase. From March to May 2021, the Group acquired the retail assets of beeline GmbH in the following markets: Luxembourg (1 March 2021), Belgium (8 March 2021), Germany (15 March 2021), France (12 April 2021), Netherlands (19 April 2021), Austria (26 April 2021), and Switzerland (3 May 2021).

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.

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

Translation of foreign currency transactions

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

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

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

Foreign operations

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

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

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

About the Notes to the financial statements

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

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

Subsequent events

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



Business Performance

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

A1 OPERATING SEGMENTS**(a) Basis for segmentation**

The Chief Operating Decision Maker (CODM) for Lovisa Holdings Limited and its controlled entities, is the Chief Executive Officer (CEO). 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 CEO 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 Group's stores exhibit similar long-term financial performance and economic characteristics throughout the world, which include:

- Consistent products are offered throughout the Group's stores worldwide;
- All stock sold throughout the world utilises common design processes and products are sourced from the same supplier base;
- Customer base is similar throughout the world;
- All stores are serviced from three delivery centres; and
- 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 Canada) and Europe (United Kingdom, Spain, France, Luxembourg, Belgium, Germany, Netherlands, Austria, Switzerland and Poland) and the Group's franchise stores in the Middle East. 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)	2022	2021
	Non-current assets (i)	Non-current assets (i)
a) Australia / New Zealand	57,219	60,593
b) Asia	8,453	10,735
c) Africa	5,871	6,898
d) Europe	78,005	78,391
e) Americas	89,744	43,576
Total	239,292	200,193

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

A2 REVENUE**Revenue by nature and geography**

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

(\$000s)	2022	2021
Sale of Goods		
Australia / New Zealand	174,255	157,163
Asia	24,364	17,882
Africa	45,768	33,841
Europe	140,121	40,053
Americas	71,960	37,645
Total Sale of Goods	456,468	286,584
Franchise Revenue		
Middle East	2,244	1,450
Total Franchise Revenue	2,244	1,450
Total Revenue	458,712	288,034

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.

A3 EXPENSES

Expenses by nature

Consolidated (\$'000s)	2022	2021
Property expenses		
Variable lease expenses	6,739	(895)
Outgoings	16,279	10,323
Total property expenses	23,018	9,428
Salaries and employee benefits expense		
Wages and salaries	104,694	67,519
Compulsory social security contributions	11,902	6,361
Increase/(decrease) in liability for long-service leave	(101)	164
LTI - Cash component	4,023	-
Share-based payment expense	13,307	666
Total salaries and employee benefits expense	133,825	74,710
Other expenses		
Administrative expenses	31,982	19,373
Other expenses	9,542	6,646
Total other expenses	41,524	26,019

A4 GOVERNMENT GRANTS

Government grants - COVID-19 pandemic

The Group has received various financial support measures offered by governments in the countries we operate in to provide financial support to businesses during the COVID-19 pandemic to protect jobs.

As part of these measures, the Group 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 government grants because the wage subsidies have been provided with the objective of keeping our employees employed by the Group during the COVID-19 crisis period. The grant income has been presented net of the related salaries and wages expense. During 2022 the Group has recognised \$2,535,000 (2021: \$11,833,000) of wage subsidy grants globally against "salaries and employee benefits expense". All of these amounts have been paid to employees as salaries and wages, and include amounts paid to team for hours not worked (for example where temporarily stood down), as well as employees working hours they may not have otherwise worked in the absence of these subsidies.

These measures also include the deferral of various tax (including GST, VAT and income tax) and employee withholding payments across the countries we operate in. The Group has not obtained any relief whereby these obligations have been waived. There are no unpaid deferred balances remaining at 3 July 2022 (27 June 2021: in "trade and other payables").

A business rates holiday was granted to our UK stores for the year from 1 April 2020 to 31 March 2021. The program was extended to apply at 100% discount for three months from 1 April 2021 to 30 June 2021 and at 66% discount for the period from 1 July 2021 to 31 March 2022. This waiver of business rates has been 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.

During 2022 the Group has recognised \$590,000 (2021: nil) of rental support received from the Singaporean government against "property expenses". This relief was to directly support the payment of rent to landlords during the periods of temporary store closure.

Other government grants have been received in various countries in connection with the loss of revenue due to the pandemic. These grants were unconditional and so were included in "other income" when they became receivable. For 2022 these grants amounted to \$671,000 (2021: \$1,043,000).

A5 IMPAIRMENT

Amounts recognised in profit or loss

Consolidated (\$'000s)	2022	2021
Impairment charges pertaining to exit from Spanish market	-	6
Other store impairment charges	905	240
	905	246

During the year ended 3 July 2022, impairment charges of \$905,000 (\$905,000 after tax) (2020: \$246,000 (\$246,000 after tax)) were included within the consolidated statement of profit or loss and other comprehensive income.

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

	2022	2021
Basic EPS (cents)	54.33	23.1
Diluted EPS (cents)	54.07	23.0
Profit attributable to ordinary shareholders (\$'000s)	58,387	24,829
Weighted average number of ordinary shares for basic EPS (shares)	107,459,646	107,459,646
Weighted average number of ordinary shares and potential ordinary shares for diluted EPS (shares)	107,972,852	107,917,281
	2022	2021
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	107,459,646	107,459,646
Adjustments for calculation of diluted earnings per share:		
Options	513,206	457,635
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	107,972,852	107,917,281

Information concerning the classification of securities

i) Options

Options and performance rights granted to employees under the Lovisa Holdings Long Term Incentive Plan are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required hurdles would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note D3.

At 3 July 2022, no options (2021: 2,701,832) 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 paid by the Company for the year.

Consolidated (\$000s)	2022	2021
18.0 cents per qualifying ordinary share, 50% franked (2021: 15.0 cents, 50% franked) (i)	19,343	16,119
37.0 cents per qualifying ordinary share, 30% franked (2021: 20.0 cents, 50% franked)	39,760	21,492
	59,103	37,611

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)	2022	2021
37.0 cents per qualifying ordinary share, 30% franked (2021: 18.0 cents, 50% franked)	39,760	19,343
	39,760	19,343

Consolidated (\$000s)	2022	2021
Dividend franking account		
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2021: 30%)	11,452	5,448

(i) 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 was paid on that date, however as a result of lower tax payments during the financial year the franking percentage was 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.

A8 INCOME TAXES (CONTINUED)

(a) Amounts recognised in profit or loss

Consolidated (\$'000s)	2022	2021
Current tax expense		
Current period	28,271	14,560
Changes in estimates related to prior years	(502)	(98)
	27,769	14,462
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(8,602)	(974)
Changes in temporary differences related to prior years	(897)	-
	(9,499)	(974)
Total income tax expense	18,270	13,488

(b) Reconciliation of effective tax rate

Consolidated (\$'000s)	2022	2021
Profit before tax from continuing operations	76,657	38,317
Tax at the Australian tax rate of 30% (2020: 30%)	22,997	11,495
Effect of tax rates in foreign jurisdictions	(2,885)	(950)
Non-deductible expenses	127	203
Tax exempt income	(151)	(660)
Utilisation of carried-forward tax losses	-	-
Recognition of tax effect of previously unrecognised tax losses	(3,160)	-
Current year losses for which no deferred tax asset is recognised	450	2,609
Other movements	2,290	889
Changes in estimate related to prior years	(1,398)	(98)
Total non temporary differences	18,270	13,488
Temporary differences		
Amounts recognised in OCI	346	(9,426)
Net movement in deferred tax balances	4,736	3,246
Total temporary differences	5,082	(6,180)
Income taxes payable for the current financial year	23,353	7,308
Income taxes payable at the beginning of the year	4,767	3,893
Less: tax paid during the year	(14,036)	(15,968)
Income taxes payable as at year end	14,084	4,767
Represented in the Statement of financial position by:		
Current tax liabilities	14,084	4,767
Current tax assets	-	-
	14,084	4,767

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	2022	2021
ETR		
Global operations – Total consolidated tax expense	23.8%	35.2%
Australian operations – Australian company income tax expense	21.6%	28.0%

(c) Deferred tax assets and liabilities reconciliation

Unused tax losses for which no deferred tax asset has been recognised total \$2,886,000 (2021: \$5,558,000).

(d) Expected settlement of deferred tax balances

Consolidated (\$'000s)	Statement of financial position		Statement of profit or loss	
	2022	2021	2022	2021
Property, plant and equipment	(3,520)	1,439	4,679	(551)
Employee benefits	7,380	1,617	(4,252)	(402)
Provisions	1,625	1,028	(1,952)	77
Other items	4,020	2,987	(906)	(644)
Transaction costs	108	127	19	-
Carry forward tax losses	7,713	5,393	(5,577)	545
Deferred tax expense	-	-	(7,989)	(975)
Net deferred tax assets	17,326	12,591		
Presented in the Statement of financial position as follows:				
Deferred tax assets	17,326	12,591		

Consolidated (\$'000s)	2022	2021
Deferred tax assets expected to be settled within 12 months	8,699	4,210
Deferred tax assets expected to be settled after 12 months	12,866	8,392
	21,565	12,602
Deferred tax liabilities expected to be settled within 12 months	1,545	11
Deferred tax liabilities expected to be settled after 12 months	2,694	-
	4,239	11
Net deferred tax assets	17,326	12,591

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	2022	2021
Trade receivables		1,567	1,427
Deposits		2,092	2,205
Prepayments		4,322	1,811
Other receivables (i)		13,606	5,882
		21,587	11,325

(i) Other receivables include landlord fit-out contributions receivable.

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 2022 and included in cost of sales amount to \$80,253,000 (2021: \$59,234,000).

During 2022, inventories of \$8,439,000 (2021: \$4,879,000) 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.

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

B3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)*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.

Reconciliation of carrying amount

<i>Consolidated (\$'000s)</i>	Note	Leasehold improvements	Hardware and software	Fixtures and fittings	Total
Depreciation policy		Lease term	3 years	3 years	
Cost					
Balance at 29 June 2020		78,810	6,759	2,568	88,137
Additions (i)		15,390	757	30	16,177
Disposals		(1,604)	(42)	-	(1,646)
Effect of movements in exchange rates		(2,532)	11	(11)	(2,532)
Balance at 27 June 2021		90,064	7,485	2,587	100,136
Balance at 28 June 2021		90,064	7,485	2,587	100,136
Additions		37,287	3,089	146	40,522
Disposals		(2,416)	(182)	-	(2,598)
Effect of movements in exchange rates		3,675	13	9	3,697
Balance at 3 July 2022		128,610	10,405	2,742	141,757
Accumulated depreciation and impairment losses					
Balance at 29 June 2020		(36,303)	(4,501)	(1,234)	(42,038)
Depreciation		(15,860)	(1,662)	(489)	(18,011)
Impairment		-	-	-	-
Disposals		1,755	-	-	1,755
Effect of movements in exchange rates		287	(20)	3	270
Balance at 27 June 2021		(50,121)	(6,183)	(1,720)	(58,024)
Balance at 28 June 2021		(50,121)	(6,183)	(1,720)	(58,024)
Depreciation		(14,611)	(2,461)	(541)	(17,613)
Impairment		(370)	-	-	(370)
Disposals		1,653	134	-	1,787
Effect of movements in exchange rates		(261)	(17)	(4)	(282)
Balance at 3 July 2022		(63,710)	(8,527)	(2,265)	(74,502)
Carrying amounts					
At 28 June 2020		42,507	2,258	1,334	46,099
At 27 June 2021		39,943	1,302	867	42,112
At 3 July 2022		64,900	1,878	477	67,255

(i) Includes \$1,306,000 from the acquisition of the retail assets of beeline GmbH.

B4 RIGHT-OF-USE ASSET**Recognition and measurement**

<i>Consolidated (\$'000s)</i>	Note	Total
Cost		
Balance at 29 June 2020		187,139
Additions (i)		43,597
Re-measurement of lease liabilities		3,807
Effect of movements in exchange rates		(4,091)
Balance at 27 June 2021		230,452
Balance at 28 June 2021		230,452
Additions		39,311
Re-measurement of lease liabilities		14,860
Effect of movements in exchange rates		3,744
Balance at 3 July 2022		288,367

<i>Consolidated (\$'000s)</i>	Note	Total
Accumulated depreciation and impairment losses		
Balance at 29 June 2020		(36,675)
Depreciation and impairment charges for the year		(36,125)
Effect of movements in exchange rates		429
Balance at 27 June 2021		(72,371)
Balance at 28 June 2021		(72,371)
Depreciation and impairment charges for the year		(43,131)
Effect of movements in exchange rates		(828)
Balance at 3 July 2022		116,330
Carrying amounts		
At 28 June 2020		150,464
At 27 June 2021		158,081
At 3 July 2022		172,037

(i) Includes \$24,572,000 from the acquisition of the retail assets of beeline GmbH.

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B4 RIGHT-OF-USE ASSET (CONTINUED)

Recognition and measurement (continued)

Additions to right-of-use assets represent leases for new stores. In the 2021 additions, \$24,572,000 are right-of-use assets from the acquisition of the retail assets of beeline GmbH. 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. As a result of re-measurement adjustments exceeding the carrying value of the right-of-use asset, a gain of \$1,696,000 has been recognised in Other Income in the statement of profit or loss and other comprehensive income during the year ended 3 July 2022 (2021: \$437,000).

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 3 July 2022, 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 \$35,332,000 (2021: \$9,152,000).

The Group has consistently applied the practical expedient for COVID-19 related rent concessions 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 2022; 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 \$2,539,000 in the statement of profit or loss and other comprehensive income for the year ended 3 July 2022 (2021: \$3,341,000).

Expenses relating to variable lease payments not included in lease liabilities of \$9,849,000 have been recognised in the statement of profit or loss and other comprehensive income for the year ended 3 July 2022 (2021: \$2,446,000).

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.

Consolidated (\$'000s)	Note	Key Money	Goodwill
Balance at 29 June 2020		1,816	2,066
Additions		615	-
Impairment		(240)	-
Amortisation		-	-
Effect of movements in exchange rates		(74)	195
Balance at 27 June 2021		2,117	2,261
Balance at 28 June 2021		2,117	2,261
Additions		-	-
Impairment		-	-
Amortisation		-	-
Effect of movements in exchange rates		(69)	(75)
Balance at 3 July 2022		2,048	2,186

B6 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS AND GOODWILL

Recognition and measurement

Impairment

The carrying amounts of the Group's goodwill and indefinite life intangibles are tested for impairment at each reporting period. Property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, 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 (CGU) 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. 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. Property, plant and equipment and right-of-use assets are 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 post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Sensitivity analysis is performed on this modelling by using a range of discount rates reflecting the potential risk of variability in the underlying forecasts or regional or market specific risks.

Cash flow forecasts

Cash flow forecasts are based on the Group's most recent plans, and are based on expectations of future outcomes having regard to market demand and past experience, incorporating the factors noted in the Assumptions and Estimates Uncertainties section in Setting the Scene in relation to current uncertainty surrounding the COVID-19 pandemic. For store level tests, cash flow forecasts are modelled for the length of the lease, identified as the essential asset for store CGUs. No terminal value is reflected in store level tests.

Discount rates

The Group applies a post-tax discount rate to post-tax cash flows. The post-tax discount rates incorporate a risk adjustment relative to the risks associated with the specific CGU (geographic position or otherwise), with a high and low range used to apply sensitivity analysis to the cash flow modelling.

Key assumptions for the impairment testing carried out at 3 July 2022

Stores with indicators of impairment at 3 July 2022 were identified in certain of the Group's markets, requiring more detailed testing for certain stores. The following key assumptions were utilised for this impairment testing:

- Discount rate by country applied based on a high and low range to provide sensitivity analysis. The discount rates applied to store tests in these countries were in the range of 10% to 15% pre-tax.
- Growth rate based on expected impact of COVID in the short term, and subsequent sales profile by market as detailed in the Assumptions and Estimation Uncertainties section in Setting the Scene, with a longer term growth rate assumption of 3% in relation to sales and costs to allow for inflationary impacts until the end of the lease term which is considered to be the essential asset. No terminal value is included in discounted cash flow modelling at store level.

As a result of this testing, an impairment expense of \$905,000 was recognised for store fit-out and lease right-of-use assets (2021: \$240,000 for key money). Refer to notes B3, B4 and B5 for further detail.

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 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)	2022	2021
Trade payables	21,971	13,617
Accrued expenses	25,426	20,076
	47,397	33,693

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	Return provision	Other provisions	Total
Balance at 28 June 2021	5,480	360	1,096	6,937
Provisions made during the year	1,306	419	-	1,725
Provisions used during the year	(42)	(279)	-	(321)
Effect of movement in exchange rates	66	7	(31)	42
Balance at 3 July 2022	6,810	508	1,065	8,383
Current	1,989	508	1,065	3,562
Non-current	4,821	-	-	4,821
	6,810	508	1,065	8,383

(a) Site restoration

Description	Key Estimates
<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>

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.

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)	2022	2021
Current		
Liability for annual leave	5,738	5,016
Liability for long-service leave	701	947
Non-Current		
Liability for long-service leave	287	344
Total employee benefit liabilities	6,726	6,307

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)	Note	Total
Balance at 29 June 2020		167,154
Liability recognised during the period (i)		63,633
Re-measurement of lease liabilities		4,335
Lease payments		(35,469)
Interest		4,607
Effect of movements in exchange rates		(3,573)
Balance at 27 June 2021		200,687
Balance at 28 June 2021		200,687
Liability recognised during the period		48,903
Re-measurement of lease liabilities		13,319
Lease payments		(53,917)
Interest		5,550
Effect of movements in exchange rates		3,830
Balance at 3 July 2022		218,372
Current lease liability		50,403
Non-current lease liability		167,969
		218,372

(i) Includes \$41,813,000 from the acquisition of the retail assets of beeline GmbH.

Additions to lease liabilities represent leases for new stores. In the 2021 additions, \$41,813,000 are lease liabilities from the acquisition of the retail assets of beeline GmbH. 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 & 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	
	2022	2021	2022	2021
	'000's	'000's	'000's	'000's
Share Capital				
On issue at beginning of year	107,460	107,460	234,165	234,165
Exercise of performance rights	-	-	-	-
Share issue to Employee Share Trust	-	-	-	-
On issue at end of year	107,460	107,460	234,165	234,165
Treasury Shares				
On issue at beginning of year	-	-	(20,288)	(20,288)
Shares issued to trust	-	-	-	-
Shares allocated on option exercise	-	-	-	-
	-	-	(20,288)	(20,288)
Share Capital After Treasury Shares	107,460	107,460	213,877	213,877

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.

C1 CAPITAL AND RESERVES (CONTINUED)

(b) Nature and purpose of reserves

(i) Common control reserve

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

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

(ii) Translation reserve

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

(iii) Hedging reserve

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

Cash flow hedges

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

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

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.

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	3 July 2022		27 June 2021	
				Face value	Carrying amount	Face value	Carrying amount
Cash advance facility	AUD	N/A	2023	10,000	10,000	-	-
Multi-option facility	AUD	N/A	-	-	-	-	-
Total interest-bearing liabilities				10,000	10,000	-	-

The Group holds the following lines of credit with the Commonwealth Bank of Australia (CBA):

- \$30 million revolving cash advance facility (2021: \$30 million)
- \$20 million multi option facility available for overdraft, trade finance and a contingent liability facility for global letters of credit and bank guarantees (2021: \$20 million).

The facilities were renewed during 2020, 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 3 July 2022.

The Group holds a number of lines of credit which are solely for the purpose of providing bank guarantees as security for its store lease agreements. On 25 June 2021 the Group finalised a \$20 million bank guarantee facility with HSBC Bank Australia Limited (HSBC) for global letters of credit and bank guarantees. The facility has been incorporated into the security deed for the CBA lending facilities. The financial covenants for the CBA facilities now also apply to this facility.

As a result of the acquisition of the retail assets of beeline GmbH in 2021, two credit facilities for the provision of bank guarantees were assumed for the Belgian and Swiss operations for Euro 600,000 and CHF 550,000 respectively. These facilities are subject to annual credit reviews.

Bank guarantee facilities were also assumed for the operations in Luxembourg, Germany, France, Netherlands and Austria. With the exception of Germany, these bank guarantee facilities are secured by restricted savings accounts, that is they are cash collateralised.

Refer to note D2(a) for guarantees outstanding at 3 July 2022.

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.

3 July 2022		Carrying Amount				Fair Value			
Consolidated (\$'000s)	Note	Hedging instruments	Loans and receivables	Other financial assets/liabilities	Total	Level 1	Level 2	Level 3	Total
Financial asset measured at fair value									
Derivatives		1,682	-	-	1,682	-	1,682	-	1,682
		1,682	-	-	1,682	-	1,682	-	1,682
Financial assets not measured at fair value									
Trade and other receivables	B1	-	21,587	-	21,587	-	-	-	-
Cash and cash equivalents	C5	-	34,153	-	34,153	-	-	-	-
		-	55,740	-	55,740	-	-	-	-
Financial liabilities not measured at fair value									
Secured bank loans	C3	-	10,000	-	10,000	-	-	-	-
Trade and other payables	B7	-	-	47,397	47,397	-	-	-	-
		-	10,000	47,397	57,397	-	-	-	-

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

(a) Fair values (continued)

Recognition and measurement (continued)

27 June 2021		Carrying Amount				Fair Value			
Consolidated (\$'000s)	Note	Hedging instruments	Loans and receivables	Other financial assets/liabilities	Total	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value									
Derivatives		144	-	-	144	-	144	-	144
		144	-	-	144	-	144	-	144
Financial assets not measured at fair value									
Trade and other receivables	B1	-	11,325	-	11,325	-	-	-	-
Cash and cash equivalents	C5	-	35,552	-	35,552	-	-	-	-
		-	46,877	-	46,877	-	-	-	-
Financial liabilities not measured at fair value									
Bank overdrafts	C5	-	-	-	-	-	-	-	-
Trade and other payables	B7	-	-	33,693	33,693	-	-	-	-
		-	-	33,693	33,693	-	-	-	-

(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 3 July 2022, no trade receivables were past due but not impaired (2021: 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.

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.

In addition, the Group holds a number of lines of credit which are solely for the purpose of providing bank guarantees as security for its store lease agreements. On 25 June 2021 the Group finalised a \$20 million bank guarantee facility with HSBC Bank Australia Limited (HSBC) for global letters of credit and bank guarantees.

Exposure to liquidity risk

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

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

(b) Financial risk management (continued)

(iii) Liquidity risk (continued)

3 July 2022	Contractual cash flows						
Consolidated (\$'000s)	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade payables	21,971	21,971	21,971	-	-	-	-
Secured bank loans	10,000	10,000	10,000				
Lease liabilities	218,372	239,253	17,221	40,157	43,046	91,365	47,464
	250,343	271,224	49,192	40,157	43,046	91,365	47,464
Derivative financial assets							
Forward exchange contracts used for hedging:							
- Outflow	-	32,279	5,691	26,588	-	-	-
- Inflow	-	(33,961)	(6,054)	(27,907)	-	-	-
Total	1,682	1,682	363	1,319	-	-	-

27 June 2021	Contractual cash flows						
Consolidated (\$'000s)	Carrying amount	Total	2 mths or less	2-12 mths	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities							
Trade payables	13,617	13,617	13,617	-	-	-	-
Lease liabilities	200,687	220,210	22,677	42,254	38,231	75,334	41,714
	214,304	233,827	36,294	42,254	38,231	75,334	41,714
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
- Outflow	-	37,414	8,731	28,683	-	-	-
- Inflow	-	(37,270)	(8,587)	(28,683)	-	-	-
Total	144	144	144	-	-	-	-

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, Euro, 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	3 July 2022				27 June 2021			
	EUR	USD	GBP	ZAR	EUR	USD	GBP	ZAR
Cash and cash equivalents	8,891	7,593	3,771	5,642	13,443	3,920	1,997	8,343
Trade receivables	17	-	732	232	602	-	159	235
Trade payables	(6,625)	(1,023)	(3,475)	(119)	(1,406)	(6)	(2,932)	910
Net statement of financial position exposure	2,283	6,570	1,028	5,753	12,639	3,914	(776)	9,488

Sensitivity analysis

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

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

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

(b) Financial risk management (continued)

(iv) Market risk (continued)

Sensitivity Analysis (continued)

Effect in thousands of dollars	Profit or loss	
	Strengthening	Weakening
3 July 2022		
EUR (5 percent movement)	(109)	120
USD (5 percent movement)	(313)	346
GBP (5 percent movement)	(49)	54
ZAR (5 percent movement)	(274)	303
27 June 2021		
EUR (5 percent movement)	(602)	665
USD (5 percent movement)	(187)	207
GBP (5 percent movement)	37	(41)
ZAR (5 percent movement)	(452)	499

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.

Cash flow sensitivity analysis for variable rate instruments

At 3 July 2022, if interest rates had changed by +/- 100 basis points from the year end rates with all other variables held constant, there would have been +/- \$22,000 impact on pre tax profit for the year (27 June 2021: \$nil), as a result of higher/lower interest expense from variable rate borrowings. There is no impact on equity.

(c) Derivative assets and liabilities

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

Recognition and measurement

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

Determination of fair values

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

Forward rate contracts

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

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

(c) Derivative assets and liabilities (continued)

Forward rate contracts (continued)

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

Consolidated (\$000s)	2022	2021
Derivatives		
Forward exchange contracts	1,682	(144)
	1,682	(144)

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)	2022				2021			
	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
Forward exchange contracts:								
Assets	1,682	1,682	1,682	-	-	-	-	-
Liabilities	-	-	-	-	(144)	(144)	(144)	-
	1,682	1,682	1,682	-	(144)	(144)	(144)	-

A gain of \$66,000 was included in other expenses on foreign currency derivatives not qualifying as hedges (2021: gain of \$45,000).

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)	2022	2021
Bank balances		
Cash and cash equivalents in the statement of financial position (i)	34,153	35,552
Bank overdrafts used for cash management purposes	-	-
Cash and cash equivalents in the statement of cash flows	34,153	35,552

(i) Includes \$460,000 (2021: \$3,143,000) of cash in savings accounts to collateralise bank guarantees.

C5 CASH FLOWS (CONTINUED)

Reconciliation of cash flows from operating activities

Consolidated (\$'000s)	Note	2022	2021
Cash flows from operating activities			
Profit after tax		58,387	24,829
Adjustments for:			
Depreciation		59,779	54,136
Impairment charges		905	246
Gain on remeasurement of lease liability		(1,696)	(437)
Loss on sale of property, plant and equipment		1,169	25
Share based payments		13,307	666
Fair value adjustment to derivatives	C4	(66)	(45)
Exchange differences		1,189	4,193
		132,974	83,613
Change in inventories		(16,003)	(12,497)
Change in trade and other receivables (i) (ii)		(1,271)	1,905
Change in tax receivables		(796)	-
Change in deferred tax assets		(4,735)	(3,246)
Change in trade and other payables (i) (ii)		10,559	8,506
Change in current tax liabilities (i)		9,316	843
Change in provisions and employee benefits (i) (ii)		515	1,548
Net cash from operating activities		130,559	80,672

(i) During 2021, the Group acquired the retail assets of beeline GmbH. The acquired operating assets and liabilities have been deducted from the changes in the balances.

(ii) Net of changes in balances for non-operating activities.

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
Lovisa Germany GmbH (i)	Germany
Lovisa Retail Germany GmbH (ii)	Germany
Lovisa Austria GmbH (ii)	Austria
Lovisa Belgium BV (ii)	Belgium
Lovisa Netherlands BV (ii)	Netherlands
Lovisa Switzerland AG (ii)	Switzerland
Lovisa Retail France SARL (ii)	France
Lovisa Luxembourg SARL (ii)	Luxembourg
Lovisa Canada Ltd (iii)	Canada
Lovisa Poland sp. Z o.o. (iii)	Poland
Lovisa Retail Mexico S.A. DE C.V. (iii)	Mexico
Lovisa Namibia (Pty) Ltd (iii)	Namibia
Lovisa Italy S.R.L. (iii)	Italy

(i) Acquired 12 November 2020.

(ii) This entity was acquired as a result of the acquisition of the retail assets of beeline GmbH during 2021.

(iii) This entity was incorporated during the year.

D2 COMMITMENTS AND CONTINGENCIES

(a) Guarantees

The Group has guarantees outstanding to landlords and other parties to the value of \$13,148,000 at 3 July 2022 (2021: \$13,099,000).

(b) Capital commitments and contingent liabilities

The Group is committed to incur capital expenditure of \$1,203,000 (2021: \$3,014,000). There are no contingent liabilities that exist at 3 July 2022 (27 June 2021: 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.



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D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

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

At 3 July 2022 the Group has the following share-based payment arrangements:

(i) Share option programmes (equity-settled)

Long Term Incentives - Annual Programmes (FY 2020)

Share Option Programme	Grant date	Number of instruments (000's)	Contractual life of options	Vesting conditions
Options granted				
FY 2020 LTI	October 2019	102	3.5 years	Refer Performance Options granted table below
		102		

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
Stretch	22.5% compound growth - 75% awarded
	25% compound growth - 100% awarded

Long Term Incentives - Annual Programmes (FY 2021)

Share Option Programme	Grant date	Number of instruments (000's)	Contractual life of options	Vesting conditions
Options granted				
FY 2021 LTI	October 2020	100	3 years	Refer Performance Options granted table below
		100		

Performance Options granted to other Executives

Company's EBIT for the financial year ending 2 July 2023	% of LTI Options that vest and become exercisable
Less than \$85m	Nil
\$85m - \$90m	20% awarded
\$90m - \$95m	35% awarded
\$95m - \$100m	50% awarded
\$100m - \$105m	75% awarded
\$105m +	100% awarded

Long Term Incentives - Annual Programmes (FY 2022)

Share Option Programme	Grant date	Number of instruments (000's)	Contractual life of options	Vesting conditions
Options granted				
FY 2022 LTI (CEO FY22 Tranche 1)	November 2021	400	1 year	Refer CEO Performance Options granted table below
FY 2022 LTI (Exec FY22)	August 2021	60	3 years	Refer Executive Performance Options granted table below
		460		

D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

(a) Descriptions of the share-based payment arrangements (continued)*i) Share option programmes (equity-settled) (continued)*

400,000 Performance Rights granted to the CEO under the CEO FY22 Tranche 1 Grant were approved at the Company's AGM on 22 November 2021. Subsequent to the end of the financial year, the Board have determined that 347,671 Performance Rights have vested, with the remaining 52,329 lapsing unvested.

Performance Rights Granted to the CEO (FY22 Tranche 1 Grant)

Company's EBIT (pre LTI) for the financial year ending 3 July 2022	% of Performance Rights that vests and become exercisable
\$65.0m to \$70.0m	18% to 21%
\$70.0m to \$80.0m	21% to 30%
\$80.0m to \$95.0m	30% to 64%
\$95.0m - \$105.0m	64% to 100%
\$105.0m+	100%

Performance Options Granted to Other Executive

Company's EBIT (pre LTI) for the financial year ending 3 July 2022	% of Performance Options that vests and become exercisable
Less than \$90m	Nil
\$90.0m to \$95.0m	20% awarded
\$95.0m to \$100.0m	35% awarded
\$100.0m to \$110.0m	50% awarded
\$110.0m - \$120.0m	75% awarded
> \$120.0m	100% awarded

(b) Measurement of fair values*(i) Equity-settled share-based payment arrangements*

The fair value of the employee share options (see (a)(i)) 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.

	FY2020 LTI	FY2021 LTI	FY2022 LTI (EXEC)
Fair value at grant date	\$3.14	\$1.25	\$2.50
30 day VWAP share price at grant date	\$10.60	\$7.15	\$14.37
Exercise price	\$10.60	\$7.15	\$14.37
Expected volatility (weighted-average)	50.10%	33.70%	33.70%
Expected life (weighted-average)	3.5 years	3 years	3 years
Expected dividends	3.50%	3.50%	3.50%
Risk-free interest rate (based on government bonds)	1.00%	0.25%	0.22%

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

For the CEO Performance Right grant, the fair value of each right was determined based on the 30 day VWAP of Lovisa shares as of 23 November 2021 of \$21.00.

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D3 SHARE-BASED PAYMENT ARRANGEMENTS (CONTINUED)

(c) Reconciliation of outstanding share options/rights

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 \$
Outstanding at 28 June 2021	5,113	9.92
Granted during the year	550	3.92
Forfeited during the year	(4,999)	10.04
Exercised during the year	-	-
Outstanding at 3 July 2022	662	4.02
Exercisable at 3 July 2022	372	0.70
Outstanding at 29 June 2020	3,916	\$10.84
Granted during the year	1,500	\$7.15
Forfeited during the year	(303)	\$8.14
Exercised during the year	-	-
Outstanding at 27 June 2021	5,113	\$9.92
Exercisable at 27 June 2021	-	-

(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)	2022	2021
Short-term employee benefits	3,905	3,979
Post-employment benefits	56	63
Share based payment	13,205	585
Termination benefits	-	-
Other long term benefits	4,288	1,102
	21,454	5,729

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 18 to 26.

(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 3 July 2022 except for those disclosed in note D4 (c) (27 June 2021: nil).

D4 RELATED PARTIES (CONTINUED)

(c) Other related party transactions

Consolidated (\$'000s)	Transaction values for the year ended		Balance outstanding as at	
	3 July 2022	27 June 2021	3 July 2022	27 June 2021
a) Expenses				
Expense recharges	172	161	-	-
b) Sales				
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. Expense recharges are priced on an arm's length basis. The Group will continue to utilise BBRC Retail Capital's retail operating experience on an arm's 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 (\$)	2022	2021
a) KPMG		
Audit and review services		
Auditors of the Company - KPMG Australia		
Audit and review of financial statements	440,000	314,000
Network firms of KPMG Australia		
Audit and review of financial statements	100,000	61,000
Total remuneration for audit and review services	540,000	375,000
Other services		
Auditors of the Company - KPMG Australia		
In relation to other assurance, taxation and due diligence services	155,000	125,242
Network firms of KPMG Australia		
In relation to other assurance, taxation and due diligence services	252,000	193,308
Total remuneration for other services	407,000	318,550
Total remuneration of KPMG	947,000	693,550
b) Non-KPMG audit firms		
Audit and review services		
Audit and review of financial statements	23,000	15,472
Total remuneration for audit and review services	23,000	15,472
Other services		
In relation to other assurance, taxation and due diligence services	23,000	77,800
Total remuneration for other services	23,000	77,800
Total remuneration of non-KPMG audit firms	46,000	93,272
Total auditors remuneration	993,000	786,822

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 3 July 2022 is set out as follows.

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

Consolidated (\$'000s)	2022	2021
Revenue	192,206	173,111
Cost of sales	(69,013)	(65,915)
Gross profit	123,193	110,651
Salaries and employee benefits expense	(67,918)	(44,230)
Property expenses	(4,513)	(3,021)
Distribution costs	(2,309)	(2,846)
Depreciation	(17,961)	(20,793)
Loss on disposal of property, plant and equipment	(403)	(94)
Other income and expenses	6,516	3,865
Dividend income	6,995	3,455
Finance income	1	1
Finance costs	(1,841)	(1,892)
Profit before tax	41,760	41,641
Tax expense	(9,022)	(11,679)
Profit after tax	32,738	29,962
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year, net of tax	32,738	29,962
Retained earnings at beginning of year	43,119	50,768
Impact of change in accounting policy	-	-
Dividends recognised during the year	(59,103)	(37,611)
Retained earnings at end of year	16,754	43,119

D6 DEED OF CROSS GUARANTEE (CONTINUED)

Statement of financial position

Consolidated (\$'000s)	3 July 2022	27 June 2021
Assets		
Cash and cash equivalents	5,427	4,161
Trade and other receivables	62,545	62,823
Inventories	16,413	13,566
Current tax receivables	609	-
Derivatives	1,682	-
Total current assets	86,676	80,550
Deferred tax assets	9,637	4,650
Property, plant and equipment	11,894	8,408
Right-of-use asset	38,217	43,763
Investments	210,000	210,000
Total non-current assets	269,748	266,821
Total assets	356,424	347,371
Liabilities		
Derivatives	-	144
Trade and other payables	29,199	21,530
Employee benefits - current	2,635	2,414
Loans and borrowings - current	10,000	-
Lease liability - current	14,507	15,337
Current tax liabilities	10,661	3,928
Provisions - current	727	616
Total current liabilities	67,729	43,969
Employee benefits - non-current	988	1,291
Lease liability - non-current	31,227	34,212
Provisions - non current	808	748
Total non-current liabilities	33,023	36,251
Total liabilities	100,752	80,220
Net assets	255,672	267,151
Equity		
Issued capital	213,877	213,877
Common control reserve	925	925
Share based payments reserve	22,570	9,263
Cash flow hedge reserve	1,544	(33)
Retained earnings	16,754	43,119
Total equity	255,672	267,151

D7 PARENT ENTITY DISCLOSURES

(\$000s)	2022	2021
Result of parent entity		
Profit for the year	59,895	3,455
Other comprehensive income	-	-
Total comprehensive income for the year	59,895	3,455
Financial position of parent entity at year end		
Current assets	37,368	22,223
Total assets	248,273	233,128
Current liabilities	-	-
Total liabilities	-	-
Net assets	248,273	233,128
Total equity of parent entity comprising of:		
Share capital	215,351	215,351
Share based payments reserve	15,258	905
Accumulated profits	17,664	16,872
Total equity	248,273	233,128

(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 3 July 2022.

(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 3 July 2022:

- AASB 2020-8 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2;
- AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018-2020 and Other Amendments;

D9 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 July 2022 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 2021-5 Amendments to Australian Accounting Standards - Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- AASB 2021-2 Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates
- AASB 2020-1 Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-Current;
- AASB 2014-10 Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- 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 30 to 71 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 3 July 2022 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 3 July 2022.
4. The Directors draw attention to the Basis of Accounting for the consolidated financial statements set out on page 34, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



Victor Herrero
Chief Executive Officer
Melbourne
28 August 2022



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 3 July 2022 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 3 July 2022;
- 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.

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.

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Valuation of Inventories (\$50.2 million)	
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"> relative size of inventories (being 13.6% of total assets within the Group's consolidated statement of financial position). 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. 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 a greater risk of error. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> Evaluating the appropriateness of the Group's inventory provisioning policies against the requirements of the accounting standards. 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; 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; 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. Checking the integrity of the Group's inventory ageing report at 3 July 2022, as a key input used in the obsolete inventory provisioning, by comparing on a sample basis inventory age per the report to purchase invoices. Attending a sample of inventory counts across the Group's store and warehouse locations: <ul style="list-style-type: none"> 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. to observe the Group's shrinkage process. Analysing the inventory shrinkage provision levels by region against sales, including against historical trends. Assessing the integrity of the provisioning calculations. This included checking the accuracy of the formulas within the calculations. Comparing a statistical sample of inventory product values recorded by the Group at yearend, to the Group's post year-end recommended retail selling prices to identify products at risk of selling below cost.



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 Directors' report. The Chairman'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 .

This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Lovisa Holdings Limited for the year ended 3 July 2022 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 3 July 2022.

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

Sydney

28 August 2022



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 3 July 2022 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

Sydney

28 August 2022

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