WE ARE ARA

Celebrating
the unsung heroes
of the ARA Group

Annual Report

2019

Acknowledgement of Country

The ARA Group acknowledges the connection of people, land and communities within the areas that we work. We pay our respects to Elders past, present and emerging.

We seek to maintain meaningful partnerships by undertaking the appropriate engagement practices within our business and for our communities. We know the importance of respecting, understanding and sharing the oldest living cultures in the world.

Contents

ARA Group Limited
ABN 47 074 886 561

View the Annual Report online:
www.aragroup.com.au/2019-annual-report

Photograph Pipe Fabrication, ARA Fire.

"ARA has maintained its focus on being a building services business. Knowing who we are and what we are trying to accomplish makes it easier to do our job."

SECTION ONE

"ARA has reached a level of business maturity whereby the multi-service business we conceived eighteen years ago is well established."

Edward Federman

Executive Chair and Managing Director
ARA Group Limited

Letter from the Executive Chair and Managing Director

Eighteen years ago, Leo Browne and I began operations of the ARA Group. Our goal was to establish a building services business through a combination of organic growth and strategic acquisitions. As the business matured and our earnings grew, our operating cash flow was used to pay a good return, in the form of fully franked dividends, to our shareholders.

Today, ARA provides a comprehensive range of building services and products to major customers throughout Australia and New Zealand. We have achieved many of our initial objectives. When we started ARA, we set a date for our goals to be achieved and every time we reached a milestone, we simply set a new goal, with a new date. It has not always been easy, but we have remained focused on the job at hand.

During the journey of the past eighteen years, we invested in new initiatives. For example, in 2007, we became an employee-owned company. Today there are more than 100 employees who are ARA shareholders. Two years ago, we decided to enter the commercial cleaning business to complement ARA's more technical services. We have found that to be a mature business, you have to be open to new ideas.

Our services are organised in seven operating divisions: Electrical, Fire, Security, Mechanical, Building, Property and Products. We have created a culture of collaboration, and the level of cooperation between our businesses continues to improve every year. ARA has reached a level of business maturity whereby the multi-service business we conceived eighteen years ago is well established.

The focus of this year's Annual Report is ARA's maturity and celebrating some of the 'Unsung Heroes' of our Group, whose hard work and dedication has been crucial to our continued success. Our employees' focus on their job and commitment to providing a high level of service and expertise to our customers is essential to the company's maturation. On behalf of the Board of Directors and myself, I extend a heartfelt thank you to all of our employees.

The senior management team have all been with ARA, or their company sold to ARA, for a significant amount of time. This length of service with ARA has helped to create and maintain our strong culture of service to our customers, caring for our employees and recognising the need to do the best job possible to provide a good return to our shareholders. I want to extend a very big and warm thank you to our senior management team for their dedication and extraordinary efforts this past financial year and throughout all their years of service.

Our Board of Directors is a source of guidance to me and the senior management team. The majority of the Board have served for many years and they know the ARA business well. I want to thank the Board of Directors for their support and advice. ARA is the mature business it is today in large part due to the work of the Board of Directors.

The 2019 financial year has been exceptional. This was our ninth year in a row of record sales and our fourth year in a row of record profits. Earnings per share increased to $.42 per share up from $.39 per share in 2018.

Revenue grew from $479 million in 2018 to $555 million in 2019, an increase of $76 million or 16%. Revenue has grown at a compounded growth rate of 12% during the past ten years. I am very pleased to report that the company had 12% organic growth in 2019.

EBITDA before acquisition expenses increased from $27.0 million in 2018 to $32.5 million in 2019, an increase of $5.5 million, or 20%. EBITDA before profit sharing with management and employees and acquisition expenses was $38.2 million, or 7% of revenue. This represents an increase of $7.1 million, or 23%, from the previous financial year's EBITDA before profit sharing with management and employees and acquisition expenses ($31.1 million). EBITDA has grown at a compounded growth rate of 19% during the past ten years.

Strong cash flow from operations is a good indicator of solid operating results and it demonstrates very good quality of earnings. ARA is consistently focused upon generating cash from the profits earned by the company. In 2019, ARA converted 121% of its EBITDA into operating cash flow, an increase from the 94% of 2018's EBITDA. Free cash flow in 2019 was $26.5 million as compared to free cash flow in 2018 of $12.2 million.

Confirmed forward orders for the Group is $236 million at 30 June 2019 as compared to $243 million at the end of the previous financial year. This level of backlog for ARA puts the Group in a strong operating position for the start of the new financial year.

In short, ARA has been a growth company that also managed to deliver a strong yield to its shareholders whilst its level of financial leverage has been maintained at relatively low levels. ARA has maintained its focus on being a building services business. Knowing who we are and what we are trying to accomplish makes it easier to do our job. We are proud of the work we do and what we have achieved. Our financial statements demonstrate the strong financial position of ARA. We have grown our company to a level that affords us the opportunity to give back to the communities where we work.

Thank you to our loyal shareholders. We are committed to providing you with a good return on your investment in ARA. Without your support, ARA would not be in the strong financial position it is in today.

Edward Federman

Edward Federman

Executive Chair and Managing Director
ARA Group Limited

The Unsung Heroes of the ARA Group

They work hard and rise to the challenge. They lead through example, uplift their teammates and provide extraordinary customer service. They embody the resourceful spirit of ARA and they are indispensable to our success and maturity. These are some of the unsung heroes of our Group. We are proud to share in their achievements.

Name: Brod Helmers
Job Title: Fire Door Installer / Sprinkler Fitter
Division: ARA Fire
Location: Port Melbourne VIC

"Brod has consistently supported his department and other departments within the branch to promote excellent customer service and continued goodwill in those relationships, whilst enhancing our profitability and the ARA brand no matter what the task."

Rob Pantazis, Executive General Manager ARA Fire

Name: Andrew Shepherd
Job Title: Site Manager Southern Region
Division: ARA Electrical
Location: Unanderra NSW

"Andrew has demonstrated exceptional leadership skills and commitment since joining the business 9 years ago. His work ethic, integrity, and can-do attitude are first class, and he has been instrumental in ARA Electrical and the ARA Group's success as a whole. Andrew is an absolute asset to the business who is highly respected by both his work colleagues and clients alike."

Jason Moore, General Manager ARA Electrical

Name: Heshani Perera
Job Title: Site Manager
Division: ARA Property Services
Location: Fitzroy VIC

"Heshani's leadership across a multi-building worksite has turned a problem site into one of our best. She brings out the best in our staff with her calm, efficient, fair and reliable management style."

Paul McCann, Managing Director ARA Property Services

Name: Terry Kranidis
Job Title: Senior Project Manager
Division: ARA Building Services
Location: Stanmore NSW

"Terry has a high level of work ethic. He consistently works longer hours than required. Although he has very extensive experience in multiple areas of the building trade, he continues to request further training and loves to be mentored in areas he has not worked in before. Terry is a fine example of the employee we all hope to have and are grateful for when we do."

Tony Murr, Managing Director ARA Building Services

Name: Robert Mclellan
Job Title: Production Manager
Division: ARA Manufacture
Location: Regency Park SA

"Rob shows dedication, he is hard-working and has mutual respect from all of his colleagues. His effort and contribution to ARA Manufacture, especially during the significant set-backs that he had to manage over the past 3 years in his personal life, has exemplified his character and commitment to ARA."

Mark Pamula, General Manager ARA Manufacture

Name: Gareth Williams
Job Title: Internal Sales and Support
Division: ARA Products
Location: Loganholme QLD

"Gareth has been with ARA/ISCS for over 11 years. He is always the first one to open up the office and he is often the last to leave. Gareth is always up for any challenge, he has learnt and grown tremendously in the business and he never knocks back a challenge. He is very well-liked amongst his peers and I have always been very grateful to have Gareth as one of my colleagues."

Stuart Harmer, Managing Director ARA Products

Name: John Tiavale
Job Title: Factory Storeman
Division: Metalbilt, ARA New Zealand
Location: Auckland NZ

"John is officially our Auckland Factory Storeman and gets involved in a range of other duties as required. He has been with us for 17 years and is always helpful, polite, and hard-working. He is often one of the first to arrive and the last to leave, and he gets on well with everyone."

Geoff Willis, General Manager Metalbilt

Name: Murray Thompson
Job Title: Senior Technician
Division: ARA Security
Location: Sydney NSW

"Murray has been our dedicated Senior Technician at Western Sydney University for six years, where he has taken on complete ownership of the client, their needs and deliverables under the ARA Security service contract. Murray demonstrates dedication, ownership and pride of service as he delivers daily to this highly integrated complex system across multiple campuses."

Tony Franov, Managing Director ARA Security

Name: Joy Alam
Job Title: Supervisor
Division: ARA Property Services
Location: Melbourne VIC

"Joy is a supervisor managing our services in a multi-level CBD building. His supervision has increased our reputation as a reliable and reputable service provider."

Paul McCann, Managing Director ARA Property Services

Name: Alicia Winley
Job Title: Admin Manager / Project Co-ordinator Southern Region
Division: ARA Electrical
Location: Unanderra NSW

"Alicia is an integral member of the Southern Region who has positively contributed to the business' success over her 18 years of service. Alicia always puts the business needs first, which has seen her working remotely in often harsh environments away from family and friends for extended periods of time. She is a reliable, caring, hardworking employee who always gives 100% in every task she undertakes, and she is always willing to offer assistance for the greater good of the business. The management team cannot thank her enough for all her efforts."

Jason Moore, General Manager ARA Electrical

Name: Garth Paul
Job Title: Senior Operations Manager
Division: ARA Property Services
Location: North Parramatta NSW

"With over 40 years of industry experience, Garth has built a vast network of strong client relationships and he sets the example of ensuring our sites receive high levels of quality cleaning services."

Ash Jones, General Manager Complex Solutions

Name: Nigel King
Job Title: Project Manager Central Region
Division: ARA Electrical
Location: Ingleburn NSW

"Nigel has 14 years of service and is an integral member of the Central Region. He has always put the company first and he has great rapport with clients and fellow employees. He has always been willing to take on any project, whether it is a commercial, industrial, solar or communications project. Nigel is a genuine, honest and reliable employee who is an asset to the ARA Group and highly deserving of this recognition."

Jason Moore, General Manager ARA Electrical

Name: Samuel Lawer
Job Title: IT Operations Analyst
Division: ARA Corporate Services
Location: Kings Park NSW

"Sam's professionalism and great attitude to go above and beyond to resolve technical problems for ARA staff across the Group make him an important member of the ARA Technology Team. He is not afraid of dedicating his own time to ensure issues are addressed in a timely manner, demonstrating commitment and high quality service towards staff needs and expectations."

Juan Quintero, Chief Technology Officer ARA Group

Name: Mandy Plymin
Job Title: Queensland Service Administrator
Division: ARA Fire
Location: Loganholme QLD

"Mandy is extremely hard-working, loyal and highly respected by her work colleagues and most importantly, our customers. Mandy has a can-do attitude and is never afraid to work back if needed, including weekends, and she is a shareholder of ARA."

Brian Davies, Managing Director ARA Fire

Name: Leighanne Coleman
Job Title: Service Administration Manager
Division: ARA Mechanical
Location: Kingsgrove NSW

"Leighanne is an exceptional employee who consistently challenges herself and her team for perfection. Leighanne has a remarkable, can-do attitude at all times and is completely customer service driven, which truly is the foundation of what the ARA Group stands for."

Phil Harding, Managing Director ARA Mechanical

Name: Darryl Armstrong
Job Title: Senior Technician
Division: ARA Security
Location: Perth WA

"Darryl operates as one of our senior technicians in WA, delivering and supporting our clients, internal technicians and subcontractors with technical know-how on a state-wide basis. Darryl has been with our business for 12 years and has demonstrated continuous dedication and commitment to getting the job done in line with client and company expectations. Darryl is an integral part of the WA ARA Security team."

Tony Franov, Managing Director ARA Security

See the Unseen

Preventative maintenance through Thermal Imaging

Thermoscan

Location: National
ARA Division: ARA Building Services
Date of Acquisition: 1 May 2019

ARA acquired Thermoscan, a nationwide thermal imaging service provider dedicated to preventative maintenance. Thermal imaging of electronic equipment is becoming increasingly necessary for ARA's clients to ensure the protection of their assets and infrastructure, as well as the safety of building occupants. ARA is now able to offer this as part of a comprehensive, in-house service. We also expanded our thermal imaging service by acquiring Thermalview (based in Adelaide, SA) on 11th July 2019.

"I am very excited that Thermoscan has joined the ARA Group as it is a great strategic fit for both businesses. We look forward to servicing ARA's clients and building on the capabilities already provided to them by the ARA Group".

Kelly Alcorn
General Manager of Thermoscan

About Thermal Imaging

Thermal imaging inspections allow technicians to identify electrical faults before they become an issue. This helps clients to reduce the likelihood of technical failures and unexpected downtime, as well as damage or injury to staff. By integrating thermal imaging services into our comprehensive condition and maintenance reviews, clients can also make considerable savings on insurance premiums.

02 Financial Year Highlights

Photograph Commercial cleaning, ARA Property Services.

"When we started ARA, we set a date for our goals to be achieved. Every time we reached a milestone, we simply set a new goal, with a new date."

SECTION TWO

18 Years of Growth

Revenue grew to $555 million in 2019 from $479 million in 2018. The increase of $76 million of revenue represents a 16% increase from the prior year. This is the seventeenth year out of ARA's eighteen years of operations that revenue has increased from the prior financial year. From 2010 to 2019, a period of the last ten years, revenue has grown at a compound rate of 12%. The principal reason for the increase in revenue was due to the organic growth in 2019 of 12%. The most significant area of organic growth was the infrastructure work carried out by four of ARA's divisions. Revenue in 2019 was the ninth year in succession of record results.

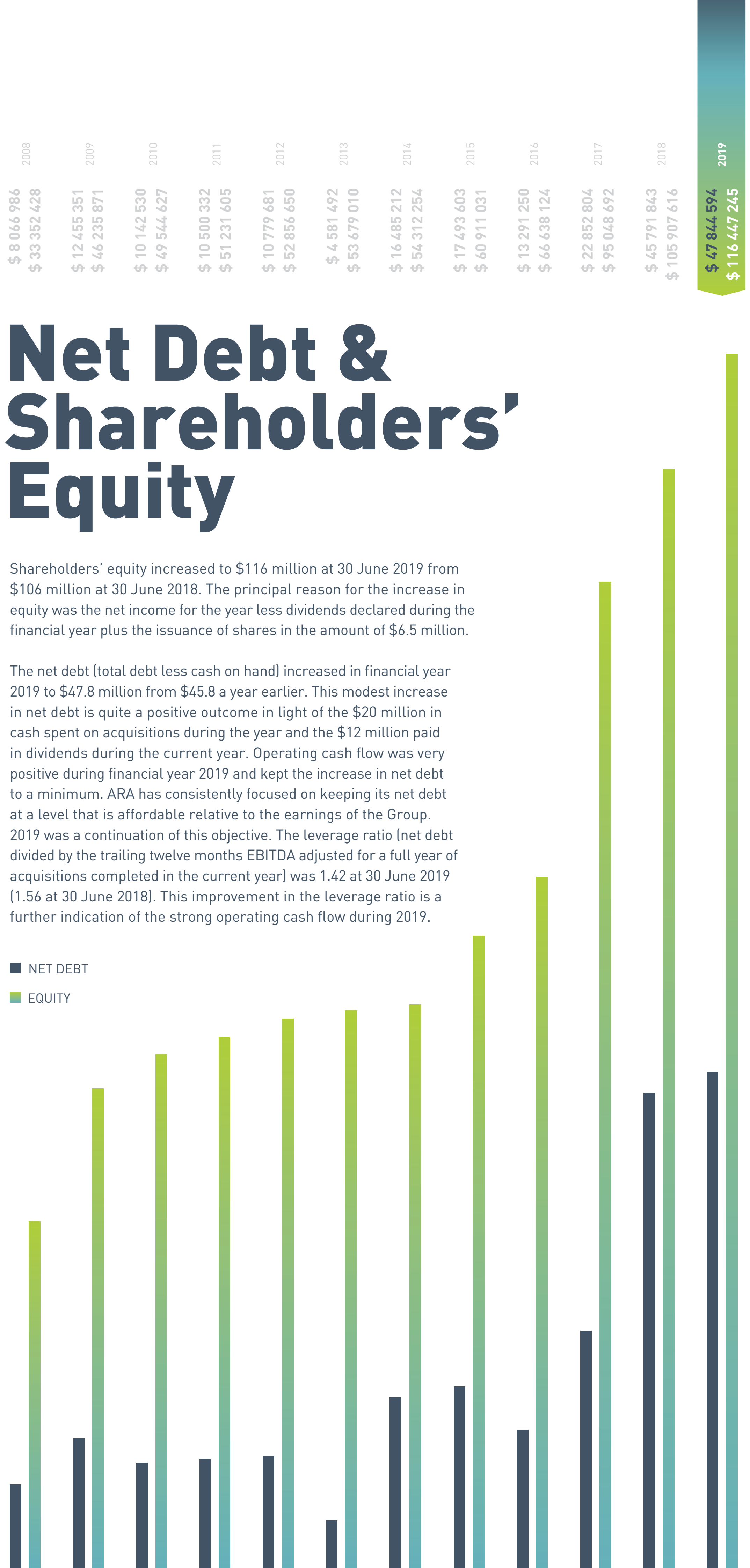
18 Years of Profitability

EBITDA in 2019 was ARA's fourth successive year of record profits. EBITDA in 2019, before acquisition expenses, was $32.5 million, an increase of $5.5 million, or 20%, from the $27.0 million of EBITDA reported in 2018. From 2010 to 2019, a period of the last ten years, EBITDA before acquisition expenses has grown at a compounded growth rate of 19%. The growth in earnings was significantly greater than the growth in revenue (12%) during the past ten years. The margin of EBITDA/Sales has steadily improved during this period. The improvement in profit in 2019 was due to the Group's profitable organic growth in most divisions and the positive effect of acquisitions during the second half of the prior year and the current year acquisitions.

Net Debt & Shareholders' Equity

Shareholders' equity increased to $116 million at 30 June 2019 from $106 million at 30 June 2018. The principal reason for the increase in equity was the net income for the year less dividends declared during the financial year plus the issuance of shares in the amount of $6.5 million.

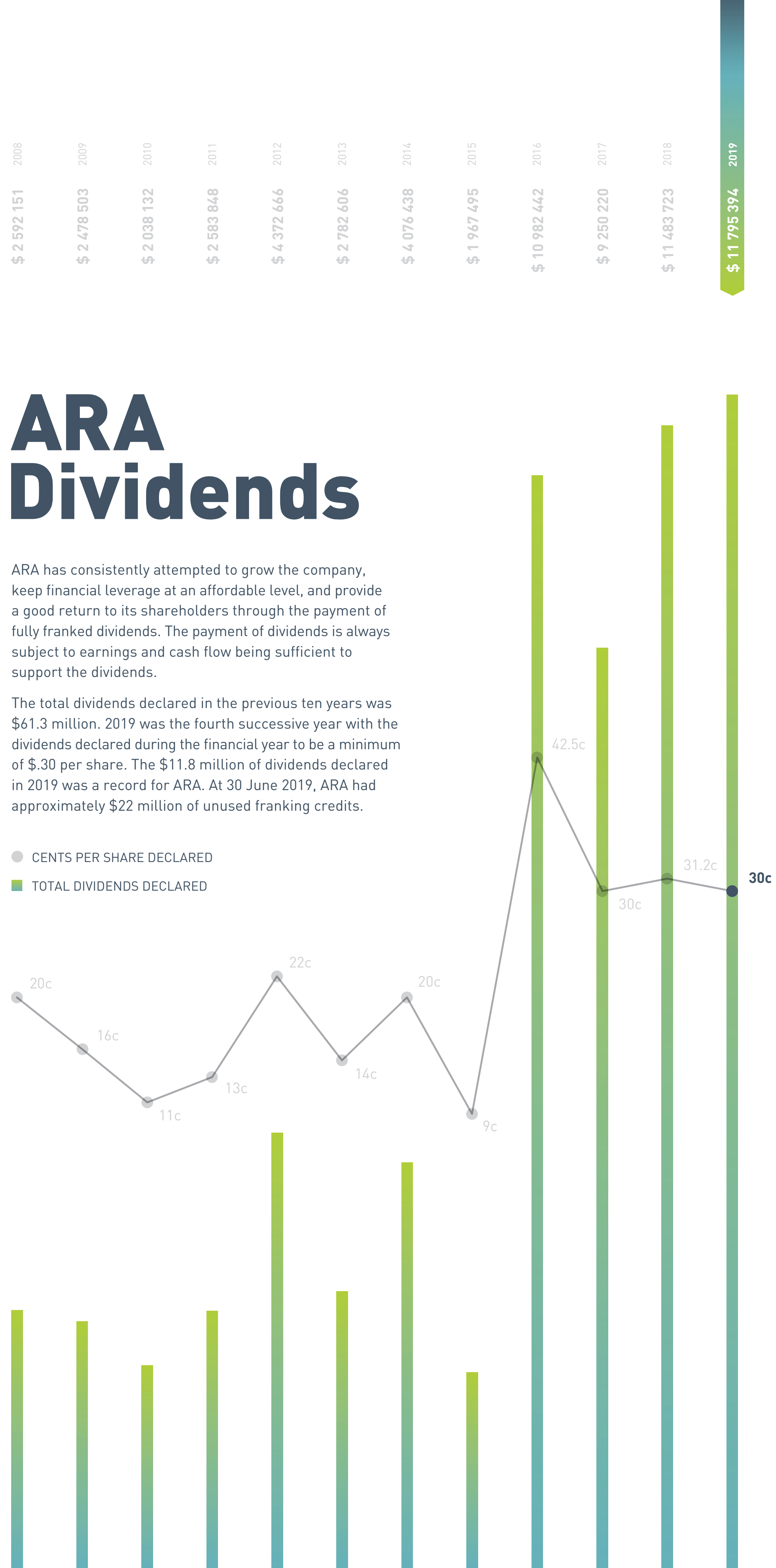
The net debt (total debt less cash on hand) increased in financial year 2019 to $47.8 million from $45.8 a year earlier. This modest increase in net debt is quite a positive outcome in light of the $20 million in cash spent on acquisitions during the year and the $12 million paid in dividends during the current year. Operating cash flow was very positive during financial year 2019 and kept the increase in net debt to a minimum. ARA has consistently focused on keeping its net debt at a level that is affordable relative to the earnings of the Group. 2019 was a continuation of this objective. The leverage ratio (net debt divided by the trailing twelve months EBITDA adjusted for a full year of acquisitions completed in the current year) was 1.42 at 30 June 2019 (1.56 at 30 June 2018). This improvement in the leverage ratio is a further indication of the strong operating cash flow during 2019.



ARA Dividends

ARA has consistently attempted to grow the company, keep financial leverage at an affordable level, and provide a good return to its shareholders through the payment of fully franked dividends. The payment of dividends is always subject to earnings and cash flow being sufficient to support the dividends.

The total dividends declared in the previous ten years was $61.3 million. 2019 was the fourth successive year with the dividends declared during the financial year to be a minimum of $.30 per share. The $11.8 million of dividends declared in 2019 was a record for ARA. At 30 June 2019, ARA had approximately $22 million of unused franking credits.



Photograph Locksmith services, ARA Security.

> **"To be mature you have to be open to new ideas."**

SECTION THREE

Recent Acquisitions

Strategic acquisitions have always been a core aspect of ARA. We have continued this strategy in 2019 and have made several important additions to our services and capabilities.

Metalbilt and Danks Rollerdoors

Location: Auckland, Wellington and Christchurch, NZ
ARA Division: ARA Manufacture
Date of Acquisition: 31 January 2019

Metalbilt and Danks are leading door brands with over 60 years of experience in the manufacturing, installation and servicing of a wide range of commercial and industrial doors. This acquisition ensured continuous employment for 60 staff, as well as uninterrupted service for customers.

"It's great that the business can continue uninterrupted and that staff have security. We look forward to being able to expand our product range to customers by accessing ARA's broader range of offerings in Australia. We have had a long association with the founders of ARA, who have an in-depth understanding of the door industry in both New Zealand and Australia".

Geoff Willis General Manager of Metalbilt and Danks

Photographs Top left: Metalbilt roller doors ready for shipping. Top right: Manufacturing process. Bottom: Installed roller door.

NEDA Facility Services

Location: Auckland, NZ
ARA Division: Administrated by ARA Security
Date of Acquisition: 28 May 2019

NEDA Facilities Services provide comprehensive building services for some of New Zealand's largest and most significant organisations, from major retailers and commercial offices to government departments and infrastructure companies. NEDA's General Manager, Greg Froude, will now be leading the ARA Security business in New Zealand and reporting to Tony Franov.

"This is a huge opportunity. Everyone that I've talked to is ecstatic. We're really excited to see what kind of work we can bring on by offering a more complete, more comprehensive, and extended service requirement for our clients".

Greg Froude Managing Director of NEDA Facilities Services

Photographs Top left: NEDA facility services team. Top right: GME manufacturing facility - Victoria. Bottom right: GME manufactured Cryoquip container. Bottom left: ARA Vaults safety deposit boxes - Bella Vista.

Groundmaster Engineering (GME)

Location: Derrimut, VIC
ARA Division: ARA Manufacture
Date of Acquisition: 3 June 2019

ARA Manufacture has expanded its metal manufacturing capabilities through the acquisition of Groundmaster, a leading metal manufacturing business offering superior cutting of larger and heavier materials. ARA Manufacture VIC has relocated to a significantly larger site, a 7,300m^2 facility containing two laser cutting machines, a water jet steel cutting machine, a turret punch and two brake presses, allowing ARA Manufacture to take on larger projects.

"We are particularly keen to become a supplier, fabricator and installer for other ARA Group companies and divisions. We would be happy to look at where we can assist with supply chain items and based on solid commitment, we have the space and infrastructure to stock and supply on an 'as required' basis".

Andrew Briggs Operations Manager at ARA Manufacture (VIC)

Australasian Vaulting Industries (AVI Vaults)

Location: Western Sydney, NSW
ARA Division: ARA Security
Date of Acquisition: 1 September 2018

ARA acquired AVI, a vaulting business offering safe deposit boxes for the secure storage of valuable items, such as gold and silver bullion. By integrating AVI's secure storage facility with ARA's Cash In Transit services, ARA Security can now offer a complete, in-house solution for the secure transport, custody and storage of valuables.

"From a private vault and safe custody perspective, we are the first to market this offering with a uniquely tailored, end-to-end solution".

Tony Franov Managing Director of ARA Security

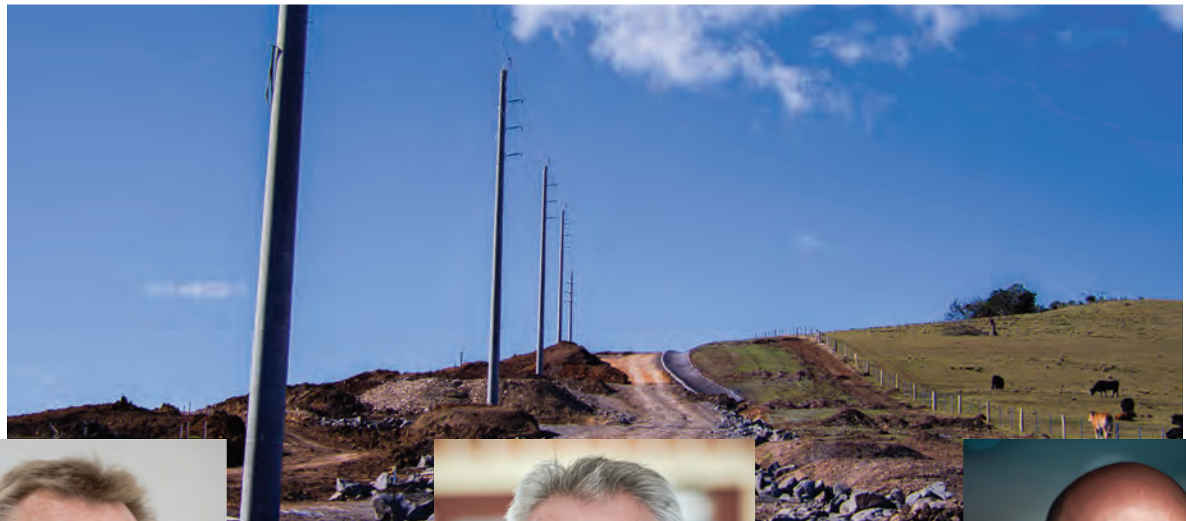
ARA Electrical

18 years of solid growth and profitability

In 2001, the ARA Group made its first major acquisition. Bass Electrical Engineering and its General Manager, Brett Chambers, joined ARA and created the ARA Electrical Division. Under Brett's leadership for the past eighteen years, ARA Electrical has grown from a $12 million business to its current size of $122 million of revenue in the year just completed. The Division is well managed, with superb capabilities, a highly skilled workforce of approximately 400 employees, and a safety record that is unparalleled. The ARA Electrical Division had a positive impact on the entire ARA Group in 2019.

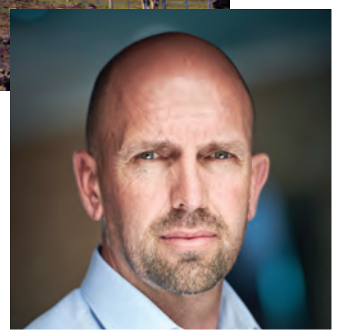
The growth of the Electrical Division to date resulted from a combination of organic growth and strategic acquisitions. The acquisitions increased the capabilities from low voltage (LV) installation and service to provide true, in-house integrated electrical solutions, including data and communications, design and engineering, high voltage (HV) network design, installation and maintenance, the manufacture of custom-built switchboards and more. ARA Electrical has become a trusted service provider for clients across a wide range of markets, such as mining and resources, energy generation, food and beverage, and process and petrochemical industry sectors to name a few.

The continuity of Managing Director Brett Chambers in his role, as well as the long-serving and dedicated team members that have grown with the company, has much to do with the success of the ARA Electrical Division. Jason Moore and Adam Shepherd both joined ARA Electrical in 2009 during a significant HV installation project which was delivered very successfully and led the way to take on bigger projects. Adam began his journey with ARA as a project manager and he is now the General Manager of the Southern Region, leading large-scale projects such as the recent delivery of a complete HV and LV electrical installation package for Australia's newest Copper-Zinc mine in the Goulburn basin. Jason joined the team as an operations manager and is now General Manager of the Division. "When we started, the biggest job we had done was just a couple of million dollars" Jason reflects, "Now we are a $120 million a year business completing large projects successfully. There might have been some reluctance initially but having the confidence of the Group backing us has allowed us to take on those opportunities when they come". The steady and persistent growth of this division has supported the growth of ARA throughout our journey for the last 18 years.



Name: Brett Chambers
Job Title: Managing Director

Name: Jason Moore
Job Title: General Manager



Name: Adam Shepherd
Job Title: General Manager Southern Region

> **"Our vision is to keep our clients connected by delivering true in-house, full turn-key integrated electrical and communications solutions with a strong focus on safety, quality and risk management."**
>
> **Brett Chambers**

Capability Overview

ARA Electrical Capabilities

- Level 3 Design and Engineering
- Earthing Studies and Design
- Engineering and Automation
- Custom-Built Switchboards and Motor Control Centres
- Substations and Switchyards
- Construction and Project Management
- Hazardous Area Design and Installation
- Level 1 Construction – Transmission and Distribution
- High Voltage Design, Construction and Maintenance
- Plant and Equipment – Overhead and Underground Infrastructure
- Cabling and Network Installations
- Data Centres
- Integrated Voice and Data Systems
- Communications
- Optical Fibre Systems
- Instrumentation
- Level 2 Connections and Service Work
- Private Network Maintenance Management
- Protection Design, Testing and Commissioning
- Solar PV Systems
- Energy Audits and Viability Assessments
- Service and Maintenance (24 hour)

Photographs Opposite page: Albion Park Rail Bypass. Top: Woodlawn Copper-Zinc Mine. Centre and Bottom: Mt Keira Lookout.

ARA Property Services

Reflecting upon ARA's step change acquisitions

In financial year 2017, ARA completed and disclosed a step change in our evolution by purchasing a large commercial cleaning business, CMC Property Services, which is our largest acquisition to date. It was a strategic decision to complement the technical services of ARA with the softer service of cleaning. During financial year 2018, ARA doubled down and purchased a second cleaning business, Complex Solutions. In financial year 2019, the combined cleaning businesses, branded as ARA Property Services, had revenue of $77 million. Most importantly, the Property Services Division's operating margin was the best in the ARA Group in 2019 and it was the second-best operating margin in 2018.

The cleaning customers of the Property Services Division range from large commercial building owners and tenants, smaller second-tier office buildings, large private hospitals, smaller day surgeries and food processing facilities to nationwide offices of commercial services, private schools, airline lounges and selected retail outlets.

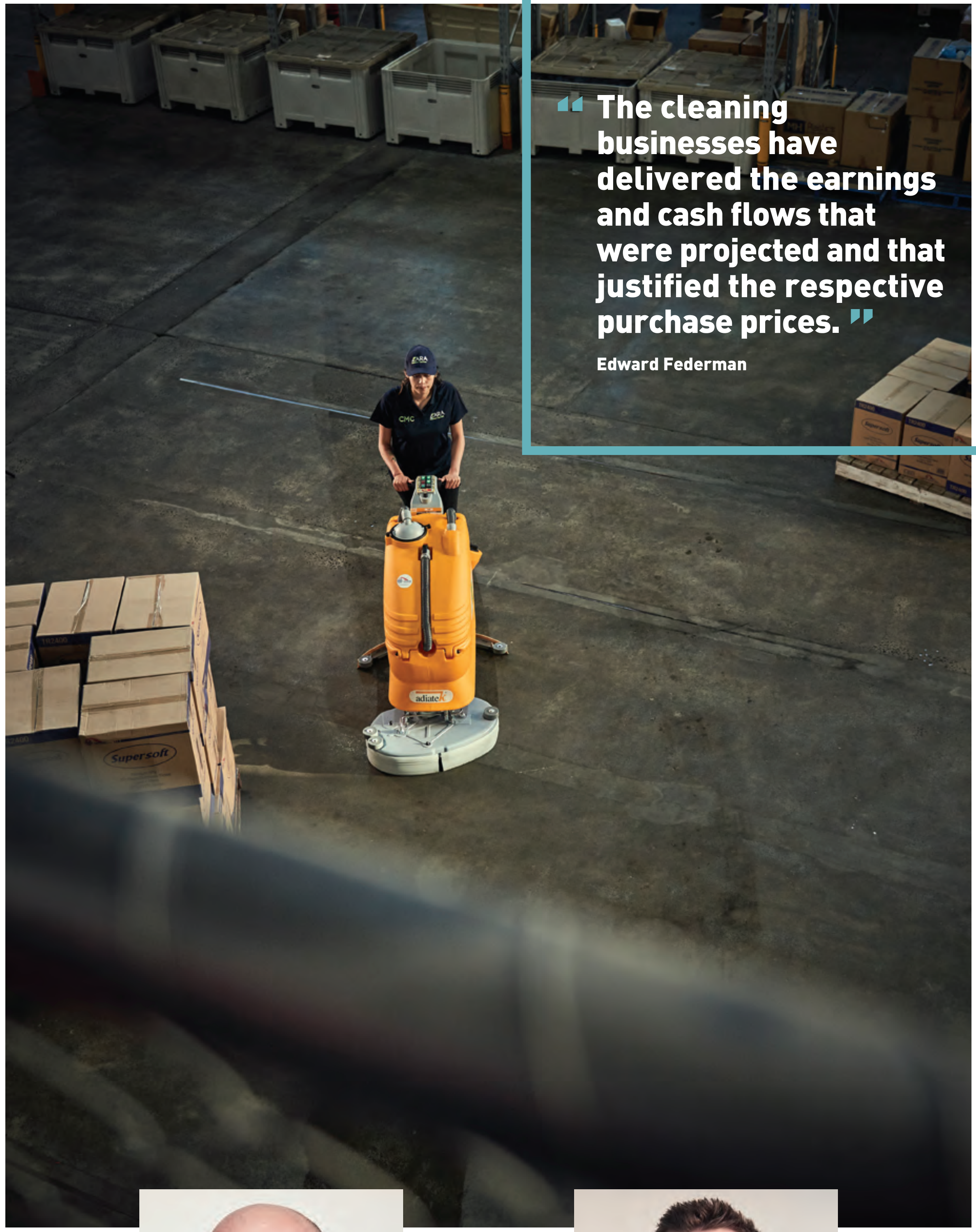
Having made such a significant acquisition in a somewhat different, but still related, type of facility service, it is important to follow up and disclose to our shareholders and our other stakeholders how we fared. These acquisitions, and the decision to offer our customers this softer service, has been a real success. The cleaning businesses have delivered the earnings and cash flows that were projected and that justified the respective purchase prices. ARA has many more dedicated and skillful employees in the Group today. The Property Services Division's customers, resulting from the acquisitions, have been a source for many potential opportunities for the other ARA Divisions to follow up with the potential to win new work.

Capability Overview

ARA Property Services Capabilities

- Carpet Steam Cleaning
- Commercial Upholstery Cleaning
- Procurement of Washroom Consumables
- Commercial Window Cleaning
- Waste Management and Recycling
- Commercial Floor Cleaning
- Commercial Pressure Washing
- Hygiene and Sanitary Services
- Health Care Auditing for Recertification
- Terminal Clean and Infection Control
- Graffiti Removal
- Emergency Response for Fire and Flood restoration

Photographs Above: Healthcare cleaning. Right: Commercial cleaning.
Opposite Page: Industrial cleaning.

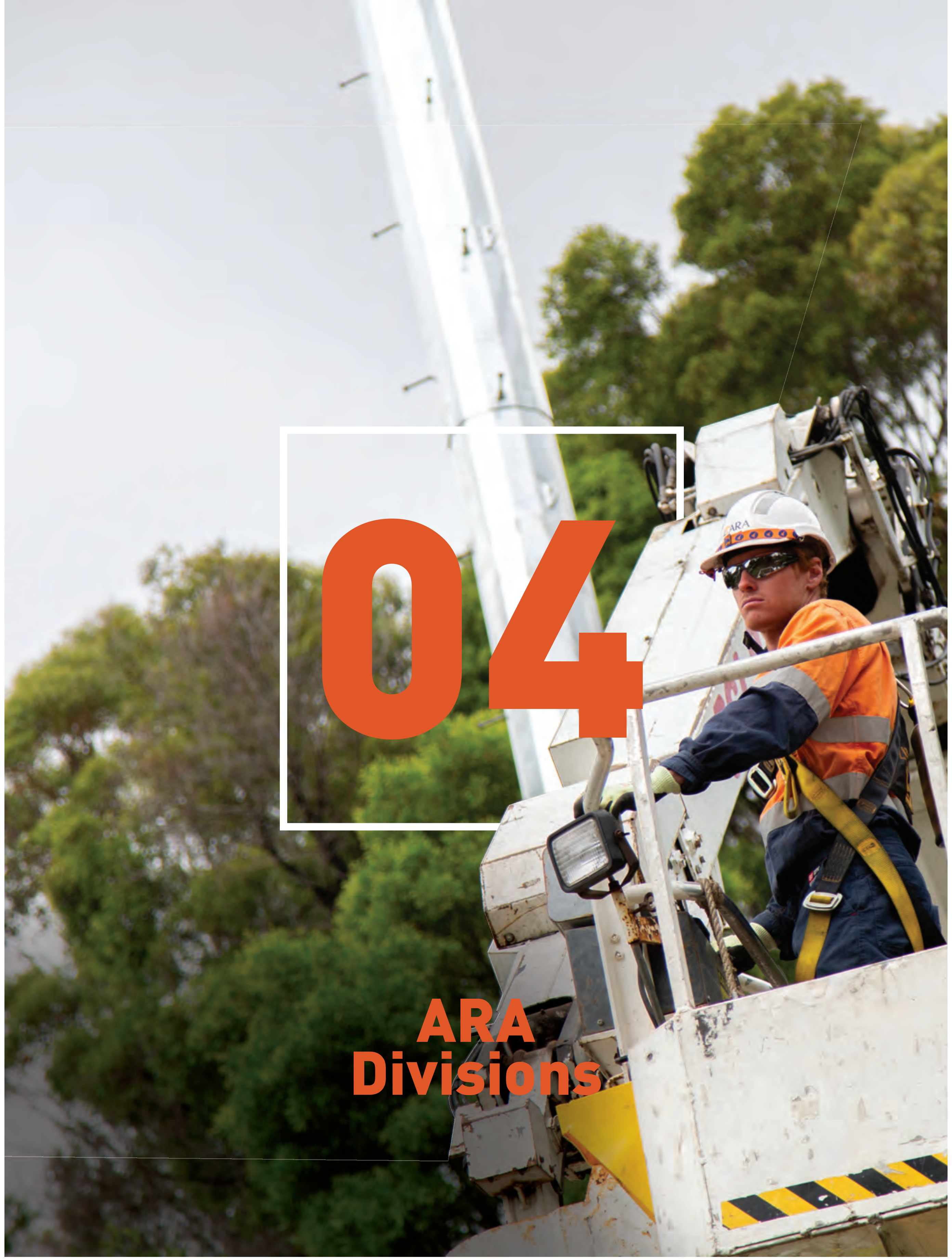


"The cleaning businesses have delivered the earnings and cash flows that were projected and that justified the respective purchase prices."

Edward Federman

Name: Paul McCann
Job Title: Managing Director

Name: Ash Jones
Job Title: General Manager



Photograph Mt Keira Lookout installation, ARA Electrical.

> "We have created a culture of collaboration. The level of cooperation between our different businesses improves every year."

SECTION FOUR

2019 Revenue

$555 Million

REVENUE Comprised of

63%	14%	12%	11%
Service	Construction	Product	Infrastructure

REVENUE Divisions In 2019

	ARA SECURITY	ARA MECHANICAL	ARA PROPERTY SERVICES	ARA BUILDING SERVICES	ARA ELECTRICAL	ARA FIRE	ARA PRODUCTS
Revenue	$92 Million	$63 Million	$77 Million	$37 Million	$122 Million	$103 Million	$61 Million
	Integration of & solutions for electronic security	Energy management for commercial buildings	Commercial cleaning & maintenance	Versatile building & maintenance services	Electrical, high voltage, data & engineering	All aspects of fire protection	Distribution & Manufacture
DIVISION Capabilities	Access Control	HVAC Design	Commercial Cleaning	Remedial Building Repairs	High Voltage Services	Inspection & Testing	Access Control
	CCTV	Mechanical Ventilation	Healthcare Cleaning	Insurance Building Repairs	Low Voltage Services	Sprinkler Systems	CCTV
	ATM Security & Guarding	Air Conditioning	Food Processing Cleaning	24/7 Emergency Service	Engineering Solutions	Detection & EWIS Systems	Photo ID Systems
	Cash In Transit Solutions	Chiller Plants	Maintenance	Exterior & Interior Design	Installation Services	Passive & Fire Doors	Identity Security
	Electronic Security Solutions	Building Automation	Grounds Maintenance	Fit Outs of Interior Spaces	Switchboards	Portable Systems	Architectural Hardware
	Safes, Vaults & Teller Units	Energy Management	Waste Management & Recycling	Refurbishments	Mobile Switch Rooms	Special Hazards	Commercial Doors
	Locksmith Services	Metering		Multi Trade Services	Data Centres	Oxygen Reduction	Industrial Doors
					Structured Cabling	Pipe Fabrication	High Security Doors
							Physical Security Systems
							Ballistic Glass

REVENUE Indigenous In 2019

ARA INDIGENOUS SERVICES

Operates within ARA Property Services with a plan to pull through all ARA services in the future.

$11.4 million

Distribution of electronic security products and **Manufacture** of physical security products.

Our Locations

KEY BY BUSINESSES

- SECURITY
- MECHANICAL
- PROPERTY SERVICES
- BUILDING SERVICES
- ELECTRICAL
- FIRE
- PRODUCTS
- INDIGENOUS SERVICES

AUSTRALIA

ACT

CANBERRA

NSW

ARTARMON
BANKSMEADOW
BELLA VISTA
BELROSE
CARINGBAH
CHIPPING NORTON
INGLEBURN
KINGSGROVE
KINGS PARK
MAITLAND
HEATHERBRAE
NOWRA
ORANGE
PARRAMATTA
RYDALMERE
SINGLETON
STANMORE
TUGGERAH
WINDSOR
WOLLONGONG

QLD

BUNDABERG
EAGLE FARM
KINGSTON
LOGANHOLME
MILTON
SLACKS CREEK
TINGALPA

SA

REGENCY PARK
WAYVILLE
EASTWOOD

VIC

DERRIMUT
MELBOURNE
PORT MELBOURNE

WA

KALGOORLIE
PERTH

NEW ZEALAND

AUCKLAND
KERIKERI
WELLINGTON
CHRISTCHURCH

Our Leadership Team

> **The continuity of senior management is evidence of the maturity of our business.**
>
> **Edward Federman**

The ARA senior management team is critical to our success.

The vast majority of ARA's senior management team have been with ARA for over a decade. The continuity of their leadership has been critical to our success. This team has worked together to build and maintain our strong culture of service to our customers, whilst valuing the hard work of our employees and encouraging collaboration for the benefit of the Group.

Name: Edward Federman
Job Title: Co-founder, Executive Chair and Managing Director
Division: ARA Group
Location: Stanmore NSW
18 years with ARA

Name: Allison McCann
Job Title: Chief Financial Officer and Member of Board of Directors
Division: ARA Group
Location: Stanmore NSW
8 years with ARA

Name: Brett Chambers
Job Title: Managing Director and Member of Board of Directors
Division: ARA Electrical
Location: Unanderra NSW
18 years with ARA

Name: Tony Franov
Job Title: Managing Director and Member of Board of Directors
Division: ARA Security
Location: Stanmore NSW
18 years with ARA

Name: Tony Murr
Job Title: Managing Director
Division: ARA Building Services
Location: Stanmore NSW
15 years with ARA

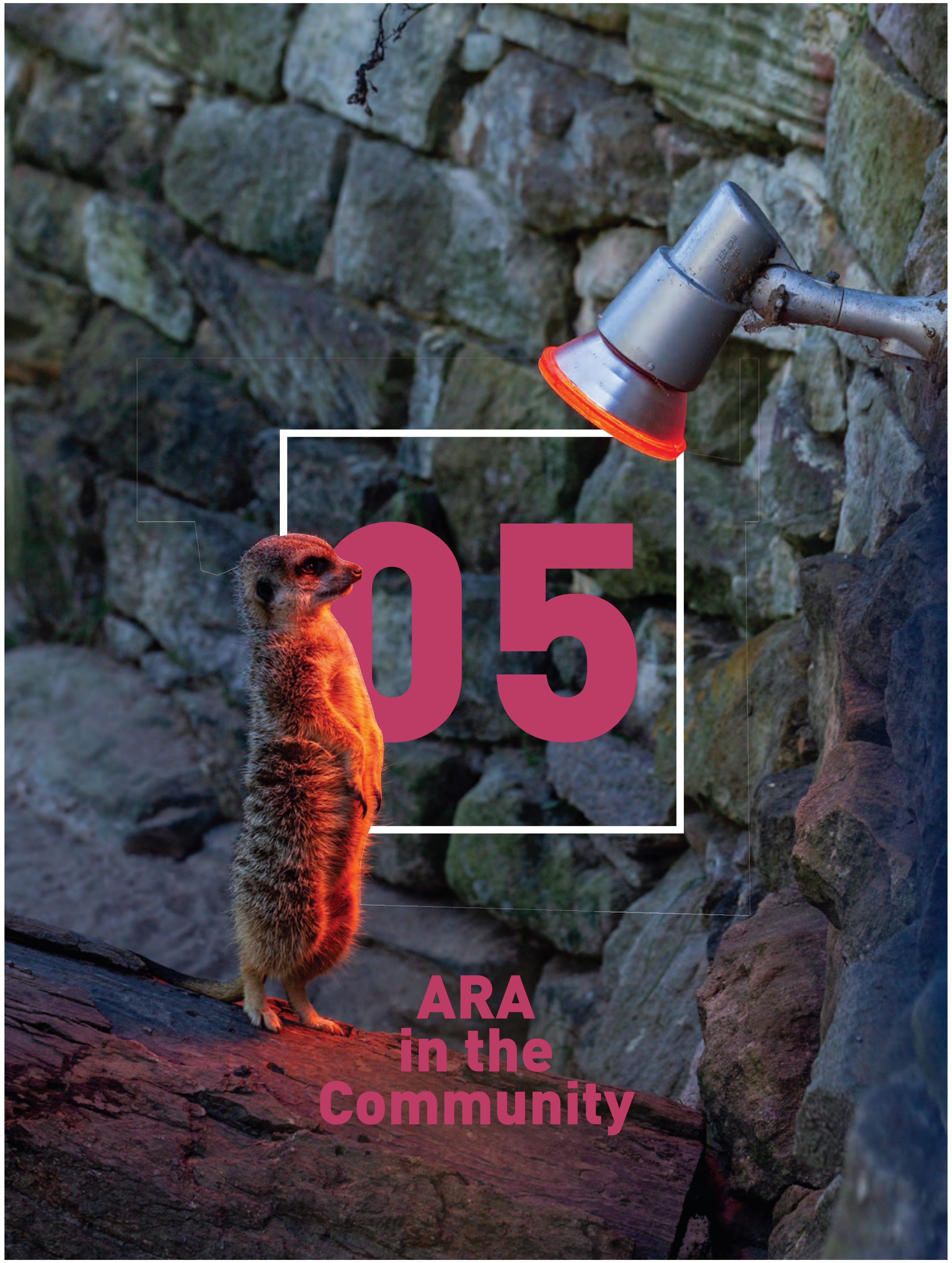
Name: Phil Harding
Job Title: Managing Director
Division: ARA Mechanical
Location: Kingsgrove NSW
13 years with ARA

Name: Brian Davies
Job Title: Managing Director
Division: ARA Fire
Location: Loganholme QLD
13 years with ARA

Name: Stuart Harmer
Job Title: Managing Director
Division: ARA Products
Location: Loganholme QLD
10 years with ARA

Name: Paul McCann
Job Title: Managing Director
Division: ARA Property Services
Location: Hawthorn VIC
2 years with ARA - 27 years with CMC

Name: Michael O'Loughlin
Job Title: Managing Director
Division: ARA Indigenous Services
Location: Stanmore NSW
2 years with ARA



Photograph Meerkat enclosure, Taronga Zoo.

“We have grown our company to a level that affords us the opportunity to give back to the communities where we work.”

SECTION FIVE

Photographs The Supper Club Soiree Fundraiser 27th October.

10 year Anniversary of the ARA Endowment Fund

Every year, we donate 100% of the earnings of the ARA Endowment Fund to our partner foundations. We're on a mission to create a legacy of charitable donations that will continue for generations to come.

It's been 10 years since we established the ARA Endowment Fund. Our goal is to grow the principal balance (currently $2 million) so that we can provide meaningful donations to our charitable partners in perpetuity. Today, we are focused on three select partnerships: The GO Foundation, which provides mentoring, leadership and educational opportunities to Aboriginal and Torres Strait Islander youth; The Indigenous Literacy Foundation, which provides culturally appropriate and first language books to improve literacy levels for children in remote Aboriginal and Torres Strait Islander communities; and The David Lynch Foundation, which assists youth at risk, victims of domestic violence and veterans suffering from post-traumatic stress disorder to alleviate stress through the Transcendental Meditation technique.

In October 2018, ARA hosted the first annual fundraising gala dinner for the ARA Endowment Fund and invited 250 guests to the MCA Great Hall in Circular Quay. It was an opportunity to celebrate and promote the work of our charitable partners and enjoy live performances by William Barton, Justine Clarke and Jonathan Zwartz. We held a benefit concert at the ARA Darling Quarter Theatre in May this year, featuring Justine Clarke and her band performing a 'Jazz Jam' for all ages to enjoy.

It has taken us 10 years for the principal balance of the Fund to reach approximately $2 million, and it is our goal to raise the balance to $10 million in the next ten years. This is ARA's commitment to leaving an enduring legacy to the Australian community. Once we reach our goal of $10 million in the Fund, hundreds of thousands of dollars can be given away annually to our designated charitable partners in perpetuity. Approximately $60,000 was donated by ARA staff this past year. The employee donations were matched dollar for dollar by ARA.

Together, we can create a lasting legacy.

> **"It is our goal to grow the ARA Endowment Fund to $10 million in the next 10 years."**
>
> **Edward Federman**

The GO Foundation

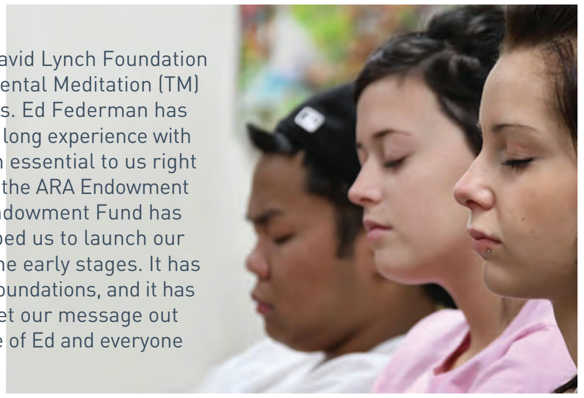
EMPOWERING THROUGH EDUCATION

"We are so thrilled to have the support of the ARA Endowment Fund. GO provides support for Aboriginal and Torres Strait Islander youth throughout their education - from kindy to employment. We are thankful for the contributions made by the Fund to support our programs and providing necessary school resources. As Ed's business partner through ARA Indigenous Services, it's wonderful to have his support and the support of the whole Group in our foundation and our vision."

Michael O'Loughlin, Co-Founder and Deputy Chairman

The David Lynch Foundation Australia

CHANGE BEGINS WITHIN



"It's been about 2 years since we launched The David Lynch Foundation in Australia. Our programs deliver the Transcendental Meditation (TM) Program to at-risk and disadvantaged populations. Ed Federman has been practicing TM for 47 years now and has had a long experience with the benefits of this practice. His support has been essential to us right from the beginning, including our partnership with the ARA Endowment Fund, which is really important to us. The ARA Endowment Fund has offered us great financial support, which has helped us to launch our programs here and get things underway during the early stages. It has also allowed us to connect with the other partner foundations, and it has become a vehicle for us to share our vision and get our message out there on a wider scale. We are greatly appreciative of Ed and everyone involved with the ARA Endowment Fund."

Mark Bunn, CEO Australia

The Indigenous Literacy Foundation

READING OPENS DOORS

"Our work around literacy in remote Indigenous communities is all about starting from the word 'go'. We collaborate with community to provide babies and toddlers with word books in language and develop future young writers and voices. As a foundation we have always embraced the philosophy of sustainability by taking small steps and focusing on long term engagement with community.

We are now in our 9th year as a foundation, and this will be the first 12 months that we will have been recipients of funding from the ARA Endowment Fund. Our partnership with the Endowment Fund came about very naturally due to our shared visions for the future and it's been really important for us to have a long-term partner that is committed to our journey. We feel incredibly appreciative of the support and simply bowled over by the generosity of spirit shown by ARA."

Karen Williams, Executive Director

Our Reconciliation Action Plan

Under the guidance and dedication of Suzanne Grech, General Manager of ARA Indigenous Services, ARA was able to embark on an important journey in the movement for Reconciliation in Australia last year.

We are proud to report that three quarters of the commitments in our Innovate Reconciliation Action Plan (RAP) for 2018–2020 are currently active.

Our dedicated RAP Steering Committee hold monthly meetings to ensure that we are meeting our objectives in four key areas: Meaningful Community Partnerships, Aboriginal and Torres Strait Islander Business Inclusion, Sustainable Employment and Cultural Awareness. This committee has majority senior ARA staff members, Aboriginal and Torres Strait Islander representation, and at least one representative from each of ARA's divisions. "Our Steering Committee has really embraced a one team mentality when it comes to our RAP", Suzanne reports, "If the challenge arises, everyone chips in to the point that it is no longer a challenge – it's an impact or an outcome. If one division can't achieve it, another jumps on board".

Throughout the year, Suzanne provided the first series of bespoke Cultural Awareness sessions for ARA employees across the Group. These sessions engage small teams of up to 10 employees and focus on cultivating deeper awareness and understanding of our shared histories as we work towards tangible outcomes for Reconciliation. 135 ARA staff have attended the first series of Cultural Awareness sessions so far, surpassing our original commitment of 80 staff every year.

We have also made significant progress in our commitments towards Sustainable Employment in the past 12 months. Our Wiimali program sources opportunities within our business and provides Aboriginal and Torres Strait Islander candidates with the mentoring and support from a cultural perspective to encourage long term employment. Previous to our RAP, ARA did not have a formal tool or process to capture data relating to our Aboriginal and Torres Strait Islander employment and engagement. We are pleased to report that in the past year, 17 Aboriginal and Torres Strait Islander candidates pursued these opportunities and have joined ARA in various positions across the Group. Through collaboration, our divisions are now embarking on a unified strategy to record the number of Aboriginal and Torres Strait Islander employees across the country.

We are also pleased to announce that Daniel Hall of ARA Fire has been accepted to participate in NASCA's (National Aboriginal Sporting Chance Academy) Volunteer program this August, which is a special opportunity made possible through our Inner Circle partnership with NASCA.

As we reflect on these achievements, we look forward to continuing on our RAP journey with a strong sense of collaborative effort and opportunity.

> **"I'm very proud of the commitment of our management and employees in implementing our Reconciliation Action Plan."**
>
> **Edward Federman**

Photograph NAIDOC Week morning tea.

Community Partners

Sydney Writers' Festival

AUSTRALIA'S LARGEST CELEBRATION OF IDEAS.

ARA is the first corporate Principal Partner of the Sydney Writers' Festival and a long-term sponsor of the Festival's 'Russ the Story Bus' initiative.

Monkey Baa Theatre Company

AUSTRALIA'S LEADING PROFESSIONAL THEATRE COMPANY FOR YOUNG AUDIENCES.

ARA is the Principal Partner of The Monkey Baa Theatre Company, based in the ARA Darling Quarter Theatre.

Taronga Zoo Sydney

SUPPORTING WILDLIFE CONSERVATION.

ARA is a Champion Sponsor of Taronga Zoo Sydney and long-term sponsor of the Emu enclosure.

Tumbalong Lights

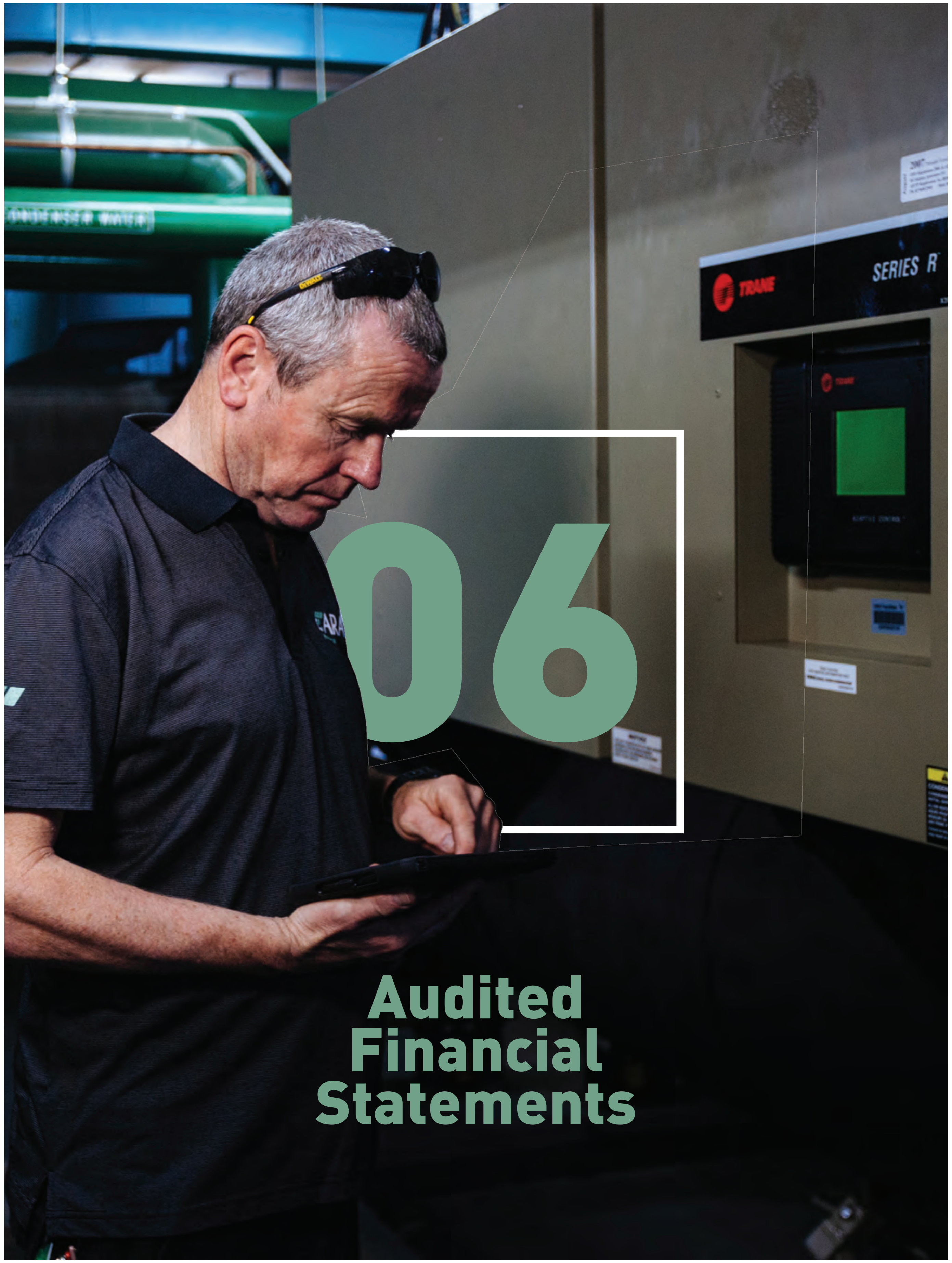
VIVID SYDNEY'S INCLUSIVE PLAYSPACE.

ARA is a collaborator on Tumbalong Lights with industry partners.

NIDA

AUSTRALIA'S LEADING INSTITUTE FOR EDUCATION AND TRAINING IN THE PERFORMING ARTS.

ARA is a Principal Partner of the National Institute of Dramatic Art (NIDA).



Photograph Air Conditioning Maintenance, ARA Mechanical.

"At the end of the day, we are proud of the work we do and what we have achieved. Our financial statements demonstrate the strong financial position of ARA."

SECTION SIX

Directors' report

Your directors submit their report on ARA Group Limited (the "Company") and its controlled entities (collectively the "Group") for the year ended 30 June 2019.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period, unless otherwise stated.

Edward Federman (Executive Director and Executive Chair)

Edward Federman is a co-founder, Executive Chair and Managing Director of ARA Group Limited. Edward holds an MBA and has over thirty years of experience in the building services industry. Edward also serves on the Group's Compensation Committee.

Leo Browne (Non-Executive Director)

Leo Browne is a co-founder and Non-Executive Director of ARA Group Limited. Leo has over fifty years of experience in the building services industry. Leo also serves on the Group's Audit Committee and is chair of the Compensation Committee.

James Marshall (Non-Executive Director)

James Marshall joined the Board as a Non-Executive Director in 2014. James is a corporate lawyer and Head of Restructuring at Ashurst law firm. James' legal and commercial experience brings a breadth of expertise to the Board. James also serves on the Group's Audit Committee.

Brett Chambers (Executive Director)

Brett Chambers joined the Board as an Executive Director in 2010. Brett has over thirty years of experience in the electrical industry and has worked for the Company since 2001. Brett is the Managing Director of the ARA Electrical Division.

Norbert Schweizer OAM (Non-Executive Director)

Norbert Schweizer joined the Board as a Non-Executive Director in 2006. Norbert is a corporate lawyer and founder of Schweizer Kobras legal practice. Norbert has extensive experience in corporate and business law.

Allison McCann (Executive Director and Company Secretary)

Allison McCann joined the Board as an Executive Director in 2017 and was appointed Company Secretary in 2012. Allison is the Group's Chief Financial Officer and has worked for the Group since 2010. Allison is a chartered accountant and has over fifteen years of finance and commercial experience.

Tony Franov (Executive Director) (appointed 18 September 2018)

Tony Franov joined the Board as an Executive Director on 18 September 2018. Tony has twenty years of experience in the security industry and has worked for ARA since 2001. Tony is the Managing Director of the ARA Security Division.

David Sefton (Company Secretary)

David Sefton was appointed Company Secretary in 2015. David is the Group's Chief Risk Officer and has worked for the Group since 2015. David is a corporate lawyer with over thirty years of experience.

Directors' report (continued)

Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Directors	Number of Board meetings held	Number of Board meetings attended	Number of compensation committee meetings held	Number of compensation committee meetings attended
Leo Browne	8	7	2	2
Edward Federman	8	8	2	1
James Marshall	8	7	-	-
Brett Chambers	8	7	-	-
Norbert Schweizer OAM	8	7	-	-
Allison McCann	8	8	2	1
Tony Franov	5	5	-	-

Results of operations

Net profit for the year of the economic entity after providing for income tax amounted to $16,727,610 (2018: $14,731,139). The net profit for the year increased 14% from the previous year.

The increase in net profit for the year was principally due to a very strong performance from the Electrical Division and improved performances from the Fire, Mechanical and Property Services Divisions partially offset by a reduction in earnings at the Building Services Division.

Review of operations

Total sales of the Group's products and services were $555,298,215 in 2019 compared with $479,211,231 in 2018, an increase of $76 million, or 16%. The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to $32,509,376 in 2019 (before acquisition expenses) compared with $27,039,897 in 2018 (before acquisition expenses), an increase of $5,469,479, or 20%. The Group's EBITDA before acquisition expenses and profit sharing expense was $38,200,177 in 2019 (7% of revenue) and $31,110,810 in 2018 (6% of revenue), an increase of $7,089,367, or 23%.

Earnings before interest, tax, depreciation, amortisation and profit sharing expense summary

	2019	2018
	$	$
Earnings before interest, tax, depreciation, amortisation and profit sharing expense	38,200,177	31,110,810
Profit sharing expense	(5,690,801)	(4,070,913)
EBITDA (Earnings before interest, tax, depreciation, amortisation and acquisition expense)	**32,509,376**	**27,039,897**
Acquisition expense	(196,473)	(33,940)
Depreciation and amortisation expense	(5,156,320)	(3,924,730)
EBIT (Earnings before interest and tax)	**27,156,583**	**23,081,227**
Net interest expense	(3,068,140)	(2,674,442)
Profit before income tax	**24,088,443**	**20,406,785**

Directors' report (continued)

Review of operations (continued)

The Group made six acquisitions during the financial year. The largest acquisition was a commercial and industrial door manufacturing business in New Zealand (Metalbilt). A metal manufacturing business in Melbourne was purchased. These two manufacturing businesses provide additional products and capacity for the Products Division. The second largest acquisition was a thermal imaging service business in Australia (Thermoscan Inspection Services) providing nationwide service, and expanding the services offered by the Building Services Division. Other smaller acquisitions during the financial year were a building automation service business (Mechanical Division), a vaulting and safe storage business (Security Division) and a building services business in New Zealand.

Throughout the financial year, the operating businesses maintained a strong forward order book. At 30 June 2019, the confirmed forward orders totalled approximately $236 million (30 June 2018: $243 million). The backlog remains strong across all divisions.

The Group's net senior bank debt (senior bank debt less cash) increased by $2.2 million from $45.4 million at 30 June 2018 to $47.6 million at 30 June 2019. The increase in net senior bank debt is principally due to an increase in borrowings to pay for the acquisitions during the year.

The overall EBITDA operating margin remained at 6% of sales. The Group will continue to seek to improve its operating margin in 2020.

Principal activities

The principal activities of the economic entity during the financial year were the provision of essential building services (installation and service) such as fire protection services, electrical, electrical engineering and high voltage services, electronic security services and products, air conditioning, building fit out, building repairs, building automation, cleaning services and the manufacturing of specialised building products such as steel doors, ballistic doors and partitions, steel security doors and steel fire doors, aluminium security shutters and grilles. The acquisitions in 2019 increased the activities of the companies in the economic entity during the year.

Significant changes in the state of affairs

During the year, the Group issued 1,613,898 new shares, increasing the number of shares issued from 38,244,481 at 30 June 2018 to 39,858,379 at 30 June 2019. This increased contributed equity by $6,480,592 from $82,089,733 at 30 June 2018 to $88,570,325 at 30 June 2019.

The issue of new shares relate to:

- 50,000 new shares issued as purchase consideration for businesses acquired, and
- 1,563,898 newly issued shares to new and existing shareholders.

On 21 June 2019, the Group entered into an Amended Facility Agreement with its banks (Westpac Banking Corporation and Bank of Queensland). The total Facility is $110 million, an increase from $80.1 million at 30 June 2018. The Facility is principally a revolving cash advance facility to assist the Group to fund organic growth and strategic acquisitions. The Facility terminates on 31 July 2022.

The Group made six acquisitions during the year, as explained in the review of operations. There were no other significant changes in the state of affairs of the company during the financial year.

Significant events after the reporting period

There have been no significant events occurring after the reporting period which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Future developments

The Group will continue to focus on margin improvements in all of its businesses. The directors continue to seek management to focus on margin improvements, although it is recognised that the competitive environment and the state of some sectors of the local economy makes it difficult for significant margin increases.

Directors' report (continued)

Future developments (continued)

The Group's acquisition strategy will remain consistent in its approach to examine opportunities that complement its current services and products. One element of the Group's acquisition strategy is to acquire companies that increase the overall operating margin of the Group. It is expected the Group will continue to focus on organic growth and improved operating margins in 2020, although appropriate acquisition opportunities will be thoroughly investigated. It remains the goal of the Directors to pay dividends of $0.30 per share during the financial year 2020.

If the Group identifies appropriate acquisitions in 2020, it will likely use a combination of new equity, cash flow from operations, and borrowings to finance the execution of any acquisitions, as it did in 2019. In any event, the directors will ensure that the Group does not become highly leveraged. The goal of the Group remains that its net bank debt will not exceed 30% of its total capital structure. At 30 June 2019, net debt was $47.6 million, or 29% of its capital structure ($45.4 million at 30 June 2018 and 30% of its capital structure). The increase in debt was principally due to debt funding for the acquisitions during the financial year offset by cash flow from operations and the issuance of new equity. At 30 June 2019, the leverage ratio (total net senior bank debt excluding bank guarantees, divided by the trailing twelve months EBITDA, adjusted for acquisitions made during the year) was 1.42 (30 June 2018: 1.56).

Net interest expense increased by only $393,698, despite increased borrowings for acquisitions. The Group's interest cover ratio (EBIT divided by interest expense) was 9 times in 2019 compared to 8 times in 2018.

Environmental regulations

The economic entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. The Group has embarked upon a plan to reduce its carbon footprint in the environment. The Group has implemented an Environmental Management Policy and continues to work towards ISO accreditation in all of its businesses.

Dividends

Fully franked dividends amounting to $11,795,394, or $0.30 per share, were declared during the financial year (2018: $11,483,723 or $0.312 per share). $3,069,095 or $0.077 per share, was paid on 3 July 2019. The dividend payment was provided for at 30 June 2019. The Group paid $0.312 per share in 2019 (2018: $0.30 per share).

In addition to dividends paid by ARA Group Limited, ARA Indigenous Services Pty Ltd paid total dividends of $553,106 in 2019 to its shareholders.

Share options

No option to acquire shares in the Company has been granted to any person. No shares have been issued during the financial year or since the end thereof by virtue of the exercise of any options. There are no unissued shares under option at the date of this report.

Indemnification and insurance of directors and officers

Insurance premiums of $43,000 were paid during the financial year for Directors and Officer Liability Insurance.

Indemnification of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditor, Ernst & Young (Australia), as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young (Australia) during or since the financial year.

Proceedings on behalf of the Company

No person has applied for leave of the Court to bring proceedings on behalf of the Company or 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 any part of those proceedings. The Company was not a party to any such proceedings during the year.

Directors' report (continued)

Auditor's independence declaration

The directors have received a declaration from the auditor of ARA Group Limited and Controlled Entities. This has been included on page 44.

Signed in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the *Corporations Act 2001:*

Edward Federman
Executive Director
Sydney
7 August 2019

Building a better working world

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Fax: +61 2 9248 5959
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Auditor's Independence Declaration to the Directors of ARA Group Limited

As lead auditor for the audit of the financial report of ARA Group Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit*;* and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of ARA Group Limited and the entities it controlled during the financial year.

Ernst & Young

Chris Lawton
Partner
7 August 2019

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

	Notes	2019 $	2018 $
Revenue from contracts with customers	4.1	555,298,215	479,211,231
Other income	5.1	118,310	92,473
Changes in inventories of finished goods and work in progress		854,899	2,596,068
Raw materials and consumables used		(151,171,094)	(126,652,132)
Employee benefits expense		(194,744,755)	(164,634,181)
Management and sub contract fees		(132,031,996)	(122,891,179)
Profit sharing expense		(5,690,801)	(4,070,913)
Depreciation and amortisation expense	5.4	(5,156,320)	(3,924,730)
Other expenses from ordinary activities	5.5	(40,123,402)	(36,611,470)
Acquisition expenses		(196,473)	(33,940)
Finance costs	5.3	(3,156,871)	(2,760,458)
Finance income	5.2	88,731	86,016
Profit before income tax expenses		**24,088,443**	**20,406,785**
Income tax expense	6	(7,360,833)	(5,675,646)
Net profit for the year		**16,727,610**	**14,731,139**
Net profit for the year is attributable to:			
Owners of the Parent		16,344,292	14,286,451
Non-controlling interests		383,318	444,688
		16,727,610	**14,731,139**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	18.2	4,014	-
Net unrealised loss on cash flow hedges, net of tax	18.2	(633,907)	(65,457)
Net other unrealised comprehensive loss to be reclassified to profit or loss in subsequent periods		**(629,893)**	**(65,457)**
Other comprehensive loss for the year		**(629,893)**	**(65,457)**
Total comprehensive income for the year		**16,097,717**	**14,665,682**
Total comprehensive income for the year is attributable to:			
Owners of the Parent		15,714,399	14,220,994
Non-controlling interests		383,318	444,688
		16,097,717	**14,665,682**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2019

	Notes	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents	8	19,525,264	11,689,157
Trade and other receivables	9	84,341,794	81,138,473
Contract assets	9	6,231,447	6,086,386
Inventories	10	13,707,884	12,998,046
Prepayments		1,916,809	1,818,804
Total current assets		125,723,198	113,730,866
Non-current assets			
Other financial assets		101,749	243,487
Property, plant and equipment	12	14,503,945	11,257,553
Deferred tax assets	6	6,104,948	5,910,977
Goodwill and intangible assets	13	152,110,338	136,698,483
Total non-current assets		172,820,980	154,110,500
Total assets		**298,544,178**	**267,841,366**
Liabilities			
Current liabilities			
Trade payables	14	59,343,299	54,159,505
Other payables	14	30,803,022	27,099,366
Contract liabilities	15	1,376,911	2,444,889
Interest-bearing loans and borrowings	16	168,881	4,154,038
Income tax payable		1,084,562	536,487
Employee benefits	17	15,305,322	13,234,113
Total current liabilities		108,081,997	101,628,398
Non-current liabilities			
Trade and other payables	14	687,500	1,437,500
Interest-bearing loans and borrowings	16	67,221,443	53,326,962
Deferred tax liabilities	6	3,807,031	3,713,306
Employee benefits	17	2,298,962	1,827,584
Total non-current liabilities		74,014,936	60,305,352
Total liabilities		**182,096,933**	**161,933,750**
Net assets		**116,447,245**	**105,907,616**
Equity			
Contributed equity	18.1	88,570,325	82,089,733
Other reserves	18.2	(3,398,480)	(2,768,587)
Retained earnings		30,879,122	26,330,224
Equity attributable to equity holders of the Parent		**116,050,967**	**105,651,370**
Non-controlling interests		396,278	256,246
Total equity		**116,447,245**	**105,907,616**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2019

	Contributed equity (Note 18.1)	Retained earnings	Other reserves (Note 18.2)	Non-controlling interests	Total equity
	$	$	$	$	$
At 1 July 2017	**74,141,593**	**23,527,496**	**(2,703,130)**	**82,733**	**95,048,692**
Profit for the year	-	14,286,451	-	444,688	14,731,139
Other comprehensive loss	-	-	(65,457)	-	(65,457)
Total comprehensive income/(loss) for the year	-	14,286,451	(65,457)	444,688	14,665,682
Transactions with owners in their capacity as owners:					
Shares issued during the year	7,948,140	-	-	-	7,948,140
Dividends paid or provided for	-	(11,483,723)	-	(271,175)	(11,754,898)
At 30 June 2018	**82,089,733**	**26,330,224**	**(2,768,587)**	**256,246**	**105,907,616**
At 1 July 2018	**82,089,733**	**26,330,224**	**(2,768,587)**	**256,246**	**105,907,616**
Profit for the year	-	16,344,292	-	383,318	16,727,610
Other comprehensive loss	-	-	(629,893)	-	(629,893)
Total comprehensive income/(loss) for the year	-	16,344,292	(629,893)	383,318	16,097,717
Transactions with owners in their capacity as owners:					
Shares issued during the year	6,480,592	-	-	-	6,480,592
Dividends paid or provided for	-	(11,795,394)	-	(243,286)	(12,038,680)
At 30 June 2019	**88,570,325**	**30,879,122**	**(3,398,480)**	**396,278**	**116,447,245**

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2019

	Notes	2019 $	2018 $
Operating activities			
Receipts from customers		610,626,221	514,638,052
Payments to suppliers and employees		(571,404,198)	(489,158,836)
Dividends received		635	1,247
Interest received		88,731	86,016
Borrowing costs paid		(3,156,871)	(2,760,458)
Income tax paid		(7,553,452)	(8,109,546)
Net cash flows from operating activities	8	**28,601,066**	**14,696,475**
Investing activities			
Purchase of plant and equipment		(3,898,976)	(1,800,030)
Proceeds from sale of plant and equipment		312,177	338,283
Payment for investments and businesses acquired		(20,911,140)	(29,759,043)
Net cash flows used in investing activities		**(24,497,939)**	**(31,220,790)**
Financing activities			
Proceeds from borrowings		37,975,000	34,000,000
Repayment of borrowings		(27,975,000)	(14,500,000)
Repayments of subordinated debentures		-	(290,000)
Payment of finance lease liabilities		(225,757)	(389,057)
Proceeds from issued capital	18	6,255,592	4,778,140
Dividends paid - owners of the parent entity	7	(12,053,569)	(10,866,396)
Dividends paid to non-controlling entity		(243,286)	(271,175)
Net cash flows from financing activities		**3,732,980**	**12,461,512**
Net increase/(decrease) in cash and cash equivalents		7,836,107	(4,062,803)
Cash and cash equivalents at 1 July		11,689,157	15,751,960
Cash and cash equivalents at 30 June	8	**19,525,264**	**11,689,157**

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2019

1. Corporate information

The consolidated financial report of ARA Group Limited and its controlled entities (the "Group") for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors on 7 August 2019.

ARA Group Limited (the "Company") is a for-profit company limited by shares, incorporated and domiciled in Australia.

The registered office and principal place of business of the parent entity is 10 Bridge Road, Stanmore, NSW 2048.

The nature of the operations and principal activities of the Group are described in the directors' report.

2. Significant accounting policies

2.1 Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards - Reduced Disclosure Requirements and other authoritative pronouncements of the Australian Accounting Standards Board. The Group is a for-profit, private sector entity which is not publicly accountable. Therefore, the consolidated financial statements for the Group are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements (AASB - RDRs) and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis except for derivative financial instruments and contingent considerations that have been measured at fair value.

The financial report is presented in Australian dollars ($).

2.2 Changes in accounting policies and disclosures

i) New and amended standards and interpretations adopted by the Group

The Group applied AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* for the first time. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 *Revenue from Contracts with Customers* supersedes AASB 111 *Construction Contracts,* AASB 118 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

i) New and amended standards and interpretations adopted by the Group (continued)

AASB 15 *Revenue from Contracts with Customers (continued)*

The Group adopted AASB 15 using the modified retrospective method of adoption with the date of initial application of 1 July 2018. Under this method, the cumulative effect of initially applying AASB 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under AASB 111, AASB 118 and related Interpretations.

The effect of adopting AASB 15 as at 1 July 2018 was the reclassification of contract assets and contract liabilities in note 4.2. The adoption of AASB 15 did not have a material impact on retained earnings or the Group's operating, investing and financing cash flows.

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 July 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied AASB 9 retrospectively, with an initial application date of 1 July 2018. The Group has not restated the comparative information, which continues to be reported under AASB 139. Differences arising from the adoption of AASB 9 have been recognised directly in retained earnings and other components of equity.

The effect of adopting AASB 9 as at 1 July 2018 are described below:

(a) Classification and measurement

Under AASB 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income (OCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of AASB 9 did not have a significant impact on the Group. There are no changes in classification and measurement for the Group's financial assets and liabilities.

(b) Impairment

The adoption of AASB 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

The Group assessed the impact on transition and concluded no additional impairment is necessary.

(c) Hedge accounting

The Group applied hedge accounting prospectively. At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships.

Hedge accounting of AASB 9 did not have a significant impact on the Group.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

ii) Standards issued but not yet effective

Certain Australian Accounting Standards and Interpretations that are issued, but are not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new standards and interpretations, if applicable, when they become effective.

AASB 16 *Leases*

AASB 16 *Leases* was issued in January 2016 and it replaces AASB 117 *Leases,* AASB Interpretation 4 *Determining whether an Arrangement contains a Lease,* AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under AASB 16 is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

AASB 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under AASB 117. The Group is in the process of assessing the impact of implementation of AASB 16.

2.3 Basis of consolidation

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as ARA Group Limited, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Non-controlling interests are allocated their share of net profit after tax in the consolidated statement of profit or loss and other comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the Parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

2.3 Basis of consolidation (continued)

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Parent's share of components previously recognised in other comprehensive income to profit or loss, or retained earnings, as appropriate.

a) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

b) Income tax

The charge for income tax expense for the year is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the statement of tax balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the consolidated statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which deductible temporary differences can be utilised.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

b) Income tax (continued)

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

ARA Group Limited and its wholly-owned subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2004. The consolidated group has entered into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to profit before tax of the tax consolidated group.

c) Inventories

Raw material and stores, work in progress and finished goods are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out or weighted average cost basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

Plant and equipment

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal.

Depreciation

The depreciable amount of all fixed assets including capitalised leased assets are depreciated on a straight line basis over their estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Class of fixed asset	***Depreciation rate***
Leasehold improvements	10 - 20%
Plant and equipment	7.5 - 40%
Office furniture and equipment	7.5 - 20%
Computer equipment and software	33 - 40%
Motor vehicles	22.5%

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

e) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of profit or loss and other comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

f) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's (CGU's), fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

f) Impairment of non-financial assets (continued)

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

g) Foreign currency transactions and balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

Both the functional and presentation currency of the Group is Australian dollars ($) except for New Zealand entities where the functional currency is New Zealand dollars.

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

i) Employee entitlements

Provision is made for the Group's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at an amount that is considered to approximate the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred.

j) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from equity.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

k) Dividend to equity holders of the parent

The Group recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. A corresponding amount is recognised directly in equity.

l) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and disclosed separately in the consolidated statement of profit or loss and other comprehensive income.

The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with AASB 9 in the consolidated statement of profit or loss and other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

m) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

m) Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates and adjusted on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss and other comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised.

A summary of the policies applied to the Group's intangible assets is, as follows:

	Goodwill	Development costs	Customer contracts	Intellectual property
Useful lives	Indefinite	Finite	Finite	Finite
Amortisation method used	No amortisation	Amortised on a straight line basis over 7 years	Amortised on a straight line basis over 5 - 7 years	Amortised on a straight line basis over 10 years

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to reliably measure the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

n) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three months and net of bank overdrafts.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

o) Revenue from contracts with customers

For the year ended 30 June 2019

The Group is in the business of providing essential building services (installation and service) such as fire protection services, electrical, electrical engineering and high voltage services, electronic security services and products, air conditioning, building fit out, building repairs, building automation, cleaning services and the manufacturing of specialised building products such as steel doors, ballistic doors and partitions, steel security doors and steel fire doors, aluminium security shutters and grilles. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Sale of goods

Revenue from sale of goods relates primarily to the Group’s Products Division and includes the sale of commercial, industrial and high security doors, architectural hardware, security access products including access control and CCTV. Revenue from the sale of goods is recognised at a point in time when the performance obligation is satisfied which is generally on the delivery of goods to the customer. This is consistent with how revenue was recognised previously under AASB 118.

The transaction price is typically fixed for each performance obligation, with no variable revenue associated with this revenue stream.

Payment terms are typically due within 30 to 60 days from delivery.

Warranty is provided on all ARA manufactured products for 12 to 24 months. Warranty for products which ARA has a distribution agreement for is typically 12 to 24 months.

Returns and refunds are accepted under our standard terms and conditions.

Rendering of services

Revenue from services is derived from building services (installation and service) including services for fire protection, electrical engineering and high voltage, electronic security, air conditioning, building repairs and cleaning services. With the exception of cleaning services, service revenue is recognised over time based on percentage of completion. The percentage of completion of each project is assessed using the proportion of costs incurred to date compared to the total forecast cost. Where losses are anticipated, they are provided for in full.

In render services, variations to the original contract may occur. Variations may result in an increase, decrease or omission of any part of the scope. Previously, variations were only included in the contract value when it was probable the variation would be approved, and the amount of revenue could be reliably measured. Under AASB 15, variations can be included as variable consideration if the rights and obligations relating to the variation are enforceable. The variable consideration should be estimated by using either the ‘expected value’ method (the sum of probability-weighted amounts in a range of possible consideration amounts) or the ‘most likely amount’ method (the single most likely amount in a range of possible consideration amounts). The Group has adopted the ‘most likely amount’ method.

For cleaning services, contracts are usually entered with customers for a fixed period of time and defined scope with specified costs (i.e. monthly or yearly rates). Revenue is recognised as the service is provided/delivered to the customer in accordance with the contract terms. In most cases, revenue is recognised on a straight-line basis. From time to time, customers may request additional services. These services are agreed with the customer prior to the commencement of work, including the time period, scope and costs. Revenue is recognised in proportion to the stage of completion for the additional services agreed.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

o) Revenue from contracts with customers (continued)

For the year ended 30 June 2019 (continued)

Rendering of services (continued)

Services are invoiced according to the terms of the engagement, and are generally due within 30 to 60 days from invoicing.

Construction revenue

Construction revenue relates to larger sized contracts for commercial, industrial and residential customers. Contract works can be for design, design and construct, installation and retrofit works for fire protection, electrical engineering, high voltage electrical works, electronic security, heat, ventilation and air conditioning “HVAC”, building fit out and building repairs works.

The performance obligation is satisfied over-time and is accounted for in accordance with “Rendering of Services” above.

Works are invoiced according to the terms of the engagement, and are generally due within 30 to 60 days from invoicing.

Defect liability periods are typically 12 months from practical completion.

Infrastructure revenue

Infrastructure revenue relates to fire protection, electrical engineering, electronic security, and HVAC projects for a number of contracts.

The performance obligation is satisfied over-time and is accounted for in accordance with “Rendering of Services” above.

Works are invoiced according to the terms of the engagement, and are generally due within 30 to 60 days from invoicing.

Defect liability periods are typically 12 months from practical completion.

For the year ended 30 June 2018

Revenue from the sale of goods is recognised upon the transfer of title to customers.

Rendering of services

Revenue from the rendering of a service is recognised upon the performance of the service to the customers.

Revenue from construction contracts is recognised in accordance with the accounting policy set out below.

Construction contracts and work in progress

Construction work in progress is valued at cost less invoicing to date, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

The stage of completion of each project is assessed using the proportion of costs incurred to date compared to the total cost. Construction profits are recognised on this percentage of completion. Where losses are anticipated they are provided for in full.

Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

p) Other income

Interest revenue

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the effective life of the financial asset to the net carrying amount of the financial asset.

Dividend revenue

Dividend revenue is recognised when the right to receive a dividend has been established.

q) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the consolidated statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

r) Financial instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through OCI, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. The Group initially measures a financial asset at its fair value plus transaction costs.

For a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group’s business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

r) Financial instruments - initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Subsequent measurement (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables and other receivables.

Financial assets at fair value through profit or loss

This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI as described in Note 2(s).

Derecognition

A financial asset is primarily derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

r) Financial instruments - initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Impairment of financial assets (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-60 days of recognition.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

s) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

s) Derivative financial instruments and hedge accounting (continued)

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income (OCI) and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a high probable forecast transaction. The Group currently has cash flow hedges attributable to future interest payments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 July 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 July 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

t) Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

u) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Judgement

The Group considers that the entity in which it owns less than 50% of the voting rights meets the requirements under the accounting standards to be consolidated as part of the Group. Although ARA Group Limited hold 49% of the share capital of the entity with the remaining 51% being held by one other party, ARA Group Limited has the casting vote in Board decisions in the event of a deadlock.

Key estimates - Impairment of goodwill and other intangible assets with indefinite useful life

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to an impairment of assets. Where an impairment exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

The Group determines whether goodwill are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGUs, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. No impairment loss was recognised in the current year or the prior year in respect of goodwill.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

2. Significant accounting policies (continued)

u) Critical accounting estimates and judgements (continued)

Key estimates - Costs to complete on construction contracts
The stage of completion of each project is assessed using the proportion of costs incurred to date compared to the total estimated cost. Construction profits are recognised on this percentage of completion. Where losses are anticipated they are provided for in full.

v) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

3. Business combinations

Acquisitions in 2019

Effective 1 February 2019, the Group acquired the business and assets of Metalbilt Doors and Danks Roller Shutters for cash consideration of AUD10,022,910 (NZD10,500,000). Metalbilt Doors and Danks Roller Shutters are New Zealand based businesses specialising in industrial and commercial door design and manufacture.

Other acquisitions include Australasian Vaulting Industries Pty Ltd for cash consideration of $1,800,000 and Thermoscan Inspection Services Pty Ltd for cash consideration of $5,796,888. 100% of the share capital of both businesses was acquired.

There were a further three small acquisitions during the year with the total purchase price of $2,391,825.

The assets acquired were measured at fair value.

No contingent liabilities were identified at the acquisition date for any business combinations acquired.

All acquisitions have been provisionally accounted for at 30 June 2019.

Assets acquired and liabilities assumed

The below table discloses the fair values of the identifiable assets and liabilities of acquisitions in 2019 as at the date of acquisition:

Fair value recognised on acquisition

	Others	Metalbilt	Total
	$	$	$
Assets			
Receivables	670,924	1,650,853	2,321,777
Inventories	202,577	2,106,021	2,308,598
Other assets	17,288	-	17,288
Property, plant and equipment	2,538,362	551,461	3,089,823
Deferred tax asset	133,839	121,408	255,247
	3,562,990	**4,429,743**	**7,992,733**
Liabilities			
Payables and other liabilities	3,032,771	1,244,661	4,277,432
Deferred tax liability	543,175	-	543,175
Total identifiable net (liabilities)/assets at fair value	**(12,956)**	**3,185,082**	**3,172,126**
Intangible assets arising on acquisition (Note 13)	10,001,669	6,837,828	16,839,497
Purchase consideration transferred	**9,988,713**	**10,022,910**	**20,011,623**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

3. Business combinations (continued)

	Others	Metalbilt	Total
	$	$	$
Purchase consideration			
Shares issued, at fair value	225,000	-	225,000
Cash	9,763,713	10,022,910	19,786,623
Total consideration	**9,988,713**	**10,022,910**	**20,011,623**
Net cash outflow on acquisition			
Cash consideration	9,763,713	10,022,910	19,786,623
Deferred consideration paid for an acquisition made in prior year	928,044	-	928,044
Costs on acquisition	196,473	-	196,473
	10,888,230	**10,022,910**	**20,911,140**

4. Revenue from contracts with customers

4.1 Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2019	2018
	$	$
Type of goods or service		
Sale of goods	66,666,628	61,088,115
Rendering of services	347,896,643	341,236,882
Construction revenue	76,353,489	41,889,929
Infrastructure revenue	64,381,455	34,996,305
Total revenue from contracts with customers	**555,298,215**	**479,211,231**
Geographical markets		
Australia	540,685,357	471,287,054
Other countries	14,612,858	7,924,177
Total revenue from contracts with customers	**555,298,215**	**479,211,231**
Timing of revenue recognition		
Goods transferred at a point in time	66,666,628	61,088,115
Services transferred over time	488,631,587	418,123,116
Total revenue from contracts with customers	**555,298,215**	**479,211,231**

4.2 Contract balances

	2019	2018
	$	$
Trade and other receivables (Note 9)	81,602,225	78,454,586
Contract assets (Note 9)	6,231,447	6,086,386
Contract liabilities (Note 15)	1,376,911	2,444,889

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

4. Revenue from contracts with customers (continued)

4.3 Performance obligations

Information about the Group's performance obligations are summarised below:

Sale of goods

Revenue from the sale of goods is recognised at a point in time when the performance obligation is satisfied which is generally on the delivery of the goods to the customer.

Rendering of services, construction revenue and infrastructure revenue

The performance obligation for rendering of services, construction revenue and infrastructure revenue is satisfied over time as the services are provided.

5. Other income and expenses

5.1 Other income

	2019	2018
	$	$
Dividends	635	1,247
Profit on disposal of property, plant and equipment	6,093	18,108
Other income	111,582	73,118
	118,310	**92,473**

5.2 Finance income

	2019	2018
	$	$
Interest income	**88,731**	**86,016**

5.3 Finance costs

	2019	2018
	$	$
Borrowing costs		
- External interest paid	**3,156,871**	**2,760,458**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

5. Other income and expenses (continued)

5.4 Depreciation and amortisation expense

	2019	2018
	$	$
Depreciation of non-current assets		
Leasehold improvements	732,479	708,717
Plant and equipment	1,400,653	1,123,339
Office furniture and equipment	194,632	152,673
Computer equipment and software	662,645	549,744
Motor vehicles	441,226	441,571
Total depreciation	**3,431,635**	**2,976,044**
Amortisation		
Amortisation of borrowing costs	297,043	207,086
Amortisation of customer contracts	1,361,160	685,000
Amortisation of intellectual property	66,482	56,600
Total amortisation	**1,724,685**	**948,686**
Total depreciation and amortisation expense	**5,156,320**	**3,924,730**

5.5 Other expenses from ordinary activities

	2019	2018
	$	$
Rent and outgoings	6,391,029	5,180,555
Motor vehicle expenses	6,157,151	5,214,525
Leasing costs	6,183,627	6,063,164
Consultants	1,541,758	2,526,522
Communication	2,106,032	2,309,018
Insurances	2,042,376	1,894,567
Repairs and maintenance	461,860	370,034
Computer expenses	1,985,708	1,712,470
Travel	1,767,266	1,561,950
Other staff expenses	2,391,726	1,610,531
Expected credit losses	1,148,839	864,548
Advertising and marketing expenses	670,673	629,197
Legal fees	485,405	518,703
Bank guarantees and surety fees	618,951	595,138
Other expenses	6,171,001	5,560,548
	40,123,402	**36,611,470**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

6. Income tax

The major components of income tax expense for the years ended 30 June 2019 and 2018 are:

Consolidated statement of profit or loss	2019	2018
	$	$
Current income tax:		
Current income tax charge	8,443,742	6,243,359
Adjustments in respect of current income tax of previous year	(65,544)	(5,777)
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,017,365)	(561,936)
Income tax expense reported in the consolidated statement of profit or loss	**7,360,833**	**5,675,646**

Consolidated statement of other comprehensive income	2019	2018
	$	$
Deferred tax on net unrealised loss on cash flow hedges (Note 18.2)	**271,682**	**28,053**

The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

	2019	2018
	$	$
Accounting profit before income tax	**24,088,443**	**20,406,785**
At Australia's statutory income tax rate of 30% (2018: 30%)	7,226,533	6,122,036
Difference in tax rates	5,917	(8,029)
Non-allowable items	185,975	(423,771)
Other tax offsets	(132,780)	(7,921)
Over provision in prior year	(65,544)	(5,777)
Other	140,732	(892)
Income tax expense attributable to profit from ordinary activities	**7,360,833**	**5,675,646**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

6. Income tax (continued)

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss	
	2019	2018	2019	2018
	$	$	$	$
Expected credit losses	411,564	497,358	95,796	(179,735)
Other provisions and accrual	1,290,588	1,180,246	(113,042)	(249,472)
Employee leave provisions	5,202,778	4,495,561	(458,463)	(384,091)
Fixed assets	(268,371)	(394,430)	(126,059)	(53,281)
Work in progress	(1,732,297)	(1,776,753)	(44,456)	383,094
Retentions	(670,660)	(553,911)	116,749	127,049
Intangible asset	(2,018,532)	(1,250,400)	(405,043)	(205,500)
Tax losses	82,847	-	(82,847)	-
Deferred tax benefit			**(1,017,365)**	**(561,936)**
Net deferred tax assets	**2,297,917**	**2,197,671**		
Reflected in the consolidated statement of financial position as follows:				
Deferred tax assets	6,104,948	5,910,977		
Deferred tax liabilities	(3,807,031)	(3,713,306)		
Deferred tax assets, net	**2,297,917**	**2,197,671**		

Reconciliation of deferred tax assets, net

	2019	2018
	$	$
As of 1 July	**2,197,671**	**2,981,224**
Tax income during the period recognised in profit or loss	1,017,365	540,906
Deferred taxes recognised on prior year business combinations	(629,191)	-
Deferred taxes acquired in current year business combinations	(287,928)	(1,324,459)
As at 30 June	**2,297,917**	**2,197,671**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

7. Dividends

	2019		2018	
Dividends declared (all franked to 30%)	Cents per share	$	Cents per share	$
Quarter 1				
— Fully paid, Ordinary class (38,790,023 shares) (2018: 36,232,565 shares)	8.00	3,103,202	7.50	2,717,443
Quarter 2				
— Fully paid, Ordinary class (38,790,023 shares) (2018: 36,235,065 shares)	6.80	2,637,722	7.50	2,717,630
Quarter 3				
— Fully paid, Ordinary class (39,805,004 shares) (2018: 36,285,065 shares)	7.50	2,985,375	7.50	2,721,380
Quarter 4				
— Declared and not paid, Ordinary Class (39,858,379 shares) (2018: 38,244,481 shares)	7.70	3,069,095	7.50	2,868,336
— Special dividend paid in FY19 (2018: 38,244,481 shares)	-	-	1.20	458,934
Total	**30.00**	**11,795,394**	**31.20**	**11,483,723**

	2019	2018
Dividends payable brought forward	3,327,270	2,709,943
Dividends declared during the year	11,795,394	11,483,723
Dividends paid during the year	(12,053,569)	(10,866,396)
Dividends payable carried forward (Note 14)	**3,069,095**	**3,327,270**
Dividends fully paid by ARA Indigenous	553,106	271,175

	2019	2018
	$	$
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2018: 30%)	20,258,739	15,885,544
Franking credits that will arise from the payment of income taxes payable as at the end of the financial year	7,019,702	8,948,202
Franking debits that will arise from the payment of dividends as at the end of the financial year	(5,073,395)	(4,575,007)
	22,205,046	**20,258,739**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

8. Cash and cash equivalents

	2019	2018
	$	$
Cash at bank and on hand	**19,525,264**	**11,689,157**

	2019	2018
	$	$
a) Cash flow reconciliation		
Reconciliation of net profit after tax to net cash flows from operations:		
Profit for the year	16,727,610	14,731,139
Adjustments for:		
Acquisition costs	196,473	33,940
Depreciation and amortisation	5,156,320	3,924,730
(Decrease)/increase in provision for expected credit losses	(208,251)	591,753
Profit (net) on sale of assets	(6,093)	(18,108)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables and other financial assets	(531,555)	(13,186,528)
(Increase)/decrease in inventories	1,453,699	(431,116)
(Increase)/decrease in prepayment	(377,760)	(1,041,480)
(Increase)/decrease in deferred tax assets - net	(388,174)	(514,341)
(Increase)/decrease in contract assets	(145,061)	(1,407,059)
Increase/(decrease) in trade and other payables	6,004,149	13,929,549
Increase/(decrease) in income tax payable	(177,948)	(1,919,560)
Increase/(decrease) in employee benefits	1,693,953	1,110,089
Increase/(decrease) in contract liabilities	(1,067,978)	(1,106,533)
Increase/(decrease) in other reserves	271,682	-
Net cash flows from operating activities	**28,601,066**	**14,696,475**

	2019	2018
b) Non-cash financing activities		
Settlement of subordinated debentures by means of issuance of shares	**-**	**60,000**

c) Credit stand-by arrangement and loan facilities

The Group has a syndicated bank facility with Westpac Banking Corporation and Bank of Queensland. The total facility available to the Group is $110,000,000 (2018: $80,100,000). Of these facilities, $69,462,877 was utilised at 30 June 2019 (2018: $62,787,388). All bank covenants were satisfied during the year.

In addition the Group has a separate credit card facility with Westpac Banking Corporation of $2,800,000. $2,705,500 was utilised at 30 June 2019. In 2018, the credit card facility was included in the overall facility noted above.

The Group has a $30,000,000 term loan. The Group is required to repay principal of $4,000,000 (2018: $3,900,000) each financial year under its bank facility agreement if the term loan is fully drawn. At 30 June 2019, the headroom on the term loan facility was $12,375,000. The Group does not expect to pay any principal during financial year 2020.

As at 30 June 2019 the Group had cash on deposit owing to third parties of $2,608,361 (2018: $2,915,074).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

9. Trade and other receivables and contract assets

	2019	2018
	$	$
Current		
Trade receivables	80,479,414	77,985,595
Provision for expected credit losses	(1,439,612)	(1,647,863)
	79,039,802	**76,337,732**
Retentions	2,562,423	2,116,854
Other debtors	2,739,569	2,683,887
	84,341,794	**81,138,473**

Contract assets

As at 30 June 2019, the Group has contract assets of $6,231,447 (2018: $6,086,386) which is net of an allowance for expected credit losses of $nil (2018: $nil).

10. Inventories

	2019	2018
	$	$
Raw materials and stores	2,715,383	1,981,978
Work in progress	2,314,206	909,615
Finished goods	8,704,266	10,110,553
Provision for obsolescence	(25,971)	(4,100)
	13,707,884	**12,998,046**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

11. Controlled entities

Name	Principal Activities	% Equity interest 2019	% Equity interest 2018
Allen & Newton Pty Ltd	Building	100	100
Allen & Newton Queensland Pty Limited	Building	100	100
ARA Building Services Pty Limited	Building	100	100
ARA Building Services (Qld) Pty Limited (b)	Building	100	-
ARA Corporate Services Pty Limited	Corporate	100	100
ARA Electrical Engineering Services Pty Limited	Electrical	100	100
ARA Electrical High Voltage Services Pty Limited	Electrical	100	100
ARA Fire Protection Services Pty Limited	Fire	100	100
ARA Indigenous Services Pty Ltd	Property	49	49
ARA Manufacture Pty Limited	Products	100	100
ARA Mechanical Services Pty Limited	Mechanical	100	100
ARA Property Services Pty Ltd the trustee for CMC Unit Trust	Property	100	100
ARA Security Services Pty Limited	Security	100	100
Asset Fire Security & Mechanical Services Pty Limited	Fire	100	100
Australasian Vaulting Industries Pty Ltd (a)	Security	100	-
CMC Cleaning Services Pty Ltd	Property	100	100
CMC ECRM Pty Ltd	Property	100	100
CMC Maintenance Pty Ltd	Property	100	100
CMC Property Services (Aust) Pty Ltd	Property	100	100
CMC Rapid Response Pty Ltd	Property	100	100
Complex Solutions Pty Ltd	Property	100	100
Crimewatch Video Pty Limited	Security	100	100
Datatech Australia Pty Limited	Electrical	100	100
Dynamic Facilities Maintenance Group Pty Limited	Building	100	100
Environmental Automation Pty Limited	Mechanical	100	100
Excell Control Pty Limited	Electrical	100	100
HUD Electronic Security Pty Ltd	Security	100	100
HUD Security Pty Ltd	Security	100	100
Hunter Power Pty Limited	Electrical	100	100
ID Supplies Pty Limited	Products	100	100
International Security Control Solutions Pty Limited	Products	100	100
Monarch Group Pty Limited	Products	100	100
National Construction Solutions Pty Limited	Building	100	100
Parking Guidance Australia Pty Limited	Products	100	100
Sherry Services & Maintenance Pty Ltd	Electrical	100	100
TALV Pty Limited	Building	100	100
Thermoscan Inspection Services Pty Ltd (c)	Building	100	-
Transelect Pty Limited	Electrical	100	100
Web ID Pty Limited	Mechanical	100	100
ARA Group NZ Limited	Security and Products	100	100

(a) Australasian Vaulting Industries Pty Ltd was acquired on 01 September 2018

(b) ARA Building Services (Qld) Pty Ltd was incorporated on 25 March 2019

(c) Thermoscan Inspection Services Pty Ltd was acquired on 01 May 2019

All wholly owned controlled entities incorporated in Australia are subject to a Deed of Cross Guarantee with the exception of ARA Building Services (Qld) Pty Ltd.

All wholly owned controlled entities are incorporated in Australia with the exception of ARA Group NZ Limited which is incorporated in New Zealand.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

12. Property, plant and equipment

	Leasehold improvements $	Plant and machinery $	Office furniture and equipment $	Computer equipment and software $	Motor Vehicles $	Total $
Cost						
At 1 July 2018	7,657,671	15,273,328	2,186,427	6,057,816	2,949,152	34,124,394
Additions	961,974	1,274,851	439,411	768,848	453,892	3,898,976
Acquisition of a subsidiary (Note 3)	57,290	2,451,394	44,362	17,455	519,322	3,089,823
Disposals	(272,194)	(658,943)	(141,351)	(461,501)	(618,146)	(2,152,135)
Reclassification and transfer (to)/from other group company (NBV)	-	(3,700)	-	2,822	878	-
At 30 June 2019	**8,404,741**	**18,336,930**	**2,528,849**	**6,385,440**	**3,305,098**	**38,961,058**
Accumulated depreciation						
At 1 July 2018	3,909,033	10,916,774	1,572,916	4,968,284	1,499,834	22,866,841
Depreciation charge for the year	732,479	1,400,653	194,632	662,645	441,226	3,431,635
Disposals	(264,621)	(578,744)	(141,351)	(459,470)	(397,177)	(1,841,363)
At 30 June 2019	**4,376,891**	**11,738,683**	**1,626,197**	**5,171,459**	**1,543,883**	**24,457,113**
Net book value						
At 30 June 2018	3,748,638	4,356,554	613,511	1,089,532	1,449,318	11,257,553
At 30 June 2019	**4,027,850**	**6,598,247**	**902,652**	**1,213,981**	**1,761,215**	**14,503,945**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

12. Property, plant and equipment (continued)

Finance leases

The carrying value of motor vehicles held under finance leases and hire purchase contracts at 30 June 2019 was $211,468 (2018: $309,839). The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2019 was $nil (2018: $43,282). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

13. Goodwill and intangible assets

	Goodwill	Development costs	Customer contracts	Intellectual property	Total
	$	$	$	$	$
Cost					
At 1 July 2018	132,220,902	326,750	4,853,000	566,000	137,966,652
Transfers on finalisation of acquisition	(2,113,600)	-	2,113,600	-	-
Acquisition of a subsidiary (Note 3)	14,880,898	-	1,890,217	68,382	16,839,497
At 30 June 2019	**144,988,200**	**326,750**	**8,856,817**	**634,382**	**154,806,149**
Accumulated amortisation					
At 1 July 2018	-	326,750	685,000	256,419	1,268,169
Amortisation	-	-	1,361,160	66,482	1,427,642
At 30 June 2019	**-**	**326,750**	**2,046,160**	**322,901**	**2,695,811**
Net book value					
At 30 June 2018	132,220,902	-	4,168,000	309,581	136,698,483
At 30 June 2019	**144,988,200**	**-**	**6,810,657**	**311,481**	**152,110,338**

14. Trade and other payables

	2019	2018
	$	$
Current		
Trade payables	**59,343,299**	**54,159,505**
Other payables		
Trade creditors accruals	2,976,179	3,148,765
Other creditors and accruals	21,352,431	16,246,887
Deferred purchase consideration for acquisitions	796,956	1,461,370
Cash on deposit owing to third parties	2,608,361	2,915,074
Dividends payable (Note 7)	3,069,095	3,327,270
	30,803,022	**27,099,366**
Non-current		
Deferred purchase consideration for acquisitions	**687,500**	**1,437,500**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

14. Trade and other payables (continued)

In non-current creditors, there is an amount of $687,500 in 2019 (2018: $1,437,500) which represents the deferred purchase consideration for the acquisition of CMC Group. This was a share purchase acquisition, that was acquired in May 2017. This amount is not contingent upon reaching earnings thresholds and has been recorded at present value at the balance sheet date.

15. Contract liabilities

	2019	2018
	$	$
Short-term advances for services	**1,376,911**	**2,444,889**

16. Interest-bearing loans and borrowings

	Interest rate	Maturity	2019	2018
	%	Financial years	$	$
Current				
Bank bills and loans secured (16(a))	4.40 - 4.55	1 - 3 years	-	3,900,000
Finance leases and hire purchase contracts (16(a))	4.65 - 10.7	2 - 3 years	168,881	254,038
			168,881	**4,154,038**
Non-current				
Bank bills and loans secured (Note 20.3) (16(a))	4.40 - 4.55	1 - 3 years	67,125,000	53,225,000
Finance leases and hire purchase contracts (16(a))	4.65 - 10.7	2 - 3 years	96,443	101,962
			67,221,443	**53,326,962**
			67,390,324	**57,481,000**

(a) Total current and non-current secured liabilities

	2019	2018
Bank bills and loans	67,125,000	57,125,000
Finance leases and hire purchase contracts	265,324	356,000
	67,390,324	**57,481,000**

The bank bills and loans are secured by a fixed charged over the Group's assets. Finance leases and hire purchase contracts are secured by the lessor's title to the leased assets.

(b) The carrying amounts of assets pledged as security, the current market value of which exceeds the value of the mortgage

	2019	2018
First mortgage over all of the assets of the parent entity and all controlled entities - total assets pledged as security	**298,544,178**	**267,841,366**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

17. Employee benefits

	2019 $	2018 $
Current		
Annual leave	11,165,736	9,725,822
Long service leave	4,139,586	3,508,291
	15,305,322	**13,234,113**
Non-current		
Long service leave	2,298,962	1,827,584
	2,298,962	**1,827,584**
Aggregate employee entitlement liability	**17,604,284**	**15,061,697**

18. Contributed equity and reserves

18.1 Contributed equity

	2019 $	2018 $
Fully paid shares		
Fully paid ordinary shares	**88,570,325**	**82,089,733**

Fully paid ordinary shares	2019 No.	2019 $	2018 No.	2018 $
At beginning of financial year	**38,244,481**	**82,089,733**	**36,132,565**	**74,141,593**
Converted from debentures	-	-	15,000	60,000
Issued during financial year				
- acquisitions	50,000	225,000	777,500	3,110,000
- capital raising	1,563,898	6,255,592	1,319,416	4,778,140
At reporting date	**39,858,379**	**88,570,325**	**38,244,481**	**82,089,733**

At the reporting date, issued capital consists of 39,858,379 ordinary shares. All ordinary shares participate in dividends and the proceeds on winding up of the parent entity are in proportion to the number of shares held. At shareholders' meetings, each ordinary share is entitled to one vote per share held when a poll is called, otherwise each shareholder has one vote on a show of hands.

The Company issued 1,563,898 ordinary shares during the year at $4.00 per share to new and existing shareholders increasing equity by $6,255,592. The Company issued 50,000 ordinary shares at $4.50 per share as purchase consideration to the vendor of Neda Facilities Management Ltd (NZ) effective 28 May 2019. This increased equity by $225,000.

For the year ended 30 June 2018, the Company issued 5,000 ordinary shares at $3.00 per share, 1,286,291 ordinary shares at $3.60 per share, and 33,125 ordinary shares at $4.00 per share to new and existing shareholders, which increased equity by $4,778,140. The Company issued 777,500 ordinary shares at $4.00 per share as purchase consideration from acquisitions made during year ended 30 June 2018. This included 15,000 shares that were issued at $4.00 per share in exchange for 8% subordinated debentures (Note 8(b)).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

18. Contributed equity and reserves (continued)

18.2 Other reserves

a) Movement

Year ended 30 June 2019	Other reserve $	Hedge reserve $	Foreign currency translation reserve $	Total $
Balance at the start of the financial year	2,839,864	(71,277)	-	2,768,587
Net unrealised loss on cash flow hedges	-	905,589	-	905,589
Deferred tax on net unrealised loss on cash flow hedges	-	(271,682)	-	(271,682)
Currency translation differences	-	-	(4,014)	(4,014)
	2,839,864	562,630	(4,014)	3,398,480

Year ended 30 June 2018	Other reserve $	Hedge reserve $	Foreign currency translation reserve $	Total $
Balance at the start of the financial year	2,839,864	(136,734)	-	2,703,130
Net unrealised gain on cash flow hedges	-	93,510	-	93,510
Deferred tax on net unrealised gain on cash flow hedges	-	(28,053)	-	(28,053)
	2,839,864	(71,277)	-	2,768,587

On 26 August 2016, the Group entered into a 5 year interest rate swap. On 30 November 2018, the Group entered into two more interest rate swaps both with 31 month terms. Since inception, a mark to market valuation of $562,630 has been recognised in hedge reserve at 30 June 2019 (2018: $71,277).

b) Nature and purpose of reserve

Other reserve

The other reserves represents goodwill arising from subsequent acquisitions of previous non-controlling interests. The acquisitions are treated as transactions between owners and the resulting goodwill is recognised directly in other reserves.

Hedge reserve

This reserve records movements for the interest rate swap contracts qualifying for hedge accounting.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and branches.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

19. Related party disclosure

Transaction with key management personnel

Rental property paid to Directors

The Group rented certain properties that are controlled by members of the Group's key management personnel. Total rental paid during the year amounted to $842,641 (2018: $796,519).

Amounts paid to related parties during the year for rent are subject to commercial lease and are at arms length.

Compensation of key management personnel of the Group

Total compensation paid to key management personnel during the year amounted to $5,641,008 (2018: $5,483,782).

Directors fees

Total directors fees paid during the year amounted to $220,000 (2018: $147,000).

Interest paid to related parties

The Group paid interest of $16,712 to related parties for a short term loan to provide funds to acquire Thermoscan Inspection Services Pty Ltd. The loan was repaid within six weeks after the funding was provided by the Group's bank.

Bank Guarantees

The Group issued a bank guarantee for $87,725 on behalf of one of the Group's key management personnel. All fees in relation to the bank guarantee have been reimbursed to the Group.

20. Commitments and contingencies

20.1 Operating lease commitments

Operating lease commitments comprise motor vehicle leases and property leases.

The property leases are non-cancellable with terms of up to 10 years, and rent payable monthly in advance. Contingent rental provisions within the lease agreements require that the minimum lease payments shall be increased by either CPI or market. An option exists to renew certain leases at the end of their current term.

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	2019	2018
	$	$
Within one year	10,753,988	7,707,539
After one year but not more than five years	16,823,836	15,546,656
More than five years	685,442	872,154
	28,263,266	**24,126,349**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

20. Commitments and contingencies (continued)

20.2 Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of motor vehicles and plant and machinery. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are, as follows:

	2019	2018
	$	$
Within one year	183,932	219,102
After one year but not more than five years	90,162	148,651
Total minimum lease payments	274,094	367,753
Less amounts representing finance charges	(8,770)	(11,753)
Present value of minimum lease payments	**265,324**	**356,000**

20.3 Contingent liabilities

The parent company and all its wholly owned controlled entities, are subject to a Cross Deed of Guarantee in respect of finance facilities provided to its ultimate parent entity and other entities controlled thereby. All assets of the Company are pledged as security in respect of this facility with a registered charge being in place. The total facility available to the Group from Westpac Banking Corporation and Bank of Queensland is $110,000,000 (2018: $80,100,000). Of these facilities, an amount of $5,000,000 (2018: $5,000,000) is available for indemnity guarantees and as at 30 June 2019 the economic entity had $2,337,877 (2018: $4,659,851) of indemnity guarantees outstanding.

In addition the Group has a separate credit card facility with Westpac Banking Corporation of $2,800,000. $2,705,500 was utilised at 30 June 2019. In 2018, the credit card facility was included in the overall facility noted above.

The Group has a surety bond facility with Liberty Mutual Insurance Company of $35,000,000 (2018: $25,000,000). At 30 June 2019, the Group had $28,575,955 of surety bonds outstanding with Liberty Mutual Insurance Company.

21. Events after the reporting period

There have been no significant events occurring after the reporting period which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

22. Closed group class order

22.1 Entities subject to class order relief

Pursuant to *ASIC Corporations (Wholly owned Companies) Instrument 2016/785,* the wholly owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports.

It is a condition of the Class Order that the parent company and each of its subsidiaries enter into a deed of cross guarantee (Deed). Under the Deed the parent company guarantees the payment of all debts of each of the named subsidiaries in full, in the event of a winding up. The subsidiaries in turn guarantee the payment of all debts of the parent company in full in the event that it is wound up.

The subsidiaries that are party to the Deed are:

Allen & Newton Pty Ltd
Allen & Newton Queensland Pty Limited
ARA Building Services Pty Limited
ARA Corporate Services Pty Limited
ARA Electrical Engineering Services Pty Limited
ARA Electrical High Voltage Services Pty Limited
ARA Fire Protection Services Pty Limited
ARA Manufacture Pty Limited
ARA Mechanical Services Pty Limited
ARA Property Services Pty Ltd the trustee for CMC Unit Trust
ARA Security Services Pty Limited
Asset Fire Security & Mechanical Services Pty Limited
Australasian Vaulting Industries Pty Ltd
CMC Cleaning Services Pty Ltd
CMC ECRM Pty Ltd
CMC Maintenance Pty Ltd
CMC Property Services (Aust) Pty Ltd
CMC Rapid Response Pty Ltd
Complex Solutions Pty Ltd
Crimewatch Video Pty Limited
Datatech Australia Pty Limited
Dynamic Facilities Maintenance Group Pty Limited
Environmental Automation Pty Limited
Excell Control Pty Limited
HUD Electronic Security Pty Ltd
HUD Security Pty Ltd
Hunter Power Pty Limited
ID Supplies Pty Limited
International Security Control Solutions Pty Limited
Monarch Group Pty Limited
National Construction Solutions Pty Limited
Parking Guidance Australia Pty Limited
Sherry Services & Maintenance Pty Ltd
TALV Pty Limited
Thermoscan Inspection Services Pty Ltd
Transelect Pty Limited
Web ID Pty Limited

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

22. Closed group class order (continued)

22.2 Consolidated statement of profit or loss and other comprehensive income

	Closed group 2019 $	Closed group 2018 $
Profit before income tax expense	23,894,153	19,317,863
Income tax expense	(6,879,425)	(5,028,833)
Net profit for the period	**17,014,728**	**14,289,030**
Retained earnings at the beginning of the period	25,917,199	23,111,892
Dividends provided for or paid	(11,795,394)	(11,483,723)
Retained earnings at the end of the period	**31,136,533**	**25,917,199**

22.3 Consolidated statement of financial position

The consolidated statement of financial position of the Closed Group is as follows:

	Closed group 2019 $	Closed group 2018 $
Current assets		
Cash and cash equivalents	16,373,169	11,080,249
Trade and other receivables	78,041,540	78,193,328
Contract assets	5,774,324	5,896,117
Income tax receivable	-	5,655
Inventories	10,969,922	12,933,155
Other assets	1,663,740	1,377,521
Total current assets	**112,822,695**	**109,486,025**
Non-current assets		
Other financial assets	16,485,872	3,486,914
Property, plant and equipment	13,323,014	10,985,225
Deferred tax assets	5,801,214	5,837,657
Goodwill and intangible assets	141,832,899	134,022,686
Total non-current assets	**177,442,999**	**154,332,482**
Total assets	**290,265,694**	**263,818,507**
Current liabilities		
Trade payables	57,178,384	53,225,385
Other payables	26,103,467	29,813,331
Contract liabilities	1,147,745	2,444,889
Income tax payable	1,171,994	-
Employee benefits	14,383,404	12,795,945
Total current liabilities	**99,984,994**	**98,279,550**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

22. Closed group class order (continued)

22.3 Consolidated statement of financial position (continued)

	Closed group 2019	Closed group 2018
	$	$
Non-current liabilities		
Other creditors	687,500	1,437,500
Other financial liabilities	67,221,443	53,326,962
Deferred tax liabilities	3,768,430	3,713,306
Employee benefits	2,298,962	1,822,839
Total non-current liabilities	**73,976,335**	**60,300,607**
Total liabilities	**173,961,329**	**158,580,157**
Net assets	**116,304,365**	**105,238,350**
Equity		
Share capital	88,570,326	82,089,738
Retained earnings	31,136,533	25,917,199
Other reserves	(3,402,494)	(2,768,587)
Total equity	**116,304,365**	**105,238,350**

23. Information relating to parent ARA Group Limited

	2019	2018
	$	$
Current assets	40,578,249	29,793,920
Non-current assets	239,543,001	206,519,506
Total assets	**280,121,250**	**236,313,426**
Current liabilities	7,493,210	8,736,066
Non-current liabilities	227,540,117	173,823,881
Total liabilities	**235,033,327**	**182,559,947**
Net assets	**45,087,923**	**53,753,479**
Contributed equity	88,570,325	82,089,733
Accumulated losses	(42,919,772)	(28,407,531)
Other reserves	(562,630)	71,277
	45,087,923	**53,753,479**
Loss for the year	(2,716,847)	(20,609)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2019

24. Auditor's remuneration

The auditor of ARA Group Limited and Controlled Entities is Ernst & Young (Australia).

	2019	2018
	$	$
Amounts received or due and receivable by Ernst & Young audit firm for:		
Ernst & Young audit	380,000	380,000
Ernst & Young other services	171,070	205,569
	551,070	585,569
Amounts received or due and receivable by non Ernst & Young audit firm for:		
Services provided by other accounting firms	94,861	38,182
	645,931	**623,751**

Directors' declaration

In accordance with a resolution of the directors of ARA Group Limited and Controlled Entities, I state that:

In the opinion of the directors:

(a) the consolidated financial statements and notes of ARA Group Limited and Controlled Entities for the financial year ended 30 June 2019 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards - Reduced Disclosure Requirements (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(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.

(c) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 22 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the board

Edward Federman

Edward Federman
Executive Director
Sydney
7 August 2019

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Independent Auditor's Report to the Members of ARA Group Limited

Opinion

We have audited the financial report of ARA Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Chris Lawton
Partner
Sydney
7 August 2019

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