Annual Report 2020

CARA

Essential Services
for your facility
and infrastructure

“It was the best of times, it was the worst of times”

—

Charles Dickens
A Tale of Two Cities

Annual Report 2020

Essential Services
for your facility and infrastructure

Contents

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.

ARA Group Limited
ABN 47 074 886 561

"This past financial year has been a tale of before COVID-19 and after COVID-19."

Section

1

ARA 2020

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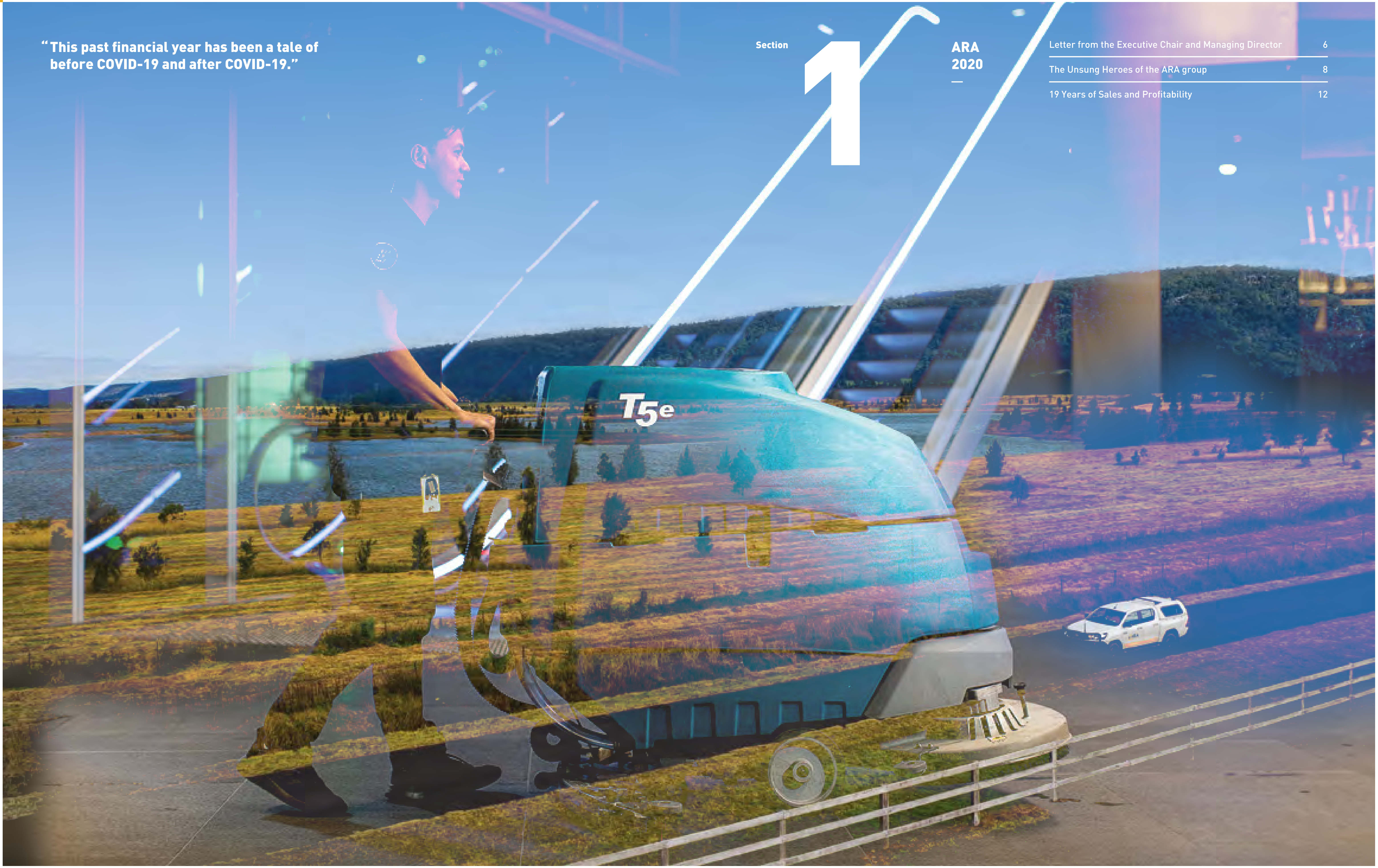


Edward Federman

Co-founder, Executive Chair and Managing Director
ARA Group Limited

Letter from the

Executive Chair and Managing Director

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way – in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only.”

—

Charles Dickens A Tale of Two Cities

I cannot think of a better description of this time we are living in than the introduction to A Tale of Two Cities. This past financial year has been a tale of before COVID-19 and after COVID-19.

The first six months of the financial year were the best of times, whilst the second six months of the financial year was a significant challenge. When the COVID-19 pandemic came to the shores of Australia and New Zealand, we were unsure of what was going to happen to the business. It was incumbent upon the management of ARA to demonstrate leadership in dealing with the effect of the pandemic to ensure the safety of our employees and our customers and also to preserve the value of the company for our shareholders.

We immediately formed a Pandemic Committee consisting of the Executive Directors of ARA, the Chief Financial Officer, the General Counsel and the Compliance Manager. We established protocols of operation within the confines of government guidelines and our own judgment given the industries where ARA operates. The Senior Management Team met every day to determine how each business was performing given the government mandated lockdowns and to make sure our employees and customers were safe and healthy. The daily meetings ensured that the company could react quickly to make certain that health and safety were the first priority and we were doing everything possible to maintain the profitability of ARA.

The majority of ARA businesses are essential services and thrived during the past six months whilst other ARA businesses struggled once the pandemic came to the Australasian shores. ARA Electrical had an exceptional year as they did a lot of infrastructure work and those sites continued to be open. ARA Property Services also had a very strong second half of the financial year as a result of extra cleaning requirements for our customers. ARA Manufacture did well as a result of the need for Australian manufactured products. ARA businesses that performs non-essential services struggled at times as customers restricted contractors from their premises.

Many ARA employees worked less hours or took pay cuts for a period of time due to the uncertainty of the pandemic. I will be forever grateful to the entire ARA team for their personal sacrifices during the initial period of uncertainty.

Managing during this pandemic has made ARA a better company. The collaboration and communication between senior managers have improved significantly. The daily meetings at the senior management level has encouraged a secondary level of collaboration with managers, salespeople and business development personnel around ARA. The emphasis of all the meetings have been cross selling and introducing all of ARA services to existing customers.

Despite dealing with the effect of a pandemic, ARA has completed this financial year in a very strong position. 2020 was the tenth consecutive year of record sales and the fifth consecutive year of record earnings. Earnings per share increased to $.46 per share in 2020 as compared to $.42 per share in 2019.

Revenue grew from $555 million in 2019 to $621 million in 2020, an increase of $66 million or 12%. Revenue has grown at a compounded growth rate of 11% during the past ten years. The company had 4% organic growth in 2020.

EBITDA before acquisition expenses increased from $32.5 million in 2019 to $36.8 million in 2020, an increase of $4.3 million, or 13%. EBITDA before profit sharing with management and employees and acquisition expenses was $40.7 million, or 7% of revenue. This represents an increase of $2.5 million, or 7%, from the previous financial year's EBITDA before profit sharing with management and employees and acquisition expenses ($38.2 million). EBITDA has grown at a compounded growth rate of 16% during the past ten years.

Cash flow during the past financial year was strong but was adversely affected by the exceptional cash flow experienced in 2019 when ARA converted 121% of its EBITDA into operating cash flow. In 2020, ARA converted 82% of its EBITDA into operating cash flow. Free cash flow in 2020 was $22.9 million as compared to free cash flow in 2019 of $26.5 million.

Confirmed forward orders for the Group is $208 million at 30 June 2020 as compared to $236 million at the end of the previous financial year. This level of backlog for ARA puts the Group in a reasonable operating position for the start of the new financial year. There still remains a great deal of uncertainty in the community of the ongoing threat of COVID-19.

ARA's businesses have demonstrated the benefit of its diverse, but related, group of essential building services it has in the Group during the past financial year. It took a great effort by a lot of people for ARA to achieve our record operating results in 2020. I will be forever grateful to the ARA employees, the Senior Management Team and the ARA Board of Directors for the support we gave to one another during the trying times of 2020.

Edward Federman

Executive Chair and Managing Director
ARA Group Limited

Note: EBITDA is presented before the impact of the new accounting standard (AASB 16) leases.

Our People

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. These are some of the unsung heroes of our Group. We are proud to share in their achievements."

—

Edward Federman

Name: Allen Tan
Job Title: Tax Manager
Division: Corporate
Location: Stanmore NSW

"Allen has made a significant contribution to ARA's tax and compliance management in the two years he has worked for the company. Allen's knowledge, approachability and strong work ethic all contribute to making him a highly valued ARA employee."

Allison McCann, Chief Financial Officer ARA Group

Name: Amy Pilley
Job Title: Service Manager
Division: ARA Fire
Location: Kings Park NSW

"Amy is an integral part of the NSW Fire service business. Amy always puts the business needs first, is a strong manager, and an amazing team player. Amy has received many compliments from our customers for exceptional service."

Darren Walsh, National Operations Manager ARA Fire

Name: Anjana Nayanajith
Job Title: Cleaner
Division: ARA Property Services
Location: Hawthorn VIC

"Anjana is very proactive and is very polite and courteous to all staff and customers. Nothing is too hard for him when it comes to his cleaning duties and the disinfection required in today's specialised requirements."

Paul McCann, Managing Director ARA Property Services

Name: Annette Redfern
Job Title: Finance Services Manager
Division: ARA Electrical
Location: Unanderra NSW

"As the Finance Services Manager in our Shared services team, Annette plays an instrumental role in managing all the behind the scenes activities that keep a business running effectively. Never one to complain just knows how to get the job done."

Jason Moore, Managing Director ARA Electrical

Name: Craig Brown
Job Title: Service Manager
Division: ARA Fire
Location: Brisbane QLD

"As the ARA Fire QLD service manager, Craig has built fantastic relationships with his clients, and the team he manages. He is a positive person and that is appreciated by both his team and his customers."

Darren Walsh, National Operations Manager ARA Fire

Name: Darrell Milne
Job Title: Branch Manager
Division: ARA Electrical
Location: Singleton NSW

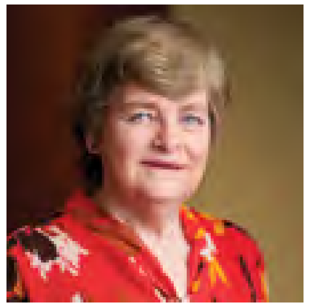
"Darrell was one of the original employees for ARA Electrical when we opened our office in Singleton in 2014. Darrell started with us as the senior project manager in our mining construction division and has progressed to the role of Branch Manager. Darrell is a great leader and has the ability to get the job done under difficult circumstances and always to the clients' satisfaction."

Jason Moore, Managing Director ARA Electrical

Name: Dean Benco
Job Title: Accounts Manager
Division: ARA Building Services
Location: Stanmore NSW

"Dean has become such a valuable asset to both the Building Services accounts department and operations team showing his willingness to diversify his work to meet business needs."

Tony Murr, Managing Director ARA Building Services



Name: Heather Randall
Job Title: Cleaner
Division: ARA Indigenous Services
Location: Adelaide SA

"Heather takes ownership of the site where she cleans. She mentors and helps new cleaners to ensure we do an excellent job for our customer. Heather's work ethic and commitment to her job is extraordinary."

Paul McCann, Managing Director ARA Property Services

Name: Henry Pypers
Job Title: Senior Foreman
Division: ARA Electrical
Location: Ingleburn NSW

"Henry is one of the longest serving employees we have and still one of our most valuable. Henry is a senior foreman and there is no job he can't do. Henry's leadership qualities are invaluable. Henry has provided valuable training to many of our tradesman and apprentices."

Jason Moore, Managing Director ARA Electrical

Name: Iain McLean
Job Title: Project Officer
Division: ARA Manufacture
Location: Derrimut VIC

"Iain is always one of the first in and generally the last to leave. He has a vast array of knowledge in Manufacturing, IT and Electrical work. Iain has been involved with Manufacture for many years and is playing a huge part in these exciting times for Manufacture in our Derrimut plant."

Mark Pamula, Managing Director ARA Manufacture

Name: Isao Takezawa
Job Title: Design & Fitout Operations Manager
Division: ARA Building Services
Location: Stanmore NSW

"Isao is always keen and eager to learn. He puts in extra effort to ensure he is a great help to the fitout team and is also a wonderful asset to all staff in the Building Division."

Tony Murr, Managing Director ARA Building Services

Name: Jatinkumar Patel
Job Title: Cleaner
Division: ARA Property Services
Location: Greenacre NSW

"Jatin is always going above and beyond his daily scope of works to keep his client happy. He takes it upon himself to assist in training new cleaners, especially since the outbreak of Covid19. He has quickly become the face of ARA at the sites where he works."

Paul McCann, Managing Director ARA Property Services

Name: Joe Armitage
Job Title: Operations Manager
Division: ARA Fire
Location: Perth WA

"Joe is an integral part of the ARA Fire team in WA. He is dedicated to the business and always striving to improve the business processes and results. Joe has worked his way up to a senior management role in his 10 years with ARA."

Ashley Knapp, General Manager ARA Group WA

Name: Karthik Gurumurthy
Job Title: Sales Representative
Division: ARA Building Services / Leda
Location: North Parramatta NSW

"Karthik is the quiet achiever, very sales driven and has the results to show for his continued hard work. Karthik has built up strong product knowledge and is developing into a senior sales representative and valued member of the team."

Len Place, Chief Executive Officer Leda

Name: Kevin Chiu
Job Title: Project Engineer
Division: ARA Manufacture
Location: Carringbah NSW

"When orders are coming in thick and fast, engineering drawings need to be produced so customers can receive product in a timely manner. Kevin's amazing ability to put in the hours, multi task and get the job done ensures Renlita keeps its famous name as being the best for large overhead doors in the Australian market."

Mark Pamula, Managing Director ARA Manufacture

Name: Lucenara Smith
Job Title: Cleaner
Division: ARA Property Services
Location: Cairns QLD

"Lucy has been very flexible this year as the COVID virus required redeployment. She has accepted additional responsibilities to make certain we are delivering exceptional cleaning service to our clients during the COVID period."

Paul McCann, Managing Director ARA Property Services

Name: Muhamed Cengic
Job Title: Client Manager
Division: ARA Mechanical
Location: Kingsgrove NSW

"Mo is a completely motivated and focused individual who has helped develop a new and exciting product in EA Plus. Mo is always working towards having the reputation of ARA shine and always has the respect of our customers."

Phil Harding, Managing Director ARA Mechanical

Name: Norm Loughran
Job Title: Senior Project Manager
Division: ARA Mechanical
Location: Kingsgrove NSW

"Norm is always completely focused on ensuring complete cost control on his projects while delivering the projects safely. Norm always has the best interests of the ARA Group in mind and is a complete team player."

Phil Harding, Managing Director ARA Mechanical

Name: Peter Sanderson
Job Title: Operations Manager
Division: ARA Building / Leda
Location: Tuggerah NSW

"Peter has introduced processes and procedures that have improved LEDA's manufacturing capability to meet European Union standards and manufacture under licence Hostile Vehicle Mitigation products at our Tuggerah facility, making LEDA the first and only manufacturer of HVM products in Australia."

Len Place, Chief Executive Officer Leda

Name: Rita Laycock
Job Title: Quality Manager
Division: ARA Property Services / Complex Solutions
Location: North Paramatta NSW

"Rita is the backbone of our organisation and keeps everything and everyone in check! Rita is highly valued and respected by the team."

Ash Jones, General Manager Complex Solutions

Name: Rob Heffernan
Job Title: Account Manager
Division: ARA Fire
Location: Perth WA

"Rob has demonstrated dedication to his clients and is always putting in an extra effort. He is often praised by his clients. Rob has worked his way up to this current role as Account Manager after beginning his career with ARA as an apprentice 12 years ago."

Ashley Knapp, General Manager ARA Group WA

Name: Robert Mucha
Job Title: Foreman
Division: ARA Manufacture
Location: Adelaide SA

"Rob's commitment, effort and desire to step up and go above and beyond when it was really needed over the past couple of years has earned the respect of management, supervisors and staff at ARA Manufacture. Thank you for all of your extra effort Rob."

Mark Pamula, Managing Director ARA Manufacture

Name: Rocky Limatoae
Job Title: Team Leader
Division: ARA Products / Metalbilt
Location: Auckland NZ

"Rocky is respected and well-liked by all staff. His cool head and patience sets an example for others to follow."

Geoff Willis, General Manager Metalbilt

Name: Samantha Stanton
Job Title: Installation & Service Coordinator/Administration
Division: ARA Building Services / Leda
Location: Derrimut VIC

"Sam manages the installation and service functions for both LEDA Victoria and LEDA South Australia including administration. She is the national point of contact for the NBN Co Service & Maintenance contract. Sam quietly goes about her work efficiently and is central to both states running smoothly."

Len Place, Chief Executive Officer Leda

Name: Sonya Dacombe
Job Title: Service Administrator
Division: ARA Products / Metalbilt
Location: Christchurch NZ

"Sonya is our 'go to' person in the Christchurch office. She handles everything that comes her way with professionalism and positivity."

Geoff Willis, General Manager Metalbilt

Name: Steve Fazakerley
Job Title: HSEQ Manager
Division: ARA Electrical
Location: Ingleburn NSW

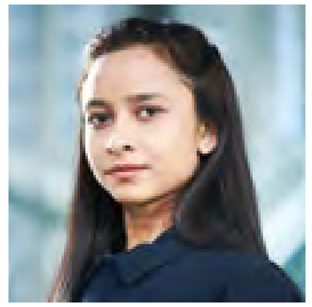
"Steve is an integral part of our business and has been a large part of building a great culture in our business and ensuring the safety and well being of our people. Nothing is a problem for Steve and he is always willing to help everyone no matter the day or time."

Jason Moore, Managing Director ARA Electrical

Name: Yorma Garcia
Job Title: Senior Accounts Manager
Division: ARA Building Services
Location: Stanmore NSW

"Yorma has been a dedicated employee for well over a decade. No matter what the challenge our business encounters, Yorma always rises to the occasion."

Tony Murr, Managing Director ARA Building Services

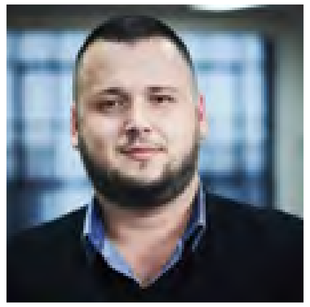


Name: Zerin Sarkar
Job Title: Cleaner
Division: ARA Property Services / Complex Solutions
Location: North Paramatta NSW

"Zerin represents precisely what Complex Solutions is all about. Zerin is professional, hard-working and a wonderful person."

Ash Jones, General Manager Complex Solutions

Name: Glenn Harris
Job Title: Executive Manager Client Services
Division: ARA Security
Location: Stanmore NSW



Name: Igor Savuljica
Job Title: Project Manager
Division: ARA Security
Location: Stanmore NSW

Name: Michael Vais Senior
Job Title: Project Manager
Division: ARA Security
Location: Stanmore NSW

"ARA Security had three major security infrastructure projects at three different jails. There was pressure on getting adequate resources and pressure to meet accelerated timelines. Igor, Michael and Glenn teamed up exceptionally well to make certain all three projects were completed on time and on budget."

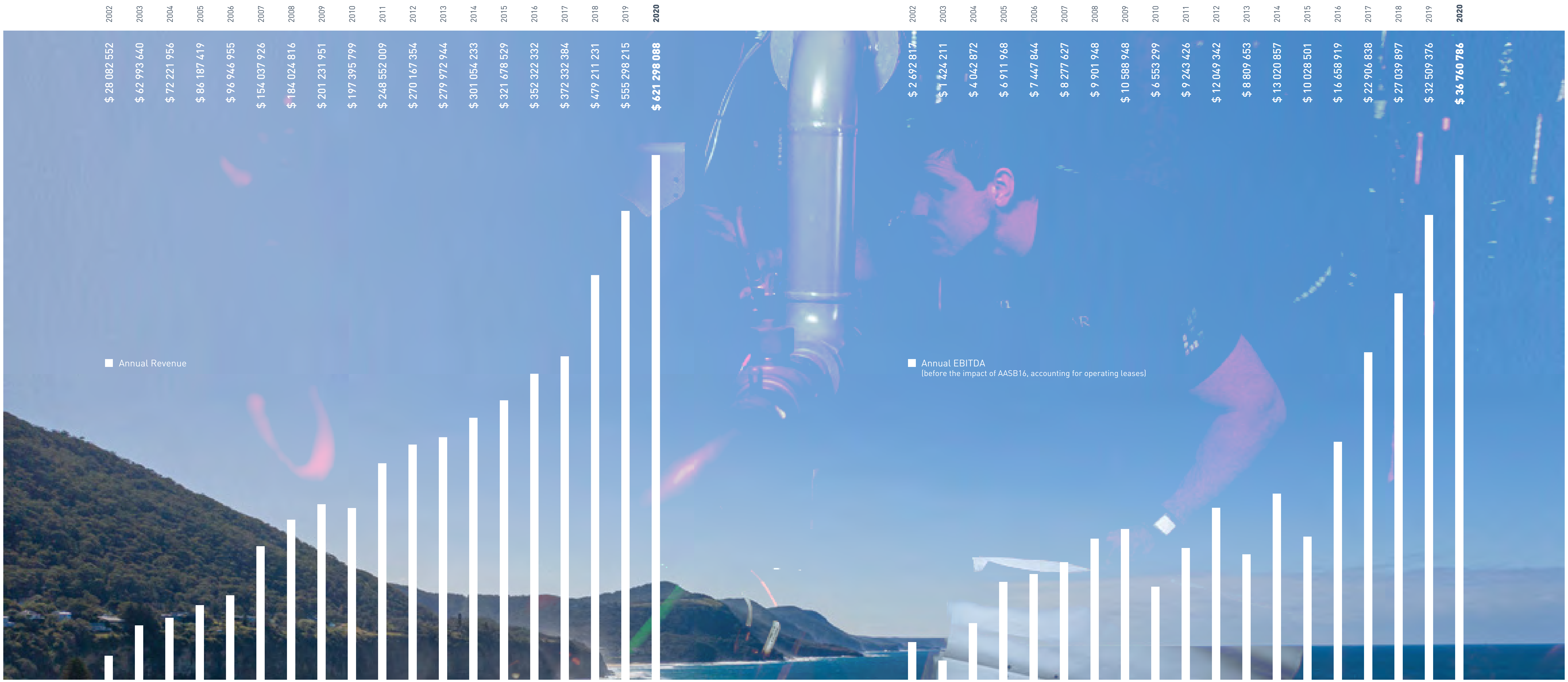
Tony Franov, Managing Director ARA Security

Thanks to

The Unsung Heroes of the ARA Group

Financial Year 2020

19 Years of Sales and Profitability



Revenue grew to $621 million in 2020 from $555 million in 2019. The increase of $66 million of revenue represents a 12% increase from the prior year. This is the eighteenth year out of ARA's nineteen years of operations that revenue has increased from the prior financial year. From 2011 to 2020, a period of the last ten years, revenue has grown at a compound rate of 11%. Revenue in 2020 was the tenth year in succession of record revenue.

EBITDA in 2020 was ARA's fifth successive year of record profits. EBITDA in 2020, before acquisition expenses, was $36.8 million, an increase of $4.3 million, or 13%, from the $32.5 million of EBITDA reported in 2019. From 2011 to 2020, a period of the last ten years, EBITDA before acquisition expenses has grown at a compounded growth rate of 16%.

Note: EBITDA is presented before the impact of the new accounting standard (AASB 16) leases.

"It was incumbent upon the management of ARA to demonstrate leadership in dealing with the effect of the pandemic."

Section 2

ARA Initiatives

ARA Cleaning

Cleaning and COVID-19

During these unprecedented times, it has been very fortuitous that ARA has become a significant cleaning company. ARA has made two acquisitions of substantial cleaning companies during the past three years. Total cleaning turnover in 2020 was $91 million, an increase of $14 million, or 18% from the previous year. The revenue growth in 2020 was all organic growth.

The ARA Property Services Division helped the Group with its organic growth offset certain parts of the business where it was more difficult to get our service technicians on customers' sites after COVID-19 reached the Australian shores.

The ARA cleaning business includes hospitals, commercial buildings, small office buildings, national corporate clients, food manufacturing, schools and multi-location businesses. The majority of our clients in 2020 required a more thorough cleaning in the second half of the financial year as a result of the COVID-19 pandemic. Occasionally, we were asked to do a very vigorous clean if there was a risk of a member of the customers' staff that had been exposed to the virus. There have also been many opportunities to supply our customers with hand sanitiser, masks and other consumable products. Our management team was very aggressive in sourcing consumable items in order to service our clients well.

Financial year 2020 was a difficult year as a result of the pandemic, but ARA Property Services demonstrated its commitment to servicing our customers and yet keeping our own employees safe and healthy.

Photo Descriptions

Above
COVID-19 Cleaning

Right Page
Healthcare Cleaning

ARA INDIGENOUS SERVICES

A conduit for all of ARA's capabilities

When ARA purchased the CMC Property Services cleaning business in 2017, we also became the business partner of Michael O'Loughlin and his CMC Indigenous Services business. Our combined business became known as ARA Indigenous Services. At the time of our merger, the business was a commercial cleaning business.

The compelling strategy in combining our businesses was the opportunity to expand the service offering from commercial cleaning to having ARA Indigenous Services be a conduit for all of ARA's services – Electrical, Fire Protection, Security, Mechanical and Building. Our thinking was that many of our customers would have Indigenous engagement goals and ARA Indigenous Services would be well placed to help those customers improve their engagement with the Indigenous community.

This strategy would also provide momentum for ARA to give significant and varied employment opportunities to Indigenous men and women. We hoped ARA would be a training ground and make a difference in many people's lives.

It has taken longer than we expected, but there are now favourable circumstances in the business community, and particularly in the sectors where ARA competes, to provide ARA services through ARA Indigenous Services. Specifically, ARA Indigenous Services is the fire protection service supplier to a major university in Western Australia, the mechanical contractor for a school in New South Wales, bidding for important work in the tunnels being constructed in New South Wales, to name but a few situations.

These opportunities are noteworthy for both ARA Indigenous Services and the ARA Group. Together, we are committed to increasing our Indigenous employment. The work that is emerging is great for the Indigenous community and great for the ARA Group and our shareholders.

Photo Descriptions

Right Page
Fire Services through ARA Indigenous Services

Made in Australia and New Zealand

The ARA Group has always been interested in manufacturing in Australia and New Zealand. The first acquisition that was made to begin ARA operations in 2001 was Sealeck Doors in Adelaide. Six months later, Monarch Doors was acquired solidifying ARA as a significant building products manufacturer in Australia.

Other manufacturing businesses within ARA are:

ARA Electrical – switchboard manufacturing

ARA Security – secure safes and cabinets

ARA Manufacture – physical security doors, windows, counters

ARA Manufacture – bullet resistant and bullet proof fabricated glass

ARA Fire – fabrication of pipe for fire protection systems

ARA Products / Metalbilt – steel roller shutters in New Zealand, commercial and industrial doors

In financial year 2020, ARA continued its quest to build a significant manufacturing business in Australasia.

Additional manufacturing businesses were acquired in 2020:

ARA Building / Leda Security Products – bollards, gates, turnstiles and commercial bicycle racks

ARA Building / ISM Interiors – commercial joinery shop

ARA Building / Lockin Lockers – custom lockers for offices, gyms and end of trip facilities

All of this manufacturing capability adds up to an Australasian manufacturing business doing approximately $85 million of sales annually. ARA is committed to manufacturing in Australia and New Zealand. With supply chains affected due to the world-wide pandemic, ARA can meet the needs of customers in Australia and New Zealand with quality products and short lead times.

Photo Descriptions

Left to right, top to bottom

Renlita Series 3000

Custom Joinery & Lockers

Fire Pipe Fabrication

Bio-Containment Doors

Bollards

Steel Roller Shutters

Secure Safes

Right Page

Switchboards

At ARA

Security Matters

The ARA Group operates seven specialist divisions. When analysing the market segments where ARA competes, Security is approximately 24% of ARA's total revenue. Security service and products approximates $150 million per annum of revenue.

Security at ARA provides a broad and comprehensive range of capabilities.

The largest segment of Security revenue is the installation and service of electronic security systems, products and integrated security solutions. ARA has nationwide security businesses in both Australia and New Zealand. Our client base includes enterprise clients comprising large corporates, particularly in the finance industry, government including prisons, commercial buildings and defence.

Much of ARA Manufactured products are physical security products:

- Steel doors
- Bullet proof/blast proof doors
- Physically secure walls, counters, pass throughs
- Bullet proof and bullet resistant glass
- Steel roller shutters
- Armoured safes and secure cabinets
- Bollards
- Turnstiles
- Gates
- Hostile Vehicle Barriers

**ARA also distributes electronic security products to the wider industry,
which include:**

- Access control systems
- CCTV equipment
- Cameras
- Access control cards and readers
- Access control card printers
- Lanyards, card holders and consumables

In today's world, security does matter.

There are many threats in the world in which we live.

From electronic security products, installation and service to secure entry products, ballistic resistant, bullet and blast proof barriers, ARA is a complete integrated security solutions and service provider.

Photo Descriptions

Left page, top to bottom

Access Control
Lanyards
Access Card Printer
Secure Safe
Gates, Access Control, CCTV & Security System

Right Page, top to bottom, left to right

CCTV
Monitoring Rooms
Security System
Pass Through Unit
Blast Proof Door
Steel Roller Shutter
Steel Door
Bollards
Security Walls, Windows & Ballistic Glass

“Despite dealing with the effect of a pandemic, ARA has completed this financial year in a very strong position.”

Section

3

ARA Divisions

2020 Revenue

$621 Million

Revenue Comprised of

- **57%** Service
- **15%** Construction
- **15%** Product
- **13%** Infrastructure

Revenue Divisions / Division Capabilities

ARA SECURITY

$104 Million

Integration of & solutions for electronic security

- Access Control
- CCTV
- ATM Security & Guarding
- Electronic Security Solutions
- Safes, Vaults & Teller Units
- Locksmith Services

ARA MECHANICAL

$65 Million

Energy management for commercial buildings

- HVAC Design
- Mechanical Ventilation
- Air Conditioning
- Chiller Plants
- Building Automation
- Energy Management
- Metering

ARA PROPERTY SERVICES

$91 Million

Commercial cleaning

- Commercial Cleaning
- Healthcare Cleaning
- Food Processing Cleaning
- Grounds Maintenance
- Waste Management & Recycling

ARA BUILDING

$58 Million

Building repairs & maintenance services

- Remedial Building Repairs
- Insurance Building Repairs
- 24/7 Emergency Service
- Exterior & Interior Design
- Fit Outs of Interior Spaces
- Refurbishments
- Multi Trade Services
- Bollards, Gates and Commercial Bicycle Racks
- Thermal Imaging
- Joinery and Lockers
- Maintenance

ARA ELECTRICAL

$127 Million

Electrical, high voltage, data & engineering

- High Voltage Services
- Low Voltage Services
- Engineering Solutions
- Installation Services
- Switchboards
- Mobile Switch Rooms
- Data Centres
- Structured Cabling

ARA FIRE

$109 Million

All aspects of fire protection

- Inspection & Testing
- Sprinkler Systems
- Detection & EWIS Systems
- Passive & Fire Doors
- Portable Systems
- Special Hazards
- Oxygen Reduction
- Pipe Fabrication

ARA PRODUCTS

$67 Million

Distribution & Manufacture

- Access Control
- CCTV
- Photo ID Systems
- Identity Security
- Architectural Hardware
- Commercial Doors
- Industrial Doors
- High Security Doors
- Physical Security Systems
- Ballistic Glass

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

Revenue Indigenous

ARA INDIGENOUS SERVICES

$14.5 Million

Operates as a conduit for all ARA capabilities.

ARA Group

Our Locations

The ARA Group proudly services facilities and infrastructure throughout Australia and New Zealand.

With over 40 ARA locations, we are well-positioned to deliver multi-site contracts and provide immediate support through our national base of service technicians who are available 24/7. We are experienced in setting up remote and temporary work sites for major industrial projects and we are open to opportunities in any location.

Security

ACT
Canberra
NSW
Artarmon
Bella Vista
Castle Hill
Stanmore
QLD
Eagle Farm
Cairns
SA
Wayville
VIC
Port Melbourne
WA
Perth
NEW ZEALAND
Auckland
Kerikeri
Wellington

Mechanical

ACT
Canberra
NSW
Bathurst
Kingsgrove
Orange
Tuggerah
QLD
Tingalpa
VIC
Port Melbourne

Property & Building

ACT
Canberra
NSW
Parramatta
Stanmore
Tuggerah
QLD
Slacks Creek
SA
Regency Park
Wayville
VIC
Airport West
Melbourne
Derrimut
WA
Balcatta
NEW ZEALAND
Auckland
TAS
Hobart
(Service location only)

Electrical

NSW
Heatherbrae
Ingleburn
Nowra
Singleton
Unanderra
QLD
Tingalpa

Indigenous Services

ACT
Canberra
NSW
Stanmore
VIC
Melbourne

Fire

ACT
Canberra
NSW
Kings Park
Tuggerah
QLD
Bundaberg
Kingston
Loganholme
SA
Regency Park
VIC
Derrimut
WA
Kalgoorlie
Perth

Products

NSW
Belrose
Caringbah
Rydalmere
QLD
Loganholme
SA
Regency Park
VIC
Derrimut
Port Melbourne
NEW ZEALAND
Auckland
Christchurch
Wellington

The ARA senior management team is critical to our success.

Our Leadership Team

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.

Edward Federman
Co-founder, Managing Director
ARA Group / ARA Fire
Executive Chair, Director ARA Group
19 years with ARA

Allison McCann
Chief Financial Officer
ARA Group
Director ARA Group
10 years with ARA

Brett Chambers
Director
ARA Electrical
Director ARA Group
19 years with ARA

Tony Franov
Managing Director
ARA Security
Director ARA Group
19 years with ARA

Mark Pamula
Managing Director
ARA Manufacture
19 years with ARA

Tony Murr
Managing Director
ARA Building Services
16 years with ARA

Phil Harding
Managing Director
ARA Mechanical
14 years with ARA

Stuart Harmer
Managing Director
ARA Products
11 years with ARA

Jason Moore
Managing Director
ARA Electrical
10 years with ARA

Paul McCann
Managing Director
ARA Property Services
3 years with ARA - 27 years with CMC

Michael O'Loughlin
Managing Director
ARA Indigenous Services
3 years with ARA

“Together, we can create a lasting legacy.”

Section

4

ARA In the Community

—

Creating a lasting legacy

The ARA Endowment Fund

The ARA Endowment Fund was established in 2009. The goal of the Fund is to grow the principal balance and donate the earnings of the Fund to registered Australian charities. In the early years of the Fund, we donated small amounts to many well deserving charities. The principal balance of the Endowment Fund is now approximately $2 million. As the principal balance grew and the annual income grew, the trustees of the Fund determined that the Endowment Fund needed a focus and a few selected Foundations to support.

Given the commitment of the ARA Group to racial equality, reconciliation in Australia and the equal opportunities for all people, regardless of colour, the Trustees of the Endowment Fund chose to partner with the GO Foundation, the Indigenous Literacy Foundation and the David Lynch Foundation. During the past financial year, the ARA Endowment Fund donated $30,000 to each of the three partner Foundations.

- The GO Foundation, established by Adam Goodes and Michael O'Loughlin, provides mentoring, leadership and educational opportunities to Aboriginal and Torres Strait Islander youth.
- The Indigenous Literacy Foundation provides culturally appropriate and first language books to improve literacy levels for children in remote Aboriginal and Torres Strait Island communities.
- The David Lynch Foundation assists populations at risk, victims of domestic violence and veterans suffering from post-traumatic stress disorder to alleviate stress through the evidence-based Transcendental Meditation technique.

The ARA Endowment Fund is the ARA Group's commitment to leave an enduring legacy to the Australian community. The Group is committed to building the principal balance in the Endowment Fund to $10 million in the next 10 years. When the Endowment Fund reaches this level of principal balance the annual donation to our Foundation partners will be in the hundreds of thousands of dollars each year.

During the past year, ARA employees contributed approximately $50,000 to the Endowment Fund. These employee donations were matched dollar for dollar by ARA.

Together, we can create a lasting legacy.

The GO Foundation

Empowering through education.

"On behalf of the GO Foundation, we are thrilled to have the continued support of the ARA Endowment Fund. The Fund's generous contributions support the GO Foundation's programs and help ensure our young GO Scholars have all the resources and tools they need for their studies. GO provides support for Aboriginal and Torres Strait Islander youth throughout their education, from kindy to the work force. As Ed's business partner through ARA Indigenous Services, it's wonderful to have his support and the support of the ARA Endowment Fund in the GO Foundation and our vision of a brighter future for young Indigenous Australians."

Michael O'Loughlin

Co-Founder and Deputy Chairman
The GO Foundation

Indigenous Literacy Foundation

Reading opens doors.

"This year the Indigenous Literacy Foundation celebrates our tenth year as a Foundation. During 2020 we will gift nearly 100,000 books; publish our 100th book and in language and expand our early literacy program to over 50 sites. It's an exciting time in our history and we are incredibly proud to partner with the ARA Endowment Fund to help achieve these and our long-term strategic goal of empowering children and families in remote Indigenous communities in their own literacy journeys.

Empowering communities for us is about publishing books in first languages. It's about providing books and access to books that are culturally relevant and which reflect the lives and culture of the kids reading them. It's about working with schools, businesses and the broad Australian community to build a better understanding of our First Nations' history and culture.

The ARA Endowment Fund helps us achieve these very real milestones. But it achieves much more in real terms because it's about a shared goal and vision for our First Nations' children which is all about Equity and the resultant benefits in education, wellbeing and employment."

Karen Williams

Executive Director
Indigenous Literacy Foundation

David Lynch Foundation

Change begins within.

"On behalf of the David Lynch Foundation of Australia, we are once again supremely thankful and indebted to the ARA Endowment Fund and our great personal supporter, Ed Federman, for their incredible support. The last 12 months have seen excellent progress with our Domestic Violence Women's shelter project in Sydney, including some fabulous research with one of Australia's preeminent research institutions. We've also just begun a first wave of teaching for a Bushfire Relief project in NSW and hope to commence a Strengthening the Inner Women Domestic Violence project very soon in Adelaide. All of these projects, along with others that are continuing in the background could not have been done without the support of the ARA Endowment Fund and everyone involved. We would particularly love to thank Ed also for his incredible support in every way and look forward to another progressive year ahead. "

Mark Bunn

CEO Australia
David Lynch Foundation

Reconciliation

Black Lives Matter

The ARA Group supports the efforts of many people around the world through the Black Lives Matter movement, including here in Australia and New Zealand, to eliminate racism. We want to ensure there are equal treatments in society and opportunities for all people, regardless of colour. ARA is doing its part to improve the lives of Indigenous Australians with our Reconciliation Action Plan and the hiring of Indigenous Australians. We are working for true engagement with the Indigenous community of Australia. The ARA Group is trying its best to make a positive difference to eliminate racism and improve the lives of all people of colour in Australia and New Zealand.

Thanks to the efforts of Michael O'Loughlin, Managing Director of ARA Indigenous Services and Suzanne Grech, General Manager of ARA Indigenous Services, and the ARA Leadership Team, we are finding more and more opportunities to provide ARA services through our partner, ARA Indigenous Services. And, in these efforts, we will find more opportunities to hire Indigenous Australians.

Since the ARA Reconciliation Action Plan (RAP) was approved by Reconciliation Australia two years ago at the Innovate level (the second of four levels), ARA has worked diligently to create meaningful engagement with the Aboriginal and Torres Strait Islander people and communities. Led by Michael O'Loughlin and Suzanne Grech, ARA has had many achievements along the path of Reconciliation in Australia:

- Formed a Steering Committee of senior managers to ensure communication and achievement of the RAP objectives throughout the ARA organisation.
- Increased purchases from Indigenous businesses in Australia through the establishment of business partnerships and the establishment of a database of Indigenous businesses.
- Increased employment of Indigenous people with as many as 150 employees and increased the use of Indigenous subcontractor labour.
- Increased our community engagement with Indigenous organisations such as NASCA and the Wiimali Program.
- More than 300 ARA employees have been through Cultural Awareness training.
- We have provided Cultural Awareness training to 53 external partners, both corporate organisations and schools.

The ARA Group is very committed to Reconciliation and Equality and Diversity.

ARA in the Community

Community Partners

ARA has a long-standing commitment to contributing to the arts, to literary endeavours and supporting wildlife conservation. In these challenging times, ARA has maintained its various sponsorships and partnerships. As government support for the arts has been reduced due to the strain of supporting Australians and Australian businesses, now, more than ever, is the need for corporate support for the arts.

As the first corporate Principal Partner of the Sydney Writers' Festival, ARA has continued to provide the sponsorship commitment in 2020 to the Writers' Festival and its Russ the Bus initiative to bring books to schools. Books, literacy and literature are needed by society more than ever. We are a very proud sponsor of the Sydney Writers' Festival.

ARA is the Principal Partner of the Monkey Baa Theatre Company, Australia's leading professional theatre company for children. The theatre company is based at the ARA Darling Quarter Theatre in Sydney. ARA's sponsorship helps the theatre company tour throughout Australia.

In addition to supporting children's theatre, ARA is a Principal Partner of the National Institute of Dramatic Art (NIDA). A portion of ARA's sponsorship to NIDA was used to provide scholarships to Indigenous students at NIDA.

The inaugural ARA Historical Novel Literary Prize will be awarded in 2020. ARA has partnered with the Historical Novel Society of Australasia. ARA has funded the award of $30,000 to the winner, as determined by a panel of judges. This is one of richest prizes in Australasia to be awarded to a literary genre. The goal of this prize is to foster a culture of reading and writing and also ensure our stories and history live on.

During 2020, ARA increased its partnership with the Taronga Zoo and became a Presidential Partner. ARA also supported the Zoo in its efforts to assist Australian wildlife endangered during the bush fires earlier this year.

During this past financial year, ARA became a sponsor of the Australian Cycling Academy based at the University of the Sunshine Coast. ARA's sponsorship assists elite cyclists to obtain a university education in concert with their training.

SYDNEY WRITERS FESTIVAL · monkey baa theatre company · National Institute of Dramatic Art NIDA · ARA HISTORICAL NOVEL PRIZE 2020 · TARONGA ZOO · ACA AUSTRALIAN CYCLING ACADEMY

"I will be forever grateful to the entire ARA team for their personal sacrifices during the initial period of uncertainty."

Section

5

Audited Financial Statements

—

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 2020.

The results in this report are before the impact of AASB 16 *Leases* in order to provide a meaningful comparison to prior year. The impact of AASB 16 *Leases* has resulted in an increase in EBITDA by $11.2 million due to the removal of operating lease expenses relating to property and motor vehicles. The prior year has not been changed for the impact of this standard which became effective for the Group on 1 July 2019. A reconciliation from the amounts reported in this report to the statutory accounts is set out in the table below.

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.

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-five 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 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.

Brett Chambers (Executive Director)

Brett Chambers joined the Board as an Executive Director in 2010. Brett has over thirty-five years of experience in the electrical industry and has worked for the Company since 2001. Brett is a 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)

Tony Franov joined the Board as an Executive Director in 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 General Counsel 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	8	1	1
Edward Federman	8	8	1	1
James Marshall	8	8	-	-
Brett Chambers	8	8	-	-
Norbert Schweizer OAM	8	8	-	-
Allison McCann	8	8	1	1
Tony Franov	8	8	-	-

Results of operations

Net profit for the year of the economic entity after providing for income tax prepared on a consistent basis with the prior year (i.e. excluding the impact of AASB 16) amounted to $18,778,102 (2019: $16,727,610). The net profit for the year increased by 12% from the previous year.

The increase in net profit for the year was principally due to a very strong performance from the Electrical and Property Divisions.

Review of operations

Total sales of the Group's products and services were $621,298,088 in 2020 compared with $555,298,215 in 2019, an increase of $66 million, or 12%. The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to $36,760,786 in 2020 (before acquisition costs of $260,488) compared with $32,509,376 in 2019 (before acquisition costs of $196,473), an increase of $4.3 million, or 13%. The Group's EBITDA before acquisition costs and profit sharing expense was $41,594,941 in 2020 (7% of revenue) and $38,200,177 in 2019 (7% of revenue), an increase of $3.4 million, or 9%.

There were a few one-off items included in EBITDA for the year, as set out below.

	2020 $
Losses from discontinued operations (sale of cash in transit business)	(1,291,615)
Restructuring costs	(1,411,878)
Government JobKeeper wage subsidies received	3,411,450
Total positive effect of unusual items included in EBITDA in 2020	**707,957**

Directors' report (continued)

Review of operations (continued)

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

	2019	2020 (Prior to adjusting for AASB 16)	Impact of adoption of AASB 16 in 2020	2020
	$	$	$	$
Earnings before interest, tax, depreciation, amortisation and profit sharing expense	38,200,177	41,594,941	11,174,242	52,769,183
Profit sharing expense	(5,690,801)	(4,834,155)	-	(4,834,155)
EBITDA (Earnings before interest, tax, depreciation, amortisation and acquisition expense)	**32,509,376**	**36,760,786**	**11,174,242**	**47,935,028**
Acquisition costs	(196,473)	(260,488)	-	(260,488)
Depreciation and amortisation expense	(5,156,320)	(5,805,247)	(10,434,311)	(16,239,558)
EBIT (Earnings before interest and tax)	**27,156,583**	**30,695,051**	**739,931**	**31,434,982**
Net interest expense	(3,068,140)	(3,480,410)	(415,651)	(3,896,061)
Profit before income tax	**24,088,443**	**27,214,641**	**324,280**	**27,538,921**
Income tax expense	(7,360,833)	(8,436,539)	(97,284)	(8,533,823)
Profit after income tax	**16,727,610**	**18,778,102**	**226,996**	**19,005,098**

The Group made three major acquisitions during the financial year. Two manufacturing businesses were purchased and one security service business. The acquisitions were all in Australia. All of the acquisitions were accretive to earnings in 2020.

Throughout the financial year, the operating businesses maintained a strong forward order book. At 30 June 2020, the confirmed forward orders totalled approximately $208 million (30 June 2019: $236 million). The decrease in the forward order book is principally due to the completion of infrastructure projects in 2020 by the Electrical, Mechanical and Fire Divisions.The backlog remains strong across all divisions.

The Group's net senior bank debt (senior bank debt less cash) increased by $7.1 million from $47.6 million at 30 June 2019 to $54.7 million at 30 June 2020. 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.

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, commercial joinery and end of trip facilities, 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 and security bollards. The acquisitions in 2020 increased the activities of the companies in the economic entity during the year.

ARA Group Limited and Controlled Entities

Directors' report (continued)

Significant changes in the state of affairs

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020.

We have not seen a significant impact on the Group to date. Certain businesses and geographical locations did experience a decline in revenue and qualified for JobKeeper subsidies. The outbreak and the response of the Australian and New Zealand Governments in dealing with the pandemic is interfering with general activity levels within the community, the economy and certain operations of our business. The scale and duration of these developments remain uncertain as at the date of this report. This being the case, we do not consider it practicable to provide a qualitative or quantitative estimate of the potential impact in the future of this outbreak on the Group at this time.

The financial statements have been prepared based upon conditions existing at 30 June 2020 and considering events up to the date of this report.

During the year, the Group issued 1,169,884 new shares, increasing the number of shares issued from 39,858,379 at 30 June 2019 to 41,028,263 at 30 June 2020. This increased contributed equity by $4,743,507 from $88,570,325 at 30 June 2019 to $93,313,832 at 30 June 2020.

The issue of new shares relate to:

- 685,000 new shares issued as purchase consideration for businesses acquired, and
- 484,884 newly issued shares to new and existing shareholders.

On 31 March 2020, the Group entered into an Amended Facility Agreement with its banks (Westpac Banking Corporation, Bank of Queensland and Commonwealth Bank of Australia). The total Facility is $140 million, an increase of $30 million from 30 June 2019. The Facility is principally a revolving cash advance facility to assist the Group to fund organic growth and strategic acquisitions. The Facility runs to 31 July 2023.

There were no other significant changes in the state of affairs of the Group 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.

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 2021, 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 2021.

If the Group identifies appropriate acquisitions in 2021, 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 2020. 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 2020, net debt was $54.7 million, or 30% of its capital structure ($47.6 million at 30 June 2019 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 2020, 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 1.47 (30 June 2019: 1.42). Bank covenants under the current facility agreement are measured before the impact of AASB 16 *Leases.*

Directors' report (continued)

Future developments (continued)

Net interest expense increased by only $412,270, despite increased borrowings for acquisitions. The Group's interest cover ratio (EBIT divided by interest expense) was 9 times in 2020 and in 2019.

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

The Group paid $0.257 per share in 2020 (2019: $0.312 per share) of which $0.077 per share related to dividends declared at 30 June 2019.

Fully franked dividends amounting to $13,505,553, or $0.33 per share, were declared by ARA Group Limited during the financial year (2019: $11,795,394 or $0.30 per share). Of the total amount declared in 2020, $0.15 per share was declared for shareholders of record as of 30 June 2020. $6,154,238 was provided for in the accounts as of 30 June 2020. $2,015,413 of this, or $0.05 per share was paid on 3 July 2020. The remaining $0.10 per share will be paid in financial year 2021.

In addition to dividends paid by ARA Group Limited, ARA Indigenous Services Pty Ltd paid total dividends of $459,189 in 2020 to shareholders. $234,187 of which was paid to shareholders outside of the Group.

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 $20,566 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 2020

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Building a better working world

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 2020, 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 2020

ARA Group Limited and Controlled Entities

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Notes	2020 $	2019 $
Revenue from contracts with customers	5.1	621,298,088	555,298,215
Other income	6.1	191,965	118,310
Changes in inventories of finished goods and work in progress		(4,503,125)	854,899
Raw materials and consumables used		(168,718,154)	(151,171,094)
Employee benefits expense		(225,808,958)	(194,744,755)
Management and subcontract fees		(136,850,174)	(132,031,996)
Profit sharing expense		(4,834,155)	(5,690,801)
Depreciation of property, plant and equipment	6.4	(4,013,038)	(3,431,635)
Depreciation of right-of-use assets	6.5	(10,434,311)	-
Amortisation expense	6.6	(1,792,209)	(1,724,685)
Other expenses from ordinary activities	6.7	(32,840,459)	(40,123,402)
Acquisition expenses		(260,488)	(196,473)
Finance costs	6.3	(3,509,396)	(3,156,871)
Finance costs - interest on payments for right-of-use assets		(415,651)	-
Finance income	6.2	28,986	88,731
Profit before income tax expenses		**27,538,921**	**24,088,443**
Income tax expense	7	(8,533,823)	(7,360,833)
Net profit for the year		**19,005,098**	**16,727,610**
Net profit for the year is attributable to:			
Owners of the Parent		18,418,455	16,344,292
Non-controlling interests		586,643	383,318
		19,005,098	**16,727,610**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	20.2	(108,887)	4,014
Net unrealised gain/(loss) on cash flow hedges, net of tax	20.2	201,083	(633,907)
Net other unrealised comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**92,196**	**(629,893)**
Other comprehensive income/(loss) for the year		**92,196**	**(629,893)**
Total comprehensive income for the year		**19,097,294**	**16,097,717**
Total comprehensive income for the year is attributable to:			
Owners of the Parent		18,510,651	15,714,399
Non-controlling interests		586,643	383,318
		19,097,294	**16,097,717**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2020

	Notes	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents	9	27,921,078	19,525,264
Trade and other receivables	10	98,418,701	84,341,794
Contract assets	10	-	6,231,447
Inventories	11	16,133,305	13,707,884
Prepayments		2,679,481	1,916,809
Total current assets		145,152,565	125,723,198
Non-current assets			
Other receivables		1,301,249	101,749
Property, plant and equipment	13	13,786,295	14,503,945
Right-of-use assets	14	35,904,172	-
Goodwill and intangible assets	15	163,659,426	152,110,338
Deferred tax assets	7	6,978,636	6,104,948
Total non-current assets		221,629,778	172,820,980
Total assets		**366,782,343**	**298,544,178**
Liabilities			
Current liabilities			
Trade payables	16	47,593,688	59,343,299
Other payables	16	44,472,181	30,803,022
Contract liabilities	17	4,472,038	1,376,911
Lease liabilities related to right-of-use assets	14	1,452,070	-
Interest-bearing loans and borrowings	18	-	168,881
Employee benefits liabilities	19	18,383,863	15,305,322
Income tax payable		2,312,125	1,084,562
Total current liabilities		118,685,965	108,081,997
Non-current liabilities			
Trade and other payables	16	-	687,500
Lease liabilities related to right-of-use assets	14	34,259,876	-
Interest-bearing loans and borrowings	18	82,625,000	67,221,443
Employee benefits liabilities	19	2,431,277	2,298,962
Deferred tax liabilities	7	2,231,919	3,807,031
Total non-current liabilities		121,548,072	74,014,936
Total liabilities		**240,234,037**	**182,096,933**
Net assets		**126,548,306**	**116,447,245**
Equity			
Contributed equity	20.1	93,313,832	88,570,325
Other reserves	20.2	(3,306,284)	(3,398,480)
Retained earnings		35,792,024	30,879,122
Equity attributable to equity holders of the Parent		**125,799,572**	**116,050,967**
Non-controlling interests		748,734	396,278
Total equity		**126,548,306**	**116,447,245**

The accompanying notes form part of these financial statements.

ARA Group Limited and Controlled Entities

Consolidated statement of changes in equity

For the year ended 30 June 2020

	Contributed equity (Note 20.1) $	Retained earnings $	Other reserves (Note 20.2) $	Non-controlling interests $	Total equity $
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**
At 1 July 2019	**88,570,325**	**30,879,122**	**(3,398,480)**	**396,278**	**116,447,245**
Profit for the year	-	18,418,455	-	586,643	19,005,098
Other comprehensive income	-	-	92,196	-	92,196
Total comprehensive income for the year	-	18,418,455	92,196	586,643	19,097,294
Transactions with owners in their capacity as owners:					
Shares issued during the year	4,743,507	-	-	-	4,743,507
Dividends paid or provided for	-	(13,505,553)	-	(234,187)	(13,739,740)
At 30 June 2020	**93,313,832**	**35,792,024**	**(3,306,284)**	**748,734**	**126,548,306**

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2020

	Notes	2020 $	2019 $
Operating activities			
Receipts from customers		677,541,927	610,626,221
Payments to suppliers and employees		(635,817,620)	(571,404,198)
Dividends received		969	635
Interest received		28,986	88,731
Borrowing costs paid		(3,509,396)	(3,156,871)
Income tax paid		(9,783,852)	(7,553,452)
Net cash flows from operating activities	9	**28,461,014**	**28,601,066**
Investing activities			
Purchase of plant and equipment		(2,708,900)	(3,898,976)
Proceeds from sale of plant and equipment		464,111	312,177
Payment for investments and businesses acquired		(13,714,960)	(20,911,140)
Net cash flows used in investing activities		**(15,959,749)**	**(24,497,939)**
Financing activities			
Proceeds from borrowings		26,500,000	37,975,000
Repayment of borrowings		(11,000,000)	(27,975,000)
Payment of lease liabilities		(10,891,861)	(225,757)
Proceeds from issued capital	20	1,941,007	6,255,592
Dividends paid - owners of the parent entity	8	(10,420,410)	(12,053,569)
Dividends paid to non-controlling interest		(234,187)	(243,286)
Net cash flows (used in)/from financing activities		**(4,105,451)**	**3,732,980**
Net increase in cash and cash equivalents		8,395,814	7,836,107
Cash and cash equivalents at 1 July		19,525,264	11,689,157
Cash and cash equivalents at 30 June	9	**27,921,078**	**19,525,264**

The accompanying notes form part of these financial statements.

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements

For the year ended 30 June 2020

1. Corporate information

The consolidated financial report of ARA Group Limited and its controlled entities (the "Group") for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 7 August 2020.

ARA Group Limited (the "Company" or "Parent Entity") 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 Level 2, 10 Bridge Road, Stanmore, NSW 2048.

The nature of the operations and principal activities of the Group are described in the directors' report. Information on the Group's structure is provided in Note 12. Information on the Group's related party relationships is provided in Note 21.

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

New and amended standards and interpretations

The Group applied AASB 16 *Leases* for the first time. The nature and effect of the changes as a result of the adoption of this new accounting standards is described below.

Several other amendments and interpretations of accounting standards apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group.

AASB 16 *Leases*

AASB 16 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*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the consolidated statement of financial position.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117. Therefore, AASB 16 does not have an impact for leases where the Group is the lessor.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

AASB 16 *Leases (continued)*

The Group adopted AASB 16 using the modified retrospective method of adoption, with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect on initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 July 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying AASB 117 and AASB Interpretation 4 *Determining whether an Arrangement contains a Lease* at the date of initial application.

The Group has lease contracts for various items of properties, plant and equipment, motor vehicles. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.4(e) Leases for the accounting policy beginning 1 July 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under AASB 117). The requirements of AASB 16 were applied to these leases from 1 July 2019.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

	$
Operating lease commitments as at 30 June 2019	**28,263,266**
Weighted average incremental borrowing rate as at 1 July 2019	4.0%
Discounted operating lease commitments as at 1 July 2019	**25,718,843**
Less:	
Commitments relating to short-term leases	(986,764)
Commitments relating to leases of low-value assets	(3,464,324)
Add:	
Commitments relating to leases previously classified as finance leases	265,324
Lease payments relating to renewal periods not included in operating lease commitments as at 30 June 2019	16,841,284
Lease liabilities as at 1 July 2019	**38,374,363**

Standards issued but not yet effective

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2020. The directors have not early adopted any of these new or amended standards or interpretations.

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.

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 Entity's share of components previously recognised in other comprehensive income ("OCI") to profit or loss, or retained earnings, as appropriate.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

b) Income tax (continued)

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 and impairment. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

Plant and equipment

The carrying amount of property, plant and equipment is reviewed for indicators of impairment 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 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 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

e) Leases

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Property leases	10% to 50%
Plant and equipment	7.5% to 40%
Motor vehicles	10% to 30%
Other equipment	7.5% to 40%

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2.4(f) Impairment of non-financial assets.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

g) Foreign currency transactions and balances (continued)

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.

k) Dividend to equity holders of the Parent Entity

The Group recognises a liability to make cash distributions to equity holders of the Parent Entity 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.

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

l) Business combinations and goodwill (continued)

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 *Financial Instruments* 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) Discontinued operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Additional disclosures are provided in Note 4. The financial statements and all other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

n) 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 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

n) 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**	**Brand name**
Useful lives	Indefinite	Finite	Finite	Finite	Indefinite
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	None

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.

o) 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 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

p) Revenue from contracts with customers

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.

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 of the Group's manufactured products for 12 to 24 months. Warranty for products which the Group 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 rendering 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 *Revenue from contracts with customers* 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.

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

p) Revenue from contracts with customers (continued)

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.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

q) Other income

Interest income

Interest income 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 income

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

r) Goods and services tax (GST)

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

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

r) Goods and services tax (GST) (continued)

- 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.

s) 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 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

s) 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 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 2.4(t).

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.

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

(i) 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 consolidated statement of profit or loss and other comprehensive income.

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 consolidated statement of profit or loss and other comprehensive income.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

t) 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.

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 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.

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.

u) Fair value measurement

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

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

u) Fair value measurement (continued)

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.

v) 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 current pandemic has increased the level of uncertainty over future economic conditions which impacts these estimates. However to date there has been limited impact on the group as a whole due to the diversity of its operations.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

v) Critical accounting estimates and judgements (continued)

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

The Group determines whether goodwill is 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.

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.

Determining the lease term of contracts with renewal options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

w) Comparatives

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

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

3. Business combinations

Acquisitions in 2020

Effective 1 July 2019, the Group acquired the shares of Leda Trading Pty Limited for cash consideration of $6,213,463 and the issuance of shares to the value of $1,700,000. Leda Trading Pty Limited owned other entities and these together are considered Leda Group ("Leda"). Leda is a leader in perimeter security and hostile vehicle mitigation in Australia.

A number of other acquisitions were completed during the year including an electronic security business and a manufacturer specialising in commercial joinery and end of trip facilities. Total cash consideration for these two entities and a number of smaller acquisitions was $4,960,822 and shares to the value of $1,102,500 were issued.

The assets acquired were measured at fair value.

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

All acquisitions except for Leda have been provisionally accounted for at 30 June 2020.

Assets acquired and liabilities assumed

The below table discloses the fair values of the identifiable assets and liabilities of acquisitions in 2020 as at the date of acquisition:

Fair value recognised on acquisition

	Leda	Others	Total
	$	$	$
Assets			
Cash	35,918	-	35,918
Receivables	2,600,578	3,217,085	5,817,663
Inventories	2,343,687	849,567	3,193,254
Other assets	491,393	261,462	752,855
Property, plant and equipment (Note 13)	595,687	1,081,049	1,676,736
Deferred tax asset (Note 7)	150,508	752,514	903,022
	6,217,771	**6,161,677**	**12,379,448**
Liabilities			
Payables and other liabilities	2,612,188	4,691,625	7,303,813
Employee provisions	501,694	1,312,978	1,814,672
Total identifiable net (liabilities)/ assets at fair value	**3,103,889**	**157,074**	**3,260,963**
Goodwill (Note 15)	4,809,574	7,906,248	12,715,822
Purchase consideration transferred	**7,913,463**	**8,063,322**	**15,976,785**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

3. Business combinations (continued)

Acquisitions in 2020 (continued)

	Leda	Others	Total
	$	$	$
Purchase consideration			
Shares issued, at fair value	1,700,000	1,102,500	2,802,500
Cash	6,213,463	4,960,822	11,174,285
Deferred consideration (cash)	-	2,000,000	2,000,000
Total consideration	**7,913,463**	**8,063,322**	**15,976,785**
Net cash outflow on acquisition			
Cash consideration	6,213,463	4,960,822	11,174,285
Deferred consideration paid for an acquisition made in prior year	-	2,280,187	2,280,187
Costs on acquisition	53,483	207,005	260,488
Total consideration	**6,266,946**	**7,448,014**	**13,714,960**

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.

The acquisitions were provisionally accounted for at 30 June 2019. During the year ended 30 June 2020, the finalisation of the acquisition accounting resulted in an increase in goodwill by $281,007.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

3. Business combinations (continued)

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

	Final	Provisional
	$	$
Assets		
Receivables	2,218,281	2,321,777
Inventories	2,308,598	2,308,598
Other assets	17,288	17,288
Property, plant and equipment	3,089,823	3,089,823
Deferred tax asset	208,793	255,247
	7,842,783	**7,992,733**
Liabilities		
Payables and other liabilities	4,408,489	4,277,432
Deferred tax liability	543,175	543,175
Total identifiable net assets at fair value	**2,891,119**	**3,172,126**
Goodwill	17,120,504	16,839,497
Purchase consideration transferred	**20,011,623**	**20,011,623**
Purchase consideration		
Shares issued, at fair value	225,000	225,000
Cash	19,786,623	19,786,623
Total consideration	**20,011,623**	**20,011,623**
Net cash outflow on acquisition		
Cash consideration	19,786,623	19,786,623
Deferred consideration paid for an acquisition made in prior year	928,044	928,044
Costs on acquisition	196,473	196,743
	20,911,140	**20,911,410**

4. Discontinued operations

On 2 March 2020, the Group disposed of its Cash in Transit business unit. Financial information relating to the discontinued operation for the period to the date of disposal is set out below:

	2020
	$
Loss before tax from a discontinued operations	(1,291,615)
Income tax benefit	387,485
Loss for the year from discontinued operations	**(904,130)**

The only asset or liability of the Cash in Transit business was property, plant and equipment of $857,779. The net cash outflow of the business unit in 2020 approximated the loss during the year.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

5. Revenue from contracts with customers

5.1 Disaggregated revenue information

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

	2020	2019
	$	$
Type of goods or service		
Sale of goods	92,389,070	66,666,628
Rendering of services	357,394,141	347,896,643
Construction revenue	91,550,054	76,353,489
Infrastructure revenue	79,964,823	64,381,455
Total revenue from contracts with customers	**621,298,088**	**555,298,215**
Geographical markets		
Australia	594,059,859	540,685,357
New Zealand	27,238,229	14,612,858
Total revenue from contracts with customers	**621,298,088**	**555,298,215**
Timing of revenue recognition		
Goods transferred at a point in time	92,389,070	66,666,628
Services transferred over time	528,909,018	488,631,587
Total revenue from contracts with customers	**621,298,088**	**555,298,215**

5.2 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.

6. Other income and expenses

6.1 Other income

	2020	2019
	$	$
Profit on disposal of property, plant and equipment	107,870	6,093
Other income	84,095	112,217
	191,965	**118,310**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

6. Other income and expenses (continued)

6.2 Finance income

	2020	2019
	$	$
Interest income	**28,986**	**88,731**

6.3 Finance costs

	2020	2019
	$	$
Borrowing costs:		
External interest paid	**3,509,396**	**3,156,871**

6.4 Depreciation of property, plant and equipment

	2020	2019
	$	$
Depreciation of non-current assets		
Leasehold improvements (Note 13)	753,332	732,479
Plant and machinery (Note 13)	1,574,411	1,400,653
Office furniture and equipment (Note 13)	237,916	194,632
Computer equipment and software (Note 13)	867,751	662,645
Motor vehicles (Note 13)	579,628	441,226
Total depreciation	**4,013,038**	**3,431,635**

6.5 Depreciation of right-of-use assets

The right-of-use assets has been recognised as a result of the adoption of AASB 16 *Leases* in the current year.

	2020	2019
	$	$
Right-of-use assets (Note 14)	**10,434,311**	**-**

6.6 Amortisation expense

	2020	2019
	$	$
Amortisation		
Amortisation of borrowing costs	283,639	297,043
Amortisation of customer contracts (Note 15)	1,437,550	1,361,160
Amortisation of intellectual property (Note 15)	71,020	66,482
Total amortisation	**1,792,209**	**1,724,685**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

6. Other income and expenses (continued)

6.7 Other expenses from ordinary activities

	2020	2019
	$	$
Rent and outgoings	8,323,856	6,391,029
Leasing costs	6,204,725	6,183,627
Lease adjustment (AASB 16)	(11,174,242)	-
	3,354,339	12,574,656
Motor vehicle expenses	6,533,340	6,157,151
Consultants	1,485,965	1,541,758
Communication	2,519,255	2,106,032
Insurances	2,926,581	2,042,376
Repairs and maintenance	1,075,488	461,860
Computer expenses	2,922,722	1,985,708
Travel	1,602,714	1,767,266
Other staff expenses	3,111,160	2,391,726
(Recovery from expected credit losses)/expected credit losses	(453,691)	1,148,839
Advertising, marketing and sponsorship expenses	1,341,155	670,673
Legal fees	332,774	485,405
Bank guarantees and surety fees	350,811	618,951
Other expenses	5,737,846	6,171,001
	29,486,120	**27,548,746**
	32,840,459	**40,123,402**

7. Income tax

The major components of income tax expense for the years ended 30 June 2020 and 2019 are:

Consolidated statement of profit or loss	2020	2019
	$	$
Current income tax:		
Current income tax expense	10,098,723	8,443,742
Adjustments in respect of current income tax of previous year	(25,861)	(65,544)
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,539,039)	(1,017,365)
Income tax expense reported in the consolidated statement of profit or loss	**8,533,823**	**7,360,833**

Consolidated statement of other comprehensive income	2020	2019
	$	$
Deferred tax on net unrealised loss on cash flow hedges (Note 20.2)	**(86,179)**	**271,682**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

7. Income tax (continued)

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

	2020	2019
	$	$
Accounting profit before income tax	**27,538,921**	**24,088,443**
At Australia's statutory income tax rate of 30% (2019: 30%)	8,261,676	7,226,533
Difference in tax rates	14,244	5,917
Non-allowable items	231,557	185,975
Other tax offsets	(102,447)	(132,780)
Prior year adjustments	67,539	(65,544)
Other	61,254	140,732
Income tax expense attributable to profit from ordinary activities	**8,533,823**	**7,360,833**

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss	
	2020	2019	2020	2019
	$	$	$	$
Expected credit losses	277,383	411,564	134,181	95,796
Other provisions and accrual	765,040	1,290,588	525,547	(113,042)
Employee leave provisions	6,134,744	5,202,778	(389,626)	(458,463)
Fixed assets	(172,917)	(268,371)	(95,454)	(126,059)
Work in progress	237,845	(1,732,297)	(1,602,720)	(44,456)
Retentions	(802,310)	(670,660)	131,650	116,749
Intangible assets	(1,612,726)	(2,018,532)	(405,806)	(405,043)
Leases	(97,284)	-	97,284	-
Tax losses	16,942	82,847	65,905	(82,847)
Deferred tax expense/(benefit)			**(1,539,039)**	**(1,017,365)**
Net deferred tax assets	**4,746,717**	**2,297,917**		
Reflected in the consolidated statement of financial position as follows:				
Deferred tax assets	6,978,636	6,104,948		
Deferred tax liabilities	(2,231,919)	(3,807,031)		
Deferred tax assets, net	**4,746,717**	**2,297,917**		

	2020	2019
	$	$
Reconciliation of deferred tax assets, net		
As of 1 July	**2,297,917**	**2,197,671**
Tax income during the period recognised in profit or loss	1,539,039	1,017,365
Deferred taxes recognised on prior year business combinations	(46,454)	(629,191)
Deferred taxes acquired in current year business combinations	903,022	(287,928)
Deferred tax on cash flow hedge	86,179	-
Others	(32,986)	-
As at 30 June	**4,746,717**	**2,297,917**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

7. Income tax (continued)

Deferred tax (continued)

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.

8. Dividends

	2020		2019	
Dividends declared (all franked to 30%)	Cents per share	$	Cents per share	$
Quarter 1				
— Fully paid, Ordinary class (40,825,796 shares) (2019: 38,790,023 shares shares)	8.00	3,266,064	8.00	3,103,202
Quarter 2				
— Fully paid, Ordinary class (40,852,513 shares) (2019: 38,790,023 shares)	10.00	4,085,251	6.80	2,637,722
Quarter 3				
— Fully paid, Ordinary class (41,102,513 shares) (2019: 39,805,004 shares)	-	-	7.50	2,985,375
Quarter 4				
— Declared and not paid, Ordinary Class (41,028,263 shares) (2019: 39,858,379 shares)	15.00	6,154,238	7.70	3,069,095
Total	**33.00**	**13,505,553**	**30.00**	**11,795,394**

	2020 $	2019 $
Dividends payable brought forward	3,069,095	3,327,270
Dividends declared during the year	13,505,553	11,795,394
Dividends paid during the year	(10,420,410)	(12,053,569)
Dividends payable carried forward (Note 16)	6,154,238	3,069,095
Dividends fully paid by ARA Indigenous	459,189	553,106
Dividends fully paid by ARA Indigenous outside the Group	234,187	243,286

	2020 $	2019 $
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the start of the financial year at 30% (2019: 30%)	22,205,046	20,258,739
Franking credits that will arise from the payment of income taxes payable as at the end of the financial year	12,671,923	7,019,702
Franking debits that will arise from the payment of dividends as at the end of the financial year	(4,566,256)	(5,073,395)
	30,310,713	**22,205,046**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

9. Cash and cash equivalents

	2020 $	2019 $
Cash at bank and on hand	**27,921,078**	**19,525,264**

	2020 $	2019 $
a) Cash flow reconciliation		
Reconciliation of net profit after tax to net cash flows from operations:		
Profit for the year	19,005,098	16,727,610
Adjustments for:		
Acquisition costs	260,488	196,473
Depreciation and amortisation	5,805,247	5,156,320
Depreciation of right-of-use assets	10,434,311	-
Decrease in provision for expected credit losses	(453,691)	(208,251)
Profit (net) on sale of assets	(107,870)	(6,093)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables and other financial assets	(9,072,632)	(531,555)
(Increase)/decrease in inventories	767,833	1,453,699
(Increase)/decrease in prepayments	(9,816)	(377,760)
(Increase)/decrease in deferred tax assets - net	(1,592,232)	(388,174)
(Increase)/decrease in contract assets	6,231,447	(145,061)
Increase/(decrease) in trade and other payables	(8,526,043)	6,004,149
Increase/(decrease) in income tax payable	1,227,563	(177,948)
Increase/(decrease) in employee benefits	1,396,184	1,693,953
Increase/(decrease) in contract liabilities	3,095,127	(1,067,978)
Increase/(decrease) in other reserves	-	271,682
Net cash flows from operating activities	**28,461,014**	**28,601,066**

b) Credit stand-by arrangement and loan facilities

The Group has a syndicated bank facility with Westpac Banking Corporation, Bank of Queensland and Commonwealth Bank of Australia. The total facility available to the Group is $140,000,000 (2019: $110,100,000). Of these facilities, $87,045,291 was utilised at 30 June 2020 (2019: $69,462,877). 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 (2019: $2,800,000). $1,505,523 was utilised at 30 June 2020 (2019: $2,705,000).

Included in the Group's total facility of $140,000,000 is a $30,000,000 term loan. The Group is required to repay principal of $4,000,000 (2019: $4,000,000) each financial year under its bank facility agreement if the term loan is fully drawn. At 30 June 2020, the headroom on the term loan facility was $8,625,000 (2019: $12,375,000). The Group does not expect to pay any principal during financial year 2021. At 30 June 2020, the term loan had amortised by $3,750,000, reducing the total facility available to the Group to $136,250,000.

As at 30 June 2020 the Group had cash on deposit owing to third parties of $217,471 (2019: $2,608,361).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

10. Trade and other receivables and contract assets

	2020	2019
	$	$
Current		
Trade receivables	90,780,855	80,479,414
Provision for expected credit losses	(1,014,558)	(1,439,612)
	89,766,297	**79,039,802**
Retentions	2,940,731	2,562,423
Other debtors	5,711,673	2,739,569
	98,418,701	**84,341,794**

Contract assets

As at 30 June 2020, the Group has contract assets of $nil (2019: $6,231,447) which is net of an allowance for expected credit losses of $nil (2019: $nil).

11. Inventories

	2020	2019
	$	$
Raw materials and stores	5,311,491	2,715,383
Work in progress	2,331,610	2,314,206
Finished goods	8,799,852	8,704,266
Provision for obsolescence	(309,648)	(25,971)
	16,133,305	**13,707,884**

12. Controlled entities

Subsidiaries

		% Equity interest	
Name	**Principal Activities**	**2020**	**2019**
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	Building	100	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	Security	100	100
CMC Cleaning Services Pty Ltd	Property	100	100
CMC ECRM Pty Ltd	Property	100	100

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

12. Controlled entities (continued)

Subsidiaries (continued)

		% Equity interest	
Name	**Principal Activities**	**2020**	**2019**
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
Leda Export Pty Ltd (a)	Building	100	-
Leda Group (Australia) Pty Ltd (a)	Building	100	-
Leda International Pty Ltd (a)	Building	100	-
Leda Security Exports Pty Ltd (a)	Building	100	-
Leda Security Products Pty Ltd (a)	Building	100	-
Leda Trading Pty Ltd (a)	Building	100	-
Leda Security Products (Ningbo) Co Ltd	Building	100	-
Ningbo Fenghua Leda Security Manufacturing Co., Ltd	Building	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	Building	100	100
Transelect Pty Limited	Electrical	100	100
Web ID Pty Limited	Mechanical	100	100
ARA Group NZ Limited	Security and Products	100	100

(a) The Leda group of entities were acquired 1 July 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, and Leda Security Products (Ningbo) Co Ltd and Ningbo Fenghua Leda Security Manufacturing Co., Ltd which are incorporated in the People's Republic of China.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

13. Property, plant and equipment

	Leasehold improvements	Plant and machinery	Office furniture and equipment	Computer equipment and software	Motor Vehicles	Total
	$	$	$	$	$	$
Cost						
At 1 July 2019	8,404,741	18,336,930	2,528,849	6,385,440	3,305,098	38,961,058
Additions	612,917	1,042,709	166,092	570,807	316,375	2,708,900
Acquisition of a subsidiary (Note 3)	206,931	892,575	78,092	118,658	380,480	1,676,736
Disposals	(839,280)	(451,690)	(11,550)	-	(941,614)	(2,244,134)
Revaluation adjustment	19,656	18,022	(19,409)	6,152	(24,421)	-
Reclassification and transfer (to)/from other group company (NBV)	8,128	(85,091)	(14,605)	43,036	(737)	(49,269)
At 30 June 2020	**8,413,093**	**19,753,455**	**2,727,469**	**7,124,093**	**3,035,181**	**41,053,291**
Accumulated depreciation						
At 1 July 2019	4,376,891	11,738,683	1,626,197	5,171,459	1,543,883	24,457,113
Depreciation charge for the year	753,332	1,574,411	237,916	867,751	579,628	4,013,038
Disposals	(472,261)	(299,814)	(10,978)	(6,625)	(364,208)	(1,153,886)
Transfer to other group company	(2,600)	(15,504)	(8,280)	(22,148)	(737)	(49,269)
At 30 June 2020	**4,655,362**	**12,997,776**	**1,844,855**	**6,010,437**	**1,758,566**	**27,266,996**
Net book value						
At 30 June 2019	4,027,850	6,598,247	902,652	1,213,981	1,761,215	14,503,945
At 30 June 2020	**3,757,731**	**6,755,679**	**882,614**	**1,113,656**	**1,276,615**	**13,786,295**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

14. Leases

Group as a lessee

The Group has lease contracts for various items of property leases, plant and machinery, motor vehicles and other equipment used in its operations. Leases of property, plant and machinery generally have lease terms between 2 and 10 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets.

The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Property leases	Plant and equipment	Motor vehicles	Total
	$	$	$	$
As at 1 July 2019 (on adoption of AASB 16)	**26,802,205**	**141,217**	**11,298,887**	**38,242,309**
Additions	4,383,805	-	3,712,369	8,096,174
Depreciation expense	(5,134,880)	(44,158)	(5,255,273)	(10,434,311)
As at 30 June 2020	**26,051,130**	**97,059**	**9,755,983**	**35,904,172**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2020
	$
As at 1 July	**38,374,363**
Additions	8,096,174
Accretion of interest	415,651
Payments	(11,174,242)
At 30 June	**35,711,946**
Current	1,452,070
Non-current	34,259,876

The following are the amounts recognised in profit or loss:

	2020
	$
Depreciation expense of right-of-use assets	10,434,311
Interest expense on lease liabilities	415,651
Expense relating to short-term leases	706,605
Expense relating to leases of low-value assets	2,647,734
	14,204,301

The Group had total cash outflows for leases of $14,528,581 in 2020. The Group also had non-cash additions to right-of-use assets and lease liabilities of $8,096,174 in 2020.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

14. Leases (continued)

Group as a lessee (continued)

The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease term:

	Within five years	More than five years	Total
	$	$	$
2020			
Extensions options expected not to be exercised	3,215,896	4,605,489	7,821,385
	3,215,896	**4,605,489**	**7,821,385**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

15. Goodwill and intangible assets

	Goodwill	Development costs	Brand name	Customer contracts	Intellectual property	Total
	$	$	$	$	$	$
Cost						
At 1 July 2019	144,988,200	326,750	-	8,856,817	634,382	154,806,149
Additions	-	20,613	-	-	40,216	60,829
Finalisation of prior year acquisition	(3,468,837)	-	3,749,844	-	-	281,007
Acquisition of a subsidiary (Note 3)	11,255,763	-	1,269,059	191,000	-	12,715,822
At 30 June 2020	**152,775,126**	**347,363**	**5,018,903**	**9,047,817**	**674,598**	**167,863,807**
Accumulated amortisation						
At 1 July 2019	-	326,750	-	2,046,160	322,901	2,695,811
Amortisation	-	-	-	1,437,550	71,020	1,508,570
At 30 June 2020	**-**	**326,750**	**-**	**3,483,710**	**393,921**	**4,204,381**
Net book value						
At 30 June 2019	144,988,200	-	-	6,810,657	311,481	152,110,338
At 30 June 2020	**152,775,126**	**20,613**	**5,018,903**	**5,564,107**	**280,677**	**163,659,426**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

16. Trade and other payables

	2020 $	2019 $
Current		
Trade payables	**47,593,688**	**59,343,299**
Other payables		
Trade creditors accruals	9,221,922	2,976,179
Other creditors and accruals	26,138,183	21,352,431
Deferred purchase consideration for acquisitions	2,740,367	796,956
Cash on deposit owing to third parties	217,471	2,608,361
Dividends payable (Note 8)	6,154,238	3,069,095
	44,472,181	**30,803,022**
Non-current		
Deferred purchase consideration for acquisitions	**-**	**687,500**

17. Contract liabilities

	2020 $	2019 $
Short-term advances for services	**4,472,038**	**1,376,911**

18. Interest-bearing loans and borrowings

	Interest rate %	Maturity Financial years	2020 $	2019 $
Current				
Finance leases and hire purchase contracts (a)	2.63 - 10.07	1 - 5 years	-	168,881
			-	**168,881**
Non-current				
Bank bills and loans secured (Note 22.2) (a)	2.70 - 3.80	2 - 3 years	82,625,000	67,125,000
Finance leases and hire purchase contracts (a)	2.63 - 10.07	1 - 5 years	-	96,443
			82,625,000	**67,221,443**
			82,625,000	**67,390,324**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

18. Interest-bearing loans and borrowings (continued)

(a) Total current and non-current secured liabilities

	2020 $	2019 $
Bank bills and loans	82,625,000	67,125,000
Finance leases and hire purchase contracts	-	265,324
	82,625,000	**67,390,324**

The bank bills and loans are secured by a fixed charged over the Group's assets. For 2019, finance leases and hire purchase contracts are secured by the lessor's title to the leased assets. For 2020, finance leases and hire purchases are included in lease liabilities due to the adoption of AASB 16.

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

	2020 $	2019 $
First mortgage over all of the assets of the parent entity and all controlled entities - total assets pledged as security	330,855,350	298,544,178

19. Employee benefits liabilities

	2020 $	2019 $
Current		
Annual leave	13,114,593	11,165,736
Long service leave	5,269,270	4,139,586
	18,383,863	**15,305,322**
Non-current		
Long service leave	2,431,277	2,298,962
	2,431,277	**2,298,962**
Aggregate employee entitlement liability	**20,815,140**	**17,604,284**

20. Contributed equity and reserves

20.1 Contributed equity

	2020 $	2019 $
Fully paid shares		
Fully paid ordinary shares	**93,313,832**	**88,570,325**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

20. Contributed equity and reserves (continued)

20.1 Contributed equity (continued)

	2020		2019	
Fully paid ordinary shares	**No.**	**$**	**No.**	**$**
At beginning of financial year	**39,858,379**	**88,570,325**	**38,244,481**	**82,089,733**
Issued during financial year				
- acquisitions	685,000	2,802,500	50,000	225,000
- capital raising	484,884	1,941,007	1,563,898	6,255,592
At reporting date	**41,028,263**	**93,313,832**	**39,858,379**	**88,570,325**

At the reporting date, issued capital consists of 41,028,263 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 when a poll is called, otherwise each shareholder has one vote on a show of hands.

The Group issued 479,001 ordinary shares at $4.00 per share and 5,883 ordinary shares at $4.25 during the year to new and existing shareholders increasing equity by $1,941,007. The Group issued 425,000 ordinary shares at $4.00 per share as purchase consideration to the vendor of Leda Security Trading Pty Limited effective 1 July 2019. A further 250,000 ordinary shares at $4.25 per share were issued as purchase consideration to the vendor of ISM Interiors effective 1 March 2020. This increased equity by $2,802,500.

20.2 Other reserves

a) Movement

Year ended 30 June 2020	**Other reserve**	**Hedge reserve**	**Foreign currency translation reserve**	**Total**
	$	**$**	**$**	**$**
Balance at the start of the financial year	**(2,839,864)**	**(562,630)**	**4,014**	**(3,398,480)**
Net unrealised loss on cash flow hedges	-	287,262	-	287,262
Deferred tax on net unrealised loss on cash flow hedges	-	(86,179)	-	(86,179)
Currency translation differences	-	-	(108,887)	(108,887)
	(2,839,864)	**(361,547)**	**(104,873)**	**(3,306,284)**

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 gain on cash flow hedges	-	(905,589)	-	(905,589)
Deferred tax on net unrealised gain 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)**

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 20 month terms. Since inception, a mark to market valuation of $361,547 has been recognised in hedge reserve at 30 June 2020 (2019: $562,630).

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

20. Contributed equity and reserves (continued)

20.2 Other reserves (continued)

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.

21. 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 $982,810 (2019: $842,641).

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 $5,458,944 (2019: $5,641,008)).

Directors fees
Total directors fees paid during the year amounted to $220,000 (2019: $220,000).

Bank Guarantees
The Group issued two bank guarantees totalling $187,725 (2019: $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.

As at 30 June 2020 and 2019, there were no outstanding balances owing or payable to related parties for services provided to related parties.

22. Commitments and contingencies

22.1 Commitments

There are no commitments as at the reporting date which would have a material effect on the Company's financial statements as at 30 June 2020.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

22. Commitments and contingencies (continued)

22.2 Contingent liabilities

The Parent Entity 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, Bank of Queensland and Commonwealth Bank of Australia is $140,000,000 (2019: $110,000,000). Of these facilities, an amount of $5,000,000 (2019: $5,000,000) is available for indemnity guarantees and as at 30 June 2020 the economic entity had $4,420,291 (2019: $2,337,877) of indemnity guarantees outstanding.

In addition the Group has a separate credit card facility with Westpac Banking Corporation of $2,800,000 (2019: $2,800,000). $1,505,523 was utilised at 30 June 2020 (2019: 2,705,500).

The Group has a surety bond facility with Liberty Mutual Insurance Company of $35,000,000 (2019: $35,000,000). At 30 June 2020, the Group had $24,866,582 (2019: $28,575,955) of surety bonds outstanding with Liberty Mutual Insurance Company.

23. 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.

24. Closed group class order

24.1 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 Entity and each of its subsidiaries enter into a deed of cross guarantee (Deed). Under the Deed the Parent Entity 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 Entity 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 Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

24. Closed group class order (continued)

24.1 Entities subject to class order relief (continued)

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
Leda Export Pty Ltd
Leda Group (Australia) Pty Ltd
Leda International Pty Ltd
Leda Security Exports Pty Ltd
Leda Security Products Pty Ltd
Leda Trading Pty Ltd
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

24.2 Consolidated statement of profit or loss and other comprehensive income

	Closed group	
	2020	2019
	$	$
Profit before income tax expense	23,798,415	23,894,153
Income tax expense	(8,170,490)	(6,879,425)
Net profit for the period	**15,627,925**	**17,014,728**
Retained earnings at the beginning of the period	31,136,533	25,917,199
Dividends provided for or paid	(13,505,553)	(11,795,394)
Retained earnings at the end of the period	**33,258,905**	**31,136,533**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

24. Closed group class order (continued)

24.3 Consolidated statement of financial position

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

	Closed group 2020	Closed group 2019
	$	$
Current assets		
Cash and cash equivalents	23,451,978	16,373,169
Trade and other receivables	91,431,337	78,041,540
Contract assets	-	5,774,324
Inventories	13,377,371	10,969,922
Other assets	2,495,808	1,663,740
Total current assets	**130,756,494**	**112,822,695**
Non-current assets		
Other financial assets	16,878,129	16,485,872
Other debtors	1,301,249	-
Property, plant and equipment	12,714,744	13,323,014
Right-of-use assets	35,450,563	-
Deferred tax assets	6,660,565	5,801,214
Goodwill and intangible assets	152,517,832	141,832,899
Total non-current assets	**225,523,082**	**177,442,999**
Total assets	**356,279,576**	**290,265,694**
Current liabilities		
Trade payables	48,838,868	57,178,384
Other payables	37,952,064	26,103,467
Contract liabilities	4,705,610	1,147,745
Other financial liabilities	72,248	-
Lease liabilities related to right-of-use assets	1,367,649	-
Income tax payable	1,768,923	1,171,994
Employee benefits	17,322,937	14,383,404
Total current liabilities	**112,028,299**	**99,984,994**
Non-current liabilities		
Other creditors	-	687,500
Other financial liabilities	82,672,633	67,221,443
Lease liabilities related to right-of-use assets	33,761,452	-
Deferred tax liabilities	2,190,500	3,768,430
Employee benefits	2,384,662	2,298,962
Total non-current liabilities	**121,009,247**	**73,976,335**
Total liabilities	**233,037,546**	**173,961,329**
Net assets	**123,242,030**	**116,304,365**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

24. Closed group class order (continued)

24.3 Consolidated statement of financial position (continued)

	Closed group 2020	Closed group 2019
	$	$
Equity		
Share capital	93,184,536	88,570,326
Retained earnings	33,258,905	31,136,533
Other reserves	(3,201,411)	(3,402,494)
Total equity	**123,242,030**	**116,304,365**

25. Information relating to parent ARA Group Limited

	2020	2019
	$	$
Current assets	49,037,857	40,578,249
Non-current assets	266,132,676	239,543,001
Total assets	**315,170,533**	**280,121,250**
Current liabilities	11,563,602	7,493,210
Non-current liabilities	270,573,461	227,540,117
Total liabilities	**282,137,063**	**235,033,327**
Net assets	**33,033,470**	**45,087,923**
Contributed equity	93,313,832	88,570,325
Accumulated losses	(59,918,815)	(42,919,772)
Other reserves	(361,547)	(562,630)
	33,033,470	**45,087,923**
Loss for the year	(4,967,298)	(2,716,847)

26. Auditor's remuneration

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

	2020	2019
	$	$
Amounts received or due and receivable by Ernst & Young audit firm for:		
Ernst & Young audit	408,830	380,000
Ernst & Young other services	129,453	171,070
	538,283	551,070
Amounts received or due and receivable by non Ernst & Young audit firm for:		
Services provided by other accounting firms	83,590	94,861
	621,873	**645,931**

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 2020 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 2020 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 24 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
Executive Director
Sydney
7 August 2020

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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 2020, 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 2020 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 (including Independence Standards)* (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 is the directors' report accompanying the financial report.

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 2020

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