The ARA Group / Celebrating 20 Years

Annual Report 2021

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Annual Report 2021

The **ARA Group** Celebrating **20 Years**

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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

Section 01

ARA 2021

Letter from the Executive Chair and Chief Executive Officer

> “It is good to have an end to journey toward; but it is the journey that matters in the end.”
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> —
>
> **Ursula K. Le Guin**
> The Left Hand of Darkness

In my letter from the 2020 Annual Report, I spoke of “the worst of times” and “the winter of despair” in a reference to the COVID-19 pandemic in which we were still in the early stages and a great uncertainty was ahead. Here we are, a year later, and we are still in business profitably, although there is a new variant of the virus in the Australian community. We have learned to live with this virus and with our populations in Australia and New Zealand getting vaccinated, we are hopefully looking at a more normal life in the future than the one we have lived for the past eighteen months. ARA is doing its part to encourage our employees to get vaccinated. When each employee is fully vaccinated, they will be given an extra day of paid annual leave. In addition, at the end of each month from August to December, every employee fully vaccinated in the month will participate in a lottery with the winner each month receiving $10,000. Despite the uncertainty of the present moment, we have to remain focused and optimistic on the future.

There is another reason at the end of this financial year to celebrate. We have completed our twentieth year of operations in a very strong operational and financial position. The theme of this year’s Annual Report is a celebration of twenty successful years. There are photographs interspersed throughout the Annual Report. It has been twenty years of evolving as an organisation, improving the quality and delivery of our products and services, continuous organic and acquisition growth, the building of a corporate culture we can be proud of and delivering good returns to ARA shareholders. The twenty-year journey has been hard work, but it has been rewarding and it is one in which I feel great pride in our accomplishments. As Bob Marley said, “Though the road’s been rocky it sure feels good to me.”

Throughout this year of uncertainty, various lockdowns, the ebb and flow of the coronavirus, ARA continued to improve the collaboration between our divisions and the Senior Management Team. We continued to meet regularly, share customers and share opportunities for our products and services. As all members of our Senior Management Team are shareholders of ARA, there is a meaningful desire to assist each other. I am extremely thankful for the efforts and support of the Senior Management Team. They are an extraordinarily talented group of individuals. The length of time we have all worked together is a real strength of ARA.

We have ended financial year 2021 in a very good position. Our confirmed forward orders (backlog) at 30 June 2021 is $305 million, an increase of 47% from the prior year. This is a record amount of backlog by a significant amount in the twenty-year history of ARA and compares very favourably to the $208 million of backlog at 30 June 2020. This amount of backlog is a positive indicator for the year ahead, once we are able to move past the current coronavirus disruption.

The cash flow during the financial year was very strong. 156% of EBITDA was converted into operating cash flow in the financial year. This compares favourably to 82% of EBITDA in the prior financial year. Free cash flow in 2021 was $52.4 million as compared to free cash flow in 2020 of $22.9 million. There are additional metrics that demonstrate the strong financial position of ARA at 30 June 2021: EBIT covered interest by approximately 13 times; the leverage ratio (net debt divided by EBITDA adjusted for the full year of acquisitions completed during the year) was one time; net debt is 26% of our total capital structure (net debt plus equity).

2021 was the sixth consecutive year of record earnings. Earnings per share increased to $.57 per share in 2021 as compared to $.46 per share in 2020, an increase of 24%. Earnings per share has grown at a compounded growth rate of 7% during the past ten years (8% for the past five years). EBITDA increased from $36.5 million to $46.3 million, an increase of $9.8 million, or 27%. The Property Services Division delivered strong operating results. The Group did benefit during the year from government support for wages paid. EBITDA has grown at a compounded growth rate of 16% during the past ten years. EBITDA was 8% of revenue, an increase from 6% of revenue for the prior four years.

Revenue declined for only the second time in the twenty-year history of ARA to $576 million from $621 million in 2020, a decline of $45 million, or 7%. Despite the decrease in revenue in 2021, revenue has still grown at a compounded growth rate of 9% during the past ten years. The decline in revenue was caused by a number of factors including the impact of COVID-19 and a reduction in infrastructure works, due to a number of large contracts completing at the end of last financial year. The decline in revenue was partially offset by increased revenue in our Property Services Division and from acquisitions made during the financial year. The dramatic increase in backlog at 30 June 2021 as noted above, is an indication that the Group has significant infrastructure revenue for the year ahead as well as an increase in the base service revenue and the effect of growth from acquisitions in 2021.

ARA has demonstrated its resilience and the benefits of its diverse range of services during the past twenty years. We have weathered the world economic problems in 2008 – 2010 profitably and thus far, we have maintained the business profitably during the past eighteen months of an unprecedented pandemic. We continued to make strategic acquisitions during 2021. These are discussed in the pages ahead. ARA is seen by vendors of businesses as an acquirer of choice.

In conclusion, I would be remiss if I did not thank the Board of Directors for their support and guidance. They are all shareholders and only have the best interests of ARA in mind as they do their job. The most important group to thank is the 2,500 employees of ARA. They have been at the front line during the pandemic carrying out the services of ARA to our customers. ARA employees are an exceptional group of people. My gratitude knows no bounds.

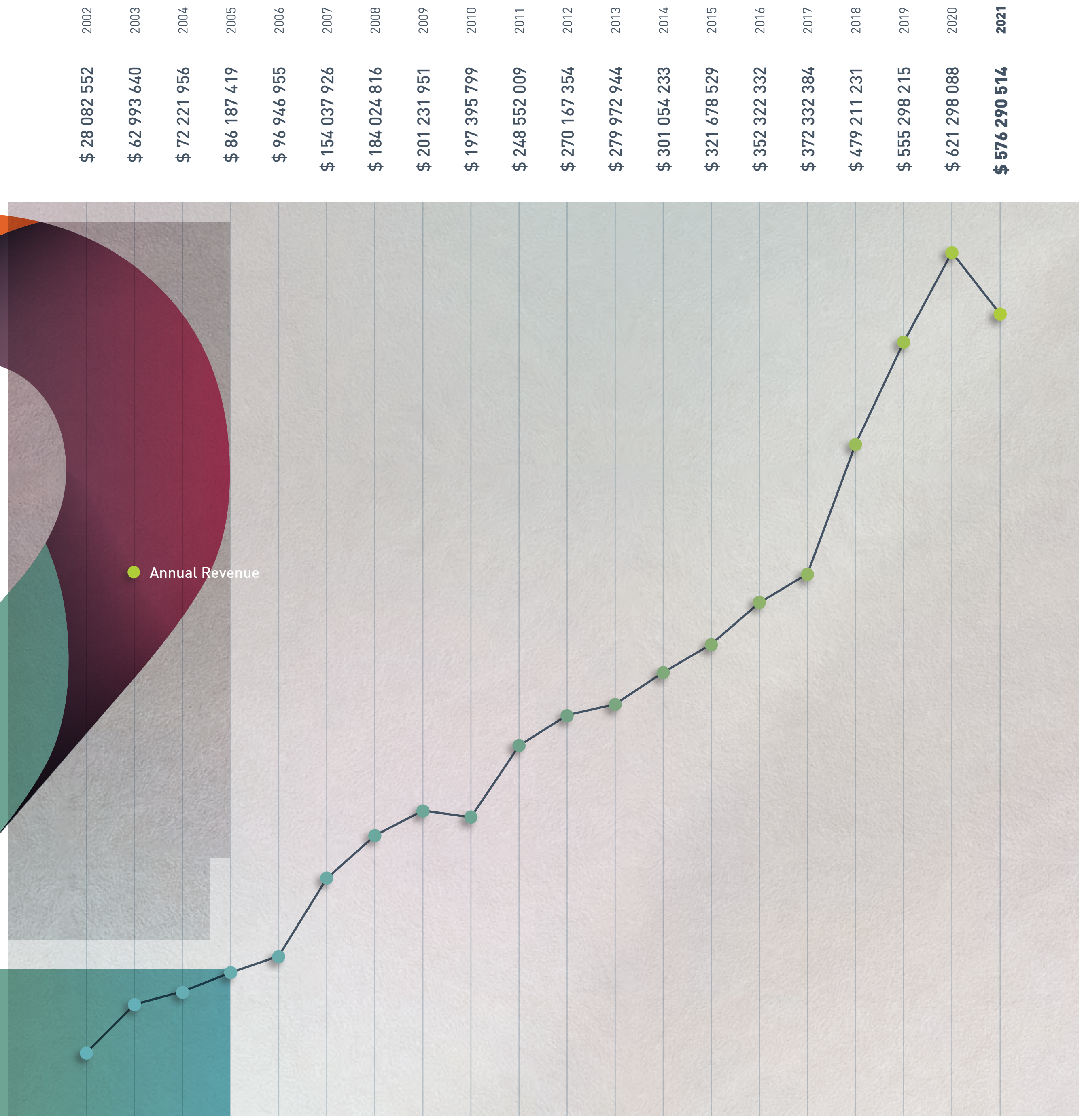
Edward Federman

Executive Chair and Chief Executive Officer
ARA Group Limited

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

Financial Year 2021

20 Years of Sales and Profitability



Revenue declined for only the second time in the twenty-year history of ARA to $576 million from $621 million in 2020, a decline of $45 million, or 7%. Despite the decrease in revenue in 2021, revenue has still grown at a compounded growth rate of 9% during the past ten years. The decline in revenue was caused by a number of factors including the impact of COVID-19 and a reduction in infrastructure works, due to a number of large contracts completing at the end of last financial year. The decline in revenue was partially offset by increased revenue in our Property Services Division and from acquisitions made during the financial year.

EBITDA in 2021 was ARA's sixth successive year of record profits. EBITDA increased from $36.5 million to $46.3 million, an increase of $9.8 million, or 27%. From 2012 to 2021, a period of the last ten years, EBITDA has grown at a compounded growth rate of 16%. EBITDA was 8% of revenue, an increase from 6% of revenue for the prior four years.

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

20 years

Thoughts on the Journey by Edward Federman

Celebrating the past
Looking to the future

Thirty-five years ago, as I was gaining experience working for a large, growing multi-divisional business, I dreamt about building a business myself someday. I had the great fortune to come to Australia in the 1990's, working for a large Australian building services business. During this time, I worked with Leo Browne and we grew the business profitably for which we had responsibility. We agreed that someday we would build a business for ourselves. For Leo, this was to be a hobby. For myself, I had dreams of growing a significant building services business in Australia and New Zealand.

We began the ARA journey in 2001 to establish a building services business. Within the first year, we had four platforms of business – Electrical, Manufacture, Security and Fire Protection. We set a goal that in five years our business would turnover $100 million, have an operating margin of 10% and have no bank debt. We came very close to achieving these original goals. At the end of the fifth year of operations in 2006 turnover was $97 million, the operating margin was 8% and there was no bank debt.

Financial year 2007 was a transitional year that accelerated the growth of ARA. During the first half of the year, the Mechanical Division was established through an acquisition, a major electrical business was acquired, and the Fire Protection Division expanded to Melbourne. The most significant transaction was the management of the Advanced Group through its voluntary administration. This was an early pre-packaged insolvency transaction in Australia. ARA was the licensee of the Administrator and managed the Advanced Group through its insolvency. ARA's efforts saved 150 jobs, returned millions of dollars to creditors and paid redundant employees all their redundancy benefits and their entitlements. ARA then acquired the business for the value of one year's earnings. This established ARA as a major electronic security service company, a handyman service company and added business to the newly formed Mechanical Division. There were now six ARA platforms – Electrical, Manufacture, Security, Fire Protection, Mechanical and Building.

Another important development in the ARA story emerged in financial year 2007. Employee ownership of ARA shares became available and was a critical step forward in the evolution of ARA. It was always my hope that ARA would become an employee-owned company. In financial year 2008, we began to use ARA shares to facilitate additional strategic acquisitions without ARA becoming highly leveraged. Today there are more than 200 ARA shareholders. The vast majority of whom are employees. ARA is now genuinely an employee-owned company.

In the years 2009 – 2010, the world suffered through a financial crisis. ARA continued to do its work profitably during those years. This effort demonstrated the resilience of the business model of ARA. ARA focused inwardly from 2011 – 2013 and had 42% organic growth. Beginning in 2014, through to today, there have been a series of strategic acquisitions. As we grew profitably, our bank supported us more and more. This gave us the ability to continue growing.

Financial year 2017 saw a step change in the growth of ARA through the acquisition of a large, Melbourne based cleaning company. ARA now had its complement of services, principally technical building services but now also a range of "soft" services. This financial year saw the expansion of ARA into New Zealand through the acquisition of an electronic security service company. ARA had become a unique, multi-service building service organisation in Australia and New Zealand.

Several years ago, we had a large project to rebrand the ARA Group to create consistency throughout the various divisions. We needed to morph from a collection of businesses to a real company, both in substance as well as appearance. Today, ARA has an in-house Creative Team who keeps our branding consistent and assists in the development of materials to give ARA a professional appearance to our customers.

Through steady organic growth and continuing strategic acquisitions we have grown ARA to a substantial building service business in Australia and New Zealand. This growth, coupled with strong financial management, has contributed to ARA becoming a unique multi-service company. This approach has allowed our shareholders to achieve strong returns through a policy of annual dividends and growth in share price.

Throughout the twenty-year history of growth of ARA, there has been the compelling belief in the decentralised vertical structure of the organisation. I have a strong conviction that people want responsibility for the business they lead. We have always had a small corporate structure and relied upon our management team to lead their business units. We provide good governance, but we rely upon and reward our team leaders. As a result of this management philosophy coupled with their ownership of ARA shares, our Senior Management Team has significant continuity. This continuity has helped nurture the culture we have instilled in ARA. The teamwork we have amongst our Management Team has developed very meaningfully during the past twenty years. We have many long-serving loyal staff who bring our various products and services to our customers every day. Without the 2,500 staff doing their job every day, there would not be an ARA.

We thrive upon the culture we have created during the past twenty years. It is a culture of collaboration within and an unwavering focus upon delivering the work we have been contracted to perform for our customers. Overlaying these characteristics is a desire to contribute to the communities where we work. This has evolved through the ARA Endowment Fund, very generous contributions to the arts and literature and contributing to communities suffering from natural disasters.

This twenty-year journey has been a dream come true for me. It is very difficult to adequately express the gratitude I have for the Senior Management Team I work with each day and the 2,500 employees of the ARA Group. I look forward to the next twenty years.

> **"This twenty-year journey has been a dream come true for me."**
>
> – Edward Federman

Photographs

Top: Co-founders Leo Browne and Edward Federman working out of ARA's first headquarters, Leo's kitchen.

Middle: Sealeck Doors & Windows, the first ARA acquisition in April 2001, the beginning of ARA.

Bottom: BASS Electrical, acquired in 2001, was the start of the significant ARA Electrical division.

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: Acacio Silva Santos
Job Title: Cleaner
Division: ARA Property Services
Location: Fitzroy VIC

"Acacio is a dedicated employee, who conducts cleaning services at multiple buildings. He is always commended for being very approachable, polite, friendly, trustworthy and a highly reliable team member."

Paul McCann, Managing Director
ARA Property Services

Name: Andrew Miller
Job Title: General Manager ISCS
Division: ARA Products
Location: Belrose NSW

"As one of the longest serving employees of ISCS, Andrew shows great leadership and a depth of product knowledge that is lauded by his peers and the security industry in general."

Stuart Harmer, Managing Director
ARA Products

Name: Anthony Demasi
Job Title: Service Manager
Division: ARA Fire
Location: Derrimut VIC

"Anthony is well respected by the industry, his team and all of those around him. He is always available to his customers and team 24/7 and leads by example with his friendly, supportive and positive can do attitude."

Rob Pantazis, Director
ARA Fire

Name: Ashwin Kumar
Job Title: Remedial Builder
Division: ARA Building Services
Location: Kingsgrove NSW

"Ashwin is a very quiet achiever who is popular among his peers as he is always a great help on any project. Ashwin has many great skills, we are very privileged to have him in ARA Building Services."

Tony Murr, Managing Director
ARA Building Services

Name: Bridget Groves
Job Title: Branch Manager
Division: ARA Fire
Location: Bundaberg QLD

"Bridget is extremely hard working, and respected by both her contractors and our clients. Bridget and the Bundy team have been a strong performer thanks to the high quality service levels that are part of the culture created by this wonderful person."

Darren Walsh, Director
ARA Fire

Name: Craig Scott
Job Title: General Hand
Division: ARA Manufacture
Location: Derrimut VIC

"The work ethic and care factor of Craig is outstanding. His enthusiasm and positive, can do attitude is contagious. Whenever he has finished his work, Craig asks what else needs to be done or just picks up a broom. He is the heart and soul of our Derrimut factory and we feel very lucky to have him. "

Andrew Briggs, Operations Manager
ARA Manufacture

Name: David McPherson
Job Title: Project Manager
Division: ISM / Lockin / ARA Building Services
Location: Melbourne VIC

"Working hard and being non-expectant of reward, being reliable and an all-round team player. Dealing with difficult clients in positive but assertive ways and managing his teams the same way. His positive "can do" attitude is infectious."

Tony Murr, Managing Director
ARA Building Services

Name: Dipak Kumar Chaudhari
Job Title: Supervisor
Division: ARA Property Services
Location: Melbourne VIC

"Dipak is honest, reliable and hard working. He takes great pride in his work outcomes and achieves them to a high standard. Dipak's communication with the client and his cleaners is outstanding."

Paul McCann, Managing Director
ARA Property Services

Name: Geoff Lean
Job Title: Operations Manager
Division: ARA Fire
Location: Derrimut VIC

"Geoff has excellent business acumen with customer focus and understanding. He has been a guiding force in the implementation of our asset management tool and has assisted many new up and coming managers with sound advice and mentorship based on his strong ethical values."

Rob Pantazis, Director
ARA Fire

Name: George Trappel
Job Title: Project Manager
Division: ARA Electrical
Location: Singleton NSW

"No job is too big or small for George and he will give his all to get the task done. He has a can do attitude and is respected by all staff. It has been a pleasure watching George progress from a linesman through the ranks to his current role of project manager."

Darrell Milne, Branch Manager
ARA Electrical

Name: Greig Anthony
Job Title: Electrician
Division: ARA Fire
Location: Perth WA

"Greig is the consummate team player. He is always willing to assist whomever, whenever without fuss or question and is highly regarded by his customers and often asked for by name. Greig's expertise and his unwavering willingness to assist all the time epitomises the ARA Team culture."

Ashley Knapp, Director
ARA Fire

Name: Juan Clavijo
Job Title: Accounts Receivable Supervisor
Division: ARA Electrical
Location: Unanderra NSW

"Juan demonstrates exceptional communication skills, professionalism, dedication and focus in his role. Highly regarded by his peers and management, Juan is an outstanding employee that goes above and beyond to deliver results."

David Hides, Chief Financial Officer
ARA Electrical

Name: Justin Harris
Job Title: Service Supervisor
Division: ARA Electrical
Location: Central NSW

"Justin's commitment, work ethic and drive to ensure customer satisfaction is first class. He is highly motivated and has a positive can do attitude tackling any task presented, no matter how large or small it may be."

Adam Shepherd, General Manager - Southern & Central Regions
ARA Electrical

Name: Karl Hupp
Job Title: Senior Technician
Division: ARA Security / Servcore
Location: Sydney NSW

"Karl's attention to quality work and focus on the customer is extremely strong. We have senior managers from our customer's mission critical sites constantly singling him out around the work ethic and quality of work which keeps the customers coming back."

Darren Burnnand, General Manager
Servcore

Name: Lorraine Ramakers
Job Title: Service Administrator
Division: Metalbilt
Location: Wellington NZ

"Long service history with the company (25+ years) and is a key contributor to the Wellington business unit. Lorraine is integral to delivering exceptional service to our customers."

Paul Hancock, General Manager
Metalbilt

Name: Luke Qi
Job Title: Accountant
Division: ARA Products
Location: Belrose NSW

"Whatever task we ask of Luke it is never a problem with an ever willing can do attitude, he exemplifies the culture that makes our business great. As a quite achiever it is fantastic to see Luke rewarded for his work and commitment to the ARA Group."

Stuart Harmer, Managing Director
ARA Products

Thank you to

The Unsung Heroes of the ARA Group

Name: Mariappa Gaunder
Job Title: Leading Hand
Division: ARA Electrical
Location: Minto NSW

Mariappa is an excellent leader. His work ethic, dedication and contribution to the company is exemplary. He is always willing to go that extra mile, to ensure projects are completed at the highest quality and leads his team in striving for perfection."

Mile Belevski, General Manager JBM
ARA Electrical

Name: Mark Haskell
Job Title: Sprinkler Fitter
Division: ARA Fire
Location: Perth WA

"Mark's attitude and commitment to ARA and his customers is second to none. Mark is unwavering in reliability, readiness and effort to assist. He is a dedicated worker no matter what the task is at hand and he is always committed 100%."

Ashley Knapp, Director
ARA Fire

Name: Matt Walton
Job Title: Service Supervisor
Division: ARA Mechanical
Location: Cheltenham VIC

"Matt's dedication to personal development, customer service and the Environmental Automation brand was a major reason for the Victorian office's stability and success through the setbacks faced in the last financial year."

Phil Harding, Managing Director
ARA Mechanical

Name: Maxwell Lumsden
Job Title: Cleaner
Division: ARA Indigenous Services
Location: Sydney NSW

"Since taking the lead at 10 Spring St, Max has quickly become the face of ARA Indigenous Services at the building. Max works tirelessly with Building management, Security and the tenants to ensure quality outcomes for all parties."

Paul McCann, Managing Director
ARA Property Services

Name: Michael Ralph
Job Title: Defence Mechanical Fitter
Division: ARA Fire / WLST
Location: Henderson WA

"Michael's expertise and knowledge with Defence Fire Fighting Systems, in particular the Halon system onboard ANZAC class, has been instrumental in sustaining this fragile system for the Navy."

Ashley Knapp, Director
ARA Fire

Name: Misho Gulumian
Job Title: Project & Service Coordinator
Division: ARA Building Services
Location: Kingsgrove NSW

"Misho in his short time with ARA has very quickly become a in demand resource due to his can do approach to all tasks. He is a fast learner and ensures our customers are receiving fantastic service all the time."

Tony Murr, Managing Director
ARA Building Services

Name: Nathan Murray
Job Title: Engineering Manager
Division: ARA Electrical
Location: Unanderra NSW

"Nathan is extremely dedicated, professional and hardworking, leading the High Voltage Design businesses in the Southern and Northern Regions. His focus is ensuring excellent customer service and supporting ARA Electrical as well as the wider ARA Group."

Jason Moore, Managing Director
ARA Electrical

Name: Nathan Sciberras
Job Title: Fire Alarm Technician
Division: ARA Fire
Location: Kings Park NSW

"Highly regarded by all the clients Nathan comes into contact with, he provides outstanding internal and external service levels, and is an absolute pleasure to deal with, making this a deserving reward."

Darren Walsh, Director
ARA Fire

Name: Noel Vickery
Job Title: Head of Risk & Insurance
Division: ARA Group
Location: Adelaide SA

"Noel is very hard working, very approachable and always willing to provide good commercial advice whilst at the same time making sure we do not put the Group at too much risk."

Allison McCann, Chief Financial Officer
ARA Group

Name: Paul Weldone
Job Title: Accountant
Division: ARA Property Services
Location: Hawthorn VIC

"Paul is a very hard working individual who consistently challenges himself to work better. He has a remarkable can-do attitude at all times, reliable and gives 100% to every task."

Paul McCann, Managing Director
ARA Property Services

Name: Phoebe Wang
Job Title: Project Manager
Division: ARA Security
Location: Melbourne VIC

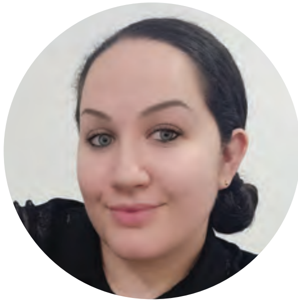
"Phoebe is responsible for both state and national projects delivery for our financial institution clients and has been instrumental for the successful outcomes achieved to date, particularly during the challenges of the covid lockdowns in VIC over the last 12 months."

Tony Franov, Managing Director
ARA Security

Name: Preethi Sheela
Job Title: Office Administrator
Division: Leda / ARA Building Services
Location: North Parramatta NSW

"Preethi's Product and Project knowledge has grown, and she now supports not only her team in NSW, but all teams in Leda, nothing is ever too much, and she is the true definition of a team player."

Tony Murr, Managing Director
ARA Building Services



Name: Rebekah Wootton
Job Title: Schedule Coordinator
Division: Thermoscan / ARA Building Services
Location: Slacks Creek QLD

"With constant reschedules and reconfirming due to constantly changing covid restrictions, she knuckles down and gets it done. We know we can pass anything to her and trust it will be sorted/actioned."

Tony Murr, Managing Director
ARA Building Services

Name: Richard Wapaniualu
Job Title: Service Supervisor
Division: ARA Mechanical
Location: Kingsgrove NSW

"Richard's can-do attitude is second to none and has certainly brought in new clients and new opportunities to the Environmental Automation business in this calendar year. I highly commend Richard as our unsung Hero for the Environmental Automation Business."

Phil Harding, Managing Director
ARA Mechanical

Name: Rohan Tobler
Job Title: Strategy & Growth Manager
Division: ARA Indigenous Services
Location: Kingsgrove NSW

"The collaboration between ARA Indigenous Services and the ARA Group is very important. Rohan's positive attitude and hard work has increased both Indigenous employment and client contracts."

Michael O'Loughlin, Managing Director
ARA Indigenous Services

Name: Susan Edmunds
Job Title: Supervisor
Division: ARA Indigenous Services
Location: Canberra ACT

"Susan is a dedicated employee; she has an amazing work ethic and always goes above and beyond for her team and our client. Her problem solving skills are fantastic and always achieves the outcome required."

Michael O'Loughlin, Managing Director
ARA Indigenous Services

Name: Bill (Zhengbing Jin)
Job Title: Final Door Assembly
Division: ARA Manufacture
Location: Regency Park SA

"When the factory is under pressure and the customer needs their product on critical timing, Bill's willingness to put in extra effort and longer hours if needed, being hands on and also leading, he ensures that ARA Manufacture can supply the best quality doors to the Australian market."

Rob Mucha, Production Manager
ARA Manufacture

Name: Zuhaib Obaidullah
Job Title: Professional Services Team Leader
Division: ARA Security / ECS
Location: Bella Vista NSW

"Zuhaib's commitment to ARA Security is unquestionable. Always demonstrating a can do attitude, where no task is a problem, Zuhaib is a highly valued and respected member of our team."

Tony Franov, Managing Director
ARA Security

Section

02

ARA in the Community

Conservation, Charity, Literature, the Arts, Sports

ARA Group and Social Responsibility

There are many studies of management and organisations that conclude a business performs better if it takes its responsibility to the communities in which it operates seriously.

Accepting that ARA is a vibrant member of the larger community where we work, is an inherent part of the culture that has evolved within ARA during the past twenty years.

Responsible leadership of an organisation in today's world necessitates the allocation of some resources to assist those in our midst who are at a disadvantage. At ARA, we believe that it is possible to pursue profitable growth in the business whilst simultaneously making a positive social impact. Increasingly, our employees, our shareholders and our customers are demanding that ARA contributes to the community. ARA is evaluated in many circles in which we operate by the social impact the company makes.

We have made many significant commitments to make the world around us a better place. Although we have had a major focus on the arts and literature, there have been many parts of the community we have supported in times of need resulting from natural disasters in the past. We are proud in the past year to have taken on the following initiatives.

Taronga Zoo

"Taronga Conservation Society Australia is truly grateful for the support from ARA Group. Our partnership has spanned well over a decade and we are excited to see how we can continue to work together. The support ARA provides allows Taronga to conduct vital conservation work – from breed for release programs bringing Regent Honeyeaters back from the brink of extinction to housing the largest coral bank in the world ready to return coral to the Great Barrier Reef, Taronga's work is wide ranging. And, we thank ARA for their partnership which enables Taronga to continue to conduct this incredibly important conservation work both here and abroad."

Cameron Kerr AO
Chief Executive

Sydney Writers' Festival & Russ the Bus

"The Sydney Writers' Festival plays a vital role in developing Australia's literary landscape. Through the generous financial support of ARA, the Sydney Writers' Festival is able to engage more than 400 writers who take part in over 150 conversations, debates, performances and panel discussions. For the audience of more than 80,000 people this is the opportunity to hear from writers they love, and connect with new ones. While literature remains at the heart of what the Sydney Writers' Festival does, it is through the power of shared conversation and the exchange of ideas, that the Festival is able to connect with the community in a meaningful way. ARA's support further expands to foster a deeper engagement with books and reading through the SWF outreach program, Russ the Story Bus. This initiative reaches over 8000 students from disadvantaged areas, giving them the chance to hear from an author in their school, and take a book home to keep. "

Brooke Webb
Chief Executive Officer

Givit

"In March 2021, devastating floods hit widespread parts of NSW and Queensland, destroying homes and livelihoods. ARA Group's donation of $100,000 to national online charity GIVIT meant that urgent material support could be provided to communities impacted. GIVIT works with frontline charities and community groups to ensure people get exactly what they need, when they needed it. From rural supplies for farmers whose properties had been destroyed, to vouchers for residents of a caravan park who had lost everything; ARA Group's generous donation helped communities get back on their feet as they began their road to recovery."

Caroline Odgers
Corporate Partnerships Manager

Monkey Baa Theatre

"ARA's support of Monkey Baa, and its belief in children's theatre, has been vital in our ability to traverse the devastating impacts of the global pandemic on the Arts sector. Your sponsorship will ensure that all children will continue to have the opportunity to experience immersive, live experiences that will broaden their perspectives, inspire their imaginations, and discover and develop hope... which now, more than ever, is so important for young hearts and minds."

Eva Di Cesare
Artistic Director

Historical Novel Society Australasia

"Raising the profile of historical fiction in Australia and New Zealand has been the mission of the Historical Novel Society Australasia since its inception. It was serendipity and our good fortune to discover Edward Federman had the same vision. The ARA Group has supported our biennial conferences since 2017. The inauguration of the ARA Historical Novel Prize in 2020 has enabled talented historical novelists to be recognised and rewarded in a class of their own. The increase of prize monies to $100,000 this year has made it the richest genre prize in our region. We're proud and grateful to partner with the ARA Group to establish this new award in the Australasian literary calendar."

Elisabeth Storrs
HNSA Chair and Program Director

The Carrolup Story

"With your help, Curtin University is creating a permanent home for the precious Carrolup artworks, allowing their important lessons to be widely shared with our local, national and international communities and encouraging us to walk together towards a more just and inclusive future."

Tim McInnis
Chief Advancement Officer
Corporate Relations

NIDA

"ARA is the Principal Partner for Property Services for the National Institute of Dramatic Art (NIDA) supporting the expenses of education and training for the Higher Education courses, conducted at its world class theatre and training facilities in Kensington, Sydney. The sponsorship also includes support of the ARA Indigenous scholarships which help fund the students' living expenses while studying at NIDA.

The 2020 student ARA Indigenous scholarship recipients studied in the Bachelor of Fine Arts, Properties and Objects, the Bachelor of Fine Arts, Technical Theatre and the Stage Management and Bachelor of Fine Arts, Costume course."

Lisa Hamilton
Head of Development and Alumni

ARA Pro Racing

"The steadfast and passionate support of the ARA Group to the Australian Cycling Academy and our ARA Pro Racing Sunshine Coast team riders through what has been a challenging time for all; has been simply phenomenal. This support has enabled our young riders the confidence to continue to study, to train and compete at the elite level where possible. Amongst our standout results, two young local riders, Alistair MacKellar and Taj Jones secured World Tour contracts, Maeve Plouffe and Alastair Donohoe won selection to the Australian Tokyo 2020 Olympic team and our riders have won multiple podium results across Australia. On behalf of the team - we thank you!"

Ben Kersten
Managing Director ACA

Melbourne Writers Festival

"Melbourne Writers Festival is thrilled to welcome the ARA Group as its Principal Partner from 2021. ARA's support is critical to Melbourne Writers Festival in the years ahead. Through the partnership, ARA supports writers from Australia and across the world. Together we celebrate creativity and shared storytelling which helps unite and connect the world. Thank you to Ed and the ARA team."

Rebecca MacFarling
Chief Executive Officer

Story Factory

"We were delighted when ARA Group came on to support us this year. It is a truly enlightened corporate partnership: it's not about sponsorship or branding, it's about making a real difference in the community. Thanks to ARA, we are building the writing skills, confidence and creativity of hundreds more young people in under-resourced communities across Sydney. On behalf of all of them, thank you so much!"

Dr Catherine Keenan AM
Co-founder and executive director

ARA ENDOWMENT FUND

In 2009, we established the ARA Endowment Fund as part of our mission to create a lasting legacy of support for our community. Our goal is to grow the principal balance of the Fund and provide meaningful donations in perpetuity. The Fund is a registered Australian charity in its own right.

Every year, 100% of the annual interest earned on the Fund balance is donated to three select partnerships: The GO Foundation, The Indigenous Literacy Foundation and The David Lynch Foundation.

GO FOUNDATION

Indigenous Literacy Foundation

DAVID LYNCH FOUNDATION

Section

03

ARA Initiatives

ARA Growth

Through Acquisition

Throughout the twenty years of ARA, we have tried to grow the business organically through market share growth and the opening of new offices as well as through strategic acquisitions. We have targeted acquisitions to add complementary products and services and to increase our overall operating margin. We have been very disciplined in our approach to acquisitions including being consistent with the valuation process. Borrowings from our bank facilities, operating cash flow and the use of ARA shares have consistently been the sources we have used to effect the acquisitions. We have persistently been able to maintain a leverage ratio below two times. Keeping our balance sheet strong and not highly leveraged has always been a guiding principle.

$28.3 million was spent on acquisitions made during financial year 2021. There was a focus on expanding the manufacturing businesses in Australia and New Zealand. We also significantly expanded our electrical capabilities with an emphasis on additional service capabilities and an expansion of our geographical footprint.

• **ARA Manufacture**

CAM Shelters & Walkways

CAM Shelters and Walkways adds complementary products to the Leda Security range of products. CAM (now rebranded as ARA Shelters and Structures) is New Zealand's leading supplier of shelters, covered walkways and larger public transport structures. CAM offers a complete turnkey solution with its experienced team of design engineers, fabricators and installers. CAM incorporates Leda bicycle racks in many of its shelters. We now have the capability to grow the shelter and structure business in Australia with CAM's high quality designs and products.

• **ARA Security**

Servcore

Servcore is an electrical and communications installation and service company that focuses on the service of IT infrastructure in mission critical environments. Servcore has the capability to provide breakdown, planned and preventative maintenance throughout Australia and New Zealand. Servcore adds specialised electrical capabilities to ARA as well as significant geographic coverage.

In addition to the additional capabilities of Servcore, ARA expanded its geographic coverage of commercial electrical service with an acquisition of an electrical service business in Melbourne.

• **ARA Electrical**

JBM Power

JBM Power was acquired during the fourth quarter. JBM designs, engineers and manufactures electrical switchboards, PLC's, control panels and portable switch rooms. JBM utilises state of the art manufacturing equipment including turret punches, CNC press brakes and CNC laser cutting machinery. JBM has significant capacity as it occupies a 5,000 square metre factory. Since the acquisition, ARA and JBM has invested in additional fibre laser cutting capacity.

JBM's switchboards and motor control centres are part of the electrical plants of water management corporations, mines and other critical applications.

> **"We have targeted acquisitions to add complementary products and services and to increase our overall operating margin."**
>
> —
> Edward Federman

• **ARA Fire**

Wiltrading STACE

The ARA Fire Division made a business altering acquisition of a life safety systems service business. Wiltrading STACE has a strong, expert presence and long history in providing safety inspections, testing, certification, servicing, engineering services, project management and asset management to the Marine & Offshore, Industrial and Defence sectors. With OEM accreditation and regulatory approvals, highly trained and knowledgeable service technicians and facilities strategically located around Australia, Wiltrading STACE deliver critical services that enable their customers to meet the necessary safety and certification requirements to continue operating. This acquisition increases the service capabilities of ARA Fire as well as increases the geographic coverage of ARA Fire to Karratha, WA, Darwin, NT and Cairns, QLD.

• **ARA Manufacture**

Australian Commercial Doors

Subsequent to the end of the financial year, ARA Manufacture has acquired Australian Commercial Doors (ACD), a leading manufacturer of fire doors, acoustic doors, fire rated windows, metal door products and other specialised doors. ACD is located in Melbourne.

• **ARA Manufacture**

Tru-Bilt Industries

In addition to the acquisition of CAM, ARA Manufacture acquired well-regarded product lines in New Zealand from Tru-Bilt Industries. These were a range of commercial and industrial doors and docking solutions for warehouses.

• **ARA Mechanical**

Ducted Air Solutions

The ARA Mechanical Division expanded its service offerings with the acquisition of Ducted Air Solutions (DAS). DAS specialises in the hygiene remediation and restoration of industrial and commercial ventilation systems. With an increased awareness of air quality in offices and hospitals, ARA Mechanical is well placed to increase its service business in Brisbane and Sydney.

ARA Growth

Through Manufacturing In Australia & New Zealand

During the course of the past twenty years, ARA has steadily invested in its ability to manufacture building products to complement its building service capabilities. The first acquisition ARA made in 2001 was Sealeck Doors, a manufacturer of steel doors in Adelaide. At the time of this initial acquisition, Sealeck's annual revenue was approximately $4 million. Today, the annual revenue of all manufacturing within ARA is approximately $120 million.

There has been a strong strategic focus on increasing ARA's manufacturing capability. This has been fortuitous. The COVID pandemic around the world has thrown supply chains into disarray. There has been an increased interest in the Australian and New Zealand economies to produce products locally and move away from the importing of goods produced offshore.

For example, up until 2014, ARA was a large supplier of steel doors to manufacturers of demountable buildings. At that time, a major customer began to purchase their doors from an overseas supplier to save money. During the past year, that same customer came back to ARA Manufacture. They were tired of having to purchase container loads of products, the quality was not as good as ARA's, the choice of colours of the doors was limited and ARA provided just in time deliveries. The slightly more expensive doors manufactured in Australia solved many problems for our customer.

Recently, there have been COVID variants creating stress on various economies around the world. In addition to the COVID pandemic there have been natural disasters and cyber-attacks that have further disrupted global supply chains. There are risks to the economies of Australia and New Zealand as a result of the supply chain challenges. Manufacturing products in Australia and New Zealand is one way to offset these challenges and disruptions.

The Australian Federal Government issued an interim report Vulnerable Supply Chains in March 2021. In the report, the Government noted, "Australia drank the free-trade juice and decided that off-shoring was OK. Well, that era is gone....We've got to now realise we've got to really look at on-shoring capabilities." The Australian Government has identified manufacturing as a way to "boost supply chain resilience." In New Zealand, Business New Zealand reported in June 2021 "Production and new orders continued to increase at a solid pace, while the pace of job creation accelerated to the fastest since August 2017. Finished stocks and deliveries of raw materials increased above their respective historical averages...." In summary, manufacturing in both Australia and New Zealand is expanding strongly.

Given all the problems in the world, we believe that ARA's strategy to focus upon growing our manufacturing capabilities is appropriate for our business in Australia and New Zealand. It is our intention to continue to find opportunities to grow our manufacturing business.

Our considerable strengths are in the following areas:

- Industrial doors – steel and aluminium
- Commercial doors – steel and timber
- Fire doors – steel and timber
- Acoustic doors
- Bullet proof, blast proof, ballistic resistant doors, windows, pass throughs, counters
- Security cabinets
- Steel and aluminium structures
- Bicycle racks and shelters
- Bollards
- Gates
- Commercial interior furniture
- Switch boards
- Switch rooms

Photographs

All products shown are manufactured in Australia and New Zealand.

ARA Group

In conjunction with ARA Indigenous Services

ARA is very fortunate to be in partnership with Michael O'Loughlin's ARA Indigenous Services business. At the time we became partners four years ago, ARA Indigenous Services was solely a cleaning business. The business has continued its cleaning and property services business, but during the past year, it has become so much more.

Many of our customers are looking for meaningful Indigenous engagement in Australia. The ARA Indigenous Services business provides that vehicle. During the past four years we have worked to integrate the various ARA service and installation capabilities with ARA Indigenous Services.

ARA Fire is now delivering several major fire protection maintenance contracts in conjunction with ARA Indigenous Services. ARA Fire is also delivering a major fire sprinkler installation contract as part of a large infrastructure project with ARA Indigenous Services as the contractor of record.

ARA Security is installing an electronic security system in a government building in conjunction with ARA Indigenous Services. In addition, ARA Security and ARA Indigenous Services are collaborating on two major infrastructure projects.

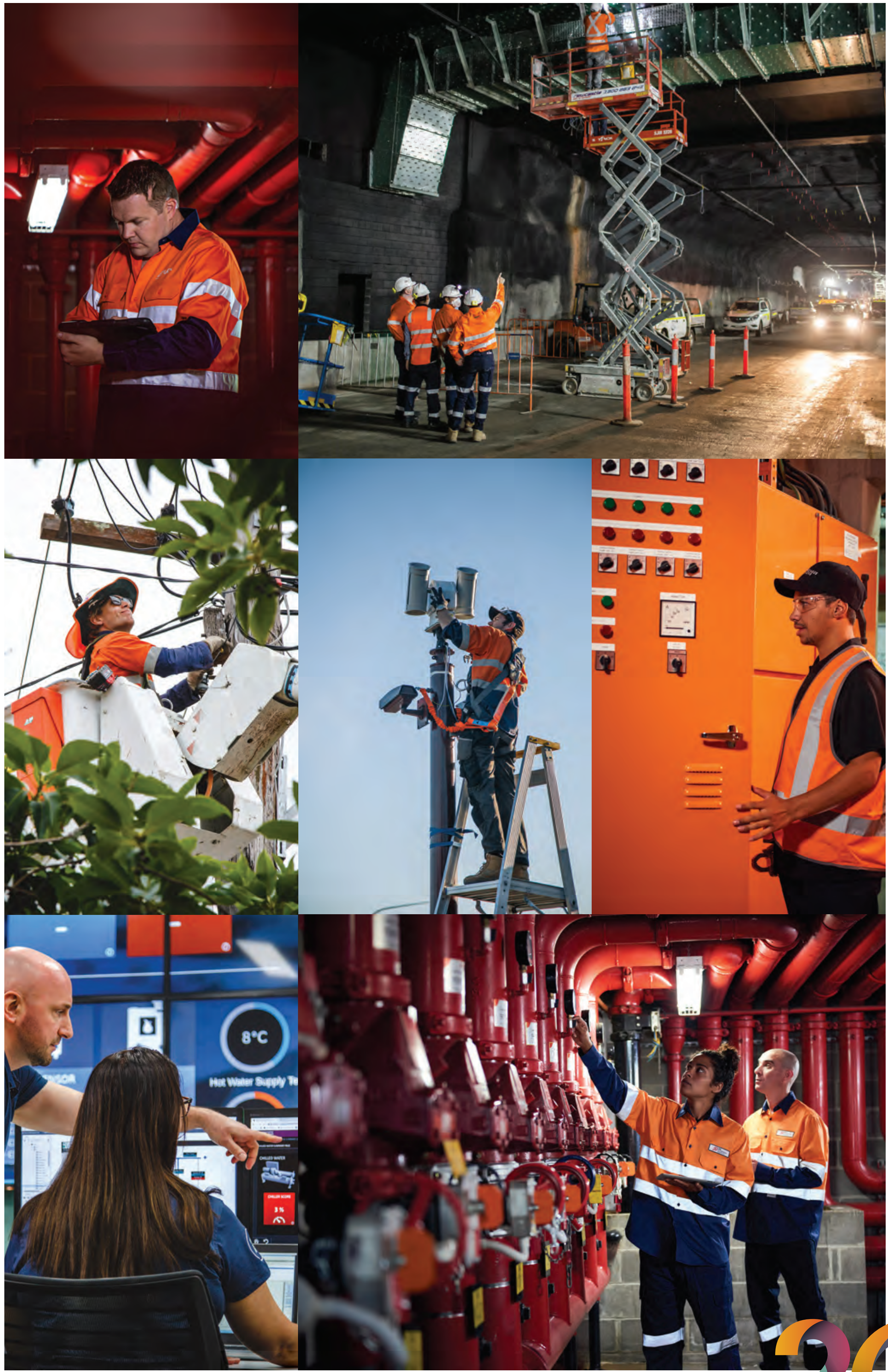
ARA Mechanical and ARA Indigenous Services are collaborating on two major infrastructure projects and a New South Wales school upgrade.

ARA Electrical, ARA Mechanical and ARA Security are working together on a multi-services installation project as sub-contractors of ARA Indigenous.

In all these opportunities to deliver ARA technical capabilities through ARA Indigenous, the ARA Indigenous engagement is taken very seriously. Each of the projects noted above all have meaningful Indigenous employment. The overall Indigenous employment throughout the ARA Group exceeds the national Indigenous percentage of the total Australian population. ARA Indigenous Services personnel provide cultural awareness training within the ARA Group and with any customer who requests such training. Whenever possible, material purchases are made from Indigenous suppliers.

Further to the work undertaken collaboratively, as described above, the ARA Group makes meaningful contributions to Indigenous organisations and individuals. The ARA Endowment Fund contributes to the GO Foundation, an organisation which provides education scholarships for Indigenous youth, and the Indigenous Literacy Foundation. The ARA Group provides three scholarships to Indigenous students at the National Institute of Dramatic Arts.

The ARA Group and ARA Indigenous Services takes very seriously our role in providing meaningful opportunities for Indigenous and Torres Strait Islander Australians. We are serious in meeting our goals for reconciliation in Australia.



Section 04

ARA Divisions

2021
Revenue

$576 Million

Revenue
Comprised of

60%	18%	19%	3%
Service	Construction	Product	Infrastructure

Revenue
By Division

Capabilities
By Division

ARA SECURITY

$82 Million

Integration of & solutions for electronic security

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

ARA MECHANICAL

$59 Million

Energy management for commercial buildings

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

ARA PROPERTY SERVICES

$147 Million

Commercial cleaning & building services

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

Building Services
- Remedial Building Repairs
- Insurance Building Repairs
- 24/7 Emergency Service
- Exterior & Interior Design
- Fit Outs of Interior Spaces
- Refurbishments
- Multi Trade Services
- Thermal Imaging
- Maintenance

ARA ELECTRICAL

$109 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

$72 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

$107 Million

Distribution & manufacturing

Distribution of
- Access Control
- CCTV
- Photo ID Systems
- Identity Security
- Architectural Hardware

Manufacturing of
- Commercial Doors
- Industrial Doors
- High Security Doors
- Physical Security Systems
- Ballistic Glass
- Bollards, Gates and Commercial Bicycle Racks
- Joinery and Lockers

ARA INDIGENOUS SERVICES

$27 Million*

Commercial cleaning services

Operates as a commercial cleaning business and is a conduit for all ARA capabilities.

*Revenue is included in the ARA Property Services total.

ARA Group
Our Locations

Security

ACT
Fyshwick
NSW
Bella Vista
Kingsgrove
QLD
Loganholme
SA
Regency Park
VIC
South Melbourne
WA
Balcatta
NEW ZEALAND
Auckland
Kerikeri
Wellington

Property & Building

NSW
Parramatta
Kingsgrove
Tuggerah
QLD
Slacks Creek
Milton
SA
Regency Park
Eastwood
VIC
Airport West
Hawthorn
WA
Balcatta

Mechanical

ACT
Fyshwick
NSW
Kingsgrove
Orange
Tuggerah
QLD
Tingalpa
VIC
Cheltenham

Fire / WLST

ACT
Fyshwick
NSW
Kings Park
Tuggerah
Alexandria
Stanmore
QLD
Bundaberg
Gladstone
Kingston
Loganholme
Portsmith
SA
Regency Park
VIC
Derrimut
WA
Balcatta
Gap Ridge
Henderson
Kalgoorlie
NT
East Arm

Products

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

Electrical

NSW
Baulkham Hills
Heatherbrae
Ingleburn
Minto
Nowra
Seven Hills
Singleton
Unanderra
QLD
Tingalpa
VIC
Tullamarine
NT
Woolner

Indigenous Services

NSW
Kingsgrove
VIC
Hawthorn

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, Chief Executive Officer
ARA Group / ARA Fire
Executive Chair, Director ARA Group
20 years with ARA

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

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

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

Mark Pamula
Managing Director
ARA Manufacture
20 years with ARA

Tony Murr
Managing Director
ARA Building Services
17 years with ARA

Phil Harding
Managing Director
ARA Mechanical
15 years with ARA

Stuart Harmer
Managing Director
ARA Products
12 years with ARA

Jason Moore
Managing Director
ARA Electrical
11 years with ARA

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

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

Section 05

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 2021.

The results reported in this report are before the impact of AASB 16 *Leases*. 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-six 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-six years of experience in the electrical industry and has worked for the Company since 2001.

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 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 sixteen years of finance and commercial experience.

Tony Franov (Executive Director)

Tony Franov joined the Board as an Executive Director in 2018. Tony has twenty-one 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-one 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	9	9	1	1
Edward Federman	9	9	1	1
James Marshall	9	9	-	-
Brett Chambers	9	9	-	-
Norbert Schweizer OAM	9	9	-	-
Allison McCann	9	9	1	1
Tony Franov	9	9	-	-

Results of operations

Net profit for the year of the economic entity after providing for income tax excluding the impact of AASB 16 amounted to $25,604,366 (2020: $18,778,102). The net profit for the year increased by 36% 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 $576,290,514 in 2021 compared with $621,298,088 in 2020, a decrease of $45 million, or 7%. The decline in revenue was caused by a number of factors including the impact of COVID-19, particularly in our Victorian based businesses, and a reduction in infrastructure works, due to a number of large contracts completing at the end of last financial year. The decline in revenue was partially offset by increased revenue in our Property division and from acquisitions made during the year. The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to $46,331,955 in 2021 compared with $36,500,298 in 2020, an increase of $9.8 million, or 27%. The Group's EBITDA before profit sharing expense was $54,541,652 in 2021 (9% of revenue) compared with $41,334,453 in 2020 (7% of revenue), an increase of $13.2 million, or 32%.

Directors' report (continued)

Review of operations (continued)

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

	2021 (Prior to adjusting for AASB 16)	2020 (Prior to adjusting for AASB 16)	Impact of adoption of AASB 16 in 2021	Impact of adoption of AASB 16 in 2020	2021 Statutory result	2020 Statutory result
	$	$	$	$	$	$
Earnings before interest, tax, depreciation, amortisation and profit sharing expense	54,541,652	41,334,453	12,505,467	11,174,242	67,047,119	52,508,695
Profit sharing expense	(8,209,697)	(4,834,155)	-	-	(8,209,697)	(4,834,155)
EBITDA (Earnings before interest, tax, depreciation, amortisation and acquisition expense)	**46,331,955**	**36,500,298**	**12,505,467**	**11,174,242**	**58,837,422**	**47,674,540**
Depreciation and amortisation expense	(6,481,573)	(5,805,247)	(12,724,200)	(10,434,311)	(19,205,773)	(16,239,558)
EBIT (Earnings before interest and tax)	**39,850,382**	**30,695,051**	**(218,733)**	**739,931**	**39,631,649**	**31,434,982**
Net interest expense	(3,023,034)	(3,480,410)	(1,833,371)	(415,651)	(4,856,405)	(3,896,061)
Profit before income tax	**36,827,348**	**27,214,641**	**(2,052,104)**	**324,280**	**34,775,244**	**27,538,921**
Income tax expense	(11,222,982)	(8,436,539)	615,631	(97,284)	(10,607,351)	(8,533,823)
Profit after income tax	**25,604,366**	**18,778,102**	**(1,436,473)**	**226,996**	**24,167,893**	**19,005,098**

The Group made two large acquisitions during the current year. These acquisitions were an electrical switchboard, and electrical and communications service business. There were also a number of smaller acquisitions during the year made in both Australia and New Zealand. All of the acquisitions were accretive to earnings in 2021.

During the financial year, the forward order book grew significantly. At 30 June 2021, the confirmed forward orders totalled approximately $305 million (30 June 2020: $208 million). The backlog remains strong across all divisions.

The Group's net senior bank debt (senior bank debt less cash) decreased by $5.1 million from $54.7 million at 30 June 2020 to $49.6 million at 30 June 2021. The decrease in net senior bank debt is principally due to strong operating cash flow during the year.

The overall EBITDA operating margin increased to 8% from 6% of sales in the prior year.

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 and life safety systems 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 and electrical switch boards and switch rooms. The acquisitions in 2021 increased the activities of the companies in the economic entity during the year.

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.

Certain businesses and geographical locations did experience a decline in revenue and qualified for JobKeeper subsidies which helped maintain our workforce. 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 of this outbreak on the Group at this time.

The financial statements have been prepared based upon conditions existing at 30 June 2021 and considering events up to the date of this report.

During the year, the Group issued 1,352,945 new shares, increasing the number of shares issued from 41,028,263 at 30 June 2020 to 42,381,208 at 30 June 2021. This increased contributed equity by $7,241,752 from $93,313,832 at 30 June 2020 to $100,555,584 at 30 June 2021.

The issue of new shares relate to:

- 1,124,000 new shares issued as purchase consideration for businesses acquired, and
- 228,945 newly issued shares to new and existing shareholders.

On 30 June 2021, the Group entered into an Amended Facility Agreement with its banks (Westpac Banking Corporation, Commonwealth Bank of Australia and Bank of Queensland). The total Facility is $146 million, an increase of $6 million from 30 June 2020. 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.

The Group made two large acquisitions during the year and several smaller acquisitions during the year.

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

Significant events after the reporting period

Beginning in June 2021, a new COVID-19 outbreak of the Delta variant was identified in Sydney, New South Wales. The New South Wales government's response to this outbreak has resulted in a significant disruption to the Group's business in New South Wales. Approximately 50% of the Group's business is in New South Wales. It is not possible to quantify the effect of this recent COVID-19 outbreak.

On 29 June 2021, the Group signed a sale of business agreement to acquire the business of Australian Commercial Doors Pty Ltd, for cash consideration of $11.7 million. Settlement of the acquisition occurred on 30 July 2021.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

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 2022, although appropriate acquisition opportunities will be thoroughly investigated. It remains the goal of the Directors to pay dividends of $0.40 per share during the financial year 2022, subject to the effect of the recent COVID outbreak.

Directors' report (continued)

Future developments (continued)

If the Group identifies appropriate acquisitions in 2022, it will likely use a combination of new equity, cash flows from operations, and borrowings to finance the execution of any acquisitions, as it did in 2021. 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 2021, net debt was $49.6 million, or 26% of its capital structure ($54.7 million at 30 June 2020 and 30% of its capital structure). The decrease in net debt was principally due to strong operating cash flow and government subsidies. At 30 June 2021, 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 1.00 (30 June 2020: 1.47). Net interest expense decreased by $457,376, due to lower interest rates and maturity of an interest rate swap. The Group's interest cover ratio (EBIT divided by interest expense) was 13 times in 30 June 2021 (9 times at 30 June 2020).

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 $0.475 per share in 2021 (2020: $0.257 per share) of which $0.15 per share related to dividends declared at 30 June 2020.

Fully franked dividends amounting to $17,642,114, or $0.425 per share, were declared by ARA Group Limited during the financial year (2020: $13,505,553 or $0.33 per share). Of the total amount declared in 2021, $4,238,121, $0.10 per share was paid on 1 July 2021. The dividend payment was provided for at 30 June 2021.

In addition to dividends paid by ARA Group Limited, ARA Indigenous Services Pty Ltd paid total dividends of $1,411,880 in 2021 to shareholders. $720,059 of which was paid to shareholders outside of the Group.

Share options

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Indemnification and insurance of directors and officers

Insurance premiums of $36,000 were paid during the financial year for Directors and Officer Liability Insurance (2020: $20,566).

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 43.

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
6 August 2021

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Sydney NSW 2000 Australia
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Fax: +61 2 9248 5959
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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 2021, 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
6 August 2021

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

	Notes	2021 $	2020 $
Revenue from contracts with customers	5.1	576,290,514	621,298,088
Other income	6.1	23,870	191,965
Changes in inventories of finished goods and work in progress		2,296,871	(4,503,125)
Raw materials and consumables used		(166,692,173)	(168,718,154)
Employee benefits expense		(200,171,983)	(225,808,958)
Management and subcontract fees		(112,552,918)	(136,850,174)
Profit sharing expense		(8,209,697)	(4,834,155)
Depreciation of property, plant and equipment	6.4	(4,100,634)	(4,013,038)
Depreciation of right-of-use assets	6.5	(12,724,200)	(10,434,311)
Amortisation expense	6.6	(2,380,939)	(1,792,209)
Other expenses from ordinary activities	6.7	(32,000,441)	(32,840,459)
Acquisition expenses		(146,621)	(260,488)
Finance costs	6.3	(3,023,875)	(3,509,396)
Finance costs - interest on payments for right-of-use assets	14	(1,833,371)	(415,651)
Finance income	6.2	841	28,986
Profit before income tax expenses		**34,775,244**	**27,538,921**
Income tax expense	7	(10,607,351)	(8,533,823)
Net profit for the year		**24,167,893**	**19,005,098**
Net profit for the year is attributable to:			
Owners of the Parent		23,572,333	18,418,455
Non-controlling interests		595,560	586,643
		24,167,893	**19,005,098**
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	(29,992)	(108,887)
Net unrealised gain on cash flow hedges, net of tax	20.2	291,618	201,083
Net other unrealised comprehensive income to be reclassified to profit or loss in subsequent periods		**261,626**	**92,196**
Other comprehensive income for the year		**261,626**	**92,196**
Total comprehensive income for the year		**24,429,519**	**19,097,294**
Total comprehensive income for the year is attributable to:			
Owners of the Parent		23,833,959	18,510,651
Non-controlling interests		595,560	586,643
		24,429,519	**19,097,294**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

As at 30 June 2021

	Notes	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents	9	29,226,587	27,921,078
Trade and other receivables	10	89,654,578	98,418,701
Inventories	11	18,357,666	16,133,305
Prepayments		4,554,788	2,679,481
Total current assets		141,793,619	145,152,565
Non-current assets			
Other receivables		212,936	1,301,249
Property, plant and equipment	13	14,673,888	13,786,295
Right-of-use assets	14	39,556,671	35,904,172
Goodwill and intangible assets	15	196,508,053	163,659,426
Deferred tax assets	7	10,927,738	6,978,636
Total non-current assets		261,879,286	221,629,778
Total assets		**403,672,905**	**366,782,343**
Liabilities			
Current liabilities			
Trade payables	16	55,208,534	47,593,688
Other payables	16	45,135,756	44,472,181
Contract liabilities	17	7,400,887	4,472,038
Lease liabilities related to right-of-use assets	14	11,179,758	11,580,912
Employee benefits liabilities	19	20,862,984	18,383,863
Income tax payable		6,142,365	2,312,125
Total current liabilities		145,930,284	128,814,807
Non-current liabilities			
Other payables	16	1,550,000	-
Lease liabilities related to right-of-use assets	14	30,363,146	24,131,034
Interest-bearing loans and borrowings	18	78,825,000	82,625,000
Employee benefits liabilities	19	3,231,483	2,431,277
Deferred tax liabilities	7	3,915,588	2,231,919
Total non-current liabilities		117,885,217	111,419,230
Total liabilities		**263,815,501**	**240,234,037**
Net assets		**139,857,404**	**126,548,306**
Equity			
Contributed equity	20.1	100,555,584	93,313,832
Other reserves	20.2	(3,044,658)	(3,306,284)
Retained earnings		41,722,243	35,792,024
Equity attributable to equity holders of the Parent		**139,233,169**	**125,799,572**
Non-controlling interests		624,235	748,734
Total equity		**139,857,404**	**126,548,306**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2021

	Contributed equity (Note 20.1) $	Retained earnings $	Other reserves (Note 20.2) $	Non-controlling interests $	Total equity $
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 (Note 8)	-	(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**
At 1 July 2020	**93,313,832**	**35,792,024**	**(3,306,284)**	**748,734**	**126,548,306**
Profit for the year	-	23,572,333	-	595,560	24,167,893
Other comprehensive income	-	-	261,626	-	261,626
Total comprehensive income for the year	-	23,572,333	261,626	595,560	24,429,519
Transactions with owners in their capacity as owners:					
Shares issued during the year	7,241,752	-	-	-	7,241,752
Dividends paid or provided for (Note 8)	-	(17,642,114)	-	(720,059)	(18,362,173)
At 30 June 2021	**100,555,584**	**41,722,243**	**(3,044,658)**	**624,235**	**139,857,404**

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2021

	Notes	2021 $	2020 $
Operating activities			
Receipts from customers		652,658,314	677,541,927
Payments to suppliers and employees		(568,088,811)	(635,817,620)
Dividends received		-	969
Interest received		841	28,986
Borrowing costs paid		(4,857,246)	(3,509,396)
Income tax paid		(10,321,081)	(9,783,852)
Net cash flows from operating activities	9	**69,392,017**	**28,461,014**
Investing activities			
Purchase of plant and equipment		(4,528,097)	(2,708,900)
Proceeds from sale of plant and equipment		980,682	464,111
Payment for investments and businesses acquired	3	(31,036,814)	(13,714,960)
Net cash flows used in investing activities		**(34,584,229)**	**(15,959,749)**
Financing activities			
Proceeds from borrowings		43,300,000	26,500,000
Repayment of borrowings		(47,100,000)	(11,000,000)
Payment of lease liabilities		(10,545,741)	(10,891,861)
Proceeds from issued capital	20	1,121,752	1,941,007
Dividends paid - owners of the parent entity	8	(19,558,231)	(10,420,410)
Dividends paid to non-controlling interest		(720,059)	(234,187)
Net cash flows used in financing activities		**(33,502,279)**	**(4,105,451)**
Net increase in cash and cash equivalents		1,305,509	8,395,814
Cash and cash equivalents at 1 July		27,921,078	19,525,264
Cash and cash equivalents at 30 June	9	**29,226,587**	**27,921,078**

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2021

1. Corporate information

The consolidated financial statements of ARA Group Limited and its controlled entities (the "Group") for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the directors on 6 August 2021.

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 34 Denison Street, Camperdown, NSW, 2050.

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.

The Group achieved a profit after tax for the year of $24,167,893 and generated $69,392,017 in operating cash flows. While at 30 June 2021, current liabilities exceeded current assets by $4,136,665, this results from the classification of $11,179,758 of lease payments due over the next 12 months as current liabilities in accordance with AASB 16 *Leases*, whereas the corresponding right-of-use asset is classified as a non-current asset. In addition to $29,226,587 of cash on hand at 30 June 2021, the Group has undrawn financing facilities at that date amounting to $49,712,709.

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

The financial statements are presented in Australian dollars ($).

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

The new and amended Australian Accounting Standards and Interpretations that apply for the first time in 2021 do not materially impact the financial statements of the Group.

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 year ended 30 June 2021. The Group intends to adopt these new and amended standards and interpretations, when they become effective.

AASB 1060 ***General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (Effective for reporting periods beginning on or after 1 July 2021)***

Entities will be required to follow the recognition and measurement requirements under Australian Accounting Standards, but may apply the simplified disclosure requirements in AASB 1060. AASB 1060 is the new simplified disclosure standard developed by the AASB based on IFRS for Small and Medium-sized Entities.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

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.

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.

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

d) Property, plant and equipment (continued)

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.

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%

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

e) Leases (continued)

(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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

f) Impairment of non-financial assets (continued)

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.

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.

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

l) Business combinations and goodwill (continued)

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.

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.

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.

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

n) Intangible assets (continued)

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	No amortisation

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

p) Revenue from contracts with customers (continued)

Sale of goods (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

p) Revenue from contracts with customers (continued)

Infrastructure revenue (continued)

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 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:

- 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

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)

Initial recognition and measurement (continued)

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

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

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)

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, 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.

Impairment of financial assets (continued)

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

(ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

(ii) Financial liabilities (continued)

Subsequent measurement (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

t) Derivative financial instruments and hedge accounting (continued)

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.

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

v) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation of assets and liabilities but resulting in no impact to the over all profit for the year. This included the reclassification of $10,128,842 of lease liabilities from non-current to current liabilities.

w) 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.

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.

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).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

w) Critical accounting estimates and judgements (continued)

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).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

3. Business combinations

Acquisitions in 2021

Effective 1 February 2021, the Group acquired the shares of Servcore Pty Limited and Servcore NZ Limited (collectively "Servcore") for $8,368,019, including cash consideration of $7,968,019 and the issuance of shares to the value of $400,000. Included in the cash consideration is a deferred component of $800,000, which will be paid over the next two financial years. Servcore is a business specialising in electrical and communications infrastructure.

Effective 1 April 2021, the Group acquired the shares of JBM Power Pty Limited for $14,378,753, including cash consideration of $8,878,753 (net of cash acquired) and the issuance of shares to the value of $5,500,000. Included in the cash consideration is a deferred component of $1,400,000, which will be paid over the next two financial years. JBM Power Pty Limited is a leading switchboard and switch room manufacturer.

A number of other acquisitions were completed during the year including a specialist shelter manufacturer based in New Zealand and a life safety systems service business specialising in marine and offshore locations. Total consideration for these two entities and a number of smaller acquisitions was $14,123,054, including cash consideration of $13,903,054 (net of cash acquired) and the issuance of shares to the value of $220,000. Included in the cash consideration is a deferred component of $400,000, which will be paid over the next two financial years.

The assets acquired were measured at fair value.

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

All acquisitions have been provisionally accounted for at 30 June 2021.

Assets acquired and liabilities assumed

The below table discloses the fair values of the identifiable assets and liabilities of acquisitions in 2021 as at the date of acquisition:

Fair value recognised on acquisition

	Servcore	JBM	Others	Total
	$	$	$	$
Assets				
Receivables	2,326,065	1,113,841	2,520,290	5,960,196
Inventories	30,000	270,453	1,424,706	1,725,159
Other assets	-	-	88,772	88,772
Property, plant and equipment (Note 13)	611,391	251,991	577,427	1,440,809
Intangible assets (Note 15)	1,455,711	-	4,365,108	5,820,819
Deferred tax asset (Note 7)	-	127,308	-	127,308
Total assets	**4,423,167**	**1,763,593**	**8,976,303**	**15,163,063**
Liabilities				
Payables and other liabilities	1,993,717	833,646	1,753,147	4,580,510
Employee provisions	220,409	424,360	718,064	1,362,833
Contract revenue received in advance	96,336	-	-	96,336
Deferred tax liability (Note 7)	320,734	-	1,085,111	1,405,845
Total liabilities	**2,631,196**	**1,258,006**	**3,556,322**	**7,445,524**
Total identifiable net (liabilities)/ assets at fair value	**1,791,971**	**505,587**	**5,419,981**	**7,717,539**
Goodwill (Note 15)	6,576,048	13,873,166	8,703,073	29,152,287
Purchase consideration transferred	**8,368,019**	**14,378,753**	**14,123,054**	**36,869,826**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

3. Business combinations (continued)

Acquisitions in 2021 (continued)

	Servcore	JBM	Others	Total
Purchase consideration				
Shares issued, at fair value	400,000	5,500,000	220,000	6,120,000
Cash paid during the financial year	7,168,019	11,099,743	13,986,565	32,254,327
Less: Cash acquired	-	(3,620,990)	(483,511)	(4,104,501)
Cash (deferred consideration)	800,000	1,400,000	400,000	2,600,000
Total consideration	**8,368,019**	**14,378,753**	**14,123,054**	**36,869,826**
Net cash outflow on acquisition				
Cash consideration	7,168,019	7,478,753	13,503,054	28,149,826
Deferred consideration paid for an acquisition made in prior year	-	-	2,740,367	2,740,367
Costs on acquisition	31,540	22,418	92,663	146,621
Total consideration	**7,199,559**	**7,501,171**	**16,336,084**	**31,036,814**

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 Leda have been provisionally accounted for at 30 June 2020. These were finalised during the 30 June 2021 financial year.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

3. Business combinations (continued)

Acquisitions in 2020 (continued)

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	595,687	1,081,049	1,676,736
Deferred tax asset	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 assets at fair value	**3,103,889**	**157,074**	**3,260,963**
Goodwill	4,809,574	7,906,248	12,715,822
Purchase consideration transferred	**7,913,463**	**8,063,322**	**15,976,785**
Purchase consideration			
Shares issued, at fair value	1,700,000	1,102,500	2,802,500
Cash paid during the financial year	6,213,463	4,960,822	11,174,285
Cash (deferred consideration)	-	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
	6,266,946	**7,448,014**	**13,714,960**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

4. Discontinued operations

Discontinued operations in 2021

In December 2020, the Group disposed of its Vault business unit. Financial information relating to the discontinued operation for the period to the date of disposal is set out below:

	2021
	$
Loss before tax from a discontinued operations	(521,020)
Income tax benefit	156,306
Loss for the year from discontinued operations	**(364,714)**

The net cash outflow of the business unit in 2021 approximated the loss during the year. The only asset or liability of the Vault business was property, plant and equipment of $754,507.

Discontinued operations in 2020

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 2021

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:

	2021	2020
	$	$
Type of goods or service		
Sale of goods	107,898,800	92,389,070
Rendering of services	348,420,464	357,394,141
Construction revenue	105,110,588	91,550,054
Infrastructure revenue	14,860,662	79,964,823
Total revenue from contracts with customers	**576,290,514**	**621,298,088**
Geographical markets		
Australia	543,694,696	594,059,859
New Zealand	32,595,818	27,238,229
Total revenue from contracts with customers	**576,290,514**	**621,298,088**
Timing of revenue recognition		
Goods transferred at a point in time	107,898,800	92,389,070
Services transferred over time	468,391,714	528,909,018
Total revenue from contracts with customers	**576,290,514**	**621,298,088**

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

	2021	2020
	$	$
Profit on disposal of property, plant and equipment	-	107,870
Other income	23,870	84,095
	23,870	**191,965**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

6. Other income and expenses (continued)

6.2 Finance income

	2021	2020
	$	$
Interest income	**841**	**28,986**

6.3 Finance costs

	2021	2020
	$	$
Borrowing costs:		
External interest paid	**3,023,875**	**3,509,396**

6.4 Depreciation of property, plant and equipment

	2021	2020
	$	$
Leasehold improvements (Note 13)	934,499	753,332
Plant and machinery (Note 13)	1,638,617	1,574,411
Office furniture and equipment (Note 13)	221,041	237,916
Computer equipment and software (Note 13)	777,586	867,751
Motor vehicles (Note 13)	528,891	579,628
	4,100,634	**4,013,038**

6.5 Depreciation of right-of-use assets

	2021	2020
	$	$
Right-of-use assets (Note 14)	**12,724,200**	**10,434,311**

6.6 Amortisation expense

	2021	2020
	$	$
Amortisation of borrowing costs	256,460	283,639
Amortisation of customer contracts (Note 15)	2,052,209	1,437,550
Amortisation of intellectual property (Note 15)	72,270	71,020
	2,380,939	**1,792,209**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

6. Other income and expenses (continued)

6.7 Other expenses from ordinary activities

	2021 $	2020 $
Rent and outgoings	9,450,006	8,323,856
Leasing costs	6,292,737	6,204,725
Lease adjustment (AASB 16)	(12,505,467)	(11,174,242)
	3,237,276	3,354,339
Motor vehicle expenses	5,737,052	6,533,340
Consultants	3,176,828	1,485,965
Communication	2,304,588	2,519,255
Insurances	3,010,221	2,926,581
Repairs and maintenance	842,315	1,075,488
Computer expenses	3,057,711	2,922,722
Travel	936,582	1,602,714
Other staff expenses	2,397,423	3,111,160
Expected credit losses/(recovery from expected credit losses)	315,769	(453,691)
Advertising, marketing and sponsorship expenses	1,421,411	1,341,155
Legal fees	353,528	332,774
Bank guarantees and surety fees	520,638	350,811
Other expenses	4,689,099	5,737,846
	28,763,165	29,486,120
	32,000,441	**32,840,459**

7. Income tax

The major components of income tax expense for the years ended 30 June 2021 and 30 June 2020 are:

Consolidated statement of profit or loss	2021 $	2020 $
Current income tax:		
Current income tax expense	14,144,528	10,098,723
Adjustments in respect of current income tax of previous year	6,793	(25,861)
Deferred tax:		
Relating to origination and reversal of temporary differences	(3,543,970)	(1,539,039)
Income tax expense reported in the consolidated statement of profit or loss	**10,607,351**	**8,533,823**

Consolidated statement of other comprehensive income	2021 $	2020 $
Deferred tax on net unrealised loss on cash flow hedges (Note 20.2)	**(124,979)**	**(86,179)**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

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:

	2021 $	2020 $
Accounting profit before income tax	**34,775,244**	**27,538,921**
At Australia's statutory income tax rate of 30% (2019: 30%)	10,432,573	8,261,676
Difference in tax rates	13,588	14,244
Non-allowable items	371,887	231,557
Tax offsets	(299,767)	(102,447)
Prior year adjustments	59,940	67,539
Other	29,130	61,254
Income tax expense attributable to profit from ordinary activities	**10,607,351**	**8,533,823**

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated statement of profit or loss	
	2021 $	2020 $	2021 $	2020 $
Expected credit losses	284,774	277,383	(7,391)	134,181
Other provisions and accruals	2,031,826	765,040	(1,266,786)	525,547
Employee leave provisions	6,949,853	6,134,744	(406,257)	(389,626)
Fixed assets	(971,757)	(172,917)	798,840	(95,454)
Work in progress	1,258,574	237,845	(1,020,728)	(1,602,720)
Retentions	(385,341)	(802,310)	(416,970)	131,650
Intangible assets	(2,771,409)	(1,612,726)	(578,562)	(405,806)
Leases	615,630	(97,284)	(712,914)	97,284
Tax losses	-	16,942	66,798	65,905
Deferred tax expense/(benefit)			**(3,543,970)**	**(1,539,039)**
Net deferred tax assets	**7,012,150**	**4,746,717**		
Reflected in the consolidated statement of financial position as follows:				
Deferred tax assets	10,927,738	6,978,636		
Deferred tax liabilities	(3,915,588)	(2,231,919)		
Deferred tax assets, net	**7,012,150**	**4,746,717**		

	2021 $	2020 $
Reconciliation of deferred tax assets, net		
As of 1 July	**4,746,717**	**2,297,917**
Tax income during the period recognised in profit or loss	3,543,970	1,539,039
Deferred taxes recognised on prior year business combinations	-	(46,454)
Deferred taxes acquired in current year business combinations	(1,278,537)	903,022
Deferred tax on cash flow hedge	-	86,179
Others	-	(32,986)
As at 30 June	**7,012,150**	**4,746,717**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

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

	2021		2020	
	Per share		**Per share**	
Dividends declared (all franked to 30%)	**$**	**$**	**$**	**$**
Quarter 1				
— Fully paid, Ordinary class (41,067,208 shares) (2020: 40,825,796 shares shares)	0.10	4,106,721	0.08	3,266,064
Quarter 2				
— Fully paid, Ordinary class (41,291,208 shares) (2020: 40,852,513 shares)	0.10	4,129,121	0.10	4,085,251
Quarter 3				
— Fully paid, Ordinary class (41,291,208 shares) (2020: 41,102,513 shares)	0.05	2,064,560	-	-
— Fully paid, Ordinary class (41,381,208 shares) (2020: No dividend paid)	0.075	3,103,591	-	-
Quarter 4				
— Declared and not paid, Ordinary Class (42,381,208 shares) (2020: 41,028,263 shares)	0.10	4,238,121	0.15	6,154,238
Total	**0.425**	**17,642,114**	**0.33**	**13,505,553**

Dividends payable brought forward	6,154,238	3,069,095
Dividends declared during the year	17,642,114	13,505,553
Dividends paid during the year	(19,558,231)	(10,420,410)
Dividends payable carried forward (Note 16)	**4,238,121**	**6,154,238**
Dividends fully paid by ARA Indigenous	1,411,880	459,189
Dividends fully paid by ARA Indigenous outside the Group	720,059	234,187

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

8. Dividends (continued)

	2021	2020
	$	**$**
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% (2020: 30%)	30,310,713	22,205,046
Franking credits that will arise from the payment of income taxes payable as at the end of the financial year	9,703,436	12,671,923
Franking debits that will arise from the payment of dividends as at the end of the financial year	(8,987,189)	(4,566,256)
	31,026,960	**30,310,713**

9. Cash and cash equivalents

	2021	2020
	$	**$**
Cash at bank and on hand	**29,226,587**	**27,921,078**

	2021	2020
	$	**$**
a) Cash flow reconciliation		
Reconciliation of net profit after tax to net cash flows from operations:		
Profit for the year	24,167,893	19,005,098
Adjustments for:		
Acquisition costs	146,621	260,488
Depreciation and amortisation	6,481,573	5,805,247
Increase/(decrease) in provision for expected credit losses	5,161	(453,691)
Depreciation of right-of-use assets	12,724,200	10,434,311
Profit (net) on sale of assets	-	(107,870)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables and other financial assets	15,807,469	(9,072,632)
(Increase)/decrease in inventories	(571,712)	767,833
(Increase)/decrease in prepayments	(2,042,995)	(9,816)
(Increase)/decrease in deferred tax assets - net	(3,543,970)	(1,592,232)
(Increase)/decrease in contract assets	-	6,231,447
Increase/(decrease) in trade and other payables	7,566,020	(8,526,043)
Increase/(decrease) in income tax payable	3,830,240	1,227,563
Increase/(decrease) in employee benefits	1,916,494	1,396,184
Increase/(decrease) in contract liabilities	2,905,023	3,095,127
Net cash flows from operating activities	**69,392,017**	**28,461,014**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

9. Cash and cash equivalents (continued)

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 $146,000,000 (2020: $140,000,000). Of these facilities, $88,537,291 was utilised at 30 June 2021 (2020: $87,045,291). All bank covenants were satisfied during the year.

In addition the Group has a separate credit card facility with Westpac Banking Corporation of $3,300,000 (2020: $2,800,000). $1,280,699 was utilised at 30 June 2021 (2020: $1,505,523).

The Group has a $30,000,000 term loan. The Group is required to repay principal of $4,000,000 (2020: $4,000,000) each financial year under its bank facility agreement if the term loan is fully drawn. At 30 June 2021, the available headroom on the term loan facility was $4,625,000. The Group does not expect to pay any principal during 2022 financial year. At 30 June 2021, the term loan had amortised by $7,750,000, reducing the total facility available to the Group to $138,250,000.

As at 30 June 2021 the Group had no cash on deposit owing to third parties (2020: $217,471).

10. Trade and other receivables

	2021 $	2020 $
Current		
Trade receivables	86,552,535	90,780,855
Provision for expected credit losses	(1,022,162)	(1,014,558)
	85,530,373	**89,766,297**
Retentions	2,045,795	2,940,731
Other debtors	2,078,410	5,711,673
	89,654,578	**98,418,701**

11. Inventories

	2021 $	2020 $
Raw materials and stores	5,725,307	5,311,491
Work in progress	3,368,672	2,331,610
Finished goods	9,794,494	8,799,852
Provision for obsolescence	(530,807)	(309,648)
	18,357,666	**16,133,305**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

12. Controlled entities

Subsidiaries

Name	Principal Activities	% Equity interest 2021	% Equity interest 2020
Allen & Newton Pty Ltd	Property	100	100
Allen & Newton Queensland Pty Ltd	Property	100	100
ARA Building Services Pty Limited	Property and product	100	100
ARA Building Services (Qld) Pty Ltd	Property	100	100
ARA Building Services (NSW) Pty Ltd (a)	Property	100	-
ARA Corporate Services Pty Limited	Corporate	100	100
ARA Electrical Engineering Services Pty Limited	Electrical	100	100
ARA Electrical High Voltage Services Pty Ltd	Electrical	100	100
ARA Electrical Major Projects Division Pty Ltd	Electrical	100	100
ARA Fire Protection Services Pty Limited	Fire	100	100
ARA Indigenous Services Pty Ltd	Property	49	49
ARA Manufacture Pty Ltd	Product	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 Ltd	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
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 (Aust) Pty Ltd	Property	100	100
Crimewatch Video Pty. Ltd.	Security	100	100
Construction Electrical Services Pty Ltd (b)	Electrical	100	-
ARA Electrical Major Projects Division Pty Ltd	Electrical	100	100
Dynamic Facilities Maintenance Group Pty Limited	Property	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 Ltd	Product	100	100
International Security Control Solutions Pty Ltd	Product	100	100
JBM Power Pty Ltd (c)	Electrical	100	-
Leda Export Pty Ltd	Product	100	100
Leda Group (Australia) Pty Ltd	Product	100	100
Leda International Pty. Limited	Product	100	100
Leda Security Exports Pty Ltd	Product	100	100
Leda Security Products Pty Ltd	Product	100	100
Leda Trading Pty Limited	Product	100	100
Leda Security Products (Ningbo) Co Ltd	Product	100	100
Ningbo Fenghua Leda Security Manufacturing Co., Ltd	Product	100	100
Monarch Group Pty Limited	Product	100	100
National Construction Solutions Pty Ltd	Product	100	100
Parking Guidance Australia Pty Limited	Product	100	100
Sherry Services & Maintenance Pty Ltd	Electrical	100	100
Servcore Pty Limited (d)	Security	100	-

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

12. Controlled entities (continued)

Subsidiaries (continued)

Name	Principal Activities	% Equity interest 2021	% Equity interest 2020
TALV Pty Limited	Property	100	100
Thermoscan Inspection Services Pty Ltd	Property	100	100
Transelect Pty Ltd	Electrical	100	100
Web ID Pty Ltd	Mechanical	100	100
Wiltrading Stace Pty Ltd (e)	Fire	100	-
ARA Group NZ Limited	Security	100	100
Servcore NZ Limited (d)	Security	100	-

(a) ARA Building Services (NSW) Pty Ltd was incorporated 10 June 2021.

(b) Construction Electrical Services Pty Ltd was incorporated 22 October 2020.

(c) JBM Power Pty Ltd was acquired 1 April 2021.

(d) Servcore Pty Limited and Servcore NZ Limited were acquired 1 February 2021.

(e) Wiltrading Stace Pty Ltd was acquired 1 May 2021.

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 and ARA Building Services (NSW) Pty Ltd.

All wholly owned controlled entities are incorporated in Australia with the exception of ARA Group NZ Limited and Servcore NZ Limited, which are incorporated in New Zealand and Ningbo Fenghua Leda Security Manufacturing Co., Ltd and Leda Security Products (Ningbo) Co Ltd which are incorporated in China.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

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 2020	8,413,093	19,753,455	2,727,469	7,124,093	3,035,181	41,053,291
Additions	1,066,382	2,025,302	70,711	590,863	774,839	4,528,097
Acquisition of a subsidiary (Note 3)	198,421	479,819	15,145	5,864	741,560	1,440,809
Disposals	(103,572)	(1,079,366)	(2,174)	(60,428)	(214,552)	(1,460,092)
At 30 June 2021	**9,574,324**	**21,179,210**	**2,811,151**	**7,660,392**	**4,337,028**	**45,562,105**
Accumulated depreciation						
At 1 July 2020	4,655,362	12,997,776	1,844,855	6,010,437	1,758,566	27,266,996
Depreciation charge for the year	934,499	1,638,617	221,041	777,586	528,891	4,100,634
Disposals	(76,562)	(240,484)	(725)	(54,425)	(107,217)	(479,413)
At 30 June 2021	**5,513,299**	**14,395,909**	**2,065,171**	**6,733,598**	**2,180,240**	**30,888,217**
Net book value						
At 30 June 2020	3,757,731	6,755,679	882,614	1,113,656	1,276,615	13,786,295
At 30 June 2021	**4,061,025**	**6,783,301**	**745,980**	**926,794**	**2,156,788**	**14,673,888**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

14. Leases

Group as a lessee

The Group has lease contracts for various items of property leases, plant and machinery and motor vehicles 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, and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. 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	**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**
Additions	10,796,107	388,006	5,192,586	16,376,699
Depreciation expense	(7,241,548)	(123,878)	(5,358,774)	(12,724,200)
As at 30 June 2021	**29,605,689**	**361,187**	**9,589,795**	**39,556,671**

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

	2021	2020
	$	$
As at 1 July	**35,711,946**	**38,374,363**
Additions	16,376,699	8,096,174
Accretion of interest	1,833,371	415,651
Payments	(12,379,112)	(11,174,242)
At 30 June	**41,542,904**	**35,711,946**
Current	11,179,758	11,580,912
Non-current	30,363,146	24,131,034
	41,542,904	**35,711,946**

ARA Group Limited and Controlled Entities

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

14. Leases (continued)

Group as a lessee (continued)

The following are the amounts recognised in profit or loss:

	2021	2020
	$	$
Depreciation expense of right-of-use assets	12,724,200	10,434,311
Interest expense on lease liabilities	1,833,371	415,651
Expense relating to short-term leases and leases of low-value assets	1,430,319	3,354,339
	15,987,890	**14,204,301**

The Group had total cash outflows for leases of $13,809,431 in 2021 (2020: $14,528,581). This is split between operating and financing activities in the consolidated statement of cash flows. The Group also had non-cash additions to right-of-use assets and lease liabilities of $16,376,699 in 2021 (2020: $8,096,174).

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
	$	$	$
2021			
Extension options expected not to be exercised	6,505,348	22,008,086	28,513,434
	6,505,348	**22,008,086**	**28,513,434**

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

15. Goodwill and intangible assets

	Goodwill	Development costs	Brand name	Customer contracts	Intellectual property	Total
	$	$	$	$	$	$
Cost						
At 1 July 2020	152,775,126	347,363	5,018,903	9,047,817	674,598	167,863,807
Acquisition of a subsidiary (Note 3)	29,152,287	-	-	5,820,819	-	34,973,106
At 30 June 2021	**181,927,413**	**347,363**	**5,018,903**	**14,868,636**	**674,598**	**202,836,913**
Accumulated amortisation						
At 1 July 2020	-	326,750	-	3,483,710	393,921	4,204,381
Amortisation	-	-	-	2,052,209	72,270	2,124,479
At 30 June 2021	**-**	**326,750**	**-**	**5,535,919**	**466,191**	**6,328,860**
Net book value						
At 30 June 2020	152,775,126	20,613	5,018,903	5,564,107	280,677	163,659,426
At 30 June 2021	**181,927,413**	**20,613**	**5,018,903**	**9,332,717**	**208,407**	**196,508,053**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

16. Trade and other payables

	2021	2020
	$	$
Current		
Trade payables	**55,208,534**	**47,593,688**
Other payables		
Trade creditors accruals	6,392,281	9,221,922
Other creditors and accruals	32,955,354	26,138,183
Deferred purchase consideration for acquisitions (a)	1,550,000	2,740,367
Cash on deposit owing to third parties	-	217,471
Dividends payable (Note 8)	4,238,121	6,154,238
	45,135,756	**44,472,181**
Non-current		
Other payables		
Deferred purchase consideration for acquisitions (a)	**1,550,000**	**-**

(a) $2.6 million worth of deferred purchase consideration for acquisitions is related to current year acquisitions, refer to Note 3 for further details. The remaining $500,000 is related to prior year acquisitions.

17. Contract liabilities

	2021	2020
	$	$
Short-term advances for services	**7,400,887**	**4,472,038**

18. Interest-bearing loans and borrowings

	Interest rate	Maturity	2021	2020
	%	Financial years	$	$
Non-current				
Bank bills and loans secured (Note 22.2) (a) (b)	2.46 - 2.72	2 - 3 years	78,825,000	82,625,000
			78,825,000	**82,625,000**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

18. Interest-bearing loans and borrowings (continued)

(a) Total current and non-current secured liabilities

	2021	2020
	$	$
Bank bills and loans	78,825,000	82,625,000
	78,825,000	**82,625,000**

The bank bills and loans are secured by a fixed charged over the Group's assets. Finance leases and hire purchases are included in lease liabilities.

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

	2021	2020
	$	$
First mortgage over all of the assets of the parent entity and all controlled entities - total assets pledged as security	**403,672,905**	**330,855,350**

19. Employee benefits liabilities

	2021	2020
	$	$
Current		
Annual leave	14,713,108	13,114,593
Long service leave	6,149,876	5,269,270
	20,862,984	**18,383,863**
Non-current		
Long service leave	3,231,483	2,431,277
	3,231,483	**2,431,277**
Aggregate employee entitlement liability	**24,094,467**	**20,815,140**

20. Contributed equity and reserves

20.1 Contributed equity

	2021	2020
	$	$
Fully paid shares		
Fully paid ordinary shares	**100,555,584**	**93,313,832**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

20. Contributed equity and reserves (continued)

20.1 Contributed equity (continued)

	2021		2020	
Fully paid ordinary shares	**Number**	**$**	**Number**	**$**
At beginning of financial year	**41,028,263**	**93,313,832**	**39,858,379**	**88,570,325**
Issued during financial year				
- acquisitions	1,124,000	6,120,000	685,000	2,802,500
- capital raising	228,945	1,121,752	484,884	1,941,007
At reporting date	**42,381,208**	**100,555,584**	**41,028,263**	**93,313,832**

At the reporting date, issued capital consists of 42,381,208 ordinary shares. All ordinary shares participate in dividends and the proceeds on winding up of the Parent Entity are in proportion to the number of shares held. At shareholders' meetings, each ordinary share is entitled to one vote per share held when a poll is called, otherwise each shareholder has one vote on a show of hands.

The Group issued 7,000 ordinary shares at $4.00 per share, 31,945 ordinary shares at $4.50 and 190,000 ordinary shares at $5.00 during the year to new and existing shareholders increasing equity by $1,121,752. The company issued 44,000 ordinary shares at $5.00 per share as purchase consideration to the vendor of Construction Electrical Services business effective 4 November 2020. Another 80,000 ordinary shares at $5.00 per share were issued as purchase consideration to the vendor of Servcore Pty Ltd and Servcore NZ Limited effective 1 February 2021. A further 1,000,000 ordinary shares at $5.50 per share were issued as purchase consideration to the vendor of JBM Power Pty Ltd effective 1 April 2021. This increased equity by $6,120,000.

20.2 Other reserves

a) Movement

Year ended 30 June 2021	Other reserve	Hedge reserve	Foreign currency translation reserve	Total
	$	$	$	$
Balance at the start of the financial year	**(2,839,864)**	**(361,547)**	**(104,873)**	**(3,306,284)**
Net unrealised loss on cash flow hedges	-	416,597	-	416,597
Deferred tax on net unrealised loss on cash flow hedges	-	(124,979)	-	(124,979)
Currency translation differences	-	-	(29,992)	(29,992)
	(2,839,864)	**(69,929)**	**(134,865)**	**(3,044,658)**

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 gain on cash flow hedges	-	287,262	-	287,262
Deferred tax on net unrealised gain 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)**

On 26 August 2016, the Group entered into a 5 year interest rate swap. A mark to market valuation of $69,929 has been recognised in other reserves at 30 June 2021 (2020: $361,547).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

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 $893,713 (2020: $982,810).

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 $7,035,091 (2020: $5,458,944).

Directors fees

Total directors fees paid during the year amounted to $200,000 (2020: $220,000).

Bank Guarantees

The Group issued two bank guarantees totalling $187,725 (2020: $187,725) 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 2021 and 2020, 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 2021 (2020: none).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

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 $146,000,000 (2020: $140,000,000). Of these facilities, an amount of $11,000,000 (2020: $5,000,000) is available for indemnity guarantees and as at 30 June 2021 the economic entity had $9,712,291 (2020: $4,420,291) of indemnity guarantees outstanding.

In addition the Group has a separate credit card facility with Westpac Banking Corporation of $3,300,000 (2020: $2,800,000). $1,280,699 was utilised at 30 June 2021 (2020: 1,505,523).

The Group has a surety bond facility with Liberty Mutual Insurance Company of $50,000,000 (2020: $35,000,000). At 30 June 2021, the Group had $31,991,871 (2020: $24,866,582) of surety bonds outstanding with Liberty Mutual Insurance Company.

23. Events after the reporting period

Beginning in June 2021, a new COVID-19 outbreak of the Delta variant was identified in Sydney, New South Wales. The New South Wales government's response to this outbreak has resulted in a significant disruption to the Group's business in New South Wales. Approximately 50% of the Group's business is in New South Wales. It is not possible to quantify the effect of this recent COVID-19 outbreak.

On 29 June 2021, the Group signed a sale of business agreement to acquire the business of Australian Commercial Doors Pty Ltd, for cash consideration of $11.7 million. Settlement of the acquisition occurred on 30 July 2021.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

24. Closed group class order (continued)

24.1 Entities subject to class order relief (continued)

The subsidiaries that are party to the Deed are:

Allen & Newton Pty Ltd
Allen & Newton Queensland Pty Ltd
ARA Building Services Pty Limited
ARA Corporate Services Pty Limited
ARA Electrical Engineering Services Pty Limited
ARA Electrical High Voltage Services Pty Ltd
ARA Electrical Major Projects Division Pty Ltd
ARA Fire Protection Services Pty Limited
ARA Manufacture Pty Ltd
ARA Mechanical Services Pty Limited
ARA Property Services Pty Ltd the trustee for CMC Unit Trust
ARA Security Services Pty Limited
Asset Fire Security & Mechanical Services Pty Ltd
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 (Aust) Pty Ltd
Crimewatch Video Pty. Ltd.
Construction Electrical Services Pty Ltd
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 Ltd
International Security Control Solutions Pty Ltd
JBM Power Pty Ltd
Leda Export Pty Ltd
Leda Group (Australia) Pty Ltd
Leda International Pty. Limited
Leda Security Exports Pty Ltd
Leda Security Products Pty Ltd
Leda Trading Pty Limited
Monarch Group Pty Limited
National Construction Solutions Pty Ltd
Parking Guidance Australia Pty Limited
Sherry Services & Maintenance Pty Ltd
TALV Pty Limited
Servcore Pty Limited
Thermoscan Inspection Services Pty Ltd
Transelect Pty Ltd
Web ID Pty Ltd
Wiltrading Stace Pty Ltd

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

24. Closed group class order (continued)

24.2 Consolidated statement of profit or loss and other comprehensive income

	Closed group 2021 $	Closed group 2020 $
Profit before income tax expense	31,172,694	23,798,415
Income tax expense	(9,424,094)	(8,170,490)
Net profit for the period	**21,748,600**	**15,627,925**
Retained earnings at the beginning of the period	33,258,905	31,136,533
Dividends provided for or paid	(17,642,114)	(13,505,553)
Retained earnings at the end of the period	**37,365,391**	**33,258,905**

24.3 Consolidated statement of financial position

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

	Closed group 2021 $	Closed group 2020 $
Current assets		
Cash and cash equivalents	24,784,150	23,451,978
Trade and other receivables	79,294,963	91,431,337
Inventories	15,781,377	13,377,371
Other assets	4,272,654	2,495,808
Total current assets	**124,133,144**	**130,756,494**
Non-current assets		
Other financial assets	22,233,362	16,878,129
Other debtors	212,936	1,301,249
Property, plant and equipment	13,297,785	12,714,744
Right-of-use assets	35,081,676	35,450,563
Deferred tax assets	10,454,431	6,660,565
Goodwill and intangible assets	178,713,622	152,517,832
Total non-current assets	**259,993,812**	**225,523,082**
Total assets	**384,126,956**	**356,279,576**
Current liabilities		
Trade payables	49,655,293	48,838,868
Other payables	41,893,043	37,952,064
Contract liabilities	8,067,110	4,705,610
Other financial liabilities	-	72,248
Lease liabilities related to right-of-use assets	9,926,066	1,367,649
Income tax payable	5,804,303	1,768,923
Employee benefits	19,568,112	17,322,937
Total current liabilities	**134,913,927**	**112,028,299**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

24. Closed group class order (continued)

24.3 Consolidated statement of financial position (continued)

	Closed group 2021	2020
	$	$
Non-current liabilities		
Other creditors	1,550,000	-
Other financial liabilities	78,825,000	82,672,633
Lease liabilities related to right-of-use assets	26,972,123	33,761,452
Deferred tax liabilities	3,885,831	2,190,500
Employee benefits	3,099,551	2,384,662
Total non-current liabilities	**114,332,505**	**121,009,247**
Total liabilities	**249,246,432**	**233,037,546**
Net assets	**134,880,524**	**123,242,030**
Equity		
Share capital	100,426,289	93,184,536
Retained earnings	37,365,391	33,258,905
Other reserves	(2,911,156)	(3,201,411)
Total equity	**134,880,524**	**123,242,030**

25. Information relating to parent ARA Group Limited

	2021	2020
	$	$
Current assets	65,300,387	49,037,857
Non-current assets	314,202,378	266,132,676
Total assets	**379,502,765**	**315,170,533**
Current liabilities	12,051,679	11,563,602
Non-current liabilities	347,554,396	270,573,461
Total liabilities	**359,606,075**	**282,137,063**
Net assets	**19,896,690**	**33,033,470**
Contributed equity	100,555,584	93,313,832
Accumulated losses	(80,588,965)	(59,918,815)
Other reserves	(69,929)	(361,547)
	19,896,690	**33,033,470**
Loss for the year	(3,028,036)	(4,967,298)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2021

26. Auditor's remuneration

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

	2021	2020
	$	$
Amounts received or due and receivable by Ernst & Young audit firm for:		
Ernst & Young audit	412,800	408,830
Ernst & Young other services	282,404	129,453
	695,204	538,283
Amounts received or due and receivable by non Ernst & Young audit firm for:		
Services provided by other accounting firms	83,385	83,590
	778,589	**621,873**

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 2021 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 2021 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

Edward Federman
Executive Director
Sydney
6 August 2021

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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 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes 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 2021 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.

- 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.

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- 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
6 August 2021

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