

ASX Announcement

Qualitas Limited (ASX: QAL)

22 February 2024

Qualitas Limited – Appendix 4D and Interim Financial Report

Qualitas Limited (**Company**) (ASX: QAL) provides the attached Appendix 4D and Interim Financial Report for the statutory 6-month period ended 31 December 2023.

Authorised for release by the Board of Directors of the Company.

For more information, please contact:

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About Qualitas

Qualitas Limited ACN 655 057 588 (**Qualitas**) is an ASX-listed Australian alternative real estate investment manager with approximately A\$8.1 billion¹ of committed funds under management.

Qualitas matches global capital with access to attractive risk adjusted investments in real estate private credit and real estate private equity through a range of investment solutions for institutional, wholesale and retail clients. Qualitas offers flexible capital solutions for its partners, creating long-term value for shareholders, and the communities in which it operates.

For 15 years Qualitas has been investing through market cycles to finance assets with a combined value of over A\$21 billion² across all real estate sectors. Qualitas focuses on real estate private credit, opportunistic real estate private equity, income producing commercial real estate and build-to-rent residential. The broad platform, complementary debt and equity investing skillset, deep industry knowledge, long-term partnerships, and diverse and inclusive team provides a unique offering in the market to accelerate business growth and drive performance for shareholders.

Disclaimer

This announcement contains general information only and does not take into account your investment objectives, financial situation or needs. Qualitas is not licensed to provide financial product advice in relation to Qualitas shares or any other financial products. This announcement does not constitute financial, tax or legal advice, nor is it an offer, invitation or recommendation to apply for or acquire a share in Qualitas or any other financial product. Before making an investment decision, readers should consider whether Qualitas is appropriate given your objectives, financial situation and needs. If you require advice that takes into account your personal circumstances, you should consult a licensed or authorised financial adviser. Past performance is not a reliable indicator of future performance.

¹ FUM metrics as at 31 December 2023.

² As at 30 June 2023.

Qualitas Limited

ACN 655 057 588

Interim report For the half-year ended 31 December 2023

Incorporating the requirements of Appendix 4D

Qualitas Limited Appendix 4D
For the half-year ended 31 December 2023

Details of Reporting Period

Current: For the half-year ended 31 December 2023

Previous corresponding: For the half-year ended 31 December 2022

The Directors of Qualitas Limited (ACN: 655 057 588) announce the consolidated results of Qualitas Limited and its controlled entities ("the Group") for the half-year ended 31 December 2023 as follows:

Results for announcement to the market

Extracted from the Condensed Consolidated Interim Financial Statements for the half-year ended 31 December 2023.

	2023 \$'000	2022 \$'000	Change \$	Change %
Revenue from ordinary activities	42,523	35,406	7,117	20%
Profit/(loss) from ordinary activities after tax attributable to members	12,557	10,692	1,865	17%
Net profit/(loss) for the period attributable to members	12,557	10,692	1,865	17%

Details of dividends

On 23 August 2023, the Directors declared a fully franked dividend of 5.5 cents per share which amounted to \$16,280,833 was paid on 3 October 2023 with a record date of 12 September 2023.

On 22 February 2024, the Directors declared an interim fully franked dividend of 2.25 cents per share which amounted to \$6,711,639 to be paid on 28 March 2024 with a record date of 8 March 2024.

Details of Dividend Reinvestment Plan

The Group does not have a Dividend Reinvestment Plan ("DRP").

Net tangible assets per security

The net tangible assets per security is \$1.21 (2022: \$1.20).

Control gained or lost over entities during the period

- QUMF Hedge Pty Ltd (wholly owned entity established on the 7 August 2023)
- QEP Bondi Junction Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QEP Bondi Junction Investor Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QEP Bondi Junction Manager Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QEP Spire Apartments Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QEP Spire Apartments Financier Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QEP Spire Apartments Investor Pty Limited (wholly owned entity deregistered on the 29 October 2023)
- QEP Spire Apartments Manager Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QLDF Manager Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QUMF Borrower Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QUMF Bridge Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- QREF Mezzanine Debt No.20 Pty Ltd (wholly owned entity deregistered on the 29 October 2023)
- Q MS Developer Pty Ltd (wholly owned entity established on 11 August 2023)

Details of associates and joint venture entities

The Group is part of a joint venture arrangement with GURNER Multifamily Pty Ltd, with the joint venture obtaining control over four initial assets. The Group has joint control and a 50% ownership interest. The joint venture is a strategic partnership to establish a build-to-rent platform, targeting \$5bn over the next 5-7 years.

Other information

The Group is not a foreign Group.

Independent review report

This report is based on the condensed consolidated interim financial statements for the half-year ended 31 December 2023 which have been subject to an independent review by the Group's Auditors, KPMG.

Commentary

Further information including commentary on significant features of the operating performance, results of segments, trends in performance and other factors affecting the results for the current period are contained in the interim financial report for the 6 months ended 31 December 2023. The condensed consolidated financial statements contained within the interim financial report for the 6 months ended 31 December 2023, on which this report is based, have been reviewed by KPMG.

Qualitas Limited

ACN 655 057 588

Interim financial statements

For the half-year ended 31 December 2023

Qualitas Limited

ACN 655 057 588

Interim financial statements For the half-year ended 31 December 2023

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The condensed consolidated interim financial statements cover Qualitas Limited (the "Company") and its controlled entities (together referred to as the "Group").

The Company's registered office is:
Level 38, 120 Collins Street
Melbourne, VIC 3000

The Group's principal place of business is:
Level 38, 120 Collins Street
Melbourne, VIC 3000

Directors' report (continued)

Operating results (continued)

Normalised EBITDA, Normalised NPBT and Normalised NPAT are reconciled to Statutory EBITDA, Statutory NPBT or Statutory NPBT respectively below.

	Half year to December 2023 \$'000	Half year to December 2022 \$'000	Change %
Statutory EBITDA	19,264	16,635	16%
(Gain) / loss on mark to market (MTM) value of QRI investment	(969)	(656)	
QRI capital raising costs	1,086	-	
Normalised EBITDA	19,381	15,979	21%
Statutory net profit before tax (NPBT)	17,938	15,305	17%
(Gain) / loss on mark to market (MTM) value of QRI investment	(969)	(656)	
QRI capital raising costs	1,086	-	
Normalised NPBT	18,055	14,649	23%
Statutory net profit after tax (NPAT)	12,557	10,692	17%
(Gain) / loss on mark to market (MTM) value of QRI investment	(678)	(459)	
QRI capital raising costs	760	-	
Normalised NPAT	12,639	10,233	24%

Review of operations

The Company is one of Australia's leading alternative real estate investment managers with extensive operating experience. The Group invests in real estate private credit, opportunistic real estate private equity, income producing CRE and build-to-rent residential. Qualitas manages predominantly discretionary Funds on behalf of institutional, wholesale and retail clients in Australia, Asia, Middle East and Europe.

Qualitas' objective is to provide Shareholders with attractive risk-adjusted returns through a combination of regular and growing dividend income and capital growth.

Funds management

• Real estate private credit

Funds managed by Qualitas invest in CRE credit on behalf of Fund investors, including:

- senior and mezzanine loans secured by stabilised investment properties, construction projects, completed high-density residential dwellings and pre-development land; and
- lending into growing real estate sectors benefitting from strong structural growth, including build to rent ("BTR") assets.

• Real estate private equity

Funds managed by Qualitas invest in real estate assets on behalf of Fund Investors with two key investment strategies across its core equity and opportunistic equity Funds.

Core equity Funds comprise income-based Funds focused on 'needs' sectors, such as BTR and manufacturing assets, non-discretionary consumer staples, logistics and convenience retail assets that display recurring income characteristics. They include attractive rental escalations and resilient cashflows to provide compelling risk-adjusted returns for Fund investors.

Opportunistic equity Funds comprise total return Funds focused on situational and opportunistic real estate investing, including development joint ventures, recapitalisations, distressed situations and structured or preferred equity investments.

• Co-investments and Fund underwriting activities

As part of Qualitas' investment management business, Qualitas utilises its balance sheet capital in support of its Funds, in order to grow its funds under management ("FUM") and Management Fees by:

- co-investing into Funds alongside Fund investors; and
- underwriting for a Fund prior to the completion of a capital raising for a Fund or the launch of a new Fund, following which the Fund will take out or refinance the underwriting position.

Directors' report (continued)

Direct Lending

- **Arch Finance**

Qualitas' direct lending subsidiaries, Arch Finance and Peer Estate, provide CRE debt to smaller borrowers and, in the case of Peer Estate, peer-to-peer platform for individual wholesale investors to provide debt financing. Arch Finance manages and originates these loans via the Arch Finance Warehouse Trust, which provides first mortgage loans secured against predominantly established income producing or owner-occupied CRE.

Strategy and outlook

The Company is an investment manager with access to diversified investment opportunities across CRE markets, capital structures, Fund types and real estate sub-asset classes. The Company will continue to focus on growing the funds management platform and improving efficiency through attracting large capital mandates from new and existing investors and deploying into large scale investments.

While interest rates and inflation remain elevated, the Company is observing less credit availability in CRE markets particularly in the residential and development financing sector. The long term supply shortage in the residential sector is deteriorating housing affordability and the continuing disparity between multi-dwelling asset values versus replacement costs creates conditions that may give rise to price growth for multi-dwelling residential assets. A well capitalised alternative financier such as Qualitas is well positioned against the current macroeconomic backdrop as the dislocated liquidity market presents opportunities. The investment returns on Qualitas' credit Funds are delivering positive inflation adjusted returns for investors on a compounding basis, while Qualitas' equity Funds have the benefit of sourcing investments with recalibrated asset values. Qualitas' BTR equity Funds aim to institutionalise perceived resilient income streams, with growth of the sector underpinned by long-term supply shortage.

The Company's operations during the period performed as expected in the opinion of the Directors.

Significant changes in state of affairs

Other than set out below, in the opinion of the Directors, there were no other significant changes in the state of affairs of the Group that occurred during the current reporting period.

Principal activities

During the period, the principal activities of the Group consisted of Funds management and direct lending.

After balance date events

On 22 February 2024, the Directors declared an interim fully franked dividend of 2.25 cents per share which amounted to \$6,711,639 to be paid on 28 March 2024 with a record date of 8 March 2024.

No other matter or circumstance has arisen since 31 December 2023 that has significantly affected, or may significantly affect:

- (i) the operations of the Group in future financial period; or
- (ii) the results of those operations in future financial period; or
- (iii) the state of affairs of the Group in future financial period.

Likely developments in the operations of the Group, and the expected results of those operations in future financial years, have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental regulation

The operations of the Group are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law. The Group is Climate Active certified.

Directors' report (continued)

Dividends

On 23 August 2023, the Directors declared a fully franked dividend of 5.5 cents per share which amounted to \$16,280,833 and was paid on 3 October 2023 with a record date of 12 September 2023.

On 22 February 2024, the Directors declared an interim fully franked dividend of 2.25 cents per share which amounted to \$6,711,639 to be paid on 28 March 2024 with a record date of 8 March 2024.

Rounding of amounts to the nearest thousand dollars

The Group is a Group of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made in accordance with a resolution of the Directors of the Group.



Andrew Fairley AM
Chairman

Melbourne
22 February 2024



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Qualitas Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Qualitas Limited for the half-year ended 31 December 2023 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Maria Trinci
Partner

Melbourne
22 February 2024

Condensed consolidated interim statement of comprehensive income

	Notes	Half year to 31 December 2023 \$'000	Half year to 31 December 2022 \$'000
Income			
Interest income	8	20,892	18,723
Interest expense	8	<u>(10,955)</u>	<u>(10,027)</u>
Net interest income		<u>9,937</u>	<u>8,696</u>
Performance fees	7a	2,673	2,035
Income from the provision of financial services	7b	28,677	22,947
Other income		272	1,552
Net gains/(losses) on financial instruments held at fair value through profit or loss		<u>964</u>	<u>176</u>
Total income from provision of financial services		<u>32,586</u>	<u>26,710</u>
Total income		<u>42,523</u>	<u>35,406</u>
Loan impairment (expense)/reversal		(37)	25
Expenses			
Employee costs		(17,283)	(14,121)
Marketing and sales commission expenses		(461)	(322)
Consulting and professional fees		(1,120)	(1,475)
Travel expenses		(394)	(288)
Depreciation and amortisation		(1,019)	(885)
Insurance costs		(899)	(892)
QRI raising costs		(1,086)	-
Other operating expenses		<u>(1,872)</u>	<u>(1,967)</u>
Total operating expenses		<u>(24,134)</u>	<u>(19,950)</u>
Equity accounted investments		(414)	(176)
Profit/(loss) before income tax		<u>17,938</u>	<u>15,305</u>
Income tax benefit/(expense)	9	(5,381)	(4,613)
Profit/(loss) for the period		<u>12,557</u>	<u>10,692</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income/(loss) for the period		<u>12,557</u>	<u>10,692</u>
Total comprehensive income/(loss) attributable to: Owners of Qualitas Limited		12,557	10,692
Earnings per share for profit attributable to shareholders of the Group			
Basic earnings per share (cents)		4.29	3.65
Diluted earnings per share (cents)		4.22	3.62

The above condensed consolidated interim statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated interim statement of financial position

	Notes	As at 31 December 2023 \$'000	As at 30 June 2023 \$'000
Assets			
Cash and cash equivalents		200,511	192,369
Trade and other receivables		23,537	16,029
Prepayments		2,069	1,362
Loans	10	7,241	87,451
Accrued performance fees		51,078	48,928
Intangible assets		360	469
Right-of-use assets		1,724	2,165
Property, plant and equipment		724	722
Deferred tax asset		9,143	6,571
Investments		105,213	38,209
Inventories		24,522	24,462
Mortgage loans		281,235	317,570
Intangible asset - capitalised contract costs		<u>3,275</u>	<u>3,612</u>
Total assets		<u>710,632</u>	<u>739,919</u>
Liabilities			
Trade and other payables		12,118	7,589
Deferred income		5,061	4,476
Employee benefits		23,560	25,053
Lease liability		1,853	2,285
Loans and borrowings	11	<u>308,184</u>	<u>338,458</u>
Total liabilities		<u>350,776</u>	<u>377,861</u>
Net assets		<u>359,856</u>	<u>362,058</u>
Equity			
Issued capital	12	724,704	724,267
Retained earnings		13,377	17,032
Share based payments reserve		2,915	1,899
Common control reserve		<u>(381,140)</u>	<u>(381,140)</u>
Total equity		<u>359,856</u>	<u>362,058</u>

The above condensed consolidated interim statement of financial position should be read in conjunction with the accompanying notes.

Condensed consolidated interim statement of changes in equity

	Issued capital	Retained earnings	Share-based payments reserve	Common control reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2022	723,141	12,116	451	(381,140)	354,568
Total comprehensive income for the period					
Profit after tax for the period	-	10,692	-	-	10,692
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Transactions recorded directly in equity					
Treasury shares acquired/(sold)	-	-	-	-	-
IPO costs reflected directly through equity (net of tax)	(15)	-	-	-	(15)
Options issued	361	-	-	-	361
Share-based payments	-	-	544	-	544
Dividends paid	-	(11,727)	-	-	(11,727)
Balance at 31 December 2022	723,487	11,081	995	(381,140)	354,423
Balance at 1 July 2023	724,267	17,032	1,899	(381,140)	362,058
Total comprehensive income for the period					
Profit after tax for the period	-	12,557	-	-	12,557
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Transactions recorded directly in equity					
Contributions of capital	58	-	-	-	58
IPO costs reflected directly through equity (net of tax)	379	-	-	-	379
Options issued	-	-	-	-	-
Share-based payments	-	-	1,016	-	1,016
Dividends paid	-	(16,212)	-	-	(16,212)
Balance at 31 December 2023	724,704	13,377	2,915	(381,140)	359,856

Condensed consolidated interim statement of cash flows

	Half-year ended 31 December 2023 \$'000	Half-year ended 31 December 2022 \$'000
Cash flows from operating activities		
Interest received	20,873	18,145
Interest paid	(10,955)	(10,027)
Receipts from provision of financial services and performance fees	23,857	25,931
Payments to suppliers, employees and others	(24,793)	(21,546)
Funds recoverable costs	(2,049)	(1,580)
Payments in relation to projects	(60)	(9)
Tax received/(paid)	(2,928)	(5,865)
Mortgage loans advanced	(13,326)	(55,560)
Mortgage loans repaid	49,621	69,759
Investments acquired	(66,469)	(143,864)
Investments disposed	430	1,074
Loans advanced	(412,635)	-
Loans repaid	493,191	-
Net cash movement from operating activities	<u>54,757</u>	<u>(123,542)</u>
Cash flows from investing activities		
Payments for Property, plant and equipment	(135)	(342)
Net cash movement from investing activities	<u>(135)</u>	<u>(342)</u>
Cash flows from financing activities		
Payment of lease liabilities	(434)	(373)
Proceeds from loans and borrowings	3,737	21,992
Repayments of loans and borrowings	(34,008)	(35,952)
Contributions of capital	58	-
Payment of IPO costs (net of tax)	379	(15)
Options issued	-	361
Dividends paid	(16,212)	(11,728)
Net cash movement from financing activities	<u>(46,480)</u>	<u>(25,715)</u>
Net increase in cash and cash equivalents		
	8,142	(149,599)
Cash and cash equivalents at the beginning of the period	<u>192,369</u>	<u>309,010</u>
Cash and cash equivalents at the end of the period	<u>200,511</u>	<u>159,411</u>

The above condensed consolidated interim statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated interim financial statements

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1 Reporting entity

Qualitas Limited (the "Company") is a public company limited by shares, domiciled in Australia. The registered office is Level 38, 120 Collins Street, Melbourne, Victoria 3000.

The Company listed on the Australian Stock Exchange ("ASX") on 16 December 2021 on a conditional and deferred basis and commenced trading on 21 December 2021. The ASX ticker is QAL.

The Company commenced operations on 21 December 2021.

2 Basis of preparation

These condensed consolidated interim financial statements as at and for the half-year ended 31 December 2023 comprise the Company and its controlled entities (together referred to as the "Group"). The Group is a 'for profit' entity for the purpose of preparing these condensed consolidated interim financial statements. The Company was incorporated on 4 November 2021 and operations commenced on 22 December 2021.

The condensed consolidated interim statement of financial position is presented on a liquidity basis.

(a) Statement of compliance

These condensed consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, and with IAS 34 *Interim Financial Reporting*. The condensed consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

They do not include all of the information required for a complete set of annual financial statements and should be read in conjunction with the 2023 Annual Report. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2023.

The Group is of a kind referred to in *ASIC Corporations Instrument 2016/191* and in accordance with the legislative instrument amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

These condensed consolidated interim financial statements were authorised for issue by the Directors on 22 February 2024.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value in the condensed consolidated interim statement of financial position.

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Australian dollars, which is the functional currency of the Group.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key judgements and estimations involve:

- Revenue recognition in relation to performance fees;
- Equity accounted investees;
- Financial asset disclosures;
- The use of key assumptions underlying the recoverability of capitalised project costs. This involves estimation of forecast costs, sales and net profit from relevant projects;
- Fair value;
- Recognition and measurement of deferred tax assets and liabilities; and
- Credit risk relating to financial assets (Expected Credit Loss)

3 Changes in significant accounting policies

Except as described below, the accounting policies and risk management policies and practices applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2023.

A number of new standards are effective for annual periods beginning after 1 July 2023 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements. The new standards are not expected to have a significant impact on the Group's financial statements. The analysis of the transitional impact of the standards is expected to be completed prior to the implementation dates. The new standards include:

- Disclosures of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The following standards are issued but not yet effective:

- Non-current liabilities with covenants (Amendments to IAS 1)
- Lease liability in a sale and leaseback (Amendments to IFRS 16)
- Supplier finance arrangements (Amendments to IAS 7 and IFRS 7)
- Lack of exchangeability (Amendments to IAS 21)
- Sale or contribution of assets between investor and its associate or joint venture (Amendments to IAS 10 and 28)

4 Fair value measurements

The Group discloses fair value measurements by level using the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(i) Fair value in an active market (Level 1)

The fair value of financial assets and liabilities traded in active markets is based on last traded prices at the end of the reporting period without any deduction for estimated future selling costs. For the majority of financial assets and liabilities, information provided by the quoted market independent pricing services is relied upon for valuation.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis. An active market is a market in which transactions for the financial asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

At 31 December 2023, the Group holds investments in Qualitas Real Estate Income Fund.

(ii) Fair value in an inactive or unquoted market (Level 2 and Level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Manager's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

As at 31 December 2023, the Group holds investments in Qualitas Funds which are recognised as Level 2 and an investment in an unlisted entity recognised as Level 3. The fair value of investments held in Qualitas Funds is estimated based on the net asset value (NAV) of the Fund at reporting date. The NAV is assessed to be the best estimate of fair value for the Funds given this is the transaction price that unitholders would transact upon. Where the Fund is a closed-ended Fund, liquidity factors are considered in estimating the fair value of the Fund.

For the Level 3 investment in an unlisted entity, the Group uses a combination of management accounts, recently audited financial statements and property valuations to estimate the fair value, on the basis that the value of the investment is mainly driven by the property assets held within the unlisted entity. The key input assumption in this valuation is therefore market capital rates. A 10% shift in market capital rates would have a +/- \$359k shift in the valuation of the asset. There were no transfers into or out of Level 3.

4 Fair value measurements (continued)

(iii) Unobservable inputs used in measuring fair value (level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using various valuation techniques. If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire assessment.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Recognised fair value measurements

The tables below sets out the Group's financial assets and liabilities measured at their carrying amount and fair value at 31 December 2023 and 30 June 2023.

As at 31 December 2023	Fair value through profit or loss \$'000	Carrying amount Financial assets/ (financial liabilities) at amortised cost \$'000	Carrying amount \$'000	Fair value Total \$'000
<i>Financial assets measured at fair value</i>				
Qualitas Co-Investments	3,591	-	3,591	3,591
Qualitas Investments	40,392	-	40,392	40,392
Qualitas Loan Investments	19,473	-	19,473	19,473
<i>Financial assets not measured at fair value</i>				
Qualitas Investments	-	41,636	41,636	41,636
Other	-	20	20	20
Mortgage loans	-	281,235	281,235	281,235
Term deposits	-	101	101	101
Cash and cash equivalents	-	200,511	200,511	200,511
Loans	-	7,241	7,241	7,241
Trade receivables and other assets	-	23,537	23,537	23,537
Prepayments	-	2,069	2,069	2,069
<i>Financial liabilities not measured at fair value</i>				
Payables	-	(12,118)	(12,118)	(12,118)
Lease liability	-	(1,853)	(1,853)	(1,853)
Loans and borrowings	-	(308,184)	(308,184)	(308,184)
	63,456	234,195	297,651	297,651

4 Fair value measurements (continued)

As at 30 June 2023	Carrying amount		Fair value	
	Fair value through profit or loss \$'000	Financial assets/ (financial liabilities) at amortised cost \$'000	Carrying amount \$'000	Total \$'000
<i>Financial assets measured at fair value</i>				
Qualitas Co-Investments	3,591	-	3,591	3,591
Qualitas Investments	29,191	-	29,191	29,191
<i>Financial assets not measured at fair Value</i>				
Qualitas Investments	-	5,155	5,155	5,155
Other	-	174	174	174
Mortgage loans	-	317,570	317,570	317,570
Term deposits	-	98	98	98
Cash and cash equivalents	-	192,369	192,369	192,369
Loans	-	87,451	87,451	87,451
Trade receivables and other assets	-	16,029	16,029	16,029
Prepayments	-	1,362	1,362	1,362
<i>Financial liabilities not measured at fair value</i>				
Payables	-	(7,589)	(7,589)	(7,589)
Lease liability	-	(2,285)	(2,285)	(2,285)
Loans and borrowings	-	(338,458)	(338,458)	(338,458)
	32,782	271,876	304,658	304,658

Recognised fair value measurements

The table below sets out the Group's financial assets and liabilities measured at fair value according to the fair value hierarchy at 31 December 2023 and 30 June 2023:

As at 31 December 2023	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Financial assets at fair value</i>				
Qualitas Co-Investments	-	-	3,591	3,591
Qualitas Investments	20,500	19,892	-	40,392
Qualitas Loan Investments	-	19,473	-	19,473
	20,500	39,365	3,591	63,456
<i>Financial liabilities at fair value</i>				
<i>As at 30 June 2023</i>				
<i>Financial assets at fair value</i>				
Qualitas Co-Investments	-	-	3,591	3,591
Qualitas Investments	9,281	19,910	-	29,191
	9,281	19,910	3,591	32,782

4 Fair value measurements (continued)

Transfers between levels of financial assets and liabilities

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between the levels in the fair value hierarchy during the reporting period. The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	\$'000 2023	\$'000 2022
Balance at 1 July	3,591	3,602
Level 3 assets acquired	-	-
Loss included in 'finance costs'		
Net change in fair value (unrealised)	-	-
Additional net investment during the period	-	-
Capital returned during the period	-	-
Balance at 31 December	3,591	3,602

5 Financial risk management

(a) Overview

The Group's activities expose it to a variety of financial risks. The Group has in place a risk management framework to identify and manage the financial risks in accordance with its investment objectives and strategy. This includes an investment due diligence process and on going monitoring of the investments and transactions of the Group. The specific processes and controls the Group applies to manage the financial risks are detailed under each risk specified below.

Financial risk management as it relates to balance sheet investments made by the Group would fall under the realm of the Qualitas Investment Committee. In terms of other risks relating to the Group, these are captured in the Risk Register which is part of the Group's risk appetite statement which is overseen by the Audit, Risk and Compliance Committee.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts when they fall due and arises principally from the Group's mortgage assets.

Investments

The Group is exposed to credit risk through its investments, projects and other Qualitas Funds. There is also credit risk exposure in the Group's other investments held at amortised cost, however these are not significant.

Other assets

The Group's exposure to credit risk for cash and cash equivalents and term deposits is low as all counterparties have a rating of A- (as determined by public ratings agencies such as Standard & Poor's, Moody's or Fitch) or higher.

Credit risk on trade and other receivables is managed through the Group's investment management activities as the significant portion of receivables relates to receivables from Qualitas Funds.

(b) Credit risk (continued)

Mortgage loans

The Group is exposed to credit risk primarily on loans secured by first mortgage through its Arch Finance business.

As part of its lending policies and processes, the Group identifies and manages credit risk of mortgage loans by undertaking a detailed due diligence process prior to entering into transactions with counterparties and frequent monitoring of the credit exposures.

The Group applies a selective investment filtering and due diligence process for each loan which encompasses the:

- credit worthiness, financial standing and track record of the borrower and other transaction parties;
- quality and performance of the underlying real property security;
- macroeconomic and microeconomic market conditions;
- legal due diligence of the transaction structure;
- consideration of downside risks; and
- ESG considerations.

The Group identifies and monitors key risks of the loans to manage risk and preserve investor returns.

The portfolio construction adopted by the Group is implemented with the expectation of seeking to reduce the Group's exposure to both credit and market risks. The Group adheres to the portfolio investment parameters set out in the relevant funding agreements and additional internal guidelines to ensure sufficient diversification of the loan portfolio by borrower / counterparties, security ranking, loan maturity, loan to value ratio, and property sector and geography of security.

The terms of the interest-bearing notes used to fund the mortgage loans held by Arch Finance Warehouse Trust includes the loan eligibility criteria. This includes the maximum loan-to-value ratio of 75%, guidelines and limits for geographical diversification and on the type of property secured against the loans.

Loans

The Group is exposed to minimal credit risk through loans provided by the Liquidity Lending Facility. The credit risks have been transferred to the Funds in the event of defaulting loans.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset held at amortised cost in the consolidated Statement of Financial Position as outlined below:

	31 December 2023	30 June 2023
	\$'000	\$'000
Cash and cash equivalents	200,511	192,369
Trade and other receivables	23,537	16,029
Loans	7,241	87,451
Mortgage loans	281,235	317,570
<i>Investments measured at amortised cost:</i>		
Term deposits	101	98
Qualitas Investments	41,636	5,155
Other	20	174
Prepayment	2,069	1,362
	556,350	620,208

5 Financial risk management (continued)

(b) Credit risk (continued)

The ageing of trade receivables and mortgage loans at 31 December 2023 and 30 June 2023 is outlined below:

	31 December 2023	
	Gross amount	Allowance for ECL
	\$'000	\$'000
<i>Ageing of trade and other receivables</i>		
Not past due	23,537	-
<i>Ageing of loans</i>		
Not past due	7,241	-
More than 30 days past due	-	-
Total	30,778	-
<i>Ageing of Arch Finance mortgage loans</i>		
Not past due (12-month ECL)	280,027	473
0-30 days past due (12-month ECL)	-	-
More than 30 days past due (lifetime ECL)	1,820	139
Total	281,847	612
Total Group	312,625	612
	30 June 2023	
	Gross amount	Allowance for ECL
	\$'000	\$'000
<i>Ageing of trade and other receivables</i>		
Not past due	16,029	-
<i>Ageing of loans</i>		
Not past due	60,533	-
More than 30 days past due	26,918	-
Total	87,451	-
<i>Ageing of Arch Finance mortgage loans</i>		
Not past due (12-month ECL)	312,575	425
0-30 days past due (12-month ECL)	1,130	1
More than 30 days past due (lifetime ECL)	4,440	149
Total	318,145	575
Total Group	421,625	575

5 Financial risk management (continued)

(b) Credit risk (continued)

The following tables presents at 31 December 2023 and 30 June 2023 an analysis of the mortgage loans.

31 December 2023

Credit rating	At amortised cost			Total
	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL – credit impaired	
Strong	235,416	-	-	235,416
Good	-	-	-	-
Satisfactory	35,078	-	-	35,078
Marginal	2,461	-	-	2,461
Weak	7,072	-	1,820	8,892
Gross carrying amounts	280,027	-	1,820	281,847
Loss allowance	(473)	-	(139)	(612)
Amortised cost	279,554	-	1,681	281,235
Carrying amount	279,554	-	1,681	281,235

30 June 2023

Credit rating	At amortised cost			Total
	12-month ECL	Lifetime ECL - not credit-impaired	Lifetime ECL – credit impaired	
Strong	262,834	2,620	-	265,454
Good	-	-	-	-
Satisfactory	45,231	-	-	45,231
Marginal	-	-	-	-
Weak	5,640	1,820	-	7,460
Gross carrying amounts	313,705	4,440	-	318,145
Loss allowance	(426)	(149)	-	(575)
Amortised cost	313,279	4,291	-	317,570
Carrying amount	313,279	4,291	-	317,570

To measure the expected credit loss (ECL) of the mortgage assets the Group uses a credit loss model which is calculated by multiplying the probability of default by the exposure at default multiplied by the loss given default.

The key model inputs used in measuring the ECL include:

- Exposure at default (EAD): represents the calculated exposure in the event of a default. The EAD for mortgage loans is the principal and any interest amount outstanding at reporting date. The Group does not offer loan redraw facilities or loan commitments in its Direct Lending business and therefore there are no undrawn commitments included in the EAD.
- Probability of default (PD): Given the Group has experienced very few losses in its history, external data has been used to determine an appropriate probability of default measure. All loans in the portfolio are assumed to have an equivalent probability of default to that of a B+ rated corporate bond given that the mortgage book is comprised predominately of commercial borrowers.
- Loss given default (LGD): the LGD is the magnitude of the ECL in a default event. The Group considers a financial asset to be in default when:
 - the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
 - the financial asset is 90 days overdue.

LGD is adjusted for factors such as the site quality of the secured property, whether the secured property is under construction and whether there is any subordination of the loan.

5 Financial risk management (continued)

(c) Credit risk (continued)

The movement in the allowance for impairment at amortised cost during the period was as follows:

\$'000	12 month ECL	Lifetime ECL – not credit- impaired	Lifetime ECL – credit-impaired	Total
Balance at 1 July 2022	673	1	-	674
Net movement during the year	(247)	148	-	(99)
Balance at 30 June 2023	426	149	-	575
Balance at 1 July 2023	426	149	-	575
Net movement during the year	47	(149)	139	37
Balance at 31 December 2023	473	-	139	612

The following tables show the movement in the Group's impairment provisions and credit exposures by expected credit loss (ECL) stage.

\$'000	12 month ECL		Lifetime ECL – not credit-impaired		Lifetime ECL – credit- impaired		Total	
	Gross exposure	Provision	Gross exposure	Provision	Gross exposure	Provision	Gross exposure	Provision
Balance at 1 July 2022	366,542	673	3,500	1	-	-	370,042	674
New loans originated	82,155	48	-	-	-	-	82,155	48
<i>Transfers</i>								
Transfers to stage 1	-	-	-	-	-	-	-	-
Transfers to stage 2	(4,440)	(149)	4,440	149	-	-	-	-
Transfers to stage 3	-	-	-	-	-	-	-	-
Loans repaid	(130,552)	(146)	(3,500)	(1)	-	-	(134,052)	(147)
Write-offs	-	-	-	-	-	-	-	-
Balance at 30 June 2023	313,705	426	4,440	149	-	-	318,145	575
Balance at 1 July 2023	313,705	426	4,440	149	-	-	318,145	575
New loans originated	13,283	14	-	-	-	-	13,283	14
<i>Transfers</i>								
Transfers to stage 1	2,470	4	(2,470)	(5)	-	-	-	(1)
Transfers to stage 2	-	-	-	-	-	-	-	-
Transfers to stage 3	-	-	(1,820)	(139)	1,820	139	-	-
Loans repaid	(49,431)	(98)	(150)	(5)	-	-	(49,581)	(103)
New and Increased Provisions (Net of releases)	-	127	-	-	-	-	-	127
Write-offs	-	-	-	-	-	-	-	-
Balance at 31 December 2023	280,027	473	-	-	1,820	139	281,847	612

6 Segment information

(a) Description of segments

An operating segment is a component of a Group that engages in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed regularly by the Group's Managing Director who is the Group's Chief Operating Decision Maker in assessing performance and in determining the allocation of resources.

The Group has identified two operating segments being Funds Management and Direct Lending.

The Funds Management segment includes all of Qualitas' core Funds management activities and includes Funds management fees, performance fees and other fee income. It also includes dividends and distributions from Qualitas' Co-Investment and Direct Lending activities.

The Direct Lending segment relates to the interest income and expenses relating to activities undertaken by Qualitas' wholly owned subsidiaries Arch Finance and Peer Estate and includes costs directly attributable to Arch Finance and Peer Estate.

The segment information for the reportable segments is as follows:

(b) Segment overview

For the half-year ended 31 December 2023 (\$'000)	Funds management	Direct lending	Total
Interest income	6,724	14,168	20,892
Interest expense	(911)	(10,044)	(10,955)
Net interest income	5,813	4,124	9,937
Net revenue	31,648	524	32,172
Loan impairment expense	-	(37)	(37)
Total expenses	(21,217)	(2,918)	(24,135)
Segment profit	16,244	1,693	17,937

Segment financial position information

As at 31 December 2023 (\$'000)	Funds management	Direct lending	Total
Cash and cash equivalents	188,965	11,546	200,511
Mortgage loans	-	281,235	281,235
Investments	105,127	86	105,213
Other assets	121,301	2,372	123,673
Total assets reported by the Group	415,393	295,239	710,632
Loans and borrowings	19,611	288,573	308,184
Other liabilities	37,748	4,844	42,592
Total liabilities reported by the Group	57,359	293,417	350,776

6 Segment information (continued)

For the half-year ended 31 December 2022 (\$'000)	Funds management	Direct lending	Total
Interest income	5,511	13,212	18,723
Interest expense	(602)	(9,425)	(10,027)
Net interest income	4,909	3,787	8,696
Net revenue	25,465	1,069	26,534
Loan impairment expense	-	25	25
Total expenses	(17,225)	(2,725)	(19,950)
Segment profit	13,149	2,156	15,305

Segment financial position information

As at 30 June 2023 (\$'000)	Funds management	Direct lending	Total
Cash and cash equivalents	183,244	9,125	192,369
Mortgage loans	-	317,570	317,570
Investments	38,126	83	38,209
Other assets	189,236	2,535	191,771
Total assets reported by the Group	410,606	329,313	739,919
Loans and borrowings	18,808	319,650	338,458
Other liabilities	33,512	5,891	39,403
Total liabilities reported by the Group	52,320	325,541	377,861

7 Income from the provision of financial services and performance fees

(a) Performance Fees

	For the half-year ended 31 December 2023 \$'000	For the half-year ended 31 December 2022 \$'000
Performance fees	2,673	2,035

Performance fees are a variable consideration and are recognised to the extent that it is highly probable a significant reversal will not subsequently occur (variable consideration is constrained in accordance with AASB 15 *Revenue*). The Group is entitled to performance fees in accordance with its Fund investment management agreements. Performance fees are typically payable by the Fund when the Fund has crystallised its investments and terminates. Therefore, the Group recognises performance fees in relation to a Fund when that Fund is nearing the final stages of its investment lifecycle and termination and performance fee hurdles have been met. Performance fee income is generally constrained up to the point when the final amount to be paid out of the Fund is known.

Performance fees for the half-year ended 31 December 2023 relate to Qualitas Construction Debt Fund I, Qualitas Construction Debt Fund II, Qualitas Diversified Credit Investment Fund and Qualitas Real Estate Income Fund. Of the \$2,673,000 performance fees recognised during the period, an amount of \$23,000 was received during the year with the balance not yet received recorded on the consolidated statement of financial position as accrued performance fees.

7 Income from the provision of financial services and performance fees (continued)

(b) Income from the provision of financial services

	For the half-year ended 31 December 2023 \$'000	For the half-year ended 31 December 2022 \$'000
<i>Arrangement, establishment and mandate fees</i>	8,377	5,645
<i>Management fees</i>	17,657	15,535
<i>Distributions from Funds and projects</i>	2,291	1,213
<i>Portfolio and ancillary fees</i>	352	554
	28,677	22,947

8 Interest income and interest expense

	For the half-year ended 31 December 2023 \$'000	For the half-year ended 31 December 2022 \$'000
Interest income		
Interest income on project loans, mortgages, bank balances and term deposits:		
- Arch Finance – mortgage loans	14,168	16,109
- Qualitas Limited	6,724	2,614
Total interest income	20,892	18,723
Interest expense		
Interest expense on interest bearing notes - bank & other financial institutions	(10,915)	(9,975)
Lease interest expense	(40)	(52)
Total interest expense	(10,955)	(10,027)
Net interest income recognised in profit or loss	9,937	8,696

9 Income tax

(a) Reconciliation of income tax expense

	For the half-year ended 31 December 2023 \$'000	For the half-year ended 31 December 2022 \$'000
Recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income		
Current period	2,813	5,670
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	2,568	(1,057)
	5,381	4,613
Reconciliation between tax expense and profit		
Profit before income tax	17,937	15,305
Income tax using domestic corporation tax rate of 30% (2022: 30%)	5,381	4,591
Net movement in income tax due to:		
Non-deductible expenses	56	32
Non-assessable income	(37)	-
Utilisation of prior year tax losses not previously recognised	-	-
Tax adjustments for prior year over/(under) provision	(19)	(10)
Income tax (benefit)/expense on profit	5,381	4,613

10 Related parties

The loans balance includes transactions with related parties as described below.

The Group established a liquidity lending facility to Qualitas Funds on the 19 December 2022. The facility has a limit of \$150,000,000 and no amount was drawn by related parties as at 31 December 2023. The facility earns interest and is on mutually agreed commercial terms.

The Group also entered into a loan agreement with a Qualitas Fund on the 20 December 2022, with a facility limit of \$30,000,000 and no amount was drawn at 31 December 2023. The facility earns interest and is on mutually agreed commercial terms.

There is a related party loan with the Group's joint venture (GQ Multifamily Unit Trust) of \$898,372 at 31 December 2023. This is an unsecured interest free loan.

Other than described above, there have been no significant changes to the arrangements with related parties since the year ended 30 June 2023.

11 Loans and borrowings

	As at 31 December 2023	As at 30 June 2023
	\$'000	\$'000
Interest bearing notes – banks & other financial institutions	271,163	301,125
Qualitas Real Estate Income Fund Manager Loan	13,758	14,464
Project Funding loan	23,263	22,869
	308,184	338,458

12 Capital, reserves and dividends

(a) Issued capital

	\$'000	Number of shares
Opening balance at 1 July 2022	723,141	294,000,000
Options issued	361	
IPO costs reflected through equity (tax effected)	743	-
Shares issued	22	2,016,053
Closing balance at 30 June 2023 (including Treasury shares)	724,267	296,016,053
Opening balance at 1 July 2023	724,267	296,016,053
Options issued	-	-
IPO costs reflected through equity (tax effected)	379	-
Contributions of capital through shares issuance	58	2,279,031
Closing balance at 31 December 2023 (including Treasury shares)	724,704	298,295,084
Less Treasury shares	-	(5,539,455)
Closing balance at 31 December 2023 (excluding Treasury shares)	724,704	292,755,629

(b) Treasury shares

When shares recognised are repurchased, the amount of consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

(c) Dividends

On 23 August 2023, the Directors declared a fully franked dividend of 5.5 cents per share which amounted to \$16,280,833 and was paid on 3 October 2023 with a record date of 12 September 2023.

(d) Franking account

The amount of Australian franking credits available at the 30% tax rate to the Group for subsequent years is \$11.1m. This is calculated from the franking account at year end adjusted for franking credits that will arise from the payment of income tax on profits for the current reporting period.

12 Capital, reserves and dividends (continued)

(e) Reserves

Share based payments reserve

The share based payments reserve arises on the grant of options, performance rights and deferred share rights to select employees under the Company's equity-based remuneration plans.

Common control reserve

The difference between the purchase consideration and the net assets acquired on the restructure under common control, were accounted for in equity and transferred to a common control reserve.

Treasury share reserve

The reserve for the Group's treasury shares comprised the cost of the Company's shares held by the Group. At 31 December 2023, the Group held 5,539,455 shares (2022: 3,260,424 shares).

13 Share based payments

(a) Description of share-based payment arrangement

At 31 December 2023 and 30 June 2023, the Group had the following share-based payment arrangements:

(i) Short-term incentive plan ("STI")

The Board has determined that the current remuneration policy for senior management and other selected employees of the Group will include a STI. Under the STI, participants will have an opportunity to receive an incentive payment calculated as a percentage of their Fixed annual remuneration each year, conditional upon performance against a scorecard of financial and non-financial measures. The performance measures against which each participant's STI is assessed and their relative weightings are set by the Board each year. In addition, the Board will have the discretion to reduce any FY24 STI (by up to 100%) due to poor behaviour.

Under the STI, it is intended that the first \$100,000 of any STI award will be paid in cash, as well as 50% of the remaining award. The other 50% of the remaining award will be paid in equity, which will be deferred for 2 further years. The equity will be granted subject to the terms of the Qualitas Employee Equity Plan ("QEEP").

The terms and conditions related to the grants under these programs are as follows, all options are to be settled by the physical delivery of shares:

	Number of awards at grant date	Number of awards at 31 December 2023 ⁴	Vesting conditions	Contractual life of awards
Employees entitled				
Key Management Personnel	-	237,329	Per above	2 years
All other employees	-	528,188	Per above	2 years
	Number of awards at grant date (30 June 2023)	Number of awards at 30 June 2023 ⁵	Vesting conditions	Contractual life of awards
Employees entitled				
Key Management Personnel	74,041	237,329	Per above	2 years
All other employees	262,109	528,188	Per above	2 years

No change to 31 December 2023 as formal staff review is undertaken on an annual basis at 30 June each year.

(ii) Employee Equity Award

Select employees were granted Share rights at Listing which will vest in two tranches; 50% on the third anniversary of the Listing Date, and the remaining 50% on the fifth anniversary of the Listing Date, subject to the continued tenure of the participants (Employee Equity Award). The total face value of all grants made under the Employee Equity Plan was \$2,000,000 of which \$540,215 has been forfeited to date. The number of Share rights granted to participants was calculated by dividing the face value of the individual grant by the Offer Price. The Employee Equity Award will be granted under the terms of the Qualitas Employee Equity Plan (QEEP).

	Number of awards at grant date	Number of awards at 31 December 2023 ⁶	Vesting conditions	Contractual life of awards
Employees entitled				
Key Management Personnel	-	50,000	Per above	3 & 5 years
All other employees	-	533,914	Per above	3 & 5 years

⁴ No awards were forfeited during the year

⁵ No awards were forfeited during the year

⁶ No awards were granted during the period with 22,086 awards forfeited during the period, resulting in a closing balance of 583,914

13 Share based payments (continued)

(ii) Employee Equity Award (continued)

	Number of awards at grant date (16 December 2021)	Number of awards at 30 June 2023 ⁷	Vesting conditions	Contractual life of awards
Employees entitled				
Key Management Personnel	50,000	50,000	Per above	3 & 5 years
All other employees	750,000	556,000	Per above	3 & 5 years

(iii) Legacy Employee Equity Plan (“Intergen”)

Under Intergen, employees (and their controlled entities) were able to acquire a beneficial interest in non-ordinary shares in Qualitas Property Partners Pty Ltd and non-ordinary units in the Qualitas Investments Unit Trust via a limited recourse loan. These shares and units were converted into 3,011,352 shares (of which 1,244,360 have been forfeited to date) shortly prior to completion, in accordance with the Restructure Deed, and will vest in two tranches; 50% on the third anniversary of the Listing Date, and the remaining 50% on the fifth anniversary of the Listing Date, subject to the continued tenure of the participants. Andrew Schwartz, Mark Fischer and Philip Dowman do not participate in the Legacy Employee Equity Plan.

	Number of awards at grant date	Number of awards at 31 December 2023 ⁸	Vesting conditions	Contractual life of awards
Employees entitled				
Key Management Personnel*	-	-	-	-
All other employees*	-	1,766,992	Per above	3 & 5 years
	Number of awards at grant date (24 September 2022)	Number of awards at 30 June 2023	Vesting conditions	Contractual life of awards
Employees entitled				
Key Management Personnel*	-	-	-	-
All other employees*	3,011,352	1,766,992	Per above	3 & 5 years

*Legacy award

(iv) Non-Executive Director Share rights compensation

Non-Executive Directors were granted 170,000 rights as compensation for contribution to the Group prior to listing. These rights were exercised during the period ending 30 June 2023 and as such the balance of rights held at the end of 31 December 2023 is nil.

(v) Long-Term Incentive Loan Plan (“Loan Plan”)

Loan Plan

The Company granted Loan Shares to the Group Managing Director as a LTI under the Loan Plan at the Company’s Annual General meeting on 23 November 2023. The LTI under the Loan Plan carries a maximum opportunity of \$1,530,000. An interest-free limited recourse loan of \$4,915,871 was provided by the Company to the Group Managing Director to purchase 2,279,031 newly issued shares. An independent valuation was obtained to determine the value of the loan and the maximum number of shares that were to be issued.

Executive LTI

In line with the Prospectus, the Board approved grant of rights under the Executive LTI Plan during the period. The rights granted under the FY24 Executive LTI are against KPIs measured over a 3-year performance period from 1 July 2023 to 30 June 2026. The total number of LTI rights granted is 962,188.

Options Offer

Issue of 1,437,500 Options to acquire Ordinary Shares in the Company to certain non-Executive employees under the Qualitas Employee Equity Plan at \$2.31. Options vest and become exercisable subject to meeting Group and individual performance conditions and continued service over a five-year vesting period. The Options have an expiry date of 1 September 2033.

⁷ No awards were granted during the period with 114,000 awards forfeited during the period, resulting in a closing balance of 606,000

⁸ No shares forfeited during the period. The resulting closing balance is 1,766,992

13 Share based payments (continued)

(b) Measurement of fair value

(i) Equity-settled share-based payment arrangements

The Fair value of the employee share purchase plan has been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The requirement that the employee has to serve in order to purchase shares under the share purchase plan has been incorporated into the fair value at grant date by applying a discount to the valuation obtained. The discount has been determined by estimating the probability that the employee will stop serving based on historical behaviour.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows.

31 December 2023

	FY22 STI	FY23 STI	Employee Equity Plan		Intergen		FY23 Loan Plan	FY23 Executive LTI	FY23 Options Offer	FY24 Loan Plan	FY24 Executive LTI	FY24 Options Offer
Award type	Rights	Rights	Rights		Rights		Rights	Rights	Options	Rights	Rights	Options
Expected life of rights	-	-	3 years	5 years	3 years	5 years	3.5 years	3 years	5 years	3.5 years	3 years	5 years
Fair Value at grant date	\$2.19	\$2.38	\$2.28	\$2.15	\$0.01	\$0.02	\$0.73	\$1.26	\$0.88	\$0.66	\$2.46	\$0.68
Security price at grant date	\$2.19	\$2.38	\$2.60	\$2.60	\$0.07	\$0.07	\$2.43	\$1.56	\$2.66	\$2.16	\$2.69	\$2.27
Exercise price	-	-	-	-	-	-	\$2.43	-	\$2.75	\$2.16	-	\$2.31
Expected dividends	-	-	3%	3%	3%	3%	-	3%	3%	-	3%	4%
Risk-free interest rate	-	-	0.12%	0.12%	0.12%	0.12%	3.21%	1.64%	3.62%	4.19%	1.59%	4.53%

30 June 2023

	FY22 STI	FY23 STI	Employee Equity Plan		Intergen		Loan Plan	Executive LTI	FY23 Options Offer
Award type	Rights	Rights	Rights		Rights		Rights	Rights	Options
Expected life of rights	-	-	3 years	5 years	3 years	5 years	3.5 years	3 years	5 years
Fair Value at grant date	\$2.19	\$2.69*	\$2.28	\$2.15	\$0.013	\$0.017	\$0.73	\$1.26	\$0.88
Security price at grant date	\$2.19	\$2.69*	\$2.60	\$2.60	\$0.07	\$0.07	\$2.43	\$1.56	\$2.66
Exercise price	-	-	-	-	-	-	\$2.43	-	\$2.75
Expected dividends	-	-	3%	3%	3%	3%	-	3%	3%
Risk-free interest rate	-	-	0.12%	0.12%	0.12%	0.12%	3.21%	1.64%	3.62%

*Estimated fair value and security price for FY23 STI Rights as at 30 June 2023.

(ii) Expense recognised in the profit or loss

The share-based payment expense incurred in the period was \$1,015,648 (2022: \$543,326).

14 Contingent assets and liabilities and commitments

The Group is subject to a number of obligations which, if not discharged, may give rise to potential claims or other costs. Where some loss from an actual or alleged non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Group considers that the outcome of any specific enquiry which is underway as at 31 December 2023, and has not been provided for, is not expected to affect its financial position in any material way, either individually or in aggregate.

15 Events occurring after the reporting period

On 22 February 2024, the Directors declared an interim fully franked dividend of 2.25 cents per share which amounted to \$6,711,639 to be paid on 28 March 2024 with a record date of 8 March 2024.

No significant events have occurred since the reporting period which would impact on the financial position of the Group disclosed in the condensed consolidated interim statement of financial position as at 31 December 2023 or on the results and cash flows of the Group for the current reporting period ended on that date.

Directors' declaration

In the opinion of the Directors of Qualitas Limited:

- (a) The condensed consolidated interim financial statements and notes set out on pages 6 to 27 are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the Group's financial position at 31 December 2023 and of its performance for the half-year ended 31 December 2023;
 - (ii) Complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Andrew Fairley AM
Chairman
Melbourne
22 February 2024



Independent Auditor's Review Report

To the shareholders of Qualitas Limited

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Qualitas Limited and its controlled entities (the **Group**).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of the **Group** does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2023 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Condensed consolidated interim statement of financial position as at 31 December 2023
- Condensed consolidated interim statement of comprehensive income, Condensed consolidated interim statement of changes in equity and Condensed consolidated interim statement of cash flows for the Half-year ended on that date
- Notes 1 to 15 including selected explanatory notes
- The Directors' declaration.

The **Group** comprises Qualitas Limited and the entities it controlled at the Half-year's end or from time to time during the Half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.



Responsibilities of the Directors for the Interim Financial Report

The Directors of the **Group** are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the Half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Maria Trinci
Partner

Melbourne
22 February 2024