HealthCo Healthcare and Wellness REIT
ARSN 652 057 639
HCW Funds Management Limited
ACN 104 438 100, AFSL 239882

ASX RELEASE

17 February 2023

APPENDIX 4D AND HY23 FINANCIAL REPORT

HealthCo Healthcare and Wellness REIT (ASX: HCW) provides the attached Appendix 4D and HY23 Financial Report.

This announcement is authorised for release by the Board of the Responsible Entity.

For further information please contact:

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About HealthCo Healthcare & Wellness REIT

HealthCo Healthcare & Wellness REIT is a Real Estate Investment Trust listed on the ASX focused on owning healthcare and wellness property assets. The REIT's objective is to provide exposure to a diversified portfolio underpinned by healthcare sector megatrends, targeting stable and growing distributions, long-term capital growth and positive environmental and social impact.

1. Company details

Name of entity:	HealthCo Healthcare and Wellness REIT
ARSN:	652 057 639
Reporting period:	For the half-year ended 31 December 2022
Previous period:	For the half-year ended 31 December 2021

2. Results for announcement to the market

This Appendix 4D should be read in conjunction with the attached directors' report which includes details of the results for the period.

	31 Dec 2022 $'000	Period from 30 Jul 2021 to 31 Dec 2021 $'000	Change $'000	Change %
Revenue from ordinary activities	18,380	9,959	8,421	85%
Profit from ordinary activities	1,542	10,768	(9,226)	(86%)
Profit for the half-year	1,542	10,768	(9,226)	(86%)

Refer to the attached directors' report for detailed commentary on review of operations and financial performance.

3. Distributions

	Amount per unit Cents
Interim distribution for the year ending 30 June 2023 declared on 20 September 2022. The distribution was paid on 25 November 2022 to unitholders registered on 30 September 2022.	1.875
Interim distribution for the year ending 30 June 2023 declared on 15 December 2022. The distribution will be paid on 24 February 2023 to unitholders registered on 30 December 2022.	1.875

4. Distribution reinvestment plans (DRP)

For the period 1 July 2022 to 31 December 2022 HealthCo Healthcare and Wellness REIT operated a DRP under which unitholders could elect to reinvest all or part of their distributions in new units rather than being paid in cash. The DRP price is determined as the average of the daily volume weighted average price (VWAP) of units sold on the Australian Securities Exchange (ASX) during a nominated five-day period, between the announcement date and payment date of the respective distribution, less a discount (if any).

The DRP price for the quarters ended 30 September 2022 and 31 December 2022 did not include a discount.

5. Net tangible assets

	31 Dec 2022 $	30 Jun 2022 $
Net tangible assets per unit	2.00	2.01

6. Control gained over entities

Name of entities (or group of entities)	The George Trust
Date control gained	8 December 2022

Refer to note 11 of the notes to the consolidated financial statements for further information related to control gained over The George Trust.

7. Details of associates and joint venture entities

	Reporting entity's percentage holding		Contribution to profit/(loss)	
Name of associate / joint venture	**31 Dec 2022 %**	**30 Jun 2022 %**	**31 Dec 2022 $'000**	**30 Jun 2022 $'000**
The George Trust	-	40.3%	-	-
General Medical Precinct Trust	25.0%	25.0%	-	-
Life Sciences Medical Precinct Trust	30.3%	30.2%	-	-

Refer to note 11 of the notes to the consolidated financial statements for further details.

8. Information about audit or review

The financial statements were subject to review by the auditors KPMG. A copy of KPMG's unqualified review report is attached as part of the half-year financial report.

9. Attachments

The Interim Report of HealthCo Healthcare and Wellness REIT for the half-year ended 31 December 2022 is attached.

10. Signed

As authorised by the board of directors

Signed

Date: 16 February 2023

Joseph Carrozzi AM
Chair

HealthCo Healthcare and Wellness REIT

ARSN 652 057 639

Interim Report - 31 December 2022

The directors of HCW Funds Management Limited (ABN 58 104 438 100, AFSL 239882) (the Responsible Entity), present their report together with the consolidated financial statements of HealthCo Healthcare and Wellness REIT. The consolidated financial statements cover HealthCo Healthcare and Wellness REIT (the Trust or HCW) and the entities it controlled at the end of, or during the period ended 31 December 2022 (collectively referred to as the group).

HCW Funds Management Limited is ultimately owned by HMC Capital Limited (ASX: HMC).

The Trust was registered by ASIC as a managed investment scheme on 30 July 2021. On 6 September 2021, the Trust was listed on the Australian Securities Exchange (ASX). The current reporting period is for the half-year ended 31 December 2022. The comparative reporting period is from 30 July 2021 to 31 December 2021, which is the notional first half-year reporting period in accordance with ASIC Instrument 22-0099 applicable to HCW Funds Management Limited in its capacity as Responsible Entity of HealthCo Healthcare and Wellness REIT.

Directors
The following persons were directors of the Responsible Entity during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Joseph Carrozzi AM	Independent Non-Executive Chair
Stephanie Lai	Independent Non-Executive Director
Natalie Meyenn	Independent Non-Executive Director
Dr Chris Roberts AO	Independent Non-Executive Director
David Di Pilla	Director
Kelly O'Dwyer	Non-Executive Director

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the group during the financial half-year.

Review of operations and financial performance
The group’s financial performance for the financial half-year was materially influenced by active undertaking of investment activities, growing the portfolio from 29 properties as at 30 June 2022 to 34 properties as at 31 December 2022.

A summary of the group’s financial performance for the period ended 31 December 2022 is detailed below.

	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Total revenue and other income	18,433	10,844
Net profit for the period	1,542	10,768
Funds from operations ('FFO')	10,010	5,799
Weighted average units on issue (million)	325.6	325.2
FFO per unit (cents)	3.1	1.8
Distribution per unit (cents)	3.8	3.0

The group recorded total revenue and other income of $18.4 million (31 December 2021: $10.8 million), a net profit of $1.5 million (31 December 2021: $10.8 million) and FFO of $10.0 million (31 December 2021: $5.8 million) for the half-year ended 31 December 2022. FFO is a financial measure which is not prescribed by Australian Accounting Standards and represents the group's underlying and recurring earnings from its operations and is determined by adjusting the statutory net profit after tax for items that are non-cash, unrealised or capital in nature. The directors consider FFO to represent the core earnings of the group.

A reconciliation between net profit and FFO for the period ended 31 December 2022 is detailed below.

	Consolidated 31 Dec 2022 $'000	Consolidated 31 Dec 2021 $'000
Net profit for the period	1,542	10,768
Straight lining and amortisation of rental income	(724)	(856)
Acquisition and transaction costs	609	1,655
Rent guarantee income	1,158	417
Amortisation of borrowing costs	621	346
Net fair value movements	6,354	(6,758)
Proxima coupon	450	227
FFO	10,010	5,799

Summary of financial position
A summary of the group's financial position as at 31 December 2022 is outlined below.

	Consolidated 31 Dec 2022 $'000	Consolidated 30 Jun 2022 $'000
Assets		
Investment properties (excluding assets held for sale)	770,635	609,013
Total assets	799,369	693,597
Net assets	649,737	654,090
Net tangible assets	649,737	654,090
Number of units on issue (million)	325.7	325.4
Net tangible assets ($ per unit)	2.00	2.01
Capital management		
Debt facility limit	400,000	400,000
Drawn debt	127,900	25,000
Cash and undrawn debt	276,442	377,693
Gearing ratio (%)*	15.5%	3.2%
Hedged debt (%)	27.4%	-
Cost of debt (% per annum)**	5.2%	3.6%

* Gearing is defined as borrowings (excluding unamortised debt establishment costs) less cash and cash equivalents divided by total assets less cash and cash equivalents.
** Cost of debt excludes undrawn commitment fees given majority facility undrawn.

Property portfolio:
At 31 December 2022, the group owned 34 investment properties including assets held for sale with a combined value of $770.6 million (30 June 2022: $609.0 million). The weighted average capitalisation rate of the portfolio was 4.98% (30 June 2022: 4.94%).

In July 2022, the contract for the sale of the St Mary's Health Hub became unconditional and the asset held for sale was settled in August 2022 for $35.3 million. Refer to note 10 of the notes to the financial statements for details of the sale.

In November 2022, the group announced a strategic partnership with Mater Misericordiae Ltd ('Mater'). As part of the partnership, Mater acquired a 20% interest in the group's Springfield Health Hub.

In December 2022, the group exercised its option to acquire HMC Capital's interest in Camden Stage 1 'The George' Private Hospital for $32.7 million.

In addition, the group acquired 5 investment properties for $64.4 million during the period.

Capital management:
In August 2022, the group announced an on-market buy-back program for a maximum of 32,515,361 units to be in place for one year. The group will only buy back units at such times as are considered beneficial to the efficient capital management of the group, and the group reserves the right to suspend or terminate the buy-back at any time. No units were bought in the period to 31 December 2022.

In December 2022, the group put in place hedging arrangements for a portion of its borrowings to mitigate risks associated with changes in interest rates.

Distributions
Distributions declared during the financial half-year were as follows:

	Distribution per unit (cents)	Total distribution $'000	Ex-distribution date	Record date	Payment date
September 2022	1.875	6,106	29 September 2022	30 September 2022	25 November 2022
December 2022	1.875	6,106	29 December 2022	30 December 2022	24 February 2023
Total	**3.750**	**12,212**			

The final distribution for the year ended 30 June 2022 of $7,321,010, or 2.25 cents per unit, was paid on 22 August 2022.

For the period 1 July 2022 to 31 December 2022, the group operated a DRP under which unitholders could elect to reinvest all or part of their distributions in new units rather than being paid in cash. The DRP price is determined as the average of the daily volume weighted average price (VWAP) of units sold on the Australian Securities Exchange (ASX) during a nominated five-day period, between the announcement date and payment date of the respective distribution, less a discount (if any). The DRP price for the quarters ended 30 September 2022 and 31 December 2022 did not include a discount.

Matters subsequent to the end of the financial half-year
Macquarie Park Acquisition
In February 2023, the group entered into a contract for the acquisition of 100% interest in Macquarie Park for $80.8m.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Rounding of amounts
The Trust is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors.

Joseph Carrozzi AM
Chair

David Di Pilla
Director

16 February 2023

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

To the Directors of Health Co Healthcare & Wellness REIT (the Trust)

I declare that, to the best of my knowledge and belief, in relation to the review of Health Co Healthcare & Wellness REIT (the Trust) for the half-year ended 31 December 2022 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

KPMG

J.Davis

Jessica Davis
Partner
Sydney
16 February 2023

Contents

HealthCo Healthcare and Wellness REIT
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2022

	Note	Consolidated 31 Dec 2022 $'000	Period from 30 Jul 2021 to 31 Dec 2021 $'000
Income			
Property income	4	18,380	9,959
Other income		-	885
Interest revenue calculated using the effective interest method		53	-
Net change in assets at fair value through profit or loss	5	(6,354)	6,758
Expenses			
Property expenses		(3,629)	(1,796)
Corporate expenses		(1,177)	(687)
Management fees	23	(2,369)	(1,398)
Acquisition and transaction costs	6	(609)	(1,655)
Finance costs	6	(2,753)	(1,298)
Profit for the half-year		1,542	10,768
Other comprehensive income for the half-year		-	-
Total comprehensive income for the half-year		1,542	10,768
Profit for the half-year is attributable to:			
Owners of HealthCo Healthcare and Wellness REIT		1,542	10,768
		1,542	10,768
		Cents	**Cents**
Basic earnings per unit	24	0.47	3.31
Diluted earnings per unit	24	0.47	3.31

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

HealthCo Healthcare and Wellness REIT
Consolidated statement of financial position
As at 31 December 2022

	Note	Consolidated 31 Dec 2022 $'000	Consolidated 30 Jun 2022 $'000
Assets			
Current assets			
Cash and cash equivalents	7	4,342	2,693
Trade and other receivables	8	3,537	2,053
Other assets	9	9,292	15,949
		17,171	20,695
Assets held for sale	10	-	35,300
Total current assets		17,171	55,995
Non-current assets			
Investments accounted for using the equity method	11	11,554	28,589
Investment properties	12	770,635	609,013
Derivative financial instruments	13	9	-
Total non-current assets		782,198	637,602
Total assets		799,369	693,597
Liabilities			
Current liabilities			
Trade and other payables	14	14,922	9,892
Distributions payable	18	6,106	7,321
Lease liabilities	15	26	-
Total current liabilities		21,054	17,213
Non-current liabilities			
Borrowings	16	125,794	22,294
Lease liabilities	15	2,784	-
Total non-current liabilities		128,578	22,294
Total liabilities		149,632	39,507
Net assets		649,737	654,090
Equity			
Contributed equity	17	629,080	628,870
Retained profits		14,550	25,220
Equity attributable to the owners of HealthCo Healthcare and Wellness REIT		643,630	654,090
Non-controlling interest	19	6,107	-
Total equity		649,737	654,090

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

HealthCo Healthcare and Wellness REIT
Consolidated statement of changes in equity
For the half-year ended 31 December 2022

Consolidated	**Contributed equity $'000**	**Retained profits $'000**	**Non-controlling interest $'000**	**Total equity $'000**
Balance at 30 July 2021	-	-	-	-
Profit for the half-year	-	10,768	-	10,768
Other comprehensive income for the half-year	-	-	-	-
Total comprehensive income for the half-year	-	10,768	-	10,768
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	628,487	-	-	628,487
Distributions declared (note 18)	-	(9,755)	-	(9,755)
Balance at 31 December 2021	628,487	1,013	-	629,500

Consolidated	**Contributed equity $'000**	**Retained profits $'000**	**Non-controlling interest $'000**	**Total equity $'000**
Balance at 1 July 2022	628,870	25,220	-	654,090
Profit for the half-year	-	1,542	-	1,542
Other comprehensive income for the half-year	-	-	-	-
Total comprehensive income for the half-year	-	1,542	-	1,542
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 17)	210	-	-	210
Non-controlling interests (note 19)	-	-	6,107	6,107
Distributions declared (note 18)	-	(12,212)	-	(12,212)
Balance at 31 December 2022	629,080	14,550	6,107	649,737

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

HealthCo Healthcare and Wellness REIT
Consolidated statement of cash flows
For the half-year ended 31 December 2022

	Consolidated	
	31 Dec 2022 $'000	Period from 30 Jul 2021 to 31 Dec 2021 $'000
Cash flows from operating activities		
Receipts from tenants (inclusive of GST)	17,909	10,207
Payments to suppliers (inclusive of GST)	(8,373)	(3,719)
Interest and other finance costs paid	(2,265)	(729)
Net cash from operating activities	7,271	5,759
Cash flows from investing activities		
Proceeds from disposal of investment properties	40,100	-
Payments for acquisition of investment properties and capital expenditure	(108,299)	(430,430)
Payments attributable to investment in joint ventures	(27,085)	(12,643)
Net cash used in investing activities	(95,284)	(443,073)
Cash flows from financing activities		
Proceeds from issue of units	-	520,000
Capital raising and IPO costs	(220)	(23,027)
Proceeds from borrowings	130,900	-
Repayment of borrowings	(28,000)	-
Borrowing costs paid	(21)	(3,519)
Distributions paid	(12,997)	-
Net cash from financing activities	89,662	493,454
Net increase in cash and cash equivalents	1,649	56,140
Cash and cash equivalents at the beginning of the financial half-year	2,693	-
Cash and cash equivalents at the end of the financial half-year	4,342	56,140

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

Note 1. General information

The financial statements cover HealthCo Healthcare and Wellness REIT (the Trust or HCW) as a consolidated entity consisting of HealthCo Healthcare and Wellness REIT and the entities it controlled at the end of, or during, the half-year (collectively referred to hereafter as the group). The financial statements are presented in Australian dollars, which is the group's functional and presentation currency.

HCW is a listed, for-profit public investment trust, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 7 Gateway
1 Macquarie Place
Sydney NSW 2000

The current period presented in the financial statements is for the period 1 July 2022 to 31 December 2022. The comparative period is from 30 July 2021 (date registered by ASIC as a managed investment scheme) to 31 December 2021.

HCW Funds Management Limited (ABN 58 104 438 100) (AFSL 239882) ('Responsible Entity') is the responsible entity of the Trust.

The Responsible Entity has appointed HMC Property Management Pty Limited (the 'Property Manager') and HMC Investment Management Pty Ltd (the 'Investment Manager') to provide certain asset management, investment management, development management, leasing and property management services to the group in accordance with the Investment Management Agreement and Property Management Agreement ('Management Agreements'). The Responsible Entity, Property Manager and Investment Manager are ultimately owned by HMC Capital Limited (ASX: HMC).

The financial statements were authorised for issue, in accordance with a resolution of directors, on 16 February 2023.

Note 2. Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted
The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the group during the financial half-year ended 31 December 2022 and are not expected to have any significant impact for the full financial year ending 30 June 2023.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Basis of preparation (continued)

Net current asset deficiency
As at 31 December 2022, the group was in a net current liability position of $3.9 million (30 June 2022: net current asset of $38.8 million). The net assets include $nil in assets held for sale (30 June 2022: $35.3 million). As detailed in note 16, the group has access to an unused bank debt facility of $272.1 million as at 31 December 2022 (30 June 2022: $375.0 million). Accordingly, the financial statements continue to be prepared on a going concern basis.

Lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; the certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully
written down.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Movements in fair value are recognised directly in profit or loss. Derivatives are classified as current or non-current depending on the expected period of realisation.

Note 3. Operating segments

The group's operating segments are based on the internal reports that are reviewed and used by the board of directors of the Responsible Entity (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The directors of the Responsible Entity have determined that there is one operating segment being its Australian operations.

The CODM monitors the performance of the business on the basis of Funds from Operations (FFO). FFO represents the group's underlying and recurring earnings from its operations, and is determined by adjusting the statutory net profit or loss for items which are non-cash, unrealised or capital in nature. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a quarterly basis.

Refer to statement of financial position for segment assets and liabilities.

Major customers
During the half-year ended 31 December 2022, approximately 11.9% (31 December 2021: 21.0%) of the group's external revenue was derived from rental income from one main tenant (31 December 2021: One tenant).

Note 3. Operating segments (continued)

Segment results

	Consolidated	
	31 Dec 2022 $'000	**Period from 30 Jul 2021 to 31 Dec 2021 $'000**
Funds from operations (FFO)	10,010	5,799
Straight lining of rental income	724	856
Acquisition and transaction costs	(609)	(1,655)
Rent guarantee income	(1,158)	(417)
Amortisation of borrowing costs	(621)	(346)
Net fair value movements	(6,354)	6,758
Proxima coupon	(450)	(227)
Net profit for the period	1,542	10,768

Note 4. Property income

	Consolidated	
	31 Dec 2022 $'000	**Period from 30 Jul 2021 to 31 Dec 2021 $'000**
Property rental income	16,310	8,941
Other property income	2,070	1,018
Property income	18,380	9,959

Disaggregation of revenue
Revenue from property rental is recognised on a straight-line basis over the lease term. Other property income is recognised over time as services are rendered.

Note 5. Net change in assets at fair value through profit or loss

	Consolidated	
	31 Dec 2022 $'000	**Period from 30 Jul 2021 to 31 Dec 2021 $'000**
Net unrealised fair value (loss)/gain on investment properties	(6,363)	6,758
Net unrealised fair value gain on derivatives	9	-
	(6,354)	6,758

Note 6. Expenses

	Consolidated	
	31 Dec 2022 $'000	Period from 30 Jul 2021 to 31 Dec 2021 $'000
Profit includes the following specific expenses:		
Acquisition and transaction costs:		
IPO costs	-	1,446
Transaction costs	609	209
Total acquisition and transaction costs	609	1,655
Finance costs		
Interest and finance charges on borrowings	2,132	952
Amortisation of capitalised borrowing costs	621	346
Finance costs expensed	2,753	1,298

Note 7. Cash and cash equivalents

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Current assets		
Cash at bank	4,342	2,693

Note 8. Trade and other receivables

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Current assets		
Trade receivables	96	324
Less: Allowance for expected credit losses	(96)	(27)
	-	297
Other receivables	2,557	1,509
GST receivable	980	247
	3,537	2,053

Note 9. Other assets

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Current assets		
Prepayments	78	240
Security deposits	600	600
Property deposits	8,277	14,492
Other current assets	337	617
	9,292	15,949

Note 10. Assets held for sale

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Current assets		
Investment properties	-	35,300

As at 30 June 2022, assets held for sale represented a property in St Mary's, New South Wales that was contracted to be sold to a third party. The sale became unconditional in July 2022 and was settled in August 2022.

Note 11. Investments accounted for using the equity method

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Non-current assets		
Investment in joint ventures	11,554	28,589

	Consolidated 31 Dec 2022 $'000
Reconciliation of the group's carrying amount	
Opening carrying amount at 1 July 2022	28,589
Additions during the period	27,085
Transfer upon consolidation of The George Trust	(44,120)
Closing carrying amount	11,554

Interests in joint ventures
Interests in joint ventures are accounted for using the equity method of accounting. Information relating to joint ventures that are material to the group are set out below:

		Ownership interest	
Name	**Principal place of business / Country of incorporation**	**31 Dec 2022 %**	**30 Jun 2022 %**
The George Trust *	Australia	-	40.3%
General Medical Precinct Trust	Australia	25.0%	25.0%
Life Sciences Medical Precinct Trust	Australia	30.3%	30.2%

* On 8 December 2022, the group purchased an additional interest in The George Trust from HMC Capital Limited for $32.7 million. The transaction increased the group's ownership interest to 91.5% and resulted in the group obtaining control over The George Trust. Consequently, the group ceased to equity account, and subsequently consolidated the entity from that date. The remaining 8.5% is interest held outside the group is presented as the non-controlling interest of $6.1 million.

Note 12. Investment properties

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Non-current assets		
Investment properties - at fair value	770,635	609,013

Note 12. Investment properties (continued)

Reconciliation
Reconciliation of the fair values at the beginning and end of the current financial half-year are set out below:

	Consolidated 31 Dec 2022 $'000
Opening fair value	609,013
Acquisitions	149,427
Disposals	(4,813)
Capitalised expenditure (including property acquisition costs)*	22,206
Straight-lining and amortisation of incentives	1,165
Net unrealised loss from fair value adjustments	(6,363)
Closing fair value*	770,635

* Included in the closing fair value of investment property at 31 December 2022 is $2.8 million (30 June 2022: $nil) relating to leasehold improvements and right-of-use assets of a leasehold property.

Refer to note 20 for further information on fair value measurement.

Note 13. Derivative financial instruments

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Non-current assets		
Interest rate swap contracts - cash flow hedges	9	-

During the half-year, the group entered into an interest rate swap contract to partially hedge against interest rate fluctuations. The interest rate swap has a notional value of $35.0 million, a fixed rate of 4.0% and maturity date of 20 December 2024.

The interest rate swap contract requires settlement of net interest receivable or payable on a quarterly basis.

Refer to note 20 for further information on fair value measurement.

Note 14. Trade and other payables

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Current liabilities		
Trade payables	1,591	1,842
Rent received in advance	1,262	706
Accrued expenses	9,025	1,766
Interest payable	363	230
Other payables	2,681	5,348
	14,922	9,892

Note 15. Lease liabilities

	Consolidated	
	31 Dec 2022 $'000	**30 Jun 2022 $'000**
Current liabilities		
Lease liability	26	-
Non-current liabilities		
Lease liability	2,784	-

Lease liability mainly represents 2 head lease agreements (ground leases) for the GC Urraween property. Both leases have 5 year terms remaining with 8 by 5 year options and 7 by 5 year options to extend respectively.

Note 16. Borrowings

	Consolidated	
	31 Dec 2022 $'000	**30 Jun 2022 $'000**
Non-current liabilities		
Bank debt	127,900	25,000
Capitalised borrowing costs	(2,106)	(2,706)
	125,794	22,294

The group's bank debt comprises a $400.0 million secured debt facility expiring on 29 August 2024. The bank loans are secured by first mortgages over the group's freehold properties, including any classified as held for sale. The group has complied with the financial covenants during the financial half-year.

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	31 Dec 2022 $'000	**30 Jun 2022 $'000**
Total facilities		
Bank debt	400,000	400,000
Used at the reporting date		
Bank debt	127,900	25,000
Unused at the reporting date		
Bank debt	272,100	375,000

Note 17. Contributed equity

	Consolidated			
	31 Dec 2022 Units	30 Jun 2022 Units	31 Dec 2022 $'000	30 Jun 2022 $'000
Ordinary class units - fully paid	325,674,513	325,378,233	629,080	628,870

Movements in ordinary units

Details	Date	Units	$'000
Balance	1 July 2022	325,378,233	628,870
Units issued as part of distribution reinvestment plan (at $1.45 per unit)	22 August 2022	241,217	350
Units issued as part of distribution reinvestment plan (at $1.46 per unit)	25 November 2022	55,063	80
Transaction cost on issue of units		-	(220)
Balance	31 December 2022	325,674,513	629,080

Note 18. Distributions

Distributions declared during the financial half-year were as follows:

	Consolidated	
	31 Dec 2022 $'000	Period from 30 Jul 2021 to 31 Dec 2021 $'000
Interim distribution for the year ending 30 June 2023 of 1.875 cents (2021: nil cents) per unit declared on 20 September 2022. The distribution was paid on 25 November 2022 to unitholders registered on 30 September 2022.	6,106	-
Interim distribution for the year ending 30 June 2023 of 1.875 cents (2021: 3.00 cents) per unit declared on 15 December 2022. The distribution will be paid on 24 February 2023 to unitholders registered on 30 December 2022.	6,106	9,755
	12,212	9,755

The final distribution for the year ended 30 June 2022 of $7,321,000, or 2.25 cents per unit, was paid on 22 August 2022.

Note 19. Non-controlling interests

Summarised financial information

Summarised financial information of the subsidiary with non-controlling interests that are material to the group are set out below:

	The George Trust 31 Dec 2022 $'000
Summarised statement of financial position	
Current assets	1,511
Non-current assets	98,932
Total assets	100,443
Current liabilities	3,854
Total liabilities	3,854
Net assets	96,589
Summarised statement of profit or loss and other comprehensive income	
Revenue and other income	109
Profit	109
Other comprehensive income	-
Total comprehensive income	109
Statement of cash flows	
Net cash used in investing activities	(41,196)
Net cash from financing activities	41,556
Net increase in cash and cash equivalents	360
Other financial information	
Profit attributable to non-controlling interests	9
Accumulated non-controlling interests at the end of reporting period	6,107

Note 20. Fair value measurement

Fair value hierarchy
The following tables detail the group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment properties	-	-	770,635	770,635
Derivative financial instruments	-	9	-	9
Total assets	-	9	770,635	770,644

Consolidated - 30 Jun 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment properties	-	-	609,013	609,013
Investment properties - held for sale	-	-	35,300	35,300
Total assets	-	-	644,313	644,313

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial half-year.

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3
Derivative financial instruments have been valued using observable market inputs. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

The basis of valuation of investment properties is fair value. Independent valuations are obtained on a rotational basis to ensure each property is valued at least once every 24 months by an independent external valuer. Valuations are based on current prices in an active market for similar properties of the same location and condition, subject to similar leases and takes into consideration occupancy rates and returns on investment. The discounted cash flow method and the capitalisation method are also considered for determining fair value. For properties not independently valued during a reporting period, a directors' valuation is carried out to determine the appropriate carrying value of the property as at the date of the report. Where directors' valuations are performed, the valuation methods include using the discounted cash flow method and the capitalisation method.

Level 3 assets and liabilities

Description	Unobservable inputs	Range (weighted average) 31 Dec 2022	Range (weighted average) 30 Jun 2022
Investment properties	(i) Capitalisation rate	4.25% to 6.25% (4.98%)	3.88% to 6.25% (4.94%)
	(ii) Discount rate	5.50% to 7.25% (6.20%)	4.88% to 7.25% (6.17%)
	(iii) Terminal yield	4.63% to 6.75% (5.31%)	4.00% to 6.55% (5.30%)

Note 20. Fair value measurement (continued)

A higher capitalisation rate, discount rate or terminal yield will lead to a lower fair value. A higher growth rate will lead to a higher fair value. The weighted average capitalisation rate is the most significant input into the valuation of investment properties and therefore most sensitive to changes in valuation. A 25 basis point increase in capitalisation rate would result in a decrease in the fair value of investment property by $37.0 million and a 25 basis point decrease in capitalisation rate would result in an increase in the fair value of investment property by $41.0 million.

Note 21. Contingent liabilities

The group had no contingent liabilities as at 31 December 2022 and 30 June 2022.

Note 22. Commitments

	Consolidated	
	31 Dec 2022 $'000	30 Jun 2022 $'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities:		
Capital expenditure	65,577	89,456
Property acquisitions	64,381	113,832
	129,958	203,288

Note 23. Related party transactions

Following is a summary of fees paid to the Responsible Entity:

Type of fee	Method of fee calculation	Consolidated 31 Dec 2022 $	Consolidated Period from 30 Jul 2021 to 31 Dec 2021 $
Base management fees	0.65% per annum of Gross Asset Value ('GAV') up to $1.5 billion 0.55% per annum of GAV thereafter	2,369,397	1,398,300
Property management fees	3.0% of gross property income	547,078	318,116
Leasing fees	15.0% on new leases 7.5% of year 1 gross income on renewals	85,500	209,295
Development management fees	5.0% of project spend up to $2.5 million 3.0% of project spend thereafter	363,162	430,191
Acquisition fees	1.0% purchase price	880,788	233,834
Disposal fees	0.5% of sale price	200,563	-
Reimbursement of Responsible Entity expenses	Cost recovery	336,525	361,447

Note 23. Related party transactions (continued)

The following other transactions occurred with related parties:

	Consolidated	
	31 Dec 2022 $	Period from 30 Jul 2021 to 31 Dec 2021 $
Payment for goods and services:		
Payments to Home Consortium Developments Pty Limited and HMC Capital Limited	-	12,460,961
Payments to Home Consortium Developments Pty Limited (Proxima)	-	5,000,000
Other transactions:		
HMC Capital Limited unit acquisition on IPO	-	130,000,000
Income from Home Consortium Developments Pty Limited (rental guarantee)	1,156,323	1,302,417
Development related capital expenditure paid to joint venture (Camden)	27,085,138	5,152,342
Payment to HMC Capital Limited for the acquisition of the units in The George Trust	32,700,000	-
HMC Capital Limited's share of distributions declared as a unitholder of HCW	2,554,558	1,950,000

Receivable from and payable to related parties
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	31 Dec 2022 $	30 Jun 2022 $
Current receivables:		
Trade and other receivables from Home Consortium Developments Pty Limited	759,996	1,555,727
Trade and other receivables from HomeCo Daily Needs REIT	154,000	-
Trade and other receivables from HMC Capital Limited	3,728	-
Current payables:		
Trade and other payables to the Responsible Entity	53,024	-
Trade and other payables to the Investment, Development and Property Manager	1,687,098	2,221,304
Trade and other payables to HMC Capital Limited	464,408	-
Distribution payable to HMC Capital Limited	1,370,497	1,532,735

Loans to/from related parties
The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	31 Dec 2022 $	30 Jun 2022 $
Current receivables:		
Loan receivable from joint venture (Camden Trusts)	-	518,172

Note 24. Earnings per unit

	Consolidated	
	31 Dec 2022 $'000	**Period from 30 Jul 2021 to 31 Dec 2021 $'000**
Profit for the half-year	1,542	10,768
	Number	**Number**
Weighted average number of units used in calculating basic earnings per unit	325,562,352	325,153,613
Weighted average number of ordinary units used in calculating diluted earnings per unit	325,562,352	325,153,613
	Cents	**Cents**
Basic earnings per unit	0.47	3.31
Diluted earnings per unit	0.47	3.31

Note 25. Events after the reporting period

Macquarie Park Acquisition
In February 2023, the group entered into a contract for the acquisition of 100% interest in Macquarie Park for $80.8m.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the group’s operations, the results of those operations, or the group’s state of affairs in future financial years.

In the directors' opinion:

- the attached consolidated financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached consolidated financial statements and notes give a true and fair view of the group's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Trust 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 of the Responsible Entity, HCW Funds Management Limited, made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors of the Responsible Entity.

Joseph Carrozzi AM
Chair

David Di Pilla
Director

16 February 2023

KPMG

Independent Auditor's Review Report

To the unitholders of HealthCo Healthcare & Wellness REIT

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of HealthCo Healthcare & Wellness REIT (the Trust).

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 HealthCo Healthcare & Wellness REIT 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 2022 and of its performance for the ***Interim Period*** 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:

- Consolidated statement of financial position as at 31 December 2022.
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Interim Period ended on that date
- Notes 1 to 25 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises HealthCo Healthcare & Wellness REIT (the Trust) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period

The ***Interim Period*** is the 6 months ended on 31 December 2022.

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 Trust 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 Trust 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 Trust's financial position as at 31 December 2022 and its performance for the Interim Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a Interim Period 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

KPMG

J.Davis

Jessica Davis

Partner

Sydney

16 February 2023