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Aspen Group 2009 Full Year Results

Aspen Group ("Aspen") today announced an operating profit after tax of \$33.2 million for the full year ended 30 June 2009.

The operating result excludes non-cash fair value adjustments, such as revaluations of assets, of \$97.9 million, that result in a full year statutory loss after tax of \$64.7 million. The majority of the fair value adjustments were recorded at 31 December 2008.

Aspen's focus this financial year has been on capital management, ensuring carrying values of assets remain appropriate given the current climate and on a disciplined cost structure. Achievements in this regard included:

- reducing Group gearing to 30% through a combination of equity raisings and asset sales
- independently valuing 100% of investment properties over the past 6 months
- growing the recurring rental income base by 32%
- securing the funds management fee income base through appropriate fund level capital management initiatives

Aspen Group Managing Director Angelo Del Borrello said, "FY09 has been a year of consolidation, debt reduction and of maintaining balance sheet strength of both the Group and its funds. The achievements to date now position the Group to capitalise on future market opportunities."

Key financial results include:

- Revenue of \$70.2 million
- Operating profit after tax of \$33.2 million
- Statutory loss after tax of \$64.7 million
- Underlying earnings per security of 11.91 cents ¹
- Distributions per security of 9.00 cents
- Net Tangible Assets (NTA) of \$0.71 per stapled security ²

1. FY10 will include the full dilutionary impact and corresponding interest savings relating to the June 2009 Equity Raising

2. NTA excludes non-dilutive employee securities

Whilst the Group reported a satisfactory operating result in difficult conditions, the headline result included asset write downs reflecting the broader downturn in property values across the market. These write downs, together with accounting fair value adjustments, do not impact operating cashflows and are therefore eliminated from the calculation of operating profit. The reconciliation of operating profit to headline loss is summarised below:

	FY09	2H09	1H09
	\$m	\$m	\$m
Operating profit after tax	33.2	16.1	17.1
Revaluation of investment properties	(25.3)	(14.7)	(10.6)
Revaluation of inventories	(21.1)	(8.9)	(12.2)
Loss on of sale non current assets	(1.6)	(1.6)	-
Fair value of equity investments	(35.8)	(11.0)	(24.8)
Fair value of interest rate swaps	(8.3)	2.1	(10.4)
Fair value of employee options/other	(5.8)	(3.9)	(1.9)
Net loss after tax as per Financial Report	(64.7)	(21.9)	(42.8)

Earnings and Distribution

Net rental income from investment properties increased 32% over the period to \$43.0 million underpinned by first time contributions from Karratha Accommodation Village and St Kilda Road's lease to L'Oreal.

The funds management division contributed \$19.3 million to the total revenue result, which was significantly reduced from the corresponding period due to lower development and transactional activity in managed funds.

Cost reduction initiatives were implemented during the year to reflect the reduced transactional activity and lower growth environment. The full benefit of these initiatives will be realised in FY10.

Distributions of 9.0 cents per security were paid for the 2009 financial year and were fully covered by operating earnings in line with the Group's distribution policy.

Capital Management

- Gearing reduced from 38% at half year to 30%¹
- Look through gearing down from 44% to 40% with further reductions expected
- Senior debt facility maturity extended to February 2012
- All debt facilities remain compliant with banking covenants
- Distribution levels reduced to reflect tighter cash flows through the period

1. Gearing calculated as total debt less cash / total assets less cash

The equity raising in June 2009 resulted in a \$72.6 million reduction in debt and significantly improved the capital position of the Group. Aspen's capital position is now well placed to absorb any future cap rate softening with banking covenants able to withstand an additional 22% fall in investment property values at year end.

Property and Investment Portfolio

Property Portfolio

- 32% uplift in rental revenues
- 43% of portfolio independently valued in Aug 09 (balance valued Jan 09 – Mar 09)
- Weighted average capitalisation rate (excl. Karratha) up 220 points to 10.0%
- WALE of 3.6 years
- Weighted average occupancy 94%

The Group's major commercial office properties, Septimus Roe and Currie Street benefited from strong demand and low vacancy rates during the year. Rental growth was driven by the contribution from the Karratha Accommodation Village as well as a first full year of rental contribution from St Kilda Road's 10 year lease to L'Oreal. These two assets contributed a total of 25% of the 32% rental revenue growth for the period.

The construction of the Karratha Accommodation Village within a 6 month timeframe and the 5 year lease (plus 5 year option) to Woodside is a strong demonstration of the Group's development capabilities and will provide a sound income stream in the years ahead.

With the focus on ensuring that the carrying values of investment properties remained appropriate, management independently valued 43% of the portfolio in August 2009 having already independently valued the entire portfolio between January 2009 and March 2009. The full year write down was partly offset by an \$8.4 million uplift in the value of the Karratha Accommodation Village following its completion in December 2008.

Rental income is forecast to again increase in 2010 on the back of strong performances across the portfolio and a full year contribution from the Karratha Accommodation Village.

Investment Portfolio

- Write-down of equity accounted investments of \$35.8 million (1H09 \$24.8 million; 2H 09 \$11.0 million)
- Write-down of inventories of \$21.1 million (1H09 \$12.2 million; 2H09 \$8.9 million)

An extensive review of asset carrying values was also performed on other key asset classes including inventories held on balance sheet and equity accounted investments. Independent valuations were obtained on the majority of underlying syndicate property assets and the resulting asset impairments led to a \$35.8 million write-down in the value of Aspen's investments. In addition inventories were also impaired by a further \$8.9 million in the second half.

Funds Management

	FY09 \$m	FY08 \$m	% Change
Recurring Fees			
Fund Management fees	10.1	9.2	10%
Development Management fees (project management; sales & marketing)	6.2	13.8	(55%)
	16.3	23.0	(29%)
Non-Recurring Fees			
Transactional fees	3.0	12.8	(76%)
	19.3	35.8	(46%)

Recurring development management fees decreased 55% due to the reduced level of development activity across the funds. However there is evidence of an improvement in market conditions, most notably in the Aspen Living division, where improved residential land sales delivered a significantly improved second half performance.

Aspen Parks Property Fund (APPF)

APPF continues to perform well and since its inception in 2004 has delivered an annualised total return of 14% to unitholders. Previous development activity, management synergies and the diversified parks portfolio continue to pay significant dividends for APPF and its investors, including Aspen.

All 25 properties in APPF were independently valued in March 2009 resulting in a 3% impairment to the asset value. This result reflects the strength and counter cyclical nature of the APPF's property portfolio. APPF remains highly rated by research house Lonsec (upper recommended rating) and with an attractive income yield continues to receive strong net equity inflows which will allow for future growth.

Aspen Diversified Property Fund (ADPF)

Subsequent to year end, ADPF successfully concluded a \$15 million rights issue. ADPF has also sold two assets for a combined \$18 million in recent months. The combined proceeds of \$33 million will be used to reduce debt and gearing levels to more appropriate levels in the current climate.

Aspen Living

The key objective for the division during the period was to reduce gearing levels across the division and to this end 1 syndicate has completed and settled an equity raising whilst 3 other syndicates are awaiting settlement of their completed equity raisings.

The planning status on two early stage residential developments was also advanced, which has seen the commencement of works at the Whitsunday Shores development as well as subdivision approval for St Leonards Estate. Commencement of works at St Leonards Estate is expected to be achieved in the first half of FY10.

Weak residential markets during the year inhibited lot sales and consequently development management fee income. With improved market conditions in the second half of the year, lot

sales were 120% up over the first six months of the year, with signs appearing that residential markets will recover further in FY10.

Aspen Development Fund No. 1 (ADF)

A major achievement for Aspen's development team was the successful completion of the \$125 million Norwest Private Hospital in July 2009, on time and within budget. The hospital component of the project was pre-sold to a leading hospital operator and ADF is marketing the remaining medical suites for sale.

Whilst funding for key projects remains a key challenge for development funds, Aspen has finalised initiatives that will reduce gearing and provide enhanced debt facility terms to allow for advancement of development projects. ADF has approvals in place for the Currumbine retirement village and the Tower 8 project in Adelaide, with both projects receiving strong tenant interest. Debt funding has been obtained for the Currumbine project which should see development commencement in the first half of 2010.

Summary and Outlook

Aspen has made significant progress in FY09 in managing its debt position and strengthening its balance sheet for future growth.

Aspen acted early in adopting independent valuations on the majority of its asset portfolio at the half year, and hence has recorded lower impairments in the second half of the year.

Mr Del Borrello said, "realistic asset carrying values and a long term senior debt facility places the balance sheet in a sound position going into FY10".

The property portfolio remains resilient to the softer market outlook, with up to date valuations and forecast growth in rental income in FY10.

Significant progress continues to be made in strengthening the balance sheets of Aspen's funds management entities, including obtaining enhanced debt facility terms with lenders across the various funds. These entities are expected to benefit from lower gearing positions and a more positive market outlook.

Aspen's operating earnings guidance for the financial year ending 30 June 2010 is 6.00 cps to 6.70 cps. The Group's current distribution policy is to pay around 70% of operational earnings, which will continue to be paid on a quarterly basis.

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About Aspen Group

Aspen Group is an ASX listed property investment and funds management group, focused on acquiring quality property assets and creating and managing innovative property funds and syndicates.

Formed in 2001, Aspen has progressed to now be a member of the S&P/ASX 300 index with assets under management in excess of \$1.4 billion.

Aspen's core strength lies within the Group's broad expertise across property acquisition, development and management enabling the Group to provide leading edge property solutions.

Aspen directly owns and manages a well diversified portfolio of commercial property assets Australia-wide. The portfolio is spread across the office, industrial and retail sectors and has grown through acquisitions and portfolio revaluations of existing properties driven by a strong property management focus.

Aspen also has developed an outstanding reputation for creating unique and successful funds management products and related services. These managed funds have provided investment opportunities across a broad spectrum of property sectors including tourist parks, residential land subdivisions, CBD office developments, private hospital developments and retirement and accommodation villages.

Aspen continues to source acquisition opportunities for both balance sheet and syndication purposes in order to achieve further growth in both assets and earnings for securityholders.