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ASX / MEDIA RELEASE
22 FEBRUARY 2010

Aspen Group 2010 Half Year Results

FINANCIAL HIGHLIGHTS

- Operating profit before tax up 5% to \$13.3 million
- Statutory profit after tax of \$13.0 million, compared to 1H09 loss of \$42.8 million
- Cashflow from operations doubled to \$13.9 million
- Distributions of 2.10 cps paid from operating earnings of 2.79 cps (representing payout ratio of 75%)
- Independent revaluations on 80% of investment property portfolio resulting in a \$0.9 million impairment (or 0.2% of book value)
- Strong asset performance with Net Tangible Assets maintained at \$0.71 per stapled security

Aspen Group (ASX:APZ) today announced an operating net profit after tax of \$15.6 million for the half year ended 31 December 2009 reflecting a sound business performance in a market showing signs of increased consumer and business confidence.

Aspen Group Managing Director Angelo Del Borrello said the operating result for the half year was in line with expectations and an improvement on the Group's 1H09 result, demonstrating a return to more stable trading conditions.

"The results reflect the strength of our rental income from the investment property portfolio, and the improved performance from our residential estates within the funds management division that have experienced a return of buyers to the residential sector. The delivery of these results and further improvement across property sectors provides the Group with a sound platform moving into the second half."

"Recapitalisations and market improvement has provided our development divisions with the impetus to progress their development pipelines that had been put on hold during the global financial crisis. The commencement of these projects will see valuable income streams delivered to the Group in future years, enabling the Group to achieve higher contributions from its various business segments."

"Furthermore, we have continued to realise positive results from the Group's previously implemented cost reduction initiatives, with a 20% reduction in total administration and employee costs over the previous corresponding half," said Mr Del Borrello.

OPERATING RESULTS

Investment Property Portfolio

- 18% uplift in net rental income
- Downward adjustment to investment property portfolio of \$0.9 million or 0.2% of the book value
- Weighted average capitalisation rate of 9.4%
- Weighted average lease expiry (WALE) of 3.2 years
- Weighted average occupancy 92%

The investment property portfolio delivered solid income growth in the first half, with the Group's core office market exposures of Perth and Adelaide proving to be resilient. Perth's office sector has stabilised over the first half with an improving outlook. Adelaide has been the strongest performing office market in Australia which bodes well for the Group's Currie Street office tower.

At 31 December 2009, 80% (by value) of investment properties were independently valued resulting in a pre-tax downward valuation adjustment of \$0.9 million or only 0.2% of book value. Those investment properties not independently valued at 31 December 2009 were last valued independently in August 2009. The latest independent valuations reflect a portfolio weighted average capitalisation rate of 9.40% (excluding Aspen Karratha Villages cap rate of 17%).

"The stable result of this latest review reflects well on the Group's approach towards asset valuations last financial year. The portfolio is now well positioned to benefit as property sectors are expected to emerge from the bottom of the valuation cycle," said Mr Del Borrello.

Second half revenue from the investment property portfolio is expected to be in line with first half revenue, reflecting a circa 8% growth rate on the FY09 result.

The Group's property team remains firmly focused on actively managing the portfolio's maturity profile, and securing further quality long term tenants to ensure the portfolio continues to deliver a quality recurring rental stream to the Group.

Funds Management

- Recurring funds management revenue of \$6.3 million (25% lower than 1H09)
- \$1.3 million of equity profits from operations (up 24% on 1H09)
- Interest revenue of \$3.5 million from Aspen's loan portfolio
- Reduced level of development activity across funds due to capital constraints which have now been addressed through recapitalisations

The Funds Management division provides four avenues of income generation for the Group:

- Management fees on the circa \$1 billion of assets held within Aspen Funds;
- Transactional fees on acquisition and development activities undertaken on behalf of each Fund;
- Equity profits through the Group's cornerstone investment in each Fund; and
- Interest on loans provided to Fund vehicles

Over the past 18 months softer property markets and restrained credit markets have negatively impacted the level of development activity within the Funds Management division, resulting in a lower overall earnings contribution to the Group. The impact is magnified as lower activity impacts both fee income to the Group and Fund profitability.

The recapitalisation process undertaken by Aspen across all impacted Funds Management vehicles is now concluded, placing Aspen's development funds in a sound position to advance their respective development projects. Not only will this impact positively on Aspen's future fee income stream, but as a cornerstone investor in each Fund, Aspen will also benefit from its share of improved equity profits.

Aspen Parks

Income from the Aspen Park's portfolio continues to grow, buoyed by strong occupancies and improved yield management across the portfolio. Resource based assets have benefited from the commencement of major resource projects, and strong occupancies at the tourist and accommodation parks have demonstrated the resilience of this Fund and market segment during the financial crises.

Aspen Parks remains one of the few property based funds to hold a recommended "Upper End" rating (from a leading research house) which has been a key driver of increased financial adviser interest and consistently strong equity inflows, up 145% on 1H09. This, together with strong cashflows from operations, has enabled the Fund to substantially repay a \$20.3 million loan from Aspen Group. Following full repayment of the loan (expected in the third quarter of FY10), surplus cashflows and continued strong equity inflows will be applied to reduce debt, or applied to earnings accretive development and acquisition opportunities.

"Aspen Parks continues to be a standout performer in the unlisted property sector and is well positioned to capitalise on its strong investor following and financial position to undertake growth opportunities going forward," said Mr Del Borrello.

In late January 2010, investors in Aspen Parks voted overwhelmingly in favour of continuing the Fund in its existing format with no set future maturity date, removing the forthcoming Fund review date of June 2011.

"The outcome of the meeting was a strong vote of confidence in the Aspen Parks team and we expect Aspen Parks to continue as a long term contributor to funds management earnings," said Mr Del Borrello.

Aspen Diversified

Aspen Diversified's 1H10 rental income stream from its commercial property portfolio was in line with forecast as the Fund moves through a holding phase following recapitalisation during 2009. Completion of a \$15 million entitlement issue, disposal of two assets and securing a revised debt facility were key achievements in 1H10. Distribution payments recommenced as planned to unitholders in September 2009, albeit at a reduced rate due to the dilutionary impact of the Fund's equity raising during the period.

Aspen's property team continue to focus on actively managing the tenancy profile, particularly short term expiries to protect current income levels and re-position selected assets for both valuation re-ratings and potential sale. Signs are emerging that several relevant property sectors have bottomed and we believe this supports the holding strategy implemented in 2H09 for this Fund.

Aspen Living

Key residential markets have delivered positive valuation growth rates in 1H10 as we see early signs of a recovery in sectors of the residential property market.

Aspen launched the fourth of its residential land estates in the half, representing the first time that all four have been in both development and sales mode. Construction at St Leonards Estate, in metropolitan Perth, commenced in December 2009 and has already amassed contracted sales in excess of \$23 million (subject only to delivery of titles). Aspen is anticipating St Leonards Estate will be a significant contributor to the division's results in future periods.

The Group's investment in the Aspen Living division is expected to be a key growth driver, with Aspen Living holding a pipeline of over 4,000 urban zoned lots. Each Estate remains well positioned to benefit from the resurgent residential sector that will generate both future fee income streams and equity profits to the Group.

Aspen Development Fund No.1 (ADF NO.1)

Development activities and profit generation from ADF No.1 were constrained over the past 18-24 months due to softer market conditions and restrictive financing facilities. However planning works have progressed on several sites which are positioned to increase activity as supportive market conditions return.

Key development projects such as the Currambine Retirement Village and the next phase of the Adelaide City Central development are anticipated to commence in 2H10, although no earnings have been forecast in 2H10 for either project.

Progress has also been made on current projects in the portfolio. Byford on the Scarp, a WA residential project has been a beneficiary of government first home owner incentives with sales ahead of budget in the December quarter. Settlement of the private hospital component of the Norwest Hospital and Medical Centre to Healthscope was completed in September while medical suite sales remain steady.

Direct Development Portfolio

- Finance facility secured for development of retirement assets portfolio
- Re-commenced development of Ballina Retirement Village in NSW
- Advancement of planning for two future retirement villages

Aspen's direct development portfolio comprises \$41 million of development land held on balance sheet. This includes three assets of \$28.5 million which make up the Group's retirement living portfolio and are now well positioned to progress into a valuable contributor to Group earnings. The balance of the portfolio relates to non-strategic assets held for future zoning or recycling.

Management was pleased to successfully secure a development finance facility on commercial terms during the half year which will facilitate the development of the retirement portfolio. This has allowed the immediate re-commencement of construction of the Ballina Retirement Village in NSW. Stage 1 of the village had previously been completed and sold and following the securing of development finance Stage 2a construction commenced in December 2009 to

meet existing demand from potential buyers. Sales from the current stage under development are expected to add to the 2H10 result.

Looking ahead, the portfolio's forecast pipeline of 753 living units will deliver future development profits and future deferred management fees, both new profit streams to Aspen.

CAPITAL MANAGEMENT

- Cashflow from operations \$13.9 million (102% uplift on 1H09)
- Gearing (Total Debt/Total Assets) of 33%, reduced from 38%
- Look through gearing 39% (reduced from 44%)
- Senior debt facility maturity in February 2012
- No current debt facility exposure
- Facility secured with new financier for development of retirement portfolio
- 57% of debt hedged for a further 2.7 years, providing balanced protection against further interest rate rises

Cash generated from operations doubled against 1H09 cashflows to \$13.9 million. This is reflective of a return to more normalised operating conditions following recapitalisation of the Group's managed funds in 2009 as well as improved business performance.

Payments by managed Funds to the Group were previously constrained due to the impact of weaker economic conditions and restrictive funding facilities. Recapitalised Funds, improved operating conditions, and more supportive finance facilities will continue to facilitate greater cashflow generation to the Group in both the second half and future periods.

Securing the development finance facility for the retirement asset portfolio marks the start of a new banking relationship for the Group, expanding Aspen's key banking relationships across four Australian banking institutions.

Mr Del Borrello commented, "Aspen has a sound debt position at the end of the period with no current facility expiries and all banking covenants remain comfortably within the required limits."

NET TANGIBLE ASSETS

- Net Tangible Assets (NTA) per security of \$0.71 (unchanged since 30 June 2009)

At current prices, APZ securities are trading at a 35% discount to the Group's net tangible asset backing of \$0.71 per security.

Mr Del Borrello said, "Aspen securities are generally trading at a significantly higher discount to NTA when compared to our peer group and in our view represents good value at current prices."

"Our challenge is to bridge this gap (between our share price and NTA) and create further securityholder value through execution of growth opportunities, both organic and new."

“Furthermore we will strive to obtain recognition for the value within our funds management division, which continues to deliver recurring revenue streams (\$55 million over the past 3 years) with the potential to increase even further.”

SUMMARY AND OUTLOOK

The results for the first half represent a sound start to the year, highlighting the inherent recurring income streams of the Group, and reflecting an improving and more stable property market backdrop.

Aspen’s investment in its managed funds and development portfolio, totaling some \$131 million, represent key areas of earnings growth in future periods. Over the past 18 - 24 months, contribution from this investment has been significantly restricted due to market conditions, however the emergence of more stable trading and credit conditions have the potential to unlock solid earnings growth in future periods.

Aspen will also benefit from its stable senior executive team, whom having worked through recent challenges, are now well placed to deliver on their implemented business strategies and uncover new opportunities for the Group.

Strategically our focus remains on:

- Growing the funds management business to deliver both new and increased recurring fee income streams
- Re-emergence of transactional fees to the Group
- Maintaining prudent capital management practices through effective management of debt and gearing levels, and recycling non-core assets
- Executing on our development pipeline as capital constraints are removed
- Leverage off our proven track record providing accommodation to the resources sector

FY10 earnings guidance is 6.0 cents per security with distributions around 70% of operating earnings, assuming no material adverse change to conditions in the second half.

Mr Del Borrello said, “Aspen has maintained a sound business model over many years which we believe provides the appropriate framework to meet our key deliverables for FY10 and beyond.”

“On both an earnings yield and discount to NTA basis Aspen remains very competitive amongst our peers and with greater utilisation of our asset base has the capacity to provide attractive rewards to securityholders going forward.”

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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.