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Aspen Group FY11 Half Year Results

| Key Results Summary | 1H11 | 1H10 |
|--|-------------|---------------------|
| Total Operating Revenue | \$41.1M | \$36.3M |
| Profit after Tax (as per Interim Financial Report) | \$7.7M | \$13.0M |
| Operating Profit Before Tax * | \$15.6M | \$13.3M |
| Operating Profit After Tax* | \$16.4M | \$15.6M |
| Operating Earnings Per Security* | 2.93 cents | 2.79 cents |
| Distributions per Security | 2.10 cents | 2.10 cents |
| Gross assets under management | \$1.4B | \$1.4B [^] |
| Net Tangible Assets per Security** | \$0.68 | \$0.69 [^] |
| Gearing | 35.7% | 34.4% [^] |

RESULTS OVERVIEW

Aspen Group (ASX:APZ) is pleased to announce an operating profit after tax of \$16.4 million for the half year period ended 31 December 2010. After accounting for significant non-cash items such as revaluation and fair value adjustments, a profit after tax of \$7.7 million was recorded. These adjustments include a \$6.9 million impairment to assets held for sale, a \$3.7 million downward adjustment to the carrying value of associates, and a \$2 million gain on Aspen Group's interest rate swaps.

Key highlights of the result were:

- 10.4% increase in net rental income from the investment property portfolio;
- 5% increase in the contribution from the funds management business to \$11.4 million; and
- 8% decrease in corporate overheads through maintaining a disciplined cost structure

Aspen Group Managing Director Gavin Hawkins said, "Today's earnings announcement is in line with forecast, and clearly indicates that the Group's business operations are on track. Furthermore we maintain a positive outlook for the full year result with the timing of residential lot settlements expected to drive higher funds management income."

* Operating profit reflects profit as per the Interim Financial Report adjusted for significant non-cash items such as revaluation, fair value adjustments etc. Refer to Directors Report in the Interim Financial Report for a reconciliation of operating profit

** Excludes non-dilutive share options

[^] Balances at 30 June 2010

STRATEGY UPDATE

In August 2010, Aspen set a clear strategy with key components as follows:

- ⇒ **Property Portfolio** – improve quality through asset recycling and increased WALE
- ⇒ **Funds Management** – expand networks to grow existing core funds while transitioning opportunities from potential to actual funds
- ⇒ **Capital Management** – extend debt facilities and dispose of non-core assets

The Group has successfully progressed a number of initiatives in line with this strategy including:

- Acquisition of the A-grade 36,700 sqm Australian Taxation Office Building ("ATO Building") in Adelaide, with an end completion date of October 2012 (subject to financing – refer below)
- Sale and settlement of 564 St Kilda Road, Melbourne to part facilitate the equity requirement of the ATO Building
- The successful retail syndication of the Enclave residential development
- New 3 year senior debt facility* with National Australia Bank
- 12 month extension on the ADF No1 finance facility* with reduced funding costs

**Subject to formal documentation*

Mr Hawkins said, "We've made excellent progress over the last 6 months in implementing our strategy, and the ground work we have put in place demonstrates that the business is very much on the right path to generate securityholder value over the next 12 months and beyond".

Acquisition of ATO Building

A component of Aspen's strategy is to recycle certain assets in its investment property portfolio into higher grade assets in primary markets that will underpin a stable long term rental income stream.

The acquisition of the ATO Building in Adelaide, which is conditional on finance, is an important step in achieving this strategy. The project will deliver significant benefits to Aspen in the form of long term reliable income over the next 14.5 years, and will increase the Group's current weighted average lease expiry (WALE) across the portfolio from 2.4 years to an expected 6.7 years on completion of the building.

Over the next few months the Group will undertake to finalise the debt and equity components necessary to fund development of the building. Funding of the equity component, through the recycling of existing assets, is well progressed following the sale and settlement of 564 St Kilda Rd (Melbourne) in January 2011. The Group expects to sell at least one further investment property asset to complete the equity component of the development cost and will complement this with an appropriate level of debt.

In support of the ATO Building development, Aspen Group has provided bank and corporate guarantees which will be extinguished once debt funding for the project is secured. If finance was not able to be secured, an exit mechanism for Aspen is in place, although some or all of the guarantees may be called upon. Full details of the transactions and of these arrangements were outlined in two separate announcements to the ASX on 16 February 2011.

Mr Hawkins said, "We are comfortable with the level of guarantees provided based on the quality of the tenant, long term WALE, positive negotiations to date with debt financiers and confidence in our ability to deliver the building on time. The development program is currently on schedule with all of the in-ground earthworks and foundation works now completed, substantially reducing future construction risk."

"With the attractive starting yield of close to 8% for a building of this quality, and debt cost reductions on the Group's senior debt facility (if key milestones are achieved as expected), the acquisition is projected to be earnings accretive to the Group," said Mr Hawkins.

PROPERTY PORTFOLIO

Investment Property Portfolio

Key Highlights included:

- ⇒ 10.4% increase in net rental income
- ⇒ Downward revaluation to investment property portfolio of \$6.2 million or 1.6%
- ⇒ Weighted average capitalisation rate unchanged at 9.40% (excl Karratha)
- ⇒ WALE of 2.4 years, increasing to 6.7 yrs on completion of ATO Building
- ⇒ Weighted average occupancy of 92% (30 June 2010: 94%)

Aspen's investment property portfolio continues to perform soundly recording a 10.4% increase in net rental income over the previous corresponding period. The increase was primarily attributable to a 33% uplift in income from the Karratha Accommodation Village (resulting from a market rent review) as well as more modest market increases across the remainder of the office and industrial portfolios.

A 1.6% asset impairment was recognised in the half, relating primarily to the write off of capitalised costs in relation to assets which have now been reclassified as available for sale assets.

As part of Aspen's strategy to improve the portfolio quality, the 564 St Kilda Road office property in Melbourne was sold for \$33.3 million in November 2010 (just below book value). The sale price reflected a good result in the challenging St Kilda Road office market.

Mr Hawkins said, "We purchased St Kilda Road in 2004 for \$25 million, successfully improved the tenancy profile through active asset management and identified it as an opportune time to recycle the proceeds into other higher grade investment property opportunities like the ATO Building."

Furthermore, the Group is progressing negotiations on key pending lease expiries on other properties that will further increase the WALE of the portfolio and de-risk future income streams.

Mr Hawkins said, "We are taking advantage of current market conditions by actively managing our property portfolio mix, to ensure that our property rental streams are better secured into the future and that capital values are underpinned through greater portfolio quality."

Non-Core Assets

Aspen Group is actively pursuing a strategy of recycling non-core, non-income producing assets on its balance sheet, through either their sale or syndication. Aspen has made significant progress in this area through the syndication of land for the Enclave residential development (discussed further on page 4), for \$12 million.

This leaves \$29.7 million of non-core land assets on balance sheet (post 31 December 2010), a number of which are actively being marketed for disposal with encouraging interest levels on several assets. Sale proceeds will be redirected into more specific and accretive opportunities in the Group's direct investment property business or funds management platforms.

FUNDS MANAGEMENT

Funds Management remains an integral part of the Group's business model contributing \$11.4 million to the Group's result, an increase of 5%. The full contribution from the funds management business in FY11 is expected to be weighted to the second half, due to commencement of a number of development projects in the second half and the forecast programme of residential lot settlements.

As a result of a write down to the carrying value of inventory within the Fern Bay residential syndicate and an impairment to the ADF No1 equity investment, the Group recorded a net \$3.7 million downward adjustment to the carrying value of the its equity investments at period end.

The following key activities within the Funds Management division occurred during the period:

Aspen Living

Aspen Living has slightly improved its earnings contribution, with an increase to \$4.3 million from \$4.2 million in 1H2010.

Undersupply in the relevant residential property markets has been driving both buyer demand and price growth across most of the division's estates, and this is reflected in sales being ahead of forecast to date with anticipated profit margin growth to follow. Importantly all four residential estates have seen improved sales conditions resulting in settled and contracted sales (expected to settle in FY11) to 25/2/11 totalling 83% of forecast FY11 settlements.

In addition to buoyant sales activity, the Aspen Living team have maintained their focus on planning activity to ensure continuity of supply, and it is pleasing to note that each estate is well positioned to release new stock to meet growing market demand.

Enclave at St Leonards Ltd (Enclave)

During the period, Aspen launched a new residential land development syndicate, Enclave, adding to its retail distribution offerings and thereby expanding its funds management business.

Enclave will increase the Group's pipeline of residential lots under development, a key growth area for the business. The creation of this new syndicate will also generate a new fee income stream to the Group expected in FY12 and FY13.

Mr Hawkins said, "The recycling of such non-core development land into an income producing development is a clear demonstration of Aspen's strategy to grow earnings through better utilisation of existing assets."

The syndicate, the first retail focused land syndicate for Aspen, attracted strong investor interest through both direct and third party introduction sources. Management has secured the required equity and debt funding for the syndicate to allow construction to commence in March 2011 for the two year project.

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

The earnings contribution from ADF No.1 slightly improved on the corresponding period (\$1.5 million against \$1.3 million in 1H2010). Key contributors to the result were the sale and settlement of 2,517 sqm of medical suites at Norwest Private Hospital for \$13.6 million, and the settlement of 27 lots at Byford on the Scarp residential development. Planning initiatives have advanced on a number of projects in addition to commencement of the following two large scale development projects over the next two years:

- ATO Building in Adelaide – construction already commenced and due for completion in October 2012. Management fees will be earned by Aspen Group over the construction period (2H2011 – 1H2013);and
- Currambine Retirement Village in Perth – development approvals in place, construction expected to commence in 2H2011.

While the commencement of the above projects will begin generating income for Aspen Group in the form of management fees and equity profits, the outlook for earnings for ADF is expected to remain low relative to the value of the projects being undertaken. The modest yields on these projects in the short to medium term reflect the difficulties experienced by development assets over the past few years.

Aspen Parks Property Fund (APPF)

APPF was a significant contributor for the period contributing \$3.0 million (1H2010: \$3.7 million) of income to the Group from its portfolio of mining, accommodation and tourism parks. The reduction reflects lower interest income following the repayment by APPF of its short term loan to Aspen.

The ongoing success of Aspen Parks has resulted in a 8.5% increase in 1H2011 net equity inflows over the previous corresponding period with \$16.2 million raised this financial year. As a result, gearing has reduced to 48% (53% at 30 June 2010). This is a key factor in continuing to attract new investment into APPF and is being viewed very positively by key researchers and investment committees.

APPF's strong earnings and cashflow outlook enabled management to increase the monthly distribution rate to investors, with the current yield of circa 8.6% proving to be an attractive feature. A key focus for APPF is the extension of its debt facility which management are confident of extending shortly for a further 3 year period.

Mr Hawkins noted that, with a new facility in place coupled with continued strong operating cash flows and equity inflows, APPF will be well positioned for growth.

"APPF's improving capital capacity in FY11 will enable management to seek accretive acquisitions at the right price or alternatively execute high value identified development opportunities currently pending within the portfolio," said Mr Hawkins.

Aspen Diversified Property Fund (ADPF)

ADPF has made good progress in its strategy of re-leasing its assets with a view to obtaining valuation upside and potential sale as markets recover. A number of key leasing deals were secured in the half year, including a 15 year lease with a new tenant at the Nunawading industrial property and a major tenant re-mix at the Castle Hill retail complex. In November 2010, ADPF also successfully leased the remaining key vacancy in the portfolio, the Henderson industrial property to a major blue chip tenant.

Following this leasing success, key metrics within ADPF's portfolio have improved considerably with occupancy now at 94% (81% at 30 June 2010) and a weighted average lease expiry of 4.6 years, up from 2.6 years at 30 June 2010. Furthermore, the loan to value ratio of 58% is well within the bank covenant of 70% and a significant improvement on previous periods.

Overall ADPF contributed \$2.1 million of earnings to Aspen Group in the first half (1H2010 \$2.3 million), consistent with the contribution in the corresponding period, albeit with a lower asset base.

CAPITAL MANAGEMENT

During the year Aspen actively undertook a number of initiatives to improve its capital management position. These initiatives include successfully securing a number of new financing facilities (subject to formal documentation) in line with the Group's strategy of extending its debt maturities well ahead of term. Full details were outlined in an announcement to the ASX on 16 February 2011.

Key terms to apply under the new facilities are summarised below:

Aspen Group Senior Debt Facility

- New 3 year term with a maturity date of February 2014
- Total facility LVR covenant reducing from 70% to 60% from 1 July 2011[#]
- Additional short term \$15 million guarantee facility expiring 1 July 2011 - to assist with the purchase and development of the ATO Building

[#] LVR is calculated on the security value of the property investment portfolio. Group gearing (based on total assets) is 35.7%.

The extension of these facilities will substantially increase the Group's weighted average debt maturity profile from 14 months to 36 months. The new facility is expected to deliver to the Group a reduction in its current debt facility margin if key milestones in the development of the ATO Building are achieved over the next 3 to 6 months.

Other Facilities

- Enclave - New Development facility with new financier to the Group*
- ADF No. 1 - Extension of facility term to September 2012*

** Subject to formal documentation*

"We believe securing these facilities will be a strong endorsement of Aspen's revised strategy and capabilities," said Mr Hawkins.

SUMMARY AND OUTLOOK

Over the past 6 months, Aspen has set a clear strategy designed to drive earnings growth and ultimately securityholder value and has made significant progress in executing this strategy.

Mr Hawkins said, "We've dedicated considerable resources to formulating and executing our strategy and our achievements in recent months validate the direction we are taking. Furthermore they demonstrate Aspen has the capacity to grow earnings through the development of our current businesses and greater utilisation of existing assets."

"Our investment property portfolio will continue to provide a consistent and secure income stream to the Group and we have a positive outlook for asset carrying values on the back of recent increases in tenant demand in our key office markets. The addition of the ATO Building (once funded and completed) will provide a valuable new long term income stream to the portfolio."

"There are positive signs of a renewed interest in direct property assets from both retail and wholesale investor markets and we have several opportunities in the pipeline that can be brought to market quickly to grow our funds management business. The success of Enclave is a good example of this and a product we can replicate going forward," he said.

Aspen re-affirms its FY11 earnings outlook of a 14% increase in operating profit before tax, equating to operating EPS of 6.13 cents. DPS guidance remains at 4.20 cents per stapled security.

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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 is a member of the S&P/ASX 300 index with assets under management of approximately A\$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 security holders.

Website www.aspengroup.com.au