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## MEDIA RELEASE

## ASX ANNOUNCEMENT 31 August 2012

### FY12 Annual Results and commencement of Strategic Review

#### KEY FINANCIAL ITEMS

- Statutory loss after tax of \$99.0 million (FY11 statutory profit: \$17.4 million)
- Operating profit before tax of \$30.7 million (FY11: \$33.4 million)
- Cash flow from operations of \$17.5 million (FY11: \$30.5 million)
- Funds management fee income \$14.2 million (FY11: \$15.0 million)
- Operating earnings of 4.66 cents per security (FY11: 6.24 cents)
- Distributions per security of 3.15 cents (FY11: 4.20 cents)
- Net Tangible Asset per security of \$0.50 (FY11: \$0.67)
- Net property portfolio income for FY12 of \$26.5 million, up 9.6% on a like for like basis
- Aspen Parks Property Funds gross inflows of \$44.8 million, up 82% on FY11

#### KEY OPERATIONAL ITEMS

- Australian Taxation Office (ATO) Building reaches 96% completion with practical completion on target for October 2012
- Secured lease commitments to 190,000 sqm of industrial space in the property portfolio
- New Chairman and two new non-executive director appointments in FY12
- Remuneration strategy revised for FY13 including 5% reduction in Directors fees, no increase in KMP fixed remuneration and 23% reduction in CEO remuneration
- Interim CEO appointed with search replace Managing Director
- Distribution policy changed to six monthly, consistent with peers
- Strategic review commenced to simplify the business and improve the capital position

Aspen Group Limited ("Aspen": ASX:APZ) today announced its annual results for the 12 months ended 30 June 2012 together with an update of a strategic review which has commenced.

Aspen recorded a statutory loss after tax of \$99.0 million for the year ended 30 June 2012 (FY11 net profit after tax of \$17.4 million). The statutory loss is mainly attributable to the recognition of impairments of \$133.6 million to the carrying values of loans to, and equity interests in, associated residential and development funds, as announced on 31 July 2012. The results also reflect the improvement in the value of Aspen's investment property portfolio which increased by \$41.8 million over the twelve month period.

The operating result, excluding the statutory adjustments, showed a net profit before tax of \$30.7 million, compared to \$33.4 million in FY11, a decrease of 8.1%. The operating result excludes \$2.6 million profit from discontinued operations relating to the Group's investment in the Aspen Diversified Property Fund (ADPF) in which the assets are being sold prior to the wind up of the Fund. The operating result otherwise reflects a satisfactory outcome generated from the core property portfolio and the funds management division.

Aspen Group Chairman Mr Frank Zipfinger said:

"The reported statutory loss is disappointing and reflects the challenging environment for the residential housing and development sectors. It also highlights the risks associated with development activities, where the Group's interests in a number of syndicates were negatively impacted by planning approval delays, increased planning condition costs and statutory infrastructure charges."

"The impairments reflect our view of the diminished outlook for the residential and development sector, especially those projects with a regional element. Many of the affected assets were acquired prior to the global financial crisis of 2009 and the markets for these assets have not recovered. This contrasts with other parts of our business that have performed in line with or better than expectations. These outcomes have prompted a strategic review of our involvement in the residential and development sectors, as part of a broader review of Aspen's operations."

"The investment property portfolio has seen a \$41.8 million, or 13%, increase in valuations this year, reflecting the continued demand for accommodation across the industrial, office and resource sectors in Western Australia that our portfolio provides."

"In FY12 there were record inflows into our Aspen Parks Property Fund (APPF) where gross inflows were \$44.8 million, an increase of 82% on the previous year. This excellent result was supported by the continued strong operational performance of the Fund."

Cashflow from operations of \$17.5 million was significantly down on FY11 principally due to the loss of income associated with assets sold and lower collection of management fees and interest revenue from the development syndicates.

Reflecting on the results and the outlook for Aspen Group, Mr Zipfinger said:

"This has been a very challenging year for the business. The renewed Board has taken some difficult but necessary decisions to deal with a number of legacy issues to ensure that the business has a solid foundation going forward. Aspen's focus now will be on improving the quality and transparency of earnings to drive shareholder returns."

"As announced on 24 August 2012, we will shortly instigate a search to appoint a new CEO."

## **STRATEGIC REVIEW COMMENCED**

Aspen has commenced a comprehensive strategic review of the business.

Mr Zipfinger said, "The strategic review reflects the commitment of the Board to identify and communicate a clear path forward for the Group."

The strategic review aims to simplify the business by concentrating on activities in which Aspen has core strengths. A key focus will be to grow quality earning streams. While the strategic review

is yet to be completed, it is likely to reflect a shift away from management fee and interest revenue generated from residential and development assets.

Instead, Aspen will focus on:

- Organic growth opportunities and acquisitions in the Aspen Parks Property Fund, where it has current funding capacity and a proven performance track record;
- Active asset management of the existing investment portfolio with a view to improving the quality of assets and the weighted average lease profile; and
- Simplifying and repositioning the business, including restricting funding provided to the residential and development syndicates.

The strategic review will be completed prior to this year's Annual General Meeting. Communication of the outcomes will be announced to the market as soon as the review is completed.

The Board believes that it has an experienced and focused executive team, under the guidance of the interim CEO, to complete the strategic review.

## **OPERATIONAL REVIEW**

### **Property Portfolio**

- Investment property revaluation gains for FY12 of \$41.8 million, up 13% across the portfolio
- Weighted average lease expiry of 1.98 years at 30 June 2012 (30 June 2011: 2.3 years)
- Weighted average occupancy of 97% at 30 June 2012 (30 June 2011: 92%)

The investment property portfolio performed strongly in FY12, with total valuations increasing 23% for the 12 months, on a like for like basis, following disposal of the Alcoa building and Rocklea Industrial premises during the year for \$35.6 million (book value \$36.1 million).

Total net property income for the year was down 22% on FY11, principally due to the sale of properties which occurred at the end of FY11 and during FY12. On a like for like basis, excluding those properties sold, net property income for the portfolio rose 9.6% for the 12 months.

During the year the Group was successful in leasing its Spearwood Industrial Estate, with two major tenants executing leases resulting in the complex being 98% leased by income. The net rental income secured on the Spearwood property for FY13 is expected to be in excess of \$9 million, representing a 96% increase on the current passing rent for the property. The challenge remains to extend the current weighted average lease expiry of the portfolio.

Included in the investment portfolio is Aspen's 50% interest in the ATO Building in Adelaide. Construction of the building remains on track for practical completion in October 2012, with tenant fit out works well advanced.

## **FUNDS MANAGEMENT**

Aspen recorded management fee revenue for FY12 of \$14.2 million, a decrease of 5% on the previous financial year, principally due to a reduction in fee revenue from the development syndicates.

### **Aspen Parks Property Fund (APPF)**

APPF remains Aspen's flagship fund, contributing \$7.7 million of income (FY11: \$7.8 million) through Aspen's equity investment and management fees for the financial year.

During FY12 there was a record level of third party investment into APPF, with \$44.8 million in new equity raised, an increase of 82% over the previous year. Net inflows for the year, after withdrawals, were \$34.8 million. Of the withdrawals, \$6.4 million were as a result of the first withdrawal offer being made to unitholders. A lower interest rate environment, coupled with APPFs attractive yield provided the impetus for increased investor demand which has been reinforced by the Fund maintaining a 'Recommended' rating with Zenith and a 'Highly Recommended' rating with Lonsec.

Operationally, APPF continues to perform well, with mining accommodation providing the strongest contribution to profitability. The tourism assets in the portfolio also performed in line with expectations.

Gearing in the Fund was reduced to 31% at June 2012 (44% at June 2011). This positions the Fund for new acquisitions and/or investment into the existing portfolio. The Fund has current capacity of circa \$50 million through a combination of debt and cash reserves.

### **Aspen Diversified Property Fund (ADPF)**

The Fund reached the end of its initial investment term of seven years on 30 June 2012. In July 2012, ADPF unitholders approved the orderly sale of the Fund's property assets, followed by a wind up of the Fund.

The ADPF portfolio has performed in line with expectations in FY12:

- Occupancy has improved to 97% (91% at 30 June 2011);
- Weighted average lease expiry is 5.1 years (4.8 years at 30 June 2011).

From October 2011, the Group's interest in the Aspen Diversified Property Fund was consolidated for financial reporting.

### **Aspen Living**

Aspen Living's five residential estates continue to operate in challenging market conditions. Net management fee revenue derived from the Living estates during FY12 was effectively nil after the reversal of accrued performance fees totaling \$4.7 million, following an assessment of the long term outlook for several of the regional assets.

The residential development sector has been subdued across Australia with a lack of consumer confidence amid economic uncertainty and housing affordability issues. Monthly sales activity for Aspen Living has been variable and contract cancellation rates have been high.

Activity across Aspen Living syndicates for FY12 resulted in:

- 257 new lot sales secured (FY11: 266 lots)
- 231 lots sold but not settled at 30 June 2012 (FY11: 228 lots); and
- 177 settlements, (269 in FY11) reflecting delays in securing clearances for titles and inventory lag.

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

The fee contribution by ADF No. 1 for FY12 was \$8.1 million, principally arising from the ATO Building development works (\$3.4 million in FY11).

The major development activity for ADF No.1 has been the ATO Building in the Adelaide City Central precinct. The building has progressed to 96% completion and remains on schedule for practical completion in October 2012.

Other major activity by the Fund during FY12 resulted in:

- Sales of medical suites at Norwest Hospital, generating \$2 million; and
- Settlement of 36 residential lots (FY11: 32 lots) at Byford on the Scarp for proceeds of \$7.2 million.

## **CAPITAL MANAGEMENT**

As announced on 9 August 2012, Aspen has secured up to \$35 million of new funding via the redemption of Aspen Group's units in the Franklin Street Property Trust (FSPT), the asset holding vehicle for the Australian Tax Office (ATO) Building in Adelaide, in which Aspen has a 50% interest. The funding has been made available through FSPT entering into a convertible note facility provided by the Trust's joint venture partner Telstra Super.

The impairments announced on 31 July 2012 and the consolidation of ADPF, have resulted in the Group's gearing position increasing to 43% at 30 June 2012, up from 35% at 31 December 2011. The Group has interest rate coverage of 3.4 times. The Aspen Property Trust's senior debt facility remains in compliance with its loan to value ("LVR") covenant and interest rate coverage covenant. Following asset sales during the year, the Weighted Lease Duration of 1.92 years at 30 June 2012 is below the bank covenant of 2 years. This factor combined with the consolidation of debt of ADPF, which is in wind down mode, has resulted in the Group's senior borrowings being classified as a current liability. This matter is being addressed with the Group's bank.

During the year, total overheads of the Group have been reduced by 4%, and will be further assessed as part of the strategic review.

As announced on 28 June 2012 the Board resolved not to pay a distribution for the final quarter of FY12 to enhance the capital position of the Group.

The Group will continue to extend the debt maturity profile across its Funds. To date, this has been assisted by a new three year debt facility from ANZ at the St Leonards Private Estate and a renewed facility for Fern Bay Seaside Village, which was recently extended to February 2014.

## **DISTRIBUTION POLICY**

The Board advises that the distribution policy for Aspen Group will be amended to six monthly distributions, rather than the quarterly distributions used previously. This will bring Aspen Group into line with the majority of its peers and also reduce administration costs.

The next distribution period will be the six months ended 31 December 2012 with any distribution being payable in February 2013. As a general principle, the Group will target a payout of 70% of cash operating earnings. However, the Board remains focused on capital management and, as always, will consider the capital management position of the Group before formally determining any distribution.

## **REMUNERATION STRATEGY**

The Board advises that the following changes in remuneration policy have been adopted for FY13:

- All Directors fees and Board Committee fees have been reduced by 5%;
- No increase in fixed pay for all Key Management Personnel (KMP);
- The Short Term Incentive (STI) Policy is amended to include a deferred component - 25% of any future KMP award will be deferred for 12 months. After the 12 months further

service, the KMP will then be eligible to take the deferred component of the STI in cash; and

- The interim CEO is being remunerated at \$700,000 per annum, a reduction of 23% on the fixed remuneration of the previous Managing Director.

## **POST BALANCE DATE EVENTS**

### **St Leonards and The Enclave estates**

Aspen advises that it has recently executed a Heads of Agreement for the sale of its equity interest in, and management rights to, the St Leonards Estate for \$7.5 million (carrying value \$8.3 million). The sale is conditional on 30 days due diligence and syndicate shareholder approval, with settlement to occur within 14 days of the contract becoming unconditional.

Aspen will continue to manage the adjacent Enclave residential estate which is expected to be completed and all stock sold by June 2013.

### **Aspen Diversified Property Fund (ADPF)**

Aspen Funds Management Limited, the responsible entity for ADPF, advises that consistent with the decision of unitholders to conduct an orderly sale and wind up of ADPF approved in July 2012, a binding contract has been exchanged for the sale of its Nunawading industrial property for \$18.4 million, which is \$0.2 million above book value. Settlement is due on 20 September 2012.

## **SUMMARY AND OUTLOOK**

The fundamentals for the Group's property portfolio remain sound, with the net rental income for FY13 expected to grow by 30% compared to FY12. The challenge remains to extend the current weighted average lease expiry in the portfolio.

Funds management income for FY13 will be derived principally from the Aspen Parks Fund, which is well placed to grow through a combination of selected investment in the existing portfolio and through new acquisitions. Investment inflows into the Parks Fund for FY13 to date remain strong.

The residential and development syndicates continue to face a challenging trading environment. With the strategic review underway, there is expected to be limited activity across the syndicates, which would result in a reduction of fee income from these syndicates.

Aspen Group will advise the market of the results of its strategic review when completed and will provide formal earnings guidance for FY13 at that point.

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### **About Aspen Group**

Aspen Group is an ASX listed property investment and funds management group.

Formed in 2001, Aspen has progressed rapidly and is now a member of the S&P/ASX 300 index with assets under management of \$1.2 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 and industrial sectors and has grown through acquisitions and portfolio revaluations of existing properties driven by a strong property management focus.

Website [www.aspengroup.com.au](http://www.aspengroup.com.au)