

# ASPIRE



## Aspen Group focuses on capital management

**Aspen's focus throughout the last financial year has been on capital management, ensuring carrying values of assets remain realistic and maintaining a disciplined cost structure enabling the Group to weather the current economic turbulence.**

Aspen has made significant progress in the 2009 financial year managing its debt position and strengthening its balance sheet for future growth. Realistic asset carrying values and a long term senior debt facility have placed the balance sheet in a sound position as we enter the new financial year. The achievements to date now position the Group to capitalise on future market opportunities.

The successful equity raising in June 2009 resulted in a \$72.6 million reduction in debt, significantly improving the Group's capital position and reducing the gearing level to 30%. This represents a reduction of 8% since 31 December 2008 and is at the bottom of the Group's target range. Aspen is now well placed to absorb any future capitalisation rate softening with banking covenants able to withstand an additional 22% fall in investment property values at year end. In addition we have undertaken several capital management initiatives across our managed funds with positive results.

Aspen's operating profit after tax for the 2009 financial year of \$33.2 million was a satisfactory result in difficult conditions, underpinned by our solid property portfolio.

We remain very optimistic that market conditions are improving and have forecast further growth in rental income in the coming year. Furthermore we expect the 2010 financial year to provide more supportive conditions for our funds management division, particularly Aspen Living where the outlook for residential property is more positive.

Aspen has provided earnings guidance for the financial year ending 30 June 2010 in the range of 6.00-6.70 cents per security. The Group's current distribution policy is to pay around 70% of operational earnings, which will continue to be paid on a quarterly basis.

There have been several further achievements in recent months across our funds management division, including the following:

- Aspen Development Fund No 1 has completed the construction and sale of the hospital component of the Norwest development leading to a reduction in debt of \$61 million;
- Aspen Living has recapitalised its syndicates enabling the division to achieve enhanced banking terms for its various debt facilities, and continue to progress stage development;
- Aspen Parks recently completed its fifth year of operation, with this successful fund remaining open to new investors following the recent release of a new offer document; and
- Aspen Diversified achieved the minimum capital raising under its Entitlement Offer and completed the sale of two assets.

The operating environment remains challenging however we believe markets are moving in a favourable direction and Aspen is well placed to take advantage of opportunities as they arise.

**Angelo Del Borrello**

Managing Director

**Creating wealth...**

... through intelligent property investment

## Aspen Group 2009 Full Year Results

On 31 August Aspen Group announced an operating net profit after tax of \$33.2 million for the full year ended 30 June 2009. The Group's focus this financial year has been on capital management, maintaining a disciplined cost structure and ensuring carrying values of assets remain appropriate given the current climate.

Key financial results include:

- Revenue of \$70.2 million
- Operating profit after tax of \$33.2 million
- Underlying earnings per security of 11.91 cents
- Distributions per security of 9.00 cents fully covered by underlying earnings

The operating result excludes non-cash fair value adjustments, such as revaluations of assets, of \$97.9 million, that result in a full year headline loss after tax of \$64.7 million. The majority of the fair value adjustments were recorded at 31 December 2008. These write downs, together with accounting fair value adjustments, do not impact operating cashflows and are therefore eliminated from the calculation of operating profit.

### Property and Investment Portfolio

- 43% of portfolio independently valued in August 09 (balance valued January 09 – March 09)
- Weighted average lease expiry of 3.6 years
- Weighted average occupancy 94%

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 Group's major commercial office properties, Septimus Roe and Currie Street benefited from strong demand and low vacancy rates during the year.

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.

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.

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, a reflection of the soft property market.

### Funds Management

Recurring fund management fees increased 10% due to the maturing asset base in the division and highlighting the reliable nature of this income stream. However, recurring development management fees decreased 55% due to the reduced level of development activity across the funds.

An improvement in market conditions, most notably in the Aspen Living division where residential land sales improved, delivered a significantly improved second half performance.

After a difficult past 12 months, signs are now emerging of a more positive outlook with an upturn in sales rates and enquiries across our residential estates over the last quarter. From a funds management perspective management have successfully undertaken recent capital management initiatives, designed to ensure each syndicate has sufficient capital headroom to continue progressing development as the market rebounds.

The Group's Aspen Park's fund continues to attract new investors, with its attractive distribution yield and sound five year performance track record making it a stand out in the unlisted property sector.

Aspen Diversified successfully concluded its recent capital raising and together with two recent asset sales will reduce debt by some \$33 million.

Aspen Development Fund No 1 has successfully completed the hospital component of the Norwest development project and has approvals in place for the Currumbine retirement village and Tower 8 in the Adelaide City Central development.

## Summary and Outlook

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

Realistic asset carrying values and a long term senior debt facility leaves Aspen's balance sheet well positioned entering the next financial year. The property portfolio remains resilient to the softer market outlook, with up to date valuations and forecast growth in rental income over the next 12 months.

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.

**Note: To view the full text from Aspen Group's 2009 annual results announcement visit the news section on the home page of our website at [www.aspengroup.com.au](http://www.aspengroup.com.au)**



## Norwest Private Hospital Completed

Aspen Development Fund No 1 recently achieved a significant milestone with the completion of the Norwest Private Hospital in New South Wales. The construction was completed on time and on budget with the sale and settlement of the main section of the private hospital to Healthscope Ltd completed on September 3. The net proceeds of \$54 million will be used to reduce bank debt. The project represents the second major private hospital constructed for Healthscope, following the completion of the Campbelltown Private Hospital in 2007.

Settlement of a number of pre-sold private medical suites is expected to realise a further \$10 million in late September, further reducing gearing. The Fund retains the car park, retail space and remaining medical suites, the sale of which is expected to create future income of \$65 million for the Fund.

## St Leonards Estate – Stage 1

St Leonards Estate, has continued to make progress from a planning perspective and is poised to receive the final approval for stage 1 development. The estate, located some 16km east of the Perth CBD in a growth corridor, is expected to produce around 900 lots over the next eleven years.

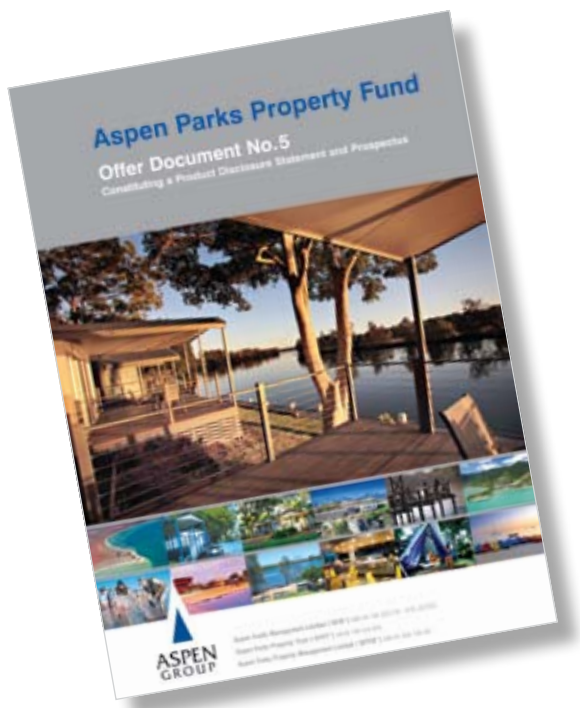
Interest in the estate is starting to build already with expressions of interest for 69 of the 83 lots in stage 1, which will include a builders display village guaranteed to bring significant levels of traffic to the estate. NAB funding has been received to support the construction of stage 1. Assuming the final planning approvals are received construction is expected to commence by October.

The commencement of St Leonards will be a boost to Aspen Living's performance in the coming financial year.



# Creating wealth...

... through intelligent property investment



## Aspen Parks celebrates 5 years of strong performance

Aspen Parks was the first fund to be launched by Aspen and has continued to gain strength and break new ground. Since its inception in July 2004, Aspen Parks has grown from an initial WA based business with six properties and approximately 60 staff to boasting 25 properties in five states of Australia, with over 470 employees and a fund value of \$260 million.

It has achieved excellent results over its five year life and is recognised as one of the stand-out property funds, not only for Aspen but within the Funds Management Industry. This is in no small part due to its strong performance track record, with total annual returns of 13.5% per annum since inception.

The Fund's assets have also proved resilient to the current economic downturn. As Fund Manager we took the pro-active step of revaluing all 25 properties in March 2009 resulting in a relatively small 3.5% drop in portfolio value. This result is very positive given the much larger falls seen elsewhere in the property market and reflects the robust and diverse nature of the Fund's income streams.

In 2008 Aspen Parks was awarded an Upper End Recommended Research Rating by Lonsec Research House (the second highest rating available) in 2008. The Fund has since maintained this rating for another year.

For more information on the Fund and how to invest please see the recently released Offer Document Number 5 which is available from Aspen's website.

## Aspen Diversified – Successfully recapitalised

In late August we were pleased to announce that the Aspen Diversified Property Fund had successfully completed the minimum equity raising and asset sale requirements to ensure it will meet all finance facility obligations of the Fund.

The Fund has successfully raised \$10 million of the \$15 million minimum equity component from existing unitholders under an Entitlement Offer with applications from existing and new unitholders continuing to be received. AFM has also secured an investor to underwrite any shortfall to the Offer, thereby ensuring the minimum of \$15 million will be reached.

The required sale of lower yielding properties has also been achieved with the settlement of both Riseley Corporate Centre and Champion Drive Shopping Centre realising gross proceeds of \$18.0 million.

These results give the Fund a better chance to retain the majority of its assets through the current tough economic conditions, allowing the Fund's investors to benefit from the increase in the value of the properties as the market recovers over time.

While the Fund's immediate funding requirements have been met, the External Offer will remain open until further notice, helping provide additional headroom under the Fund's senior debt covenants and further de-risking the Fund.



## Quarterly Outlook

- Finalisation of Aspen Diversified Property Fund Entitlement Offer
- Release of Aspen Group Annual Report in October 2009
- Annual General Meeting to be held in November 2009
- Expected commencement of Stage 1 at Aspen Living's St Leonards Estate.

Important Information: This document contains information of a general nature and is believed to be accurate at the time of printing. This document is not intended to provide financial advice, and does not take into account any person's financial situation, needs or objectives. Should you wish to invest in any products discussed, please seek your own financial advice from your financial adviser.



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