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MARKET RELEASE

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Interim financial results for six months ended 31 December 2014;

KEY POINTS

- Solid progress on the business becoming a leading accommodation provider however parts of the business continue to be buffeted by the severe resources downturn
- Aspen Group 1HY15 financial results:
 - Total operating profit before tax of \$7.8 million down 6% on prior comparative period
 - Like for like operating income in the main residential/short-stay parks up 12% on the prior comparative period
 - 1HY15 distribution of 4.5 cents per security to be paid on 25 February 2015
 - Statutory loss after tax of \$18.2 million
 - Gearing of 25% at 31 December 2014; look through gearing of 18%
 - Net Asset Value per security of \$1.37
- Equity interest in Aspen Parks Property Fund (APPF) increased to 42%
- Two accommodation properties acquired totalling \$15.1 million
- Appointment of Mr John Carter as non-executive director
- Distribution guidance provided for 2HY15 of 4.5 cents per security, in line with 1HY15

Aspen Group (ASX:APZ) today announced its financial results for the period ended 31 December 2014, recording a statutory loss of \$18.2 million.

The statutory loss is primarily a factor of impairments taken on accommodation assets that are exposed to the resource sector, which continues to experience a prolonged and material downturn in activity in key regions, with the further collapse in prices of major commodities during the period.

Operating profit before tax for the six month period was \$7.8 million which was down 6% on the prior corresponding period in FY14. The fall largely reflects the sale of non-core office and industrial properties, offsetting reductions in overhead costs and non-core development costs.

Aspen Group holds a 42% interest in APPF, which from October 2014, has been fully consolidated into the financial results of Aspen Group.

In commenting on the result and the positioning of the business, Aspen Group Chief Executive Officer Clem Salwin, said, "Within the business there continues to be significant, steady progress to become a leading accommodation provider. This progress internally is pleasing. And the key 'super

cycle' market trends underpinning our strategic focus on accommodation – ageing demographics, increasing residential prices and demand for affordable housing – remain firmly in place.

“On the other hand, externally the business continues to be buffeted by the ongoing weakness in the resources sector. Prices for some key resource commodities collapsed during the period; this has had consequences to the performance and the carrying value of the Aspen Group properties servicing that sector.

“Our underlying accommodation business in the residential and short stay sectors is performing very well with net income up 12% (on a like for like basis) and improvements in margins. With a positive outlook, strong demographics and our strong balance sheet position, we will continue to look to invest in the accommodation sector.

“We are focused on the sale of Aspen Group's remaining material non-core asset, the Spearwood Industrial Estate in Perth. The devaluation of the assets associated with the resources sector was disappointing; however, it was pleasing that there was no impairment on the non-core assets, and in fact there was a slight premium to carrying value on sales made during the period. There was an increase in the valuation of our short stay / residential parks over the period.

“Our strategy is to increase our investment in well-located properties that complement the existing portfolio, produce strong cash yields and provide the opportunity for creating further high quality annuity rental streams through development.”

Accommodation assets now comprise 62% of Aspen Group's “look through” asset base, through its 42% equity investment in APPF and the direct ownership of Aspen Karratha Village (AKV) and the recently acquired Leppington property. The sale of Spearwood would see the completion of the transition of Aspen Group to a pure play accommodation business.

Mr Salwin, said, “With low gearing, a focussed business and simplified structure we are well positioned to deliver on the value creation opportunities in the accommodation sector.”

Operating performance

The table below outlines net income and margin for APPF properties (on a like for like basis) in the first half to December 2014 compared to the prior corresponding period in 2013:

	1HFY15 \$m	1HFY14 \$m	Change
<u>Net income</u>			
Short-stay/residential	8.2	7.3	12%
Resources parks	2.8	4.1	(31%)
Resorts	2.0	1.9	6%
Total	13.0	13.3	(2%)
<u>Net income margin</u>			
Short-stay/residential	47.7%	45.2%	2.5%
Resources parks	48.5%	56.4%	(7.9%)
Resorts	26.0%	23.4%	2.6%
	42.5%	42.3%	0.2%

The short-stay and permanent residential parks generated stronger net property income growth of 12% over the corresponding six month period due to a ramp up of occupancy and cost management initiatives, which have improved operating margins by 2.5%.

The net property income from the four parks focused on the resources sector declined by 31% on a like for like basis as compared to the corresponding period to December 2013.

Board changes

Aspen Group has today announced the appointment of Mr John Carter to the Board as a non-executive director. The appointment of Mr Carter brings a wealth of real estate experience to the Board.

Mr Carter has a 30 year career in real estate and financial markets commencing at Jones Lang LaSalle in 1984 before entering real estate investment banking as Head of Real Estate Research at UBS in 1991 and then Head of Real Estate. He became Co-Head of Equities and joined the Executive Committee at UBS in 2001, cementing UBS's number one position in the market. In 2004, Mr Carter left UBS to establish Edward Baillie Capital to pursue investment opportunities in real estate, agriculture and equities.

Mr Carter, together with his associates, has an interest in Aspen Group stapled securities of 7.11% comprising a relevant direct and indirect interest of 3.56% with the remainder held by associates.

Business update

Aspen Group owns and manages accommodation assets, both directly and via its investment in APPF.

Directly held accommodation assets

Aspen Karratha Village is trading in line with expectations, with occupancy currently standing at 90%. Notwithstanding this, Aspen Group has recognised an impairment of \$12.0 million in reducing the carrying value from \$38.5m million to \$26.5 million, in a reflection of the continued weakness in the resource sector and the reduction in the term certain of the current lease to 12 months notwithstanding the option of a further 12 month period. On current income this value represents a 21% yield. Discussions have commenced with Woodside as to their accommodation requirements.

During the first half Aspen Group secured the \$7.4 million acquisition of the Four Lanterns Estate, a fully residential estate consisting of 102 sites with 100% occupancy. The property is located within the Leppington Town Centre, in a major strategic urban growth corridor in south-western Sydney.

Investment in APPF

In October 2014, APPF successfully concluded an entitlement offer with proceeds applied to reduction of debt and ensuring APPF had capacity to expand. Aspen Group invested \$39.2 million in connection with the APPF entitlement offer, and its equity interest in APPF now stands at 42%.

In response to the resource sector weakness, in addition to our operational focus on cost reductions, APPF has commenced relocation of bungalows from the resource parks to metropolitan Perth, where there is demand for residential product.

APPF also completed the acquisition of Harrington Holiday Park on the north coast of New South Wales for \$8.4 million, adding to APPF's existing portfolio of 21 parks and commenced development works of \$6.0 million on new cabins and infrastructure at other parks.

1HY15 financial results

Aspen Group recorded a statutory loss for the six months ended 31 December 2014 of \$18.2 million, of which \$14.6 million was attributable to Aspen Group securityholders. The principal component of this loss was due to the impairment of AKV.

There were no impairments of non-core assets.

Total operating profit for the period was \$7.8 million, down 6% on the same period of FY14.

Costs remain a focus, with corporate overheads down 5% from the previous half and nearly 40% down from the previous corresponding period.

The Net Asset Value at 31 December 2014 was \$1.37 per security.

Discontinued operations

Aspen Group's discontinued operations consist of two industrial properties and residual undeveloped landholdings.

In October 2014 Aspen Group settled the sale of its Noble Park industrial property at a premium of \$0.4 million to the 30 June 2014 carrying value, leaving the Spearwood industrial property as the remaining major non-core asset of Aspen Group. There have been approaches to acquire the property and while there is no certainty that a sale will occur, discussions are in progress. In the meantime, the leasing campaign remains on foot for 62,000 sqm at the property which was recently vacated. The property management plan for the environmental reclassification of the site remains in line with expectations for determination in the second half of FY15.

The net residual exposure of Aspen Group to non-core development assets has been reduced to \$4.8 million at 31 December 2014.

Capital management

At 31 December 2014 Aspen Group's drawn debt was \$122.2 million, including \$82.3 million drawn by APPF. Cash holdings at 31 December 2014 are \$44.3 million resulting in gearing of 25%, up from 30 June 2014 (nil) following the investment by Aspen Group in APPF during the period.

On a 'look-through' basis, gearing stood at 18%.

Aspen Group completed refinancing of its debt facility during the period, increasing the available debt limit to \$40.0 million (previously \$26.8 million) and extending the maturity date to September 2016. Likewise debt facilities totalling \$125.0 million for APPF were refinanced for a period of 3 years to September 2017.

The combination of low gearing and proceeds from non-core asset sales positions Aspen Group to undertake further investment in the accommodation sector.

The security buyback was active during the period, with 6.8 million securities representing 5.7% of securities acquired for \$8.5 million, or an average price of \$1.25 per security.

Aspen Group is paying a 1HY15 distribution of 4.5 cents per security on 25 February 2015.

Outlook

Aspen Group advises its distribution per security guidance for the second half of FY15 is 4.5 cents per security, bringing the total payable for the year to 9.0 cents. This guidance assumes no material change in business conditions.

End

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