

MARKET RELEASE

CWT ANNOUNCES SOLID FIRST HALF PERFORMANCE

14 February 2007, Sydney – Challenger Wine Trust (ASX: CWT) has today announced a distribution for the half year of 4.64 cents per ordinary unit, an increase of 1.8% over the December 2005 half year distribution of 4.56 cents per ordinary unit.

This result was underpinned by solid performance from CWT's portfolio of 32 assets, which continued to enjoy 100% occupancy and exhibit a long weighted average term to expiry of 6.5 years.

Commenting on the result, CWT's Chief Executive, Mr Chris Atkins said: "The long term nature of CWT's leases, combined with their fixed rent review structures, provide a high level of stability and transparency to CWT's rental income stream. Growing investor awareness of these defensive characteristics has contributed to the Trust's strong investment performance, with CWT delivering a total return of 35.2% for the half-year."

Financial results

CWT generated profit from operating activities of \$7.2 million for the half-year, an increase of 11.4% over the previous corresponding period. This increase was due to a combination of higher net property income and lower financing costs, reflecting a lower number of PICE units on issue for the period.

CWT delivered a net profit of \$7.9 million for the half year. After adjusting for the unrealised impact of net fair value movements on investment assets of \$0.7 million, CWT paid a distribution to ordinary unitholders of \$7.1 million for the period, equivalent to 4.64 cents per ordinary unit.

CWT's NTA per unit increased 2.4% from \$0.96 at 30 June 2006 to \$0.98 per unit at 31 December 2006, driven by favourable movements in the interest rate cash flow hedge and foreign currency translations, as well as an uplift in the value of investment assets of \$0.7 million.

Capital management initiatives

CWT's gearing ratio (including PICE units) of 48.6% at 31 December 2006 was in line with its gearing position at 30 June 2006. Following the AIFRS driven re-classification of PICE units as debt, the Responsible Entity has announced the compulsory conversion of any outstanding PICE units on 27 April 2007. The conversion of these units, on which CWT is currently paying an interest rate of 10.3%, should have a positive impact on distributions to ordinary unitholders, whilst also enhancing the Trust's future borrowing capacity.

During the period CWT increased its borrowings in New Zealand dollars to 98.5% of the value of its New Zealand assets, providing a natural foreign exchange hedge on the value of its New Zealand portfolio.

Portfolio activity

CWT's portfolio continues to generate a low risk rental income stream, with only 4.2% of the portfolio's income subject to expiry prior to 30 June 2008. Lease extensions to McGuigan Simeon Wines at Hermitage Road Winery and Sandy Hollow, Cowra and Waikerie vineyards were negotiated during the period. These lease extensions included some reductions in rent, which in FY2008 will equate to \$185,000.



CWT has also negotiated the sale of its Grande Junction development property to McGuigan Simeon Wines on or before 30 June 2007. The price paid will be reflective of capital expenditure by CWT up to the date of sale, which is forecast to be \$6.9 million. Following the sale of the Grande Junction development, CWT has remaining capital expenditure commitments of \$6.0 million outstanding.

Impact of vineyard sector conditions

Whilst industry conditions have no immediate impact on rents paid to CWT, fluctuations in grape prices have a flow-on impact on the valuation of vineyard assets. Australian vineyard production has been impacted by weather conditions in the past six months. Late season frost damage in the cooler climate regions of South Australia, Victoria and Western Australia has significantly reduced yields and thus the size of the 2007 harvest. This reduction in supply, which has been exacerbated by the ongoing impact of the drought and reduced water allocations in warm climate regions, is expected to significantly reduce the size of the current grape surplus.

This reduction in the grape surplus is expected to continue into the 2008 harvest, with the impact of current season frosts on vine development and low water availability likely to again reduce production. The lower than forecast production levels in 2007 and 2008 are expected to improve the current imbalance between demand and supply earlier than predicted, and support a general improvement in grape prices across the market.

Whilst not directly impacting CWT's returns, some of CWT's tenants are experiencing lower levels of production in 2007. Frost in the Coonawarra and Padthaway regions has impacted vines at Chapel, Lawsons and Richmond Grove vineyards. Low levels of rainfall and reduced water allocations have also reduced production levels at some warm climate vineyards.

Management changes

In December 2006, Mr Nick Gill was appointed to the role of Fund Manager for CWT. Mr Gill brings over 20 years of broad cross sector experience in agribusiness, including rural property portfolio management and corporate finance roles across Australia. After managing CWT since it first listed on the ASX in July 1999, the Trust's Chief Executive, Mr Chris Atkins, will be scaling back his day-to-day management responsibilities, but will continue to be involved in the Trust's ongoing strategic direction.

Strategy and outlook

Over the second half of the 2007 financial year the CWT portfolio will continue to generate a secure, low risk rental income stream.

Commenting on CWT's outlook, Mr Atkins said: "The impacts of the adverse weather conditions experienced in the first half of the year are likely to persist into 2008, which whilst not effecting CWT's income returns, will increase the price paid for grapes in some regions, which should have flow-on effects on the value of vineyard properties."

In this environment CWT will continue to source and assess opportunities to buy, sell or develop assets that will enhance portfolio diversification and improve growth prospects whilst maintaining the high security of income that CWT currently enjoys.

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