

MARKET RELEASE

CWT ANNOUNCES SOLID HALF-YEAR RESULT AND FY08 DISTRIBUTION GUIDANCE

5 February 2008, Sydney – Challenger Wine Trust (ASX: CWT) has today announced profit from operating activities of \$8.8 million for the six months to 31 December 2007, up \$1.6 million or 22.4% on the prior corresponding period.

CWT's Fund Manager Mr Nick Gill said: "The first six months of the 2008 financial year have been extremely active for CWT, with significant transaction and leasing activity strengthening portfolio quality and diversification and providing the basis for growth in investor returns."

On the back of the significant activity undertaken in the first half of the year, and solid performance from the portfolio, CWT has today announced distribution guidance of 9.4 cents per unit for the 2008 financial year. This represents growth of 3.3% over the result for the 2007 financial year.

Solid financial results

Financial performance

CWT generated profit from operating activities of \$8.8 million for the six months to 31 December 2007, up \$1.6 million or 22.4% on the six months to 31 December 2006 as a result of transactions completed during the period and solid underlying portfolio performance.

After adjusting for the one-off gain of \$0.9 million achieved on the sale of Gngangara and Boh River Vineyards in December 2007, the key contributor to this strong result was a 8.3% increase in net property income to \$15.8 million (from \$14.6 million). This increase reflected the additional income received from Miamba and Stephendale Vineyards which were acquired during the period, completed developments, as well as growth in underlying net property income from the stabilised portfolio, which was up 1.1% on the prior period.

Partially offsetting the additional income received from increased transaction activity were higher operating and borrowing costs (due to higher debt balances), which contributed to an increase in trust expenses of \$0.5 million over the previous period.

Net profit, which includes profit from operating activities as well as the unrealised impact of net fair value movements in non-current assets of \$3.8 million, was \$12.7 million.

Distributions to unitholders

CWT's total distributable income for the six months was \$8.8 million, of which \$8.0 million or 4.68 cents per unit (up 0.9% on the prior period) has been distributed to unitholders. A further \$0.9 million profit from sale of non-current assets has been retained as undistributed income.

Net assets

As a result of property transactions and revaluations completed during the period, CWT's total assets grew to \$335.7 million at 31 December 2007, reflecting growth of 12.9% since 30 June 2007. Importantly, net assets

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also increased, up 3.9% to \$162.3 million at 31 December 2007. This increase resulted in a \$0.03 uplift in net asset value (NAV) from \$0.92 to \$0.95 per unit and a \$0.01 uplift in net tangible assets (NTA) from \$0.82 to \$0.83 cents per unit.

Borrowings

CWT's debt to total assets (gearing) ratio at 31 December 2007 was 49.3%, within the preferred range of 45-55%. Interest rates are effectively hedged for the duration of lease terms. At 31 December 2007, CWT's weighted average cost of borrowings was 7.7%.

CWT is currently in the process of consolidating its loan facilities of \$165.5 million into larger, more flexible facilities and to extend facility durations. CWT's treasury team has recently agreed terms for a new four year loan facility for \$96.9 million with the existing lender at the same margin and similar terms to those currently in place on existing facilities. Indicative offers have also been received from existing and new lenders on refinancing the remaining loan facilities on similar terms.

Portfolio activity

Over the past six months CWT has undertaken a number of transactions and new leasing deals which have enhanced portfolio quality and diversification whilst removing potential risks to future income. Following these transactions portfolio occupancy is again 100%, and the portfolio's weighted average lease term to expiry (by income) has been extended to 6.2 years. Highlights for the period include:

- Acquisition of Miamba Vineyards for \$11.5 million under a sale and leaseback arrangement with Grant Burge Wines;
- Acquisition of Stephendale Vineyard for \$25 million under a sale and leaseback arrangement with Warburn Estate;
- Leasing of the Cocoparra and Woods Vineyards to Foster's Group on similar terms to those previously agreed with Evans and Tate;
- Sale of Gnangara Vineyard (formerly leased to Evans and Tate) for \$6.3 million. CWT also received an additional payment which covered vineyard expenses incurred since August 2007;
- Sale of Boh River Vineyard for \$9.95 million, reducing CWT's exposure to warm climate vineyards drawing water from the Murray River to 19% and increasing the proportion of wine company tenants to 92%;
- Acquisition of remaining lots at Balranald Vineyard for \$2.9 million and sale of the remaining land at Grande Junction Vineyard for \$0.9 million;
- Grant Burge Wines exercised its options to renew its lease at Corryton Park Vineyard for five years. Following this transaction, only 4.9% of leases are expiring prior to June 2009 (January 2008); and
- Sale of Trillians Hill Vineyard for \$1.1 million (January 2008).

Over the next six months this transaction and leasing focus will continue, with negotiations underway with existing tenants on upcoming lease expiries, new investment opportunities currently being assessed and the sale of further assets which do not meet CWT's long-term investment criteria.

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Revaluations

Nine properties (representing 18.5% of the portfolio) were independently revalued during the period, resulting in a \$5.3 million increase in the fair value of the vineyard portfolio to \$319.2 million. Of this \$5.3 million increase in fair value, \$1.5 million relates to an uplift in the value of water rights at warm climate vineyards, which are recognised as intangible assets (and therefore carried at cost rather than fair value). After taking into account this impact, an uplift of \$3.8 million in portfolio carrying value was recorded. Significant increases include:

- Cocoparra and Woods Vineyards – up \$2.3 million, reflecting the new lease to Foster’s Group and strengthening vineyard values in the region.
- Rarangi Vineyard in New Zealand – up \$2.7 million, as a result of the completion of the vineyard development, combined with the ongoing strong performance of the New Zealand vineyard sector and the strength of the tenant covenant provided by the Delegat’s Group (owner of the Oyster Bay brand).

Vineyard sector conditions

Australian vineyard sector conditions improved considerably in the second half of the 2007 calendar year. Rainfall across the Murray Darling Basin has resulted in increased water allocations across all warm climate regions. Predictions for the 2008 grape harvest of 1.4 million tonnes are significantly below the 2006 harvest peak of 1.9 million tonnes, resulting in an improvement in grape prices on the back of the supply/demand imbalance.

This is benefiting the harvest production outlook for CWT’s tenants along the Murray and Murrumbidgee rivers, with all tenants in those regions having access to sufficient water to undertake targeted production in 2008.

In New Zealand, growing international demand for their high quality wines coupled with limited supply of land available in key regions for future vineyard development is resulting in both strong margins and ongoing demand for good quality vineyards.

Outlook

CWT has today announced distribution guidance of 9.4 cents per unit for the 2008 financial year, an increase of 3.3% over the distribution of 9.1 cents per unit for the 2007 financial year.

Mr Gill said: “As we embark on the second half of the 2008 financial year, CWT’s strong portfolio base, coupled with the ongoing improvement in the outlook for the Australian vineyard sector, see it well placed to continue to deliver attractive portfolio returns.

“The ongoing focus on building strong relationships with established industry operators should also see new opportunities arise to facilitate the expansion of their operations whilst further enhancing CWT’s portfolio quality, diversification and investment returns over the long term.”

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