

MARKET RELEASE

CWT ANNOUNCES STRONG FINANCIAL RESULT IN FY08 OPERATING PROFIT UP 12%; NET PROFIT UP 72%

7 August 2008, Sydney – Challenger Wine Trust (ASX:CWT) today announced profit from operating activities of \$16.0 million for the year ended 30 June 2008 (FY08), up 12% on the prior year (FY07). Net profit after tax was \$13.5 million, up 72% on FY07.

CWT's Fund Manager, Mr Nick Gill said: "This is a strong result for CWT underpinned by a re-aligned property portfolio following a number of transactions during the financial year. The result also highlights the underlying strength of the agricultural sector, especially for a diversified portfolio in the Australasian vineyard sector. Particularly pleasing is being able to provide unitholders with another increase in distributions in FY08, up 3.3% to 9.4 cents per unit, with distributions paid from operating cash flows."

FY08 highlights included:

- **Revenue of \$32.7 million – up 11%**
- **Profit from operating activities before tax of \$16.0 million – up 12%**
- **Net profit of \$13.5 million – up 72%**
- **Distribution for FY08 of 9.4 cents per unit – up 3.3%**
- **All of CWT's debt re-financed – no expiries until 2011**
- **Portfolio strengthened – three acquisitions for \$39.4 million**
- **All properties revalued – no net change to portfolio fair value**

Property valuations

CWT independently valued all properties in FY08, ensuring that current market conditions and vineyard sector issues, including water availability, domestic and international wine markets, grape varietal mix and industry trends were taken into consideration.

The overall impact on CWT's portfolio value as a result of the FY08 independent property valuations is no net change in fair value. A decrease in the valuation of investment properties and vines of \$3.7 million (representing around 1.2% of gross portfolio value) was offset by an incremental increase in the fair value of water rights.

Asset value per unit

Management believes the real worth of CWT is reflected in the price which a purchaser would pay for the assets of the business, net of liabilities, which we have referred to as Net Independent Value (NIV). The



calculation of NIV is shown in the table below. NIV is calculated as the Net Assets (NAV) of CWT *plus* the fair value increment of water rights as assessed by an independent valuer. Under accounting principles NAV only includes water rights at their historical cost, as they are classified as intangible assets. NAV does not include the fair value of CWT's water rights which are a strategic asset of CWT given the scarcity of the resource.

	(\$'000)		(cents per unit)		% change
	Jun-08	Jun-07	Jun-08	Jun-07	
Net Tangible Assets (NTA)	130,736	139,199	77	82	(6.1%)
Add: Water rights (at cost)	21,836	16,995			
Net Asset Value (NAV)	152,572	156,194	90	92	(2.2%)
Add: Water rights fair value increment (as per independent valuation)	8,378	4,247			
Net Independent Value (NIV)	160,950	160,441	94	94	Nil

NIV has remained constant at 94 cents per unit between FY07 and FY08. The decrease in the valuation of investment properties and vines reflected at NAV (above) has been offset by the incremental increase in the fair value of water rights.

Capital management

During the year CWT continued to manage its capital to ensure that it was securing the lowest cost of capital available while maximising returns to unitholders. In May 2008 CWT successfully completed re-financing arrangements for all borrowings with facilities of \$166 million provided by existing bankers. The new facilities provide additional capital security through greater flexibility and longer duration with no expiries until 2011.

At 30 June 2008, CWT had total drawn borrowings of \$155 million (FY07: \$134 million), and a gearing ratio of 49.0% (FY07: 45.2%). The gearing ratio is within CWT's preferred range of 45-55%.

All of CWT's borrowings are effectively hedged against exposure to interest rate movements for the duration of each lease. At 30 June 2008, CWT's weighted average cost of borrowings (including margins) was 7.9% (FY07: 7.7%). In the next 12 months CWT has \$9.5m of interest rate hedges expiring in line with leases.

Loan-to-valuation ratio (LVR) covenants apply to CWT's borrowings, with a weighted average LVR covenant of 58.6%. CWT continues to operate well within LVR covenants. At 30 June CWT had headroom of around \$55 million (including net cash of \$7 million) capable of supporting an 18% decline in property portfolio values before breaching the weighted average LVR covenants.

CWT has no market capitalisation covenants with lenders.

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Portfolio strategy

CWT invests in a portfolio of high quality commercial vineyards and two wineries which are leased to wine companies and contract grape growers on long term leases with annual rental reviews.

CWT continues to focus on vineyards which are able to support long-term sustainable operations. In cool climate regions (53% of the portfolio) this is achieved via investment in premium geographic regions which have a varietal presence and strong brand support. These vineyards are able to offset lower grape yields with higher grape prices due to the superior quality of the grapes.

In warm climate regions (47% of the portfolio) CWT invests in large scale commercial vineyards with secure water supply allocations producing grapes for low cost wine production. The key driver for CWT's strategy going forward in warm climate regions is to ensure that vineyards are large-scale, low cost producers equipped to compete globally on operating cost per tonne.

CWT will continue to review its portfolio to enhance its geographic diversity. CWT will also continue to review, with its lessees, the long term water needs of its vineyards in the warm climate regions as more reliable forecasting is developed by relevant government agencies.

Portfolio activity

CWT's portfolio is currently 99%¹ occupied and has a long weighted average lease term of 5.7 years.

During the year CWT reshaped the portfolio, enhancing property quality and diversification, and improving the reliability of future cash flows. A re-alignment of the portfolio from the lower water security Riverland (SA) region on the Murray River to the high water security Griffith (NSW) region on the Murrumbidgee River has been achieved. CWT undertook a number of property initiatives in line with its portfolio strategy. These included:

Acquisitions totalling \$39.4 million:

- Miamba Vineyards (Barossa Valley, SA) for \$11.5 million under a sale and leaseback arrangement with Grant Burge Wines. This acquisition was in line with CWT's premium brand cool climate strategy;
- Stephendale Vineyard (Griffith, NSW) for \$25.0 million under a sale and leaseback arrangement with Warburn Estate. This acquisition was in line with CWT warm climate low grape production cost strategy in combination with high security water rights; and
- The final two of thirteen lots at Balranald Vineyard (Balranald, NSW) for \$2.9 million permitting the final aggregation of this low grape production cost vineyard with high security water rights.

¹ As at 7 August 2008



Disposals totalling \$18.3 million (a total premium of 5.8% above carrying value and in line with independent valuations):

- Gngangara Vineyard (Manjimup, WA) for \$6.3 million following the collapse of Evans & Tates;
- Boh River Vineyard (Loxton, SA) for \$10.0 million as a result of our re-alignment strategy to the Murrumbidgee River;
- Trillians Hill Vineyard (Clare Valley, SA) for \$1.1 million - a small scale vineyard; and
- Grande Junction land (Wentworth, NSW) for \$0.9 million.

CWT's lease activity is aimed at proactively managing the portfolio in line with strategy. CWT successfully completed the following leasing transactions in FY08:

- Cocoparra and Woods Vineyards leased to Foster's Group for five years (previously leased to Evans & Tate);
- Grant Burge Wines exercised its options to renew its lease at Corryton Park Vineyard for five years;
- Mid-term lease reviews on the Del Rios, Balranald and Qualco Vineyards.

Looking forward, CWT continues to actively manage its portfolio. Current initiatives include:

- Marketing the Sandy Hollow Vineyard for sale with the intention of disposing of the property within the next 12 months. The lease expires in April 2009 and Australian Vintage Ltd (formerly McGuigan Simeon Wines) has elected not to re-lease the vineyard;
- Reviewing options following advice from Australian Vintage that they will not be re-leasing Bethany Creek & Vine Vale Vineyards (expires October 2008) and Cowra Vineyard (expires April 2009); and
- Seeking new tenants for Hermitage Road Winery following the major lease expiry at 30 June 2008. This property has been withdrawn from sale.

CWT will continue to assess potential investments and sale opportunities which will enhance CWT's portfolio and returns for its unitholders.

Australian industry conditions

The 2008 vintage year was challenging for both winemakers and grape growers. The industry initially anticipated a shortage of grapes due to the perceived lack of available irrigation water, resulting in an early season crop forecast of 1.2m tonnes. This created some concern that there would be a shortage of grapes prompting wine companies to offer higher contract grape prices to ensure supply.

As a consequence of these price signals grape growers diverted irrigation water from other agricultural industries and purchased substantial temporary irrigation water. As a result of these water purchases and favourable climatic conditions across most grape growing regions in Australia a crop of 1.8 million tonnes

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was harvested, up on the 2007 frost and drought-affected harvest of 1.4 million tonnes. As a result of this larger than expected grape harvest grape prices in some regions and for some varieties fell significantly.

For the 2009 harvest year, water availability remains a continuing concern for vineyard owners in the Murray and Murrumbidgee Rivers (warm climate regions) dependent on 2008/2009 water allocations.

Outlook

Mr Gill said: “CWT continues to deliver a stable and predictable income return to unitholders. This is expected to continue into the 2009 financial year, with positive outcomes from rent reviews marginally outstripping any adverse effect on operating profit if vineyards with lease expiries are not re-leased or sold. At this point in time we are providing distribution guidance of 9.5 cents per unit up on the FY08 distribution of 9.4 cents per unit.

“CWT’s tenancy arrangements provide a strong platform for predictable income returns. When combined with the geographic and tenant diversity of CWT’s vineyard portfolio across Australia and New Zealand, we believe CWT is well placed to continue generating sustainable returns for unitholders into the future.”

ENDS

About Challenger Wine Trust (CWT):

CWT is the second largest vineyard owner in Australasia. CWT has total assets of \$316.2 million (at 30 June 2008) and owns 23 vineyards and two wineries located across Australia and New Zealand. CWT’s strategically located assets (including water rights) are mainly tenanted to wine companies. Further details are provided on CWT’s website www.challenger.com.au/cwt

Important notice:

Any forward looking statements included in this document are by nature subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, Challenger, so that actual results or events may vary from those forward looking statements, and the assumptions on which they are based.

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