



# Challenger Wine Trust

Half-year Update 31 December 2008

**Challenger Wine Trust**  
ARSN 092 960 060

**Responsible Entity**  
Challenger Listed Investments Limited  
ABN 94 055 293 644  
AFSL 236887



## Table of contents

Key points	1
Fund Manager's report	1
Portfolio summary	6
Unitholder information	8
Directory	IBC

### Important notice

Challenger Listed Investments Limited (ABN 94 055 293 644) (AFSL 236887) (CLIL) is the Responsible Entity of Challenger Wine Trust (ARSN 092 960 060) (CWT).

CLIL, as the Responsible Entity of CWT, has prepared this Half-yearly Update (Update) based on information available to it. The information in this Update should be regarded as general information only. Nothing contained in this Update constitutes investment, legal, tax or other advice. It has been prepared without taking account of any person's objectives, financial situation or needs. Recipients should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs, and seek the assistance of their financial or other licensed professional adviser before making any investment decision.

Any investment in CWT is subject to investment risk and other risks, including possible loss of income and principal invested. None of CLIL, Challenger Management Services Limited (ABN 29 092 382 842) (AFSL 234678) (CMSL), Challenger Financial Services Group Limited (ABN 85 106 842 371) (Challenger) or any other member of the Challenger Group gives any guarantee or assurance as to the performance of CWT or the repayment of capital.

Nothing in this Update should be considered a solicitation, offer or invitation to buy, subscribe for or sell any, or a recommendation of, financial products.

While all reasonable care has been taken to ensure that the facts stated and opinions given in this Update are fair and accurate at the date of this Update, no representation or warranty (express or implied) is made as to, and no member of the Challenger Group accepts any responsibility for, the accuracy or completeness of any recommendation, information or advice in this Update.

Any forward looking statements included in this Update involve subjective judgement and analysis and are subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, CLIL. In particular, they speak only as of the date of these materials, they assume the success of CWT's business strategies, and they are subject to significant regulatory, business, competitive and economic uncertainties and risks. Actual future events may vary materially from forward looking statements and assumptions on which those statements are based. Given these uncertainties, recipients are cautioned not to place undue reliance on such forward looking statements.

Any past performance information provided in this Update is not a reliable indication of future performance.

CLIL does not receive any specific remuneration for the general information which is provided to you in this Update. However, CLIL and CMSL receive trustee and management fees as Responsible Entity and Manager of CWT, respectively. For more details on fees, please refer to the CWT 2008 Annual Report and additional information on the Australian Securities Exchange (ASX) website, [www.asx.com.au](http://www.asx.com.au). Financial advisers (including some Challenger Group companies) may receive fees or commissions if they provide advice to you or arrange for you to invest in a Challenger product (including CWT). CLIL and its associates may have an interest in the financial products referred to in this Update and may earn fees or other benefits as a result of transactions in any such financial products.

Members of the Challenger Group and their officers and directors may hold securities in CWT from time to time.

# Key points

- Net property income of \$16.6 million – up 5.3%
- Profit from operating activities after tax of \$8.4 million – up 5.6%
- Distribution for HY09 of 4.7 cents per unit; distribution guidance for FY09 under review
- Financing in place – first expiry not until May 2011
- Sale contracts exchanged on Sandy Hollow and Inglewood vineyards – \$2.6 million
- Nine properties independently valued plus 2 directors' valuations – \$(5.6) million
- Sound property fundamentals – occupancy: 98.4% and WALE: 5.3 years
- NIV at 78 cents per unit – impacted by interest rate swaps net liability of \$21.7 million
- Loan-to-valuation ratio (LVR) covenants remain in tact but with narrower headroom
- Asset sales being pursued

# Fund Manager's report

The first half of fiscal 2009 (HY09) saw CWT's core business continue in good shape as evidenced by a solid operating result, with net property income up 5.3% on the prior corresponding period (pcp), operating profit after tax up 5.6% and net operating cash flow up 5.8%.

A steep fall in interest rates during the last quarter of calendar year 2008 resulted in a mark-to-market (mtm) net liability of \$21.7 million on CWT's financial derivatives (interest rate swaps) causing a narrowing of headroom on bank covenants. In addition, bank lending margins have increased.

Consequently, to maintain balance sheet strength and flexibility in these uncertain times CWT is pursuing asset sales. Until we have a clearer understanding of the likely outcome of asset sales, and until we have fully assessed the implications of recent announcements and strategic reviews by several of our major tenants, we are placing FY09 distribution guidance on hold pending further review.

## Financial performance

CWT generated profit from operating activities after tax of \$8.4 million for the six months ended 31 December 2008 (HY09), up 5.6% on pcp. Operating performance was underpinned by an increase in net property income of 5.3%. Net profit after tax was \$2.9 million, after allowing for an unrealised decrement from property revaluations of \$5.6 million.

## Portfolio and property valuations

CWT comprises a portfolio of 25 high quality vineyard assets in Australia and New Zealand which are primarily leased to wine companies on long term leases with annual rental reviews. At 31 December 2008 CWT's portfolio was 98.4% occupied with a long weighted average lease term (WALE) of 5.3 years.

In the period June to December 2008, 24 properties were independently valued, nine of which were independently valued as at 31 December 2008.

Sale contracts were exchanged in December on Sandy Hollow Vineyard and Inglewood Vineyard. Sandy Hollow will settle by 21 May 2009 with a sale price of \$2.0 million while Inglewood will settle on 30 March 2009 with a sale price of \$0.6 million. These properties, along with Dalswinton Vineyard (neighbouring Inglewood), were revalued down to align with sale prices.

The combined impact of all revaluations on CWT's property portfolio at 31 December 2008 was a decrement to carrying value of \$5.6 million.

## Tenants

As CWT's vineyards are leased primarily to wine companies, CWT is not directly exposed to fluctuations in grape prices and growing conditions. Seventy six percent of CWT's tenants are major listed wine companies.

CWT's largest tenant is Australian Vintage Ltd (AVG) leasing around 33% of portfolio value. Recently they announced impairments estimated to be around \$120 million with full details to be released in late February. AVG is one of Australia's largest listed wine companies and has been an excellent tenant of CWT's properties over the past decade. Importantly AVG has no rent in arrears with CWT. Their announcement follows write downs by other major industry players in 2008 and highlights the challenging times currently being experienced in the wine industry.

## Capital management

At 31 December 2008, CWT had total drawn borrowings of \$159 million, up from \$155 million at 30 June 2008 with the increase due to exchange rate movements in NZD denominated debt. A natural capital hedge has been maintained to offset the increase in NZD liabilities, with the value of CWT's New Zealand properties increasing by \$4.0 million.

All CWT's borrowings are hedged against exposure to interest rate fluctuations for the duration of each lease. Interest rate hedging is achieved through the use of interest rate swaps. The fair market value of these interest rate swaps (that is, the cost to close them at the reporting date) is recorded on the balance sheet.

At 31 December 2008 the fair market value of CWT's interest rate swaps was a net liability of \$21.7 million due to the recent significant fall in interest rates. CWT's interest rate swaps have a staggered maturity over 8.5 years. Assuming the interest rate curve holds constant this liability will diminish over time as they approach maturity. In the next 12 months CWT's interest rate swap liabilities will unwind by approximately \$4.5 million, with around \$1.5 million unwinding by 30 June 2009.

At 31 December 2008, CWT's weighted average cost of borrowings (including margins) was 8.2% compared to 7.9% at 30 June 2008. Looking forward, the weighted average cost of borrowings will increase to approximately 8.6% from March 2009 with the banks exercising a right to increase the margin on borrowings. This represents an annualised impact of \$0.7 million (0.4 cents per unit).

Gearing (debt to total assets) was 50.7% at 31 December 2008 compared to 49.0% at 30 June 2008.

Loan-to-valuation ratio (LVR) covenants apply to CWT's borrowings. CWT continues to operate within these covenants however headroom has narrowed. CWT management is working to prudently and proactively increase this headroom via capital management initiatives including asset sales.

## Asset value per unit

The real worth of CWT is reflected in the price a purchaser would pay for the assets of the business net of liabilities - referred to as Net Independent Value (NIV). CWT's NIV at 31 December 2008 was 78 cpu, down from 94 cpu primarily due to the movement in interest rate swaps during HY09 to a \$21.7 million net liability. Assuming these swaps are held until maturity, this liability will diminish over time.

## Industry conditions and outlook

The Australian wine and vineyard sectors continue to operate in a challenging environment. Over-committed grape contracts during the 2008 harvest resulted in an over-supply of primarily Chardonnay grapes. This has led to a forecast reduced demand for grapes in the coming 2009 harvest. Subject to the recent heatwave in South Eastern Australia with reports of grape yield losses in some regions of around 20%, the Australian grape harvest is expected to be in oversupply, placing pressure on grape prices.

The New Zealand industry continues to enjoy the success of its wines in the export market with CWT's major tenant in New Zealand, the Delegat Group (Oyster Bay brands), announcing record profits. The New Zealand portfolio represents 24% of the total portfolio and has plantings of sauvignon blanc, a variety that has recently replaced chardonnay as the most consumed wine in Australia.

In the short term CWT may not be immune from declining vineyard values in some regions, however capital management initiatives will be implemented to maintain and improve CWT's LVR banking covenant headroom. Importantly, 94% of CWT's leases (by rental income) do not expire until FY11 and beyond when we anticipate improved profitability forecast for the industry.

## Investment performance

2008 has seen unprecedented volatility and declines across all international and domestic equity markets. Over the course of the year, the S&P/ASX300 property accumulation index fell 55.3%, while the S&P/ASX200 accumulation index fell 38.4%. CWT accumulation index fell 51.2%. CWT's unit price closed at 31 December 2008 at 30 cents, representing a discount to NIV of around 60%. CWT Management is committed to developing and implementing strategies to close this gap and restore value for unitholders.

## Corporate governance

The Board of Challenger Listed Investments Limited (CLIL) comprises a majority of independent directors.

In November the CLIL Board announced the appointment of Mr Michael Cole as an independent Director. Mr Cole has extensive experience in the financial services and funds management sectors, having worked as a consultant to the industry since retiring from Bankers Trust Australia in 1997 where he held senior management roles over an 18 year period. Mr Cole is currently Chair of Platinum Asset Management Ltd, Ironbark Capital Limited, and IMB Ltd (Illawarra Mutual Building Society). As well, Mr Cole is a director of NSW Treasury-Corp and a director of State Super Financial Services Australia Ltd. In 2007 Mr Cole retired as Chair of SAS Trustee Corporation, a position he held from 2000.

Mr Russell Hooper resigned from the CLIL Board in October 2008 after nearly four years as an independent non-executive director of CLIL. Mr Hooper made a significant contribution to the establishment and management of Challenger's listed funds.

## Summary

The current predicted oversupply of grapes and recent news of falling export demand for Australian wine in combination with the global uncertainty potentially impacting CWT directly or indirectly has caused us to proactively seek to strengthen the balance sheet by pursuing asset sales. Until we have an opportunity to fully assess the current market and have a clearer understanding of likely assets sales, our distribution guidance for FY09 remains under review.

Yours sincerely,



**Nick Gill**  
Fund Manager

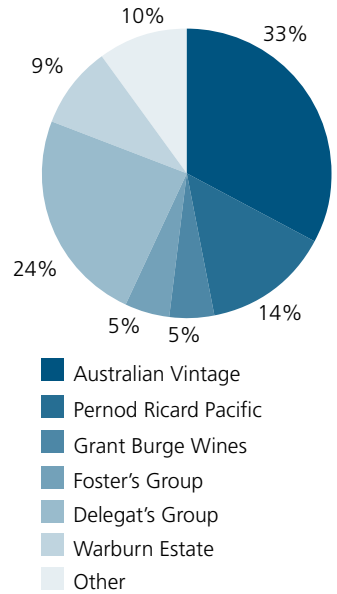
# Portfolio summary

Property	Location	Tenant	Total area (ha)	Planted area (ha)	Occupancy <sup>1</sup> at 31-12-08 %
<b>Australian portfolio</b>					
<b>Cool climate vineyards</b>					
Bethany Creek and Vine Vale Vineyards	Barossa Valley, SA	N/A	25	18	0
Chapel Vineyard	Coonawarra, SA	National Viticulture Fund of Australia Pty Ltd	37	29	100
Corryton Park Vineyard	Eden Valley, SA	Burge Corp Pty Ltd	54	42	100
Miamba Vineyards	Barossa Valley, SA	Grant Burge Wines Pty Ltd & Burge Corp Pty Ltd	205	119	100
Lawsons and Richmond Grove Vineyards	Padthaway, SA	Pernod Ricard Pacific Pty Ltd	573	483	100
Schuberts Vineyard	Adelaide Hills, SA	Australian Vintage Limited	109	74	100
Summers Hill Vineyard	Eden Valley, SA	Burge Corp Pty Ltd	28	17	100
Cowra Station Vineyard	Cowra, NSW	Vineyards of NSW Pty Ltd	68	58	100
Dalswinton and Inglewood Vineyards	Hunter Valley, NSW	Inglewood Vineyards Pty Ltd	127	96	100
Hermitage Road Winery	Hunter Valley, NSW	The Hunter Resort Pty Ltd	40	3	10
Pooles Rock Vineyard & Winery	Hunter Valley, NSW	PRW Leasing Pty Ltd	21	10	100
Sandy Hollow Vineyard	Hunter Valley, NSW	Australian Vintage Limited	203	105	100
Sirens Estate Vineyard	Margaret River, WA	Foster's Australia Limited	66	44	100
<b>Cool climate vineyard total</b>			1,555	1,098	94.9
<b>Warm climate vineyards</b>					
Qualco East Vineyard	Riverland, SA	Australian Vintage Limited	214	171	100
Waikerie Vineyard	Riverland, SA	Australian Vintage Limited	43	38	100
Balranald Vineyard	Balranald, NSW	Australian Vintage Limited	547	465	100
Cocoparra and Woods Vineyards	Griffith, NSW	Foster's Australia Limited	561	259	100
Gundagai Vineyard	Gundagai, NSW	Greenvalley Properties Pty Ltd	331	237	100
Stephendale Vineyard	Griffith, NSW	Warburn Estate (Aust) Pty Ltd	666	634	100
Whitton Vineyard	Griffith, NSW	Australian Vintage Limited	102	99	100
Del Rios Vineyard	Sunraysia, VIC	Australian Vintage Limited	1,048	932	100
<b>Warm climate vineyards total</b>			3,511	2,835	100
<b>Australian portfolio total</b>			5,067	3,934	98.1
<b>New Zealand portfolio</b>					
<b>Cool climate vineyards</b>					
Crownthorpe Vineyard	Hawkes Bay, NZ	Delegat's Wine Estate Limited	361	291	100
Dashwood Vineyard	Marlborough, NZ	Delegat's Wine Estate Limited	197	167	100
Gimblett Gravels Vineyards	Hawkes Bay, NZ	Delegat's Wine Estate Limited	43	39	100
Rarangi Vineyard	Marlborough, NZ	Delegat's Wine Estate Limited	142	128	100
<b>New Zealand portfolio portfolio total</b>			743	624	100
<b>Total</b>			<b>5,809</b>	<b>4,558</b>	<b>98.4</b>

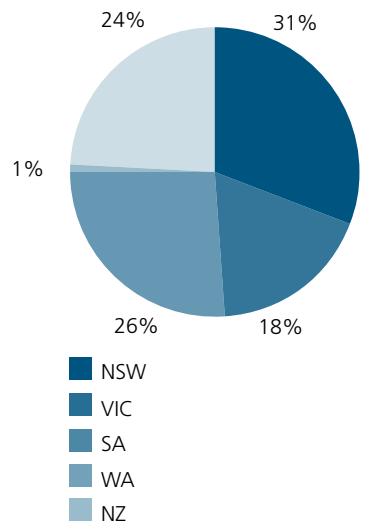
Note 1: by income

Weighted average lease expiry <sup>1</sup> (years)	Valuation date	Fair value 31-12-08 (\$m)	Carrying value 31-12-08 (\$m)	Passing Yield
–	Jun-08	1.4	1.4	
3.0	Dec-08	2.4	2.4	
4.1	Jun-08	3.0	3.0	
6.6	Jun-08	12.3	12.3	
4.5	Jun-08	41.9	41.9	
2.5	Dec-08	6.1	6.1	
4.1	Dec-08	1.4	1.4	
0.3	Jun-08	1.6	1.6	
0.2	Jun-08	3.0	2.3	
1.2	Jun-08	3.1	3.1	
5.9	Dec-08	7.5	7.5	
0.3	Jun-08	2.0	2.0	
3.4	Dec-07	3.3	3.3	
3.9		88.9	88.2	11.9%
6.9	Jun-08	8.1	7.1	
4.3	Dec-08	1.7	1.5	
7.9	Jun-08	25.0	22.0	
4.3	Dec-08	12.3	10.8	
1.7	Dec-08	10.4	9.5	
8.7	Jun-08	26.5	26.5	
6.3	Dec-08	4.6	4.0	
7.5	Jun-08	55.0	53.7	
6.8		143.6	135.1	11.9%
5.7		232.5	223.3	11.9%
2.3	Jun-08	28.3	28.3	
3.8	Jun-08	22.7	22.7	
2.3	Jun-08	6.9	6.9	
5.7	Dec-08	16.3	16.3	
3.5		74.2	74.2	8.0%
<b>5.3</b>		<b>306.7</b>	<b>297.5</b>	<b>10.9%</b>

### Tenant diversification (by value) as at 31 December 2008



### Geographic diversification (by value) as at 31 December 2008



# Unitholder information

## ASX listing

Challenger Wine Trust (CWT) is listed on the Australian Securities Exchange (ASX). The Trust's units trade under the code 'CWT'. Unit prices are published daily in major Australian metropolitan newspapers, and are also accessible from the CWT website.

## The CWT website

The CWT website, [www.challenger.com.au/cwt](http://www.challenger.com.au/cwt), contains important information about the Trust, including unit prices, announcements, annual reports and an overview of each property in the CWT portfolio.

## Unitholder enquiries

If you have queries relating to your unitholding or wish to provide a change of address, Tax File Number, instructions for payment of distributions or annual report elections, please contact the Unit Registry, Link Market Services Limited, using the contact details located on the inside back cover.

If you have any questions relating to the management of CWT, please contact Challenger on +61 2 9994 7000, or send an email to [cwt@challenger.com.au](mailto:cwt@challenger.com.au).

## Distributions

CWT pays distributions quarterly for the periods ending 31 March, 30 June, 30 September and 31 December. Distributions are typically paid to unitholders six weeks after quarter end. Distribution payments can be paid by:

- direct credit to a nominated Australian financial institution account; or
- a cheque mailed to your registered unitholding address.

An Annual Taxation Statement is sent to unitholders in August each year. This statement includes important taxation information and should be retained by unitholders to assist in the completion of their taxation return.

# Directory

## Challenger Wine Trust

ARSN 092 960 060

## Australian Securities Exchange (ASX) code

CWT

## Responsible Entity

Challenger Listed Investments Limited

ABN 94 055 293 644

AFSL 236887

## Directors of Responsible Entity

Brenda Shanahan (Chair)

Michael Cole

Ian Martens

Geoff McWilliam

Ian Moore

Brendan O'Connor

Robert Woods

## Company Secretary

Christopher Robson

Suzie Koeppenkastrop

## Manager

Challenger Management Services Limited

ABN 29 092 382 842

## Address

Level 15

255 Pitt Street

Sydney NSW 2000

Telephone: +61 2 9994 7000

Facsimile: +61 2 9994 7777

Email: [cwt@challenger.com.au](mailto:cwt@challenger.com.au)

Website: [www.challenger.com.au/cwt](http://www.challenger.com.au/cwt)

## Registry

Link Market Services Limited

Locked Bag A14

Sydney South NSW 1235

Telephone: 1800 830 977

Telephone (outside Australia): +61 2 8280 7492

Facsimile: +61 2 9287 0303

Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Level 15  
255 Pitt Street  
Sydney NSW 2000  
telephone 02 9994 7000  
facsimile 02 9994 7777

[www.challenger.com.au](http://www.challenger.com.au)

