MARKET RELEASE

CWT HALF YEAR OPERATING PROFIT AFTER TAX: $8.4M – UP 5.6%

Key points

- **Net property income of $16.6 million – up 5%**
- **Profit from operating activities after tax of $8.4 million – up 6%**
- **Distribution for HY09 of 4.7 cents per unit – FY09 distribution guidance 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**
- **Strong property fundamentals – occupancy: 98.4% and WALE: 5.3 years**
- **NIV at 78 cents per unit – impacted by interest rate swaps mtm net liability of $21.7m**
- **Loan-to-valuation (LVR) covenants remain in tact but with narrower headroom**
- **Asset sales being pursued**

5 February 2009, Sydney – Challenger Wine Trust (ASX:CWT) today announced profit from operating activities after tax of $8.4 million for the six months ended 31 December 2008 (HY09), up 5.6% on prior corresponding period (pcp) ended 31 December 2007. 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. Distributions for HY09 totalled 4.7 cents per unit (cpu).

CWT's Fund Manager Nick Gill said: "CWT's core business held up well during the first half of FY09 as evidenced by a solid operating result, with net property income up 5.3% on pcp, operating profit after tax up 5.6% and net operating cash flow up 5.8%. However the recent steep fall in interest rates resulted in a mark-to-market net liability of $21.7 million on CWT's financial derivatives (interest rate swaps) and a narrowing of headroom on bank covenants. In addition, bank lending margins have increased.

"Economic, financial and trading conditions are extremely challenging globally and the wine industry is not immune. Most large wine companies have booked write downs in response to current and projected market conditions".

"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."

Further enquiry: Investor Relations, Luke Keighery, Challenger Financial Services Group, 02 9994 7633
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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, 9 of which were 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 ASX-listed Australian Vintage Ltd (AVG) leasing around 33% of portfolio value. Last week 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, the cost to close them at the reporting date, is recorded on the balance sheet.

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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 - see table below. 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.

Facility	Covenant	CWT position as at 31 Dec 08	Headroom on security value		Headroom on debt levels	
			$m	%	$m	%
1	Debt to security value < 57%	49.6%	$16.9m	13.0%	$9.6m	14.9%
2	Debt (including net fair value of hedge contracts) to security value < 60%	55.5%	$13.4m	7.6%	$8.0m	8.2%

Asset value per unit

Management believes 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). NIV is calculated as the Net Assets (NAV) of CWT plus the fair value increment of water rights as assessed by an independent valuer (see table below). 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)	
	Dec-08	Jun-08	Dec-08	Jun-08
Net Tangible Assets (NTA)	**102,158**	**130,736**	**60**	**77**
Add: Water rights (at cost)	21,836	21,836		
Net Asset Value (NAV)	**123,994**	**152,572**	**73**	**90**
Add: Water rights fair value increment	9,194	8,378		
Net Independent Value (NIV)	**133,188**	**160,950**	**78**	**94**

The reduction in NTA, NAV and NIV is due mostly to the movement in financial derivatives (interest rate swaps) during HY09 to a $21.7 million net liability which accounts for a 13 cpu decrease. Assuming the interest rate curve holds constant this liability will diminish over time as swaps approach maturity.

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 for the coming 2009 harvest. Subject to the impact of the current heat wave in south eastern Australia with reports of grape yield losses in some regions of around 20%, the 2009 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 CWT's 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 for the industry.

Summary

Nick Gill concluded: "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."

ENDS

About Challenger Wine Trust (CWT):

CWT is the second largest vineyard owner in Australasia. CWT has total assets of $313.7 million (at 31 December 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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