Challenger Wine Trust

Annual Report 2010

Challenger Wine Trust
(ARSN 092 960 060)

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

Contents

Important notice

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

Key highlights

1

Profit from operating activities after tax of $15.2 million or 8.5 cents per unit (cpu).

2

FY10 distribution of 4.25 cpu; 2H10 distribution of 1.0 cpu.

3

Industry conditions remain challenging, impacting property valuations and loan-to-valuation ratios (LVRs).

4

All properties independently revalued during the past year. Total FY10 property decrement: $30.3 million.

5

Net Independent Value (NIV) 49 cpu as at 30 June 2010.

6

Occupancy: 99.4%; weighted average lease term to expiry (WALE): 4.1 years.

7

Covenant gearing at 57.0%; operating within all bank covenants with reduced LVR headroom.

8

Capital management alternatives under review.

Challenger Wine Trust

Challenger Wine Trust (ASX:CWT) is an externally managed property trust. CWT listed on the ASX in 1999 to offer capital solutions to wine industry participants.

Chair's letter

Dear unitholder

On behalf of the Board of Challenger Listed Investments Limited (CLIL), the Responsible Entity of Challenger Wine Trust (CWT), I am pleased to report that CWT performed relatively well under difficult circumstances, delivering a profit from operating activities after tax of $15.2 million for the financial year ended 30 June 2010 – equivalent to 8.5 cents per unit.

Statutory net profit after tax (NPAT), however, was a loss of $14.7 million following a reduction in the valuation of CWT's vineyards of $30.3 million. This statutory loss compares with a prior year loss of $24.3 million.

The Australian and New Zealand wine and vineyard sectors continue to be impacted by a number of issues including excess grape production and stronger currencies.

Australian grape growers are struggling to remain profitable, with grape prices in 2010 some 35% down on the average price two years ago. Australian wine companies export around two thirds of their production and have suffered profit declines, with wine export prices down 26% on average over the last two years. Unfortunately, the story is similar in New Zealand.

Industry issues have impacted the values of all vineyards, and CWT is no exception. In FY10, CWT wrote down the value of its vineyards by $30.3 million – a fall of around 14%. This is on top of a 12% fall the year before. Notwithstanding the quality of CWT's underlying profitability, these vineyard devaluations affect covenant gearing (loan-to-valuation ratio) outcomes when measured against covenants imposed by CWT's bankers.

CWT's covenant gearing moved from 54.0% to 57.0% in the second half of the year. With a weighted average covenant level of 58.7% set by the banks, CWT's current level of headroom is minimal.

As a consequence, and in view of the need to refinance debt that expires in May 2011, the Board of CLIL is conducting a review of capital management alternatives to ensure CWT's ongoing compliance with banking covenants and to position CWT to secure refinancing. We have appointed advisors and we are working through the various alternatives.

We are working diligently to find a satisfactory outcome from this review and we look forward to informing you in due course.

I encourage all unitholders to read the Fund Manager's report that follows, and to review the portfolio details and financial report also contained in this document.
I further encourage unitholders to remain well informed by registering for email news alerts and by listening to the webcast of the FY10 results presentation on CWT's website www.challenger.com.au/cwt.

The CWT management team and staff have worked tirelessly during the past year, steering CWT through these difficult times. I congratulate the team and thank them for their efforts.

I would also like to thank the Directors for their diligence and hard work throughout the year.

Finally, I thank you for your continued support of CWT.

Brenda M. Shanahan

Brenda Shanahan
Chair

Fund Manager's report

Dear unitholder

Overview

In the financial year ended 30 June 2010 (FY10), Challenger Wine Trust (CWT) produced a profit from operating activities after tax of $15.2 million (FY10), down 6.0% on the prior year (FY09). Net property income of $30.9 million was down 5.2% from FY09, primarily due to the impact of a one-off rent rebate, combined with a reduction of income from properties sold. Operating costs remained steady. Statutory net profit after tax was a loss of $14.7 million after allowing for an unrealised property revaluation decrement of $30.3 million.

Notwithstanding this result, ongoing adverse macro conditions for the wine industry continue to impact grape prices and therefore the underlying value of vineyard assets. CWT's property revaluations reflect this cyclical deterioration, and property write-downs have again negatively impacted LVRs and reduced CWT's banking covenant headroom.

Total distributions for FY10 were 4.25 cents per unit (cpu) following a final distribution of 1.0 cpu paid on 30 August 2010.

Industry conditions

The vineyard sectors in Australia and New Zealand are progressively implementing remedial actions to counter the oversupply of wine grapes. In Australia, an estimated 8%[1] of vines have already been removed from an estimated 157,000 hectares, with more expected to be removed. In New Zealand, lower yield limits have been imposed to reduce volumes, and vineyard removals are expected to commence.

This year's Australian grape intake of 1.53 million tonnes was down 12% on 2009. Grape harvest prices have fallen by 35% over the past two years. In New Zealand, the 2010 vintage was down around 7%, easing excess stock levels, while grape prices have fallen by 40% over the past two years.

Stronger Australian and New Zealand currencies in major export markets have further impacted wine company profitability. Australia exports around 63% of its wine production; export volume was up 3% year-on-year to June 2010, while the average price was down 14%. New Zealand exports around 65% of its production, with year-on-year volume up 26% and price down 17%.

The above issues continue to adversely impact vineyard valuations across the industry.

Portfolio and property valuations

CWT property values fell by $25.1 million in the second half of FY10, driven by a devaluation in CWT's New Zealand properties, and the Gundagai (NSW) property. Along with a $5.2 million decrement to carrying value at 31 December 2009, the FY10 portfolio decrement totals $30.3 million. Seventeen properties, representing 85% of the portfolio by value, were independently revalued at 30 June 2010 and all properties have been independently revalued in the past eight months.

CWT's portfolio metrics remain well placed, with occupancy at 99.4% and a WALE of 4.1 years. Other than the Gundagai property, on which terms of sale have been agreed, the next lease expiries occur in April 2011 on two of the four New Zealand properties. These properties – Crownthorpe and Gimblet Gravels – represent 9% of portfolio income and are tenanted by Delegat's Group; re-lease negotiations will commence shortly. Delegat's is one of the largest producers of wines in New Zealand, and its Oyster Bay brand is one of the largest-selling NZ wines in the UK, Australia and Canada.

Capital management

CWT has borrowings of $134.7 million[2] from two domestic banks. Debt has reduced by $17.2 million over the past year on the back of capital management initiatives including property sales, retention of distributions, and an underwritten DRP.

Notwithstanding a strong operating profit of $15.2 million in FY10, available headroom against LVR banking covenants remains tight as a consequence of declining property valuations. Weighted average covenant gearing as at 30 June 2010 was 57.0%, compared to 54.0% at 31 December 2009.

[1] CWT estimate.

[2] For the purpose of banking covenants as at 30 June 2010; includes out of the money derivatives where applicable.

In light of the narrowed headroom, the potential for vineyard values to fall further, and the next debt maturity in May 2011, CWT is conducting a review of capital management alternatives to ensure ongoing compliance with banking covenants and to position CWT to secure refinancing. To this end, advisors have been appointed to assist with the review, and CWT is in active discussions with various parties on capital management alternatives.

Property sales

CWT has continued to sell down properties as a part of its capital management program. During 1H10, the sales of Dalswinton vineyard in the Hunter Valley and Bethany Creek and Vine Vale vineyards in the Barossa Valley were settled, with net proceeds of $2.0 million. During 2H10, CWT sold the Cowra Vineyard (NSW) for $0.5 million, and recently terms have been agreed on the sale of Gundagai land and improvements for $1.0 million, excluding water rights.

Outlook

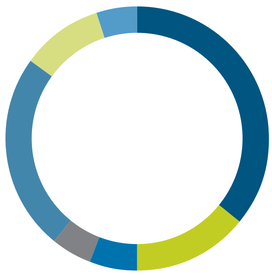
The challenges for the industry will continue into FY11 as it moves to rebalance supply and demand, which will lead to further removals of vines in Australia. The wine companies appear to be adjusting to the new market dynamics. Our largest tenant recently reported improved profit and cash flow, stating that it has transformed its asset and cost base by exiting grape contracts and implementing other initiatives.

CWT's wine company tenancies and WALE of 4.1 years continue to provide security of cashflow during this period of adjustment for the industry.

Thank you for your continued support of Challenger Wine Trust.

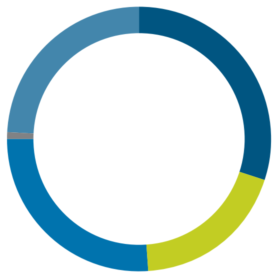
Nick Gill
Fund Manager

Tenant diversification (by fair value) as at 30 June 2010



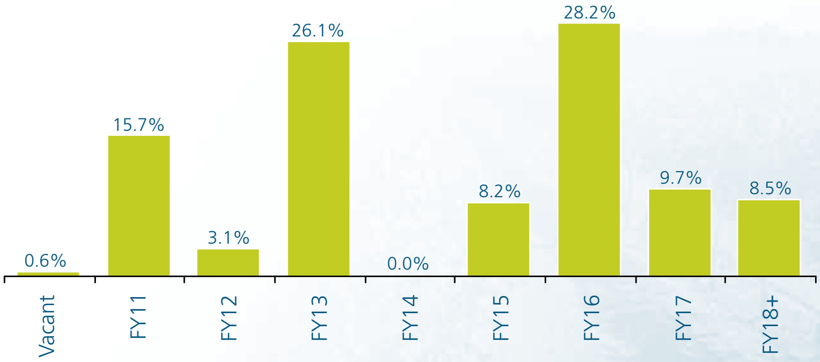
- 36% Australian Vintage
- 14% Pernod Ricard Pacific
- 6% Grant Burge Wines
- 5% Foster's Group (Treasury Wine Estates)
- 24% Delegat's Group
- 10% Warburn Estate
- 5% Other

Geographic diversification (by fair value) as at 30 June 2010



- 30% NSW
- 19% VIC
- 26% SA
- 1% WA
- 24% NZ

Lease expiry profile (weighted)



Portfolio summary

Property	Geographic indicator	Tenant
Australian portfolio		
Cool climate vineyards		
Chapel Vineyard	Coonawarra, SA	National Viticulture Fund of Australia Pty Ltd
Corryton Park Vineyard	Eden Valley, SA	Burge Corp Pty Ltd
Miamba Vineyards	Barossa Valley, SA	Grant Burge Wines Pty Ltd and Burge Corp Pty Ltd
Richmond Grove and Lawsons Vineyards	Padthaway, SA	Pernod Ricard Pacific Pty Ltd
Schuberts Vineyard	Adelaide Hills, SA	Australian Vintage Limited
Summers Vineyard	Eden Valley, SA	Burge Corp Pty Ltd
Hermitage Road Winery[1]	Hunter Valley, NSW	The Hunter Resort Pty Ltd
Poole's Rock Vineyard and Winery	Hunter Valley, NSW	PRW Leasing Pty Ltd
Sirens Vineyard	Margaret River, WA	Foster's Australia Limited
Cool climate vineyards total		
Warm climate vineyards		
Qualco East Vineyard	Riverland, SA	Australian Vintage Limited
Waikerie Vineyard	Riverland, SA	Australian Vintage Limited
Balranald Vineyard	Riverina, NSW	Australian Vintage Limited
Cocoparra and Woods Vineyards	Riverina, NSW	Foster's Australia Limited
Gundagai Vineyard[2]	Gundagai, NSW	Greenvalley Properties Pty Ltd
Stephendale Vineyard	Riverina, NSW	Warburn Estate (Aust) Pty Ltd
Whitton Vineyard	Riverina, NSW	Australian Vintage Limited
Del Rios Vineyard	Sunraysia, VIC	Australian Vintage Limited
Warm climate vineyards total		
Australian portfolio total		
New Zealand portfolio		
Crownthorpe Vineyard	Hawkes Bay, NZ	Delegat's Wine Estate Limited
Dashwood Vineyard	Marlborough, NZ	Delegat's Wine Estate Limited
Gimblett Gravels Vineyards	Hawkes Bay, NZ	Delegat's Wine Estate Limited
Rarangi Vineyard	Marlborough, NZ	Delegat's Wine Estate Limited
New Zealand portfolio total		
Total		

*NZD/AUD 1.2283.

[1] Marketed for sale or lease.

[2] Held for sale.

[3] Weighted Average Lease Expiry (years).

Total area (ha)	Planted area (ha)	Occupancy by income	WALE[3]	Current independent valuation date	Fair value ($m)	Carrying value ($m)	Passing yield
37	29	100%	1.0	Dec-09	1.27	1.27	
54	42	100%	2.6	Jun-10	2.50	2.50	
204	131	100%	5.1	Jun-10	10.60	10.60	
573	484	100%	3.0	Dec-09	32.00	32.00	
109	74	100%	1.0	Dec-09	5.56	5.56	
28	17	100%	2.6	Jun-10	1.15	1.15	
40	1	17%	1.9	Jun-10	1.50	1.50	
21	10	100%	4.4	Jun-10	5.70	5.70	
66	44	100%	1.9	Jun-10	2.06	2.06	
1,132	**831**	**97.9%**	**3.2**		**62.34**	**62.34**	**13.9%**
214	174	100%	5.5	Jun-10	6.50	5.79	
43	39	100%	2.8	Dec-09	1.53	1.22	
547	463	100%	6.4	Jun-10	23.75	21.59	
561	261	100%	2.8	Jun-10	10.70	10.03	
331	236	100%	0.2	Jun-10	2.37	1.21	
666	631	100%	7.2	Jun-10	23.75	23.75	
102	97	100%	4.8	Jun-10	4.20	3.60	
1,048	905	100%	6.0	Jun-10	43.60	40.48	
3,511	**2,806**	**100.0%**	**5.3**		**116.40**	**107.67**	**15.0%**
4,643	**3,637**	**99.3%**	**4.6**		**178.74**	**170.01**	**14.6%**
361	291	100%	0.8	Jun-10	19.56*	19.56*	
201	168	100%	2.3	Jun-10	17.91*	17.91*	
44	39	100%	0.8	Jun-10	4.71*	4.71*	
142	129	100%	4.3	Jun-10	14.65*	14.65*	
747	**627**	**100.0%**	**2.0**		**56.84**	**56.84**	**10.6%**
5,390	**4,264**	**99.4%**	**4.1**		**235.58**	**226.85**	**13.6%**

Property summaries

Chapel Vineyard

Coonawarra, SA

Property details

Ownership interest	100%
Total area	37 ha
Planted area	29 ha
Tenant	National Viticulture Fund of Australia Pty Ltd
Occupancy	100%
Lease expiry date	June 2011
WALE	1.0 years
Review type/s	N/A
FY10 net rental income[1]	$0.02 million
Date acquired/established	December 2001
Carrying value	$1.3 million
Valuation (fair value)	$1.3 million
Valuation date	December 2009

Property description

The property is located in the Coonawarra region of South Australia, close to the township of Penola. Planted to Cabernet Sauvignon, the grapes are grown by National Viticulture Fund of Australia under contract to Treasury Wine Estates (Foster's Group).

Corryton Park Vineyard

Eden Valley, SA

Property details

Ownership interest	100%
Total area	54 ha
Planted area	42 ha
Tenant	Burge Corp Pty Ltd
Occupancy	100%
Lease expiry date	February 2013
WALE	2.6 years
Review type/s	Fixed annual increase of 1.5%
FY10 net rental income	$0.31 million
Date acquired/established	February 1998
Carrying value	$2.5 million
Valuation (fair value)	$2.5 million
Valuation date	June 2010

Property description

The property is planted mainly to Cabernet Sauvignon. The grapes go into the Grant Burge Wines' premium wine brands, in particular the award winning Corryton Park label.

Miamba Vineyards

Barossa Valley, SA

Property details

Ownership interest	100%
Total area	204 ha
Planted area	131 ha
Tenant	Grant Burge Wines Pty Ltd and Burge Corp Pty Ltd
Occupancy	100%
Lease expiry date	August 2015
WALE	5.1 years
Review type/s	Reviewed annually by CPI with a maximum increase of 1.5%
FY10 net rental income	$1.25 million
Date acquired/established	August 2007
Carrying value	$10.6 million
Valuation (fair value)	$10.6 million
Valuation date	June 2010

Property description

The Miamba vines range in age from 120 years to one year and together provide grapes for many of Grant Burge Wines' premium wine brands, including Shadrach, Miamba, Filsell, Cameron Vale and Meshach brands.

[1] Estimated income based on percentage of grape sales.

Property summaries (continued)

Richmond Grove and Lawsons Vineyards

Padthaway, SA

Property details

Ownership interest	100%
Total area	573 ha
Planted area	484 ha
Tenant	Pernod Ricard Pacific Pty Ltd
Occupancy	100%
Lease expiry date	June 2013
WALE	3.0 years
Review type/s	0.75% fixed increases annually

FY10 net rental income	$4.81 million
Date acquired/established	December 2003
Carrying value	$32.0 million
Valuation (fair value)	$32.0 million
Valuation date	December 2009

Property description

Located in the grape growing region of Padthaway in the south-east of South Australia, both Richmond Grove and Lawsons Vineyards are leased to a subsidiary of one of the world's largest wine companies, Pernod Ricard.

Schuberts Vineyard

Adelaide Hills, SA

Property details

Ownership interest	100%
Total area	109 ha
Planted area	74 ha
Tenant	Australian Vintage Limited
Occupancy	100%
Lease expiry date	July 2011
WALE	1.0 years
Review type/s	Reviewed annually by CPI with a maximum increase of 4%

FY10 net rental income[1]	$0.68 million
Date acquired/established	July 2001
Carrying value	$5.6 million
Valuation (fair value)	$5.6 million
Valuation date	December 2009

Property description

The vineyard is planted to white grape varieties, primarily Sauvignon Blanc and Chardonnay.

Summers Vineyard

Eden Valley, SA

Property details

Ownership interest	100%
Total area	28 ha
Planted area	17 ha
Tenant	Burge Corp Pty Ltd
Occupancy	100%
Lease expiry date	February 2013
WALE	2.6 years
Review type/s	Fixed annual increase of 1.5%

FY10 net rental income	$0.14 million
Date acquired/established	February 1998
Carrying value	$1.2 million
Valuation (fair value)	$1.2 million
Valuation date	June 2010

Property description

The vineyard produces quality grapes for Grant Burge Wines' premium wine brands. Varieties include Chardonnay, Riesling and Pinot Noir.

[1] Prior to allowing for FY10 rental rebate to Australian Vintage Limited.

Hermitage Road Winery

Hunter Valley, NSW

Property details

Ownership interest	100%
Total area	40 ha
Planted area	1 ha
Tenant	The Hunter Resort Pty Ltd
Occupancy	17%
Lease expiry date	June 2021
WALE	1.9 years
Review type/s	Reviewed annually by CPI
FY10 net rental income	$0.06 million
Date acquired/established	October 2001
Carrying value	$1.5 million
Valuation (fair value)	$1.5 million
Valuation date	June 2010

Property description

A lease is in place for the restaurant, cellar door and bar area until 2021. The 3,500 tonne winery is currently untenanted.

Poole's Rock Vineyard and Winery

Hunter Valley, NSW

Property details

Ownership interest	100%
Total area	21 ha
Planted area	10 ha
Tenant	PRW Leasing Pty Ltd
Occupancy	100%
Lease expiry date	November 2014
WALE	4.4 years
Review type/s	Reviewed annually by CPI with a maximum increase of 4%
FY10 net rental income	$0.86 million
Date acquired/established	November 2004
Carrying value	$5.7 million
Valuation (fair value)	$5.7 million
Valuation date	June 2010

Property description

The historic property has a 9.6 ha vineyard of Shiraz vines, a 2,500 tonne winery and a fine cuisine restaurant 'Rock Restaurant'.

Sirens Vineyard

Margaret River, WA

Property details

Ownership interest	100%
Total area	66 ha
Planted area	44 ha
Tenant	Foster's Australia Limited
Occupancy	100%
Lease expiry date	May 2012
WALE	1.9 years
Review type/s	Reviewed annually by CPI with a minimum increase of 1% and a maximum of 5%
FY10 net rental income	$0.31 million
Date acquired/established	October 2002
Carrying value	$2.1 million
Valuation (fair value)	$2.1 million
Valuation date	June 2010

Property description

The Sirens Vineyard produces exceptional quality fruit that goes into Treasury Wine Estates (Foster's Group) Fifth Leg and Devil's Lair wine brands.

Property summaries (continued)

Qualco East Vineyard

Riverland, SA

Property details

Ownership interest	100%
Total area	214 ha
Planted area	174 ha
Tenant	Australian Vintage Limited
Occupancy	100%
Lease expiry date	December 2015
WALE	5.5 years
Review type/s	Fixed annual increases of 1.5%. Each fifth anniversary reviewed to reflect any change in finance costs
FY10 net rental income	$1.00 million
Date acquired/established	December 2003
Carrying value	$5.8 million
Valuation (fair value)	$6.5 million
Valuation date	June 2010

Property description

This large vineyard is situated in the 'engine room' of the South Australian vineyard region. It currently produces grapes for Australian Vintage's broad wine range.

Waikerie Vineyard

Riverland, SA

Property details

Ownership interest	100%
Total area	43 ha
Planted area	39 ha
Tenant	Australian Vintage Limited
Occupancy	100%
Lease expiry date	May 2013
WALE	2.8 years
Review type/s	Reviewed annually by CPI with a maximum increase of 4%
FY10 net rental income[1]	$0.25 million
Date acquired/established	October 1998
Carrying value	$1.2 million
Valuation (fair value)	$1.5 million
Valuation date	December 2009

Property description

The vineyard is located in the heart of the Riverland region. The grapes from this vineyard go into Australian Vintage's wine products.

Balranald Vineyard

Riverina, NSW

Property details

Ownership interest	100%
Total area	547 ha
Planted area	463 ha
Tenant	Australian Vintage Limited
Occupancy	100%
Lease expiry date	November 2016
WALE	6.4 years
Review type/s	Fixed annual increase of 1.5%. Each fifth anniversary reviewed to reflect any change in finance costs
FY10 net rental income	$3.09 million
Date acquired/established	December 2003
Carrying value	$21.6 million
Valuation (fair value)	$23.8 million
Valuation date	June 2010

Property description

Located in the Riverina area on the Murrumbidgee River in NSW, the property is a large scale, high grape tonnage property that is used in Australian Vintage's wine brands.

[1] Prior to allowing for FY10 rental rebate to Australian Vintage Limited.

Cocoparra and Woods Vineyards

Riverina, NSW

Property details

Ownership interest	100%
Total area	561 ha
Planted area	261 ha
Tenant	Foster's Australia Limited
Occupancy	100%
Lease expiry date	April 2013
WALE	2.8 years
Review type/s	Reviewed annually by CPI with a minimum increase of 1%

FY10 net rental income	$1.13 million
Date acquired/established	April 2003
Carrying value	$10.0 million
Valuation (fair value)	$10.7 million
Valuation date	June 2010

Property description

The property is located in the Griffith region which remains one of the strongest vineyard areas due to favourable water allocations from high security water and quality grapes.

Stephendale Vineyard

Riverina, NSW

Property details

Ownership interest	100%
Total area	666 ha
Planted area	631 ha
Tenant	Warburn Estate (Aust) Pty Ltd
Occupancy	100%
Lease expiry date	September 2017
WALE	7.2 years
Review type/s	Reviewed annually by CPI with a maximum increase of 1.52%

FY10 net rental income	$2.70 million
Date acquired/established	September 2007
Carrying value	$23.8 million
Valuation (fair value)	$23.8 million
Valuation date	June 2010

Property description

This large scale commercial vineyard is watered via high security water licences with Murrumbidgee River Irrigation. The property is one of the largest in the region and supplies grapes used in the tenant's Warburn Estate, Gossips and Stephendale wines.

Whitton Vineyard

Riverina, NSW

Property details

Ownership interest	100%
Total area	102 ha
Planted area	97 ha
Tenant	Australian Vintage Limited
Occupancy	100%
Lease expiry date	April 2015
WALE	4.8 years
Review type/s	Reviewed annually by CPI with a maximum increase of 1.5%

FY10 net rental income[1]	$0.44 million
Date acquired/established	April 2005
Carrying value	$3.6 million
Valuation (fair value)	$4.2 million
Valuation date	June 2010

Property description

Located in the Riverina near Griffith, this vineyard has strong water entitlement coverage. The main varieties include Chardonnay, Semillon and Shiraz.

[1] Prior to allowing for FY10 rental rebate to Australian Vintage Limited.

Property summaries (continued)

Del Rios Vineyard

Sunraysia, VIC

Property details

Ownership interest	100%
Total area	1,048 ha
Planted area	905 ha
Tenant	Australian Vintage Limited
Occupancy	100%
Lease expiry date	June 2016
WALE	6.0 years
Review type/s	Fixed annual increase of 1.5%. Each fifth anniversary reviewed to reflect any change in finance costs
FY10 net rental income	$6.68 million
Date acquired/established	June 2003
Carrying value	$40.5 million
Valuation (fair value)	$43.6 million
Valuation date	June 2010

Property description

The vineyard is one of the largest in Australia. The main varieties are Chardonnay, Merlot and Sauvignon Blanc, and the grapes go into a range of Australian Vintage's wine products.

Crownthorpe Vineyard

Hawkes Bay, New Zealand

Property details

Ownership interest	100%
Total area	361 ha
Planted area	291 ha
Tenant	Delegat's Wine Estate Limited
Occupancy	100%
Lease expiry date	April 2011
WALE	0.8 years
Review type/s	Reviewed annually by New Zealand CPI
FY10 net rental income	$2.24 million
Date acquired/established	April 2001
Carrying value	$19.6 million
Valuation (fair value)	$19.6 million
Valuation date	June 2010

Property description

One of the largest vineyards in Hawkes Bay, Crownthorpe Vineyard was developed in conjunction with Delegat's Wine Estate. The varieties include Merlot and Chardonnay and go into the Oyster Bay brand.

Dashwood Vineyard

Marlborough, New Zealand

Property details

Ownership interest	100%
Total area	201 ha
Planted area	168 ha
Tenant	Delegat's Wine Estate Limited
Occupancy	100%
Lease expiry date	October 2012
WALE	2.3 years
Review type/s	Reviewed annually by New Zealand CPI
FY10 net rental income	$1.69 million
Date acquired/established	October 2002
Carrying value	$17.9 million
Valuation (fair value)	$17.9 million
Valuation date	June 2010

Property description

Dashwood Vineyard is located in the Awatere Valley sub-region of the world famous Marlborough region of New Zealand's South Island. Planted to Sauvignon Blanc, Pinot Noir and Chardonnay, grapes from this vineyard go into Delegat's Oyster Bay branded wines.

Gimblett Gravels Vineyards

Hawkes Bay, New Zealand

Property details

Ownership interest	100%
Total area	44 ha
Planted area	39 ha
Tenant	Delegat's Wine Estate Limited
Occupancy	100%
Lease expiry date	April 2011
WALE	0.8 years
Review type/s	Reviewed annually by New Zealand CPI

FY10 net rental income	$0.59 million
Date acquired/established	April 2001
Carrying value	$4.7 million
Valuation (fair value)	$4.7 million
Valuation date	June 2010

Property description

As part of the famous Gimblett Gravels sub-region of Hawkes Bay in New Zealand's North Island, the property is planted mainly to Merlot and Cabernet Sauvignon grape varieties. Grapes from this vineyard go into Delegat's Oyster Bay branded wines.

Rarangi Vineyard

Marlborough, New Zealand

Property details

Ownership interest	100%
Total area	142 ha
Planted area	129 ha
Tenant	Delegat's Wine Estate Limited
Occupancy	100%
Lease expiry date	September 2014
WALE	4.3 years
Review type/s	Reviewed annually by New Zealand CPI

FY10 net rental income	$1.28 million
Date acquired/established	June 2004
Carrying value	$14.7 million
Valuation (fair value)	$14.7 million
Valuation date	June 2010

Property description

Located in the main Wairau Valley of the Marlborough region, the property is planted to the region's world famous Sauvignon Blanc grape variety. Grapes from this vineyard go into Delegat's Oyster Bay branded wines.

About Challenger

Challenger Financial Services Group (Challenger) is an investment management firm with assets under management of more than $23.9 billion at balance date.

Originally established in 1985, the merger between Challenger and CPH Investment Corporation in 2003 created the current Challenger Financial Services Group, listed on the Australian Securities Exchange (ASX) (ASX: CGF) in 2003[1].

Challenger has a focused investment model with two complementary businesses: Funds management and Life. Challenger prides itself as a retirement income specialist providing annuities and annuity-like products to retirees and other investors seeking the security and certainty of products with a guaranteed income stream, a low cost and low complexity. Challenger is the largest provider of retail annuities in Australia, managing more than $7.5 billion in assets for more than 65,000 annuitants[2].

Challenger's Funds management business develops, distributes and manages listed and unlisted investment products and services to retail and institutional clients across a wide range of asset classes and investment styles. Challenger also acts as a gateway to other investment managers and a number of partially owned boutique funds.

Challenger has a strong co-investment philosophy, and has invested alongside unitholders in all of its specialised funds, creating strong alignment between manager and investor.

[1] Prior to merger, listed as Challenger International Limited (ASX: CIL).

[2] As at 30 June 2010.

Corporate governance statement

The Responsible Entity's approach to corporate governance

The Board of the Responsible Entity (the Responsible Entity) recognises its duties and obligations to stakeholders to implement and maintain a robust system of corporate governance. The Responsible Entity believes that the adoption of good corporate governance adds real value to stakeholders and enhances investor confidence.

The Responsible Entity determines the most appropriate corporate governance arrangements for Challenger Wine Trust (CWT), taking into consideration Australian and international standards. This statement reflects the Responsible Entity's corporate governance system as at August 2010.

This statement reports against the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' released in August 2007. As required by the ASX Listing Rules, this statement sets out the extent to which CWT has followed the principles or, where appropriate, indicates a departure from them with an explanation.

Principle 1
Lay solid foundations for management and oversight

The role of the Responsible Entity and delegations

The role of the Responsible Entity is to manage CWT in the unitholders' best interests in accordance with CWT's constitution and the Corporations Act 2001 (Cth) (Corporations Act). The Responsible Entity is accountable to unitholders for the activities and performance of CWT by overseeing the development of sustainable fund value within an appropriate framework of risk, and with regard for all stakeholder interests. The Responsible Entity has identified the key functions which it has reserved for itself. These duties are outlined below and set out in the Board Charter, a copy of which is available on CWT's website **www.challenger.com.au/cwt**:

- approval of the strategy and annual budgets of CWT;
- approval of accounting policies and financial reports of CWT;
- approval of corporate governance structure and monitoring of the performance and effectiveness of the corporate governance policies and procedures;
- oversight of the establishment and maintenance of effective risk management policies and processes;
- evaluation and approval of acquisitions and investments and other corporate actions of CWT that are outside the authority delegated to the Investment Committees;
- the power to issue units in a Scheme;
- the issuance of a Product Disclosure Statement;
- the monitoring of the performance of the Manager; and
- the evaluation of the performance of the Board, Board Committees and individual Directors.

The Board has established Committees to assist in carrying out its responsibilities and to consider certain issues and functions in detail. The Board Committees are discussed in Principle 2 below.

Non-executive Directors are issued with formal letters of appointment governing their role and responsibilities. The responsibilities of the Chair and the Directors are also set out in the Board Charter.

Management responsibility

The Corporations Act empowers the Responsible Entity to engage agents on its behalf; however, it remains fully responsible for the actions of those agents. The Responsible Entity has appointed Challenger Management Services Limited to manage CWT. Challenger Management Services Limited and the Responsible Entity are wholly owned subsidiaries of Challenger Life Holdings Limited, which is wholly owned by Challenger Financial Services Group Limited (CFSG).

The Board has delegated to CWT's Fund Manager the authority and powers necessary to implement the strategies approved by the Board for CWT and to manage the business affairs of CWT within the policies and specific delegation limits specified by the Board from time to time.

CWT's constitution governs, among other things, how CWT will operate, how the Responsible Entity remuneration will be calculated and the rights of unitholders. The Responsible Entity must also prepare and lodge a compliance plan with the Australian Securities and Investments Commission (ASIC). The compliance plan sets out the mechanism the Responsible Entity has in place to ensure compliance with CWT's constitution and the Corporations Act.

Relationship with Challenger Financial Services Group

The corporate governance structure adopted by the Responsible Entity reflects its role as the Responsible Entity of CWT. In several ways, this will be different to the corporate governance structure of a listed company.

CFSG has expertise in developing and managing specialist investment funds in areas of property and infrastructure. The Responsible Entity makes extensive use of the resources available within CFSG in managing CWT.

Corporate governance statement (continued)

The resources provided to assist the Responsible Entity in fulfilling its role include the services of senior executives and responsible officers. CFSG, in consultation with the Responsible Entity, may also appoint appropriately skilled Independent Directors and executives to ensure that CWT continues to be managed to maximise returns to unitholders within CWT's stated strategy and mandate.

Executive performance assessment

The performance of the Joint Chief Executive, Funds Management and senior executives is reviewed at least annually against appropriately agreed and documented performance objectives and measures, consistent with the Performance Management Framework that applies to all Challenger employees. All Challenger Group employees are also assessed against the Challenger Corporate Principles (refer Principle 3 below).

Performance evaluations for the Joint Chief Executive, Funds Management and senior executives have taken place in respect of the 2010 reporting period in accordance with the above process.

Principle 2 Structure the Board to add value

Membership of the Board

The Board comprises Directors who possess an appropriate range of skills, experience and expertise to:

- have a proper understanding of, and competence to deal with, the current and emerging issues of the business;
- exercise independent judgement;
- encourage enhanced performance of the Fund; and
- effectively review and challenge the performance of management.

The Responsible Entity's constitution provides for a minimum of three Directors and a maximum of 12 Directors. The table below summarises the current composition of the Board. Background details of each Director are set out in the Directors' report.

Nominations and appointment of new Directors

The Responsible Entity is a wholly owned subsidiary of CFSG. As a result, the Board has not appointed a formal nominations committee.

Name	Position	Independent	First appointed
Brenda Shanahan	Chair	Yes	2007
Michael Cole	Non-executive Director	Yes	2008
Ian Martens	Non-executive Director	Yes	2003
Geoff McWilliam	Non-executive Director	Yes	2006
Ian Moore	Non-executive Director	Yes	2005
Brendan O'Connor	Executive Director	No	2008
Rob Woods	Executive Director	No	2004

The roles of Chair and Chief Executive are not exercised by the same person.

This represents a departure from the ASX principles. The Directors are appointed by CFSG, having regard to maintaining a majority of Independent Directors and to ensuring an appropriate balance of skills, experience and competence on the Board. All new Directors are provided with an appropriate induction into the Responsible Entity's business.

Review of Board performance

The Board Charter sets out the requirement for a formal review of the Board and all individual Directors' performance at least every two years. A review of the Board and Directors' performance was conducted in June 2010. The review involves consideration of the effectiveness of the Directors individually, and the effectiveness of the Board and its committees, having regard to the knowledge, skills and experience of the Directors. The outcomes of the review were provided for discussion by the Board. The review indicated that the Board is performing soundly.

Independent Directors

The Responsible Entity has adopted an Independence Policy that states that an Independent Director should be independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Board regularly considers and assesses the independence of each Director in light of the interests and information which Directors disclose. In accordance with the Corporations Act, Directors are required to advise the Responsible Entity of any material personal interests they have in a matter.

In assessing independence, the Board will have regard to whether the Director has any of the following relationships with the Responsible Entity:

1. is a substantial shareholder (as defined by section 9 of the Corporations Act) of the Responsible Entity, or is a Director or officer of, or otherwise associated directly with, a substantial shareholder of the Responsible Entity;
2. is employed, or has previously been employed in an executive capacity by a Challenger Group company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
3. has within the last three years been a principal of a material professional adviser or a material consultant to the Responsible Entity or another Challenger Group company, or an employee materially associated with the service provided;
4. is a material supplier or customer of the Responsible Entity or other Challenger Group company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
5. has a material contractual relationship with the Responsible Entity or another Challenger Group company other than as a Director.

The Responsible Entity will state its reasons if it considers a Director to be independent notwithstanding the existence of a relationship of the kind referred to in paragraphs 1 – 5 above.

In accordance with the ASX Corporate Governance Guidance for Independence, there is a majority of Independent Directors on the Board.

Conflicts of interest

In accordance with the Board Charter and the Corporations Act, any Director with a material personal interest in a matter being considered by the Board must declare such an interest and may only be present when the matter is being considered at the Board's discretion. Directors with a material interest may not vote on any matter in which they have declared a personal interest.

Meetings of the Board

During the year, the Board generally meets approximately every six weeks. In addition, the Board may meet whenever necessary to deal with specific matters needing attention between scheduled meetings. The Chief Executive, in consultation with the Chair, establishes the meeting agendas to ensure adequate coverage of strategic, financial and material risk areas throughout the year. The Fund Manager and senior management are invited to attend Board meetings and are available for contact by Non-executive Directors between meetings. The Non-executive Directors hold a private session without any executive involvement at least annually.

Board access to information and advice

All Directors have unrestricted access to the Responsible Entity's records and information. The Company Secretary provides Directors with guidance on corporate governance issues and developments and on all other matters reasonably requested by the Directors and monitors compliance with the Board Charter. The Board or each individual Director has the right to seek independent professional advice at the Company's expense to assist them to discharge their duties. Whilst the Chair's prior approval is required, it may not be unreasonably withheld or delayed.

Board Committees

To assist it in undertaking its duties, the Board has established the following Committees:

- Audit and Compliance Committee
- Property Investment Committee
- Infrastructure Investment Committee[1].

Each Committee has its own charter. A copy of the Audit and Compliance Committee Charter is available on CWT's website at **www.challenger.com.au/cwt**.

[1] Not applicable to CWT.

Corporate governance statement (continued)

Directors' meetings

Director	CLIL Board		Audit and Compliance Committee		Property Investment Committee		Infrastructure Investment Committee*	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
B Shanahan	16	16	9	9				
I Martens	16	15	9	9	5	5		
I Moore	16	15	9	9			6	6
G McWilliam	16	15			5	5		
M Cole	16	16					6	6
R Woods	16	16					6	4
B O'Connor	16	16						

* Not applicable to CWT.

Investment Committees

The Board has established the Property Investment Committee and the Infrastructure Investment Committee to assist the Board to review and monitor investments by the Funds, including CWT.

The Committees each consist of at least three members, including two Non-executive Directors, one of whom will act as chairman, and relevant executives of the Challenger Group.

In accordance with their respective charters, the Committees are responsible for:

- reviewing and approving of Fund investments within the authority delegated by the Board;
- monitoring and reporting of market, liquidity and credit risk exposure;
- monitoring of investment policies and limits; and
- reporting on the above to the Board.

Principle 3
Promote ethical and responsible decision-making

The Responsible Entity's commitment to ethical and responsible decision-making is reflected in the internal policies and procedures, underpinned by the Challenger Corporate Principles of:

- commercial ownership;
- compliance;
- creative customer solutions;
- working together; and
- integrity.

Code of Conduct

Challenger has adopted a Code of Conduct which applies to all Directors, executives, management and employees of the Challenger Group. The Code of Conduct articulates the standards of honest, ethical and law-abiding behaviour expected by Challenger. Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not comply with the Code of Conduct, other policies and procedures in place, or other regulatory requirements or laws. A copy of the Code can be found at www.challenger.com.au/cwt.

Political donations policy

Challenger Group has adopted a policy of not making political donations in any country or jurisdiction of operation.

Staff trading policy

Directors and staff of the Challenger Group are subject to restrictions under the law relating to dealing in securities, including the securities issued by the Challenger Group and listed funds, if they are in possession of insider information. The Board has approved the Challenger Group's Staff Trading Policy, which prescribes the manner in which staff can trade in the securities issued by the Challenger Group. A summary of the policy is available on CWT's website. The policy applies to all Directors and staff and places restrictions and reporting requirements, including the imposition of blackout periods for trading in Challenger securities and requiring pre-trade approval. Those staff designated as potentially having access to insider information are required to seek prior approval to trade in other securities. The policy prohibits margin lending over the Challenger Group securities, including CWT.

Principle 4 Safeguard integrity in financial reporting

Integrity of financial reporting

The Board has the responsibility to ensure truthful and factual presentation of CWT's financial position. The Board has established an Audit and Compliance Committee to assist the Board to focus on issues relevant to the integrity of CWT's financial reporting. In accordance with its charter, the Audit and Compliance Committee must have at least three members and is comprised of all Non-executive Directors and a majority of independent members. The Committee is chaired by an Independent Director, who is not Chair of the Board. The background details of the Audit and Compliance Committee members are set out in the Directors' report. The Committee typically meets at least four times a year and additional meetings are scheduled as required. The members' names and attendance at meetings are set out on page 20 of the corporate governance statement.

The Committee oversees the financial reporting process, the system of internal control and risk management, the audit process and the Responsible Entity's processes for monitoring compliance with laws and regulations. The Committee also assists the Board in discharging its responsibilities under the Compliance Plan adopted by the Responsible Entity. The Committee works on behalf of the Board with the external auditor and reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

A copy of the Audit and Compliance Committee Charter is available on CWT's website.

Declaration by the Fund Manager and Chief Financial Officer

The Fund Manager and Chief Financial Officer periodically provide formal assurance statements to the Board that:

- the Fund's financial statements present a true and fair view of the Fund's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

Independent external audit

The Board requires the independent external audit to:

- provide stakeholders with assurance over the true and fair view of the financial reports; and
- ensure accounting practices comply with applicable accounting rules and policies.

CWT'S independent external auditor is Ernst & Young (E&Y). External auditors are required to rotate the engagement partner assigned to the Challenger Group on a five-year basis. Under this policy, the lead audit engagement partner assigned to the Challenger Group rotated at the conclusion of the 2007 financial reporting period.

The external auditor will be invited to attend general meetings of CWT and be available to answer questions in relation to the conduct of its audit.

Principle 5 Make timely and balanced disclosure

Continuous disclosure policy

The Responsible Entity is committed to ensuring that all investors have equal and timely access to material information concerning CWT and that CWT announcements are factual and presented in a clear and objective manner.

The Board has approved and implemented a Continuous Disclosure Policy. The policy is designed to ensure compliance with the Corporations Act and ASX Listing Rules continuous disclosure requirements. The Responsible Entity has a Continuous Disclosure Committee, which is responsible for:

- making decisions on what should be disclosed publicly under the Continuous Disclosure Policy;
- maintaining a watching brief on information; and
- ensuring that disclosure is made in a timely and efficient manner.

Principle 6 Respect the rights of investors

The Responsible Entity recognises the importance of enhancing our relationship with investors by:

- communicating effectively; and
- providing ready access to clear and balanced information about CWT.

As set out in Principle 5, it is CWT's policy that material information concerning the Fund will be announced to the market in a timely and objective manner. Following release to the market, the Responsible Entity publishes annual and half-yearly reports, announcements, media releases and other relevant information on its website at www.challenger.com.au/cwt. Internet web-casting is provided for market briefings to encourage participation from all stakeholders, regardless of their location. CWT also encourages greater use of electronic media by providing investors with greater access to the electronic receipt of reports and meeting notices. CWT also provides a facility to ask questions about the Fund and have them answered directly via electronic means.

The Responsible Entity is not required to hold annual general meetings for CWT; however, it may convene general meetings from time to time. Where the Responsible Entity convenes a general meeting for CWT, unitholders are encouraged to attend and participate in such meetings. The Responsible Entity will provide unitholders with details of any proposed meeting well in advance of the relevant date.

Principle 7
Recognise and manage risk

Risk management and compliance

The management of risks is fundamental to the Fund's business and to building unitholder value. The Responsible Entity recognises the broad range of risks which apply to CWT as a participant in the property industry, including, but not limited to, market risk, funding and liquidity risk, credit risk, investment, strategic and business risk, reputation, licence (compliance) and operational risk. The Responsible Entity is responsible for determining the Fund's risk management strategy. Management is responsible for implementing the Responsible Entity's strategy and for developing policies and procedures to identify, manage and mitigate risks across the whole of CWT's operations.

The Responsible Entity has adopted a Risk Management Framework. The Responsible Entity utilises centralised risk management functions to support business managers to manage and mitigate risks across the Fund. Operational, licence (compliance), credit, market and funding and liquidity risks are driven through centralised teams, providing both scale and knowledge concentration benefits. The central functions have direct line of sight into the businesses, with reporting and oversight for functions within the businesses focused on their specific activities. Management is accountable for strategic, investment and business risk management within the delegated authority framework established by the Challenger Group Board. The framework is underpinned with a robust set of policies, delivery plans and procedures.

The framework and policies are developed and approved by management, reviewed and approved by the Responsible Entity's Audit and Compliance Committee and made available to all staff of the Challenger Group. The Challenger Group risk management functions have day-to-day responsibility for monitoring the implementation of the framework and policy, with regular reporting provided to the Responsible Entity's Audit and Compliance Committee on the adequacy and effectiveness of management controls for material business risk. The Committee provides reporting to the Board on compliance with the framework and policies. A summary of the Challenger Group Risk Management Framework can be found at the Fund's website.

The Audit and Compliance Committee reviews the effectiveness of the risk management and internal control system on an annual basis.

Internal audit

Internal audit services were provided to CWT by KPMG during the period.

The Audit and Compliance Committee oversees the scope of the internal audit and monitors the progress of the internal audit work program. The Committee receives reports from internal audit at each meeting and monitors management's responsiveness to internal audit findings and recommendations. The internal audit function is independent of the external auditor. The internal audit function reports directly to the Audit and Compliance Committee.

Assurance

During the period, the Board has received formal assurance from the Fund Manager and the Chief Financial Officer that:

- CWT's financial statements present a true and fair view of the financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

This assurance forms part of the process by which the Board determines the effectiveness of its risk management and internal control systems in relation to financial reporting risks.

Principle 8
Remunerate fairly and responsibly

Remuneration

The Responsible Entity is entitled to be paid fees under the terms of the constitution for managing CWT. The details of fees paid in the period are set out in the notes to the financial statements on page 69. All executives involved in the management of CWT are employees of the Challenger Group and are not remunerated by CWT.

As CWT does not pay any remuneration directly to executives of the Responsible Entity, the Responsible Entity considers that the requirement to disclose its remuneration policies, to establish a remuneration committee and to distinguish the nature of executive remuneration from that of Non-executives are not relevant to CWT. In addition, CWT does not have equity based executive remuneration in operation and thus the disclosure required by Principle 8 is not relevant to CWT. These represent departures from the ASX principles.

Management fees

Management fees and performance fees are payable to Challenger Management Services Limited in accordance with the management agreement. The details of fees paid in the period are set out in the notes to the financial statements on page 69.

Non-executive Director fees

Non-executive Directors are paid an annual fee for their service on the Board and all Committees of the Board. Non-executive Directors are not entitled to participate in incentive schemes. There are no termination payments to Non-executive Directors on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. All Non-executive Director remuneration is paid by the Responsible Entity and is not an expense of CWT.

The staff trading policy prohibits any executive or staff member from entering into a transaction that is designed or intended to hedge that component of their unvested remuneration which is constituted by Challenger securities.

Directors' report

The Directors of Challenger Listed Investments Limited (CLIL) (ABN 94 055 293 644), the Responsible Entity of the Challenger Wine Trust (CWT) (ARSN 092 960 060), submit their report together with the financial report for CWT, for the year ended 30 June 2010.

Principal activities

Challenger Wine Trust invests in a portfolio of high quality strategically located vineyards and wineries that are leased primarily to wine companies. The vineyards are located across Australia and New Zealand.

Trust information

CLIL, the Responsible Entity of the Trust, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 15, 255 Pitt Street, Sydney, NSW 2000.

Directors' summary

The following persons held office as Directors of CLIL during the year and up to the date of this report:

- Brenda Shanahan – *Chair*
- Michael Cole
- Ian Martens
- Geoff McWilliam
- Ian Moore
- Brendan O'Connor
- Rob Woods

Qualifications, experience and special responsibilities of Directors and Key Management Personnel

CLIL has considerable expertise in the infrastructure, property and funds management sectors as illustrated by the experience of its Directors.

The names and details of the Directors in office at the date of this report are as follows.

Directors

Brenda Shanahan
B Comm, AICD
Chair
Non-executive Director, Independent

Ms Shanahan is a Graduate of Melbourne University in Economics and Commerce and a Fellow of the Institute of Directors. She has a research and institutional background in finance in Australia and overseas economies and share markets. She has held executive positions in stock broking, investment management and an actuarial firm.

Ms Shanahan is a Non-executive Director of JM Financial Group Limited and Non-Executive Chairman of Clinuvel Pharmaceuticals Ltd. Ms Shanahan is a former Director of Challenger Financial Services Group Limited. Ms Shanahan is currently Chair of St Vincent's Medical Research Institute in Melbourne.

Ms Shanahan is a member of the CLIL Audit and Compliance Committee.

Directors

Michael Cole
B Ec, M Ec, F Fin
Non-executive Director, Independent

Mr Cole is a Graduate of the University of Sydney in Economics and possesses a Master of Economics. He is also a Fellow of the Financial Services Institute of Australia.
Mr Cole has over 30 years experience in the investment banking and funds management industry. He was an Executive Director at Bankers Trust Australia for over a decade. 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 Corporation. In 2007 Mr Cole retired as Chair of SAS Trustee Corporation, a position he held from 2000.

Mr Cole is a member of the CLIL Infrastructure Investment Committee.

Ian Martens
FCA, FAICD
Non-executive Director, Independent

Mr Martens is a chartered accountant and was senior partner at BDO Chartered Accountants (SA), where he is now a consultant. Throughout his career, Mr Martens has advised a broad range of public and private companies on financial measurement and reporting, strategy development and evaluation, and merger and acquisitions activities.

Mr Martens retired as Chairman of RAA Insurance Ltd in March 2008 and as a Director of the Royal Automobile Association of SA Inc in February 2009. He was appointed the Chairman of The Creeks Pipeline Company Ltd in January 2009.

Mr Martens is Chairman of the CLIL Audit and Compliance Committee and a member of the CLIL Property Investment Committee.

Geoff McWilliam
BE (Civil)
Non-executive Director, Independent

Mr McWilliam has had an extensive career in the Australian property investment industry. Mr McWilliam spent 10 years to 2005 building the Commonwealth Bank's property funds management and corporate real estate division, Colonial First State Property. As head of this business, he was responsible for the management and performance of over $16 billion in listed and unlisted property funds. Prior to this, Mr McWilliam spent 23 years with Lend Lease Corporation in a variety of senior management roles including international postings. Over the last five years, Mr McWilliam has been appointed to various property groups as an Independent Director.

Mr McWilliam is a Director of Lend Lease Funds Management Limited, Lend Lease Asian Retail Investments Limited, Lend Lease Real Estate Investments Limited, St Laurence Limited (NZ), the Gandel Group Limited, ProTen Limited, Trinity Funds Management Limited and the Dusseldorp Skills Forum Incorporated, and is a Fellow of the Australian Property Institute.

Mr McWilliam is Chairman of the CLIL Property Investment Committee.

Directors' report (continued)

Directors

Ian Moore
BA, FIA, FIAA
Non-executive Director, Independent

Mr Moore has extensive experience in investment banking and structured finance. Mr Moore was Head of Corporate Finance at Bankers Trust Investment Bank, where he was responsible for all forms of corporate debt, project debt and asset-backed debt financings. Prior to that, Mr Moore was Head of Fixed Income at Bankers Trust, where he was responsible for the trading and placement of all government, corporate and securitised debt. Mr Moore was a member of Bankers Trust's Investment Bank Management Committee and a partner of Bankers Trust globally. Mr Moore is currently a Fellow of the Institute of Actuaries of Australia and the Institute of Actuaries in London.

Mr Moore is a member of the CLIL Audit and Compliance Committee and Chairman of the CLIL Infrastructure Investment Committee.

Brendan O'Connor
B Bus, CA, GAICD
Executive Director

Mr O'Connor is the Chief Financial Officer for Challenger's Funds Management division. Mr O'Connor is responsible for the services that support the Funds Management business, as well as the financial management and reporting for the Funds Management division's funds, including the Challenger Wine Trust.

Prior to joining Challenger in 2006, Mr O'Connor held several senior finance roles with Westpac Banking Corporation. Prior to this, Mr O'Connor spent over six years at KPMG.

Rob Woods
B Comm
Executive Director

Mr Woods is Joint Chief Executive, Funds Management at Challenger. The Funds Management business manages $20.2 billion of property, infrastructure, fixed income and equities for third party investors and Challenger Life Company.

Mr Woods joined Challenger in 2003 and was initially responsible for Challenger's Life business and the creation of Challenger's Asset Management business, before assuming his current role in 2008.

Prior to joining Challenger, Mr Woods held senior investment banking roles at Zurich Capital Markets and Bankers Trust.

Mr Woods is a member of the CLIL Infrastructure Investment Committee.

Key Management Personnel

Trent Alston
B Build (Hons), GMQ, AMP
Head of Real Estate

Mr Alston joined Challenger in February 2006. As Head of Real Estate, Mr Alston is responsible for Challenger's property funds management and investment strategy, and for the management and performance of all Challenger wholesale property vehicles.

Prior to joining Challenger, Mr Alston spent seven years at Colonial First State, most recently in the role of General Manager, Wholesale Funds in the property division. In this role, Mr Alston was responsible for the management and performance of a portfolio of unlisted funds and client mandates valued at in excess of $8.0 billion.

Mr Alston has over 20 years experience in the property investment industry, including roles in property funds management, corporate real estate, development and project management with Colonial First State and Lend Lease.

Nick Gill
B Ag Econ, MBA, FCIS
Fund Manager, Challenger Wine Trust (CWT)

Mr Gill joined Challenger in November 2006 in the role of Fund Manager and has specific responsibility for ongoing management of CWT. This includes responsibility for CWT strategy, financial and investment performance and transaction evaluation and execution.

Mr Gill has over 23 years experience in the corporate agribusiness and investment industries, including roles in corporate strategy, commercial management and investment with Macquarie Bank, SunRice Limited, Twynam Agricultural Group, Colly Cotton Limited and Rural Property Trust.

Company Secretary

Chris Robson
BA, LLB (Hons), LLM
General Counsel and Group Company Secretary

Mr Robson is a qualified solicitor and is the Group Company Secretary and General Counsel of the Challenger Financial Services Group Limited. He is also a non-independent Director of certain subsidiaries of the Challenger Group. His responsibilities include leading the legal and company secretariat teams within the Business Services division of the Challenger Group.

Suzie Koeppenkastrop
B Comm, LLB, LLM
Company Secretary

Ms Koeppenkastrop is a qualified solicitor and Head of the Company Secretariat team at Challenger. Ms Koeppenkastrop has over 14 years experience in legal and company secretarial roles in the financial services industry.

Review and results of operations

Consolidated profit from operating activities (before tax, impairments, asset sales, fair value movements, and foreign exchange) for the year ended 30 June 2010 was $15.3 million (2009: $16.5 million). The consolidated net loss after tax for the year ended 30 June 2010 attributable to unitholders of CWT was $14.7 million (2009: net loss $24.3 million). The following table provides an analysis of the result:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Revenue from operating activities	31,324	33,495
Profit from operating activities before tax	15,286	16,504
Income tax expense	(120)	(367)
Net fair value movement in non-current assets held at the end of the year [(i)]	(26,179)	(39,715)
Net (loss)/profit attributable to unitholders of CWT	(14,709)	(24,331)
Distribution to unitholders 2010: 4.25 cents per unit (2009: 7.10 cents per unit)	**7,443**	**12,092**

(i) The net fair value movement in non-current assets for the year consists of:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
(Decrease)/increase from revaluation of non-current assets	(28,062)	(36,950)
Increase/(decrease) in carrying value due to recognising intangible assets at cost	1,883	(2,765)
Net fair value movement in non-current assets held at the end of the year	**(26,179)**	**(39,715)**

Distributions

An interim distribution of 3.25 cents per unit equal to $5.5 million (2009: 5.90 cents per unit equal to $10.1 million) was paid to unitholders on 9 February 2010. On 10 June 2010, CWT announced an estimated final distribution of 1.00 cent per unit equal to $1.9 million (2009: 1.20 cents per unit equal to $2.0 million) to be paid on 30 August 2010.

CWT reactivated its Distribution Reinvestment Plan (DRP) on 30 November 2009. The issue price for the half year ended 31 December 2009 DRP was 27.07 cents. The interim DRP was underwritten to an amount equal to the distribution less the Challenger Financial Services Group (CFSG) committed amount of 27.74%.

The DRP was deactivated for the final distribution for the six months ended 30 June 2010.

An analysis of distributions is contained in the following table:

	Consolidated 30 June 2010 cents	Consolidated 30 June 2009 cents
(a) Distributions declared and paid during the year to unitholders		
Interim distributions in respect of the year ended 30 June 2010 paid on 9 February 2010 (2010: 170,312,633 units totalling $5.5 million, 2009: 170,312,633 units totalling $10.1 million)	3.25	5.90
(b) Distributions proposed and recognised as a liability		
Final distribution in respect of the year ended 30 June 2010 to be paid on 30 August 2010 (2010: 190,759,842 units totalling $1.9 million, 2009: 170,312,633 units totalling $2.0 million)	1.00	1.20
Total distribution in respect of the year ended 30 June 2010, $7.4 million (2009: $12.1 million)	**4.25**	**7.10**

Units on issue

190,759,842 (2009: 170,312,633) ordinary units were on issue at 30 June 2010. An additional 20,447,209 units were issued on 9 February 2010 under the interim DRP. No units were withdrawn during the year.

Earnings per unit

Basic earnings per unit amounts are calculated by dividing the net (loss)/profit after tax attributable to ordinary unitholders by the weighted average number of securities outstanding during the year.

The table below reflects the income and security data used in the basic earnings per unit computations:

	Consolidated 30 June 2010	Consolidated 30 June 2009
Net (loss)/profit attributable to unitholders ($'000)	(14,709)	(24,331)
Time weighted average number of units for basic and diluted earnings per unit at year end (number of units in thousands)	178,267	170,313
Basic and diluted earnings per unit for net (loss)/profit attributable to unitholders (cents per unit)	(8.25)	(14.29)

Trust assets

At 30 June 2010, CWT held assets to a total value of $240.1 million (2009: $265.6 million). The accounting policies surrounding the valuation of the assets are disclosed in Note 2 to the financial statements.

Fees paid to the Responsible Entity and associates

The following table discloses all fees paid by CWT to CLIL under the CWT constitution and to Challenger Management Services Limited (CMSL) under the management agreement with CLIL:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
(a) Responsible Entity fees for the year paid or payable to CLIL	300	300
(b) Management fees for the year paid or payable to CMSL	1,708	2,050
Total fees as per the income statement	**2,008**	**2,350**
(c) Transaction fees for the year paid or payable to CMSL which have been capitalised to property acquisitions and developments	16	10
Total fees paid or payable for the year	**2,024**	**2,360**

Total expenses paid by CWT to reimburse CMSL in respect of costs paid on behalf of CWT for the year ended 30 June 2010 were $147,234 (2009: $105,104).

All transactions were in accordance with agreements.

Interests held in CWT by related entities

Challenger Life Company Limited (CLC), a related entity of CLIL, holds 52,922,555 ordinary units (28%) as at 30 June 2010 (2009: 47,249,788 ordinary units (28%)).

CLC and CLIL are wholly owned subsidiaries of Challenger Financial Services Group Limited (CFSG).

Directors' report (continued)

Capital management

In light of the narrowed gearing covenant headroom at 30 June 2010, the potential for investment property values to further decline, and CWT's next debt maturity in May 2011, CWT is conducting a review of capital management alternatives to ensure ongoing compliance with banking covenants and to position itself to secure refinancing. Advisors have been appointed to assist with a review of capital management alternatives and CWT is in active discussions on recapitalisation alternatives.

CWT has a $58.2 million debt facility maturing in May 2011. As at 26 August 2010, no other debt facilities mature within twelve months. The expiration of this debt facility has contributed to current liabilities exceeding current assets, resulting in a net current liability of $60.2 million.

Significant changes in the state of affairs

There were no significant changes to the state of affairs of CWT during the year, other than those changes identified in the financial statements.

Significant events after the balance date

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect:

(a) CWT's operations in future financial years; or

(b) the results of those operations; or

(c) CWT's state of affairs in future financial years.

Likely developments and expected results

Further information on likely developments on the operation of CWT and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to CWT.

Environmental regulation and performance

CWT owns properties which are subject to environmental regulations under both Commonwealth and State legislation. The Directors are satisfied that adequate systems were in place for the management of the environmental responsibilities and the compliance with various legislative, regulatory and licence requirements. Further, the Directors are not aware of any breaches to these requirements, and to the best of their knowledge all activities have been undertaken in compliance with environmental requirements.

Indemnification and insurance of Directors and officers

The Responsible Entity has insured the Directors and officers against liabilities incurred in their role as Directors and officers of the Responsible Entity. The Responsible Entity is prohibited by the insurance contract itself from disclosing the nature of the liabilities covered and the amount of the premium. The auditors of CWT are not indemnified out of the assets of CWT.

Fund Manager and Chief Financial Officer declaration

The Fund Manager and the Chief Financial Officer have given a declaration to the Board of Directors that in their opinion the financial records of CWT have been properly maintained in accordance with section 286 of the Corporations Act 2001, and the financial statements and notes for the financial year ended 30 June 2010 comply with accounting standards and give a true and fair view.

Rounding of amounts in the Directors' report and the financial report

CWT is a registered scheme that is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and the financial report. Amounts in the Directors' report and the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

We have obtained an independence declaration from our auditor, Ernst & Young, as set out on page 32. This report is made in accordance with a resolution of Directors of Challenger Listed Investments Limited.

Brenda Shanahan
Chair

Sydney
26 August 2010

Auditor's independence declaration

ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of Responsible Entity of Challenger Wine Trust

In relation to our audit of the financial report of Challenger Wine Trust for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Elliott Shadforth
Partner
Sydney

26 August 2010

Income statement

For the year ended 30 June 2010

	Note	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Property income			
Rental income		31,075	32,783
Less: Property related expenses		(147)	(163)
Net property income		**30,928**	**32,620**
Interest income		249	712
Expenses			
Finance costs	4	(12,614)	(13,184)
Responsible Entity's and Manager's fees	24(f)	(2,008)	(2,350)
Operating expenses	5	(1,269)	(1,294)
Profit from operating activities before tax		**15,286**	**16,504**
Income tax expense	6	(120)	(367)
Profit from operating activities after tax		**15,166**	**16,137**
Impairment of non-current assets	5	(4,118)	(813)
Net fair value movement of non-current assets sold during the year		117	60
Net fair value movement of non-current assets held at the end of the year	16	(26,179)	(39,715)
Foreign exchange gain		305	–
Net (loss)/profit		**(14,709)**	**(24,331)**
Basic and diluted earnings per ordinary unit (cents)	8	(8.25)	(14.29)

The income statement should be read in conjunction with the accompanying notes.

Statement of comprehensive income

For the year ended 30 June 2010

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Net (loss)/profit after tax	**(14,709)**	**(24,331)**
Other comprehensive income		
Currency translation differences	(192)	135
Fair value movements in derivative financial instruments	(373)	(14,353)
Total other comprehensive income for the period	**(565)**	**(14,218)**
Total comprehensive income for the period	**(15,274)**	**(38,549)**

The statement of comprehensive income should be read in conjunction with the accompanying notes.

Distribution statement

For the year ended 30 June 2010

	Note	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Net (loss)/profit attributable to unitholders of CWT		**(14,709)**	**(24,331)**
Earnings per unit (cents)		*(8.25)*	*(14.29)*
Adjusted for:			
Non-cash items			
Impairment of non-current assets	5	4,118	813
Net fair value movement of non-current assets held at the end of the year	16	26,179	39,715
Amortisation of fair value of derivatives on reset hedge positions		536	62
Deferred leasing incentives		(886)	–
Other items			
Net fair value movement of non-current assets sold during the year – undistributed		(117)	–
Foreign exchange gain		(305)	–
Net income available for distribution		**14,816**	**16,259**
Less:			
Maintenance capital expenditure – paid from current year net income		(711)	–
Fair value movement of derivatives on reset hedge positions		(1,057)	(4,167)
Undistributed operating income used to prepay debt		(5,605)	–
Distribution to unitholders	7	**7,443**	**12,092**
Distribution per unit (cents)		*4.25*	*7.10*

The distribution statement should be read in conjunction with the accompanying notes.

Balance sheet

As at 30 June 2010

	Note	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Assets			
Current assets			
Cash and cash equivalents	9	11,001	5,841
Trade and other receivables	10	1,469	1,897
Prepayments	11	357	495
Derivative financial instruments	23	280	159
Investment property – held for sale	12	1,000	–
Intangible assets – held for sale	14	208	–
Deferred tax asset		92	–
Total current assets		**14,407**	**8,392**
Non-current assets			
Investment properties	12	125,058	132,146
Vines	13	77,707	97,201
Intangible assets	14	20,700	21,786
Plant and equipment	15	2,175	5,978
Derivative financial instruments	23	–	69
Total non-current assets		**225,640**	**257,180**
Total assets		**240,047**	**265,572**
Liabilities			
Current liabilities			
Trade and other payables	17	3,819	3,148
Rent received in advance		1,326	888
Provision for distribution	7(b)	1,908	2,044
Derivative financial instruments	23	2,121	1,378
Interest bearing liabilities	18	65,379	2,163
Total current liabilities		**74,553**	**9,621**
Non-current liabilities			
Derivative financial instruments	23	6,089	6,919
Interest bearing liabilities	18	74,907	147,101
Total non-current liabilities		**80,996**	**154,020**
Total liabilities		**155,549**	**163,641**
Net assets		**84,498**	**101,931**
Equity			
Contributed equity	19	150,928	145,644
Retained earnings	20	(54,216)	(32,064)
Reserves	21	(12,214)	(11,649)
Total equity		**84,498**	**101,931**
Net asset value per unit ($)		**0.44**	**0.60**

The balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2010

Consolidated	Note	Issued capital $'000	Retained earnings $'000	Reserves $'000	Total $'000
Balance as at 1 July 2009		**145,644**	**(32,064)**	**(11,649)**	**101,931**
Changes in equity for the year ended 30 June 2010					
Distribution to unitholders	7	–	(7,443)	–	(7,443)
Total comprehensive income for the period		–	(14,709)	(565)	(15,274)
Units issued, net of transaction costs		5,284	–	–	5,284
Balance as at 30 June 2010		**150,928**	**(54,216)**	**(12,214)**	**84,498**
Balance as at 1 July 2008		**145,644**	**4,359**	**2,569**	**152,572**
Changes in equity for the year ended 30 June 2009					
Distribution to unitholders	7	–	(12,092)	–	(12,092)
Total comprehensive income for the period		–	(24,331)	(14,218)	(38,549)
Units issued, net of transaction costs		–	–	–	–
Balance as at 30 June 2009		**145,644**	**(32,064)**	**(11,649)**	**101,931**

The statement of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statement

For the year ended 30 June 2010

	Note	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Cash flows from operating activities			
Rental received		31,055	30,764
Interest received		249	712
Finance costs paid		(11,939)	(12,593)
Payments to suppliers		(2,531)	(3,643)
Derivative payments on closed hedge positions on debt repayment		(328)	(267)
Derivative payments on reset of hedge positions		(427)	(4,105)
Income tax paid		–	(290)
Net cash flows from operating activities	9(a)	**16,079**	**10,578**
Cash flows from investing activities			
Proceeds from disposal of property		2,434	2,662
Payment for maintenance capital expenditure, vines, investment properties and developments		(1,094)	(481)
Net cash flows from investing activities		**1,340**	**2,181**
Cash flows from financing activities			
Proceeds from borrowings		–	638
Repayment of borrowings		(9,980)	(7,088)
Derivative option fee paid		–	(120)
Distributions to unitholders		(2,044)	(14,074)
Equity raising costs		(252)	–
Net cash flows (used in)/from financing activities		**(12,276)**	**(20,644)**
Net increase/(decrease) in cash and cash equivalents		5,143	(7,885)
Effects of foreign exchange		17	36
Cash and cash equivalents at beginning of year		5,841	13,690
Cash and cash equivalents at end of year	9	**11,001**	**5,841**

The cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2010

Note 1 – Trust information

The financial report for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors dated 17 August 2010.

Challenger Wine Trust (CWT or the Trust) is an Australian registered managed investment scheme and is publicly traded on the Australian Securities Exchange (ASX).

The principal activity of CWT during the year was to invest in a portfolio of high quality, strategically located vineyards and wineries that are leased primarily to wine companies. The vineyards are located across Australia and New Zealand.

Note 2 – Summary of significant accounting policies

The accounting policies which have been adopted in the preparation of the financial statements are stated to assist in a general understanding of this report.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the constitution, Corporations Act 2001, applicable Australian Accounting Standards and other mandatory professional reporting requirements.

The financial report has also been prepared on an historical cost basis, except for investment properties, vines, winery land and buildings, and derivative financial instruments.

In light of the narrowed gearing covenant headroom at 30 June 2010, the potential for investment property values to further decline, and CWT's next debt maturity in May 2011, CWT is conducting a review of capital management alternatives to ensure ongoing compliance with banking covenants and to position itself to secure refinancing. Advisors have been appointed to assist with a review of capital management alternatives and CWT is in active discussions on recapitalisation alternatives.

CWT has a $58.2 million debt facility maturing in May 2011. As at 26 August 2010, no other debt facilities mature within twelve months. The expiration of this debt facility has contributed to current liabilities exceeding current assets, resulting in a net current liability of $60.2 million.

Based on the progress of the review of capital management alternatives by the Board, the Directors have concluded that there are reasonable grounds to believe that the going concern basis is appropriate.

The accounting policies adopted in preparing these consolidated financial statements have been consistently applied by CWT unless otherwise specified.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the Corporations Regulations 2001.

A summary of the significant accounting policies of CWT is disclosed at Note 2(b).

(b) New reporting standards

Accounting standards and interpretations issued and adopted

Since 1 July 2009, CWT has adopted *AASB 8 Operating Segments, AASB 101 (Revised) Presentation of Financial Statements*, and amendments to *AASB 140 Investment Property*, which are mandatory for annual reporting periods beginning on or after 1 January 2009. Adoption of these standards did not have a significant impact on the amounts recognised in this financial report.

Where necessary, comparative figures have been reclassified to conform with changes in presentation in these financial statements. Comparative figures have also been reclassified in the note on segment information to correspond with the new format for that note.

CWT has early adopted the amendments to accounting standard *AASB 101 Presentation of Financial Statements* made by *AASB 2010-4 Amendments to Australian Accounting Standards* arising from the *Annual Improvements Project* effective from 30 June 2010. Adoption of this standard did not have a significant impact on the amounts recognised in this financial report.

The adoption of *AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* introduced into this financial report certain additional disclosures in respect of the source of inputs to the fair value measurement of financial instruments.

Notes to the financial statements

For the year ended 30 June 2010

Note 2 – Summary of significant accounting policies (continued)

(b) New reporting standards (continued)

Accounting standards and interpretations issued but not yet effective

There are numerous amendments to Australian Accounting Standards that were available for early adoption but have not been applied in this financial report. Other than those arising from future changes to the accounting for financial instruments (described in more detail below), the application of amendments relevant to CWT would have only resulted in minor disclosure impacts if they had been adopted early.

AASB 9 Financial Instruments

AASB 9 Financial Instruments was issued in December 2009 and provides revised guidance on the classification and measurement of financial instruments.

The new standard introduces a reduction in criteria for a financial instrument to be measured at amortised cost and requires all other financial instruments to be measured at fair value. The new standard also limits the ability to recognise fair value movements on financial assets directly in equity.

CWT is required to apply this standard for the first time in the 30 June 2014 financial report and is currently assessing the impact. The classification of financial instruments will be assessed on the facts at the date of initial application and it is possible that current classifications may change upon adoption of the new standard.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of CWT and its controlled entities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Controlled entities are consolidated from the date on which the CWT parent obtains control and cease to be consolidated from the date on which control is transferred out of CWT. Where loss of control over an entity occurs, the consolidated financial statements include the results for the part of the reporting period during which the CWT parent had control.

(d) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to CWT and the revenue can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable.

Rental income arising on investment properties is recognised in accordance with the provisions of the lease. The basic rent rate is increased annually in accordance with the terms of the lease. All rental income is recognised net of Goods and Services Tax (GST).

Interest income is recognised as interest accrues using the effective interest method.

(e) Depreciation

Investment properties and vines (including integral infrastructure and water rights) are not required to be depreciated as per *AASB 140 Investment Property* and *AASB 141 Agriculture* respectively. Winery plant and equipment are depreciated on a straight-line basis over their expected useful life. Major depreciation periods are:

	30 June 2010	30 June 2009
Fermentation and storage	20-25 years	20-25 years
Winery buildings	40 years	40 years
Winery plant	7.5-15 years	7.5-15 years

(f) Income tax

(i) Eligible investment business

Under current legislation, CWT undertakes activities of an ‘eligible investment business’ that is investing in land and vines for the purpose of, or primarily for the purpose of, deriving rent, and is therefore taxed as a pass through managed investment scheme.

(ii) New Zealand tax payable

One of CWT’s controlled entities, Delegat’s Trust, is treated as a company for New Zealand tax purposes as deriving rental income from New Zealand property is deemed to be taxable income of the trustee. As a result, Delegat’s Trust is required to calculate and pay tax in New Zealand at the New Zealand company tax rate (2010: 30%; 2009: 30%). Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the unused tax losses can be utilised.

(g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, short-term deposits, and term deposit set-off. Short-term deposits have an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Term deposit set-off relates to security taken by one of CWT's lenders for the purpose of applying against outstanding debt.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that CWT will not be able to collect the debt. Bad debts are written off when identified.

(i) Investment properties

Investment properties, which include land, buildings, integral infrastructure and water rights that are not able to be separately identified from properties and with no market defined cost base, are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Independent valuations of investment properties are obtained at least once every 18 months from qualified valuers as per CWT policy, unless the Directors determine that a valuation is to be obtained in the intervening period. At each reporting date between obtaining independent valuations, internal valuations are prepared. The valuations are completed in accordance with *AASB 140 Investment Property* and the fair value definitions, and the IFRS determination that fair value may be assessed utilising a discounted cash flow approach. The key valuation assumptions used by the independent valuers are outlined in Note 16(c). Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Water rights are included in investment properties when they are not legally separate from such properties and for which there is no market against which cost can be reliably determined.

The majority of CWT's leases include an option or right of first refusal for the lessee to purchase the property from CWT during the option term, which is generally at the end of the lease or, if at any time during the lease period if CWT wishes to dispose of the property. The option deed is integrally linked to the underlying lease of the property and therefore forms part of the fair value consideration supplied by the independent valuer. As a result, these options are not considered to be embedded derivatives and are not recognised separately from the properties.

(j) Vines

Vines are initially recorded at cost including transaction costs. Subsequent to initial recognition, the vines are stated at fair value. Gains or losses arising from changes in the fair values of vines are recognised in profit or loss in the year in which they arise.

Independent valuations of vineyards are obtained at least once every 18 months from qualified valuers as per CWT policy, unless the Directors determine that a valuation is to be obtained in the intervening period. At each reporting date between obtaining independent valuations, internal valuations are prepared. The valuations are completed in accordance with *AASB 141 Agriculture* and the fair value definitions, and the IFRS determination that fair value may be assessed utilising a discounted cash flow approach. The key valuation assumptions used by the independent valuers are outlined in Note 16(c).

(k) Plant and equipment

Winery plant and equipment is stated at historical cost, including relevant transactions costs, less accumulated depreciation and any accumulated impairment losses.

(l) Leases

Leases are classified as either operating leases or finance leases at the date of inception of the lease. A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all of the risks and benefits incidental to ownership of leased assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Lease agreements entered into with lessees over vineyard properties and wineries are considered to be operating leases given that CWT retains substantially all the risks and benefits of ownership of the leased assets. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset. Under certain circumstances, incentives such as rent-free periods may be offered to tenants. Such an incentive is amortised over the term of the lease as a reduction in rental income. The unamortised carrying amount of the incentive is reflected in the carrying value of the investment property and vines.

Notes to the financial statements

For the year ended 30 June 2010

Note 2 – Summary of significant accounting policies (continued)

(l) Leases (continued)

Under the terms and conditions of the lease contract, lessees are responsible for the following:

- payment of relevant rates, taxes and levies;
- costs incurred to preserve and maintain the land and the vines growing in the land in accordance with best viticultural practice, including pruning, irrigation, fertilisation, etc;
- expenditure on any additional plant that will remain the lessee's property;
- maintenance, repair and replacement of items of a structural and/or capital nature; and
- all operational costs related to the growing of grapes.

CWT will reimburse the lessee for any agreed alterations and additions to the leased vineyards and wineries, with rental payments adjusted accordingly.

(m) Intangible assets

Separable and tradable water rights

Separable and tradable water rights, which are included in intangible assets, provide the owner with an allocation of irrigation water for as long as the rights are held. Separable and tradable water rights are able to be legally separated from properties and are able to be traded.

Separable and tradable water rights are recognised at cost less any accumulated impairment losses. The cost is not amortised as the water licences have indefinite useful lives.

Due to the water rights being used for the provision of permanent planting of crops (vines) these water rights are held to support the vines and not for regular trading purposes.

(n) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to CWT prior to the end of the financial year that are unpaid and arise when CWT becomes obliged to make future payments in respect of the purchase of the goods and services.

(o) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(p) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless CWT has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Gains and losses are recognised in the income statement when the liabilities are derecognised.

Financing costs include both interest on borrowings and amortisation of fair value of derivatives on reset hedge positions. Interest on borrowings is recognised as an expense when incurred. The amortisation of fair value of derivatives on reset hedge positions is recognised as an expense over the life of the original hedge term unless the new hedge is deemed ineffective, in which case the entire expense is recognised at the date of becoming ineffective.

(q) Contributed equity

Ordinary units are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(r) Earnings per unit

Basic earnings per unit (EPU) is calculated as net profit/(loss) attributable to ordinary unitholders of the CWT parent entity, divided by the time weighted average number of ordinary units. Diluted EPU is calculated as net profit/(loss) attributable to ordinary unitholders of the CWT parent entity divided by the time weighted average number of ordinary units adjusted for the effects of all dilutive potential ordinary units.

(s) Derivative financial instruments and hedging

CWT uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative, on a trade by trade basis.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

The fair value of interest rate swap contracts are determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

At the inception of a hedge relationship, CWT formally designates and documents the hedge relationship to which CWT wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Cash flow hedges

The effective portion of the gain or loss on the cash flow hedge is recognised directly in equity, while the ineffective portion is recognised in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

(t) Segment reporting

Operating segments have been determined based on the reports reviewed by CWT's Manager (CMSL represented by the CWT Fund Manager and Head of Real Estate) that are used to make strategic decisions.

Based on these reports, it has been determined that CWT has a single operating segment. CWT operates entirely within Australasia, investing in vineyard properties and wine infrastructure assets for lease to vineyard and winery operators with similar characteristics, risks and returns.

(u) Significant accounting judgements

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. Other than the process for determining fair value of investment properties and vines as described in Notes 2(i) and 2(j) and derivative financial instruments in Note 2(s), there are no key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of CWT's assets and liabilities within the next annual reporting period.

Notes to the financial statements

For the year ended 30 June 2010

Note 2 – Summary of significant accounting policies (continued)

(v) Foreign currency translation

Both the functional and presentation currency of CWT and its Australian controlled entities is Australian dollars. The functional currency of the New Zealand controlled entity (Delegat's Trust) is New Zealand dollars and is reported in Australian dollars.

Transactions in foreign currencies are initially recorded by CWT in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of Delegat's Trust are translated into the presentation currency of CWT at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Exchange rates used

The following exchange rates are used in translating foreign currency transactions, balances and financial statements:

	30 June 2010 NZD	30 June 2009 NZD
Weighted average exchange rate	1.2546	1.2311
Spot rate at the balance date	1.2283	1.2480

(w) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- CWT retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- CWT has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risk and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When CWT has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of CWT's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that CWT could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of CWT's continuing involvement is the amount of the transferred asset that CWT may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of CWT's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(x) Impairment of assets

At each reporting date, CWT assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, CWT makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. Assets tested for impairment include plant and equipment and intangible assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(y) Distributions

In accordance the CWT constitution, the Responsible Entity must determine the distributable income of CWT for each financial year, which may include income and/or capital, with the Responsible Entity determining whether an amount is income or capital. The distribution may be paid in cash and/or units and must be made within 90 days after each balance date.

A provision for distribution is recognised where the distribution has been declared prior to the end of the balance date.

Note 3 – Financial risk management

CWT's activities expose it to a variety of financial risks:

- market risk (including currency risk and interest rate risk);
- credit risk; and
- liquidity risk.

The Responsible Entity believes that the management of financial risks is fundamental to CWT's operations and to building unitholder value. The Board is responsible for CWT's risk management strategy and management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across CWT's operations.

The Responsible Entity as a subsidiary of Challenger Financial Services Group (CFSG) is subject to periodic review by the CFSG internal audit function.

The Board has adopted the CFSG Operational Risk Framework and formal policies in respect of compliance and operational risk management. Risks at both the Responsible Entity and CWT level are managed through the CFSG Operational Risk framework and include:

- regulatory and reporting risks;
- financial risks (such as liquidity, interest rate, currency and investment);
- legal risks (such as contract enforceability, covenants);
- operational risks (such as people, processes, infrastructure, technology); and
- reputation risk (such as investor relations, media management).

Note 3 – Financial risk management (continued)

At the time of approving the financial statements of CWT, the Board requires representation letters from management addressing risk management and internal compliance and controls relevant to risk.

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of CWT's business. Derivative financial instruments are used to hedge exposures to fluctuations in interest rates. Instruments used include interest rate swap contracts.

All interest rate derivative financial instruments held within CWT are stated at fair value with any gains or losses arising from changes in fair value being taken directly to equity for the year. CWT has elected to undertake the hedge accounting treatment available under AASB 139 for its derivative financial instruments.

Financial risks impact the financial assets and liabilities of CWT. CWT's principal financial instruments, other than derivatives, comprise cash and cash equivalents, receivables, payables and interest bearing liabilities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instruments are disclosed in Note 2.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises (amongst others) various types of risk including interest rate risk (due to fluctuations in interest rates) and currency risk (due to fluctuations in foreign exchange rates).

(i) Interest rate risk

Interest rate risk is the risk to CWT's earnings arising from movements in the interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between the different yield curves and the volatility of the interest rates.

Financial instruments with floating rate interest expose CWT to cash flow interest rate risk.

It is CWT's policy to manage the impact of interest rate movements on its debt servicing capacity, profitability and business requirements by entering into interest rate derivatives.

The purpose of using derivative financial instruments is to minimise financial risk from movements in interest rates. CWT's exposure to interest rate risk arises predominantly from liabilities bearing variable interest rates.

Hedging activity is performed using interest rate swaps. A swap transaction obliges the two parties to the contract to exchange a series of cash flows at specified intervals known as payment or settlement dates.

CWT's policy is to enter into interest rate derivatives to effectively hedge a minimum of 60% of its borrowings over the life of underlying leases from exposure to movements in interest rates.

At 30 June 2010, CWT has entered into interest rate derivatives to hedge 64% (2009: 76%) of its exposure to movements in interest rates over the life of underlying leases and 83% (2009: 100%) of its 30 June 2010 borrowing levels. The contracts require settlement of net interest receivable or payable on a quarterly basis. These derivative instruments have been designated as effective hedges and formal documentation of the hedging relationship has been maintained. CWT's derivative instruments are assessed on an ongoing basis and have been determined to be highly effective throughout the reporting periods for which they have been designated as effective. As a result of being an effective hedge, any gains or losses from the changes in fair value of these derivative instruments are recognised directly in equity.

(ii) Currency risk

CWT's exposure to foreign currency risk relates primarily to investment properties that are denominated in New Zealand dollars. CWT manages this exposure by borrowing in New Zealand dollars to provide a hedge against the net investment in a foreign entity.

Capital hedge

CWT has a policy to implement a natural capital hedge of a minimum of 90% of the total equity of CWT that is invested in foreign currency denominated assets. This is achieved by borrowing in the same foreign currency to insulate against movements in exchange rates, both favourable and unfavourable. At 30 June 2010, CWT has naturally hedged 114% (2009: 99%) of its foreign currency exposure.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. CWT aims to ensure that at all times it has appropriate credit risk management in place and that the Board and senior management are appropriately informed of CWT's credit risks.

CWT's approach to credit management utilises a credit risk framework to ensure that the following principles are adhered to:

- independence from the fund manager;
- appropriate segregation practices are in place to avoid conflicts of interest;
- credit exposures are systematically controlled and monitored;
- credit exposures are regularly reviewed in accordance with existing credit procedures;
- credit personnel are appropriately qualified and experienced; and
- credit exposures include such exposures arising from derivative transactions.

CWT makes primary use of both external and internal ratings. Internal ratings are expressed on the basis of S&P rating definitions. Where an external rating is available (predominantly from Standard & Poor's, Moody's or Fitch), the internal rating will ordinarily be no greater than the lowest external rating assigned.

The credit risk in respect of derivative transactions is mitigated by entering into trades with counterparties with an A rating or above.

CWT minimises concentration of credit risk in relation to trade receivables by ensuring no more than 40% of the property portfolio shall be leased by one tenant and providing leases only to tenants who are considered creditworthy third parties. It is CWT's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, rent receivable balances are monitored on an ongoing basis to ensure CWT's exposure to bad debts is managed through normal payment terms and review of any rental in arrears.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. This may result from either the inability to recover or settle financial assets at their face values or at all; or a counterparty failing on repayment of a contractual obligation; or the inability to generate cash inflows as anticipated, such as the raising of equity.

CWT aims to ensure that it has sufficient liquidity to meet its obligations on a short-term and medium-term basis. In setting the level of sufficient liquidity, CWT considers new asset purchases and equity origination in addition to current contracted obligations such as maturing debt. In summary, CWT considers: minimum cash requirements; cash flow forecasts; acquisition and disposal pipeline; and cash mismatches by maturity.

Notes to the financial statements

For the year ended 30 June 2010

Note 4 – Finance costs

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Finance costs		
Amortisation of fair value of derivatives on reset hedge positions	536	62
Interest expense	12,078	13,122
	12,614	**13,184**

Note 5 – Operating expenses

	Note	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Operating expenses			
Custodian fees		32	72
Consultant fees		175	236
Auditor's remuneration	26	95	81
Depreciation		317	313
Net fair value of derivatives on closed hedge positions on debt repayment		328	205
Other costs		322	387
		1,269	**1,294**
Impairment of non-current assets			
Impairment of plant and equipment	15	3,493	813
Impairment of intangible assets	14	625	–
		4,118	**813**

Note 6 – Income tax expense

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Income tax expense		
New Zealand income tax expense	120	367
	120	**367**

New Zealand tax payable

One of CWT's controlled entities (Delegat's Trust), is treated as a company for New Zealand tax purposes, as deriving rental income from New Zealand property is deemed to be taxable income of the trustee. A reconciliation of the New Zealand income tax expense is provided in the table below:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
(a) Reconciliation of New Zealand income tax expense		
Consolidated operating profit before tax for the year ended 30 June 2010	15,286	16,504
Operating profit not attributable to Delegat's Trust	(13,530)	(14,593)
Delegat's operating profit before tax for the year ended 30 June 2010	**1,756**	**1,911**
Net timing adjustments relating to difference in reporting and tax years [(i)]	(18)	(22)
Delegat's operating profit before tax for the year ended 31 March 2010	**1,738**	**1,889**
At the NZ statutory company tax rate of 30% (2009: 30%)	**521**	**567**
Adjustments for (tax effect of):		
Amortisation of facility establishment costs	–	1
Depreciation of investment properties	(227)	(244)
Australian sourced interest income	(4)	(10)
Add: tax (loss)/provision for the period 1 April 2010 to 30 June 2010 [(i)]	(93)	77
Less: Tax expense for the period 1 April 2009 to 30 June 2009 [(i)]	(77)	–
Income tax refund relating to prior years	–	(24)
New Zealand income tax expense	**120**	**367**

[(i)] New Zealand has a tax year ending 31 March. Accordingly, a timing adjustment is required when reconciling from CWT's 30 June reporting year end.

Notes to the financial statements

For the year ended 30 June 2010

Note 7 – Distributions paid and proposed

The following distributions were paid or payable during the year ended 30 June 2010:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
(a) Distributions declared and paid during the year to unitholders		
Interim distribution: 3.25 cents per unit (2009: 5.90 cents per unit)	5,535	10,048
(b) Distributions proposed and recognised as a liability		
Final distribution: 1.00 cents per unit (2009: 1.20 cents per unit)	1,908	2,044
Total distributions 4.25 cents per unit (2009: 7.10 cents per unit)	**7,443**	**12,092**

An underwritten DRP was in place for the 31 December 2009 interim distribution. The DRP was deactivated for the 30 June 2010 final distribution.

Note 8 – Earnings per unit

	Consolidated 30 June 2010	Consolidated 30 June 2009
Basic and diluted earnings per ordinary unit (cents)	(8.25)	(14.29)

The diluted earnings per unit are the same as the basic earnings per unit as no dilutionary potential ordinary units have been issued. The following table reflects the income and unit data used in the basic and diluted earnings per unit computations.

	Consolidated 30 June 2010	Consolidated 30 June 2009
Net (loss)/profit attributable to unitholders ($'000)	(14,709)	(24,331)
Weighted average number of ordinary units for basic and diluted earnings per unit (thousands)	178,267	170,313

There have been no other transactions involving ordinary units or potential ordinary units between the reporting date and the date of completion of these financial statements.

Note 9 – Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at year end:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Cash at bank and in hand	3,796	3,474
Term deposits	5	2,367
Term deposit set-off	7,200	–
Total cash and cash equivalents	**11,001**	**5,841**

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Term deposits are made for varying periods of between seven days and three months, depending on the immediate cash requirements of CWT and earn interest at the respective short-term deposit rates.

Term deposit set-off relates to security taken by one of CWT's lenders for the purpose of applying against outstanding debt.

(a) Reconciliation of net profit to net cash flows from operations

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Net (loss)/profit	(14,709)	(24,331)
Non-cash items or items not included in the income statement:		
Depreciation of non-current assets	317	313
Amortisation of facility establishment costs	48	48
Amortisation of fair value of derivatives on reset hedge positions	536	62
Impairment of non-current assets	4,118	813
Net fair value movement of non-current assets sold during the year	(117)	(60)
Net fair value movement of non-current assets held at the end of the year	26,179	39,715
Deferred leasing incentives	(886)	–
Net unamortised fair value of derivatives paid on reset hedge positions	(427)	(4,167)
Classified as financing activities:		
Foreign exchange gain	(305)	–
Changes in assets and liabilities:		
Decrease/(increase) in trade and other receivables	428	(1,491)
Decrease/(increase) in prepayments	138	(396)
Increase/(decrease) in trade creditors and other payables	201	583
Increase/(decrease) in income tax payable	120	–
Increase/(decrease) in unearned income	438	(511)
Net cash flows from operating activities	**16,079**	**10,578**

Notes to the financial statements

For the year ended 30 June 2010

Note 10 – Trade and other receivables

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Trade receivables (i)	876	1,654
Accrued rental income	231	228
Receivable on sale of non-current asset (ii)	362	–
Other receivables	–	15
Total trade and other receivables	**1,469**	**1,897**

(i) Trade receivables are non-interest bearing and generally 30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. No allowances for doubtful debts have been recognised in the current year.

(ii) The receivable on sale of non-current asset relates to the settlement balance on the Cowra vineyard which is due on 24 September 2010.

Note 11 – Prepayments

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Prepaid interest	328	436
Other prepayments	29	59
Total prepayments	**357**	**495**

Note 12 – Investment properties

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Investment properties		
Opening fair value	132,146	137,603
Transfer to investment property held for sale	(1,000)	–
Maintenance capital expenditure	687	413
Disposals	(1,635)	(442)
Deferred leasing incentives	331	–
Foreign currency fluctuations	664	506
Net fair value movement	(6,135)	(5,934)
Carrying amount at the end of the year	**125,058**	**132,146**
Current asset – investment property held for sale	1,000	–
Total investment properties at fair value	**126,058**	**132,146**

Revaluation of investment properties

Investment properties, which include land, buildings, integral infrastructure and water rights that are not able to be separately identified from properties with no market defined cost base, are stated at fair value which has been determined based on independent valuations from accredited industry valuers who are specialists in valuing these types of investment properties.

Note 13 – Vines

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Vines		
Opening fair value	97,201	130,319
Maintenance capital expenditure	24	–
Disposals	(430)	–
Deferred leasing incentives	555	–
Foreign currency fluctuations	401	263
Net fair value movement	(20,044)	(33,381)
Total vines at fair value	**77,707**	**97,201**

Revaluation of vines

Vines are stated at fair value which has been determined based on independent valuations from accredited industry valuers who are specialists in valuing these types of assets. Valuations of vines are determined by discounting the expected future cash flows from the vines.

Notes to the financial statements

For the year ended 30 June 2010

Note 14 – Intangible assets

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Intangible assets (separable and tradable water rights)		
Beginning of the year at cost less impairment losses	21,786	21,836
Transfer to intangible assets held for sale	(208)	–
Disposals	(253)	(50)
Impairment loss [i]	(625)	–
End of the year at cost less impairment losses	**20,700**	**21,786**
Current asset – intangible asset held for sale	208	–
Total intangible assets at cost less impairment losses	**20,908**	**21,786**

[i] During the current year, the recoverable amount was estimated for certain water right entitlements. The recoverable amount estimation was based on the fair value as assessed by independent valuations. As a result, an impairment loss of $0.6 million (2009: Nil) was recognised to reduce the carrying amount of intangible assets to their recoverable amount.

Separable and tradable water rights

Separable and tradable water rights, which are included in intangible assets, provide the owner with an allocation of irrigation water for as long as the rights are held. Separable and tradable water rights are able to be legally separated from properties and are able to be traded. Separable and tradable water rights are recognised at cost less impairment losses. The cost is not amortised as the water licences are considered to have indefinite useful lives.

The below table provides a summary of the fair value and carrying value of water rights owned by CWT:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Intangible assets (separable and tradable water rights)		
Water rights at fair value (as assessed by independent valuations)	29,638	32,822
Fair value movements not recognised due to carrying water rights at cost	(8,730)	(11,036)
Water rights at cost less impairment losses	**20,908**	**21,786**

The below table provides a summary of CWT's tradable water right entitlements:

Valley	Licence category	Entitlement (megalitres)
30 June 2010		
Murrumbidgee River	River – High Security	9,182
Murray River, Victoria	River – General Security	5,178
Murray River, SA	River – General Security	1,642
Hunter River, NSW	River – Industrial and High	20
Padthaway, SA	Bore – General Security	598
Cowra, NSW	Bore – General Security	–
	Total	**16,620**
30 June 2009		
Murrumbidgee River	River – High Security	9,182
Murray River, Victoria	River – General Security	5,178
Murray River, SA	River – General Security	1,642
Hunter River, NSW	River – Industrial and High	20
Padthaway, SA	Bore – General Security	598
Cowra, NSW	Bore – General Security	240
	Total	**16,860**

Note 15 – Plant and equipment

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Winery plant and equipment		
Beginning of the year at net carrying value	5,978	6,743
Additions (at cost)	7	520
Disposals (WDV)	–	(159)
Depreciation for the year	(317)	(313)
Allowances for impairment losses [i]	(3,493)	(813)
End of the year at net carrying value	**2,175**	**5,978**

[i] During the current year, the recoverable amount was estimated for certain items of plant and equipment. The recoverable amount estimation was based on the fair value less costs to sell as assessed by independent valuations. As a result, an impairment loss of $3.5 million (2009: $0.8 million) was recognised to reduce the carrying amount of plant and equipment to its recoverable amount.

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Cost	9,980	9,973
Less: Accumulated impairment write-downs	(5,744)	(2,251)
Less: Accumulated depreciation	(2,061)	(1,744)
Net carrying amount	**2,175**	**5,978**

Notes to the financial statements

For the year ended 30 June 2010

Note 16 – Investment properties, vines, intangible assets and plant and equipment

Details of investment properties, vines, intangible assets and plant and equipment are presented below:

Property	Acquisition date	Country	Date of latest independent valuation	30 June 2010 Fair value $'000	30 June 2009 Fair value $'000	30 June 2010 Carrying value $'000	30 June 2009 Carrying value $'000
Corryton Park Vineyard (v)	Feb 1998	Australia	Jun 2010	2,500	2,500	2,500	2,500
Summers Hill Vineyard (vi)	Feb 1998	Australia	Jun 2010	1,150	1,400	1,150	1,400
Bethany Creek & Vine Vale Vineyards (x)	Oct 1998	Australia	Sold Aug 2009	–	750	–	750
Cowra Station Vineyard (xiii)	Oct 1998	Australia	Sold Mar 2010	–	1,000	–	1,000
Waikerie Vineyard (i)	Oct 1998	Australia	Dec 2009	1,526	1,500	1,218	1,329
Dalswinton Vineyard (xi)	Jul 1999	Australia	Sold Sep 2009	–	1,250	–	827
Schubert's Vineyard (i)	Jul 2001	Australia	Dec 2009	5,562	6,100	5,562	6,100
Hermitage Road Winery (ii)	Oct 2001	Australia	Jun 2010	1,500	2,220	1,500	2,220
Chapel Vineyard (i)	Dec 2001	Australia	Dec 2009	1,270	1,900	1,270	1,900
Sirens Estate Vineyard (vii)	Oct 2002	Australia	Jun 2010	2,060	3,325	2,060	3,325
Cocoparra & Woods Vineyards (vi)	Apr 2003	Australia	Jun 2010	10,700	12,000	10,032	10,516
Del Rios Vineyard (i)	Jun 2003	Australia	Jun 2010	43,600	46,500	40,480	43,380
Balranald Vineyard (vi)	Dec 2003	Australia	Jun 2010	23,750	25,000	21,594	22,004
Qualco East Vineyard (i)	Dec 2003	Australia	Jun 2010	6,500	7,100	5,785	6,060
Richmond Grove & Lawsons Vineyards (vi)	Dec 2003	Australia	Dec 2009	32,000	33,500	32,000	33,500
Poole's Rock Vineyard & Winery (xii)	Nov 2004	Australia	Jun 2010	5,700	7,377	5,700	7,377
Whitton Vineyard (iv)	Apr 2005	Australia	Jun 2010	4,200	4,600	3,600	4,000
Miamba Vineyards (v)	Aug 2007	Australia	Jun 2010	10,601	11,250	10,601	11,250
Stephendale Vineyard (vi)	Sep 2007	Australia	Jun 2010	23,750	24,000	23,750	24,000
Crownthorpe Vineyard (viii)	Apr 2001	New Zealand	Jun 2010	19,565	24,817	19,564	24,817
Gimblett Vineyards (viii)	Apr 2001	New Zealand	Jun 2010	4,709	6,471	4,709	6,471
Dashwood Vineyard (ix)	Oct 2002	New Zealand	Jun 2010	17,911	19,712	17,911	19,712
Rarangi Vineyard (ix)	Jun 2004	New Zealand	Jun 2010	14,654	15,625	14,654	15,625
Total non-current				**233,208**	**259,897**	**225,640**	**250,063**
Gundagai Vineyard (iii)	Sep 2000	Australia	Jun 2010	2,370	8,250	1,208	7,048
Total current – held for sale				**2,370**	**8,250**	**1,208**	**7,048**
Total consolidated				**235,578**	**268,147**	**226,848**	**257,111**
Variance between carrying value and fair value at period end (xiv)						**(8,730)**	**(11,036)**

	Consolidated 1 July 2009 to 30 June 2010 $'000	Consolidated 1 July 2008 to 30 June 2009 $'000
Reconciliation of the movement in the variance between carrying value and fair value for the year:		
Opening variance at beginning of the year	(11,036)	(8,378)
Disposal of Dalswinton vineyard	423	107
Increase/(decrease) in carrying value during the year due to recognising intangible assets at cost	1,883	(2,765)
Closing variance between carrying value and fair value of investment properties	**(8,730)**	**(11,036)**

The Directors have assessed fair value by reference to the following valuers' valuations as described in Notes 2(i) and 2(j):

(i) As valued by Jason Oster, B. Bus. Prop. (Val.), A.A.P.I., Dip. App. Sc. (Farm Management), Certified Practising Valuer of Knight Frank Valuations SA.

(ii) As valued by Robin Gardner, F.A.P.I., Certified Practising Valuer of Herron Todd White.

(iii) Gundagai fair value consists of $1.00 million in investment property (as per a negotiated sales contract) and $1.37 million in water rights as valued by Adrian Pearce, A.A.P.I., Certified Practising Valuer of Herron Todd White.

(iv) As valued by John Carbone, A.A.P.I., Certified Practising Valuer of MIA Valuers Pty Ltd.

(v) As valued by Nicholas Cranna, B. Bus. Prop. (Val), A.A.P.I., Certified Practising Valuer of Colliers International Consultancy and Valuation Pty Ltd.

(vi) As valued by Angus Barrington-Case, B. Bus (Prop), A.A.P.I., Certified Practising Valuer of Colliers International Consultancy and Valuation Pty Ltd.

(vii) As valued by Rod Davidson, A.A.P.I., Certified Practising Valuer of Hegney Property Valuations.

(viii) As valued by Boyd Gross, B. Agr. (Rural Val), Dip. Bus. Std., F.N.Z.I.V., F.P.I.N.Z., of Crighton Stone Ltd.

(ix) As valued by Michael Penrose, F.N.Z.I.V., F.P.I.N.Z., Registered Valuer of TelferYoung (Hawkes Bay) Ltd.

(x) Bethany Creek and Vine Vale Vineyards sold for $0.75 million (net proceeds) on 4 August 2009.

(xi) Dalswinton Vineyard sold for $1.25 million (net proceeds) on 4 September 2009.

(xii) As valued by Ian Britton, BA App. Sci. (Agr), Adv. Dip. Prop. (Val), A.A.P.I., Certified Practising Valuer of Benchmark Property Advisory.

(xiii) Cowra Station Vineyard sold for $0.50 million (net proceeds) on 29 March 2010.

(xiv) Variance between carrying value and fair value at year end relates to intangible assets (water rights) carried at cost. Refer to further discussion in Note 16(a).

Note 16 – Investment properties, vines, intangible assets and plant and equipment (continued)

The reconciliation of the carrying values for the combined investment properties, vines, intangible assets and plant and equipment is detailed below:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Carrying value at the beginning of the year	257,111	298,851
Maintenance capital expenditure	711	413
Additions (at cost)	7	520
Disposals	(2,318)	(2,601)
Deferred leasing incentives	886	–
Depreciation for the year	(317)	(313)
Foreign currency fluctuations	1,065	769
Impairment of non-current assets	(4,118)	(813)
Net fair value movement [i]	(26,179)	(39,715)
Carrying value at the end of the year	**226,848**	**257,111**
(i) Net fair value movement for the year consists of:		
(Decrease)/increase from revaluation of non-current assets	(28,062)	(36,950)
Increase/(decrease) in carrying value due to recognising intangible assets at cost	1,883	(2,765)
	(26,179)	**(39,715)**

(a) Definition of fair value and carrying value of CWT properties

(i) Fair value

The fair value of CWT's properties represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In determining fair value, the independent valuers have reviewed comparable sales as well as discounted the expected net cash flows applicable to each property to their present value using a market determined, risk-adjusted discount rate applicable to the respective asset.

The fair value of CWT's properties at 30 June 2010 is $235.6 million (2009: $268.1 million), which includes intangible assets (separable and tradable water rights) carried at fair value.

(ii) Carrying value

The carrying value of CWT's assets is determined as the fair value of the property as described in Note 16(a)(i) adjusted for any fair value movements in intangible assets (separable and tradable water rights), which are carried at cost. The carrying value of CWT's properties at 30 June 2010 is $226.8 million (2009: $257.1 million) which includes intangible assets (separable and tradable water rights) carried at cost.

The variance between the fair value and the carrying value of CWT's properties at 30 June 2010 is $8.7 million (2009: $11.0 million). This variance is the gain in the fair value of CWT's separable and tradable water rights which has not been recognised in the income statement due to carrying intangible assets at cost.

(b) Assets pledged as security

First mortgages have been granted as security for bank loans (Note 18) over all investment properties, vines, intangible assets and plant and equipment. The terms of the first mortgages preclude the assets being sold or being used as security for further mortgages without the permission of the first mortgage holder.

Notes to the financial statements

For the year ended 30 June 2010

Note 16 – Investment properties, vines, intangible assets and plant and equipment (continued)

(c) Key valuation assumptions

The fair value of CWT's investment properties are determined based on independent valuations from accredited industry valuers who are specialists in valuing such investment properties. The independent valuations are obtained from qualified valuers at least once every 18 months per CWT policy, unless the Directors determine that a valuation is to be obtained in the intervening period. Management has exercised its discretion to independently value all properties in the past twelve months. The Directors of the Responsible Entity make reference to these independent valuations when assessing the fair value of investment properties at each reporting date.

The key valuation assumptions used by the independent valuers when determining a property's fair value are set out below:

	30 June 2010 Assumptions				30 June 2009 Assumptions			
Property	Valuation method (i)	Rate per hectare (ii)	Discount rate	Fair value $'000	Valuation method (i)	Rate per hectare (ii)	Discount rate	Fair value $'000
Corryton Park Vineyard	DCF	$55,685	12.00%	2,500	DCF	$60,000	12.25%	2,500
Summers Hill Vineyard	DCF	$51,850	11.00%	1,150	DCF	$80,000	11.50%	1,400
Bethany Creek & Vine Vale Vineyards (iii)	–	–	–	–	N/A	–	–	750
Cowra Station Vineyard (iv)	–	–	–	–	Summation	$15,000	–	1,000
Waikerie Vineyard	Summation	$32,500	N/A	1,526	DCF	$35,000	13.50%	1,500
Dalswinton Vineyard (v)	–	–	–	–	N/A	–	–	1,250
Schubert's Vineyard	Summation	$70,000	N/A	5,562	DCF	$80,000	12.25%	6,100
Hermitage Road Winery (vi)	Summation	$20,000	N/A	1,500	Summation	–	–	2,220
Chapel Vineyard	Summation	$45,000	N/A	1,270	Summation	$55,000	–	1,900
Sirens Estate Vineyard	Summation	$28,000	N/A	2,060	DCF	$59,239	10.50%	3,325
Cocoparra & Woods Vineyards	DCF	$37,222	11.00%	10,700	DCF	$42,000	12.00%	12,000
Del Rios Vineyard	DCF	$40,000	13.25%	43,600	DCF	$45,000	13.50%	46,500
Balranald Vineyard	DCF	$40,738	12.00%	23,750	DCF	$50,000	12.00%	25,000
Qualco East Vineyard	DCF	$32,500	13.25%	6,500	DCF	$37,500	13.50%	7,100
Richmond Grove & Lawsons Vineyards	DCF	$56,642	11.50%	32,000	DCF	$62,160	12.00%	33,500
Poole's Rock Vineyard & Winery (vi)	Summation	$68,851	N/A	5,700	Summation	–	–	7,377
Whitton Vineyard	DCF	$35,000	12.00%	4,200	DCF	$41,000	10.25%	4,600
Miamba Vineyards	DCF	$66,037	12.50%	10,601	DCF	$73,719	12.00%	11,250
Stephendale Vineyard	DCF	$35,498	12.50%	23,750	DCF	$38,427	11.50%	24,000
Crownthorpe Vineyard (viii)	DCF	$66,161	10.50%	19,565	DCF	$79,862	10.50%	24,817
Gimblett Vineyards (viii)	DCF	$116,402	11.60%	4,709	DCF	$137,316	11.50%	6,471
Dashwood Vineyard (viii)	DCF	$120,089	11.00%	17,911	DCF	$133,932	10.50%	19,712
Rarangi Vineyard (viii)	DCF	$133,910	11.00%	14,654	DCF	$160,269	10.50%	15,625
Total non-current				233,208				259,897
Gundagai Vineyard (vii)	N/A	–	–	2,370	Summation	$25,951	–	8,250
Total current – held for sale				2,370				8,250
Total consolidated				235,578				268,147

(i) DCF – a Discounted Cash Flow approach has been used to determine the fair value of the subject property.
Summation – includes a direct comparison of comparable sales to determine the fair value of the subject property.
N/A – not applicable.

(ii) Rate per hectare is the rate per planted hectare of vines including fair value of water rights as determined by an external valuer.

(iii) Bethany Creek and Vine Vale Vineyards sold for $0.75 million (net proceeds) on 4 August 2009.

(iv) Cowra Station Vineyard sold for $0.5 million (net proceeds) on 29 March 2010.

(v) Dalswinton Vineyard sold for $1.25 million (net proceeds) on 4 September 2009.

(vi) For winery properties the external valuers use a summation approach to determine the value of the winery buildings, vineyard, land and plant and equipment. The value of each individual component of the property is determined using either the direct comparison or capitalisation method. The values for each part are then added together to determine the overall value of the property.

(vii) Gundagai fair value consists of $1.00 million in investment property (as per a negotiated sales contract) and $1.37 million in water rights as per the most recent independent valuation.

(viii) NZD rates per hectare converted at the 30 June 2010 AUD/NZD spot rate of 1.2283 (2009: 1.2480).

Note 17 – Trade and other payables

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Current		
Trade creditors and accruals	742	578
Interest payable	1,806	1,824
Provision for New Zealand tax payable	293	77
Derivative payables on reset of hedge positions	631	–
Maintenance capital expenditure and development payables	77	453
Other payables	270	216
Total trade and other payables	**3,819**	**3,148**

Note 18 – Interest bearing liabilities

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Current		
Bank bill facilities	65,401	2,163
Less: unamortised borrowing costs	(22)	–
Total current interest bearing liabilities	**65,379**	**2,163**
Non-current		
Bank bill facilities	74,953	147,217
Less: Unamortised borrowing costs	(46)	(116)
Total non-current interest bearing liabilities	**74,907**	**147,101**
Total interest bearing liabilities	**140,286**	**149,264**
Interest-bearing loans and borrowings by currency:		
AUD borrowings	75,798	83,679
NZD borrowings [i]	64,556	65,701
Less: unamortised borrowing costs	(68)	(116)
Total interest bearing loans and borrowings	**140,286**	**149,264**

[i] NZD interest bearing loans and borrowings converted at the 30 June 2010 AUD/NZD spot rate of 1.2283 (2009: 1.2480).

Current bank bill facilities consists of a $58.2 million debt facility maturing in May 2011 and a $7.2 million portion of debt expected to be pre-paid in the first quarter of 2011.

Refer Note 19 Contributed Equity regarding CWTs review of capital management alternatives in connection with the current $58.2 million bank bill facility.

The $7.2 million prepayment will be made using cash set aside in a term deposit set-off account at 30 June 2010 and has been applied against debt for the purpose of the 30 June 2010 'loan-to-value' covenant calculation.

The non-current facility has a maturity date of May 2012.

Note 18 – Interest bearing liabilities (continued)

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Total facilities:		
Secured bank bills	141,242	161,724
	141,242	**161,724**
Facilities used at reporting date:		
Secured bank bills	140,354	149,380
	140,354	**149,380**
Facilities unused at reporting date:		
Secured bank bills	888	12,344
	888	**12,344**

During the current and prior year, there were no defaults or breaches on any of the loans.

Financing facilities maturity dates

The following table sets out the carrying amount, by maturity, of CWT's financing facilities as at the balance date:

Year ended 30 June 2010	<1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	>5 years $'000	Total $'000	Weighted average effective interest rate %
Consolidated								
Facilities covered by interest rate swaps	58,201	58,853	–	–	–	–	117,054	8.45%
Facilities not covered by interest rate swaps	7,200	16,100	–	–	–	–	23,300	7.83%
Total utilised facilities	**65,401**	**74,953**	**–**	**–**	**–**	**–**	**140,354**	**8.35%**
Weighted average effective interest rate	8.76%	8.00%	–	–	–	–		
Facilities unused at reporting date	–	888	–	–	–	–	888	
Total facilities	**65,401**	**75,841**	**–**	**–**	**–**	**–**	**141,242**	

Year ended 30 June 2009	<1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	>5 years $'000	Total $'000	Weighted average effective interest rate %
Consolidated								
Facilities covered by interest rate swaps	2,163	60,013	87,204	–	–	–	149,380	8.04%
Facilities not covered by interest rate swaps	–	–	–	–	–	–	–	–
Total utilised facilities	**2,163**	**60,013**	**87,204**	**–**	**–**	**–**	**149,380**	**8.04%**
Weighted average effective interest rate	9.60%	8.86%	7.43%	–	–	–		
Facilities unused at reporting date	–	11,737	607	–	–	–	12,344	
Total facilities	**2,163**	**71,750**	**87,811**	**–**	**–**	**–**	**161,724**	

Note 19 – Contributed entity

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Ordinary units		
Equity balance at the beginning of the year	145,644	145,644
Equity issued under the 31 December 2009 interim DRP	5,536	–
Transaction costs	(252)	–
Equity balance at the end of the year	**150,928**	**145,644**

	Units '000	Units $'000
Ordinary units on issue at the beginning of the year	170,313	170,313
Ordinary units issued under interim DRP	20,447	–
Total units on issue at the end of the year	**190,760**	**170,313**

CWT reactivated its Distribution Reinvestment Plan (DRP) on 30 November 2009. The issue price for the total 31 December 2009 interim DRP was 27.07 cents. The interim DRP was underwritten to an amount equal to the total distribution less the Challenger Financial Services Group (CFSG) committed amount of 27.74%.

The DRP was deactivated for the 30 June 2010 final distribution.

Capital management

CWT manages its capital to ensure it will be able to continue as a going concern while maximising optimal returns to unitholders through the optimisation of debt and equity balances. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The capital structure of CWT consists of debt which includes borrowings disclosed in Note 18, cash and cash equivalents disclosed in Note 9, issued capital disclosed above and retained earnings and reserves disclosed in Notes 20 and 21. CWT's management reviews the capital structure regularly and balances its overall capital structure through payment of distributions, new unit issues as well as the drawing of new debt or repayment of existing debt. Hedging is utilised to minimise risk exposure. Details of hedges are contained in Note 23.

Capital risk is monitored against policies, guidelines and externally imposed covenants:

	CWT policy	30 June 2010	30 June 2009
Gearing	Targeted gearing limit of 45%-55% (i)	55%	54%
Interest rate risk	To effectively hedge the interest on greater than 60% of drawn debt over the life of the underlying lease	64%	76%
Foreign currency risk	Capital hedging – To maintain a natural capital hedge against a minimum of 90% of the total value of assets invested offshore (ii)	114%	99%

(i) CWT's targeted gearing limit is calculated as debt less cash in term deposit set-off accounts/total assets (with assets recognised at fair value as disclosed in Note 16) less cash in term deposit set-off accounts.

(ii) CWT remains temporarily over hedged in regard to its NZD assets. It is anticipated CWT will move to within its preferred hedging range on completion of its debt refinancing due by May 2011.

During the year ended 30 June 2010 and 30 June 2009, the financial covenants under the borrowing facilities were complied with.

In light of the narrowed gearing covenant headroom at 30 June 2010, the potential for investment property values to further decline, and CWT's next debt maturity in May 2011, CWT is conducting a review of capital management alternatives to ensure ongoing compliance with banking covenants and to position itself to secure refinancing. Advisors have been appointed to assist with a review of capital management alternatives and CWT is in active discussions on recapitalisation alternatives.

Notes to the financial statements

For the year ended 30 June 2010

Note 20 – Retained earnings

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Reconciliation of retained earnings:		
Opening balance at beginning of the year	(32,064)	4,359
Impairment of non-current assets	(4,118)	(813)
Net fair value movement of non-current assets held at year end	(26,179)	(39,715)
Amortisation of fair value of derivatives on reset hedge positions	(536)	(62)
Deferred leasing incentives	886	–
Net fair value movement of non-current assets sold during the year – undistributed	117	–
Foreign exchange gain	305	–
Maintenance capital expenditure – paid from current year net income	711	–
Fair value movement of derivatives on reset hedge positions	1,057	4,167
Undistributed operating income used to pre pay debt	5,605	–
Balance at end of the year	**(54,216)**	**(32,064)**

Note 21 – Reserves

Movements in reserves were as follows:

Consolidated	Foreign currency translation $'000	Cash flow hedge $'000	Total $'000
At 1 July 2008	**511**	**2,058**	**2,569**
Currency translation movements	135	–	135
Amounts transferred to finance costs during the year	–	1,951	1,951
Amounts transferred to the income statement during the year	–	267	267
Fair value movements in derivative financial instruments	–	(16,571)	(16,571)
At 30 June 2009	**646**	**(12,295)**	**(11,649)**
Currency translation movements	(192)	–	(192)
Amounts transferred to finance costs during the year	–	3,631	3,631
Amounts transferred to the income statement during the year	–	864	864
Fair value movements in derivative financial instruments	–	(4,868)	(4,868)
At 30 June 2010	**454**	**(12,668)**	**(12,214)**

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign controlled entity and the hedge of the net investment in the foreign controlled entity.

Cash flow hedge reserve

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Note 22 – Segment information

Identification of reportable segments

Operating segments have been determined based on reports reviewed by CWT's Manager, CMSL (represented by the CWT Fund Manager and Head of Real Estate) that are used to make strategic decisions. Based on these reports it has been determined that CWT has a single operating segment. CWT operates entirely within Australasia, investing in vineyard properties and wine infrastructure assets for lease to vineyard and winery operators with similar characteristics, risks and returns.

Information about geographic areas

Revenue is attributable to geographic locations based on the location of the tenants. Rental income from external tenants by geographic locations is detailed below:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Rental income		
Australia	25,259	26,842
New Zealand	5,816	5,778
Total rental income	31,075	32,620

The geographic location of non-current assets other than financial instruments is as follows:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Non-current assets excluding financial instruments		
Australia	168,802	190,486
New Zealand	56,838	66,625
Total non-current assets excluding financial instruments	225,640	257,111

Major tenants

CWT has three major tenants who individually amount to 15% or more of the rental income of CWT. These three tenants represent 72% (2009: 71%) of total rental income for the year ended 30 June 2010.

Notes to the financial statements

For the year ended 30 June 2010

Note 23 – Financial instruments

Derivative financial instruments

The following table sets out CWT's outstanding derivative financial instruments as at the balance date:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Current assets		
Interest rate swaps at fair value	280	159
	280	**159**
Non-current assets		
Interest rate swaps at fair value	–	69
	–	69
Total assets	**280**	**228**
Current liabilities		
Interest rate swaps at fair value	2,121	1,378
	2,121	**1,378**
Non-current liabilities		
Interest rate swaps at fair value	6,089	6,919
	6,089	**6,919**
Total liabilities	**8,210**	**8,297**
Net derivative financial instruments	**(7,930)**	**(8,069)**

Financial instruments measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

- **Level 1** – valued by reference to quoted prices in active markets for identical assets or liabilities;
- **Level 2** – valued using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- **Level 3** – valued using valuation techniques or models that are based on unobservable inputs.

CWT's financial instruments held at fair value, comprising interest rate swaps, use valuation techniques with only observable market inputs and have therefore been classified as level 2 on the fair value hierarchy.

Note 23 – Financial instruments (continued)

Interest rate risk

As at the reporting date, CWT had the following interest rate swaps:

Year	Notional contract value $'000	Fair value move-ments $'000	Net fair value $'000	Weighted average interest rate %	Maturity profile <1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	>5 years $'000
Consolidated										
30 June 2010	117,874	(4,868)	(7,930)	8.45%	34,632	–	22,223	6,778	2,121	52,120
30 June 2009	149,919	(16,571)	(8,069)	8.04%	28,400	34,548	–	23,063	8,226	55,682

Sensitivity analysis

CWT's sensitivity to movements in interest rates in relation to the value of financial instruments and assets is shown in the table below:

	Movement in variable %	P&L 2010 $'000	Equity 2010 $'000	P&L 2009 $'000	Equity 2009 $'000
Consolidated					
AUD					
Interest rate movement – financial instruments	+1.00%	(142)	1,112	27	1,852
	–1.00%	142	(1,141)	(27)	(1,904)
NZD					
Interest rate movement – financial instruments	+1.00%	19	2,818	11	3,280
	–1.00%	(19)	(2,927)	(11)	(3,400)

At 30 June 2010 CWT has entered into interest rate derivatives to hedge 64% (2009: 76%) of its exposure to movements in interest rates over the life of the underlying leases and 83% (2009: 100%) of its 30 June 2010 borrowing levels. CWT's profit and loss exposure to interest rate movements is in respect to interest income earned on surplus cash and the unhedged portion of its interest bearing liabilities.

Note 23 – Financial instruments (continued)

Currency risk

Consolidated entity

CWT manages its exposure to currency risk by maintaining a foreign exchange hedge between New Zealand dollar denominated assets and New Zealand dollar borrowings.

Sensitivity analysis

The analysis below shows the impact on profit and equity of a movement in foreign currency exchange rates against the Australian dollar on the New Zealand dollar foreign currency exposure at the balance date:

	Movement in variable against AUD %	P&L 2010 $'000	Equity 2010 $'000	P&L 2009 $'000	Equity 2009 $'000
Consolidated					
NZD	+5%	–	649	–	276
	–5%	–	(704)	–	(298)

Credit risk

CWT's approach to credit management utilises a credit risk framework as referred to in Note 3(b).

Owing to the specialised and sometimes smaller scale nature of the tenants' operations within CWT, assigning external ratings nomenclature is not considered appropriate. New tenants are subject to a detailed credit assessment and thereafter their credit quality is regularly monitored.

Credit support (such as bank or personal guarantees) is obtained where necessary.

The credit risk in respect of derivative transactions is spread among two counterparties, each with a S&P rating of AA.

Impairment

The following table provides an ageing analysis of CWT's financial assets at the balance date:

Consolidated			Past due but not impaired			
	Neither past due nor impaired $'000	Not past due but impaired	0-3 months $'000	>3 months $'000	Past due and impaired $'000	Total $'000
Consolidated						
30 June 2010						
Trade and other receivables	593	–	876	–	–	1,469
30 June 2009						
Trade and other receivables	243	–	1,654	–	–	1,897

All trade receivables outstanding at 30 June 2010 have been collected subsequent to year end.

Note 23 – Financial instruments (continued)

Liquidity risk

The following table summarises the contractual maturity profile of CWT's financial assets and liabilities:

Year ended 30 June 2010 Consolidated	Note	Carrying amount as per balance sheet $'000	Contractual amount $'000	<1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	>5 years $'000
Financial assets									
Non-derivative financial assets									
Cash and cash equivalents	9	11,001	11,001	11,001	–	–	–	–	–
Trade and other receivables	10	1,469	1,469	1,469	–	–	–	–	–
Derivative financial assets									
Interest rate swaps	23	280	296	296	–	–	–	–	–
Total financial assets		12,750	12,766	12,766	–	–	–	–	–
Financial liabilities									
Non-derivative financial liabilities									
Trade and other payables	17	3,819	3,819	3,819	–	–	–	–	–
Rent received in advance		1,326	1,326	1,326	–	–	–	–	–
Interest bearing liabilities (i)	18	140,286	159,023	77,189	81,834	–	–	–	–
Derivative financial liabilities									
Interest rate swaps	23	8,210	15,654	3,191	3,051	2,839	2,093	1,978	2,502
Total financial liabilities		153,641	179,822	85,525	84,885	2,839	2,093	1,978	2,502
Net financial (liabilities)/assets		(140,891)	(167,056)	(72,759)	(84,885)	(2,839)	(2,093)	(1,978)	(2,502)

Year ended 30 June 2009 Consolidated	Note	Carrying amount as per balance sheet $'000	Contractual amount $'000	<1 year $'000	1-2 years $'000	2-3 years $'000	3-4 years $'000	4-5 years $'000	>5 years $'000
Financial assets									
Non-derivative financial assets									
Cash and cash equivalents	9	5,841	5,841	5,841	–	–	–	–	–
Trade and other receivables	10	1,897	1,897	1,897	–	–	–	–	–
Derivative financial assets									
Interest rate swaps	23	228	380	200	180	–	–	–	–
Total financial assets		7,966	8,118	7,938	180	–	–	–	–
Financial liabilities									
Non-derivative financial liabilities									
Trade and other payables	17	3,148	3,148	3,148	–	–	–	–	–
Rent received in advance		888	888	888	–	–	–	–	–
Interest bearing liabilities (i)	18	149,264	170,106	9,915	67,553	92,638	–	–	–
Derivative financial liabilities									
Interest rate swaps	23	8,297	24,660	4,082	4,202	3,958	3,845	2,805	5,768
Total financial liabilities		161,597	198,802	18,033	71,755	96,596	3,845	2,805	5,768
Net financial (liabilities)/assets		(153,631)	(190,684)	(10,095)	(71,575)	(96,596)	(3,845)	(2,805)	(5,768)

(i) The contractual amount of interest bearing liabilities at the year end represents the undiscounted future principal and interest payments until expiry of the facility terms. Future interest payments are calculated using the floating interest rate and bank margin at the year end.

Fair values

All assets and liabilities recognised in the balance sheet, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

Note 24 – Related party disclosure

(a) Responsible Entity

The Responsible Entity of CWT is CLIL, a wholly owned subsidiary of Challenger Life Holdings Pty Limited.

(b) Controlled entities

The consolidated financial statements include the financial statements of Challenger Wine Trust and the controlled entities listed in the following table:

Name	Country of incorporation	% Equity interest 30 June 2010	30 June 2009
Delegat's Trust	New Zealand	100	100
Southcorp Trust	Australia	100	100
McGuigan Simeon Trust	Australia	100	100

(c) Details of Key Management Personnel

(i) Directors

The Directors of CLIL, the Responsible Entity of CWT, are considered to be Key Management Personnel.

- Brenda Shanahan *Chair*
- Michael Cole
- Ian Martens
- Geoff McWilliam
- Ian Moore
- Brendan O'Connor
- Rob Woods

During the year ended 30 June 2010, Directors were paid $676,410 (2009: $663,671) in respect of their directorship of the Responsible Entity. This amount includes all fees paid to the Directors of CLIL in respect of their Responsible Entity Board and Committee duties for all Funds, including CWT and three other funds (Challenger Diversified Property Trust, Challenger Infrastructure Fund and Challenger Kenedix Japan Trust (Challenger Kenedix Japan Trust was privatised during the year and CLIL subsequently resigned as its Responsible Entity).

(ii) Key Management Personnel

In addition to the Directors noted above, the following were considered Key Management Personnel during the period with the authority for the strategic direction and management of CWT:

- Trent Alston (Head of Real Estate)
- Nick Gill (Fund Manager, CWT)

(iii) Compensation of the Key Management Personnel of CWT

No amounts are paid by CWT directly to the Key Management Personnel individuals of the Trust.

Compensation paid directly to CLIL in the form of fees is disclosed in Note 24(f).

Note 24 – Related party disclosure (continued)

(d) Management fees

The Responsible Entity is entitled under the constitution to be reimbursed for certain expenses incurred in administering the Trust. The basis on which the expenses are reimbursed is defined in the constitution.

Management fees policy

In accordance with the constitution, the Responsible Entity is entitled to a fee equal to 0.65% per annum of the total asset value of CWT up to and including $1 billion (plus 0.45% of the total asset value in excess of $1 billion), and 1.5% on capital acquisitions, assessed at the end of each month.

The Responsible Entity is also entitled to receive up to 1% per annum of the properties' annual gross income for managing the vineyards, payable monthly.

Management fee expenses are recognised on an accruals basis as they are incurred.

The Responsible Entity has delegated certain of its management activities to CMSL.

(e) Custodian

The Custodian of the Parent (CWT) is Australian Executor Trustees Limited.

(f) Related party transactions

The following table discloses all fees paid by CWT to CLIL under the Trust constitution and to CMSL under the management agreement with CLIL:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
(a) Responsible Entity fees for the year paid or payable to CLIL	300	300
(b) Management fees for the year paid or payable to CMSL	1,708	2,050
Total fees as per the income statement	**2,008**	**2,350**
(c) Transaction fees for the year paid or payable to CMSL which have been capitalised to property acquisitions and developments	16	10
Total fees paid or payable for the year	**2,024**	**2,360**

Total expenses paid by CWT to reimburse CMSL in respect of costs paid on behalf of CWT for the year ended 30 June 2010 were $147,234 (2009: $105,104).

All transactions were in accordance with agreements.

Notes to the financial statements

For the year ended 30 June 2010

Note 24 – Related party disclosure (continued)

(g) Units held in CWT by Directors and Key Management Personnel

As at the balance date, the interests of the following related parties in units of CWT were:

	Balance at beginning of the year 30 June 2009 No. of units	Change during the year No. of units	Balance at end of the year 30 June 2010 No. of units
Related entities			
Challenger Life Company Limited	47,249,788	5,672,767	52,922,555
CLIL Directors			
B Shanahan	400,000	–	400,000
IM Martens	256,148	6,464	262,612
I Moore	480,000	57,628	537,628
G McWilliam	130,000	–	130,000
B O'Connor	6,000	(6,000)	–
R Woods	233,812	28,071	261,883
Key Management Personnel			
T Alston	221,684	(109,679)	112,005
N Gill	194,458	(511)	193,947
Total	**49,171,890**	**5,648,740**	**54,820,630**

Note 25 – Parent entity information

	Parent 30 June 2010 $'000	Parent 30 June 2009 $'000
Information relating to Challenger Wine Trust (Parent)		
Current assets	15,063	5,701
Total assets	**155,799**	**171,534**
Current liabilities	10,295	5,540
Total liabilities	**63,380**	**71,466**
Issued capital	150,928	145,644
Retained earnings	(54,723)	(41,330)
Cash flow hedge reserve	(3,786)	(4,246)
Total equity	**92,419**	**100,068**
Profit from operating activities after tax	15,471	16,137
Net (loss)/profit after tax	(5,643)	(13,277)
Fair value movements in derivative financial instruments	460	(6,854)
Total comprehensive income of the parent entity	**(5,183)**	**(20,131)**
Capital expenditure commitments		
Total capital expenditure commitments for maintenance and further development of various vineyards	192	506

Note 26 – Auditor's remuneration

The auditor of CWT is Ernst & Young.

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Amounts received or due and receivable by Ernst & Young for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group	95	81
	95	**81**

Note 27 – Commitments and contingencies

Operating lease commitments – CWT as lessor

CWT has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have remaining terms of between three months and seven years. The rates are based on predetermined formulae in each lease.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Within one year	30,090	31,812
After one year but not more than five years	88,561	100,314
More than five years	19,724	36,591
	138,375	**168,717**

Capital expenditure commitments

Capital expenditure commitments of $276,338 (2009: $673,147) have been made by CWT for maintenance and further development of various vineyards. These commitments will be secured by CWT and financed using cash on hand.

	Consolidated 30 June 2010 $'000	Consolidated 30 June 2009 $'000
Within one year	262	532
After one year but not more than five years	14	141
More than five years	–	–
	276	**673**

Note 28 – Events subsequent to the balance sheet date

There has been no matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect:

(a) CWT's operations in future financial years; or

(b) the results of those operations; or

(c) CWT's state of affairs in future financial years.

Statement by the Directors of the Responsible Entity of CWT

On the financial report of the Challenger Wine Trust

In accordance with a resolution of the Directors of Challenger Listed Investments Limited (the Responsible Entity of the Challenger Wine Trust (herein known by its ASX code 'CWT')), I state that:

1. In the opinion of the Directors:

   (a) The financial statements and notes of CWT are in accordance with the Trust constitution and the Corporations Act 2001, including:

      (i) giving a true and fair view of CWT as at 30 June 2010 and of its performance for the period ended on that date;

      (ii) complying with Australian Accounting Standards as issued by the Australian Accounting Standards Board, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the Corporations Regulations 2001; and

   (b) There are reasonable grounds to believe that CWT will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ended 30 June 2010.

On behalf of the Board

Brenda M. Shanahan

Brenda Shanahan
Chair

Sydney
26 August 2010

Independent audit report to unitholders of Challenger Wine Trust

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Independent auditor's report to the unitholders of Challenger Wine Trust

We have audited the accompanying financial report of Challenger Wine Trust (the 'Trust'), which comprises the balance sheet as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of Challenger Listed Investment Limited, the Responsible entity of the Trust and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity of CWT are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

Independent audit report to unitholders of Challenger Wine Trust (continued)

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of Challenger Wine Trust is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter - Significant Uncertainty as to Going Concern

Without qualifying our opinion, we draw attention to Note (2a) in the financial report which states that the Trust's current liabilities exceed current assets by $60.2m and that the Trust needs to refinance $58.2m of its secured bank debt within 12 months. These factors cast doubt over whether the Trust will realise its assets and extinguish its liabilities in the normal course of the business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Trust not continue as a going concern.

Ernst & Young

Elliott Shadforth
Partner
Sydney
26 August 2010

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** 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 Registry as follows:

Challenger Wine Trust
c/- 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

If you have any questions relating to the management of the Trust, please contact Challenger on +61 2 9994 7000, or send an email to cwt@challenger.com.au.

Distributions

CWT pays distributions six-monthly – for the periods ending 31 December and 30 June. Distribution payments can be paid by:

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

Annual taxation statements

The taxable income shown on your Annual Taxation Statement is taxable in the year of entitlement rather than the year of receipt. This means that taxable income included in distributions paid in February 2010 and August 2010 is assessable in the taxation year ended 30 June 2010.

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.

Unitholder complaints

If you are dissatisfied with a service or process relating to your investment, please let us know. Complaints can be made either verbally or in writing by contacting:

Complaints Manager
Challenger Wine Trust
c/- 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

The Responsible Entity has a documented internal dispute and resolution policy in line with the Australian Standard for Complaint Handling ISO 10002_2006.

If you are not happy with how the complaint has been handled, you may contact the Financial Ombudsman Service (FOS), of which the Responsible Entity is a member. This is an independent body and is approved by ASIC to consider complaints. The contact details for FOS are:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808
www.fos.org.au

Unitholder information (continued)

Substantial unitholdings as at 27 August 2010

	Effective date	Number of units	% issued capital
Challenger Financial Services Group Limited	12-Apr-06	46,427,223	27.26%
Commonwealth Bank of Australia	09-Feb-10	10,330,416	5.42%

Top 20 unitholders as at 27 August 2010

Number	Name	Number of units	% issued capital
1	J P Morgan Nominees Australia Limited	52,987,366	27.78%
2	HSBC Custody Nominees (Australia) Limited	11,131,407	5.84%
3	Mr David Dixon and Ms Catherine Ramm	6,760,295	3.54%
4	Mr Alan Segel	4,603,400	2.41%
5	Crownace Pty Ltd	3,750,000	1.97%
6	Mr Alan Jeffrey Segel	2,434,130	1.28%
7	ASB Nominees Limited	1,906,000	1.00%
8	Mr David Dixon	1,699,820	0.89%
9	Mr Stephen Geoffrey Burns	1,545,291	0.81%
10	AGO Pty Ltd	1,348,001	0.71%
11	Contemplator Pty Ltd	1,276,275	0.67%
12	RBC Dexia Investor Services Australia Nominees Pty Limited	1,265,400	0.66%
13	Mr Christopher John Elliott	1,225,425	0.64%
14	Forbar Custodians Limited	951,050	0.50%
15	Mr Reinier Paul De Lange and Mrs Bobbie Shane De Lange	860,000	0.45%
16	Five Talents Limited	845,000	0.44%
17	C J F Pty Ltd	790,400	0.41%
18	UBS Wealth Management Australia Nominees Pty Ltd	778,645	0.41%
19	Citicorp Nominees Pty Limited	756,516	0.40%
20	Mr Graham Ian Holdaway and Mrs Kristina Mary Irving Holdaway	750,000	0.39%
	Total	**97,664,421**	**51.20%%**

At 27 August 2010 there were 336 unitholders each holding less than a marketable parcel of 2,564 units.

Voting rights

On a show of hands, each member of CWT, being a holder of ordinary units (Member) has one vote. On a poll, each Member has one vote for each dollar of the value of the total units held by that Member.

Spread of unitholders as at 27 August 2010

Holding	Number of holders	Units	%
1 to 1,000	129	55,414	0.03
1,001 to 5,000	641	2,112,814	1.11
5,001 to 10,000	679	5,495,845	2.88
10,001 to 100,000	1,649	49,574,062	25.99
100,001 and over	188	133,521,707	69.99
Total	**3,286**	**190,759,842**	**100.00**

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Directory

Challenger Wine Trust (CWT)

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 the Responsible Entity

BM Shanahan (Chair)
MJ Cole
IM Martens
GK McWilliam
IR Moore
BJ O'Connor
RJ Woods

Company Secretary

C Robson
S Koeppenkastrop

Manager

Challenger Management Services Limited
ABN 29 092 382 842

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