MARKET RELEASE

CWT FY10 OPERATING PROFIT AFTER TAX: $15.2 MILLION

Key points

- Profit from operating activities after tax of $15.2 million or 8.5 cent per unit (cpu)
- FY10 distribution of 4.25 cpu; 2H10 distribution of 1.0 cpu
- Industry conditions remain challenging, impacting property valuations and LVRs
- 17 properties (85%) independently valued as at 30 June 2010 with 10.2% devaluation across the portfolio; remainder revalued as at 31 December 2009. Total FY10 property decrement: $30.3 million
- Net Independent Value (NIV) 49 cpu as at 30 June 2010
- Occupancy: 99.4%; weighted average lease term to expiry (WALE): 4.1 years
- Covenant gearing at 57.0%[1]; operating within all bank covenants with reduced LVR headroom
- Capital management alternatives under review

27 August 2010, Sydney – Challenger Wine Trust (ASX:CWT) today announced profit from operating activities after tax of $15.2 million for the twelve months ended 30 June 2010 (FY10), down 6.0% on 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.

CWT Fund Manager Nick Gill said: "CWT has produced another strong cashflow result in FY10 with $15.2 million operating profit, equivalent to 8.5 cpu. 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 deterioration, and property write-downs have again negatively impacted LVRs and reduced CWT's banking covenant headroom."

A final distribution of 1.0 cpu will be paid on 30 August 2010 to unitholders on the register at the record date of 30 June 2010, bringing total distributions for FY10 to 4.25 cpu.

Industry conditions

The vineyard sectors in Australia and New Zealand are progressing remedial actions to counter the over supply of wine grapes. In Australia, approximately 8%[2] of vines have already been removed from an

[1] Weighted average; includes $7.2 million term deposit set-off account applied against debt
[2] CWT estimate

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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 by around 8% 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. Including the $5.2 million decrement to carrying value in the first half of the year, the FY10 portfolio decrement totals $30.3 million. Seventeen properties, representing 85% of the portfolio by value, were independently valued at 30 June 2010 and all properties have been independently valued in the past eight months.

CWT's underlying portfolio metrics remain relatively well placed with occupancy at 99.4% and a WALE of 4.1 years. 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 their 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[3] million 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.

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

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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 in relation to these alternatives.

Property sales

CWT has continued to sell down properties as a part of its capital management program. During the first half of FY10 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 the second half of the year, 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 the high security water rights.

Outlook

CWT Fund manager Nick Gill said: “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 responding to the new market dynamics. Our largest tenant - Australian Vintage Limited - recently reported improved profit and cashflow, 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 continues to provide security of cashflow during this period of adjustment for the industry.”

ENDS

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

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