MARKET RELEASE

CWT HALF YEAR OPERATING PROFIT AFTER TAX: $7.3 MILLION

FY10 DISTRIBUTION GUIDANCE OF 7.00 CPU[1]

Key points

- **Net property income in 1H10 $15.5 million; Operating profit after tax of $7.3 million**
- **Post DRP gearing reduced to 52.3% following debt repayment of $9.9 million since June 09**
- **Eleven of 22 properties revalued (39% of portfolio by value) at 31 December 2009, resulting in 2.1% decrement across the whole portfolio. All properties revalued during the 2009 calendar year**
- **Sound property portfolio metrics continue – occupancy: 99.2% and WALE: 4.6 years**
- **Net Independent Value (NIV) 61 cents per unit, post DRP**
- **Operating within all bank covenants**
- **Interim distribution of 3.25 cents per unit for 1H10 payable 9 February 2010**
- **Full year (FY10) distribution guidance of 7.00 cents per unit announced**
- **Ongoing focus continues to be capital management iniativies to lower gearing**

4 February 2010, Sydney – Challenger Wine Trust (ASX:CWT) today announced profit from operating activities after tax of $7.3 million for the six months ended 31 December 2009 (1H10), down 13% on 1H09 prior corresponding period (pcp). Net property income of $15.5 million was down 6.9% from pcp, due to the impact of a rent rebate granted to a major tenant, combined with the decrease in income from properties sold during 2009. Operating costs remained steady. Net profit after tax of $2.4 million was down from $2.9 million (pcp), after allowing for an unrealised property revaluation decrement of $5.3 million.

An interim distribution of 3.25 cents per unit (cpu) has been confirmed today and will be paid on 9 February 2010 to unit holders on the register at the record date of 31 December 2009. Distribution guidance for the full year ending 30 June 2010 is 7.00 cpu[1].

CWT's Fund Manager Nick Gill said: "In its 11th year, CWT has produced a solid result despite the challenging industry conditions. I am pleased today to be in a position to give full year distribution guidance. CWT's cash flow remains healthy and pleasingly the net liability of $21.7 million reported this time last year

[1] Assumes underwritten DRP

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arising from the mark to market of interest rate swaps has reduced significantly to $6 million. CWT remains positioned to see through this difficult cycle, with sound portfolio metrics expected to continue throughout 2H10, supported by a diversified property portfolio with established wine company tenants and properties of a magnitude to provide economies of scale."

Industry conditions and outlook

The Australian wine industry faces three key challenges in the short term; wine stock over supply, excess vineyard capacity and a strong Australian dollar impacting exports particularly into USA and UK, all leading to lower grapes prices.

The industry in Australia has begun to address the significant imbalance in the supply of grapes and sales of wine. It is expected that while this transformation occurs the financial conditions for growers will remain challenging. Grape contracts have been cancelled or notice given to cancel, vines have been removed, grape prices have fallen and growers are leaving grapes unharvested. While difficult for growers these are all necessary moves to restore a future sustainable supply/demand balance.

The industry is suggesting circa 30,000 hectares of the estimated 157,000 hectares under vine are now surplus to current market requirements. It is expected uncontracted vines and some smaller less efficient vineyards will be removed over the next two to three years as wine companies buy less grapes. It will be these comprehensive actions which will restore the supply balance to ensure a thriving wine industry.

The New Zealand industry has been impacted by similar circumstances to Australia, an over supply of sauvignon blanc grapes, despite the considerable export success globally, in particular into Australia. Wine companies where possible are combating the issue by enforcing reduced yields on grape growers, thereby lifting quality and reducing excess bulk wine sales. Grape prices have reduced as much as 20%, which in combination with lower grape yields and less contracts, has placed pressure on the vineyard sector particularly in the Marlborough region.

Tenants

CWT owns and manages a portfolio of 22 vineyards (inclusive of two wineries). The asset base includes the land, vines, infrastructure and water rights on the individual properties. The properties are leased primarily to wine companies who are then responsible for the running of the vineyard and entitled to the grape production. As a result, while industry conditions are important for CWT's tenants, CWT's property income exposure to fluctuations in grape supply, prices and growing conditions is indirect in nature.

Approximately 95% of CWT's vineyards are leased to wine companies, who supply both domestic and global markets, with the balance leased to contract grape growers. The majority of these wine companies are stock exchange listed (or subsidiaries of) and include Australian Vintage (AVL), Delegat's Group, Pernod Ricard Pacific and Foster's Group.

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CWT's largest tenant is ASX-listed Australian Vintage Ltd with its leases accounting for circa 35% of portfolio value. AVL is one of Australia's largest listed wine companies and has been a core tenant of CWT's over the past decade. As previously advised, CWT has agreed to provide a rent rebate to AVL of $1.36 million in FY10 for three vineyards[1] where rental increases had exceeded market rents, in exchange for certain improved lessor terms. The rent rebate represents approximately 11% of AVL's total annual rent payable to CWT. Further AVL recently announced[2] that it is in discussions with Constellation Brands Inc. (CBI) which may result in a possible combining of part of CBI's Australian and UK wine operations with AVL, potentially creating synergies between the two companies and better positioning both for success in the current challenging operating environment.

Portfolio and property valuations

CWT's properties are geographically diversified across Australia (75%) and New Zealand (25%) and cover both warm (49%) and cool climate (51%) grape growing regions. Circa 94% are greater than 50 hectares, substantially greater than the average vineyard size and provide tenants with the opportunity to generate significant economies of scale.

CWT's fundamentals remain sound with occupancy at 99.2% and a weighted average lease expiry (WALE) of 4.6 years.

In the 12 months to 31 December 2009, all of the 22 properties were revalued. Eleven of these were revalued as at 31 December 2009 (39% of the portfolio by value), with a decrement to fair value of $5.3 million or 2.1% across the entire portfolio.

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 gross proceeds of $2.1 million.

Capital management

On 30 November 2009 CWT announced an underwritten Dividend Reinvestment Plan (DRP) for the 1H10 distribution. CWT's largest unit holder, Challenger Financial Services Group which owns 27.7% of CWT units, committed to participate in the DRP for the whole of its holding and stockbroker Bell Potter underwrote the balance.

The participation in the DRP was 43% and combined with the underwriting raised $5.5 million. Capital raised was used to strengthen CWT's balance sheet. Combined with the proceeds of asset sales and surplus cash, $9.9 million of debt has been repaid since 30 June 2009, reducing gearing to 52.3%. CWT has now reduced debt for two consecutive periods, total debt is down circa $19 million from a height of $159 million in

[1] Schubert's, Waikerie and Whitton vineyards
[2] AVL company announcements 2 November 2009

December 2008. CWT will continue to pay down debt, strengthening its balance sheet, by pursuing various capital management initiatives going forward.

Post the underwritten DRP, CWT's total drawn borrowings are now $140 million, with a weighted average cost of borrowings (including margins) of 8.04%, flat for the period.

Asset value per unit

As at 31 December 2009 Net Independent Value (NIV) was unchanged from 30 June 2009 at 66 cpu. As a result of the DRP dilution the NIV will reduce to 61 cpu as at 9 February 2010 on the issue of new units. NIV represents the Net Assets of the fund plus the fair value increment of water rights as assessed by independent valuers. Management believes NIV represents the intrinsic value of CWT, the price a purchaser would pay for the assets of the business net of liabilities. Under accounting principles NAV only includes water rights at their historical cost, as they are classified as intangible assets. NAV does not include the fair value of CWT's water rights which are a strategic asset of CWT given the scarcity of the resource.

Summary

"Despite the difficulties confronting the wine industry, the quality of CWT's property portfolio with its large scale vineyards leased primarily to wine companies, continues to underpin CWT's sound cash flow. Our ongoing focus continues to be capital management iniatives to lower gearing and improve CWT's balance sheet.

"The movement towards sustainable supply and demand for the wine industry has commenced, with experts predicting this process to last several years. Once supply has stabilised we can expect to see a more vibrant wine sector in which CWT will continue to be a key participant providing valuable vineyard resources to the major wine-producing companies."

ENDS

About Challenger Wine Trust (CWT):

CWT is the second largest vineyard owner in Australasia. CWT has total assets of $271 million (at 31 December 2009) and owns 22 properties across Australia and New Zealand. CWT's strategically located assets (including water rights) are mainly tenanted to wine companies. Further details are provided on CWT's website www.challenger.com.au/cwt

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