

## MARKET RELEASE

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### **CWT UPDATE INCLUDING 1H10 ESTIMATED INTERIM DISTRIBUTION AND UNDERWRITTEN DISTRIBUTION REINVESTMENT PLAN (DRP)**

4 December 2009, Sydney – Challenger Wine Trust (ASX:CWT) today provided an update on its operations, capital management and market conditions, and announced an estimated interim distribution of 3.25 cents per unit for the six months ending 31 December 2009<sup>1</sup> along with details of an underwritten DRP.

#### **Operations update**

Whilst challenging conditions continue for the Australian wine and vineyard sector, CWT's operations have remained relatively stable with occupancy levels holding around 99%.

Earlier this year CWT's largest tenant, Australian Vintage Limited (AVL), released a strategic review aimed at returning the group to sustainable profitability. Subsequently AVL commenced discussions with CWT specifically in relation to several vineyards where rental increases had exceeded market rents. CWT has agreed to provide a rent rebate to AVL of \$1.36 million in FY10 in respect of three vineyards<sup>2</sup>, in exchange for certain improved lessor terms. The rent rebate represents approximately 11% of AVL's total annual rent payable to CWT. AVL recently announced<sup>3</sup> 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.

Incorporating the impact of the above, CWT is forecasting a reduced operating profit for the six months ending 31 December 2009, with an estimated interim distribution of 3.25 cents per unit payable on or around 9 February 2010.

#### **Capital management**

Capital management initiatives to reduce gearing remain a key focal point. CWT continues to prudently pursue asset sales and in the current financial year CWT has finalised the sale of Bethany Creek and Vine Vale Vineyards in the Barossa Valley along with Dalswinton Vineyard in the upper Hunter Valley for a combined price of \$2.0 million, in line with their book value at 30 June 2009. There continues to be some interest in several other CWT properties but sales are difficult to secure in the current market.

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<sup>1</sup> This amount is an estimate only and is subject to review by the Board and other external factors. Consequently, the actual interim distribution to be announced in February 2010 as part of the release of CWT's results for the half year ended 31 December 2009 may differ

<sup>2</sup> Schubert's, Waikerie and Whitton vineyards

<sup>3</sup> AVL company announcements 2 November 2009



## Underwritten DRP

As a further capital management initiative, CWT has reactivated its Distribution Reinvestment Plan (DRP) for the distribution for the half year ending 31 December 2009. The issue price for units issued under the DRP will be calculated at a 5% discount to the average of the daily volume weighted average price during the period commencing on 27 January 2010 and ending on 2 February 2010.

CWT has entered into an underwriting agreement with Bell Potter Securities Limited (Bell Potter) in respect of participation in the DRP for the half year ending 31 December 2009 distribution. CWT's largest unitholder, the Challenger Financial Services Group<sup>4</sup> which owns 27.74% of CWT units on issue, has committed to participate in the DRP for the whole of its holding (CFG Amount). Bell Potter has agreed to underwrite subscriptions for units under the DRP up to an amount equal to the distribution less the CFG Amount. Based on current estimations the DRP will provide extra capital of around \$5.5 million which will be used to lower gearing.

A letter outlining the DRP and inviting unitholders to participate, along with an election form, has been mailed to CWT unitholders. Only unitholders who are resident in, or whose address on the register is in, Australia or New Zealand are eligible to participate in the DRP. A copy of CWT's DRP rules is available for viewing at [www.challenger.com.au/cwt](http://www.challenger.com.au/cwt) under the Corporate Governance tab.

## Market conditions

The challenging conditions confronting the wine and vineyard sector were recently highlighted in a statement and action agenda published by peak industry bodies<sup>5</sup> estimating that at least 20% of bearing vines in Australia are currently surplus to requirements.

CWT Fund Manager Nick Gill commented: "The Wine Restructuring Action Agenda provides a blueprint to return the industry to sustainable profitability as quickly as possible. The industry as a whole is now addressing the issues and changes are occurring; vines are being removed and wine companies are reducing intake to match demand. In New Zealand, the industry is also suffering from over-supply but not to the same extent as is in Australia. While the issues of the domestic industry will not be fixed overnight, CWT's outlook will be enhanced by the expected improvement in the profitability of its wine-company tenancies as they move toward balancing their grape demand with their wine sales by reducing grape intake".

*ENDS*

### Important notice:

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

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<sup>4</sup> Challenger Financial Services Group Limited and its related bodies corporate including Challenger Life Company Limited

<sup>5</sup> Wine industry must confront the reality of oversupply - A statement to the wine industry by the Winemakers' Federation of Australia, Wine Grape Growers' Australia, the Australian Wine & Brandy Corp'n and the Grape & Wine Research and Development Corp'n (Nov 09)

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