



ASX Announcement

Cheviot Bridge records profit in difficult environment

The Board of Cheviot Bridge Limited today released its financial accounts for the full year ended 30 June 2006, which reflects the first full year of operations for Cheviot Bridge as a listed entity and also include the results of Kirribilly Viticulture from 1 March 2006.

Financial Information	
Revenue from ordinary activities	\$ 20.2 million
Net profit before tax	\$ 503, 000
Net profit after tax	\$ 362, 000

Key Points

- Revenue up 113 % (excluding impact of one-off gain from litigation settlement in 2005) - driven by increase in cases sold, viticulture revenues from 1 March 2006 and a full twelve month reporting period versus seven months for 2005.
- NPAT down 38.9% (excluding impact of one-off gain from litigation settlement in 2005) impacted by reduced total margin due primarily to poor results in the export division, increased marketing spend to develop brands and the impact of increased fuel costs in the wine division.
- Low capital intensity model proving robust in difficult industry conditions – demonstrated by low gearing of 18.4%, inventory to product sales of 18% and funds employed to sales (excluding intangibles) of 50%.
- Diversification strategy providing alternative revenue streams and base for growth has been delivered – with listing of Cheviot Kirribilly Vineyard

Property Group and appointment of Cheviot Bridge as asset and viticulture manager.

Operational Review

Wine Division

- Domestic wine sales recorded above market growth rate by case and at the total gross margin line. Long Flat and Braided River brands in particular are performing well.
- Branded export sales fell 38% and there was a 44% decline in the total gross margin line. The results, which significantly impacted the wine division results, were driven by inventory run down in North America and the strength of competing brands. The Export Manager has left the Company.
- Recognising the importance of the export business to the long term sustainability of the business model, marketing resources which have successfully repositioned the brands in the domestic markets will focus on supporting export brand positioning in the current financial year.
- A new Tetra Pak range has been introduced providing first mover advantage in the export market for Australian wine in this proven category.
- Private label sales remained stable – the new three year private label supply deal with a major UK distributor is progressing well and will focus on select sourcing at the higher end of the bulk wine market.
- New wine supply deal reduces cost of wine for major brands by 10 per cent from 1 July 2007. This benefit is expected to enable margins to be maintained at current levels.
- Investment in marketing was up almost 70% consistent with Cheviot Bridge's strategic focus on innovation and developing and maintaining strong brands as a competitive advantage in a highly competitive market.
- Introduction of new products – La Vie and Tetra Pak in this quarter 2006 demonstrates the ability to deliver consumer driven, innovative products.
- Terrace Value brand was re-launched in 2006.

- In line with its virtual model, Cheviot Bridge has elected not to exercise the Call Option on the Terrace Vale property and will transition the brand into a core Cheviot offering, removing future agricultural risk from the group. The property will be sold in accordance with the option agreement.

New business streams

- Consistent with its strategy to seek alternate revenue streams within the wine industry, Cheviot Bridge has broadened its activities into wine industry asset management and operation, whilst maintaining the integrity of its low capital intensity model.
- Cheviot Bridge now earns fees from the provision of viticulture services and the management and operation of vineyards for vineyard owners such as the Cheviot Kirribilly Vineyard Property Group (a listed stapled property trust – CKP – established by Cheviot Bridge).
- Full year results include an EBIT contribution from the new business streams in line with previously announced expectations of \$500,000.
- Kirribilly Viticulture has 1,300 hectares of vineyards under management and Cheviot Asset Management has \$46 million in assets under management.

Comments

The Chairman, Mr. Paul Batchelor, said that whilst the Board is disappointed that Cheviot Bridge is not yet in a position to declare a dividend, the reported result was credible in what were very difficult trading conditions for the wine industry generally.

“That Cheviot Bridge is one of the only listed domestic wine groups to report a profit tells you how difficult industry conditions have been” said Mr Batchelor.

“Given our unique business model, we do not face the issues of excess inventory or investment in under-utilised assets that other wine companies do,” Mr Batchelor said. “However, we are not immune from the intense

competition and margin pressure that is inherent in an industry facing oversupply and retail consolidation."

"Our low capital intensive strategic model has demonstrated its robustness at a time when other wine companies have reported significant difficulties. The expansion of the Company into asset management and viticulture management services expands that strategy into sectors of the industry where we believe there are opportunities to make good returns for shareholders."

"The expansion of the Company's revenue streams to include services to the industry is both sensible for our shareholders and advantageous to an industry that needs to explore more effective and efficient ways to deal with unwieldy cost and capital bases," he observed.

"The acquisition of Kirribilly Viticulture and the establishment of the asset management business bring annuity income streams to Cheviot Bridge without impacting our low capital intensity model."

Outlook

Mr Batchelor said the Company's focus for the 2007 year was to deliver an improved profit result by continuing to focus on quality product delivery in all markets and exploring innovative ways of differentiating what the company had to offer to customers by capitalising on the opportunities created by the diversification strategy.

"The introduction of the new Tetra Pak wine range is particularly exciting for export and we believe that our first mover advantage with an Australian brand in this proven category will provide a significant competitive advantage in key markets" he said.

“We are also working on a number of strategic initiatives to grow the business leveraging our business model and our new business streams”.

Mr. Batchelor concluded: “Management is fully committed to improving profitability and with the impact of the Kirribilly transaction and the establishment of our asset management business, Cheviot Bridge is well positioned when the industry environment turns. The Board believes that we have the right model and strategy to deliver long term value for our shareholders”.

Enquiries:

David Wood, Chief Financial Officer

03 9820 9080

Paul Batchelor, Chairman

02 8524 9920

About Cheviot Bridge Group

Cheviot Bridge is a listed company that owns and distributes in excess of 400,000 cases of wine each year, both domestically and in export markets. The Cheviot Bridge wine business has adopted a low capital intensity model by outsourcing production, packaging and agricultural risk.

The Cheviot Bridge Group is backed by an experienced management team and board committed to growing shareholder value through leveraging both the existing business and establishing alternative service based revenues in the sector.

During the 2006 financial year the Cheviot Bridge Group broadened its activities into wine industry asset management and operation, whilst maintaining the integrity of its low capital intensity model. As a result Cheviot Bridge now earns fees from the provision of viticulture services and the management and operation of vineyards for vineyard owners such as the Cheviot Kirribilly Vineyard Property Group (a listed stapled property trust – CKP).