

The Australian Securities & Investments Commission (ASIC) issued the Regulatory Guide 46 (the guide) in September 2008. The Guide sets out eight disclosure principles which responsible entities must address for unlisted property schemes with retail investors. The aim of the Guide is to provide improved disclosure to retail investors.

Viento Property Limited is the responsible entity (RE) of the Southern River Syndicate (scheme). The Southern River Syndicate is a close ended unlisted property syndicate which is due for completion upon the sale of all subdivided lots.

This guide should be read in conjunction with the scheme's product disclosure statement (PDS), annual financial statements and quarterly update reports. It will be updated for any material changes or at least every six months and a copy is available on the Viento website at [www.vientogroup.com](http://www.vientogroup.com).

## Disclosure Principle 1: Gearing Ratio

*The gearing ratio indicates the extent to which a scheme's assets are funded by external liabilities. The gearing ratio can assist investors to assess the potential risk to the scheme as a result of its borrowings. Gearing ratios can be impacted by interest rate and property value movements.*

The gearing ratio is calculated using the following formula:

$$\text{Gearing ratio} = \frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$$

The gearing ratio for the Southern River Syndicate as at 31 May 2011 was 72.4% and is within banking covenants.

Note: The above gearing ratio formula is defined by ASIC and is not the gearing related ratio (loan to value ratio) formula adopted by our financiers.

## Disclosure Principle 2: Interest Cover

*The interest cover indicates a scheme's ability to meet interest payments from earnings. A property scheme's interest cover is a key indicator of its financial health. The lower the interest cover, the higher the risk that the scheme will not be able to pay its interest payments. For example, interest cover of 1.5 means that there is \$1.50 of earnings to service every \$1.00 of interest on debt.*

The interest cover is calculated using the following formula:

$$\text{Interest Cover} = \frac{\text{EBITDA*} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest Expense}}$$

\* EBITDA (earnings before interest, tax, depreciation and amortization)

The Southern River Syndicate is a residential subdivision development syndicate which has not yet produced any revenue, therefore the interest cover calculation is not applicable.

## Disclosure Principle 3: Scheme Borrowing

*This principle provides information on a scheme's borrowing maturity and credit facility expiry and any associated risks or loan breaches. A scheme's borrowings are secured against its assets and repayment of borrowings from secured creditors will rank ahead of unsecured creditors and equity investors in the scheme. Relatively short term borrowings are a risk factor if they are used to fund assets intended to be held long term. Refinancing could result in less favourable terms or the inability to refinance may result in the need to sell an asset on a forced sale basis with the risk that it may realise a capital loss.*

Southern River Syndicate	As at 31 May 2011
<b>Lender</b>	National Australia Bank
<b>Loan Amount</b>	\$22,237,538
<b>Loan Limit</b>	\$22,500,000
<b>Maturity Date</b>	31 October 2011
<b>Interest Rate</b>	100% Variable
<b>Loan covenant breaches</b>	No breaches to report

The current bank loan relates to Stages 1 and 2 which are scheduled to be completed by October 2011. A loan application will be made to the National Australia Bank for later stages for the development.

## Disclosure Principle 4: Portfolio Diversification

*This principle addresses the scheme's investment practices and portfolio risk. Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk.*

The Southern River Syndicate involves the subdivision of 23.8 hectares of land into 308 residential lots and one commercial site. The land is located within the City of Gosnells, approximately 19 km south of Perth in Western Australia.

The residential estate has been named *Riverbank at Southern River* reflecting the subdivision's close proximity to the Southern River, a tributary of the Swan River.

### Subdivision Approvals

The development was scheduled for completion in 2009. Delays in issuing the subdivision and other related development approvals by the City of Gosnells and state government agencies have extended key milestones. We expect all all stages to be completed by June 2014.

Subdivision approval for Stages 1 to 7 was granted in November 2009 by the Western Australian Planning Commission. Construction to develop the land commenced in May 2010. Works completed to date include bulk earthworks, fill importation, trenching for the sewer and installation of sewer pipes.

### Engineering & Environmental

Civil works have been completed for Stage 1. Civil works for Stage 2 were completed in May 2011.

Settlement of Stage 1 and 2 lots are expected to commence during July 2011 and continue for the following three months.

Completion of the water services is expected by September 2011.

Fibre optic telecommunication services will be installed as part of Stage 2 clearances and will be installed for the balance of the estate.

## Lot Sales

Lot Sales	Stage 1	Stage 2	Stage 3/4
Total lots	55	37	52
Lots sold	54	35	11
Lots on hold	0	0	0
Lots available for sale	1	2	41

We expect land titles to be issued for Stage 1 lots in June 2011 and Stage 2 lots in August 2011.

We aim to release the lots in Stages 5 and 6 for sale during the first three months of 2012, followed by Stage 7 lots in July to September 2012. Stage 4 lots will be released for sale in the latter half of 2013.

## Disclosure Principle 5: Valuation Policy

*This principle provides investors with details of the valuation policy and current valuation. The value of property assets can be volatile, particularly when access to credit is constrained and more properties are on the market. A significant fall in valuations will mean an increase in gearing ratio and may impact loan covenants.*

All direct property assets are independently valued prior to acquisition and every year following acquisition or more frequently if required, to assess the value of each property in the portfolio. All independent valuations are carried out by certified and practicing valuers who are registered with the appropriate professional bodies.

Between independent valuations, the board of directors of Viento Property Limited will form an estimate of the impact on portfolio property values of developments in real property markets. These estimates of current capital value are tested and supported using commercially available software developed for property valuation estimates. These estimates are made on a six monthly basis and approved by the board of directors of Viento Property Limited.

If the board of directors becomes aware of reasons to suspect that the carrying value of a real property could differ materially (i.e. up or down by 10% or more) from the most recent external valuation, a new, independent valuation is to be sought. Valuations for properties which are to be sold will seek to estimate the net proceeds of sale after all disposal costs, including government charges and Goods and Services Tax (GST) if applicable.

The property was purchased in 2006 for \$13,294,244 (incl. GST). Details of the latest valuation are below.

Property	Latest Valuation 28 February 2011	Valuer
Riverbank at Southern River: Lots 1, 1744, 1745, 1751, 1508, 1509, 1510, 1511, 1512, 1513, 1514, 22 & 23 Southern River Rd, Leslie St, Bradley St & Matisons St, Southern River WA	\$25,800,000 (GST included)	Egan National Valuers

## Disclosure Principle 6: Related Party Transactions

*This principle provides investors with information on the responsible entity's approach to related party transactions. A conflict of interest may arise when a scheme invests in, makes loans or provides guarantees to related parties.*

We may from time to time enter into transactions with related parties. Any decision to appoint a related party will be made on the basis that:

- The decision to appoint a related party is in the best interests of the unit holders;
- The agreement is entered into on an arm's length basis and approved by the board of Viento Property Limited;
- Any remuneration paid to the related party from the scheme is within prevailing market rates; and
- The arrangements are documented in writing.

## Disclosure Principle 6: Related Party Transactions (cont.)

The responsible entity of the unlisted property scheme in this document is Viento Property Limited (ABN 51 095 920 648). Viento Property Limited is a wholly owned subsidiary of Viento Group Ltd (ABN 000 714 054), an Australian public company listed on the Australian Securities Exchange (ASX Code: VIE).

The scheme does not employ personnel in their own right but is required to have an incorporated responsible entity manage its activities. The directors and executives of the responsible entity and the parent entity are the key management personnel (KMP).

No compensation is paid directly by the scheme to directors or to any of the KMPs of the responsible entity.

No director or KMP of the responsible entity or parent entity has received or become entitled to any benefit because of a contract made by the responsible entity with a director or KMP, or with a firm of which the director or KMP is a member, or with an entity in which the Director or KMP has a substantial interest.

### Loans to Directors and Key Management Personnel of the Responsible Entity

The scheme has not made, guaranteed or secured, directly or indirectly, any loans to the directors and KMP or their personally-related entities at any time during the reporting period.

### Other Transactions with Directors and Key Management Personnel of the Responsible Entity

From time to time directors and KMP or their personally-related entities may buy or sell units in the scheme. These transactions are subject to the same terms and conditions as those entered into by other scheme investors.

### Detail of Related Party Transactions

All transactions with related parties are conducted on normal commercial terms and conditions. The RE is entitled to a management fee which is calculated as a proportion of net profit and/or a proportion of gross asset value. Please refer to page 18 of the scheme PDS for additional information about fees.

Responsible entity fees and other transactions	
Management Fee	Nil Management Fees are currently being paid
Compliance Fee	Fixed \$28,080.00 p.a.
Accounting Fee	Fixed \$30,520.00 p.a.
Registry Fee	Fixed \$9,520.00 p.a.
Reimbursable expenses paid	Costs paid by the RE on behalf of the syndicate, subsequently recovered. These relate to printing, postage and other directly allocable costs.

Units in the Syndicate held by Related Parties			
Entity	Relationship	Unit holding	Interest held
Koy Pty Ltd (R C Nichevich)	Director of RE	126,469 units	0.63%
Viento Property Limited (on behalf of unit holders in Viento Diversified Property Fund)	RE	1,834,000 units 1,320,480 bonus units	15.62%

## Disclosure Principle 7: Distribution Practices

*This principle provides investors with information on the schemes distribution practices and will assist investors in assessing the sources of distributions and be informed of the sustainability of distributions from sources other than realised income.*

The scheme PDS refers to distributions as the amount earned by investors, after interest and all fees and expenses have been paid, and may include some return of capital.

The PDS forecast Total Return (which is an Internal Rate of Return) is 19.7% per annum over the life of the Syndicate. Forecast returns include profits and return of capital over time, generally in proportion with the number of lots settled each year upon commencement of selling, and will continue until all subdivided lots have been sold.

The revised forecast Total Return using current sales data (actual and forecasts) is 10.33%.

Distributions for the Syndicate were expected to commence in February 2008. This date has been extended to May 2012 (Stage 4). Once distributions commence, returns on investment will be uneven. Investors will not receive the same return each year.

## Disclosure Principle 8: Withdrawal Arrangements

*This principle provides investors with information regarding their withdrawal rights in each scheme. Unlisted property schemes often have limited or no withdrawal rights which means they can be difficult to exit.*

The Southern River Syndicate is an illiquid investment with no withdrawal arrangements until completion. The estimated completion date of September 2009 has been extended to June 2014.

## Further Information

Financial statements and quarterly updates are available on the Viento website [www.vientogroup.com](http://www.vientogroup.com). Our quarterly newsletter, Viento *Insider News*, provides investors with updates on the diversification of all Viento managed investments and is available on the Viento website.

For a copy of the Product Disclosure Statement, please contact our Client Services team.

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### **IMPORTANT INFORMATION AND DISCLAIMER**

The information provided in this investment update has been carefully prepared and reviewed and the responsible entity has based its assumptions on information available to it at the time. Neither the responsible entity nor any company related to it guarantees the performance or success of the managed investment scheme, the total distribution or the repayment of Investors' capital. Advisors and Investors should appreciate that factors which affect results may be outside the control of the responsible entity. This report has been prepared for general information only. It does not take into account your current or future financial circumstances. You should consider these matters and read the PDS for the scheme before you make an investment decision on holding or acquiring units. Nothing in the information contained in this update is intended to induce you to acquire or dispose of your units in a scheme.