



VIENTO

PROPERTY

ABN 51 095 920 648 AFSL 224663

2010/11

FINANCIAL REPORT

Viento Diversified Property Fund

ARSN 096 494 576 ABN 98 323 129 920

CORPORATE DIRECTORY

THE MANAGER & ISSUER

Viento Property Limited
ABN 51 095 920 648 AFSL No. 224663

REGISTERED OFFICE & ADMINISTRATION ADDRESS

Level 3, 11 Queens Road Melbourne VIC 3004
Telephone: (03) 9866 7019 Facsimile: (03) 9866 7029
Toll Free: 1300 55 55 05
www.vientogroup.com

COMPLAINTS INFORMATION

Viento Property Limited is committed to fair and prompt dealings with all complaints and welcomes suggestions for service improvement.

Investors in Viento Property Limited products are entitled to make an oral or written complaint. If you wish to make a complaint, please contact:

Complaints Officer
Viento Property Limited
Locked Bag 105 South Melbourne VIC 3205

Hand deliveries to:
Level 3, 11 Queens Road Melbourne VIC 3004
Phone: 1300 55 55 05

If you make a complaint:

- Your complaint will be recorded in the Manager's complaints register and acknowledged in writing;
- Progress in dealing with your complaint will be monitored by the Manager's Complaints Officer;
- The Complaints Officer for Viento Property Limited, must deal with the complaint within 60 days and then notify you in writing of any action taken or proposed to resolve the complaint and of details of the external complaints resolution procedure; and
- If you are not satisfied with the outcome, you may take your complaint to the independent complaints service listed below, without prejudice to other avenues of redress

INDEPENDENT COMPLAINTS RESOLUTION SERVICE

Financial Ombudsman Service
(ABN 64 068 901 904)
GPO Box 3, Melbourne VIC 3001
Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399
E-mail: info@fos.org.au
www.fos.org.au

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VIENTO DIVERSIFIED PROPERTY FUND
ARSN 096 494 576

REVIEW OF OPERATIONS
FOR THE YEAR ENDED 30 JUNE 2011

The Viento Diversified Property Fund (the Fund) is an unlisted, open ended diversified property fund. The Fund aims to provide tax effective income and capital growth with low volatility.

The Fund offers both retail and wholesale investment opportunities via financial planning networks and wrap accounts. It is also suitable for self-managed superannuation funds and direct investors.

The Fund did not distribute for the 30 June 2011 year. The Fund provided a total return of negative 7.2% for the 2011 financial year and gross assets decreased by approximately \$24.6 million to \$117 million following asset sales and reductions in property valuations.

Our priority for the Fund remains focused on leasing vacant space across the portfolio, particularly at the Highviews Building in Blacktown and 14 Queens Road in Melbourne, which continue to impact the cash flow due to high vacancy rates. The internalisation of the leasing function, as well as our renewed leasing strategy to offer more competitive rents and incentives in the current market, is having a positive impact and we have seen better results over the past 12 months.

In March 2011 directors of Viento Property Limited (Viento), the responsible entity of the Fund received a notice of assessment from the Victorian State Revenue Office (SRO). The Fund has recognised the \$5.2 million payable to the SRO as a liability. The assessment includes stamp duty, penalties and interest. The stamp duty assessment relates to the acquisition of units in First Enterprise Property Syndicate, V3 Property Syndicate and 925 Property Syndicate f by the Fund in 2008. Viento disputes the entire amount of the assessment and lodged a notice of objection to the SRO assessment on 27 April 2011. The appeal process is expected to progress in the normal course. For a range of reasons, the Company is optimistic about the prospect of a successful outcome.

On 29 September 2011 Viento, issued proceedings against its former solicitors in the Supreme Court of Victoria claiming negligence for advice provided on stamp duty during 2008.

The Viento directors have also recognised further liability in relation to stamp duty in other states from the acquisition of units in First Enterprise Property Syndicate, V3 Property Syndicate and 925 Property Syndicate during 2008. This has been estimated to be approximately \$1.5 million including any penalties and interest.

The Fund is currently in breach of one AXA LVR covenant. The two AXA loans expired on 30 June 2011 and 31 July 2011 and the lender has asked for the repayment of the loan amount in full. The Viento directors are in discussions with alternative financiers to refinance the expired loans. The NAB Loan facility expires on 31 October 2011 but we are confident that the facility will be extended as the Fund is not in breach of any of the NAB loan Covenants.

During the year the Fund sought to raise \$7 million via a 1 for 11 rights issue to existing unit holders, as well as offering the PDS to new investors. The Convertible Preference Unit (CPU) offer was closed on 9 November 2010 without achieving the minimum subscription level. Funds raised were returned to investors.

Our strategy remains unchanged; we are focused on preserving investors' capital by concentrating on maintaining and improving the cash flow from each of the assets by driving leasing initiatives and capital expenditure programs.

Applications and withdrawals for the Fund continued to be suspended throughout the year. Distributions from the Fund were also suspended throughout 2011.

The asset allocation as at 30 June 2011 was as follows:

	Actual 30 June 2011	Benchmark Asset Allocation*
Cash	0.4%	3%
Listed Property Trusts	0.0%	12%
Direct Property	99.6%	85%
Total:	100%	100%

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REVIEW OF OPERATIONS
FOR THE YEAR ENDED 30 JUNE 2011

*The benchmark asset allocation is from the PDS of 7 December 2007.

On 12 August 2010 the fund settled the sale of the Elermore Shopping Centre. This was later than originally contracted for and resulted in an additional \$120,000 in settlement proceeds.

On 31 May 2011, the Fund sold Oxley Mall Shopping Centre for \$14.75 million which at the time of selling had a book value of \$14.5 million. A loss on disposal of approximately \$176,000 was recorded due to selling costs.

The loss from continuing operations for the year ended 30 June 2011 was \$9,947,364 (2010 loss of \$2,253,352). The independent valuations as at 30 June 2011 resulted in a net decrease in the property values in the Fund of \$2,956,456 (2010 decrease of \$979,786) and a loss on disposal of the Oxley Shopping Mall of approximately \$176,000 offset by an increase in sale proceeds of \$120,000, from Elermore Shopping Centre from delayed settlement by the purchaser. Furthermore \$6,714,505 was expensed in providing for stamp duty assessments from state revenue offices, which the directors' expect to recover.

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RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

Report by Directors of the Responsible Entity

The Directors of Viento Property Limited (ABN 51 095 920 648), the Responsible Entity of the Viento Diversified Property Fund (“the Fund”), present their report together with the Financial Report of the Fund for the year ended 30 June 2011 and the auditor’s report thereon.

Responsible Entity

The Responsible Entity of the Fund is Viento Property Limited (“the Responsible Entity”), which has been the responsible entity since 15 April 2002. The registered office of the Responsible Entity is Level 3, 11 Queens Road, Melbourne, Victoria.

The Directors of Viento Property Limited in office at any time during or since the end of the year are:

R Nichevich
D Wright
K Murphy (resigned 31 August 2010)
S Heffernan

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal Activities

The Fund is a registered managed investment scheme domiciled in Australia. The investment activities continue to be in accordance with the investment policy of the Fund as outlined in the Product Disclosure Statement. The Fund’s direct property holding as at 30 June 2011 was 99.6%.

The investment policy of the Fund continues to be that detailed in the current Product Disclosure Statement and in accordance with the Constitution of the Fund.

The Fund itself did not have any employees during the year and there has been no significant change in its activities.

Operating Results

The loss from continuing operations of the Fund for the year ended 30 June 2011 was \$9,947,364 (2010 loss: \$2,253,352). This includes unrealised losses on investment property of \$2,956,456 (2010 loss: \$4,469,310) and an expense of \$6,714,505 payable to the SRO.

No distributions were paid or payable in respect of the 2010 and 2011 financial years.

Review and Results of Operations

The review of operations for the year ended 30 June 2011 is discussed on page 1 of the Annual Report.

Performance

	2011	2010
	%	%
Growth return	(7.19)	(10.16)
Distribution return	-	-
Total return	<u>(7.19)</u>	<u>(10.16)</u>
The relevant benchmark ⁽¹⁾	7.56	7.76

⁽¹⁾ 10-year bond yield + 2.25%.

Returns have been calculated after fees and assuming reinvestment of distributions, in accordance with IFSA Standard 6.0 Product Performance – calculation and presentation of returns.

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RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

Units on Issue

The movement of the units on issue of the Fund for the year was as follows:

	2011	2010
	no.	no.
Opening balance	80,771,205	80,771,205
Units issued	-	-
Units redeemed	-	-
	<u>80,771,205</u>	<u>80,771,205</u>
	\$	\$
Value of the Fund's net assets attributable to unit holders – liability as at 30 June	33,164,552	43,111,919

The basis for the valuation of the Fund's assets is disclosed in Note 1 to the financial statements.

Interests of the Responsible Entity and Associates

Interests of the Responsible Entity and its associates have been disclosed in Note 23 to the financial statements.

Fees paid to the Responsible Entity

The following fees were paid or payable to Viento Property Limited (Responsible Entity) (the manager) and Viento Group Limited (Parent Company) out of Fund property during the financial year.

	\$	\$
Viento Property Limited		
Manager's fees and compliance fees paid or payable	1,309,141	1,149,490
Disposal fees on the sale of property assets	147,500	-
Reimbursable expenses paid or payable	93,969	61,043
Commissions paid or payable	-	-
	<u>1,550,610</u>	<u>1,210,533</u>
Viento Group Limited and subsidiaries		
Accounting and registry fees paid or payable	193,000	193,000
Reimbursable expenses paid or payable - Capital raising costs	-	53,403
Property management fees*	53,241	28,617
Leasing fees*	68,437	119,398
Agent fee on the sale of property assets*	221,250	-
	<u>535,928</u>	<u>394,418</u>
	<u>2,086,538</u>	<u>1,604,951</u>

* A subsidiary of Viento Group Limited, Viento Property Services Pty Ltd was appointed on 1 December 2009 to provide property management services to 11 Queens Rd and 14 Queens Rd, Melbourne and other property related services as required across the portfolio.

Derivatives and Other Financial Instruments

The Fund's investments and trading activities expose it to changes in interest rates as well as credit and liquidity risk. Viento Property Limited has policies and procedures in each of these areas to manage these exposures which are discussed in Note 16.

VIENTO DIVERSIFIED PROPERTY FUND
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RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

State of Affairs

The Viento Diversified Property Fund (the "Fund") was created by a Constitution dated 24 April 2001 (the Constitution). The Constitution and the Compliance Plan dated 24 April 2001 have been lodged with the Australian Securities and Investments Commission. An updated compliance plan was lodged on 18 January 2011 with Australian Securities and Investments Commission.

The Fund was formed to invest in a range of property assets including property, listed and unlisted property trusts and property syndicates.

Applications and withdrawals for the Fund continued to be suspended throughout the year. Distributions from the Fund were also suspended throughout 2011.

Proceedings on Behalf of a Company

No person has applied for leave of the Court to bring proceedings on behalf of the Responsible Entity or intervene in any proceedings to which the Responsible Entity is a party for the purpose of taking responsibility on behalf of the Responsible Entity for all or any part of those proceedings.

Subsequent Events

The two AXA loans expired on 30 June 2011 and 31 July 2011 and the lender has asked for the repayment of the loan amount in full. The directors of the Responsible Entity are in discussions with alternative financiers to refinance the expired loans.

On 29 September 2011 the Responsible Entity for the Viento Diversified Property Fund, issued proceedings against its former solicitors in the Supreme Court of Victoria for a claim of negligence for advice provided on stamp duty during 2008.

Subsequent to year end the property at 11 Queens Road, Melbourne has been listed on the market for sale.

There are no other matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in subsequent financial years.

Likely Developments

Likely developments in the operations of the Fund and the expected results of the operations in future financial years have been discussed where appropriate within this financial report.

The manager is considering its re-financing options as two loans with AXA have expired. The manager is in discussions with alternative financiers regarding a new loan facility.

The directors continue to focus on maintaining the investors' capital. In the medium to long term, the directors intend to grow the size of the Fund to enable it to purchase further direct property and other property related investments (in accordance with the Fund's investment policy). The major benefits will be increased property, geographic and property manager diversification and the reduction of the associated risks.

VIENTO DIVERSIFIED PROPERTY FUND
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RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2011

Environmental Issues

The Fund's operations are not regulated by any significant environmental regulation under a law of the Commonwealth, State or Territory legislation.

Indemnifying Officers or Auditor

During or since the end of the financial year no insurance premiums have been paid out of the Fund's assets in relation to insurance cover for the Responsible Entity, its officers and employees, the Compliance Committee or auditors of the Fund.

Under the Constitution the Responsible Entity, including its directors and officers, is entitled to be indemnified out of the Fund's assets for any loss, damage, expense or other liability, incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund. This right of indemnity does not apply to the extent any loss, damage or costs are attributable to a breach of trust where the Responsible Entity failed to show the degree of care and diligence required of a trustee.

The Responsible Entity has paid premiums in respect of a contract insuring persons who are or have been a director or secretary of the Responsible Entity and includes any other person who is concerned, or takes part, in the management of the Responsible Entity. The liabilities include costs and expenses that may be incurred in defending civil proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or a related body corporate. The insurance contract prohibits the disclosure of the amount of the premium and the nature of the liability insured.

The Responsible Entity has agreed to indemnify all directors and officers against all liabilities to another person (other than the Responsible Entity or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 40 of the Financial Report.

Signed in accordance with a resolution of the Board of Directors of Viento Property Limited.



Damian Wright
Director
Viento Property Limited

Dated this 07th day of October 2011
Melbourne, Victoria

VIENTO DIVERSIFIED PROPERTY FUND
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Economic Entity	
		2011	2010
		\$	\$
Investment Income			
Rental income		13,711,939	14,409,855
Interest		19,875	25,657
Increase in fair value of investment property	7	2,900,188	3,489,524
Other income		-	8,909
Total Investment Income		16,632,002	17,933,945
Expenses			
Direct property expenses		(5,167,183)	(5,455,672)
Administration expenses	3	(1,969,603)	(1,626,264)
Borrowing costs	3	(6,818,752)	(6,986,051)
Duty expense	3	(6,714,505)	-
Decrease in fair value of investment property	7	(5,856,644)	(4,469,310)
Decrease in fair value of property under sale contract	7	-	(1,650,000)
Loss on sale of property		(52,679)	-
Total Expenses		(26,579,366)	(20,187,297)
Net Profit/(Loss) from Continuing Operations		(9,947,364)	(2,253,352)
Finance Costs			
Distributions to unit holders		-	-
Total Finance Costs		-	-
Net Loss		(9,947,364)	(2,253,352)
Other Comprehensive Income		-	-
Change in Net Assets Attributable to Unit holders	12	(9,947,364)	(2,253,352)

The accompanying notes form part of these financial statements

VIENTO DIVERSIFIED PROPERTY FUND
ARSN 096 494 576
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	Economic Entity	
		2011	2010
		\$	\$
Current Assets			
Cash and cash equivalents	14(a)	472,675	407,169
Trade and other receivables	4	758,325	1,329,204
Other current assets	5	824,000	694,487
Held for sale - Investment property	7	-	8,050,000
Total Current Assets		2,055,000	10,480,860
Non-Current Assets			
Financial assets	6	2,525,418	2,525,418
Investment property	7	111,700,000	128,200,000
Other non-current assets	5	696,515	388,464
Total Non-Current Assets		114,921,933	131,113,882
Total Assets		116,976,933	141,594,742
Current Liabilities			
Trade and other payables	8	10,579,747	5,225,961
Provision for Duty	9	1,536,637	
Short-term borrowings	10	71,385,453	92,631,500
Derivatives	11	310,544	625,365
Total Current Liabilities		83,812,381	98,482,826
Non-Current Liabilities			
Long-term borrowings	10	-	-
Total Non-Current Liabilities		-	-
Total Liabilities Excluding Net Assets Attributable to Unit Holders		83,812,381	98,482,826
Net assets attributable to unit holders – Liability		33,164,552	43,111,916

The accompanying notes form part of these financial statements

VIENTO DIVERSIFIED PROPERTY FUND
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STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS - LIABILITY
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Economic Entity	
		2011	2010
		\$	\$
Unit Holders Funds			
Opening balance at 1 July		43,111,916	45,418,671
Net contributions by unit holders (net of transactions costs)		-	-
Product Disclosure Statement costs		-	(53,403)
Increase/(Decrease) in net assets attributable to unit holders – liability		<u>(9,947,364)</u>	<u>(2,253,352)</u>
	13	<u>33,164,552</u>	<u>43,111,916</u>
Financial Assets Reserve			
Opening balance at 1 July		-	-
Revaluation of available for sale assets		-	-
	14	<u>-</u>	<u>-</u>
Total Net Assets Attributable to Unit Holders - Liability at the End of the Year		<u>33,164,552</u>	<u>43,111,916</u>

The accompanying notes form part of these financial statements

VIENTO DIVERSIFIED PROPERTY FUND
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Economic Entity	
		2011	2010
		\$	\$
Cash Flows from Operating Activities			
Receipts from customers		15,054,171	15,484,133
Payments to suppliers		(8,326,628)	(6,899,180)
Interest received		19,876	32,939
Distributions received		4	-
Borrowing costs		(6,345,708)	(6,948,057)
Net Cash Provided by Operating Activities	15(b)	401,715	1,669,835
Cash Flows from Investing Activities			
Receipts from investment property		22,373,293	-
Capitalised property costs		(822,418)	(491,068)
Payments for property trust investments		-	-
Proceeds on sale of property trusts		-	1,635
Investment in subsidiary, net of cash acquired		-	-
Payments for inventories		-	-
Net Cash (used in)/provided by Investing Activities		21,550,875	(489,433)
Cash Flows from Financing Activities			
Proceeds from borrowings		179,736	196,256
Repayments of borrowings		(22,057,121)	(1,589,816)
Net proceeds from issue of units		-	-
Payments for redemption of units		-	-
Loans to subsidiaries		(10,333)	-
Finance costs - distribution to unit holders		-	(68,000)
Payment for establishment costs		-	(53,399)
Net Cash provided by Financing Activities		(21,887,718)	(1,514,959)
Net (decrease)/increase in cash and cash equivalents		64,872	(334,556)
Cash and cash equivalents at the beginning of the year		407,803	741,725
Cash and Cash Equivalents at the End of the Year	15(a)	472,675	407,169

The accompanying notes form part of these financial statements

VIENTO DIVERSIFIED PROPERTY FUND
ARSN 096 494 576
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1 Basis of Preparation

The Fund is a registered Managed Investment Scheme under the *Corporations Act 2001*. The Financial Report of the Fund is for the year ended 30 June 2011.

The Financial Report is a general purpose financial report prepared in accordance with Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The Financial Report covers the economic entity of the Viento Diversified Property Fund and controlled entities. The Viento Diversified Property Fund is domiciled in Australia.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising of the financial statements and notes thereto, complies with International Financial Reporting Standards.

The Financial Report covers the economic entity of the Viento Diversified Property Fund and controlled entities. The Viento Diversified Property Fund is a registered managed investment scheme established and domiciled in Australia.

It is recommended that this financial report be read in conjunction with any public announcements made by the Fund during the financial year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

(b) Basis of measurement

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1 Basis of Preparation (continued)

(c) Going concern

At 30 June 2011 the Fund has consolidated current liabilities of \$83,812,381 with cash at bank of \$472,675 and has made a loss from continued operations of \$9,947,364 for the year then ended.

Included in the results are:

- A \$5.2 million liability amount for stamp duty plus penalties and interest payable to the State Revenue Office of Victoria (SRO). The stamp duty assessment relates to the acquisition of units in First Enterprise Property Syndicate, V3 Property Syndicate and 925 Property Syndicate. Viento disputes the entire amount of this assessment and has lodged a notice of objection to the assessment on 27 April 2011. There has been no subsequent correspondence from the SRO and the appeal is expected to progress in the normal course.
- The Fund has also raised a provision of \$1.5 million payable to other state revenue offices, for stamp duty plus penalties and interest on transactions that were similar in nature to the transaction that has given rise to the assessment from the State Revenue Office of Victoria.
- The Fund is currently in breach of one of its loan covenants with AXA and both AXA loans totalling \$53,118,500 have expired. The directors of the Responsible Entity are working with the financier to correct the covenant breach as soon as possible and are discussing refinancing the Fund with alternative financiers.
- The NAB loans totalling \$18,231,447 expire in October 2011. The Directors are confident that the loan facility will be extended as the Fund is not currently in breach of any of the loan covenants.

As a result of the matters detailed above, there is material uncertainty as to whether the Fund will continue as a going concern and, therefore, whether it will be able to realise its assets and settle its liabilities and commitments in the normal course of business and at amounts stated in the financial report.

Subsequent to year end the property at 11 Queens Road has been put on the market to enhance the possibility for refinance.

Despite the matters highlighted above, the financial statements have been prepared on the going concern basis. The continued viability of the Fund and its ability to continue as a going concern is dependent on the continued support of the current lenders, or the Fund being successful in securing alternative sources of finance. Ongoing discussion and communication with the financiers are positive and the consolidation of matured finance facilities is currently under discussion with alternative financiers.

The directors believe that the Fund will be successful in the above matters and, accordingly have prepared the financial report on a going concern basis. At this time, the directors have no reason to believe that assets are likely to be realised at amounts less than their carrying values recorded in the financial report at 30 June 2011. Accordingly, no adjustments have been made to the financial report relating to the recoverability of the asset carrying amounts or the amounts of liabilities that might be necessary should the Fund not continue as a going concern.

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

2 Significant Accounting Policies

The accounting policies set out below have been adopted by the Fund in the preparation of the Financial Report and have been consistently applied to all years presented.

(a) Principles of Consolidation

A controlled entity is an entity the Fund has the power to control the financial and operating policies of, so as to obtain benefits from its activities. The Fund's controlled entities are listed in note 21.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered the consolidated group during the year, their operating results have been included from the date control was obtained.

All inter-entity balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

(b) Investment Property

Investment property comprises investment interests in land and buildings held for the purpose of letting to produce long term rental income. Investment properties are initially recorded at cost plus acquisition costs. Subsequent to initial recognition the investment properties are carried at fair value. Gains or losses arising from changes in fair values of investment properties are included in the Statement of Comprehensive Income in the period in which they arise.

At each reporting date the fair value of the investment properties are assessed by the directors of the Responsible Entity by reference to independent valuation or through appropriate valuation techniques adopted by the Responsible Entity. Fair value is determined using a long term investment period.

An independent valuation is carried out on each property at least every 2 years. Refer to Note 7 Investment Property for further details on fair value determination. Investment property is not depreciated.

The global market for many types of real estate has been severely affected by the recent volatility in global financial markets. The lower levels of liquidity and volatility in the banking sector have translated into a general weakening of market sentiment towards real estate and the number of real estate transactions has significantly reduced.

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is neither a forced seller nor one prepared to sell at a price not considered reasonable in the current market. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. The current lack of comparable market evidence relating to pricing assumptions and market drivers means that there is less certainty in regards to valuations and the assumptions applied to valuation inputs. The period of time needed to negotiate a sale in this environment may also be significantly prolonged.

The fair value of investment property has been adjusted to reflect market conditions at the end of the reporting period. While this represents the best estimates of fair value as at the reporting date.

VIENTO DIVERSIFIED PROPERTY FUND
ARSN 096 494 576
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

2 Significant Accounting Policies (continued)

(c) Revenue and Expenses

Revenue

Lease income from operating leases, where substantially all the risks and benefits remain with the lessor, are recognised on a straight line basis over the term of the lease. Lease income includes gross rental revenue and recoverable outgoings.

Interest income is recognised in the Statement of Comprehensive Income using the effective interest rate method.

Distribution and dividend income is recognised when the right to receive a distribution or dividend has been established.

Other income is recognised on an accruals basis, which is when the Fund becomes entitled to receive it.

All revenue is stated net of the amount of goods and services tax (GST).

Expenses

Expenses are brought to account on an accrual basis.

Borrowing Costs

Borrowing costs include interest and bank charges, which are expensed as incurred, and impairment of borrowing costs.

Loan establishment costs are initially capitalised by being offset against the loan amount and then impaired over the life of the loan or five years, whichever is the lesser.

(d) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ('ATO'). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Financial Instruments

Financial instruments are initially measured at cost on transaction date, which includes transactions costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below:

Available-for-sale financial assets

Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to a reserve.

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

2 Significant Accounting Policies (continued)

Financial Assets

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Fair Value

Valuation techniques are applied to determine the fair value for all unlisted securities and derivatives, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the scheme assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss.

Issued Units

AASB 132: Financial Instruments: Presentation therefore requires the issued units and retained profits to be classified as a financial liability, titled net assets attributable to unit holders. Accordingly, the Fund has no equity and the distributions paid and payable to unit holders are classified as a finance cost in the Statement of Comprehensive Income, while distributions payable are classified as a payable in the Statement of Financial Position.

Bank Borrowings

Interest-bearing bank loans and overdrafts are recognised at fair value, net of transaction costs.

(f) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(g) Finance Costs

Finance costs – distribution to unit holders, represents amounts distributed to unit holders based upon their unit-holding during the financial year and are recognised when a distribution is declared by the Fund.

Finance costs (excluding distributions to unit holders), are recognised using the effective interest rate applicable to the respective financial liability.

VIENTO DIVERSIFIED PROPERTY FUND
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FOR THE YEAR ENDED 30 JUNE 2011

2 Significant Accounting Policies (continued)

(h) Distributions and Taxation

Under current legislation the Fund is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the unit holders.

The Fund fully distributes its taxable income in accordance with the Fund constitution and applicable taxation legislation, to the unit holders who are presently entitled to the income under the constitution. Realised capital losses are not distributed to unit holders but are retained in the Fund to be offset against any future realised capital gains.

(i) Transfers to/from Unit holders' Funds

Non-distributable income, which may comprise unrealised changes in the fair value of financial assets, net capital losses, tax-deferred income, accrued income not yet assessable and non-deductible expenses are transferred to unit holders' funds.

These items are transferred from the unit holders' funds to be included in the determination of distributable income in the period for which they are assessable for taxation purposes.

(j) Determination of Unit Exit Prices

The unit exit price is determined as the net asset value of the Fund adjusted for estimated transaction costs, divided by the number of units on issue.

(k) Accounting Estimates and Judgments

Critical accounting estimates and judgments

The preparation of financial statements requires responsible entity to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimated uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in note 7 Investment Properties.

Estimate of the fair value of investment properties

The best evidence of fair value is current prices in an active market for similar leases and other contracts. In the absence of such information, the Entity determines the amount within a range of reasonable fair value estimates.

In making its judgment the Entity considers information from a variety of sources including:

1. Current prices in an active market for properties of different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;
2. Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
3. Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of the any existing leases and other contracts and (where possible) external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The current economic climate and lower transactional volumes in the real estate market has meant that valuers have referred to a greater professional judgment in arriving at the year end valuations.

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

2 Significant Accounting Policies (continued)

(l) Derivative financial instruments

The Fund is exposed to changes in interest rates and uses interest rate swaps to hedge the risk. Such instruments are initially recognized at fair value on the date in which a derivative contract is entered into and are subsequently re-measured to fair value at reporting date.

Fair value at reporting date is calculated to be the present value of the estimated future cash flows of these instruments. Each instrument is discounted at the market interest rate appropriate to the instrument. Derivatives are carried as assets when their fair value is positive and as liabilities when the fair value is negative.

The Fund enters into interest rate swaps agreements that are used to convert variable interest rate borrowings to fixed interest rates. The swaps are entered into with the objective of hedging adverse interest rate fluctuations. While the Responsible Entity has determined that these arrangements are economically effective, they have not satisfied the documentation, designation and effectiveness tests required by accounting standards. As a result, they do not qualify for hedge accounting and gains and losses arising from changes in fair value are recognized immediately in the Statement of Comprehensive Income.

(m) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(n) Provisions

Provisions are recognised when the fund has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of responsible entity's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

VIENTO DIVERSIFIED PROPERTY FUND
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	Notes	Economic Entity	
		2011	2010
		\$	\$
3. Income and Expenses			
Administration Expenses			
Custodian fees		98,133	99,401
Manager's fees		1,247,337	1,078,140
Other administration expenses		624,133	448,723
Total Administration Expenses		<u>1,969,603</u>	<u>1,626,264</u>
Duty expense			
Stamp Duty	(8)	4,961,050	-
Penalty	(8)	1,240,263	-
Interest	(8)	513,192	-
Total Duty expense		<u>6,714,505</u>	<u>-</u>
Borrowings Costs			
Interest expenses paid and payable		5,778,009	5,753,093
Loan facility fees		1,195,537	1,107,319
Unrealised (gain)/loss on fair value of hedges		(314,821)	(201,129)
Amortisation of loan establishment costs		160,027	323,599
Total Borrowing Costs		<u>6,818,752</u>	<u>6,982,882</u>
4. Trade and Other Receivables			
Current			
Rental debtors		469,120	605,311
Provision for impairment		(175,529)	(164,339)
Prepayments		287,829	581,542
Accrued income		83,843	109,636
Other debtors		93,062	197,054
		<u>758,325</u>	<u>1,329,204</u>

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
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4 Trade and Other Receivables (continued)

Past due but not impaired

As of 30 June 2011 the Fund had past due but not impaired trade receivables. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables are shown in the table below. The table also shows the balance of the provision for debtors' impairment as per the table above.

Consolidated Group	Gross Amount (\$)	Past Due and Impaired (\$)	Past Due but Not Impaired (Days Overdue)				Within initial trade terms
			< 30 (\$)	31 – 60 (\$)	61 – 90 (\$)	> 90 (\$)	
2011							
Rental income receivable	644,649	175,529	76,448	55,198	19,722	126,287	191,464
Total	644,649	175,529	76,448	55,198	19,722	126,287	191,464
2010							
Rental income receivable	605,311	164,339	91,282	61,968	47,806	90,325	149,591
Total	605,311	164,339	91,282	61,968	47,806	90,325	149,591

5. Other Assets

	2011	2010
Current	\$	\$
Security deposits	301,770	322,863
Lease incentives	522,230	371,624
	<u>824,000</u>	<u>694,487</u>
Non-Current		
Lease incentives	696,515	388,464
	<u>696,515</u>	<u>388,464</u>

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

6. Financial Assets

	Notes	Economic Entity	
		2011	2010
Non-Current		\$	\$
Unlisted Property Trusts:			
Southern River ⁽¹⁾		2,525,418	2,525,418
		<u>2,525,418</u>	<u>2,525,418</u>
Total available for sale financial assets		<u>2,525,418</u>	<u>2,525,418</u>
Opening Balances		2,525,418	2,525,418
Additions		-	-
Disposals		-	-
Impairment		-	-
Closing Balances		<u>2,525,418</u>	<u>2,525,418</u>

⁽¹⁾ The Fund holds 1,834,000 ordinary units and 1,320,480 bonus units in Southern River Syndicate at a total cost of \$2,525,418. The investment has been considered for impairment at reporting date and no impairment charge has been determined to be necessary.

7. Investment Property

	2011	2010
	\$	\$
Opening Balance	136,250,000	138,200,000
Purchases	-	-
Disposals(i)	(22,554,265)	-
Capex	960,722	679,786
Increase in fair value of property investments	2,900,188	3,489,524
Decrease in fair value of property investments	(5,856,645)	(4,469,310)
Decrease in fair value of property under sale contract	-	(1,650,000)
Closing Balance	<u>111,700,000</u>	<u>136,250,000</u>

(i) Elermore sold at a profit of \$123,008 and Oxley Mall sold at a loss of \$175,687 after selling costs.

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
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7. Investment Property (continued)

Economic Entity

	2011 \$	2010 \$	Source of Valuation	Last External Valuation \$	Date of Last External Valuation	2011 Capitalisation Rate %	2010 Capitalisation Rate %
2011							
Devonport Cinema Complex, TAS	4,500,000	4,400,000	Jones Lang LaSalle	4,500,000	Jun 11	10.00%	10.00%
Underwood Village, QLD	4,200,000	5,200,000	Jones Lang LaSalle	4,200,000	Jun 11	8.50%	8.00%
34-36 Chandos St, St Leonards, NSW	7,400,000	8,000,000	Jones Lang LaSalle	7,400,000	Jun 11	9.00%	9.25%
Elmore Shopping Centre, NSW	-	8,050,000	n/a	-	-	-	-
City Centre Building, Campbelltown, NSW	13,200,000	13,200,000	Jones Lang Lasalle	13,200,000	Jun 11	10.25%	10.00%
Oxley Mall, Bowral, NSW	-	14,500,000	n/a	-	-	-	-
Parkinson Plaza Shopping Centre, QLD	12,700,000	13,200,000	CB Richard Ellis	12,700,000	Jun 11	8.50%	8.25%
11 Queens Rd, Melbourne, VIC	21,000,000	22,800,000	M3 Property	21,000,000	Jun 11	9.25%	9.25%
Highviews Building, Blacktown, NSW	19,300,000	17,800,000	Jones Lang LaSalle	19,300,000	Dec 10	10.00%	9.75%
14 Queens Rd, Melbourne, VIC	16,300,000	17,900,000	M3 Property	16,300,000	Jun 11	9.25%	9.25%
Mirrabooka Office Complex, WA	13,100,000	11,200,000	Egan Valuers	13,100,000	Jun 11	8.75%	8.75%
	<u>111,700,000</u>	<u>136,250,000</u>		<u>111,700,000</u>		<u>9.34%</u>	<u>9.16%</u>
Current Asset – Held For Sale		8,050,000					
Non-Current Asset – Investment Property	111,700,000	128,200,000					
	<u>111,700,000</u>	<u>136,250,000</u>					

VIENTO DIVERSIFIED PROPERTY FUND
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FOR THE YEAR ENDED 30 JUNE 2011

7. Investment Property (continued)

Valuation basis:

Our properties are valued by external independent valuation companies – M3 Property Strategists, Egan Valuers, Savills and Jones Lang LaSalle.

The fair values for these properties are based on market value, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Principal assumption of management's estimation of fair value

Investment properties which were not subject to valuation by external valuers have been valued by in-house asset managers and these valuations were reviewed and approved by directors. If information on current or recent sales transactions for similar properties is not available, the fair values of investment properties are determined using capitalisation approach. The entity uses assumptions that are mainly based on market conditions existing at each reporting date.

The basis of the valuation of investment properties is fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction.

The principal assumptions underlying management's estimation of fair value are those related to:

The receipt of contracted sales, expected future market rentals, maintenance requirements, anticipated vacancy rates and appropriate discount and capitalisation rates. The valuations are regularly compared to actual market yield date, actual transactions by the entity and those reported by the market. The expected future market rentals are determined with reference to current market rentals for similar properties in the same location and condition.

8. Trade and Other Payables

	2011	2010
Current	\$	\$
Accounts payable	2,477,744	3,256,432
Accrued expenses	2,347,512	1,367,823
Unearned income	134,629	82,042
Distributions payable	4,455	4,455
GST payable	132,251	192,346
Secured liability	305,288	322,863
Duty liability(i)	5,177,868	-
	10,579,747	5,225,961

- (i) In 2008 First Enterprise Property Syndicate, V3 Property Syndicate and the 925 Property Syndicate were rolled over into the Viento Diversified Property Fund (the Fund) upon receiving investor approval. Viento Property Limited (Viento) as responsible entity obtained tax and stamp duty advice which noted that no stamp duty was payable on the rollover transactions. However, in March 2011 Viento received a notice of assessment from the State Revenue Office of Victoria (SRO) in relation to the Victorian properties under the 'land rich' provisions in the Victorian Duties Act. The Fund has since recognised a liability amount of \$5.2 million payable to SRO Victoria as stamp duty plus penalties and interest. Viento disputes the entire amount and lodged a notice of objection to the assessment on 27 April 2011. SRO has advised that primary tax and penalties that remain unpaid pending the resolution of the objection accrue interest and once the objection is determined any outstanding tax will be payable with interest. In the circumstances, the Viento directors believe that the Fund can defer the liability until the dispute is resolved with the SRO. There has been no subsequent correspondence from the SRO and the objection and appeal process is expected to progress in the normal course. In the event that the objection and appeal are unsuccessful and no further legal recourse is available (including against former solicitors) the Fund will have to sell properties to repay the stamp duty liability.

VIENTO DIVERSIFIED PROPERTY FUND
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FOR THE YEAR ENDED 30 JUNE 2011

9. Provision for Duty Payable	2011	2010
Current	\$	\$
Duty liability(i)	1,209,950	-
Penalties & Interest(i)	<u>326,687</u>	<u>-</u>
	<u>1,536,637</u>	<u>-</u>

- (i) The fund has made a provision of approximately \$1.5 million payable to other State Revenue Offices in recognition of stamp duty penalties and interest on transactions that are similar in nature to the transaction that has given rise to the assessment from the State Revenue Office of Victoria.

10. Interest Bearing Liabilities	2011	2010
Current	\$	\$
Short-term borrowings		
Secured loans (i)	71,355,111	92,754,333
Less: borrowings costs	(1,385)	(161,412)
Unsecured loans - other (ii)	<u>31,727</u>	<u>38,579</u>
	<u>71,385,453</u>	<u>92,631,500</u>
Non-Current		
Long-term borrowings		
Secured loans (i)	-	-
Less: borrowings costs	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Total	<u>71,385,453</u>	<u>92,631,500</u>

- (ii) During the year the Fund made loan repayments of \$21,399,222 (2010: \$1,114,167). \$37,396,000 (2010: \$70,871,000) of the total loan of \$71,355,111 (2010: \$92,754,333) was fixed with the balance at variable rates. The average interest rate at 30 June 2011 was 8.03% per annum (2010: 7.72%), The loans are secured by a registered mortgage over the properties in the Fund.

The NAB loan facility expires on 31/10/2011. AXA facility 1 of \$17,767,000 expired on 30/06/2011 and the AXA facility 2 of \$35,353,500 expires on 31/07/2011. One of the AXA facilities has breached the loan to valuation ratio covenant. AXA have requested full repayment of their loans as they are winding up their AXA Monthly Income Fund that funds these loans. Discussions with alternative financiers regarding a new loan facility continue.

- (ii) The Fund has an unsecured insurance premium funding loan of \$31,727 (2010: \$38,579) for its property insurances through AON Funding Solutions which finances the payment of the Fund's insurance premiums to enable it to pay the premium monthly. The loan is over a 10 month period from 1 November 2010. The interest rate on the loan is 4.69% (2010: 5.39%) was fixed at the inception of the facility.

11. Derivatives	2011	2010
Current Liabilities	\$	\$
Interest rate swap contracts	<u>310,544</u>	<u>625,365</u>
	<u>310,544</u>	<u>625,365</u>

VIENTO DIVERSIFIED PROPERTY FUND
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12. Loan Facility Covenants

	Required Covenants	Actual
NAB Facility VDPF \$18,231,447		
LVR external values (i),	Max 65.0%	62.2%
LVR internal values (ii)	Max 65.0%	62.2%
Interest cover ratio (iii)	Min 1.3	1.32
Weighted Average Lease Expiries (WALE)	Min 2.5 years	2.7 years
AXA Facility 1 V3 \$35,353,500		
LVR external values (i), (iv)	Max 65.0%	66.7%
LVR internal values (ii)	Max 65.0%	66.7%
Interest cover ratio (iii)	Min 1.20	1.30
AXA Facility 2 925 \$17,765,000		
LVR external values (i)	Max 65.0%	60.4%
LVR internal values (ii)	Max 65.0%	60.4%
Interest cover ratio (iii)	Min 1.75	1.99

(i) External value of the property is the market value of the property as assessed by the valuer in a sworn valuation under instructions of the Financier, and confirmed as acceptable by the Financier.

(ii) Internal value of the property is the market value of the property as assessed by the directors of Viento Property Limited.

$$\text{LVR} = \frac{\text{Loan}}{\text{Property Valuation}}$$

(iii) Interest cover ratio = $\frac{\text{Net Rental Income}}{\text{Interest Expense}}$

(iv) The AXA Facility 1 LVR has been breached, currently at 66.71% compared to the required covenant of 65%.

(v) There are no WALE covenants on the AXA facilities.

VIENTO DIVERSIFIED PROPERTY FUND
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	Economic Entity	
	2011	2010
	\$	\$
13 Unit holders' Funds		
Movements in unit holders' funds during the year were as follows:		
Opening balance	43,111,916	45,418,671
Applications paid	-	-
Redemptions paid	-	-
Transaction costs paid	-	(53,403)
Net Contributions by Unit holders	43,111,916	45,365,268
Net profit	(9,947,364)	(2,253,352)
Distributions paid or payable	-	-
Change in Net Assets Attributable to Unit holders -Liability	(9,947,364)	(2,253,352)
Total Unit holders Funds	33,164,552	43,111,916
Financial Assets Reserve (refer Note 13)	-	-
Total Net Assets Attributable to Unit holders - Liability	33,164,552	43,111,916
	No. of units	No. of units
Movements in units on issue in the Fund were as follows:		
Opening balance	80,771,205	80,771,205
Applications	-	-
Redemptions	-	-
Closing balance	80,771,205	80,771,205
Net Asset value per unit	0.41	0.53

All units in the Fund are of the same class and carry equal rights. Each unit confers upon the holder of that unit an undivided interest in the assets of the Fund in the proportion that the unit bears to the total number of units on issue. A unit does not entitle the holder to any particular asset or any particular part of the assets of the Fund.

Applications and withdrawals for the Fund were suspended throughout the year and continue to be suspended. Distributions from the Fund were suspended for the year. Distributions, applications and withdrawal suspensions are continually being reviewed and will be re-opened as soon as possible.

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14 Reserves

	2011	2010
	\$	\$
Financial Assets Reserve	<u>-</u>	<u>-</u>
Opening balance	-	-
Fair value increment/(decrement) on listed property trusts	<u>-</u>	<u>-</u>
Closing balance	<u>-</u>	<u>-</u>

The Financial Assets Reserve records the revaluation of Available-for-Sale Financial Assets.

	Economic Entity	
	Note	2010
	2011	2010
	\$	\$

15 Notes to the Statement of Cash Flows

a) Cash

For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

	<u>472,675</u>	<u>407,169</u>
--	----------------	----------------

b) Reconciliation of Profit from continuing operations to Net Cash Flows from Operations

Profit from continuing operations	(9,947,364)	(2,253,352)
Non-cash flows in profit from continuing operations	6,714,507	
Changes in fair value of investment properties	2,951,446	2,630,286
Changes in fair value of derivative instruments	314,821	(201,129)
Amortisation expense	(254,576)	(41,737)
Proceeds from disposal of property	52,680	-
Prepaid borrowing cost	58,317	139,228
Gain on sale of listed property trust	-	(1,635)
Changes in assets and liabilities	-	-
(Increase)/Decrease in trade & other receivables	246,655	130,410
(Increase)/Decrease in prepayments	293,714	(44,242)
(Increase)/Decrease in other assets	59,909	(19,179)
Increase/(Decrease) in payables	<u>(88,396)</u>	<u>1,331,185</u>
	<u>401,713</u>	<u>1,669,835</u>

c) Loan Facilities

Loan facilities	72,199,006	92,754,333
Amount utilised	<u>(71,385,453)</u>	<u>(92,754,333)</u>
Unused Loan Facilities	<u>813,553</u>	<u>-</u>

Refer to Note 9 for further details on the loan facilities.

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16. Commitments and Contingent Liabilities

There were no commitments for capital expenditure or any contingent liabilities at 30 June 2011.

17. Financial Risk Management

A. Financial Risk Management

Financial instruments of the Fund comprise of investments in financial assets for the purpose of generating a return on the investment made by the unit holders, in addition to derivatives, cash and cash equivalents, net assets attributed to unit holders, and other financial instruments such as trade debtors and creditors, which arrive directly from operations. The Fund's investments are classified as at fair value through profit and loss.

1) Treasury Risk Management

The directors of the Responsible Entity meet on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

The directors' strategies seek to assist the Fund in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

2) Financial Exposures and Management

The Fund's principal financial instruments comprise receivables, payables, interest bearing liabilities, other financial liabilities, cash and derivatives financial instruments. The Fund is exposed to interest rate risk, credit risk and liquidity risk arising from financial instruments it holds. The directors and the responsible entity meet regularly to identify, measure and monitor the overall risk to minimise potential adverse effect on the distributable earnings of the Fund.

The Fund enters into interest rate swaps agreements that are used to convert variable interest rate borrowings to fixed interest rates. The swaps are entered into with the objective of hedging adverse interest rate fluctuations. While the Responsible Entity has determined that these arrangements are economically effective, they have not satisfied the documentation, designation and effectiveness tests required by accounting standards. As a result, they do not qualify for hedge accounting and gains and losses arising from changes in fair value are recognized immediately in the Statement of Comprehensive Income.

The Fund has no exposure to fluctuations in foreign currency or commodity price risks. The risk management policies adopted by the Syndicate to manage these risks are discussed as follows:

a) Interest Rate Risk

The Fund exposure to the risk of changes in market interest rates arises primarily from its borrowings. The main consequences of adverse changes in market interest rates is higher interest cost which reduces the Fund's profit. In addition, the Fund has various loan agreements with minimum interest cover covenants and maximum property valuation to loan covenant to comply with. Higher interest cost resulting from the increased market interest rates may cause these covenants to be breached, providing the lender the right to call in the loan or to increase interest rate to apply on the loans.

The Fund manages the risk of changes in the market interest rates by maintaining an appropriate mix of fixed and floating interest rates borrowings

At 30 June 2011, after taking into account of the effect of interest rates swaps, approximately 49.1% (2010: 76.4%) of the Fund borrowings are at fixed rate interest borrowings.

Cash deposits and loan receivables that are subject to floating interest rates are exposed to changes in the market interest rates. Changes in interest rates will change the fair value of any interest rate hedges.

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17. Financial Risk Management (cont.)

2) Financial Exposures and Management (cont.)

b) Credit Risk

Credit risk arises from the potential failure of counterparties to meet their obligations under the financial contracts. The Fund is exposed to credit risks on its cash balance, receivables, financial assets and financial liabilities.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

Concentrations of credit risk are minimised primarily by:

- Ensuring counterparties, together with the respective credit limits, are approved,
- Requesting bank guarantees or security deposits from tenants,
- Ensuring review on prospective tenants,
- Ensuring that transactions are undertaken with a large number of counterparties in different locations,
- Cash and cash equivalents are held with high credit quality financial institutions.
- Interest rate hedging is held with high credit quality financial institutions.

As such, the Fund does not have a concentration of credit risk that arises from an exposure to a single counterparty. Furthermore, the Fund does not have a material exposure to a group of counterparties, which are expected to be affected similarly by changes in economic or other conditions. Refer to Trade and Other Receivables note 4 for ageing analysis of receivables.

c) Liquidity Risk

The Responsible Entity monitors its exposure to liquidity risk by ensuring that on a daily basis there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due. The Responsible Entity manages liquidity risk by setting budgets and monitoring forecast cash flows.

Whilst the Fund is in breach of its LVR covenant with AXA, and AXA want to be repaid both loans as they are winding up the AXA Monthly Income Fund which is the financier of the funds AXA loans we are in constant communication with them to remedy this position.

The Manager has agreed the following approach with its financiers to remedy the breach:

- Repay debt from the Fund's available cash flow;
- Continue attempts to re-finance the AXA loans with alternative financiers; and
- Provide detailed monthly reporting.

If we are unable to re-finance, Viento may be forced to sell more assets.

Ongoing discussion and communication with the financiers are positive and the consolidation of the AXA loans is currently under consideration.

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

17. Financial Instruments and Risk Management (continued)

B. Financial Instrument Composition and Maturity Analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of fixed periods of maturity. As such the amounts may not reconcile to the Statement of Financial Position. Although there is a component of long term borrowings at floating interest rates, the term to maturity is 1 to 5 years.

Economic Entity

	Weighted Average Effective Interest Rate %pa	Floating Interest Rate \$	Fixed interest maturing in or re-priced at			Non- Interest Bearing \$	Total \$
			Within Year \$	1 to 5 Years \$	Over 5 Years \$		
2011							
Financial Assets:		472,674	-	-	-	-	472,674
Cash							
Receivables		-	-	-	-	758,325	758,325
Other current assets		-	-	-	-	824,002	824,002
Held for sale - Investment property		-	-	-	-	-	-
Other financial assets		-	-	-	-	2,525,418	2,525,418
Other non-current assets		-	-	-	-	696,515	696,515
		472,674	-	-	-	4,804,260	5,276,934
Financial Liabilities:							
Payables	4.80%	(4,961,050)	-	-	-	(7,155,334)	(12,116,384)
Short term borrowings	4.69%	-	(31,727)	-	-	-	(31,727)
Short term borrowings	8.03%	-	(71,355,111)	-	-	-	(71,355,111)
		(4,961,050)	(71,386,838)	-	-	(7,155,334)	(83,503,222)
Net financial assets /(liabilities)		(4,488,376)	(71,386,838)	-	-	(2,351,074)	(78,226,288)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

17. Financial Instruments and Risk Management (continued)

Economic Entity

	Weighted Average Effective Interest Rate %pa	Floating Interest Rate \$	Fixed interest maturing in or re-priced at			Non- Interest Bearing \$	Total \$
			Within Year \$	1 to 5 Years \$	Over 5 Years \$		
2010							
Financial Assets:							
Cash	3.50%	407,169	-	-	-	-	407,169
Receivables		-	-	-	-	1,329,204	1,329,204
Other current assets		-	-	-	-	694,487	694,487
Held for sale - Investment property		-	-	-	-	8,050,000	8,050,000
Other financial assets		-	-	-	-	2,525,418	2,525,418
Other non-current assets		-	-	-	-	388,464	388,464
		407,169	-	-	-	12,987,573	13,394,742
Financial Liabilities:							
Payables		-	-	-	-	(5,225,961)	(5,225,961)
Short term borrowings	4.69%	-	(38,579)	-	-	-	(38,579)
Short term borrowings	7.71%	-	(92,754,333)	-	-	-	(92,754,333)
			(92,792,912)	-	-	(5,225,961)	(98,018,873)
Net financial assets /(liabilities)		407,169	(92,792,912)	-	-	7,761,612	(84,624,131)

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

17. Financial Instruments and Risk Management (continued)

Trade and other payables are expected to be paid as follows:

	Economic Entity	
	2011	2010
	\$	\$
Less than 6 months	1,491,616	3,429,990
6 months to 1 year	8,782,843	801,356
1 year to 5 years	1,841,925	994,615
Over 5 years	-	-
	<u>12,116,384</u>	<u>5,225,961</u>

C. Net Fair Values

The net fair values of listed investments are quoted at the last trade price as at reporting date. Unlisted investments where a unit price is available are valued at the quoted sell price. For other assets and liabilities the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form other than those stated above.

The aggregate carrying amounts of financial assets and financial liabilities are not materially different to net fair values.

D. Sensitivity Analysis:

The Fund has performed a sensitivity analysis relating to its exposure to interest rate risk at reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis:

At 30 June 2011, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Economic Entity	
	2011	2010
	\$	\$
Change in profit		
- Increase in interest rate by 2%	(754,171)	(437,600)
- Decrease in interest rate by 2%	754,171	437,600
Change in Equity		
- Increase in interest rate by 2%	(754,171)	(437,600)
- Decrease in interest rate by 2%	754,171	437,600

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

18. Capital Management

The directors control the capital of the Fund in order to maintain a good debt-to-equity ratio and to ensure that the Fund can fund its operations and continue as a going concern.

The Fund's debt and capital includes financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

The directors manage the Fund's capital by assessing the Fund's financial risks and adjusting its capital structure in response to changes in these risks and in the market. This includes the management of debt levels.

Applications, withdrawals and distributions for the Fund are currently suspended due to the economic circumstances. Distributions from the Fund have been suspended since April 2009. Distributions are continually being reviewed to determine when they may resume. The strategy is to maintain the Fund's gearing ratio between 50-70%.

The gearing ratios for the year ended 30 June 2011 and 30 June 2010 are as follows:

	Note	Economic Entity	
		2011	2010
		\$	\$
Total borrowings	10	71,385,453	92,631,500
Less cash and cash equivalents	15	<u>(472,675)</u>	<u>(407,169)</u>
Net Debt		70,912,778	92,224,331
Net assets attributable to unit holders	13	<u>33,164,552</u>	<u>43,111,916</u>
Total capital		<u>104,077,330</u>	<u>135,336,247</u>
Gearing ratio		69%	68%

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NOTES TO THE FINANCIAL STATEMENTS
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19. Operating Leases

Economic Entity

Minimum future lease receivables under non-cancellable leases are as follows:

	Within Year \$	1 to 5 Years \$	Over 5 Years \$	Total \$
2011				
Devonport Cinema Complex, TAS	573,460	1,906,182	-	2,479,642
Underwood Village, QLD	367,133	1,137,928	197,899	1,702,960
34-36 Chandos Street, St Leonards, NSW	701,450	1,740,490	-	2,441,940
City Centre, Campbelltown, NSW	1,311,908	2,220,808	384,061	3,916,777
Highviews Building, Blacktown, NSW	969,755	916,237	-	1,885,992
Parkinson Plaza, QLD	1,461,983	6,354,985	252,613	8,069,581
11 Queens Rd, Melbourne VIC	1,684,365	1,419,003	-	3,103,368
14 Queens Rd, Melbourne VIC	1,212,340	1,178,447	-	2,390,787
Mirrabooka Commercial Centre WA				
	<u>8,282,394</u>	<u>16,874,080</u>	<u>834,573</u>	<u>25,991,047</u>
	\$	\$	\$	\$
2010				
Devonport Cinema Complex, TAS	531,533	1,655,365	-	2,186,898
Underwood Village, QLD	353,724	845,218	-	1,198,942
34-36 Chandos Street, St Leonards, NSW	697,113	1,299,995	-	1,997,108
Elernmore Shopping Centre ¹ , NSW	-	-	-	-
Oxley Mall, Bowral, NSW	1,516,528	1,630,943	30,922	3,178,393
City Centre, Campbelltown, NSW	1,108,120	1,183,608	-	2,291,728
Blacktown, NSW	524,394	480,848	-	1,005,242
Parkinson Plaza, QLD	1,460,857	6,165,689	1,224,490	8,851,036
11 Queens Rd, Melbourne VIC	1,962,107	2,870,611	-	4,832,718
14 Queens Rd, Melbourne VIC	1,204,353	1,573,119	-	2,777,472
Mirrabooka Commercial Centre WA	1,387,425	1,850,142	-	3,237,567
	<u>10,746,154</u>	<u>19,555,538</u>	<u>1,255,412</u>	<u>31,557,104</u>

¹ Elernmore Shopping Centre was under contract for sale as at 30 June 2010. Therefore no minimum future lease receivables were anticipated.

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NOTES TO THE FINANCIAL STATEMENTS
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20. Segment Information

The Fund operates solely in the business of property investment within Australia.

21. Auditors' Remuneration

	Economic Entity	
	2011	2010
	\$	\$
Remuneration of the auditor of the Fund for:		
- Audit and review of the financial reports	62,000	58,000
- Compliance plan audit	6,500	6,000
	68,500	64,000

22. Controlled Entities

	Country of Incorporation	Percentage Owned	
		2011	2010
Parent Entity:			
Viento Diversified Property Fund	Aust	-	-
Subsidiaries of Viento Diversified Property Fund:			
The John Street Singleton Trust	Aust	-	100%
Elmore Property Syndicate	Aust	-	100%
First Enterprise Property Syndicate	Aust	100%	100%
V3 Property Syndicate	Aust	100%	100%
925 Property Syndicate	Aust	100%	100%

The John Street Singleton Trust and the Elmore Property Syndicate were wound up during the year as they no longer held assets of the Fund.

23. Parent Entity Disclosures

	2011	2010
	\$	\$
Current Assets	3,613,921	3,507,892
Total Assets	57,466,644	82,775,104
Current Liabilities	27,929,947	42,547,497
Total Liabilities	27,929,947	42,547,497
Total Shareholders' Equity	29,536,397	40,227,606
Profit/(Loss) for the Year	(13,522,489)	(5,137,666)
Total Comprehensive Income (Loss) for the Year	(13,522,489)	(5,137,666)

Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries - nil

Details of any contingent liabilities – see note 16

Details of any contractual commitments for the acquisition of property, plant or equipment - nil

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24. Related Party Disclosures

The Responsible Entity of the Viento Diversified Property Fund is Viento Property Limited (ABN 51 095 920 648). Viento Property Limited is a wholly owned subsidiary of Viento Group Limited (ABN 79 000 714 054), an Australian public company listed on the Australian Securities Exchange (Code: VIE).

a) Remuneration of Directors and Key Management Personnel

The Fund does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund. The directors and executives of the Responsible Entity are the Key Management Personnel ('KMP').

The Directors and Executives of the Responsible Entity are KMP of that entity and their names are:

R Nichevich	Executive Director
D Wright	Executive Director
K Murphy (resigned 31 August 2010)	Executive Director
S Heffernan	Executive Director

The Responsible Entity is entitled to a management fee which is calculated as a proportion of gross asset value.

No compensation is paid directly by the Fund to directors or to any of the KMPs of the Responsible Entity.

Since the end of the financial year, no Director or KMP of the Responsible 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 Fund 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 Fund. These transactions are subject to the same terms and conditions as those entered into by other Fund investors.

Apart from those details disclosed in this note, no Director or KMP has entered into a contract for services with the Responsible Entity since the end of the previous financial year and there were no contracts involving Directors or KMP subsisting at year end.

VIENTO DIVERSIFIED PROPERTY FUND
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24. Related Party Disclosures (continued)

b) Responsible Entity's Fees and other Transactions

	Economic Entity	
	2011	2010
	\$	\$
Viento Property Limited		
Manager's fees and compliance fees paid or payable	1,309,141	1,149,490
Disposal fees on the sale of property assets	147,500	-
Reimbursable expenses paid or payable	93,969	61,043
Commissions paid or payable	-	-
	1,550,610	1,210,533
Viento Group Limited and subsidiaries		
Accounting and registry fees paid or payable	193,000	193,000
Reimbursable expenses paid or payable - Capital raising costs	-	53,403
Property Management Fees*	53,241	28,617
Leasing fees*	68,437	119,398
Agent fee on the sale of property assets*	221,250	-
	535,928	394,418
	2,086,538	1,604,951
Total related party payable balance outstanding at year end**	3,200,185	2,820,696

* A subsidiary of Viento Group Limited, Viento Property Services Pty Ltd was appointed on 1 December 2009 to provide property management services to 11 Queens Rd and 14 Queens Rd, Melbourne and other property related services as required across the portfolio.

** 2011 balance includes \$1,191,000 of VDPF rollover fees from 2008.

c) Related Party Transactions

Related Party investments held by the Fund

The Fund may purchase and sell units in other approved funds and funds managed by the Responsible Entity in the ordinary course of business. Details of the Fund's investments in other funds and syndicates are set out below.

Entity	Units held	Fair value	Interest held	Units purchased	Units sold	Distribution
						paid / payable
		\$	%			\$
30 June 2011						
Southern River Syndicate ¹	3,154,480	2,525,418	15.62%	-	-	-
		2,525,418		-	-	-
30 June 2010						
Southern River Syndicate ¹	3,154,480	2,525,418	15.62%	-	-	-
		2,525,418		-	-	-

1 1,834,000 ordinary units and 1,320,480 bonus units

VIENTO DIVERSIFIED PROPERTY FUND
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24. Related Party Disclosures (continued)

Units in the Fund held by Related Parties

Details of holdings in the Fund by Related Parties are set out below. No other related parties held units in the Fund during the year. There were no units in the Fund held by key management personnel.

Entity	Relationship	Unit holding	Interest held %	Units Issued	Units redeemed	Other Movements	Distribution paid / payable \$
30 June 2011							
Mr R C Nichevich	Director of Responsible Entity	322,724	0.39	-	-	-	-
		<u>322,724</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
30 June 2010							
Mr R C Nichevich	Director of Responsible Entity	322,724	0.39	-	-	-	-
		<u>322,724</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

25. Subsequent Events

The two AXA loans expired on 30 June 2011 and 31 July 2011 and the lender has asked for the repayment of the loan amount in full. The directors of the Responsible Entity are in discussions with alternative financiers to refinance the expired loans.

On 29 September 2011 the Responsible Entity for the Viento Diversified Property Fund, issued proceedings against its former solicitors in the Supreme Court of Victoria for a claim of negligence for advice provided on stamp duty during 2008.

Subsequent to year end the property at 11 Queens Road, Melbourne has been listed on the market for sale.

There are no other matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in subsequent financial years.

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

26. ACCOUNTING STANDARDS

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Syndicate has decided not to early adopt. A discussion of those future requirements and their impact on the Syndicate is as follows:

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Syndicate has not yet determined any potential impact on the financial statements.

AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements. The following entities are required to apply Tier 1 reporting requirements (ie full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Syndicate is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The amendments are not expected to impact the Syndicate.

AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

VIENTO DIVERSIFIED PROPERTY FUND
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NOTES TO THE FINANCIAL STATEMENTS
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New Accounting Standards for Application in Future Periods (contd)

AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Syndicate has not yet determined any potential impact on the financial statements from adopting AASB 9

VIENTO DIVERSIFIED PROPERTY FUND
ARSN 096 494 576

DIRECTORS' DECLARATION

VIENTO DIVERSIFIED PROPERTY FUND

The directors of Viento Property Limited, the Responsible Entity of the Viento Diversified Property Fund, declare that:

1. The financial statements and notes, as set out on pages 7 to 39 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Australian Accounting Standards and the *Corporations Act 2001*; and
 - (b) giving a true and fair view of the Fund's financial position as at 30 June 2011 and of its performance for the period ended on that date.
 - (c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1
2. In the directors' opinion there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors of the Responsible Entity.



Damian Wright
Director
Viento Property Limited

Dated this 07th day of October 2011
Melbourne, Victoria



AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Viento Diversified Property Fund for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "Crowe Horwath Perth".

CROWE HORWATH PERTH

A handwritten signature in black ink that reads "Sean McGurk".

SEAN MCGURK
Partner

Signed at Perth, 7 October 2011

INDEPENDENT AUDIT REPORT TO THE UNIT HOLDERS OF VIENTO DIVERSIFIED PROPERTY FUND

We have audited the accompanying financial report of the Viento Diversified Property Fund (the Syndicate), and the Syndicate and the controlled entities (the consolidated entity) which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in net assets attributable to unitholders for the year then ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Responsible Entity for the Fund.

Directors' Responsibility for the Financial Report

The Directors of the Responsible Entity, Viento Property Ltd, (the Directors) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

- (a) the financial report of the Viento Diversified Property Fund and the consolidated entity is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the syndicate's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the audit opinion expressed above, attention is drawn to Note 1 (c) in the financial report which indicates that the consolidated entity has experienced operating losses during the year ended 30 June 2011 and, as of that date the consolidated entity's current liabilities exceed its current assets by \$81,757,381. These conditions, along with other matters as set forth in Note 1(c) indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

A handwritten signature in cursive script that reads "Crowe Horwath Perth".

CROWE HORWATH PERTH

A handwritten signature in cursive script that reads "Sean McGurk".

SEAN MCGURK
Partner

Signed at Perth, 7 October 2011

VIENTO

PROPERTY

ABN 51 095 920 648 AFSL 224663

CONTACT

Tel (AUS)	1300 555 505
Fax	+ 61 3 9866 7029
E-mail	info@vientogroup.com
Web	www.vientogroup.com
Post	Locked Bag 105 South Melbourne VIC 3205
Deliveries	Level 3, 11 Queens Road Melbourne VIC 3004