

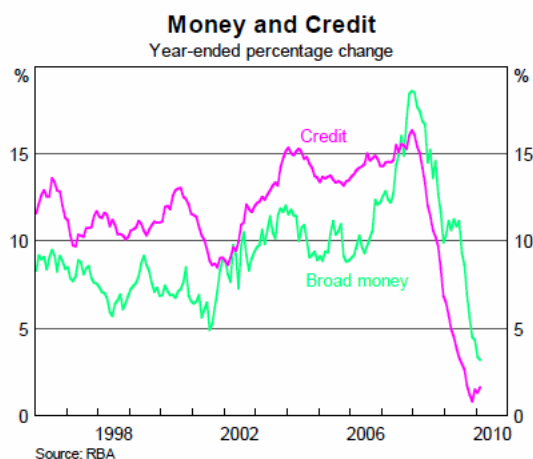
MARKET UPDATE

For the past four years the quarterly reports from Kinsmen have been written by our General Manager, Jim Papanicolaou. Jim has moved on and I want to take this opportunity to thank him for his contribution to Kinsmen and to wish him the best in his new career.

I am Paul Zahara, the Managing Director of Kinsmen and I will now be writing the quarterly reports.

Over the past 18-24 months Kinsmen's view has been that property markets in Australia started the downturn in fundamental balance; that is there was a reasonable balance between supply and demand. In spite of this, the performance of the property markets has been poor as a result of the intimate relationship between the property markets and capital markets, which as we all know have been suffering. Over the last quarter we have begun to see the first tangible signs of improvement in property markets, resulting from improvements in the capital markets.

The impact of the global financial crisis on the property markets has mostly been felt as a result of lack of liquidity, resulting in a stalemate across markets. Prospective buyers have been unable to access credit, and therefore unable to buy. Sellers have had no buyers with the ability to complete transactions. The following graph from the Reserve Bank of Australia shows the first signs of a turnaround in credit conditions, which we hope will lead to a greater volume of transactions in all property markets.



In another hopeful sign, the Mercer/IPD Australian Pooled Property Fund Index is showing an annualised 1.1% return for the past month, although it is still showing a negative 4.6% return for the past 12 months. Compared to other long term managed investment options property is still comparing favourably with the JP Morgan: Fixed Income GBI 7-10yrs Index showing a negative 1.5% annualized return for the past month (and negative 4.1% for the past 12 months).

FUND UPDATE

Operations of the Australian Fuel Distributors ("Ausfuel") site at Berrimah Darwin continue in an efficient manner. Rentals have been paid on time and there are no arrears. After much discussion regarding the cause of the problem, the cracking bitumen has finally been fixed, and we have been assured the problem should not recur. We have yet to be billed for the work.

The strategy for this Fund is to continue to hold the property. Of course if we were to receive an outstanding offer we would consider selling, however given the lack of activity in commercial/industrial markets and the relatively small size of the Northern Territory market in particular, we do not think this is likely. The original strategy for the fund was to hold the property for seven years and we believe this remains a sound strategy. As capital markets conditions improve we expect to see more improvement in property markets and in several years we believe we should be able to sell this property at a price that meets our expectations.

KINSMEN SECURITIES LIMITED

KINSMEN DIRECT PROPERTY FUND

QUARTERLY REPORT

In our last Quarterly Report we noted the difficulties we were having in getting the audit of the fund completed. Unfortunately and to my great embarrassment the problem continues. Since that time many hundreds of hours have been spent on trying to resolve the audit but it is still not complete. The problem is complex and seems to change from time to time, but revolves around the auditor's (Pitcher Partners) requirements for the wording of the notes to the accounts. We seem to have agreed on the numbers that would appear in the accounts some time ago and now just need final sign off on the notes. I am hopeful this will be resolved in the next several weeks.

ASIC refuses to allow us to use another auditor for the 2008-09 year, however we have engaged HLB Mann Judd to undertake the audit for the current financial year. They are ready to commence as soon as Pitcher Partners sign off on the current audit.

Distributions to investors are included with this report. The distribution amount is lower than previous distributions for three main reasons. Insurance costs have increased, audit fees are dramatically up and the cost of debt is much higher than budget. The increased cost of debt was discussed in previous reports but audit fees were not expected to rise as much as they have. Pitcher Partners refused to provide a fixed price quote and continue to bill on an hourly basis. We have disputed these bills and have instigated negotiations to arrive at a reduced figure.

We are hopeful that we will be able to increase distributions in the new financial year by renegotiating debt provisions and decreasing audit charges.



FUND PERFORMANCE SUMMARY

Distribution Return		Growth Return		Total Return		Funds Under Management
Last Qrt	Last 12 Months	Last Qrt	Last 12 Months	Last Qrt	Last 12 Months	
0.30%	2.57%	-0.59%	-0.56%	-0.29%	-2.01%	\$8.751 million

DISTRIBUTION SUMMARY - Based on Initial Investors capital (\$1.00 face value) *

Last Quarter (annualised)

1.26%

Last 12 months

2.71%

* If units were purchased for an amount other than \$1.00 then this rate could vary.