DORCHESTER LIFE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2011

DORCHESTER LIFE LIMITED

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FOR THE YEAR ENDED 31 MARCH 2011

DORCHESTER LIFE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2011

The directors present the annual report of Dorchester Life Limited for the year ended 31 March 2011.

There are certain matters that the shareholders can determine need not be disclosed in the annual report. The shareholders have unanimously agreed, under section 211(3) of the Companies Act 1993, to take advantage of that concession. The shareholders have agreed to limit the annual report to the following:

- Completed and signed financial statements
- Audit Report

Signed for and on behalf of the Board of Directors:

Director *Director*

Date: 24 June 2011

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staplesrodway
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DORCHESTER LIFE LIMITED

Report on the Financial Statements

We have audited the financial statements of Dorchester Life Limited ('the Company') on pages 4 to 42, which comprise the Statement of Financial Position of the Company as at 31 March 2011, the Statement of Comprehensive Income, Statement of Changes in Equity and the Cash Flow Statement of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Opinion

In our opinion, the financial statements on pages 4 to 42:

- comply with generally accepted accounting practice in New Zealand; and
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the Company as at 31 March 2011 and of its financial performance and cash flows for the year then ended.

Emphasis of Matter

Going Concern – Renewal of borrowings

The financial report has been prepared on a going concern basis, the validity of which depends upon the successful renewal of the Kiwibank loan. Should the Company not be successful in renewing the Kiwibank loan, the going concern basis may be invalid and adjustments may have to be made to reflect the situation that the assets may need to be realised other than in the amounts at which they are currently recorded in the Statement of Financial Position. In addition, the Company may have to provide for further liabilities that may arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities. We are unable to quantify the potential effect of this uncertainty. Details of the circumstances relating to this fundamental uncertainty are described in Note 1.

Report on Other Legal and Regulatory Requirements

Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 require us to comment on whether we have obtained all the information and explanations that we have required from the Company and whether we consider that proper accounting records have been kept by the Company.

We have obtained all the information and explanations that we have required.

In our opinion proper accounting records have been kept by the Company as far as appears from our examination of those records.

Staples Rodway

STAPLES RODWAY AUCKLAND
AUCKLAND

24 June 2011

DORCHESTER LIFE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 $'000	2010 $'000
Non insurance business			
Investment revenue			
Investment revenues	(2)	1,683	4,139
Interest income		2,325	2,379
Investment expenditure			
Investment management expenses	(2)	109	235
Interest expense		778	814
Net non-insurance income		3,121	5,469
Insurance business			
Revenues			
Premium revenues		486	373
Reinsurance revenues		18	43
Expenses			
Claims		54	318
Annuities paid		143	153
Net insurance business		307	(55)
Movement in life insurance contract liabilities and and life investment contract liabilities			
Net (increase)/decrease in life insurance contract liabilities	(19)	(60)	309
Net increase in life investment contract liabilities	(19)	(749)	(2,957)
Net Insurance Income		(502)	(2,703)
Other expenditure	(2)	1,375	1,169
Profit before taxation		1,244	1,597
Less: taxation expense	(3)	-	-
Profit for the year		1,244	1,597
Other comprehensive income		-	-
Total comprehensive income for the year		1,244	1,597

The accompanying notes form part of these financial statements

DORCHESTER LIFE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2011

	Share Capital $'000	Retained Earnings $'000	Total $'000
Balance at 1 April 2009	**2,500**	**4,408**	**6,908**
Total Comprehensive Income attributable to shareholders	-	1,597	1,597
Balance at 31 March 2010	**2,500**	**6,005**	**8,505**
Total Comprehensive Income attributable to shareholders	-	1,244	1,244
Balance at 31 March 2011	**2,500**	**7,249**	**9,749**

The accompanying notes form part of these financial statements

DORCHESTER LIFE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2011

	Note	2011 $'000	2010 $'000
ASSETS			
Cash and cash equivalents	(7)	1,214	172
Receivables	(8)	45	67
Financial assets at fair value through profit or loss	(9)	19,369	19,397
Reverse annuity mortgages	(10)	23,998	23,685
Total assets		44,626	43,321
LIABILITIES			
Other payables	(11)	3,795	3,291
Borrowings	(12)	9,197	9,382
Current tax liabilities		2	2
Life investment contract liabilities	(19)	18,835	19,041
Life insurance contract liabilities	(19)	3,048	3,100
Total liabilities		34,877	34,816
SHAREHOLDER'S EQUITY			
Share Capital	(4)	2,500	2,500
Retained Earnings		7,249	6,005
Total shareholder's equity		9,749	8,505
Total shareholder's equity and liabilities	(5)	44,626	43,321

Signed for and on behalf of the Board of Directors:

Director

Director

Dated: 24 June 2011

The accompanying notes form part of these financial statements.

DORCHESTER LIFE LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 $'000	2010 $'000
Cash flows from operating activities			
Cash was provided from:			
Contributions and Premiums Received		7,449	8,110
Interest Received		24	69
Realised Investment Income		38	144
Other		18	108
		7,529	8,431
Cash was applied to:			
Withdrawals and Claims Paid		6,198	6,494
Administration Fees Paid		1,826	1,852
Other Expenses Paid		1,977	564
		10,001	8,910
Net cash outflow from operating activities	(17)	(2,472)	(479)
Cash flows from investing activities			
Cash was provided from:			
Investments		1,673	1,978
Reverse annuity mortgages		2,082	4,122
		3,755	6,100
Net cash inflow from investing activities		3,755	6,100

The accompanying notes form part of these financial statements.

DORCHESTER LIFE LIMITED

CASH FLOW STATEMENT *(continued)*

FOR THE YEAR ENDED 31 MARCH 2011

	Note	2011 $'000	2010 $'000
Cash flows from financing activities			
Cash was provided from:			
Borrowings		-	-
Cash was applied to			
Repayment of Kiwibank loan		963	1,264
Intercompany Borrowings		(722)	4,935
Net cash outflow from financing activities		(241)	(6,199)
Net movement in cash and cash equivalents		1,042	(578)
Add Opening cash and cash equivalents		172	750
Closing cash and cash equivalents		**1,214**	**172**
Represented by:			
Bank balances	(7)	1,214	172
Closing cash and cash equivalents		**1,214**	**172**

The accompanying notes form part of these financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL ACCOUNTING POLICIES

Dorchester Life Limited (the "Company") is a profit oriented company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Company is an issuer for the purpose of the Financial Reporting Act 1993 and an issuer in terms of the Securities Act 1978. The Company is 100% owned by Dorchester Pacific Limited, who is the ultimate parent company. The registered address of the Company is Level 8, 34 Shortland Street, Auckland.

The financial statements were approved for issue by the Directors on 24 June 2011. The Company's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

The following new financial reporting standards and amendments to standards relevant to the Group are not yet effective for the year ended 31 March 2011, and have not been applied in preparing these financial statements.

NZ IAS 24 Related Party Disclosures
The amendments simplify the definition of a related of a related party and provide a partial exemption from the disclosure requirements for government-related entities. Management is still assessing the impact of this standard on the Group. Effective date 1 January 2011

NZ IFRS 9 Financial Instruments
This standard is part of the IASB's project to replace IAS39 *Financial Instruments: Recognition and Measurement.* The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and thereafter measured at amortised cost of fair value. Management is still assessing the impact of this standard on the Group. Effective date 1 January 2013.

Change in Accounting Policies
There have been no significant changes in the accounting policies during the year.

Basis of Preparation
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

Reliance is placed on the fact that the Company is a going concern. The validity of this concept dependent ofn the successful renewal of the Kiwibank loan and also on the continued financial support from Dorchester Pacific Limited.

Presentation Currency and Rounding
The amounts contained in this report and the financial statements are presented in New Zealand dollars (rounded to the nearest dollar), which is the Company's functional and presentational currency.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES

(a) Foreign Currency Transactions

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction. All foreign currency monetary assets and liabilities are translated at the exchange rates ruling as at balance date.

(b) Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and that the revenue can be reliably measured. The principal sources of revenue are Premium Income and Investment Income.

Premium Income

Life insurance contracts – premiums received for providing services and bearing risks are recognised as revenue on an accrual basis.

Life investment contracts – premiums received have the fee portion of the premium recognised as revenue on an accrual basis and the deposit portion recognised as an increase in Life Investment Contract Liabilities. Initial entry fee income on investment contracts is recognised as revenue at the outset of the contract only if a specific initial service (for which the fee relates) is provided by the Company at that time. Otherwise initial entry fee income is deferred as a component of the Life Investment Contract Liability and amortised as related management services are provided under the contract.

Investment Income

Financial instruments are classified in the manner described in (d). Some are measured by reference to amortised cost, others by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or expense recognised in profit or loss. For financial instruments measured at fair value, interest income or expense is recognised on an accrual basis.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the relevant period. The calculation includes all fees paid or received and directly related transaction costs that are an integral part of the effective interest rate. The interest income or expense is allocated over the life of the instrument and is measured for inclusion in profit or loss by applying the effective interest rate to the instruments amortised cost.

Dividend income and unit trust distributions are recorded in the profit or loss when the Company's right to receive the dividend and distribution is established. Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through profit or loss are included in investment income.

Other Revenue

Commission and fee revenue is recognised in profit or loss on the basis of the actual service provided as a proportion of the total services to be provided.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(c) Expense Recognition
Claims Expenses
Maturity claims are recognised on the policy maturity date. Surrenders are recognised when paid. Death and all other life insurance contract claims are recognised as an expense when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in life investment contract liabilities.

Expenses involved in running the company's business are categorised into acquisition, investment management and maintenance costs on the basis of a detailed functional analysis of activities carried out by the company.

Acquisition Costs
Acquisition costs are the fixed and variable costs of acquiring new business including commissions and similar distribution costs, costs of accepting, issuing and initially recording policies. Acquisition costs relate to the costs incurred in acquiring specific life insurance policies during the period with any amounts to be deferred capitalised on the balance sheet as a deferred acquisition cost (DAC). Acaquistion costs do not include the general growth and development costs incurred by the company.

Acquisition Costs – Life Insurance Contracts - Acquisition costs represent all costs incurred at the time of writing a life insurance policy. The most significant component of such costs is usually commissions. Under Margin on Serices (MoS) methodology, where product profitability can support the recovery of acquisition costs, these costs are effectively deferred and amortised over the life of the policy. They are reported as negative components of the MoS life insurance contract liabilities in the Statement of Financial Position.

Acquisition Costs – Life Investment Contracts – Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset. All other acquisition costs are recognised as expenses in the Profit or loss when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and recognised in the Profit or loss.

Maintenance Expenses
Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and maintaining the company's operations such that they are sufficient to service enforce policies. These include general growth and development costs. Maintenance costs include all operating and management costs other than acquisition and investment management costs. Maintenance costs are recognised in profit or loss on an accrual basis.

Investment Management Expenses
Investment management costs are the fixed and variable costs of managing investment funds. Investment management expenses are recognised in profit or loss as incurred.

Other Expense Recognition
All other expenses are recognised in profit or loss on an accrual basis.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(d) Financial Instruments
Basis on recognistion and measurement

The Company classifies financial instruments into one of the following categories at initial recognition: Financial Assets or Liabilities at Fair Value through Profit or Loss, Available for Sale Financial Assets, Loans and Receivables, Financial Assets Held to Maturity, and Financial Liabilities measured at amortised cost.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows expire or if the Company transfers them without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract are extinguished.

(i) Financial assets at fair value through profit or loss – Insurance Investments
Assets in this category are measured at fair value. Gains and losses from fair value re-measurement (excluding interest and dividends) are included in investment income in the profit or loss.

The financial assets in this category have been designated at inception as fair value through profit or loss because they back life insurance contract liabilities or life investment contract liabilities. Purchases and sales of these securities are recorded on a trade basis. Insurance investments include:

- Shares in listed companies and managed funds – shares and managed funds are recognised at fair value based on the bid market price quoted by the stock exchange or fund manager.
- Fixed interest securities – fixed interest securities are recognised at fair value based on quoted bid market price.

(ii) Available for sale financial assets

Available for sale financial assets are measured at fair value, with changes in fair value recognised directly in other comprehensive income. The Company has not classified any financial assets in this category.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(d) Financial Instruments *(continued)*
(iii) Loans and receivables

Assets in this category are measured at amortised cost using the effective interest method and include:

Reverse Mortgages

Reverse Mortgages comprise of advances that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The advances are initially recognised at fair value including fees and transaction costs that are directly attributable to the origination of the advance. They are subsequently measured at amortised cost using the effective interest method, less impairment loss.

Cash and Cash Equivalents
Cash and Cash Equivalents include cash on hand, bank current accounts, cash on deposit, short term money market deposits, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Other Receivables
Other Receivables include accounts receivable, and related party receivables.

(iv) Held to maturity investments
Assets in this category are measured at amortised cost. The Company has not classified any financial assets as held to maturity.

(v) Financial liabilities at fair value through profit and loss
Liabilities in this category are measured at fair value. Gains and losses arising from the fair value re-measurement are included in profit or loss. Liabilities in this category include investment contracts at fair value through profit or Loss, refer note 19 for details on life investment contract liabilities.

(vi) Other financial liabilities
This category includes all financial liabilities other than those designated as fair value through profit or loss. Liabilities in this category are measured at amortised cost and include:

Borrowings

The Company has long term Bank borrowings. These are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost. Interest expense is recognised in profit or loss using the effective interest method.

Other Payables
Other Payables include related party borrowings and amounts due to creditors.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(e) Taxation

Life insurers are subject to a special tax regime. Two tax bases are maintained; the life insurer base where tax is calculated on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer pays tax on the higher of the two bases at the company tax rate of 30%. As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

From 1 July 2010 the taxation basis has changed. Tax will be payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). For the first five years of the new tax regime there are concessions which allow certain policies to continue being taxed under the old regime as explained above.

(f) Provision for Impairment

Impairment is assessed initially for financial assets that are known to be individually impaired.

Reverse mortgages are reviewed at each balance date to determine whether there is any objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date. The loss event has to have had an impact on the reliable measurement of estimated future cash flows.

If any such indication exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

The impairment provision is deducted from reverse mortgages in the statement of financial position and the movement in the impairment provisions is recognised in profit or loss. Bad debts are written off against the provision in the year in which they are identified. If in a subsequent period the amount of an impairment loss decreases and the decrease is linked objectively to an event occurring after the impairment loss, the loss is reversed through profit or loss.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(g) Life Insurance Business
The Company's life insurance business is split between life insurance contracts and life investment contracts. Life Insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4. Life investment contracts are accounted for in accordance with NZ IAS 18 and NZ IAS 39.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those with no significant insurance risk, but which give rise to a financial asset and/or liability under NZ IAS 39. Contracts that contain a discretionary participation feature are also classified as insurance contracts.

Determination of Life Insurance Contract Liabilities

Life insurance contract liabilities in the statement of financial position and the increase/(decrease) in profit or loss have been calculated using the MoS methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 Determination of Life Insurance Policy Liabilities.

Overview of MoS Methodology

MoS is designed to recognise profits on life insurance contracts as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of the policy, whereas losses are recognised immediately. Services used to determine profit recognition include the cost of expected claims, maintaining policies, and investment management. The policy service for each of the major product groupings that is used to defer and amortise the profit over the life of the policies are called profit carriers. Life insurance contract liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums. Profit margins for participating businesses are set in relation to the value of supporting assets.

MoS profit comprises the following components:
(i) Planned margins of revenues over expenses
At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums. Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy.

(ii) The difference between actual and assumed experience

Experience profits/(losses) are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits/(losses) include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(g) Life Insurance Business (*continued*)

(iii) Changes to underlying assumptions

Assumptions used for measuring life insurance contract liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for changes in discount rates which are recognised in the year that the rates are changed.

The financial effect of all other changes to the assumptions underlying the measurement of life insurance contract liabilities made during the reporting period is recognised in profit or loss over the future reporting periods during which services are provided to policyholders.

(iv) Loss recognition on groups of related products

If based on best estimate assumptions, written business for a group of insurance constracts with broadly similar resks that are managed together as a single portfolio is expected to be unprofitable, the total expected loss for that group is recognised in profit or loss immediately. When loss making business becomes profitable previously recognised losses are reversed.

(v) Investment earnings on assets in excess of policy liabilities

Profits are generated from investment assets which are in excess of those required to meet policyholder liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

Participating Policies

Policyholder liabilities attributable to participating policies include the value of future planned shareholder profit margins and an allowance for future supportable bonuses. The value of supportable bonuses and planned shareholder profit margins account for all profit on a policy based on best estimate assumptions. Under MoS methodology, the value of supportable bonuses and the shareholder profit margin relating to a reporting year will emerge as expected profit in that year.

Life Investment Contract Liabilities

Investment contract liabilities are measured in accordance with NZ IAS 39.

All contracts issued by the Company which are classified as investment contracts are unit-linked. The fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributable to the contract holder.

Reinsurance

Reinsurance premiums and recoveries are recognised separately as revenue and expenses in profit or loss when they become due and payable in accordance with the reinsurance agreements.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(h) Fair Values Estimates

Financial instruments classified as fair value through profit or loss are presented in the Company's statement of financial position at their fair value. For other financial assets and financial liabilities, fair value is estimated as follows:

Cash and cash equivalents
These assets are short term in nature and the carrying value less impairment approximates to their fair value.

Other receivables
These assets are short term in nature and the carrying value less impairment approximates to their fair value.

Reverse mortgages

Reverse mortgages have fixed interest rates. Fair value is estimated using a discounted cash flow model based on a current market interest rate for similar products after making allowances for impairment.

Borrowings
Borrowing liabilities have fixed interest rates. Fair value is estimated using a discounted cash flow model based on a current market interest rate for similar products.

(i) Managed Funds and other Fiduciary Activities

Dorchester Life Limited acts as an investment manager for a number of superannuation funds. The assets and liabilities of these funds are not included in the financial statements.

Arrangements exist to ensure the activities of the superannuation funds are managed independently from the other activities of the company.

(j) Cash Flow Statement

The cash flow statement has been prepared using the direct approach modified by netting certain cash flows in order to provide more meaningful disclosure as many of the cash flows are on behalf of the Company's customers rather than those of the Company. These include reverse mortgages and financial assets at fair value through profit or Loss.

(k) Comparatives

Revisions to NZ IAS 1 have been adopted, resulting in disclosure and presentation, but not measurement changes.

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(l) Contingent Liabilities

The Company is involved in transactions that give rise to contingent liabilities. The Company discloses a Contingent Liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events. A Contingent Liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(m) Significant Judgements

The Company makes estimates and assumptions that affect the amounts reported in the financial statements. Estimates and judgments are continually evaluated; they are based on historical experience and current observable data. The estimates and judgments made by the Company in the process of applying the accounting policies that have the most significant effect relate to the following:

Liabilities arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is based on a number of actuarial techniques that analyse experience, trends and other relevant factors. The actuarial methodologies used are note below.

Actuarial Policies and Methods

The actuarial report on life insurance contract liabilities and prudential reserves for the current reporting period was prepared as at 31 March 2011 by Peter Davies, a Fellow of the New Zealand Society of Actuaries. The value of life insurance contract liabilities has been determined in accordance with Professional Standard No. 3 of the New Zealand Society of Actuaries. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined.

The key assumptions used in determining policy liabilities are as follows:

(i) *Discount Rates*

Discount rates used to determine the life insurance contract liabilities are based on an appropriate risk-free rate of return, taking account of the term of the insurance contracts.

Tax was deducted at the rate of 28% on investment earnings net of investment expenses (2010 30%). The

	2011	2010
Whole of Life and Endowment Policies	4.05%	4.20%
Term Insurance Policies	Not applicable	
Funeral Benefit Policies	Not applicable	
Annuity Policies	4.05%	4.20%
Consumer Credit and Key Person Loan Protection	Not applicable	

(ii) *Inflation Rates*

In determining the future expected rate of return, general inflation was assumed to continue into the future at 2.0% per annum (2010: 2.0%).

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(n) Significant Judgements (*continued*)

(iii) *Mortality Rates*

Rates of mortality were assumed as follows:

For underwritten whole of life, endowment and term insurance policies: NZ97 (2010: NZ97). For guaranteed issue funeral plans: NZ97 multiplied by a factor to reflect higher mortality at younger ages. For annuities and reverse mortgages the Directors assumed mortality according to the PA(90) table, reduced by four years (but assuming no age reduction for the Cook Islands Annuity Pension Plan) (2010: PA(90) table, reduced by four years, no age reduction for Cook Islands).

(iv) *Profit Carriers*

The policies were divided into major product groups with profit carriers as follows:

Ma Carrier	
Participating Whole of Life and Endowment Policies	Policyholder Bonuses
Non Participating Whole of Life and Endowment Policies	Premiums
Funeral Benefit Policies (Caring Plan)	Not Applicable
Term Insurance Policies	Premiums
Funeral Plan Policies (Regular premium guaranteed issue)	Claims
Annuities	Annuity Payments
Consumer Credit and Key Person Loan Protection	Premiums

(v) *Investment and Maintenance Expenses*

The maintenance expense and general growth and development expense allowance assumed was $140 gross before tax (2010: $125) per annum per policy assuming a rate of inflation of 2.0% per annum (2010: 2.0%).

Administration costs for annuities in payment were assumed to be $60 per annum (2010: $60), with a rate of inflation of 2.0% per annum (2010: 2.0%). Investment management expenses were assumed to be 1.0% (2010: 1.0%) of policy liabilities.

(vi) *Inflation and Automatic Indexation of Benefits*

Maintenance expenses are assumed to increase 2.0% per annum (2010: 2.0%). Investment management expenses are assumed to remain a constant percentage of funds under management.

(vii) *Taxation*

The assumed future tax rate reflects the corporate tax rate applying in New Zealand with effect from 1 April 2011. The calculations have been carried out on the basis of current life insurance income tax legislation.

(viii) *Rates of Discontinuance*

Rates of discontinuance are assumed to be 5.0% for whole of life, endowment and term insurance business (2010: 5.0%), and nil for annuity pension plan business (2010: $nil).

1. STATEMENT OF ACCOUNTING POLICIES (*continued*)

PARTICULAR ACCOUNTING POLICIES *(continued)*

(n) Significant Judgements (*continued*)
(ix) *Surrender Values*
The Company's current basis of calculating surrender values is assumed to continue in the future.

(x) *Rates of Future Supportable Participating Benefits*
Rates of bonus supported by the participating fund are simple annual bonuses of $10 (2010: $10) per $1,000 of sum assured on whole of life policies and $20.00 (2010: $20.00) per $1,000 of sum assured on endowment policies. These equal the rates of bonus declared in the previous year.

(xi) *Impact of changes in assumptions*

The impact of the change in the discount rate is a decrease in policy liabilities of $49,329 (2010: increase of $70,659).

(xii) *Crediting Policy Adopted for Future Supportable Participating Benefits*
For participating business the Company's policy is to distribute profits arising such that over long periods the returns to policy holders are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. In applying the policyholders' share of distributions to provide bonuses, consideration is given to achieving equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business.

Provision for impairment on financial assets
Provision for impairment on financial assets is determined in accordance with accounting policy f. In applying the policy the Group makes judgments as to whether there is any observable data indicating impairment and the estimation of the recoverable amount.

Fair value of financial instruments
The fair value of financial instruments that are not quoted in active markets are determined using discounted cash flow models. To the extent practical, models use observable data, however normal volatilities require management to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

Deferred tax asset
The Company has not recorded a deferred tax assets in its statement of financial position as at 31 March 2011. Significant judgment is required in determining the utilisation of deferred tax assets and the Company is uncertain of the value of these benefits that are likely to be utilised over the next three years.

2. PROFIT AFTER MOVEMENT IN LIFE INSURANCE CONTRACT LIABILITIES, LIFE INVESTMENT CONTRACT LIABILITIES, TAXATION AND COMPREHENSIVE INCOME

a) ***Included in profit after movement in life insurance contract liabilities, life investment contract liabilities and taxation are the following:***

	2011 $'000	2010 $'000
Revenue		
Interest received	24	69
Expenses		
Audit Fees		
- Fees for audit of the financial statements	51	78
Provision for impairment	53	18

b) ***Net profit after taxation from insurance activities arose from:***

Life insurance contracts		
Planned margin of revenues over expenses	4	5
Change in discount rate: 6.00% to 5.63% p.a. (2010: 5.34% to 6.00%)	(49)	71
Difference between actual and assumed experience	143	169
Life investment contracts		
Difference between actual and assumed experience	(86)	158
Investment earnings on assets in excess of insurance contract and investment contract liabilities	1,232	1,194
Net profit after taxation attributable to insurance activities	1,244	1,597

The disclosure of the components of operating profit after tax expense are required to be separated between policyholders' and shareholders' interests. We have included only one column, as any policy holder profits are an expense of the Company and not attributable to the Shareholder.

It is not currently possible to identify all experience variances separately for life investment contracts. The difference between actual and assumed experience for life insurance contracts therefore includes some variances relating to life investment contracts.

2. PROFIT AFTER MOVEMENT IN LIFE INSURANCE CONTRACT LIABILITIES, LIFE INVESTMENT CONTRACT LIABILITIES, TAXATION AND COMPREHENSIVE INCOME

c) Investment Income

	2011 $'000	2010 $'000
Equity securities – Australasian & international	1,081	2,210
Fixed interest securities – New Zealand	368	437
Property securities – New Zealand and international	234	1,492
	1,683	4,139

Included within equity securities is dividend income of $Nil (2010: $Nil) and included within fixed interest securities is interest income of $37,214 (2010: $144,329). Included within total investment income is net realised and unrealised gains on securities at fair value through profit or loss of $1,645,474 (2010: $3,994,865).

d) Administration fees

	2011 $'000	2010 $'000
Life insurance contracts		
Policy acquisition expenses – commission costs	6	21
Deferred acquisition costs amortisation	(35)	59
Total insurance contract related expenses	(29)	80
Life investment contracts		
Investment management expenses	109	235
Total investment contract related expenses	109	235
Total insurance expenses	80	315

Acquisition costs are those fees charged against the schemes and policies during the first year of operation. Maintenance costs are all other fees charged against the schemes and policies.

3. TAXATION

a) Taxation expense/(benefit)

	2011 $'000	2010 $'000
Net profit/(loss) after movement in life insurance contract liabilities, life investment contract liabilities and before taxation	1,244	4,244
Income tax using the Company's domestic tax rate (30%)	373	1,273
Add/(less) expenses not deductible for tax purposes	(681)	(1,347)
Add/(less) movement in temporary differences not recognised	(12)	11
Add/(less) Loss offset	-	63
Tax asset not recorded	320	-
	-	-

b) Imputation credit memorandum account

Company

Opening balance	37	135
Income tax payments/(refunds received)	10	(226)
Taxable bonus issue/imputation credits received/(paid)	-	128
Imputation credits lost due change in share holding	(37)	-
Closing balance	10	37

Dorchester Pacific Limited formed a consolidated imputation group with its subsidiaries for the imputation year ended 31 March 2007.

Policyholder
The balance of the policyholder credit account is $Nil (2010: $131,365).

c) Taxation Losses

Company

Taxation losses brought forward	1,933	1,496
Add/(less) taxation losses Incurred	1,212	201
Add/(less) taxation losses utilised	-	-
Add/(less) excess imputation credits converted to losses	-	236
Taxation losses carried forward	3,145	1,933

The Company has unrecognised tax losses of $3,145,537 (2010: $1,933,088) available to be carried forward and to be offset against taxable income in the future. The tax effect of these losses at 30% (2010: 30%) is $943,661 (2010: $579,926). The ability to carry forward these losses is contingent upon continuing to meet the requirement of the Income Tax Act 2007.

Policyholders
Due to change in life insurance tax effective on 1 July 2010, the policy holder taxation losses brought forward from 31 March 2010 of $39,259,000 were lost. The policy holder tax losses incurred since 1 July 2010 and carried forward are $1,086,540.

We note the policyholder taxation losses are only available to be offset against future policyholder income.

4. SHARE CAPITAL

	2011 $'000	2010 $'000
Ordinary shares: 2,500,000 shares fully paid with no par value	2,500	2,500

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up. There have been no share issues or repurchases during the year (2010: Nil).

The dividends declared and paid in 2011 and 2010 were $Nil. No dividend has been declared subsequent to 31 March 2011.

5. EQUITY – DORCHESTER LIFE LIMITED EQUITY RETAINED FOR SOLVENCY PURPOSES

Separate to the policy liabilities recognised in the statement of financial position, the Company maintains sufficient capital to meet solvency. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the Company.

Based on actuarial advice the directors have determined that $6,602,458 (2010: $6,622,977) of the equity of Dorchester Life Limited should be set aside for solvency purposes and is therefore not available to be distributed. The solvency requirement was determined in accordance with the New Zealand Society of Actuaries Guidance Note No. 5.

	2011	2010
Equity of shareholders	9,749	8,505
Equity retained for solvency purposes	6,602	6,623
Equity available for distribution and wholly attributable to shareholders	3,147	1,882

6. CAPITAL MANAGEMENT

The Company's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between its specific business operations and activities is, to a large extent, driven by optimisation of the return on the capital allocated. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation. The Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors (refer note 5). There have been no material changes in the Company's management of capital during the year.

7. CASH AND CASH EQUIVALENTS

	2011 $'000	2010 $'000
Bank	1,214	172

8. OTHER RECEIVABLES

	2011 $'000	2010 $'000
Deferred acquisition costs	-	23
Other receivables and prepayments	45	45
	45	68

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE PROFIT OR LOSS

	2011 $'000	2010 $'000
Investment in unitised funds	18,838	18,856
Fixed interest securities – government stock	531	540
	19,369	19,396
Investments in unitised funds comprise:		
Cash/deposits	2,745	2,490
Fixed interest securities-New Zealand and overseas	3,926	3,768
New Zealand and international equities	7,762	8,257
Life insurance policies	-	63
New Zealand and overseas property securities	4,405	4,278
	18,838	18,856
Investments with external investment managers		
Onepath (formerly ING (NZ) Limited)	18,838	18,793
Life insurance policy exchange	-	63
	18,838	18,856

Investments in unlisted units are allocated to the investment contracts statutory fund refer note 19.

10. REVERSE ANNUITY MORTGAGES

	2011 $'000	2010 $'000
Securing bank borrowing (refer note 12)	10,735	10,419
Allocated to life insurance statutory fund (refer note 19)	4,527	-
Other	8,868	13,362
	24,130	23,781
Deferred fee revenue and commission expenses	(79)	(96)
Provision for impairment	(53)	-
	23,998	23,685

11. OTHER PAYABLES

	2011 $'000	2010 $'000
Related party payable (Note 16)	3,540	3,016
Other payables and accruals	255	275
	3,795	3,291

12. BORROWINGS

	2011 $'000	2010 $'000
Bank borrowings - Kiwibank	9,197	9,382

The Bank borrowings are secured against a parcel of reverse mortgages (in note 10). The commitment is extended on an annual basis. As at 31 March 2011 the effective interest rate was 8.39% (2010: 8.60%).

13. COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments
There are no amounts committed under an Operating Lease (2010: $Nil).

Capital Expenditure
There are no amounts committed to Capital Expenditure (2010: $Nil).

Loan commitments
Loan commitments are provided in the liquidity note in note 14.

Contingent liabilities
The Company has no material contingent liabilities at 31 March 2011 (2010: $Nil).

14. FINANCIAL INSTRUMENTS

a.) Credit risk

Credit risk is the risk that a counterparty will cause a financial loss for the Company by failing to meet its contractual obligations.

Financial instruments which potentially subject the Company to credit risk principally consist of cash and cash equivalents, reverse mortgages, other receivables and financial assets at fair value through profit or loss. There is also credit risk in off-Statement of Financial Position financial instruments, such as loan commitments which represent irrevocable unused portions of authorisations to extend loans. The Company's cash equivalents and short term deposits are placed with high credit quality institutions.

The Company performs credit evaluations on all customers requiring advances. The Company requires collateral or other security to support the financial instruments with credit risk. The Company operates a lending policy with various levels of authority depending on the size of the loan. A lending and credit committee operates and overdue loans are assessed on a regular basis by this body.

Risk gradings categorise exposures according to the degree of risk of financial loss faced and focus management on the attendant risks. Risk grades are used to determine where impairment allowances may be required. The current risk grading framework consists of three grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. They are as follows:

- neither past due or impaired - compliance with all terms, good security value, and no adverse events affecting the borrower.
- past due but not impaired – non- compliance with all terms and concerns over future events that may effect the borrower.
- past due and impaired - non-compliance with terms, evidence of impairment of security held and adverse event affecting the borrower.
- impaired - evidence of impairment of security held and adverse event affecting the borrower.

The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for reverse mortgages are mortgages over houses.

Maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position which is net of any provision for impairment.

14. FINANCIAL INSTRUMENTS *(continued)*

a.) Credit risk (*continued*)

With respect to credit risk on commitments, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The credit risk exposure below does not take into account the fair value of any collateral, in the event of counterparties failing to meet their contractual obligation.

For life investment linked contracts the investments credit risk is appropriate for each particular product and the risk is borne by the policy holder. There is no significant risk assumed by the Company.

a.) i.) Concentrations of credit risk

Concentrations of credit risk exist if a number of counterparties are involved in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Company manages, limits and controls concentrations of credit risk, in particular, to individual counterparties and geographic location. The Company lends only to owners of property.

Such risks are monitored on an ongoing basis and subject to an annual or more frequent review, when considered necessary.

Geographic concentrations of reverse mortgages

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by the geographic regions of our counterparties.

	2011 $'000	2010 $'000
Northland	3,836	3,485
Auckland	10,521	9,869
Waikato/Bay of Plenty	1,884	1,939
Taupo	650	1,185
Wellington	1,630	1,603
Rest of North Island	1,902	1,659
Canterbury	1,937	1,726
Otago/Southland	451	425
Rest of South Island	1,319	1,890
	24,130	23,781

14. FINANCIAL INSTRUMENTS *(continued)*

a.) Credit risk (*continued*) **a.) ii.) Reverse mortgages specifically impaired**	**2011** **$'000**	**2010** **$'000**
Reverse mortgages specifically impaired	590	-

Reverse mortgages are an equity release product from the borrowers' residence. Mortgage advances and interest accruals increase the mortgage carrying amount therefore there are no past due mortgages. When the mortgage advances and interest accruals exceed secured property valuations the reverse mortgage is specifically impaired.

An estimate of the fair value of collateral held against impaired reverse mortgages is $550,000 (2010: $Nil).

b.) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds at short notice to meet obligations from its financial liabilities.

The Company maintains sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Management actively manages the lending and borrowing portfolios to ensure the net exposure to liquidity risk is minimised. The exposure is reviewed on an ongoing basis from daily procedures to monthly reporting as part of the Company's liquidity management process. The management process includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met;
- managing the concentration and profile of debt maturities;

Monitoring and reporting take the form of cashflow measurement and projections, these include:

- day to day funding requirements;
- on a weekly basis, projecting the requirements for each of the next 4 weeks;
- on a monthly basis, projecting the requirements for each of the next 12 months;

The weekly projections are reported to the Board. The Company also monitors the level of undrawn lending commitments.

The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (see tables below).

The tables below present cash flows payable by the Company for financial liabilities and unrecognised loan commitments based on the earliest possible contractual maturity. The Company expects cashflows on these instruments to vary from their contractual maturity. For instance unrecognised loan commitments are not all expected to be drawn down immediately.

14. FINANCIAL INSTRUMENTS *(continued)*

b.) Liquidity risk (*continued*)

The liquidity risk for cashflows payable on the life investment contracts liabilities that are unit linked contracts is managed by holding a pool of readily tradeable investment assets (included in financial assets at fair value through profit or loss) and deposits on call. These have been excluded from the maturity analysis below because there is no contractual or expected maturity date for the life investment contracts and the readily tradeable investment assets offset any liquidity risk.

Interest terms of other borrowings funding Reverse mortgages (RAM's) are linked to the underlying RAM's. Interest accrues and increases the carrying amount of other borrowings. There is no contractual maturity for RAM products. On repayment of the RAM, other borrowings are repaid. The other borrowings funding RAM products is a commitment that is extended on an annual basis.

2011 $'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial assets						
Cash and cash equivalents	1,214	-	-	-	-	1,214
Reverse mortgages	1,508	458	-	4,445	17,587	23,998
Other receivables	45	-	-	-	-	45
	2,767	458	-	4,445	17,587	25,257
Financial liabilities						
Borrowings	7,358	1,839	-	-	-	9,197
Advances from related parties	3,540	-	-	-	-	3,540
	10,898	1,839	-	-	-	12,737
Off-Statement of Financial Position items						
Interest receivable not yet accrued	16	30	-	1,898	44,915	46,859
Interest payable not yet accrued	142	88	-	-	-	230

Interest receivable not yet accrued is the unearned interest over the remaining term of the reverse mortgages. Interest payable not yet accrued is the interest payable on the Kiwibank loan over the remaining term of the loan.

2010 $'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial assets						
Cash and cash equivalents	172	-	-	-	-	172
Reverse mortgages	1,285	134	549	2,819	18,898	23,685
Other receivables	68	-	-	-	-	68
	1,525	134	549	2,819	18,898	23,925
Financial liabilities						
Borrowings	7,676	1,706	-	-	-	9,382
Advances from related parties		-	-	-	-	-
	7,676	1,706	-	-	-	9,382
Off-Statement of Financial Position items						
Interest receivable not yet accrued	22	6	74	1,351	48,110	49,563
Interest payable not yet accrued	146	99	-	-	-	245

14. FINANCIAL INSTRUMENTS *(continued)*

c.) Market risk

Market risk is the risk of an event in the financial markets that results in a fluctuation in earnings or a fluctuation in value. Market risk arises from the mismatch between assets and liabilities. The Company is exposed to diverse financial instruments including interest rates, equities, and foreign currencies.

c.i.) Life insurance business

For the life insurance business, financial assets at fair value through profit or Loss are held for investment linked policies where market risk is transferred to the policy holder. The Company earns fees on investment linked policies that are based on the amount of assets invested, it may receive lower fees should markets fall. Asset allocation for investment linked policies is decided by the Policy Holder. This risk is not considered significant.

Interest rate risk also arises on risk contracts where negative policy liabilities are valued at current risk free interest rates. There would not be any significant impact on the profit or loss for interest rate changes refer sensitivity analysis note 19.

c.ii.) Interest rate risk for financing activities

For the financing activities of the Company, the main market risk is interest rate risk.

Interest rate risk is the risk of loss to the Company arising from adverse changes in interest rates. The Company is exposed to the interest rate risk in respect of borrowings from and lending to customers. Interest rates are managed by assessing the demand for funds, for new lending, repayments and maintaining an adequate liquidity buffer. Rates are either fixed or variable for both lending and borrowing over the term of the contract. The Company does not enter into any futures, swaps or option contracts. Changes to interest rates can impact on the Company's financial results by affecting the spread earned on the interest-earning assets and the cost of interest-bearing liabilities.

Interest rate risk is measured by management and the Board of Directors when establishing fixed and variable rates of interest. When approving interest rates for individual loan advances interest rate risk is either measured by management and/or Board of Directors in accordance with the approved lending policy. Exposure to interest rates is monitored by the Board of Directors on a monthly basis.

The expected maturity periods of reverse mortgages are set out at note 14.b). Interest rates on advances are fixed or variable throughout the life of the advances. Advances are secured over the assets to which they relate.

Reverse mortgages and other borrowings are carried at amortised cost with the majority of the interest rates being fixed. For the variable rate reverse mortgages this is funded by an offsetting variable rate financial liability in borrowings. Therefore there would not be any impact on the profit or loss if there were interest rate changes.

14. FINANCIAL INSTRUMENTS *(continued)*

c.ii.) Interest rate risk for financing activities (*continued*)

The following table summarises the sensitivity of the Company's finance assets and financial liabilities to interest rate risk. The analysis shows the anualised impact on profit before tax and equity of a +/- 1% movement in interest rates. The equity impace takes into account tax effect of the profit impacts.

2011 ($'000)	Carrrying amount	-1% profit	-1% equity	+1% profit	+1% equity
Financial assets					
Reverse mortgages	23,998	(240)	(240)	240	240
Financial liabilities					
Borrowings	9,197	92	92	(92)	(92)
Total increase/(decrease)		(148)	(148)	148	148

2010 ($'000)	Carrrying amount	-1% profit	-1% equity	+1% profit	+1% equity
Financial assets					
Reverse mortgages	23,685	(237)	(166)	237	166
Financial liabilities					
Borrowings	9,382	94	66	(94)	(66)
Total increase/(decrease)		(143)	(100)	143	100

d.) Fair value of financial assets and liabilities not carried at fair value

Except for reverse mortgages and borrowings, the carrying value of all financial assets and liabilities not carried at fair value approximates their fair values as they are either short term in nature or rate insensitive.

The fair value of reverse mortgages and borrowings is determined using discounted cash flows, the discount rates used are the current market rates for similar products.

The table below summarises the carrying amounts and fair values of those financial assets and financial liabilities not presented on the Company's statement of financial position at their fair value:

2011 $'000	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	1,214	1,214
Other receivables	45	45
Reverse mortgages	23,998	24,378
	25,257	25,637
Financial liabilities		
Borrowings	9,197	9,339
Advances from related parties	3,540	3,482
	12,737	12,821

2010 $'000	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	172	172
Other receivables	67	67
Reverse mortgages	23,685	26,018
	23,924	26,257
Financial liabilities		
Borrowings	9,382	9,471
Advances from related parties	3,016	3,016
	12,398	12,487

e.) Fair value financial assets

The fair value of financial assets carried at fair value are determined as follows:

- Level 1: The fair value is calculated using quoted prices in active markets.
- Level 2 : The fair value is estimated using inputs other than quoted prices in level 1 that are observable for the assets, either directly (as prices) or indirectly (derived from prices).
- Level 3: The fair value is estimated using inputs for the assets that are not based on observable market data.

The fair value of financial assets carried at fair value as well as the methods used to calculate fair value are summarised in the table below:

2011 **$'000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets at fair value through profit or loss	531	18,838	-	19,369
	531	18,838	-	19,369

2010 **$'000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets at fair value through profit or loss	540	18,856	-	19,396
	540	18,856	-	19,396

15. ASSET QUALITY

	2011	2010
Specific impairment provision	**$'000**	**$'000**
Opening balance	-	820
Provision for impairment	53	18
Amounts recovered during the year	-	(838)
Closing balance	53	-
Specific impaired financial assets		
Opening balance	-	1,725
Additions to other individually impaired assets	590	-
Deletions from other individually impaired assets	-	(1,725)
	590	-

Movement in provisions - reconciliation to statement of comprehensive income - specific provisions for:

Specific impairment provision	53	18
Charge to profit or loss	53	18

16. TRANSACTIONS WITH RELATED PARTIES

a) Related party balances

Payable as follows:

Dorchester Life Management Limited	3,019	3,015
Dorchester Life Trustees Limited	1	1
Dorchester Pacific Limited	520	-
	3,540	3,016

All related party loans are repayable on demand, no interest is was charged in 2011 and in 2010 interest was charged at market rate of 8.49%. No related party debts have been forgiven or written off during the year.

b) Related Party Transactions

The Company paid expenses in the form of activity $632,116 (2010: $714,853), plan $714,777 (2010: $652,428) and establishment fees $478,653 (2010: $524,955) to Dorchester Life Management Limited in return for Dorchester Life Management Limited administering certain products offered by the Company. Certain overhead recharges were received from Dorchester Life Management Limited of $1,171,834 (2010: $796,259).

The Company, Dorchester Life Management Limited and Dorchester Finance Limited are all wholly owned subsidiaries of Dorchester Pacific Limited. There were no transactions which occurred at nil or nominal value.

17. RECONCILIATION OF NET SURPLUS AFTER TAXATION TO CASHFLOWS FROM OPERATING ACTIVITIES

	2011 $'000	2010 $'000
Net profit after movement in life insurance contract liabilities, life investment contract liabilities and taxation	1,244	1,597
Add/(less) non-cash items:		
Non-cash movement in reverse mortgages	(2,325)	(2,379)
Net unrealised (gains)/losses on investments	(1,645)	(3,995)
Policyholder liabilities	(258)	2,511
Provision for impairment	(53)	18
Add/(less) movements in working capital items:		
Receivables	23	59
Other payables	(1,369)	31
Add Working Capital items treated as investing activities	(115)	(77)
Add Working Capital items treated as financing activities	2,026	1,756
Net cash outflow from operating activities	(2,472)	(479)

18. SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events after Balance Date.

19. LIFE INSURANCE RELATED DISCLOSURES

a.) Policyholder liabilities

	2011 $'000	2010 $'000
Life insurance contract liabilities		
Opening life insurance contract liabilities	3,100	3,614
Decrease in life insurance contract liabilities recognised in the statement of comprehensive income	60	(309)
Decrease in premium revenues recognised in the statement of comprehensive income	(48)	(65)
Decrease in interest income recognised in the statement of comprehensive income	(64)	(140)
Closing life insurance contract liabilities	3,048	3,100
Policyholder liabilities contain the following components:		
Future policy benefits	4,224	3,734
Future bonuses	38	39
Future expenses	255	159
Future profit margins	92	41
Balance of future premiums	(1,570)	(885)
Re-insurance	2	2
Cost of bonus	7	10
	3,048	3,100
Life insurance contracts with a discretionary participation feature – the amount of the liabilities that relates to guarantees	388	363
Other contracts with a fixed or guaranteed termination value – current termination value	2,450	2,462
Life investment contracts at fair value through profit or loss		
Opening life investment contract liabilities at fair value through profit or loss	19,041	16,081
Increase /(decrease) in life investment contract liabilities recognised in profit or loss	749	2,957
Contributions	6,963	7,872
Withdrawals	(6,092)	(6,006)
Activity, plan and establishment fees	(1,826)	(1,863)
Closing life investment contract liabilities held by the life insurance business	18,835	19,041
Expected to be realised in more than 12 months	18,835	19,041

The benefits offered under the Company's unit-linked investment contracts are based on the returns of selected equities and debt securities. This investment mix is unique, and it cannot be associated to an individual benchmark index with a sufficiently high correlation.

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

a.) Policyholder liabilities *(continued)*

All financial liabilities at fair value through profit and loss are designated by the Company to be in this measurement category.

The liabilities originated from unit-linked contracts are measured in reference to their respective underlying assets of these contracts. Changes in the credit risk of the underlying assets do not impact the measurement of the unit-linked liabilities. The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date.

b.) Policyholder liabilities	**2011 $'000**	**2010 $'000**
Annuities	2,034	2,113
Endowment	425	401
Whole of life	298	349
Provision for bonuses and future margins	149	51
Consumer credit protection & key person loan protection	142	187
Superlife policies	9,096	8,956
Life bond policies - premium reserve	-	11
Life bond policies - life bond reserve	19	21
Superannuation Funds:		
NZPP Payroll Superannuation Fund (Pension)	35	11
NZPP Payroll Superannuation Fund (Lump Sum)	53	52
NZPP Personal Superannuation Fund (Pension)	134	134
NZPP Personal Superannuation Fund (Lump Sum)	9	11
NZPP Portable Superannuation Fund (Pension)	565	782
NZPP Portable Superannuation Fund (Lump Sum)	4	2
NZPP Employees Superannuation Scheme	1,714	1,773
Super Bond Retirement Plan	6,979	7,006
Invincible Superannuation Plan	151	152
Dorchester Life Group Superannuation Plan	76	129
	21,883	22,141

The policy liabilities in respect of annuities, endowment, whole of life, term life, super life and life bond have been established in accordance with the policy conditions and maintained at a level equivalent to obligations due to policy holders as maturity or partial benefits.

Dorchester Life Trustees Limited, as trustee of all the superannuation funds, invests in a life policy issued to the trustees by Dorchester Life Limited. During the year the Company received premiums, paid claims and invested the funds for the superannuation schemes outlined above. All investments and bank accounts of these funds are recorded in the name of Dorchester Life Limited.

The super life policy liabilities are equal to the super life retirement fund. The super life fund has been established by Dorchester Life Limited in accordance with the policy conditions and is maintained at a level equal to the obligations due to super life policyholders as maturity or partial benefits.

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

b.) Policyholder Liabilities *(continued)*

The life bond policy liabilities are separated into two reserves, the premium reserve fund and the life bond reserve. The premium reserve fund has been established by Dorchester Life Limited accordance with the policy conditions and is maintained at a level equal to the obligations due to life bond policyholders as maturity or partial benefits as at 31 March 2010.

A life reserve has been created from investment earnings and is attributable to the superannuation funds and Superlife policies.

c.) Disaggregated information

The business undertaken and policies accepted by Dorchester Life Limited are a combination of investment linked and non-investment linked. Investment linked business is business for which the life insurer issues a contract where the benefit amount is directly linked to the market value of the investments held in the particular investment linked fund. Non-investment linked business is life insurance business other than investment linked business.

2011 ($'000)	**Investment Linked**	**Non-Investment Linked**	**Total**
Premium income	-	486	486
Investment income	1,683	2,325	4,008
Claims expense	-	54	54
Annuities paid	-	143	143
Other operating expenses	1,066	1,238	2,304
Investment revenues allocated to policyholders	749	-	749
Net profit before taxation	(132)	1,376	1,244
Net profit after taxation	(132)	1,376	1,244
Policy liabilities	(18,835)	(3,048)	(21,883)
Investment assets	18,838	24,544	43,382
Other assets	1,251	11	1,262
Other liabilities	(27)	(12,951)	(12,978)
Retained earnings	2,372	4,877	7,249

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

c.) Disaggregated information *(continued)*

2010 ($'000)	Investment Linked	Non-Investment Linked	Total
Premium income	-	373	373
Investment income	4,139	2,379	6,518
Claims expense	-	318	318
Annuities paid	-	153	153
Other operating expenses	1,024	842	1,866
Investment revenues allocated to policyholders	2,957	-	2,957
Net profit before taxation	158	1,439	1,597
Net profit after taxation	158	1,439	1,597
Policy liabilities	(19,041)	(3,100)	(22,141)
Investment assets	18,856	24,225	43,081
Other assets	210	31	241
Other liabilities	(41)	(12,635)	(12,676)
Retained earnings	(2,504)	(3,502)	(6,006)

d.) Managed funds and other fiduciary activities

Dorchester Life Limited acts as an investment manager for a number of superannuation funds. The assets and liabilities of these funds are included in the financial statements. Arrangements exist to ensure the activities of the superannuation funds are managed independently from the other activities of the company.

e.) Life insurance risk

The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, and longevity risks accepted from policyholders. Financial risks involving the Company are in note 19 above. Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written by the Company is such that certain external variables can be identified on which related cashflows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cashflows are dependent.

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

e.) Life Insurance Risk *(continued)*

Type of contract	Details of the contract workings	Nature of compensation for claims	Key variables affecting cash flows
Non-participating life insurance contracts with fixed and guaranteed terms	Benefits paid on death or maturity are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, lapses, expenses and market earnings on assets backing the liabilities.
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Regular bonuses are also added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	Mortality, lapses, expenses and market earnings on assets backing the liabilities.
Life Annuity Contracts	These policies provide guaranteed regular payments to the life assured.	The amount of the payment is set at inception of the policy.	Longevity, expenses and market earnings on assets backing the liabilities.

Variations in claim levels will affect reported profit and equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate. The experience of the Company's life insurance business is reviewed regularly.

Concentration of insurance risk

The Company aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographic locations. The Company uses reinsurance to limit the insurance risk exposure for any one individual.

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

e.) Life Insurance Risk *(continued)*

Sensitivity analysis

The liabilities included in the reported results are calculated using certain assumptions about key variables as disclosed above. Sensitivity analysis is conducted to assess the impact of actual experience being different to that assumed in the calculation of liabilities. Movements in any variable will impact the profit and net assets of the Company. The tables below describe how a change in actual experience relative to that expected will effect next financial year's expected shareholder profit.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholders equity
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholder equity
Discontinuance	The impact of discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market Risk	For benefits which are not contractually linked to the underlying assets, the Company is exposed to Market Risk

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

e.) Life Insurance Risk *(continued)*

The table below illustrates how changes in key assumptions would impact the reported profit and liabilities of the Company

As at 31 March 2011 – Result of change in assumptions

$'000	Effect on Policy Liability	Effect on Future Profit Margins
Market risks		
Increase in interest rates of 1%	(184)	(5)
Decrease in interest rates of 1%	208	6
Insurance risks		
Increase in expenses of 10%	1	(21)
Decrease in expenses of 10%	(1)	21
Decrease in mortality by 10%	31	(1)
Increase in mortality by 10%	31	61
Worsening of discontinuance rate by 10%	-	17
Improvement in discontinuance rate by 10%	-	(18)

As at 31 March 2010 – Result of change in assumptions

$'000	Effect on Policy Liability	Effect on Future Profit Margins
Market risks		
Increase in interest rates of 1%	(160)	(2)
Decrease in interest rates of 1%	180	2
Insurance risks		
Increase in expenses of 10%	5	(7)
Decrease in expenses of 10%	(5)	7
Decrease in mortality by 10%	(7)	(36)
Increase in mortality by 10%	32	53
Worsening of discontinuance rate by 10%	(8)	(1)
Improvement in discontinuance rate by 10%	9	1