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DORCHESTER LIFE LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31 MARCH 2010



NPC# 27

20 AUG 2010

DORCHESTER LIFE LIMITED

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FOR THE YEAR ENDED 31 MARCH 2010

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DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2010

The directors present the annual report of Dorchester Life Limited for the year ended 31 March 2010.

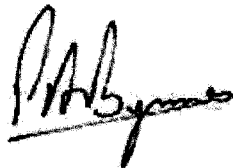
There are certain matters that the shareholders can determine need not be disclosed in the annual report. The shareholders have unanimously agreed, under section 211(3) of the Companies Act 1993, to take advantage of that concession. The shareholders have agreed to limit the annual report to the following:

- Completed and signed financial statements
- Audit Report

Signed for and on behalf of the Board of Directors:



B.W.J. Graham
Chairman Director



P.A. Byrnes
Executive Director

Date: 31 May 2010

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AUDIT REPORT TO THE SHAREHOLDERS OF
DORCHESTER LIFE LTD

We have audited the financial report on pages 5 to 40. The financial report provides information about the past financial performance and financial position of the Company as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 10 to 20.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation of a financial report which gives a true and fair view of the financial position of the Company as at 31 March 2010 and of the results of operations and cash flows for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial report presented by the Board of Directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial report, and
- whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Our firm carries out no other assignments for the Company. The firm has no other interests in the Company.

Fundamental Uncertainties

In forming our unqualified opinion, we have considered the adequacy of the disclosures:

Going Concern – Continued financial support from parent

The financial report has been prepared on a going concern basis, the validity of which depends upon the continued financial support being maintained from the Company's parent company, Dorchester Pacific Limited. The Auditors' Report of the Parent dated 31 May 2010 has raised the following fundamental uncertainty regarding the validity of the going concern assumption:

"The 31 March 2010 financial statements state that the Group incurred a net loss of \$19.1 million during the year ended 31 March 2010 and that the Group's liabilities exceed its total assets by \$2.8 million as at 31 March 2010. The Directors announced subsequent to balance date that they will seek approval for a settlement proposal from debenture holders and note holders, which incorporates a capital raising and restructuring of the Group in the first half of the 31 March 2011 financial year. The capital reconstruction is conditional on Dorchester Pacific Limited raising a minimum of \$8 million new share capital from a proposed rights issue and shareholder, debenture and subordinated note holder approval. The financial report has been prepared on the going concern basis, the validity of which depends on the successful outcome of the capital reconstruction plan. The financial statements do not include any adjustments that may be needed should the capital reconstruction plan be unsuccessful, such adjustments may include assets being realised other than at the amounts they are currently recorded in the financial statements. The Group and Company may also need to provide for further liabilities that might arise, consider the carrying value of liabilities and to reclassify certain non-current assets and liabilities as current assets and liabilities. Details of the circumstances relating to this fundamental uncertainty are described in Note 1."

Should the going concern assumption in relation to the parent company not be appropriate; the parent company may not be able to maintain its financial support to the Company. The going concern basis may be invalid and adjustments would need to be made by the Company to reflect that assets may need to be realised other than at the amounts they are currently recorded in the Statement of Financial Position. The Company may also need 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 and Note 16.

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 10.

Unqualified Opinion

We have obtained all the information and explanations 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; and
- the financial report on pages 5 to 40:
 - complies with generally accepted accounting practice in New Zealand;
 - gives a true and fair view of the financial position of the Company as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 31 May 2010 and our unqualified opinion is expressed as at that date.

Staples Rodway

**CHARTERED ACCOUNTANTS
AUCKLAND**

STATEMENT OF COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31 MARCH 2010**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Investment Revenue			
Investment revenues/(losses)	(2)	4,139,204	(4,853,373)
Interest income		2,379,155	2,406,556
Investment Expenditure			
Investment management expenses		234,802	129,574
Interest expense		<u>813,824</u>	<u>864,564</u>
Net Investment Activities		5,469,733	(3,440,955)
Premiums and Claims			
Premium revenues	(2)	372,793	947,355
Claims	(2)	(318,090)	(133,250)
Annuities paid		(153,481)	(194,663)
Reinsurance revenues		<u>42,546</u>	<u>37,221</u>
Net Premiums and Claims Activities		(56,232)	656,663
Other Expenditure	(2)	<u>1,169,039</u>	<u>2,623,360</u>
Profit/(Loss) Before Movement in Life Insurance Contract Liabilities, Life Investment Contract Liabilities and Taxation		4,244,462	(5,407,652)
Net Decrease in Life Insurance Contract Liabilities	(20)	309,358	23,924
Net (Increase)/Decrease in Life Investment Contract Liabilities	(20)	<u>(2,956,706)</u>	<u>6,182,597</u>
Profit After Movement in Life Insurance Contract Liabilities, Life Investment Contract Liabilities and Before Taxation	(2)	1,597,114	798,869
Less Taxation Expense	(3)	<u>-</u>	<u>-</u>
Profit for the year	(2)	1,597,114	798,869
Other Comprehensive Income		<u>-</u>	<u>-</u>
Total Comprehensive Income for the year	(2)	<u>\$ 1,597,114</u>	<u>\$ 798,869</u>

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

	Note	Share Capital	Retained Earnings	Total
Balance at 1 April 2008		2,500,000	5,609,414	8,109,414
Total Comprehensive Income attributable to shareholders	(2)	-	798,869	798,869
Dividend paid	(4)	-	(2,000,000)	(2,000,000)
Balance at 31 March 2009	(4)	2,500,000	4,408,283	6,908,283
Total Comprehensive Income attributable to shareholders	(2)	-	1,597,114	1,597,114
Balance at 31 March 2010	(5)	<u>\$2,500,000</u>	<u>\$6,005,397</u>	<u>\$8,505,397</u>

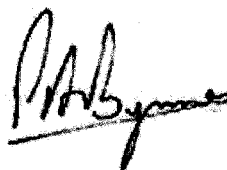
The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION**AS AT 31 MARCH 2010**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Cash and cash equivalents	(7)	172,332	750,812
Financial assets at fair value through profit or loss			
- Insurance	(8)	19,396,557	17,824,044
Reverse mortgages	(11)	23,684,627	25,565,042
Receivables	(12)	<u>68,449</u>	<u>127,707</u>
Total assets		<u>\$ 43,321,965</u>	<u>\$ 44,267,605</u>
LIABILITIES			
Other payables	(9)	3,290,808	7,829,394
Borrowings	(10)	9,382,180	9,833,006
Current tax liabilities		2,453	2,447
Life Investment contract liabilities	(20)	19,041,009	16,080,831
Life Insurance contract liabilities	(20)	<u>3,100,118</u>	<u>3,613,644</u>
Total liabilities		<u>34,816,568</u>	<u>37,359,322</u>
SHAREHOLDER'S EQUITY			
Share Capital	(4)	2,500,000	2,500,000
Retained Earnings		<u>6,005,397</u>	<u>4,408,283</u>
Total shareholder's equity	(5)	<u>8,505,397</u>	<u>6,908,283</u>
Total shareholder's equity and liabilities		<u>\$ 43,321,965</u>	<u>\$ 44,267,605</u>

Signed for and on behalf of the Board of Directors:

B.W.J. Graham
Chairman Director



P.A. Byrnes
Executive Director

Dated: 31 May 2010

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT**FOR THE YEAR ENDED 31 MARCH 2010**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Contributions and Premiums Received		8,110,105	10,913,449
Interest Received		69,147	17,183
Realised Investment Income		144,329	961,963
Other		<u>107,356</u>	<u>12,663</u>
		8,430,937	11,905,258
<i>Cash was applied to:</i>			
Withdrawals and Claims Paid		6,494,233	11,451,077
Administration Fees Paid		1,852,236	2,694,800
Other Expenses Paid		<u>563,731</u>	<u>572,503</u>
		<u>8,910,200</u>	<u>14,718,380</u>
Net cash outflow from operating activities	(17)	(479,263)	(2,813,122)
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Investments withdrawals		1,978,049	3,274,636
Reverse Mortgages settlements		<u>4,122,112</u>	<u>250,407</u>
		6,100,161	3,525,043
Net cash inflow from investing activities		6,100,161	3,525,043

The accompanying notes form part of these financial statements.

CASH FLOW STATEMENT (continued)**FOR THE YEAR ENDED 31 MARCH 2010**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Borrowings		<u>-</u>	<u>518,820</u>
<i>Cash was applied to</i>			
Repayment of Kiwibank loan		1,264,652	-
Intercompany Borrowings		<u>4,934,726</u>	<u>726,665</u>
Net cash outflow from financing activities		<u>(6,199,378)</u>	<u>(207,845)</u>
Net movement in cash and cash equivalents		(578,480)	504,076
Add Opening cash and cash equivalents		<u>750,812</u>	<u>246,736</u>
Closing cash and cash equivalents		<u>\$ 172,332</u>	<u>\$ 750,812</u>
Represented by:			
Bank balances	(7)	<u>172,332</u>	<u>750,812</u>
Closing cash and cash equivalents		<u>\$ 172,332</u>	<u>\$ 750,812</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****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 31 May 2010. 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 amendments to Financial Reporting Standards relevant to the Company have been adopted for the year ended 31 March 2010:

- Amendments to NZ IAS 1 *Presentation of Financial statements*, impacts the presentation of the financial statement but has no impact on the Company's reported profits or financial positions.
- Amendments to NZ IFRS 4 *Insurance contracts*, impacts the financial and descriptive information disclosed about the Company's life insurance contracts, but has no impact on its reported profits or financial position.
- Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*, requires additional disclosures about fair value measurement and liquidity risk. The fair value measurement and liquidity risk disclosures are presented in note 14.
- NZ IFRS 8 *Operating Segments* are reported in a manner consistent with the internal reporting to the chief operating decision-maker. The chief operating decision-maker has been identified as the board of the company that makes strategic decisions.
- NZ IAS 23 *Borrowing Costs (Revised)* requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The adoption of these amendments did not have any impact on the financial position of the Company.

The new standards and amendments to published standards and interpretations that are mandatory for the Company's financial periods beginning on or after 1 April 2010 or later periods, but which the Company has not adopted early, are as follows:

- NZ IAS 27 Consolidated and Separate Financial Statements (Revised Standard)
- NZ IAS 39 Amendments to IAS 39 Financial Instruments
- NZ IFRS 3 Business Combinations
- NZ IAS 23 Amendments to NZIAS 23 Borrowing costs

They are not expected to have a significant impact on the financial statements.

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 Dorchester Life Limited is a going concern. The validity of this concept is dependent on the successful renewal of the Kiwibank Loan and also on the continued financial support from Dorchester Pacific Limited. This assumption is conditional on the Capital Reconstruction Plan (CRP) and Capital Raising announced to the market by Dorchester Pacific being successful. However, should the CRP and Capital Raising be unsuccessful the going concern assumption may be invalid.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****1. STATEMENT OF ACCOUNTING POLICIES *(continued)*****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.

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 the 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 the 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 the Profit or loss on the basis of the actual service provided as a proportion of the total services to be provided.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****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. They 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 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 the 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 the Profit or loss as incurred.

Other Expense Recognition

All other expenses are recognised in the Profit or loss on an accrual basis.

(d) Financial Instruments**BASIS OF RECOGNITION 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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****1. STATEMENT OF ACCOUNTING POLICIES *(continued)*****PARTICULAR ACCOUNTING POLICIES *(continued)***

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****1. STATEMENT OF ACCOUNTING POLICIES *(continued)*****PARTICULAR ACCOUNTING POLICIES *(continued)*****(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 OR LOSS

Liabilities in this category are measured at fair value. Gains and losses arising from the fair value re-measurement are included in the Profit or loss. Liabilities in this category include Investment Contracts at Fair Value through Profit or Loss, refer note 20 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 the Profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is one that takes six months or longer to prepare for its intended use or sale. Other borrowing costs are expensed when incurred. The Company does not have any qualifying assets and consequently all borrowing costs are expensed as incurred.

Other Payables

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

(e) Taxation

Life insurers are subject to a special tax regime. Two tax bases are maintained; the life office base which is subject to tax 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.

Policyholder liabilities include the net present value of the best estimate of tax payable, including tax losses available to carry forward and other timing differences which arise from items brought to account in different periods for income tax and accounting purposes.

The present value of the future tax benefit or provision for deferred tax included in policy liabilities, is calculated at income tax rates prevailing at balance date.

Life office base tax losses may be transferred among group companies through inter-company accounts at the current tax rate. Policyholder base tax losses may be utilised only to meet future policyholder base profits.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****1. STATEMENT OF ACCOUNTING POLICIES *(continued)*****PARTICULAR ACCOUNTING POLICIES *(continued)*****(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 the 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 the Profit or loss.

(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 the Profit or loss have been calculated using the Margin on Services (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.

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****1. STATEMENT OF ACCOUNTING POLICIES *(continued)*****PARTICULAR ACCOUNTING POLICIES *(continued)*****(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.

(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 the 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 related products is expected to be unprofitable, the total expected loss for that related product group is recognised in the 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 the Profit or loss when they become due and payable in accordance with the reinsurance agreements.

(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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

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 are reviewed for impairment. 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) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the board of directors as they make the strategic decisions. The Company operates predominantly within New Zealand. On this basis geographical segment reporting is not applicable.

(k) 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.

(l) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****1. STATEMENT OF ACCOUNTING POLICIES *(continued)*****PARTICULAR ACCOUNTING POLICIES *(continued)*****(m) 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.

(n) 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 Life Insurance Contract Liabilities. These have been measured in accordance with Actuarial Methodologies as noted 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 2010 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:

a) 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 30% on investment earnings net of investment expenses (2009: 30%). The net discount rates assumed were as follows:

	<u>2010</u>	<u>2009</u>
Whole of Life and Endowment Policies	4.20%	3.74%
Term Insurance Policies	Not applicable	Not applicable
Funeral Benefit Policies	Not applicable	Not applicable
Annuity Policies	4.20%	3.74%
Consumer Credit and Key Person Loan Protection	Not applicable	Not applicable

b) Inflation Rates

In determining the future expected rate of return, general inflation was assumed to continue into the future at 2.0% per annum (2009: 2.0%).

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****1. STATEMENT OF ACCOUNTING POLICIES *(continued)*****ACTUARIAL POLICIES AND METHODS *(continued)*****c) Mortality Rates**

Rates of mortality were assumed as follows: For underwritten whole of life, endowment and term insurance policies: NZ97 (2009: 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) (2009: PA(90) table, reduced by four years, no age reduction for Cook Islands).

d) Profit Carriers

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

Major Product Groups

Participating Whole of Life and Endowment Policies
 Non Participating Whole of Life and Endowment Policies
 Funeral Benefit Policies (Caring Plan)
 Term Insurance Policies
 Funeral Plan Policies (Regular premium guaranteed issue)
 Annuities
 Consumer Credit and Key Person Loan Protection

Carrier

Policyholder Bonuses
 Premiums
 Not Applicable
 Premiums
 Claims
 Annuity Payments
 Premiums

e) Investment and Maintenance Expenses

The maintenance expense and general growth and development expense allowance assumed was \$125 gross before tax (2009: \$125) per annum per policy assuming a rate of inflation of 2.0% per annum (2009: 2.0%). Administration costs for annuities in payment were assumed to be \$60 per annum (2009: \$60), with a rate of inflation of 2.0% per annum (2009: 2.0%). Investment management expenses were assumed to be 1.0% (2009: 1.0%) of policy liabilities.

f) Inflation and Automatic Indexation of Benefits

Maintenance expenses are assumed to increase 2.0% per annum (2009: 2.0%). Investment management expenses are assumed to remain a constant percentage of funds under management.

g) Taxation

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

h) Rates of Discontinuance

Rates of discontinuance are assumed to be 5.0% for whole of life, endowment and term insurance business (2009: 5.0%), and nil for annuity pension plan business (2009: \$nil).

i) Surrender Values

The Company's current basis of calculating surrender values is assumed to continue in the future.

j) Rates of Future Supportable Participating Benefits

Rates of bonus supported by the participating fund are simple annual bonuses of \$10 (2009: \$10) per \$1,000 of sum assured on whole of life policies and \$20.00 (2009: \$20.00) per \$1,000 of sum assured on endowment policies. These equal the rates of bonus declared in the previous year.

k) Impact of changes in assumptions

The impact of the change in the discount rate from 5.34% to 6% p.a. is an increase in policy liabilities of \$70,659 (2009: \$84,488).

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 MARCH 2010****1. STATEMENT OF ACCOUNTING POLICIES (continued)****ACTUARIAL POLICIES AND METHODS (continued)****1) 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.

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

2010 2009

a) Included in Profit after movement in Life Insurance Contract Liabilities, Life Investment Contract Liabilities and Taxation are the following:

Revenue

Operating Lease Revenue	-	1,935
Interest Received - Bank	69,147	17,183

Expenses

Audit Fees		
- Fees for audit of the Financial Statements	78,096	59,449
Provision for impairment	17,769	756,452

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

Planned margin of revenues over expenses	5,030	5,202
Change in valuation assumptions – tax rate change	-	-
Change in discount rate: 5.34% to 6% p.a.	70,659	(84,488)
Difference between actual and assumed experience	169,274	(434,376)

Life Investment Contracts

Difference between actual and assumed experience	158,401	254,976
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Investment earnings on assets in excess of Insurance Contract and Investment Contract Liabilities

1,193,750 1,057,555

Net profit after taxation attributable to insurance activities \$ 1,597,114 \$ 798,869

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2010****2. PROFIT AFTER MOVEMENT IN LIFE INSURANCE CONTRACT LIABILITIES, LIFE INVESTMENT CONTRACT LIABILITIES, TAXATION AND COMPREHENSIVE INCOME**
(continued)

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.

c) Premium revenue	<u>2010</u>	<u>2009</u>
Life insurance contract premiums	\$ <u>372,793</u>	\$ <u>947,355</u>
d) Investment Income		
Equity securities – Australasian	2,210,383	(2,192,704)
Equity securities – International	-	184,025
Fixed interest securities – New Zealand	436,959	561,735
Property securities – New Zealand and International	<u>1,491,862</u>	<u>(3,406,429)</u>
	\$ <u>4,139,204</u>	\$ <u>(4,853,373)</u>
Included within Equity Securities is dividend income of \$Nil (2009: \$15,379) and included within Fixed Interest Securities is interest income of \$144,339 (2009: \$18,054). Included within Total Investment Income is net realised and unrealised loss on Securities at Fair Value through Profit or Loss of \$3,994,865 (2009: (\$4,886,806)).		
e) Claims		
Life insurance contract claims	\$ <u>318,090</u>	\$ <u>133,250</u>
f) Administration fees		
Life Insurance Contracts		
Policy acquisition expenses – commission costs	21,378	40,518
Deferred Acquisition Costs Amortisation	<u>58,808</u>	<u>80,860</u>
Total insurance contract related expenses	\$ <u>80,186</u>	\$ <u>121,378</u>
Life Investment Contracts		
Investment management expenses	<u>234,802</u>	<u>129,574</u>
Total investment contract related expenses	\$ <u>234,802</u>	\$ <u>129,574</u>
Total insurance expenses	\$ <u>314,988</u>	\$ <u>250,952</u>

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****3. TAXATION**

a) Taxation Expense/(Benefit)	<u>2010</u>	<u>2009</u>
Net Profit/(Loss) after movement in Life Insurance Contract Liabilities, Life Investment Contract Liabilities and before Taxation	\$ 4,244,447	\$ 798,869
Income tax using the Company's domestic tax rate (30%)	1,273,334	239,661
Add/(Less) Expenses not deductible for Tax purposes	(1,347,724)	1,347,107
Add/(Less) Movement in Temporary Differences Not Recognised	11,318	(2,165)
Add/(Less) Group Loss Offset	63,072	(1,584,603)
	<u>\$ -</u>	<u>\$ -</u>
 b) Imputation Credit Memorandum Account	 <u>2010</u>	 <u>2009</u>
<i>Company</i>		
Opening Balance	-	-
Transfer of pre-consolidated credits	-	-
	<u>\$ -</u>	<u>\$ -</u>

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 \$131,365 (2009: \$131,365).

c) Taxation Losses	<u>2010</u>	<u>2009</u>
<i>Company</i>		
Taxation Losses Brought Forward	1,495,746	949,488
Add/(Less) Taxation Losses Incurred	200,722	924,512
Add/(Less) Taxation Losses Utilised	-	(726,369)
Add/(Less) excess imputation credits converted to losses	236,620	348,115
Taxation Losses Carried Forward	<u>\$ 1,933,088</u>	<u>\$ 1,495,746</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2010****3. TAXATION** (continued)

The Company has unrecognised tax losses of \$1,933,088 (2009: \$1,495,746) available to be carried forward and to be offset against taxable income in the future. The tax effect of these losses at 30% (2009: 30%) is \$579,926 (2009: \$448,724). The ability to carry forward these losses is contingent upon continuing to meet the requirement of the Income Tax Act 2007.

	<u>2010</u>	<u>2009</u>
<i>Policyholders</i>		
Taxation Losses Brought Forward	77,030,427	60,226,916
Add/(Less) Taxation Losses Incurred	-	16,803,511
Add/(Less) Taxation Losses Utilised	(14,875,305)	-
Adjustment to prior period losses	<u>(29,896,472)</u>	<u>-</u>
Taxation Losses Carried Forward	<u>\$ 32,258,650</u>	<u>\$ 77,030,427</u>

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

4. SHARE CAPITAL

	<u>2010</u>	<u>2009</u>
Ordinary shares: 2,500,000 shares fully paid with no par value	<u>\$ 2,500,000</u>	<u>\$ 2,500,000</u>

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 (2009: Nil).

The dividends declared and paid in 2010 and 2009 were \$Nil and \$2,000,000 (\$0.8 per share) respectively. No dividend has been declared subsequent to 31 March 2010.

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

Separate to the policy liabilities recognised in the Statement of Financial Position, the life insurance companies maintain sufficient capital to meet solvency. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance companies.

Based on actuarial advice the directors have determined that \$6,622,977 (2009: \$6,727,230) 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.

	<u>2010</u>	<u>2009</u>
Equity of Shareholders	8,505,397	6,908,283
Equity Retained for Solvency Purposes	<u>6,622,977</u>	<u>6,727,230</u>
Equity available for distribution and wholly attributable to shareholders	<u>\$ 1,882,420</u>	<u>\$ 181,053</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****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

	<u>2010</u>	<u>2009</u>
Bank	\$ 172,332	\$ 750,812

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

	<u>2010</u>	<u>2009</u>
Investment in unitised funds	18,856,090	15,838,903
Term Deposit	-	1,000,000
Fixed Interest Securities – Government Stock	540,467	985,141
	<u>\$ 19,396,557</u>	<u>\$ 17,824,044</u>
Investments in unitised funds comprise:		
Cash/deposits	2,490,204	2,805,033
Fixed Interest Securities-New Zealand and overseas	3,768,034	2,979,539
New Zealand/Australian Equities	8,256,770	6,602,662
Life Insurance Policies	63,529	65,923
New Zealand and overseas property securities	4,277,553	3,385,746
	<u>18,856,090</u>	<u>15,838,903</u>
Investments with external investment managers		
ING (NZ) Limited	18,792,561	15,772,980
Life Insurance Policy Exchange	63,529	65,923
	<u>18,856,090</u>	<u>15,838,903</u>

These assets are not restricted in their use or disposal. There are no restrictions on the use of assets invested for policyholder benefits nor any restrictions on legal titles to assets.

There is no current/non-current split because the timing of realisation is not known for Financial Assets at fair value through Profit or Loss.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010**

9. OTHER PAYABLES	<u>2010</u>	<u>2009</u>
Related party payable (Note 16)	3,015,553	7,453,820
Other payables and accruals	<u>275,255</u>	<u>375,574</u>
	<u>\$ 3,290,808</u>	<u>\$ 7,829,394</u>

10. BORROWINGS	<u>2010</u>	<u>2009</u>
Bank Borrowings - Kiwibank	<u>\$ 9,382,180</u>	<u>\$ 9,833,006</u>

The Bank borrowings are secured against a parcel of Reverse Mortgages (in note 11). The commitment is extended on an annual basis. As at 31 March 2010 the effective interest rate was 8.60% (2009: 8.40%).

Reliance is placed on the fact that the Company is a going concern, the validity of this concept is dependent on the successful renewal of the Kiwibank loan.

11. REVERSE MORTGAGES	<u>2010</u>	<u>2009</u>
Total Reverse Mortgages	23,780,965	26,501,643
Deferred fee revenue and commission expenses	(96,338)	(116,867)
Provision for impairment	<u>-</u>	<u>(819,734)</u>
	<u>\$ 23,684,627</u>	<u>\$ 25,565,042</u>

12. OTHER RECEIVABLES	<u>2010</u>	<u>2009</u>
Deferred Acquisition costs	23,010	81,818
Other receivables and prepayments	<u>45,439</u>	<u>45,889</u>
	<u>\$ 68,449</u>	<u>\$ 127,707</u>

13. COMMITMENTS AND CONTINGENT LIABILITIES**Operating Lease commitments**

There are no amounts committed under an Operating Lease (2009: \$Nil).

Capital Expenditure

There are no amounts committed to Capital Expenditure (2009: \$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 2010 (2009: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****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 obligation.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2010****14. FINANCIAL INSTRUMENTS** (continued)**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.

	<u>2010</u>	<u>2009</u>
Northland	3,484,930	3,320,298
Auckland	9,869,353	12,183,312
Waikato/Bay of Plenty	1,939,172	2,116,928
Taupo	1,185,027	1,116,353
Wellington	1,603,411	1,877,450
Rest of North Island	1,658,584	1,618,197
Canterbury	1,726,462	1,968,526
Otago/Southland	424,954	592,695
Rest of South Island	1,889,072	1,707,883
	<u>\$23,780,965</u>	<u>\$26,501,642</u>

a.) ii.) Reverse Mortgages specifically impaired

	<u>2010</u>	<u>2009</u>
Reverse Mortgages specifically impaired	<u>-</u>	<u>\$1,724,640</u>

Reverse Mortgages (RAM's) are an equity release product from counter parties residences. 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 \$Nil (2009: \$890,000).

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****14. FINANCIAL INSTRUMENTS** *(continued)***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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2010****14. FINANCIAL INSTRUMENTS** (continued)

2010	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial assets						
Cash and cash equivalents	172,332	-	-	-	-	172,332
Reverse Mortgages	1,284,658	134,335	548,777	2,819,451	18,897,406	23,684,627
Other receivables	68,449	-	-	-	-	68,449
	1,525,439	134,335	548,777	2,819,451	18,897,406	23,925,408
Financial liabilities						
Borrowings	7,675,569	1,706,611	-	-	-	9,382,180
Advances from related parties	3,015,553	-	-	-	-	3,015,553
	\$10,691,122	\$1,706,611	-	-	-	\$12,397,733

**Off-Statement of Financial
Position items**

Interest receivable not yet accrued	21,653	5,965	74,286	1,351,239	48,110,194	49,563,337
Interest payable not yet accrued	146,157	98,806	-	-	-	244,963

2009	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial assets						
Cash and cash equivalents	750,812	-	-	-	-	750,812
Reverse Mortgages	1,985,853	948,388	474,343	568,994	21,587,464	25,565,042
Other receivables	127,707	-	-	-	-	127,707
	2,864,372	948,388	474,343	568,994	21,587,464	26,443,561
Financial liabilities						
Borrowings	7,772,183	2,060,823	-	-	-	9,833,006
Advances from related parties	7,453,820	-	-	-	-	7,453,820
	\$15,226,003	\$2,060,823	-	-	-	\$17,286,826

**Off-Statement of Financial
Position items**

Interest receivable not yet accrued	36,323	70,823	66,866	244,315	53,405,454	53,823,781
Interest payable not yet accrued	145,787	110,972	-	-	-	256,759

Interest receivable not yet accrued is the unearned interest calculated over the remaining term of the Reverse Annuity Mortgages using the lending interest rates at which the Reverse Annuity Mortgages have been advanced. Interest payable not yet accrued is the interest payable on the Kiwibank loan calculated over the remaining contractual period of the loan as per the contracted interest rates.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2010****14. FINANCIAL INSTRUMENTS** (continued)**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.

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.

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

31 March 2010	Carrying Amount \$	-1% Profit \$	-1% Equity \$	+1% Profit \$	+1% Equity \$
Financial Assets					
- Reverse Mortgages	23,684,627	(236,846)	(165,792)	236,846	165,792
Financial Liabilities					
- Borrowings	9,382,180	93,822	65,675	(93,822)	(65,675)
Total increase/(decrease)		(143,024)	(100,117)	143,024	100,117
 31 March 2009					
	Carrying Amount \$	-1% Profit \$	-1% Equity \$	+1% Profit \$	+1% Equity \$
Financial Assets					
- Reverse Mortgages	25,565,042	(255,650)	(178,955)	255,650	178,955
Financial Liabilities					
- Borrowings	9,833,006	98,330	68,831	(98,330)	(68,831)
Total increase/(decrease)		(157,320)	(110,124)	157,320	110,124

d.) Fair values of those financial assets and financial liabilities not presented at their fair value

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:

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2010****14. FINANCIAL INSTRUMENTS** (continued)**d.) Fair values** (continued)

2010	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	172,332	172,332
Reverse Mortgages	23,684,627	26,017,177
Other receivables	68,449	68,449
	<u>23,925,408</u>	<u>26,257,958</u>
Financial liabilities		
Borrowings	9,382,180	9,470,898
Advances from related parties	3,015,553	3,015,553
	<u>12,397,733</u>	<u>12,486,451</u>
2009	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	750,812	750,812
Reverse Mortgages	25,565,042	25,512,078
Other receivables	127,707	127,707
	<u>26,443,561</u>	<u>26,390,597</u>
Financial liabilities		
Borrowings	9,833,006	10,149,706
Advances from related parties	7,453,820	7,453,820
	<u>17,286,826</u>	<u>17,603,526</u>

Fair value for Reverse Annuity Mortgages and Borrowings is estimated using a discounted cash flow model based on a current market interest rate for similar products after making allowances for impairment.

e.) Fair values of financial assets carried at fair value

Fair value of financial assets carried at fair value is 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:

2010	Level 1	Level 2	Level 3	Total
Financial assets:				
- Insurance	540,467	18,856,090	-	19,396,557
	<u>\$540,467</u>	<u>\$18,856,090</u>	<u>-</u>	<u>\$19,396,557</u>
2009	Level 1	Level 2	Level 3	Total
Financial assets:				
- Insurance	-	17,824,044	-	17,824,044
	<u>-</u>	<u>\$17,824,044</u>	<u>-</u>	<u>\$17,824,044</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2010****15 ASSET QUALITY**

	<u>2010</u>	<u>2009</u>
Specific impairment provision		
Opening balance	819,734	63,282
Provision for impairment	17,769	756,452
Amounts recovered during the year	(837,503)	-
Closing balance	<u>-</u>	<u>\$819,734</u>
Specific impaired financial assets		
Opening balance	1,724,640	300,930
Additions to other individually impaired assets	-	1,423,710
Deletions from other individually impaired assets	(1,724,640)	-
	<u>-</u>	<u>\$1,724,640</u>

Movement in provisions - reconciliation to Statement of Comprehensive Income - Specific provisions for:

Specific impairment provision	<u>17,769</u>	<u>756,452</u>
Movement (Note 2)	<u>\$17,769</u>	<u>\$756,452</u>

16. TRANSACTIONS WITH RELATED PARTIES

a) <u>Related Party Balances</u>	<u>2010</u>	<u>2009</u>
<i>Payable as follows:</i>		
Dorchester Life Management Limited	3,014,694	6,948,383
Dorchester Life Trustees Limited	859	859
Dorchester Pacific Limited	-	504,578
	<u>\$ 3,015,553</u>	<u>\$ 7,453,820</u>

Dorchester Life Limited is related to Dorchester Life Management Limited and Dorchester Life Trustees Limited by virtue of a common ownership, Dorchester Pacific Limited. All related party loans are repayable on demand and the balance is not expected to be called in the next 12 months. Interest is charged based on a market rate of 8.49% (2009: 5.39%). No related party debts have been forgiven or written off during the year. Reliance is placed on the fact that Dorchester Life Limited is a going concern. The validity of this concept is dependent on the continued financial support from Dorchester Pacific Limited. This assumption is conditional on the Capital Reconstruction Plan (CRP) and Capital Raising announced to the market by Dorchester Pacific being successful. However, should the CRP and Capital Raising be unsuccessful the going concern assumption may be invalid.

b) Related Party Transactions

The Company received premiums of \$591 (2009: \$343,760) from Dorchester Pacific Limited & subsidiaries, and premiums of \$2,733 (2009: \$8,581) from Dorchester Finance Limited and subsidiaries. The Company paid a management fee to Dorchester Pacific Limited of \$326,588 (2009: \$224,000). The Company also paid a dividend to Dorchester Pacific of \$0 (2009: \$2,000,000). The Company paid expenses in the form of activity \$714,853 (2009: \$999,949), plan \$652,428 (2009: \$777,986) and establishment fees \$524,955 (2009: \$916,863) to Dorchester Life Management Limited in return for Dorchester Life Management Limited administering certain products offered to the company. Interest was paid to Dorchester Life Management Limited for advances paid to members requiring withdrawals \$144,878 (2009: \$23,631). Certain overhead recharges were made from Dorchester Life Management Limited of \$796,259 (2009: \$1,353,608). 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****17. RECONCILIATION OF NET SURPLUS AFTER TAXATION TO CASHFLOWS FROM OPERATING ACTIVITIES**

	<u>2010</u>	<u>2009</u>
Net Profit After Movement in Life Insurance Contract Liabilities, Life Investment Contract Liabilities and Taxation	1,597,114	798,869
<i>Add/(Less) Non-Cash Items:</i>		
Non-cash movement in Reverse Mortgages	(2,379,155)	(2,406,556)
Net unrealised (gains)/losses on investments	(3,994,865)	5,815,336
Policyholder liabilities	2,511,315	(10,170,448)
Provision for impairment	17,769	756,452
<i>Add/(Less) Movements in Working Capital Items:</i>		
Receivables	59,258	232,186
Other payables	31,288	61
<i>Add Working Capital items treated as investing activities</i>	(76,948)	(80,823)
<i>Add Working Capital items treated as financing activities</i>	1,754,961	2,241,801
Net cash outflow from operating activities	<u>(479,263)</u>	<u>(2,813,122)</u>

18. SEGMENTAL INFORMATION

The Company operated in the life insurance industry during the year. All operations were carried out in New Zealand. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the board of directors as they make the strategic decisions. The Company is internally reported as a single operating segment to the chief operating decision-maker hence no further changes to reportable segments have been made compared to previous segments reported under NZ IAS 14 "Segment Reporting".

19. SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events after Balance Date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****20. LIFE INSURANCE RELATED DISCLOSURES****a.) Policyholder Liabilities**

	<u>2010</u>	<u>2009</u>
Life Insurance Contract Liabilities		
Opening Life Insurance Contract Liabilities	3,613,644	4,222,333
Decrease in Life insurance contract liabilities recognised in the Statement of Comprehensive Income	(309,358)	(23,924)
Decrease in Premium revenues recognised in the Statement of Comprehensive Income	(64,660)	(35,899)
Decrease in Deferred Income recognised in the Statement of Comprehensive Income	(139,508)	(548,866)
	<u>\$3,100,118</u>	<u>\$3,613,644</u>
Closing Life Insurance Contract Liabilities	<u>\$3,100,118</u>	<u>\$3,613,644</u>
<i>Policyholder liabilities contain the following components:</i>		
Future Policy Benefits	3,734,492	3,537,784
Future Bonuses	39,033	43,136
Future Expenses	159,003	69,891
Future Profit Margins	41,189	45,429
Balance of Future Premiums	(885,146)	(94,478)
Re-insurance	2,026	2,361
Cost of Bonus	9,521	9,521
	<u>\$3,100,118</u>	<u>\$3,613,644</u>
Life insurance contracts with a discretionary participation feature – the amount of the liabilities that relates to guarantees	362,574	485,695
Other contracts with a fixed or guaranteed termination value – current termination value	2,462,237	2,759,865
Life Investment Contracts at Fair Value through Profit or Loss		
Opening Life investment contract liabilities at Fair Value through Profit or Loss	16,080,831	25,678,488
Increase / (decrease) in Life investment contract liabilities recognised in the Statement of Comprehensive Income	2,956,706	(6,182,597)
Contributions	7,871,883	10,385,754
Withdrawals	(6,005,685)	(11,119,152)
Activity, Plan and Establishment Fees	(1,862,726)	(2,681,662)
Closing Life Investment Contract Liabilities held by the Life Insurance Business	<u>\$19,041,009</u>	<u>\$16,080,831</u>
Expected to be realised in more than 12 months	<u>\$19,041,009</u>	<u>\$16,080,831</u>

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****20. 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

	<u>2010</u>	<u>2009</u>
Annuities	2,112,805	2,308,843
Endowment	401,200	554,662
Whole of Life	348,784	371,689
Provision for Bonuses and Future Margins	50,709	54,950
Consumer Credit Protection & key person loan protection	186,620	323,501
Superlife policies	8,956,565	7,117,212
Life Bond policies - premium reserve	11,128	11,128
Life Bond policies - life bond reserve	21,563	43,053
Superannuation Funds:		
NZPP Payroll Superannuation Fund (Pension)	10,915	7,537
NZPP Payroll Superannuation Fund (Lump Sum)	52,226	59,105
NZPP Personal Superannuation Fund (Pension)	133,743	134,463
NZPP Personal Superannuation Fund (Lump Sum)	10,847	22,384
NZPP Portable Superannuation Fund (Pension)	782,441	651,233
NZPP Portable Superannuation Fund (Lump Sum)	1,649	140,860
NZPP Employees Superannuation Scheme	1,773,341	1,579,124
Super Bond Retirement Plan	7,005,695	6,044,151
Invincible Superannuation Plan	152,011	151,665
Dorchester Life Group Superannuation Plan	128,885	118,915
	<u>\$22,141,127</u>	<u>\$19,694,475</u>

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****20. 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.

2010	Investment Linked	Non-Investment Linked	Total
Premium Income	-	372,793	372,793
Investment Income	4,139,204	2,379,155	6,518,359
Claims expense	-	318,090	318,090
Annuities paid	-	153,480	153,480
Other operating expenses	1,024,097	841,665	1,865,762
Investment revenues allocated to Policyholders	2,956,706	-	2,956,706
Net Profit before Taxation	158,401	1,438,713	1,597,114
Net Profit after Taxation	158,401	1,438,713	1,597,114
Policy Liabilities	(19,041,009)	(3,100,118)	(22,141,127)
Investment assets	18,856,094	24,225,090	43,081,184
Other assets	210,070	30,711	240,781
Other liabilities	(40,478)	(12,634,963)	(12,675,441)
Retained Earnings	(2,503,687)	(3,501,710)	(6,005,397)

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****20. LIFE INSURANCE RELATED DISCLOSURES** *(continued)***c.) Disaggregated information** *(continued)*

2009	Investment Linked	Non-Investment Linked	Total
Premium Income	-	947,355	947,355
Investment Income	(4,853,373)	2,406,556	(2,446,817)
Claims expense	-	(133,250)	(133,250)
Annuities paid	-	(194,663)	(194,663)
Other operating expenses	(1,074,248)	(2,482,105)	(3,556,353)
Investment revenues allocated to Policyholders	6,182,597	-	6,182,597
Net Profit before Taxation	254,976	543,893	798,869
Net Profit after Taxation	254,976	543,893	798,869
Policy Liabilities	(16,080,831)	(3,613,644)	(19,694,475)
Investment assets	16,838,901	26,550,183	43,389,084
Other assets	782,657	95,862	878,519
Other liabilities	(35,340)	(17,629,507)	(17,664,847)
Retained Earnings	(2,345,286)	(2,062,997)	(4,408,283)

The above information is disclosed prior to the elimination of any related party transactions or balances.

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 20 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 MARCH 2010****20. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)FOR THE YEAR ENDED 31 MARCH 2010**20. LIFE INSURANCE RELATED DISCLOSURES** (continued)**e.) Life Insurance Risk** (continued)

<u>Variable</u>	<u>Impact of movement in underlying variable</u>
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

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

As at 31 March 2010 – Result of change in assumptions

	<u>Effect on Policy Liability</u>	<u>Effect on Future Profit</u> <u>Margins</u>
Market Risks		
Increase in interest rates of 1%	(160,210)	(1,742)
Decrease in interest rates of 1%	179,761	1,951
Insurance risks		
Increase in expenses of 10%	4,784	(6,705)
Decrease in expenses of 10%	(4,903)	6,705
Decrease in mortality by 10%	(6,941)	(36,327)
Increase in mortality by 10%	31,924	52,679
Worsening of discontinuance rate by 10%	(8,428)	(1,481)
Improvement in discontinuance rate by 10%	9,054	1,494

NOTES TO THE FINANCIAL STATEMENTS *(continued)***FOR THE YEAR ENDED 31 MARCH 2010****20. LIFE INSURANCE RELATED DISCLOSURES** *(continued)***e.) Life Insurance Risk** *(continued)***As at 31 March 2009 – Result of change in assumptions**

	<u>Effect on Policy Liability</u>	<u>Effect on Future Profit</u> <u>Margins</u>
Market Risks		
Increase in interest rates of 1%	(160,986)	(1,701)
Decrease in interest rates of 1%	179,730	1,926
Insurance risks		
Increase in expenses of 10%	569	(9,408)
Decrease in expenses of 10%	(569)	9408
Decrease in mortality by 10%	34,079	(38,121)
Increase in mortality by 10%	(2,379)	56,340
Worsening of discontinuance rate by 10%	-	(2,436)
Improvement in discontinuance rate by 10%	-	2,453