

ANNUAL MEETING 2009
20 AUGUST 2009
EXECUTIVE DIRECTOR'S ADDRESS

Mr Paul Byrnes
Executive Director

Thank you Barry

Ladies and Gentlemen

□ **Steps to Profitability**

We listed our 'steps from survival to profitability' at our last meeting in February. I make no apologies for showing it again. The increasing green coverage illustrates the progress we continue to make to rebuild a sustainable business from the desperate situation we found ourselves in last year.

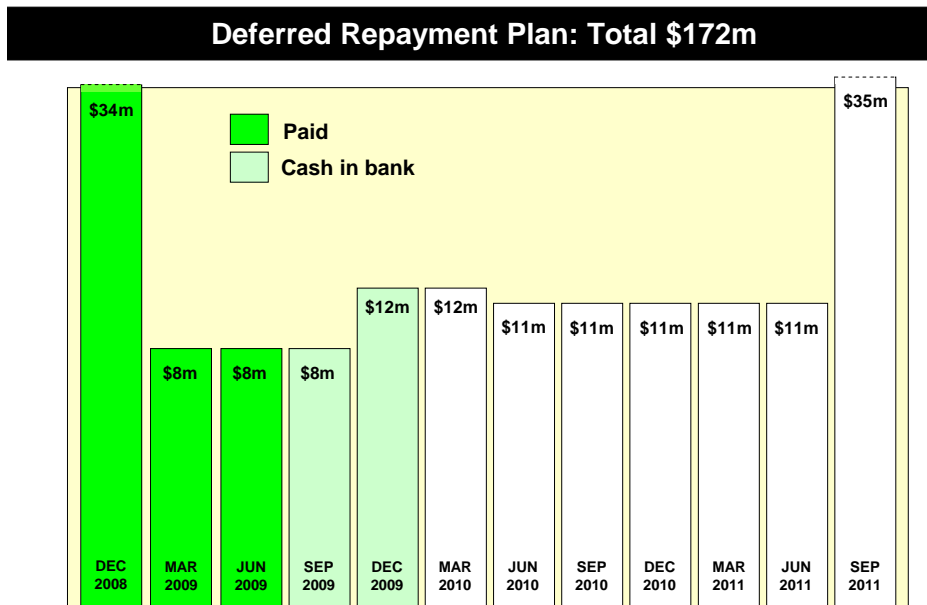
Steps from Survival to Shareholder Value



 Dorchester

□ **Payment Progress under the Deferred Repayment Plan**

The first step was getting the Deferred Repayment Plan approved late last year and we will see the payment progress in the second slide.



We have added Debenture (\$164m) and Note (\$8m) principal amounts to show the total \$172m to be paid under the Deferred Repayment Plan. As can be seen we have paid out \$50m to date and have approximately \$20m cash in the bank to make our next two repayments.

The \$70m that will have been paid by December 2009 represents payouts of 42½% to Debentureholders and 10% to Noteholders.

□ **Restructure and New Management**

The appointment of Tristram and Henry as joint General Managers which we had only just announced at the February meeting has been successful. I would like to thank them again for the full support they provide.

But we also have some very dedicated staff who have risen above what others might consider a stigma of working for a finance company through survival mode and they have continued to contribute 100%. It's always unfair when we can't

mention everyone, but to Darryl (property recovery), Matthew and John (Senate) and Jeff (Dorchester Life) and other loyal staff, some of who have had to take on different roles and responsibilities, my thanks to you and to all Dorchester staff.

□ **Mitigation of Significant Property Loan Positions**

As we have mentioned on a number of occasions the greatest risk and uncertainty is around the significant property loans and especially those with some prior ranking security.

As you see from the white patch on that third step of Slide 1 we are not quite there in the mitigation of all these exposures. However, we now have only 2 remaining property loans with a first mortgage ahead of us. One is on one of the three large hotel property positions which I would now like to update you on.

□ **Goldridge, One Riccarton Road and Emerald Hotels**

The three hotel positions GoldRidge (Queenstown), One Riccarton Road (Chch) and Emerald Hotel (Gisborne) represent over \$30m of the total property loan book of just over \$40m (after provisions) so obviously we need to achieve a good outcome on these positions.

At the time of our last meeting in February there was a combined \$19m of prior security holder first mortgages on these properties. Now there is a priority mortgage of \$4.5m mortgage on one which will be replaced in a month or so by a new mortgage at current interest rates.

Mitigation of Significant Loan Exposures - Hotel Property Positions

1 GoldRidge Hotel Queenstown



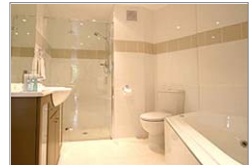
77 Hotel Units with resource consent for further development

Current Carrying Value: \$8m (Highest valuation in last 15 months \$16m)
Original Position: 2nd mortgage security behind Equitable Finance with \$7.8m priority
Current Position: Purchased from receiver for \$8m cash. No borrowings.
Medium Term Strategy: Improve operating performance under own management. (Competitive market)

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Mitigation of Significant Loan Exposures - Hotel Property Positions

2 One Riccarton Rd (Parkview Hotel), Christchurch



23 Hotel Units plus Ground Floor Commercial Space currently leased to DB until 2014

Current Carrying Value: \$10m (Highest valuation last 15 months \$13m)
Original Position: 2nd mortgage security behind NZ Guardian Trust with \$6.5m priority
Current Position: Paid out NZ Guardian Trust. Appointed receivers. Resolved issues around previous ownership and management contract. Purchased property 18 August from receivers at \$10m debt.
Medium Term Strategy: Market currently leased commercial ground floor space for sale, work with managers to improve occupancy and operating performance of hotel units.

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Mitigation of Significant Loan Exposures - Hotel Property Positions

3 Emerald Hotel, Gisborne



50 Hotel Units, 4 Retail Spaces, 3 Commercial Spaces, 4 Apartments, 2 Penthouses, 1 Historic Bldg

Current Carrying Value: **\$13m** (Highest valuation last 15 months \$18m)

Current Position: 2nd mortgage security behind NZ Guardian Trust with \$4.5m priority

Current Strategy: In discussion with owners (borrowers) and company with management contract with objective of purchase of property by 30 September, repayment of NZ Guardian Trust and replacement of first mortgage with new lender at current commercial rates. Immediate priorities are completion and letting of retail and commercial spaces and improvement of operating performance of hotel.

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The common strategy with these hotel properties is to improve operating performance which we can influence through better control and management and then ultimately realise these properties at above our carrying value in an improving property market over the next 2 years.

Of course there remains some risk that the market doesn't improve over that period.

□ **Positive Financial Performance**

For the year to 31 March 2010 we have budgeted a modest operating loss but are targeting a slightly better result of a break even operating profit before Fair Value Adjustment.

At this stage we are on track to achieve that helped by an excellent 1st quarter profit result from Dorchester Life.

Notwithstanding this start to the year, the full year break even target remains a challenge with the running down of the receivable books (which reduces income at the top line) and the increasing compliance and listing related costs.

I believe we have reduced staff numbers, overheads and operating costs to a level now appropriate for current business activity.

□ **Financial Position**

We commented on the financial position at 31 March 2009 in our 29th May release on the results for the year.

While we are comfortable that on the basis of information currently to hand, the net carrying values of assets are realistic, we still have a number of loans where we are relying to some extent on guarantees and other supporting security - and until debts are collected, risks remain.

We have written off all provisional and deferred tax assets of \$12.7m in our accounts. The only goodwill left in the balance sheet is around \$1m relating to Dorchester Life. We even raised the possibility of writing that off at 31 March 2009. Our auditors were not so keen on that because quite rightly that goodwill is more than justified by the past and projected profit performance of Dorchester Life.

We continue to emphasise that the Fair Value Adjustment of \$30.7m as at 31 March 2009 does not create sustainable shareholder value because it reverses over the term of the Deferred Repayment Plan.

That unwinding creates the potential for shareholders funds to drift from positive to negative over that period.

How do we close that potential shareholder value gap?

Closing the Potential Shareholder Value Gap

Shareholders Equity	—	Fair Value Adjustment
\$16.2m		\$30.7m

- 1. Improve Operating Performance**
Challenging with run down of receivables, limited funds and increasing compliance and listing costs.
- 2. Realise Upside on Current Carrying Values**
Improve net collections and release some of current provisions and/or realise property positions at above current carrying values.
- 3. Capital Raising & New Share Capital**
Need to establish business model with sustainable profit potential.
- 4. Option of Settlement with Investors**
Offering a settlement option for Debentureholders at less than 100c in the \$ and/or part conversion of debt to equity.



It is most likely that a successful outcome for Dorchester Investors and Shareholders will involve some combination of all of these four aspects that can create value, together with participation in some finance industry consolidation.

While there are some parts of the Dorchester business that are attractive to other industry players, our lumpy property loan book and debenture liabilities are challenges in any consolidation.

While we continue to work hard on maximizing operating performance to ensure there is a profit proposition, our strategy and focus has to be on how those two aspects can be managed in any market consolidation opportunity.

Thank you