

Interim Report

2010

REGISTERED OFFICE:

Palmerston North International Airport
Terminal Building | Airport Drive
PALMERSTON NORTH

Phone: +64 6 351 4415 | Fax: +64 6 355 2262

Email: help@pnairport.co.nz | Web: www.pnairport.co.nz



PALMERSTON NORTH
INTERNATIONAL AIRPORT
going places

COMPANY DIRECTORY

PALMERSTON NORTH AIRPORT LIMITED

DIRECTORS:

Mr. D N Walker (Chairman)
Dr. G N Cruden
Mr. O B Stock
Mr. R J Wong
MR. G F Gillespie
MR. P Clifford (Alternate)

MANAGEMENT:

Mr. G R Goodman
Chief Executive Officer
Mr. R A Bodell
Operations Manager
Mr. S S Chigwende
Finance Manager & Secretary to the Board

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TRADING BANKERS:

Bank of New Zealand

LEGAL ADVISOR:

Mr. R K Howie
Cooper Rapley

AUDITORS:

Audit New Zealand (on behalf of the Auditor-General)

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**JOINT REPORT OF CHAIRMAN & CHIEF EXECUTIVE OFFICER
FOR THE SIX MONTHS ENDING 31 December 2009**

Six months performance review

Financial Results

The Company has achieved a net surplus after tax of \$141,510 for the six months to 31 December 2009. This is 37% down on the same period last year and 23% below budget. The reduction is attributable to lower passenger numbers resulting in an 8% drop in revenue. Costs have been contained generally to levels lower than the previous year despite most costs being fixed in nature.

Passenger numbers on scheduled commercial flights for the six months were down 6.8% at 211,614 and the available seat capacity on flights was down 15.3%. It is disappointing to see the reduction in available seat capacity being provided through Palmerston North by the national carrier Air New Zealand is much greater than the reduction in passenger throughput. While the impacts of the global economy have had some impacts on passenger numbers, the high airfares on regional routes where Air New Zealand has a monopoly are in our opinion resulting in lower demand and leakage of passengers to Wellington where the benefits of competition in producing lower fares are very evident. It is not uncommon for fares from Palmerston North to Auckland and Christchurch to be double those available from Wellington for the same dates and times.

Earnings before interest, tax and depreciation (EBITDA) of \$821,712 are down 13.8% on last year.

A dividend of 1.8cents per dollar of paid up capital, amounting to \$165,510 has been paid to shareholders of Palmerston North Airport Ltd for the 2008/09 financial year. This is in line with the company's dividend policy and equates to approximately 40% of the after-tax profit for last year.

In an effort to respond to the current environment, a range of capital works have been held back and \$1.1m of bank debt has been repaid during the six months.

Messrs R Wong and O Stock were both reappointed to the Board in October 2009 following their retirement by rotation in accordance with the constitution.

Aeronautical Business

The Environment Court has determined that the Palmerston North City Council can stop Milson Line to enable runway safety areas and runway extensions provided that a deviation road is first built around the runway works.

Although this potentially presents a further obstacle to extending the runway beyond 2,100m at some time in the future, it does mean that the provision of safety areas and extension out to 2,100m can occur without any further regulatory hurdles. The timing of the works is now largely within the company's control and will be determined as progress is made in reinstating international services.

This is a welcome outcome and will allow time for the roading authorities to pursue their strategic roading network plans which should ultimately remove any obstacle to longer term runway extensions out to over 2,500m, as provided for in the airports designation over the land it owns.

It was pleasing to see the arrival of the new Massey University School of Aviation Diamond aircraft during the year. These aircraft sport the latest in avionics and GPS systems ensuring that Massey graduates are at the forefront in preparation for aviation careers. An extension to the apron in preparation for these aircraft was completed with new layout markings and aircraft tie-downs.

Agreement has been made with Valor Ideal Ltd to exchange of 8,000 square metres of land neighbouring the airport to provide a more effective safety strip off the end of the eastern end of the runway near Railway Road. Although the runway already has a safety area that exceeds the minimum requirements at that end, this will provide a further 130 metres when the golf course is rearranged in twelve months time.

The company was proud to host the annual conference of the NZ Airports Association in Palmerston North in October. The industry association has a membership representing 31 of New Zealand's commercially operated airports together with a wide range of aviation support businesses.

All statutory requirements relating to the airport have been met, including satisfactory independent audits by the Civil Aviation Authority. The airport Civil Aviation Aerodrome Operator Certificate was re-issued to 30 September 2014.

A memorandum of understanding has been developed in conjunction with aircraft operators and published to improve safety management of the airspace used in association with the airport.

The NZ Army completed an exercise on the airport as part of their preparation for response to terrorism threats.

Property Development

Progress has been made in a number of areas.

In August the final steps were taken in the exchange of the neighbouring Pinedale Reserve for airport land. New titles have been created and ownership exchanged to complete a process that has spanned twelve years.

Helipro have expanded their operation at the airport and moved into a new hangar providing more space and a higher commercial profile. A new tenant has been secured for the former hangar.

Work was completed on extending the Avis/Budget service centre to enable Budget Truck Rentals to be based at the airport.

The company withdrew its designation of land at 146 Richardsons Line for airport purposes. The land had been earmarked for future growth of the airport on the northern side of the runway but the company was not in a position to continue the planning process to achieve that objective.

Land has been sold to the Palmerston North City Council for widening Railway Road. The sale of this land will assist the company's cash flow, enabling plans for completion of Airport Drive through to Railway Road in the new year.

Twentieth Anniversary

This report coincides with the twentieth anniversary of the formation of the company on 21 December 1989.

The airport was purchased the following month from the Palmerston North City Council and the Government as the then joint venture owners.

Passenger numbers through the airport have since grown from 280,000 per year in 1990 to 430,000 in the last year. Total passenger numbers peaked at over 550,000 per year in 2006 inclusive of international activity which provided services to/from Australia for 12 years.

Over the twenty years the company has undertaken considerable development of the facilities of the airport including construction of a new terminal building and its subsequent expansion to meet increased activity, extension of the runway from 1,522m to 1,902m, development of commercial property and roading. The area designated for airport activity has been expanded to provide for future growth, including runway extension out to 2,500m when required.

The company's turnover has increased from \$1.60m in 1991 to \$4.09 per annum in 2009. The business has also diversified with 56% of revenue now coming from aeronautical earnings compared with 88% of total revenue coming from aeronautical activity in 1991.

The value of assets has risen from \$5.55 m to \$40.83m over that period and a total of \$3.70m has been paid in dividends to shareholders.

The outlook

We recognise our primary role is to provide airport facilities that enhance the experience of travelers to and from our region whether they travel domestically or internationally. Accordingly we will continue to provide a facility that is attractive and convenient.

There are positive signs that the impact of the economy on the company is improving. Passenger numbers in the last two months have shown growth over the same period last year, and work is proceeding on a number of non-aviation commercial projects that are expected to progress during the balance of the year.


The company has reviewed its strategies for the medium to long term and will continue to maintain the airport's 'international capable' status. The Board and management will maintain strategies and activity to attract a carrier willing to re-establish international services. However we recognise our primary role is to provide airport facilities that enhance the visitor experience to our region whether they arrive domestically or internationally.

Major airlines are still tending to be conservative in expansion and increasing capacity, however we believe that niche markets like Palmerston North which will not have the competitive pressures of main centres still represent a significant opportunity.

Over the last year the company has communicated directly with a large range of stakeholders and found a high level of support for the direction that the company is pursuing. Those discussions have also helped shape the company's views on its strategies.



Garry Goodman
Chief Executive Officer



Derek Walker
Chairman

STATEMENT OF SERVICE PERFORMANCE

- The Company's Statement of Corporate Intent is dated June 2009.
- The Company has an interest in FreightGate Limited, a wholly owned subsidiary company which has been formed and may be used for the management of non-operational property.
- The ratio of consolidated shareholders funds to total assets has been maintained over 70%, inclusive of revaluations of land and buildings.
- Palmerston North International Airport has been maintained as an international airport certificated pursuant to Civil Aviation Rule Part 139 and has achieved satisfactory audits during the review period.
- All obligations under the Resource Management Act and the District Plans of the Palmerston North City and Manawatu District Councils have been met.

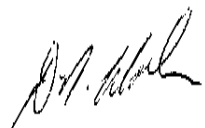
Company Objective: "To be the Airport City for Central New Zealand"

Performance Measures:

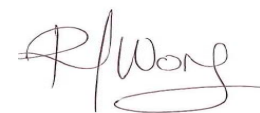
	6 Months to 31 December 2009			% Target achieved
	Actual	Annual Target		
1. Ratio of net surplus before interest/tax/revaluations to total assets inclusive of revaluations	1.3%	3.1%		41.9%
2. Ratio of net surplus after interest/tax/ to consolidated shareholders' funds inclusive of revaluation reserve	0.4%	1.4%		28.6%
3. Interest coverage ratio of net surplus before interest and tax to interest	1.74	≥2.0		87%
4. Tangible net worth (total tangible assets after revaluations less total liabilities)	≥\$31 m	≥\$30 m		103%
5. Customer satisfaction level, periodically measured by customer survey	90% are very satisfied or very satisfied – Customer satisfaction survey 11 December 09	≥90%		100%
6. Total passenger throughput	211,614	440,000		48%

PROFIT AND LOSS ACCOUNT - Parent & Consolidated For the six months ending 31 December 2009

	Note	31-Dec-09 Unaudited \$	31-Dec-08 Unaudited \$	30-Jun-09 Audited \$
REVENUE	4	1,970,746	2,139,145	4,090,051
OPERATING EXPENSES				
Operations and Maintenance:				
Airfield Services		231,151	231,151	462,302
Other Operating Expenses	5	399,688	455,517	863,715
TOTAL OPERATIONS AND MAINTENANCE		630,839	686,668	1,326,017
Administration:				
Audit Fees		12,750	17,754	25,500
Bad Debts Written Off		724	121	299
Changes in doubtful debt provision		(3,060)	4,249	19,956
Directors' Fees		37,500	37,500	75,000
Employee Expenses	6	325,866	319,017	570,662
General Administration		144,415	120,104	184,909
TOTAL ADMINISTRATION:		518,195	498,745	876,326
TOTAL OPERATING EXPENSES		1,149,034	1,185,413	2,202,343
Operating Surplus before interest, depreciation & taxation		821,712	953,732	1,887,708
Finance Costs & Depreciation:				
Finance costs	7	295,476	312,092	616,673
Depreciation	15	308,777	306,264	612,714
TOTAL FINANCE COSTS & DEPRECIATION:		604,253	618,356	1,229,387
Operating Surplus before taxation		217,459	335,376	658,321
Taxation Expense on operating surplus	8	75,949	110,674	234,861
NET SURPLUS AFTER TAXATION		141,510	224,702	423,460



Derek Walker *Chairman*
Date 27 January 2010



Rodney Wong *Director*
Date 27 January 2010

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

STATEMENT OF CHANGES IN EQUITY - Parent & Consolidated
For the six months ending 31 December 2009

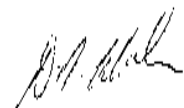
	31-Dec-09 Unaudited \$	31-Dec-08 Unaudited \$	30-Jun-09 Audited \$
EQUITY AT THE BEGINNING OF THE YEAR	<u>31,526,314</u>	<u>31,498,239</u>	<u>31,498,239</u>
Net surplus for the year	141,510	224,702	423,460
Distribution to shareholders during the year	(165,510)	(395,385)	(395,385)
EQUITY AT THE END OF THE YEAR	<u>31,502,314</u>	<u>31,327,556</u>	<u>31,526,314</u>

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

BALANCE SHEET - Parent & Consolidated
As at 31 December 2009

	Note	31-Dec-09 Unaudited \$	31-Dec-08 Unaudited \$	30-Jun-09 Audited \$
CURRENT ASSETS				
Cash and Cash Equivalents	9	678,108	1,443,011	1,758,039
Trade accounts receivable	10	323,110	269,608	368,052
Inventory	11	21,999	4,057	22,518
Sundry receivables and prepayments		53,468	63,093	21,496
Tax receivable			25,943	
TOTAL CURRENT ASSETS		<u>1,076,685</u>	<u>1,805,712</u>	<u>2,170,105</u>
Less: CURRENT LIABILITIES				
Income in advance		99,276	116,038	103,611
Trade accounts payable	12	94,442	154,981	144,784
Other creditors		133,897	109,800	252,901
Employee benefit liabilities	13	30,413	53,186	43,533
Tax payable		1,293		7,113
Current portion of borrowings	14	2,150,000	1,100,000	1,950,000
TOTAL CURRENT LIABILITIES		<u>2,509,321</u>	<u>1,534,005</u>	<u>2,501,942</u>
WORKING CAPITAL		<u>(1,432,636)</u>	<u>271,707</u>	<u>(331,837)</u>
Add: NON CURRENT ASSETS				
Property, Plant & Equipment	15	38,450,360	38,672,070	38,658,308
TOTAL NON CURRENT ASSETS		<u>38,450,360</u>	<u>38,672,070</u>	<u>38,658,308</u>
Less: NON CURRENT LIABILITIES				
Deferred tax liability	16	1,315,410	1,266,221	1,300,157
Borrowings	14	4,200,000	6,350,000	5,500,000
TOTAL NON CURRENT LIABILITIES		<u>5,515,410</u>	<u>7,616,221</u>	<u>6,800,157</u>
NET ASSETS		<u>31,502,314</u>	<u>31,327,556</u>	<u>31,526,314</u>
Represented by:				
SHAREHOLDER EQUITY				
Paid in Capital		9,380,400	9,380,400	9,380,400
Retained earnings		16,299,714	16,124,956	16,323,714
Asset revaluation reserve		5,822,200	5,822,200	5,822,200
TOTAL SHAREHOLDER EQUITY		<u>31,502,314</u>	<u>31,327,556</u>	<u>31,526,314</u>

For and on behalf of the Board



Derek Walker *Chairman*
Date 27 January 2010



Rodney Wong *Director*
Date 27 January 2010

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

CASH FLOW STATEMENT - Parent & Consolidated
For the six months ending 31 December 2009

	Note	31-Dec-09 Unaudited \$	31-Dec-08 Unaudited \$	30-Jun-09 Audited \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from Customers		1,991,595	2,090,833	3,883,539
Interest Received		19,758	57,279	104,608
Tax Refund				235,254
		<u>2,011,353</u>	<u>2,148,112</u>	<u>4,223,401</u>
Cash was disbursed to:				
Payment to Suppliers and employees		1,358,469	1,340,859	2,438,851
Payment of Income Tax		71,000	80,000	145,000
Interest Payments		295,476	312,092	616,673
		<u>1,724,945</u>	<u>1,732,951</u>	<u>3,200,524</u>
Net cash flows from operating activities	17	286,408	415,161	1,022,877
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was applied to:				
Purchase of Fixed Assets		100,829	873,812	1,166,500
Net cash flow from investing activities		<u>(100,829)</u>	<u>(873,812)</u>	<u>(1,166,500)</u>
CASH FLOW FROM FINANCING ACTIVITIES				
Cash was applied to:				
Repayment of borrowings		1,100,000	300,000	300,000
Payment of Dividends		165,510	395,385	395,385
Net cash from financing activities		<u>(1,265,510)</u>	<u>(695,385)</u>	<u>(695,385)</u>
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		(1,079,931)	(1,154,036)	(839,008)
Cash, cash equivalents and bank overdrafts at the beginning of the year		1,758,039	2,597,047	2,597,047
Cash, cash equivalents and bank overdrafts at the end of the year	9	<u>678,108</u>	<u>1,443,011</u>	<u>1,758,039</u>
Made up of:				
Cash and Bank Balance		678,108	1,443,011	1,758,039
CLOSING CASH BALANCE		<u>678,108</u>	<u>1,443,011</u>	<u>1,758,039</u>

The accompanying accounting policies and notes form part of and are to be read in conjunction with these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the six months ended 31 December 2009

- REPORTING ENTITY**
Palmerston North Airport Limited is a New Zealand company registered under the Companies Act 1993.

The Company, and its wholly owned subsidiary (FreightGate Limited) comprise the Palmerston North Airport Limited reporting entity.

The financial statements of Palmerston North Airport Limited are reported as parent and consolidated due to FreightGate Limited being a non-trading company during the six months to 31 December 2009.

- BASIS OF PREPARATION**

Statement of compliance

The financial statements of Palmerston North Airport Limited have been prepared in accordance with the requirements of the Airport Authorities Act 1966, Airport Authorities Amendment Act 2000, the Local Government Act 2002, Airport Authorities (Airport Companies Information Disclosure) Regulations 1999 the Companies Act 1993, and the Financial Reporting Act 1993.

The financial statements have been prepared in accordance with NZ GAAP. They comply with NZIFRS and other applicable Financial Reporting as appropriate for public benefit entities.

Measurement base

The financial statements have been prepared on a historical cost basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the company is New Zealand Dollars.

Changes in accounting policies

There were no changes to accounting policies during the six months. The statement of comprehensive income required by NZIS 1 for reporting periods commencing on or after 1 January 2009 have been shown in note 4.

- ACCOUNTING POLICIES**

Changes in accounting policies

There were no changes to accounting policies during the year.

Specific accounting policies

The accounting policies as published in the Annual Report to 30 June 2009 have been applied constantly to all periods presented in these financial statements.

	<u>31 Dec 09</u> 6 Months Unaudited	<u>31 Dec 08</u> 6 Months Unaudited	<u>30 June 09</u> 12 Months Audited
4. ANALYSIS OF OPERATING REVENUE:			
Landing, departure & facility fees	1,118,100	1,222,309	2,320,784
Car park, rent and advertising	802,782	816,159	1,585,203
Other	19,758	43,398	79,456
Interest	<u>30,106</u>	<u>57,279</u>	<u>104,608</u>
	<u>1,970,746</u>	<u>2,139,145</u>	<u>4,090,051</u>
5. OTHER OPERATING EXPENSES			
Rates	118,495	109,291	218,033
Power and Insurance	104,624	115,680	220,331
Repairs and maintenance	<u>176,569</u>	<u>230,546</u>	<u>425,351</u>
	<u>399,688</u>	<u>455,517</u>	<u>863,715</u>
6. EMPLOYEE EXPENSES			
Salaries and wages	338,986	331,661	588,524
Movement in employee entitlements	<u>(13,120)</u>	<u>(12,644)</u>	<u>(17,862)</u>
	<u>325,866</u>	<u>319,017</u>	<u>570,662</u>
7. FINANCE COST			
Interest on secured long term loans	295,476	312,092	616,673
Interest on overdraft	<u>-</u>	<u>-</u>	<u>-</u>
	<u>295,476</u>	<u>312,092</u>	<u>616,673</u>
8. TAXATION:			
Current year tax payable	60,696	93,706	179,134
Prior year adjustments	-	-	21,791
Movement in deferred tax	<u>15,253</u>	<u>16,968</u>	<u>33,936</u>
Total	<u>75,949</u>	<u>110,674</u>	<u>234,861</u>
Tax payable is exclusive of any tax-loss offset with Palmerston North City Council.			
9. CASH AND CASH EQUIVALENTS			
BNZ Current account	1,940	3,775	810,629
Cash on hand	7,200	7,189	7,185
Foreign currency on hand	3,172	2,144	2,249
Short term deposits	<u>665,796</u>	<u>1,429,903</u>	<u>937,976</u>
Total	<u>678,108</u>	<u>1,443,011</u>	<u>1,758,039</u>

10. TRADE ACCOUNTS AND OTHER RECEIVABLES			
Debtors and other receivables	342,010	275,861	385,051
Receivables from related party	0	0	4,961
Provision for impairment	<u>(18,900)</u>	<u>(6,253)</u>	<u>(21,960)</u>
Total	<u>323,110</u>	<u>269,608</u>	<u>368,052</u>

Debtors and other receivables are non-interest bearing and receipt is normally on 30-day terms. Therefore, the carrying value of debtors and other receivables approximates their fair value after making provisions for impairment on specific overdue accounts.

	<u>31 Dec 09</u> Unaudited	<u>31 Dec 08</u> Unaudited	<u>30 June 09</u> Audited
11. INVENTORY			
Departure receipts	2,344	3,687	798
Other office stationery	<u>19,655</u>	<u>370</u>	<u>21,720</u>
Total	<u>21,999</u>	<u>4,057</u>	<u>22,518</u>

The airport does not hold any inventories that are subject to retention of title clauses and no inventories are pledged as security for liabilities.

12. TRADE ACCOUNTS PAYABLE			
Trade accounts payable	93,883	154,422	144,225
Payables to related party	<u>559</u>	<u>559</u>	<u>559</u>
Total	<u>94,442</u>	<u>154,981</u>	<u>144,784</u>

All trade accounts payable are non-interest bearing and are normally settled on 30-day terms. The carrying amounts of trade accounts payable are the contractual amounts and approximate their fair value.

13. EMPLOYEE BENEFIT LIABILITIES			
Accrued Pay	(8,061)	(12,149)	7,895
Annual leave	29,094	35,290	31,689
Sick leave	<u>9,380</u>	<u>30,045</u>	<u>3,949</u>
Total	<u>30,413</u>	<u>53,186</u>	<u>43,533</u>

14. BORROWINGS			
Borrowings	4,200,000	6,350,000	5,500,000
Current portion of borrowings	<u>2,150,000</u>	<u>1,100,000</u>	<u>1,950,000</u>
Total	<u>6,350,000</u>	<u>7,450,000</u>	<u>7,450,000</u>

The current portion of borrowings are due as follows: \$850,000 is due in June, \$300,000 in July and \$1,000,000 in December 2010.

A registered first debenture and mortgage secure the \$6.35 million borrowings from Bank of New Zealand over assets and property of the Company.

The carrying value of borrowings is materially consistent with their fair value.

15. PROPERTY, PLANT AND EQUIPMENT

Balances 30 June 2009	Land	Buildings	Infrastructure	Plant & Equipment	Furniture & Fittings	Computer Equipment	Motor Vehicles	Total
Cost / Valuation	17,699,549	12,838,892	13,388,024	1,739,108	380,527	97,090	9,778	46,152,968
Accumulated Dep	(420)	(2,213,771)	(4,022,659)	(924,297)	(242,866)	(80,869)	(9,778)	(7,494,660)
Carrying Amount	17,699,129	10,625,121	9,365,365	814,811	137,661	16,221	0	38,658,308
Movements for the year								
Additions	933	850	98,335	0	711	0	0	100,829
Dep. for the year		(127,484)	(136,412)	(29,273)	(12,766)	(2,842)		(308,777)
Closing Balances 31 December 2009								
Cost/revaluation	17,700,482	12,839,742	13,486,359	1,739,108	381,238	97,090	9,778	46,253,797
Accumulated dep.	(420)	(2,341,255)	(4,159,071)	(953,570)	(255,632)	(83,711)	(9,778)	(7,803,437)
Carrying Amount	17,700,062	10,498,487	9,327,288	785,538	125,606	13,379	0	38,450,360
Balances at 31 December 2008								
	17,700,062	10,737,924	9,254,475	827,543	137,699	14,367	0	38,672,070

16. DEFERRED TAX ASSETS/(LIABILITIES):

	Property, plant and equipment	Employee entitlements	Other provisions	Total
Balance at 1 July 2009	1,319,589	(10,691)	(8,741)	1,300,157
Charged to profit and loss	14,505	(851)	1,599	15,253
Balance at 31 December 2009	1,334,094	(11,542)	(7,142)	1,315,410

17. CASH FLOW RECONCILIATION:

Reconciliation of surplus after taxation with net cash flows from operating activities:

	<u>31 Dec 09</u> <u>6 Months</u> <u>Unaudited</u>	<u>31 Dec 08</u> <u>6 Months</u> <u>Unaudited</u>	<u>30 June 09</u> <u>12 Months</u> <u>Audited</u>
Net surplus after tax	141,510	224,702	423,460
Add Depreciation	308,777	306,264	612,714
Net Movement in deferred tax	15,253	16,968	33,936
Net movement in working capital	<u>(179,132)</u>	<u>(132,773)</u>	<u>(47,233)</u>
Net cash from operating activity	<u>286,408</u>	<u>415,161</u>	<u>1,022,877</u>

18. CONTINGENCIES

The Company has no contingent assets or liabilities as at 31 December 2009



